

\$5,250,000,000

## Vodafone AirTouch Public Limited Company



**vodafone  
airtouch**

\$1,750,000,000 7.625% Notes due 2005

\$2,750,000,000 7.750% Notes due 2010

\$ 750,000,000 7.875% Notes due 2030

The initial purchasers through their respective selling agents are offering the notes outside the United States in reliance on Regulation S under the United States Securities Act of 1933. In addition, the initial purchasers are offering the notes inside the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act.

Vodafone AirTouch will pay interest on the notes semiannually in arrears on February 15 and August 15 of each year. The first such payment will be made on August 15, 2000. Interest on the notes is payable at the initial rate of 7.625% per annum with respect to the 5 year notes, 7.750% per annum with respect to the 10 year notes, and 7.875% per annum with respect to the 30 year notes. The interest rate payable on the notes will be subject to adjustment in the event of a decrease in the rating of our unsecured senior debt by either Moody's or S&P to below single A category during a specified period of time. See "Description of the Notes — Interest Rate".

Vodafone AirTouch may redeem all of the 5 year notes, 10 year notes or 30 year notes at any time at the redemption prices set forth in this document. Vodafone AirTouch may also redeem all of the 5 year notes, 10 year notes or 30 year notes at any time at 100% of the principal amount in the event of certain tax law changes requiring the payment of additional amounts as described in this document. Vodafone AirTouch will pay accrued and unpaid interest, if any, and any other amounts payable to the date of redemption. The notes will not be subject to any sinking fund requirement. See "Description of the Notes".

The notes will be unsecured obligations of Vodafone AirTouch, and will rank equally with each other and with all present and future unsecured and unsubordinated debt obligations of Vodafone AirTouch. As Vodafone AirTouch is a holding company, the notes will effectively rank junior to any indebtedness of Vodafone AirTouch's subsidiaries. See "Description of the Notes".

The notes will be issued initially as global securities in bearer form, which will be deposited with Citibank, N.A., as book-entry depository. Except as described herein, the notes will not be available in definitive form. Except as described herein, book-entry interests in the notes will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by The Depository Trust Company and its participants (including Euroclear and Clearstream, Luxembourg). See "Description of the Notes — Additional Mechanics — Form, Exchange and Transfer" and "—Legal Ownership — Global Securities".

Vodafone AirTouch has applied to the London Stock Exchange Limited for the notes to be admitted to the Official List. It is expected that listing will be granted on or around February 9, 2000, subject to the issue of the notes. Copies of this document (which includes this international supplement), which, with the exception of the appendices hereto and the information to be incorporated herein by reference, comprises listing particulars, have been delivered to the Registrar of Companies in England and Wales as required by Section 149 of the Financial Services Act 1986.

Vodafone AirTouch has granted certain registration rights in relation to registration of the notes, or substantially similar notes, with the U.S. Securities and Exchange Commission, which is referred to as the SEC. Vodafone AirTouch has agreed to pay special interest on the notes in certain circumstances in relation to the registration rights. See "Description of the Notes — Additional Mechanics — Registration Covenant; Exchange Offer".

See "Risk Factors" beginning on page 32 for a discussion of certain factors you should consider before buying the notes.

**Offering Price: 99.842% per 7.625% Note due 2005**

**99.381% per 7.750% Note due 2010**

**98.696% per 7.875% Note due 2030**

The offering prices set forth above do not include accrued interest, if any. Interest on the notes will accrue from February 10, 2000 and must be paid by the purchaser if the notes are delivered after February 10, 2000.

The initial purchasers expect to deliver the book-entry interests in the notes on February 10, 2000 through the facilities of The Depository Trust Company, Euroclear and Clearstream, Luxembourg, against payment in immediately available funds.

*Joint Bookrunners and Joint Lead Managers*

**Goldman Sachs International Salomon Smith Barney International**

*Co-Lead Managers*

**Bank of America International Limited**

**Lehman Brothers**

International Supplement dated February 7, 2000.

## NOTICE TO REGULATION S INVESTORS

This document has been prepared by Vodafone AirTouch for use by the initial purchasers named in the U.S. offering circular (which is a part hereof) in making offers and sales of the \$1,750,000,000 7.625% Notes due 2005, the \$2,750,000,000 7.750% Notes due 2010 and the \$750,000,000 7.875% Notes due 2030, which together are referred to as the notes, of Vodafone AirTouch outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act. The U.S. offering circular is also being used by the initial purchasers named in it in connection with offers and sales of notes made in the United States in reliance on Rule 144A under the Securities Act.

Accordingly the requirements set forth under "Notice to Investors" in the U.S. offering circular do not apply to notes offered pursuant to this international supplement. However, the notes have not been registered under the Securities Act and may not be offered, sold or delivered in the United States or to, or for the account or benefit of, any U.S. person, unless the notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. The notes will bear a legend to the effect of the preceding sentence, unless Vodafone AirTouch determines otherwise in compliance with applicable law. The notes are not transferable except in accordance with the restrictions described herein. See "Underwriting".

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**The distribution of this document and the offering and sale of the notes in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Vodafone AirTouch and the initial purchasers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on the offering and sale of the notes, see "Underwriting". This document does not constitute an offer of, or an invitation to purchase, any of the notes in any jurisdiction in which such offer or invitation would be unlawful.**

There are restrictions on the offer and sale of the notes in the United Kingdom. All applicable provisions of the United Kingdom Financial Services Act 1986 and the Public Offers of Securities Regulations 1995 (as amended) with respect to anything done by any person in relation to the Notes in, from or otherwise involving the United Kingdom must be complied with. See "Underwriting".

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**In this document, references to "dollars", "U.S.\$" and "\$" are to United States dollars.**

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**IN CONNECTION WITH THIS OFFERING, OUTSIDE THE UNITED STATES, GOLDMAN SACHS INTERNATIONAL OR ITS AFFILIATES, AND, IN THE UNITED STATES, SALOMON SMITH BARNEY INC. OR ITS AFFILIATES, EACH ON BEHALF OF THE INITIAL PURCHASERS, MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE NOTES AT LEVELS WHICH MIGHT NOT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE LONDON STOCK EXCHANGE, IN OVER-THE-COUNTER MARKETS OR OTHERWISE. SUCH TRANSACTIONS, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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## DISCLOSURE REGARDING LONDON STOCK EXCHANGE LISTING PARTICULARS

Pursuant to the U.K. Financial Services Act in order to obtain a listing for the notes on the London Stock Exchange, Vodafone AirTouch is obliged to prepare listing particulars that contain all information which investors and their professional advisers would reasonably require and reasonably expect to find there, in order to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of Vodafone AirTouch and the rights attaching to the notes. In determining what information is so required or is so expected, regard may be had to, among other things, (1) the nature of the notes, (2) the nature of persons likely to consider their acquisition and (3) certain information available to investors and their professional advisers. In order to satisfy this obligation Vodafone AirTouch is not permitted to rely upon information included in the documents attached as appendices to, or incorporated by reference in, the document that constitutes the listing particulars.

Vodafone AirTouch has determined that this document (which includes this international supplement), excluding all information incorporated herein by reference or included in the documents attached as appendices hereto (on pages A1 to B3 of this document), comprises listing particulars and satisfies the requirements of the U.K. Financial Services Act referred to above. Accordingly, any reference in this document to "listing particulars" means this document excluding any information incorporated herein by reference or included in the documents attached as appendices hereto. Vodafone AirTouch has determined that any information incorporated herein by reference or set out in the appendices hereto, including any such information to which readers of this document are expressly referred in the text of the listing particulars, does not need to be included in the listing particulars to satisfy the requirements of the U.K. Financial Services Act referred to above. Vodafone AirTouch believes that none of the information incorporated herein by reference or included in the documents attached as appendices hereto conflicts in any material respect with the information included in the listing particulars.

Vodafone AirTouch accepts responsibility for the information contained in the listing particulars, except that the only responsibility accepted by Vodafone AirTouch in respect of such information relating to Mannesmann A.G. and Orange plc, which has been compiled from published sources, is to ensure that such information has been correctly and fairly produced and represented. Subject to the foregoing, to the best of Vodafone AirTouch's knowledge and belief (after its having taken all reasonable care to ensure that such is the case), the information contained in the listing particulars is in accordance with the facts and does not omit anything likely to affect the import of such information.

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\$5,250,000,000

## Vodafone AirTouch Public Limited Company



\$1,750,000,000 7.625% Notes due 2005  
\$2,750,000,000 7.750% Notes due 2010  
\$750,000,000 7.875% Notes due 2030

The initial purchasers are offering the notes inside the United States to qualified institutional buyers in reliance on Rule 144A under the United States Securities Act of 1933. In addition, the initial purchasers through their respective selling agents are offering the notes outside the United States in reliance on Regulation S under the Securities Act.

Vodafone AirTouch Public Limited Company will pay interest semiannually in arrears on the notes on February 15 and August 15 of each year. The first such payment will be made on August 15, 2000. Interest on the notes is payable at the initial rate of 7.625% per annum with respect to the 5 year notes, 7.750% per annum with respect to the 10 year notes, and 7.875% per annum with respect to the 30 year notes. The interest rate payable on the notes will be subject to adjustment in the event of a decrease in the rating of our unsecured senior debt by either Moody's or S&P to below single A category during a specified period of time. See "Description of the Notes — Interest Rate".

Vodafone AirTouch may redeem all of the 5 year notes, 10 year notes or 30 year notes at any time at the redemption prices set forth in this offering circular. Vodafone AirTouch may also redeem all of the 5 year notes, 10 year notes or 30 year notes at any time at 100% of the principal amount in the event of certain tax law changes requiring the payment of additional amounts as described in this offering circular. Vodafone AirTouch will pay accrued and unpaid interest, if any, and any other amounts payable to the date of redemption. The notes will not be subject to any sinking fund requirement. See "Description of the Notes".

The notes will be unsecured obligations of Vodafone AirTouch, and will rank equally with each other and with all present and future unsecured and unsubordinated debt obligations of Vodafone AirTouch. As Vodafone AirTouch is a holding company, the notes will effectively rank junior to any indebtedness of Vodafone AirTouch's subsidiaries. See "Description of the Notes".

The notes will be issued initially as global securities in bearer form, which will be deposited with Citibank, N.A., as book-entry depository. Except as described herein, the notes will not be available in definitive form. Except as described herein, book-entry interests in the notes will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by The Depository Trust Company and its participants (including Euroclear and Clearstream, Luxembourg). See "Description of the Notes — Additional Mechanics — Form, Exchange and Transfer" and "— Legal Ownership — Global Securities".

Vodafone AirTouch has applied to the London Stock Exchange Limited for the notes to be admitted to the Official List. It is expected that listing will be granted on or around February 9, 2000, subject to the issue of the notes.

Vodafone AirTouch has granted certain registration rights in relation to registration of the notes, or substantially similar notes, with the U.S. Securities and Exchange Commission, which is referred to as the SEC. Vodafone AirTouch has agreed to pay special interest on the notes in certain circumstances in relation to the registration rights. See "Description of the Notes — Additional Mechanics — Registration Covenant; Exchange Offer".

See "Risk Factors" beginning on page 32 for a discussion of certain factors you should consider before buying the notes.

Offering Price: 99.842% per 7.625% Note due 2005  
99.381% per 7.750% Note due 2010  
98.696% per 7.875% Note due 2030

The offering prices set forth above do not include accrued interest, if any. Interest on the notes will accrue from February 10, 2000 and must be paid by the purchaser if the notes are delivered after February 10, 2000.

The notes have not been and will not be registered under the Securities Act and are being offered and sold in the United States only to qualified institutional buyers in reliance on Rule 144A under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The notes are not transferable except in accordance with the restrictions described under "Notice to Investors".

The initial purchasers expect to deliver the book-entry interests in the notes on February 10, 2000 through the facilities of The Depository Trust Company, Euroclear and Clearstream, Luxembourg, against payment in immediately available funds.

*Joint Bookrunners and Joint Lead Managers*

**Goldman, Sachs & Co.**

**Salomon Smith Barney**

*Co-Lead Managers*

**Banc of America Securities LLC**

**Lehman Brothers**

Offering Circular dated February 7, 2000.

*You are authorized to use this offering circular solely for the purpose of considering the purchase of the \$1,750,000,000 7.625% Notes due 2005, the \$2,750,000,000 7.750% Notes due 2010 and the \$750,000,000 7.875% Notes due 2030, which together are referred to as the notes, described herein. Vodafone AirTouch and other sources identified herein have provided the information contained in this offering circular. The initial purchasers named herein make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this offering circular is, or shall be relied upon as, a promise or representation by the initial purchasers. You may not reproduce or distribute this offering circular, in whole or in part, and you may not disclose any of the contents of this offering circular or use any information herein for any purpose other than considering an investment in the notes. You agree to the foregoing by accepting delivery of this offering circular.*

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**THE SECURITIES OFFERED HEREBY HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**The distribution of this offering circular and the offering and sale of the notes in certain jurisdictions may be restricted by law. Vodafone AirTouch and the initial purchasers require persons into whose possession this offering circular comes to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on the offering and sale of the notes, see "Underwriting". This offering circular does not constitute an offer of, or an invitation to purchase, any of the notes in any jurisdiction in which such offer or invitation would be unlawful.**

## NOTICE TO INVESTORS

*Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the notes offered hereby.*

Each purchaser of the notes offered hereby will be deemed to have represented and agreed as follows (terms used herein that are defined in Rule 144A, Regulation D or Regulation S under the Securities Act are used herein as defined therein):

- (1) You (i) are a qualified institutional buyer, (ii) are aware that the sale of the notes to you is being made in reliance on Rule 144A and (iii) are acquiring such notes for your own account or for the account of a qualified institutional buyer, as the case may be.
- (2) You understand that the notes have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged or otherwise transferred except (A) (i) to a person who you reasonably believe is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available) or (iv) to an institutional accredited investor in a transaction exempt from the registration requirements of the Securities Act and (B) in accordance with all applicable securities laws of the states of the United States.
- (3) The notes will bear a legend to the following effect, unless Vodafone AirTouch determines otherwise in compliance with applicable law:

"THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) AND (4) TO AN INSTITUTIONAL ACCREDITED INVESTOR IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, IN EACH CASE, IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES."

### **ENFORCEABILITY OF CIVIL LIABILITIES**

Vodafone AirTouch is a public limited company incorporated under the laws of England and Wales. Many of its directors and officers, and some of the experts named in this document, reside outside the United States, principally in the United Kingdom. In addition, although Vodafone AirTouch has substantial assets in the United States, a large portion of Vodafone AirTouch's assets and the assets of its directors and officers are located outside of the United States. As a result, U.S. investors may find it difficult in a lawsuit based on the civil liability provisions of the U.S. federal securities laws:

- (1) to effect service within the United States upon Vodafone AirTouch or its directors and officers located outside the United States,
- (2) to enforce in U.S. courts or outside the United States judgments obtained against Vodafone AirTouch or those persons in U.S. courts,
- (3) to enforce in U.S. courts judgments obtained against Vodafone AirTouch or those persons in courts in jurisdictions outside the United States, and
- (4) to enforce against Vodafone AirTouch or those persons in the United Kingdom, whether in original actions or in actions for the enforcement of judgments of U.S. courts, civil liabilities based solely upon the U.S. federal securities laws.

### **WHERE YOU CAN FIND MORE INFORMATION**

Vodafone AirTouch is subject to the reporting requirements of the Securities Exchange Act of 1934 applicable to a foreign private issuer and in accordance therewith file annual and special reports and other information with the SEC. You may read and copy any document that Vodafone AirTouch files at the SEC's public reference room at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549 and at the SEC's regional offices located at Seven World Trade Center, 13th Floor, New York, New York 10048 and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Please call the SEC at 1-800-SEC-0330 for further information on the public references rooms or visit their website at [www.sec.gov](http://www.sec.gov).

Vodafone AirTouch's American depository shares, referred to as ADSs, are listed on the New York Stock Exchange. Vodafone AirTouch's ordinary shares are listed on the London Stock Exchange. You can consult reports and other information about Vodafone AirTouch that it has filed pursuant to the rules of the New York Stock Exchange at such exchange.

Vodafone AirTouch has agreed that, if it is not subject to the informational requirements of Sections 13 or 15(d) of the Exchange Act at any time while the notes constitute "restricted securities" within the meaning of the Securities Act, it will furnish to holders and beneficial owners of the notes and to prospective purchasers designated by such holders the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to permit compliance with Rule 144A in connection with resales of the notes.

Each document incorporated by reference or included as an appendix is current only as of the date of such document, and the incorporation by reference of such documents or the delivery of such documents as appendices hereto shall not create any implication that there has been no change in the affairs of Vodafone AirTouch, Mannesmann A.G. or Orange plc since the date thereof or that the information contained therein is current as of any time subsequent to its date. Any statement contained therein shall be deemed to be modified or superseded for the purpose of this offering circular to the extent that a subsequent statement contained herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this offering circular. In addition, any statement contained in any such document shall be deemed to be superseded for the purpose of this offering circular to the extent that a discussion contained herein relating to the same subject matter omits such statement. Any such statement omitted shall not be deemed to constitute a part of this offering circular.



## INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The documents below filed with the SEC by Vodafone AirTouch, AirTouch Communications, Inc. and Orange pursuant to the Securities Exchange Act of 1934, as amended, are incorporated herein by reference. The information incorporated by reference is deemed to be part of this offering circular, except for any information superseded by information contained directly in this offering circular.

Because Mannesmann does not file, but furnishes, information to the SEC, no information regarding Mannesmann is incorporated by reference herein. In October 1999, Mannesmann made an offer for all of the outstanding ordinary shares of Orange. On January 12, 2000, Mannesmann reported that as of January 7, 2000 valid acceptances of such offer had been received in respect of more than 91% of the issued share capital of Orange. Orange files information with the SEC and certain of such information has been incorporated herein by reference.

The documents incorporated by reference herein and set forth below contain important information about Vodafone AirTouch, AirTouch and Orange and their respective financial conditions.

### Vodafone AirTouch SEC Filings (File No. 1-10086)

Annual Report on Form 20-F .....  
 Reports on Form 6-K .....

### Period

- Year ended March 31, 1999
- Dated February 4, 2000, containing a press release entitled "Vodafone AirTouch and Mannesmann Agreement on Terms for a Recommended Merger"
- Dated February 4, 2000, containing the agreement, dated as of February 3, 2000, between Vodafone AirTouch and Mannesmann
- Dated February 2, 2000, containing a press release entitled "Bell Atlantic, GTE and ALLTEL Agree to Exchange Wireless Operations in 13 States"
- Dated February 1, 2000, containing a press release entitled "Vodafone AirTouch and Casio Computers to Bring the World Wide Wireless Web to the Palm of Your Hand"
- Dated January 31, 2000, containing a press release entitled "Vodafone AirTouch and Vivendi to Establish Internet and Telecoms Alliance"
- Dated January 24, 2000, containing a press release entitled "Vodafone AirTouch Signs Put Agreements with Shareholders of AirTel" and press release entitled "Vodafone AirTouch Shareholders Overwhelmingly Approve Mannesmann Offer and Bell Atlantic Joint Venture"
- Dated January 11, 2000, containing a press release entitled "Vodafone AirTouch's Global Strategy for Mobile Data and Internet"
- Dated December 22, 1999, containing unaudited interim consolidated financial statements of Vodafone AirTouch for the six months ended September 30, 1999 and 1998
- Dated December 21, 1999, containing a description of the Vodafone AirTouch/Bell Atlantic partnership and pro forma financial information relating to such partnership
- Dated November 19, 1999, containing a press release entitled "Announcement of Intended Offer to Mannesmann Shareholders"

**Vodafone AirTouch SEC Filings (File No. 1-10086)**

**Period**

Dated November 16, 1999, containing a press release with interim financial information for the six months ended September 30, 1999 and press release entitled "Proposal to Create Europe's Global Telecommunications Leader"

Dated October 28, 1999, containing press releases relating to the Vodafone AirTouch/Bell Atlantic partnership in the United States, sale of E-Plus in Germany and increase of holdings in Japan

Dated September 3, 1999, containing a description of the business of Vodafone AirTouch

Dated September 3, 1999, containing pro forma financial information of Vodafone AirTouch for the year ended March 31, 1999

**AirTouch SEC Filings (File No. 1-12342)**

**Period**

Annual Report on Form 10-K .....

Year ended December 31, 1998

Quarterly Reports on Form 10-Q .....

Quarter ended June 30, 1999

Quarter ended March 31, 1999

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**Orange SEC Filings (File No. 1-10888)**

**Period**

Annual Report on Form 20-F .....

Year ended December 31, 1998

Reports on Form 6-K .....

Filed on October 21, 1999, containing information relating to Mannesmann's offer for Orange

Filed on August 27, 1999, containing Orange's 1999 Interim Report

Filed on March 22, 1999, containing Orange's 1998 Report and Accounts

You can obtain copies of any of the documents incorporated by reference through Vodafone AirTouch or the SEC. Documents incorporated by reference are available without charge, excluding all exhibits unless an exhibit has been specifically incorporated by reference into this offering circular. You may obtain Vodafone AirTouch documents incorporated by reference into this offering circular by requesting them in writing, by telephone or by e-mail or web site at the following address:

Vodafone AirTouch Public Limited Company  
The Courtyard, 2-4 London Road  
Newbury, Berkshire, RG14 1JX, England  
Tel: (011 44) 1635 33251  
Web site: [www.vodafone-airtouch-plc.com](http://www.vodafone-airtouch-plc.com)  
Attention: Financial Investors

**No one has been authorized to provide you with information that is different from what is contained in, or incorporated by reference into, this offering circular. You should not assume that the information contained in, or incorporated by reference into, this offering circular is accurate as of any date other than the date of this offering circular and neither the mailing of this offering circular nor the issuance of Vodafone AirTouch notes shall create any implication to the contrary.**

## PRESENTATION OF FINANCIAL INFORMATION

Vodafone Group Plc (the name of Vodafone AirTouch prior to its merger with AirTouch Communications, Inc., which was completed on June 30, 1999) prepared and Vodafone AirTouch will prepare its financial statements on the basis of a financial year beginning on April 1 and ending on March 31. Prior to the merger, AirTouch prepared its financial statements on the basis of a financial year beginning on January 1 and ending on December 31. For the purposes of the unaudited pro forma consolidated financial information for Vodafone AirTouch, the Vodafone Group Plc income statement for the year ended March 31, 1999 has been combined with the unaudited consolidated income statement of AirTouch as adjusted to a conforming period end, after giving effect to U.K. GAAP reclassifications and other adjustments described more fully in the notes to the consolidated financial statements on pages F-35 to F-37 of Vodafone AirTouch's Annual Report on Form 20-F for the year ended March 31, 1999, incorporated by reference in this offering circular. Vodafone AirTouch will account for the merger as an acquisition under U.K. GAAP and as a purchase for U.S. GAAP purposes.

Where this offering circular contains translations of pound sterling amounts into U.S. dollar amounts, solely for your convenience, unless otherwise indicated, the translations have been made at £1.00 = \$1.6457, which was the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York on September 30, 1999.

Effective January 1, 1999, the euro was adopted as the common legal currency of the eleven member states of the European Economic and Monetary Union, including Germany. As of that date the exchange rate for the conversion of Deutsche marks into euro was permanently fixed at €1.00 = DM 1.95583. The Federal Reserve Bank no longer provides a noon buying rate for Deutsche marks, but does provide a noon buying rate for euro. On September 30, 1999, the noon buying rate for the euro was \$1.0643 per euro, resulting in an effective Deutsche mark to U.S. dollar exchange rate of DM 0.544 = \$1.00 at that time. Where this offering circular contains translations of euro or Deutsche mark amounts into U.S. dollar amounts, solely for your convenience, unless otherwise indicated, the translations have been made at these rates.

## NOTE ON MANNESMANN AND ORANGE INFORMATION

Vodafone AirTouch has included and incorporated by reference herein information concerning Mannesmann and Orange insofar as it is known or reasonably available to Vodafone AirTouch. However, neither Mannesmann nor Orange is affiliated with Vodafone AirTouch and Vodafone AirTouch has not had access to their respective books and records or any other non-public information regarding Mannesmann or Orange. Therefore, information concerning Mannesmann and Orange that has not been made public is not available to Vodafone AirTouch. Although Vodafone AirTouch has no knowledge that would indicate that statements relating to Mannesmann or Orange contained or incorporated by reference in this offering circular in reliance on publicly available information are inaccurate or incomplete, Vodafone AirTouch was not involved in the preparation of such information and statements and, for the foregoing reasons, is not in a position to verify any such information or statements.

In connection with the preparation of a registration statement relating to its offer for Mannesmann under the Securities Act, Vodafone AirTouch requested that Mannesmann and its independent public accountants provide to Vodafone AirTouch all material information required to be included in such registration statement. Such information would also include material information with respect to Orange and Mannesmann Mobilfunk GmbH (D2). Mannesmann, on its own behalf and on behalf of its independent public accountants, responded in writing, denying Vodafone AirTouch's request for information.

## GLOSSARY OF TERMS

Unless the context indicates otherwise, the following terms have the meanings shown below:

“CDMA” — code division multiple access, which is a continuous digital transmission technology that uses a coding system to mix discrete voice signals together during transmission and then separates the signals at the end of the transmission.

“churn” — customer disconnections from cellular telephone systems. The “churn rate” is the number of customers who disconnect from a network in a given period or have their service terminated, divided by the average number of customers for the same period.

“FCC” — The Federal Communications Commission.

“GSM” — global system for mobile communications, a standard for digital wireless telephone transmissions at a frequency of 900 MHz, 1800 MHz or 1900 MHz.

“market penetration” — total number of customers in a market divided by population, expressed as a percentage.

“PCS” — broadband personal communications services.

“proportionate customers” — the number of customers of a venture multiplied by Vodafone AirTouch’s ownership interest in the venture.

“proportionate POP’s” — the estimated population of a licensed market multiplied by Vodafone AirTouch’s ownership in a licensee operating in the market as of the date specified, including networks under construction and markets of certain trade investments not included in proportionate financial results.

“U.K.” — United Kingdom.

“U.S.” — United States.

“3G” — third generation wireless services or universal mobile telecommunications services, the new worldwide digital standards for wireless telecommunications.

## DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

This offering circular, including the appendices, and the documents incorporated by reference in this offering circular contain certain forward-looking statements with respect to the financial condition, results of operations and business of Vodafone AirTouch and certain of the plans and objectives of Vodafone AirTouch with respect to these items. In particular, certain statements concerning our expectations and plans, strategy, management's objectives, trends in market shares, market standing, overall market trends, risk management, exchange rates and revenues and general and administration expenses, contain forward-looking statements concerning our operations, performance and financial condition. In addition, forward-looking statements also include statements with respect to the future performance, costs, revenues, cash flows, earnings, divestments, growth, market share and other trend projections of Vodafone AirTouch, Mannesmann, Orange and the combined entity as well as the synergistic benefits of a combination of Vodafone AirTouch and Mannesmann and a combination of AirTouch, Bell Atlantic Corporation and GTE Corporation. Forward-looking statements may generally, but not always, be identified by their use of such words as "anticipates", "should", "expects" or "believes". By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following:

- changes in economic conditions in markets served by the operations of Vodafone AirTouch which would adversely affect the level of demand for wireless services;
- greater than anticipated competitive activity requiring reduced pricing and/or new product offerings or resulting in higher costs of acquiring new customers or slower customer growth;
- greater than expected growth in customers and usage, requiring increased investment in network capacity;
- the impact of new business opportunities requiring significant up-front investments;
- the impact on capital spending from the deployment of new technologies;
- the possibility that technologies, including wireless internet platforms, will not perform according to expectations or that vendors' performance will not meet Vodafone AirTouch's requirements;
- the ability of Vodafone AirTouch to achieve the anticipated cost savings or revenue enhancements following its merger with AirTouch;
- the ability of Vodafone AirTouch to consummate the agreement with Bell Atlantic to create a new wireless business and, if consummated, to achieve the anticipated cost savings or revenue enhancements following consummation;
- the ability of Vodafone AirTouch following the proposed combination with Mannesmann to achieve anticipated cost savings, operating efficiencies or revenue enhancements;
- the risk that Vodafone AirTouch's credit rating may be lowered as a result of the debt to be incurred should the Mannesmann offer succeed;
- the risk that Mannesmann will obtain less consideration or incur greater tax costs than anticipated in connection with the anticipated disposition of its engineering and automotive divisions;
- the risk that Vodafone AirTouch will incur significant costs, including tax costs, in connection with the distribution or sale of Orange and Mannesmann's industrial businesses;

- the risk that there may be a significant delay before Vodafone AirTouch can obtain control of the management of Mannesmann which could delay the expected benefits of the business combination;
- the ability to obtain regulatory approvals, including without limitation the approval of the European Commission, without materially onerous conditions;
- the impact of triggering change of control provisions in Mannesmann's concessions, licenses or other agreements or arrangements;
- the risk that Mannesmann's performance may suffer as a result of labor disputes following the proposed combination with Mannesmann; and
- the ability to realize benefits from entering into partnerships for developing data and internet services.

Furthermore a review of the reasons why actual results and developments may differ materially from the expectations disclosed or implied within forward-looking statements can be found under "Risk Factors" on page 32 of this offering circular and under "Risk Factors" on page 19 of Vodafone AirTouch's Report on Form 6-K, dated September 3, 1999, containing a description of the business of Vodafone AirTouch. Vodafone AirTouch also suggests that you review the disclosure contained in the description of its business in its Report on Form 6-K, dated September 3, 1999, which is incorporated by reference in this offering circular, and its operating and financial review contained on pages 4 to 23 and 32 to 42 of its Annual Report on Form 20-F for the year ended March 31, 1999, which is incorporated by reference in this offering circular. All subsequent written or oral forward looking statements attributable to Vodafone AirTouch, any Vodafone AirTouch members or persons acting on our behalf are expressly qualified in their entirety by the reasons referred to above and stated in the risk factors.

## SUMMARY

*You should read the following summary together with the more detailed information about us, the notes we are selling in this offering and the additional documents incorporated by reference in this offering circular or contained in the attached appendices to this offering circular. Unless otherwise stated in this offering circular or unless the context otherwise requires, references herein to "Vodafone AirTouch", "we", "our", "ours" and "us" are to Vodafone AirTouch Public Limited Company.*

### General

Vodafone AirTouch is one of the world's leading international telecommunications companies with a significant presence in the United Kingdom, the United States, Europe and the Asia Pacific region. Vodafone AirTouch provides a full range of wireless telecommunications services, including cellular, broadband personal communications (known as PCS), paging and data communications.

As of December 31, 1999, Vodafone AirTouch had more than 35.5 million proportionate customers, excluding paging customers. Vodafone AirTouch and its ventures serve approximately 394 million people worldwide, calculated on a proportionate basis in accordance with Vodafone AirTouch's percentage interest in its ventures.

Vodafone AirTouch's ordinary shares are listed on the London Stock Exchange, and its ADSs are listed on the New York Stock Exchange. The company, which is incorporated in England and Wales, had a total market capitalization of over £95.4 billion (\$153.8 billion) at December 31, 1999, making it the third largest company in the FT-SE 100 index and the twenty-fifth largest company in the world based on market capitalization.

### Business Strategy

Vodafone AirTouch's strategy has always been to concentrate on wireless telecommunications globally and, in respect of international investments, is to further develop its existing businesses, increase current shareholdings and, where appropriate, bid for new licenses and make acquisitions.

Vodafone AirTouch's objective is to be the world's leading provider of wireless telecommunications services.

### Recent Events

#### Offer for Mannesmann A.G.

On December 24, 1999, Vodafone AirTouch commenced its offer, subject to various terms and conditions, to the shareholders of Mannesmann A.G. for the exchange of 53.7 Vodafone AirTouch ordinary shares for each share or ADS of Mannesmann. On February 3, 2000, Vodafone AirTouch announced that it had reached agreement with the management board of Mannesmann on the terms of a merger to be effected by means of a revised offer by Vodafone AirTouch for Mannesmann. The revised offer is unanimously recommended to Mannesmann shareholders by the management board of Mannesmann. The revised offer is for the exchange of 58.9646 Vodafone AirTouch ordinary shares for each share or ADS of Mannesmann. Following the revised offer, assuming full acceptance, Mannesmann shareholders will hold 49.5% of the combined group. Dr. Klaus Esser will join the Vodafone AirTouch board as an executive director. Four members of Mannesmann's supervisory board will be invited to join the board of Vodafone AirTouch. The agreement has been approved by Mannesmann's supervisory board. This offer will expire at 6 p.m. (New York City time) on February 17, 2000, unless extended.

Mannesmann is an international company based in Germany with activities in four business segments: telecommunications, engineering, automotive and steel tubes and tubular products. Mannesmann is one of Europe's largest telecommunications providers with majority stakes in the leading German wireless operator (D2), the second-largest Italian wireless operator (Omniltel), the third largest U.K. wireless operator (Orange) and fixed network services in Germany (Arcor) and Italy (Infostrada).

The offer to the shareholders of Mannesmann would significantly accelerate the implementation of Vodafone AirTouch's business strategy. A combined Vodafone AirTouch/Mannesmann entity is expected to be one of Europe's leading global telecommunications operators, with over 48 million proportionate customers worldwide with the potential to serve 512 million people, calculated on a proportionate basis in accordance with Vodafone AirTouch's and Mannesmann's percentage interest in its ventures. Together, Vodafone AirTouch and Mannesmann would have the most extensive footprint in Europe with approximately 30 million European customers. The combined group would be present in 15 countries in Europe and would either control, own or have interests in the number one or two operators in 11 European markets, and would also operate the largest global system for mobile communications (known as GSM) footprint in the world. Please refer to the table entitled "Summary of Pro Forma Worldwide Cellular and PCS Operations of Vodafone AirTouch and Mannesmann" on page 14 for more information.

In October 1999, Mannesmann made an offer for all of the outstanding ordinary shares of Orange plc, one of the four holders of wireless telecommunications licenses in the United Kingdom. As of January 7, 2000, Mannesmann owned more than 91% of the outstanding shares of Orange. If Vodafone AirTouch's offer for Mannesmann shares is completed, Vodafone AirTouch, through Mannesmann, would have acquired beneficial ownership of those Orange shares that were tendered in the Mannesmann offer. Under European Community merger control law, Vodafone AirTouch will be prohibited from owning both its U.K. cellular telephone operator, Vodafone Limited, and Orange and, therefore, will be required to dispose of its interest in Orange as soon as practicable following the offer becoming unconditional. Presently, Vodafone AirTouch intends to demerge Orange to the enlarged shareholder base of the combined Vodafone AirTouch/Mannesmann entity. In the interim period Vodafone AirTouch would hold its indirect interest in Orange on an arm's length basis.

Vodafone AirTouch has confirmed its commitment to undertake the initial public offerings of the engineering and automotive businesses along the lines of Mannesmann's previously announced plans. Vodafone AirTouch will also pursue the repositioning of Mannesmann's tubes businesses.

Please refer to "Description of Vodafone AirTouch — Markets — Europe, Middle East and Africa — Offer for Mannesmann" on page 46 of this offering circular and to Appendix A to this offering circular for more information.

#### **Formation of U.S. Wireless Telecommunications Business with Bell Atlantic Corp.**

On September 21, 1999, Vodafone AirTouch and Bell Atlantic Corporation reached a definitive agreement to create a new wireless business with a nationwide U.S. footprint, a single brand and a common digital technology comprising Vodafone AirTouch's and Bell Atlantic's U.S. wireless assets and, if the merger between Bell Atlantic and GTE Corporation is completed, the U.S. wireless assets of GTE. Upon its formation, the new venture would serve approximately 20 million wireless customers and 3.5 million paging customers throughout the United States, based on each party's customers as of September 21, 1999, making it the largest wireless telecommunications operator in the United States. It would have a footprint covering over 90% of the U.S. population and 49 of the top 50 U.S. wireless markets, with 254 million gross POPs.

After the U.S. wireless assets of Vodafone AirTouch, Bell Atlantic and GTE have been contributed to the new business, Vodafone AirTouch will own 45% of the partnership and Bell Atlantic 55%. If for any reason the U.S. wireless assets of GTE are not contributed to the venture, Vodafone AirTouch will have a 67% interest in the new business and Bell Atlantic will have a 33% interest. In this case, Bell Atlantic will have the right to increase its interest to 50.5% by acquiring a portion of Vodafone AirTouch's interest at fair market value.



Whatever the final partnership interests of Bell Atlantic and Vodafone AirTouch, as described above, Bell Atlantic will manage the partnership and will designate four of the seven members to the partnership board of representatives. Vodafone AirTouch will designate the other three representatives. The new business will initially assume or incur approximately \$10 billion in existing and new debt, which is expected to cause Vodafone AirTouch's net consolidated debt to decline by approximately \$4.5 billion. Vodafone AirTouch can elect to sell shares through an initial public offering of a company formed to hold ownership interests in the wireless business at any time after three years from the closing of the

transaction. Vodafone AirTouch can also put up to \$20 billion worth of its interest in the partnership to Bell Atlantic or the wireless venture between three and seven years from the closing of the transaction.

Please refer to "Overview of U.S. Operations" and "Description of Vodafone AirTouch — Markets — United States and the Asia Pacific Region — United States" on pages 15 and 47, respectively, of this offering circular and to Vodafone AirTouch's Report on Form 6-K, dated December 21, 1999, which is incorporated by reference in this offering circular, for more information.

**Summary of Pro Forma Worldwide Cellular and PCS Operations of Vodafone AirTouch and Mannesmann**

Market	Venture Name	Vodafone Percentage Ownership(1)	Mannesmann Percentage Ownership(1)(2)	Combined Percentage Ownership(1)(2)	Vodafone Proportionate Customers(1) (000)	Combined Proportionate Customers(1)(2) (000)				
United Kingdom	Vodafone.....	100.0		100.0	7,940	7,940				
<b>United States and Asia Pacific</b>										
Australia	Vodafone.....	91.0		91.0	1,211	1,211				
Fiji	Vodafone.....	49.0		49.0	10	10				
India — Madras	RPG Cellular Services.....	20.6		20.6	6	6				
— Madhya Pradesh	RPG Cellcom...	49.0		49.0	6	6				
Japan(3)	J-Phone Companies.....	20.2-28.8		20.2-28.8	1,803	1,803				
New Zealand	Vodafone.....	100.0		100.0	397	397				
South Korea	Shinsegi Telecom.....	11.7		11.7	378	378				
United States(4)	AirTouch Cellular... CMT..... PrimeCo.....	} Varies		Varies	9,779	9,779				
<b>Europe, Middle East and Africa</b>										
Austria(5)	Tele.ring.....						53.8	53.8	—	—
Belgium	Belgacom Mobile.....	25.0		25.0	517	517				
Egypt	Misfone.....	60.0		60.0	199	199				
France(6)	SFR.....	20.0	12.0	32.0	1,438	2,300				
Germany(7)	Mannesmann Mobilfunk.....	34.8	65.2	100.0	3,303	9,491				
Greece	Panafon.....	55.0		55.0	915	915				
Hungary	Vodafone.....	50.1		50.1	9	9				
Italy(8)	Omnitel Pronto Italia.....	21.6	55.2	76.8	2,252	7,986				
Malta	Vodafone.....	80.0		80.0	30	30				
Netherlands	Libertel.....	70.0		70.0	1,525	1,525				
Poland	Polkomtel.....	19.5		19.5	294	294				
Portugal	Telecel.....	50.9		50.9	884	884				
Romania	MobilFon.....	20.1		20.1	141	141				
South Africa	Vodacom.....	31.5		31.5	898	898				
Spain	Airtel.....	21.7		21.7	1,043	1,043				
Sweden	Europolitan.....	71.1		71.1	600	600				
Uganda	CelTel.....	36.8		36.8	7	7				
<b>Total</b>					<b>35,585</b>	<b>48,369</b>				

- (1) All ownership percentages are stated as of December 31, 1999, and exclude options, warrants or other rights of Vodafone AirTouch to increase ownership. Ownership interests have been rounded to the nearest tenth of one percent. Proportionate customers are as of December 31, 1999.
- (2) Assumes Vodafone AirTouch obtains 100% control of Mannesmann. Mannesmann's interest in Orange has been excluded because it is expected that Orange will be demerged.
- (3) Effective October 1, 1999, the Digital Phone and Digital Tu-Ka Companies began operating under the "J-Phone" name. Percentage ownership in each of Japan's nine regional wireless telecommunications companies varies according to region.
- (4) Vodafone AirTouch controls or shares control over cellular and PCS operations in 25 states of the U.S. including in 22 of the top 30 U.S. metropolitan statistical areas. AirTouch's holdings in local operations vary according to local markets. On September 21, 1999, Vodafone AirTouch and Bell Atlantic Corp. announced that they had reached an agreement to create a new wireless business. On January 6, 2000, Vodafone AirTouch acquired CommNet Cellular, Inc. for \$813 million in cash plus debt of \$726 million. See "Description of Vodafone AirTouch — Markets — United States and the Asia Pacific Region — United States" on page 47 of this offering circular.
- (5) Tele.ring is scheduled to start wireless operations in the first half of 2000. The European Commission's approval for Mannesmann's planned takeover of Orange was conditional upon it disposing of Orange's 17.5% interest in Connect Austria. See "Risk Factors — Risks Associated with Vodafone AirTouch's Offer for Mannesmann Shares and ADSs — Vodafone has not verified the reliability of Mannesmann Information" on page 34 of this offering circular.
- (6) Mannesmann has an indirect ownership interest in SFR through Cegetel.
- (7) On October 4, 1999, Vodafone AirTouch reached an agreement with France Telecom S.A. for the sale of Vodafone AirTouch's 17.24% equity interest in E-Plus Mobilfunk GmbH, the third largest of the four German cellular network operators, for a cash consideration net of debt of DM3.42 billion (approximately \$1.9 billion). On December 9, 1999, Bell South Corporation announced that in accordance with the existing agreements among the shareholders of E-Plus it had exercised its right of first refusal to purchase Vodafone AirTouch's 17.24% interest. This purchase was completed on February 4, 2000. Vodafone AirTouch announced in May 1999 that it would divest its interest in E-Plus pursuant to the undertaking it gave to the European Commission at that time in connection with its merger with AirTouch. E-Plus has been excluded from proportionate customer information.
- (8) Vodafone AirTouch has an indirect ownership interest through Pronto Italia S.p.A. Mannesmann has an indirect ownership interest through both Pronto Italia S.p.A. and Omnitel Sistemi Radiocellulari Italiani S.p.A.

**Overview of U.S. Operations  
(Top 30 Cellular and PCS Markets)(1)**

<u>MSA(2) Rank</u>	<u>Cellular Market</u>	<u>Overlapping Properties(3)</u>	<u>State</u>	<u>MSA Population (000)(2)</u>	<u>AirTouch Percentage Ownership(4)</u>	<u>Bell Atlantic Percentage Ownership(4)</u>	<u>GTE Percentage Ownership(4)</u>
1	Los Angeles		California	15,116	82.3		12.2
2	New York		New York	15,080		90.0	
3	Chicago	*	Illinois	7,738			95.0
4	Philadelphia		Pennsylvania	4,901		100.0	
5	Detroit-Ann Arbor		Michigan	4,654	100.0		
6	Dallas		Texas	4,610			17.0
7	Boston		Massachusetts-New Hampshire	4,160		100.0	
8	Houston	*	Texas	4,095			83.6
9	San Francisco-Oakland	*	California	3,989	47.0		97.1
10	Washington DC		District of Columbia	3,968		64.7	35.3
12	Atlanta		Georgia	3,405	100.0		
13	San Diego	*	California	2,758	100.0		100.0
14	Minneapolis-St. Paul	*	Minnesota-Wisconsin	2,703	100.0		
15	Phoenix	*	Arizona	2,693	100.0	100.0	
16	St. Louis		Georgia	2,505			85.0
17	Baltimore		Maryland	2,488		100.0	
18	Seattle-Everett	*	Washington	2,219	99.1		100.0
19	Denver Boulder		Colorado	2,219	100.0		
20	Tampa	*	Florida	2,120			100.0
21	Pittsburgh		Pennsylvania	2,050		92.8	
22	Cleveland	*	Ohio	1,829	100.0		96.5
23	Portland		Oregon-Washington	1,701	100.0		
24	San Jose		California	1,635	47.0		97.1
25	Kansas City	*	Missouri-Kansas	1,584	50.0		
26	Cincinnati	*	Ohio-Kentucky	1,535	100.0		
27	Sacramento		California	1,528	49.8		1.0
28	San Antonio		Texas	1,525			30.0
30	Indianapolis		Indiana	1,405			94.8

<u>MTA(5) Rank</u>	<u>PCS Market</u>	<u>Overlapping Properties(3)</u>	<u>State</u>	<u>MTA Population (000)(5)</u>	<u>AirTouch Percentage Ownership(4)</u>	<u>Bell Atlantic Percentage Ownership(4)</u>	<u>GTE Percentage Ownership(4)</u>
3	Chicago		Illinois	12,700	50.0	50.0	
7	Dallas		Texas	10,800	40.0(6)	40.0(6)	
13	Tampa		Florida	6,200	50.0	50.0	
14	Houston		Texas	5,900	40.0(6)	40.0(6)	
15	Miami	*	Florida	5,900	50.0	50.0	
17	New Orleans		Louisiana	5,300	50.0	50.0	
19	Cincinnati	*	Ohio	4,898			100.0
20	Milwaukee		Wisconsin	4,800	50.0	50.0	
22	Seattle		Washington	4,407			100.0
23	Richmond		Virginia	4,100	50.0	50.0	

- (1) On September 21, 1999, Vodafone AirTouch and Bell Atlantic announced that they had reached an agreement to create a new wireless business. Vodafone AirTouch will own 45% of the new partnership, assuming that the U.S. wireless assets of GTE are transferred into this partnership. See "Description of Vodafone AirTouch — Markets — United States and the Asia Pacific Region — United States" on page 47 of this offering circular.
- (2) MSA refers to metropolitan statistical area. There are 306 MSAs in the United States, as determined by Rand McNally and adopted by the FCC to establish cellular service areas. MSA 1997 population figures and rank are from the 1998 Paul Kagan Associates, Inc., Cellular Telephone Atlas.
- (3) On December 6, 1999, the U.S. Department of Justice approved the new venture, subject to an anticipated consent decree that calls for the disposition of one of two competing wireless properties in each market where an overlap would be created by the transaction. The overlapping operations are estimated to serve approximately 3 million customers in several major U.S. markets covering a total of approximately 49 million POPs. The conflicted markets are: Mobile, Alabama; Phoenix, Arizona; San Diego, California; San Francisco, California; Ft. Meyers, Florida; Jacksonville, Florida; Miami, Florida; Pensacola, Florida; Tampa, Florida; Chicago, Illinois; Albuquerque, New Mexico; Las Cruces, New Mexico; Cincinnati, Ohio; Cleveland, Ohio; Anderson/Greenville, South Carolina; Austin, Texas; Houston, Texas; San Antonio, Texas; El Paso, Texas; Norfolk/Richmond, Virginia; Seattle, Washington; and Spokane, Washington.
- (4) Percentage ownership information in this table is as at September 30, 1999, unless otherwise stated.
- (5) MTA refers to Metropolitan Trading Areas. There are 51 MTAs in the United States, as determined by Rand McNally adopted by the FCC to establish PCS service areas. MTA 1997 population figures and rank are from the Paul Kagan Associates Inc., 1998 Cellular/PCS POP Book.
- (6) On December 22, 1999, Vodafone AirTouch and Bell Atlantic announced that they increased their ownership in the partnerships that operate PrimeCo Personal Communications LP's Texas markets by acquiring the 20% interest owned by TXU Communications for \$357 million. At closing, which occurred on January 7, 2000, Vodafone AirTouch and Bell Atlantic together owned 100% of the partnerships.

## The Offering

Please refer to "Description of the Notes" on page 56 of this offering circular for more information about the notes.

Issuer .....	Vodafone AirTouch Public Limited Company.
Notes offered .....	\$1,750,000,000 7.625% Notes due 2005, referred to as the 5 year notes \$2,750,000,000 7.750% Notes due 2010, referred to as the 10 year notes \$750,000,000 7.875% Notes due 2030, referred to as the 30 year notes
Stated maturities .....	5 year notes: February 15, 2005 10 year notes: February 15, 2010 30 year notes: February 15, 2030
Total principal amount being issued .....	\$5,250,000,000.
Issue price .....	5 year notes: 99.842% 10 year notes: 99.381% 30 year notes: 98.696%
Ranking .....	The notes will rank equally without any preference among themselves and with all present and future unsecured and unsubordinated indebtedness of Vodafone AirTouch. Because we are a holding company, the notes will effectively rank junior to any indebtedness of our subsidiaries.
Interest rates .....	5 year notes: 7.625% annually 10 year notes: 7.750% annually 30 year notes: 7.875% annually The interest rate payable on the notes will be subject to adjustment in the event of a decrease in the rating of our unsecured senior debt by either Moody's or S&P to below single A category during a specified period of time. For more information, see "Description of the Notes — Interest Rate" on page 56 below.
Date interest starts accruing ...	February 10, 2000.
Interest payment dates .....	Semiannually in arrears every February 15 and August 15.
First interest payment date ....	August 15, 2000.
Payment of additional amounts .....	We intend to make all payments on the notes without deducting U.K. withholding taxes. If any deduction is required on payments to non-U.K. investors, we will pay additional amounts on those payments to the extent described under "Description of the Notes — Payment of Additional Amounts".
Optional redemption .....	We may redeem the 5 year notes, the 10 year notes or the 30 year notes in whole at any time, at a price equal to the greater of (i) 100% of their principal amount plus accrued interest to the date of redemption or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such series of notes (not including any portion of interest payments

accrued as of the redemption date) discounted to the redemption date on a semiannual basis at the adjusted treasury rate, plus 15 basis points for the 5 year notes and 20 basis points for the 10 year notes and the 30 year notes, plus accrued interest to the redemption date, as described under "Description of the Notes — Special Situations — Redemption and Repayment".

Optional tax redemption . . . . . We may also redeem the notes before they mature if we are obligated to pay additional amounts due to changes in U.K. *withholding tax requirements*, a *merger or consolidation with another entity* or a sale or lease of substantially all of our assets and other limited circumstances described under "Description of the Notes — Payment of Additional Amounts." In that event, we may redeem the outstanding 5 year notes, 10 year notes or 30 year notes in whole at any time, at a price equal to 100% of their principal amount plus accrued interest to the redemption date.

Registration covenant;  
exchange offer . . . . . Pursuant to an exchange and registration rights agreement between us and the initial purchasers, we have agreed to file a *registration statement relating to an exchange offer pursuant to which we will offer to exchange (i) securities that are substantially identical to the 5 year notes, (ii) securities that are substantially identical to the 10 year notes and (iii) securities that are substantially identical to the 30 year notes*, in each case, for the then outstanding notes tendered at the option of the holders thereof, and to use our reasonable best efforts to cause such registration statement to become effective as soon as practicable, but in no event later than 270 days following the closing of this offering. In the event that applicable interpretations of the staff of the SEC *do not permit us to effect the exchange offer and under certain other specified circumstances*, we have agreed to use our reasonable best efforts to cause to become effective a shelf registration statement with respect to the resale of the notes and to keep such shelf registration statement effective for a period of up to two years after the closing of this offering. In the event that (i) neither the registration statement relating to the exchange offer nor, if applicable, the shelf registration statement has become effective within 270 days following the date of the closing of this offering, (ii) we have neither completed the exchange offer within 45 days of the registration statement becoming effective nor caused a shelf registration statement to become effective within 315 days following the date of the closing of this offering, or (iii) any registration statement required by the exchange and registration rights agreement is filed and declared effective but is withdrawn by us or ceases to be effective, except as permitted in the exchange and registration rights agreement, then special interest will accrue and be payable on the notes (in addition to the stated interest on the notes) at a per annum rate of 0.25% until such time as no such event is in effect. Applications will be made to have the new securities listed on a European stock exchange which is a "recognised stock exchange" within the meaning of Section 841 of the U.K. Income and Corporation Taxes Act 1988.

Book-entry issuance, settlement and clearance . . . . .	We will issue the notes as one or more permanent global certificates in bearer form — <i>i.e.</i> , as global securities deposited with Citibank, N.A., as depository. Citibank will issue certificateless depository interests in respect of the global securities and will register DTC, or its nominee, as owner of the certificateless depository interests. The sale of the notes will settle in immediately available funds through DTC. Investors may hold book-entry interests in a global security through organizations that participate, directly or indirectly, in the DTC system. Those organizations will include the Clearstream, Luxembourg and Euroclear systems in Europe.
Restrictive Covenants . . . . .	The indenture relating to the notes does not contain any covenants restricting our ability to make payments, incur indebtedness, dispose of assets, enter into sale and leaseback transactions, pledge our assets to secure borrowings, issue and sell capital stock, enter into transactions with affiliates, create or incur liens on our property or engage in business other than our present business.
Listing . . . . .	We have applied to the London Stock Exchange Limited for the notes to be admitted to the Official List.
Use of proceeds . . . . .	We intend to use the proceeds from the sale of the notes to repay debt outstanding under our existing credit facility and short-term commercial paper indebtedness. The debt outstanding under our existing credit facility matures on April 16, 2000 and bears interest at a variable sterling rate, which was 6.44% as of January 11, 2000. The interest rate on our U.S. dollar short-term commercial paper on a weighted average basis as of January 11, 2000 was 6.01%. All of the indebtedness that Vodafone AirTouch will repay was incurred to fund working capital requirements and to pay the cash consideration in connection with the merger of AirTouch and Vodafone Group.
Risk factors . . . . .	You should carefully consider all of the information in this offering circular, which includes information incorporated by reference and Appendices A and B. In particular, you should evaluate the specific factors under "Risk Factors" beginning on page 32 of this offering circular and under "Risk Factors" beginning on page 19 of our Report on Form 6-K, dated September 3, 1999, which is incorporated herein by reference, for risks involved with an investment in the notes.

### **Selected Financial Data**

The tables set forth on pages 20 to 30 of this offering circular include the following selected financial data:

- Selected historical financial data of Vodafone AirTouch on page 20 of this offering circular for each of the last five years ended March 31, 1999 and selected historical financial data for the six months ended, and as at, September 30, 1998 and September 30, 1999;
- Selected historical financial data of AirTouch on page 22 of this offering circular for each of the last five years ended December 31, 1998 and selected historical financial data for the six months ended and as at June 30, 1998 and June 30, 1999;
- Unaudited *pro forma* consolidated financial information reflecting the merger of Vodafone Group and AirTouch for the year ended March 31, 1999 and six months ended September 30, 1999, which assumes the merger took place on April 1, 1998, the earliest period presented, on page 24 of this offering circular;
- Unaudited *pro forma* consolidated financial information reflecting the formation of a new U.S. wireless telecommunications business with Bell Atlantic for the year ended March 31, 1999 and the six months ended September 30, 1999, which assumes the formation took place on April 1, 1998, the earliest period presented, on page 27 of this offering circular.
- Selected historical financial data of Mannesmann on page 29 of this offering circular for each of the last five years ended December 31, 1998 and selected historical financial data for the six months ended and as at June 30, 1998 and June 30, 1999; and
- Selected historical financial data of Orange on page 30 of this offering circular for each of the last five years ended December 31, 1998 and selected historical financial data for the six months ended, and as at, June 30, 1998 and June 30, 1999.

### **Absence of Vodafone AirTouch/Mannesmann Pro Forma Financial Information**

Vodafone AirTouch has included herein information concerning Mannesmann insofar as it is known or reasonably available to Vodafone AirTouch. However, Mannesmann is not affiliated with Vodafone AirTouch and Vodafone AirTouch has not had access to its books and records or any other non-public information regarding Mannesmann.

Vodafone AirTouch prepares its financial statements under U.K. GAAP and prepares a reconciliation to U.S. GAAP as required by Item 18 of Form 20-F.

Mannesmann prepares its financial statements under German accounting standards as prescribed by local law which differs in certain significant respects from U.K. GAAP and U.S. GAAP. These differences, as they relate to Mannesmann, cannot be quantified due to the limited disclosure provided in the publicly available financial information of Mannesmann and may be material. See the summary of certain significant differences between German accounting standards as prescribed by law and U.S. GAAP included as Appendix B to this offering circular.

For these reasons, Vodafone AirTouch has not prepared *pro forma* financial information to reflect the effects of the proposed acquisition of Mannesmann. See "Risk Factors — Risks Associated with Vodafone AirTouch's Offer for Mannesmann Shares and ADSs — Vodafone AirTouch has not verified the reliability of Mannesmann information" on page 34 of this offering circular.

**Vodafone AirTouch Public Limited Company**

The following table sets forth selected historical financial data of Vodafone AirTouch for each of the five fiscal years ended and as at March 31, 1999 and selected historical financial data for Vodafone AirTouch for the six months ended and as at September 30, 1998 and September 30, 1999. The selected historical financial data of Vodafone AirTouch has been derived from, and should be read in conjunction with, Vodafone AirTouch's annual audited consolidated financial statements, including the notes thereto, contained in Vodafone AirTouch's Annual Report on Form 20-F for the year ended March 31, 1999, which is incorporated by reference in this offering circular, and its unaudited interim consolidated financial statements, contained in Vodafone AirTouch's Report on Form 6-K, dated December 22, 1999, which is incorporated by reference in this offering circular.

Vodafone AirTouch reports in accordance with U.K. GAAP. The main differences between U.S. GAAP and U.K. GAAP that are relevant to Vodafone AirTouch's consolidated financial statements are presented in its Annual Report on Form 20-F for the year ended March 31, 1999, which presents U.S. GAAP financial information for each of the fiscal years ended March 31, 1997, 1998 and 1999, which is incorporated by reference in this offering circular.

	Year ended and at March 31,					Six months ended and at September 30,			
	1995	1996	1997	1998	1999	1998	1999	1998	1999
	£	£	£	£	£	\$	£	£(1)	\$(1)
(in millions, except per ordinary share and ADS amounts)									
<b>Income Statement Data</b>									
<b>U.K. GAAP</b>									
Group turnover .....	1,153	1,402	1,749	2,471	3,360	5,530	1,563	3,194	5,256
Profit/(loss) for the financial period .....	237	310	364	419	637	1,048	333	(72)(2)	(118)(2)
Earnings/(loss) per Vodafone									
AirTouch ordinary share(3) .....	0.02	0.02	0.02	0.03	0.04	0.07	0.02	—	(0.01)
Adjusted earnings per Vodafone									
AirTouch ordinary share(4) .....	0.02	0.02	0.02	0.03	0.04	0.06	0.02	0.02	0.03
Earnings/(loss) per Vodafone									
AirTouch ADS(3) .....	0.16	0.20	0.24	0.27	0.41	0.67	0.22	(0.03)	(0.05)
Cash dividends per Vodafone									
AirTouch ordinary share(3) .....	0.01	0.01	0.01	0.01	0.01	0.02	0.01	0.01	0.01
Cash dividends per Vodafone									
AirTouch ADS(3)(5) .....	0.07	0.08	0.10	0.11	0.13	0.21	0.06	0.07	0.11
<b>U.S. GAAP</b>									
Group turnover .....	1,153	1,402	1,749	2,471	3,360	5,530	1,563	3,194	5,256
Profit/(loss) for the period .....	203	294	342	374	510	839	276	(24)	(39)
Earnings per Vodafone AirTouch									
ordinary share(3) .....	0.01	0.02	0.02	0.02	0.03	0.05	0.02	—	—
Diluted earnings per Vodafone									
AirTouch ordinary share(3) .....	0.01	0.02	0.02	0.02	0.03	0.05	0.02	—	—
Earnings/(loss) per Vodafone									
AirTouch ADS(3) .....	0.13	0.19	0.22	0.24	0.33	0.54	0.18	(0.01)	(0.02)
<b>Balance Sheet Data</b>									
<b>U.K. GAAP</b>									
Total assets .....	1,410	1,763	2,422	2,502	3,644	5,997	2,938	50,730	83,486
Long-term debt .....	140	140	523	643	1,137	1,871	721	1,876	3,087
<b>U.S. GAAP</b>									
Total assets .....	1,663	2,001	3,019	4,026	4,719	7,766	4,075	46,556	76,617
Long-term obligations .....	140	140	523	652	1,145	1,884	728	1,881	3,095
<b>Other Data</b>									
Weighted average number of shares(3) .....	15,220	15,260	15,300	15,365	15,445	—	15,430	23,096	—
U.S. dollar equivalent dividends per Vodafone AirTouch ordinary share(3)(5) .....	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.02	—	\$ 0.01	\$ 0.01	—



- (1) On June 29, 1999, Vodafone Group Plc changed its name to Vodafone AirTouch Plc. On June 30, 1999, the merger of Vodafone AirTouch and AirTouch was completed. Vodafone AirTouch has accounted for the merger as an acquisition under U.K. GAAP in accordance with Financial Reporting Standard 6. Vodafone AirTouch's consolidated financial statements for the six months ended, and at, September 30, 1999 includes the financial results of the former AirTouch companies from July 1, 1999.
- (2) In the six months ended September 30, 1999, the loss for the financial period was £72 million (\$118 million) compared with a profit of £333 million (\$548 million) in the six months ended September 30, 1998. The loss of £72 million includes a goodwill amortization charge of £561 million (\$923 million) arising from consolidation of the former AirTouch companies following completion of the merger on June 30, 1999. The total goodwill amortization charge for the period was £574 million (\$944 million) compared with a goodwill amortization charge of £1 million (\$2 million) in the six months ended September 30, 1998. Before amortization of goodwill, and exceptional reorganization costs of £29 million (\$48 million), total profit was £531 million (\$874 million) in the six months ended September 30, 1999. This includes total group operating profit of £1,015 million (\$1,670 million) (before goodwill amortization and exceptional reorganization costs) of which £466 million (\$767 million) is attributable to operations of the former AirTouch companies.
- (3) On September 30, 1999, Vodafone AirTouch declared a 5-for-1 split for holders of Vodafone AirTouch ordinary shares and ADSs. Prior period per ordinary share and per ADS amounts have been restated to reflect the split.
- (4) Adjusted earnings per share is based on earnings before goodwill amortization, profit or loss on disposal of fixed asset investments net of attributable taxation and other exceptional items net of attributable taxation.
- (5) Interim dividend for the six months ended September 30, 1999 to be paid February 11, 2000 to shareholders on the register of members on November 26, 1999.

**AirTouch Communications, Inc.**

The following table sets forth the selected historical financial data of AirTouch for each of the five fiscal years ended December 31, 1998 and selected historical financial data for the six months ended June 30, 1998 and June 30, 1999. The selected historical financial data has been derived from, and should be read in conjunction with, AirTouch's annual audited consolidated financial statements, including notes thereto, contained in AirTouch's Annual Report on Form 10-K for the year ended December 31, 1998, which is incorporated by reference in this offering circular, and AirTouch's unaudited interim consolidated financial information, contained in AirTouch's Quarterly Reports on Form 10-Q for the three-month periods ended March 31, 1999 and June 30, 1999, which are incorporated by reference in this offering circular. AirTouch reported in accordance with U.S. GAAP.

	Year ended and at December 31,					Six months ended and at June 30,	
	1994	1995	1996	1997	1998	1998	1999
	\$	\$	\$	\$	\$(1)	\$(1)	\$(1)
	(in millions, except per share amounts)						
<b>Income Statement Data</b>							
<b>U.S. GAAP</b>							
Operating revenues .....	1,247	1,619	2,252	3,594	5,181	2,306	2,910
Operating income .....	73	113	281	706	946	520	516
Equity in net income of unconsolidated wireless systems .....	110	152	133	200	393	162	364
Interest							
Expense .....	(10)	(13)	(52)	(90)	(145)	(61)	(76)
Income .....	55	35	14	18	23	15	6
Income before preferred dividends .....	98	132	199	448	725	347	473
Preferred dividends .....	—	—	20	54	117	47	69
Net income applicable to common stockholders .....	98	132	179	394	608	300	404
Per share data:							
Income before preferred dividends:							
Basic .....	0.20	0.27	0.40	0.89	1.30	0.64	0.82
Diluted .....	0.20	0.27	0.40	0.89	1.28	0.63	0.80
Net income applicable to common stockholders:							
Basic .....	0.20	0.27	0.36	0.78	1.09	0.56	0.70
Diluted .....	0.20	0.27	0.36	0.78	1.07	0.55	0.68
<b>Balance Sheet Data</b>							
<b>U.S. GAAP</b>							
Investments in unconsolidated wireless systems .....	1,698	3,076	1,992	2,068	3,491	3,303	3,902
Intangible assets, net .....	471	606	3,409	3,297	8,513	8,921	8,333
Total assets .....	4,488	5,648	8,524	8,970	17,553	17,228	17,959
Long term debt, including current portion .....	130	906	1,669	1,419	2,746	3,007	2,376
Redeemable preferred stock .....	—	—	—	—	1,574	1,573	1,575
Total stockholders' equity .....	3,459	3,751	5,062	5,529	9,325	9,023	10,085
Working capital (deficit) .....	736	19	(120)	(254)	(220)	(151)	(130)

(1) In April 1998, AirTouch completed its acquisition of the U.S. cellular business and the 25% PrimeCo interest of MediaOne. AirTouch began consolidating this acquisition in April 1998.

## **Unaudited Pro Forma Consolidated Financial Information**

On June 30, 1999, Vodafone Group, renamed Vodafone AirTouch, completed its merger with AirTouch. Vodafone AirTouch presented unaudited pro forma consolidated financial information for the year ended March 31, 1999 and the six months ended September 30, 1999 to reflect the impact of the merger with AirTouch on its results of operations in its interim report for the six months ended September 30, 1999, which was filed with the SEC on a Report on Form 6-K, dated December 22, 1999, and is incorporated by reference in this offering circular. In addition, Vodafone AirTouch filed with the SEC a Report on Form 6-K, dated December 21, 1999, containing unaudited pro forma consolidated financial information reflecting the AirTouch merger and the formation of a new U.S. wireless telecommunications business with Bell Atlantic, which is also incorporated by reference in this offering circular. The information below and in these Reports on Form 6-K is provided for illustrative purposes only and because of its nature may not give a true picture of Vodafone AirTouch's financial position and results of operations had the merger with AirTouch or the formation of the new U.S. wireless telecommunications business with Bell Atlantic actually occurred on the dates assumed and is not indicative of what Vodafone AirTouch's future operating results will be.

### ***Vodafone Group Merger with AirTouch***

The unaudited consolidated balance sheet of Vodafone AirTouch at September 30, 1999 includes the assets and liabilities of AirTouch. An unaudited pro forma consolidated balance sheet is, therefore, not presented.

### ***Basis of Preparation***

The unaudited pro forma consolidated financial information reflecting the merger with AirTouch has been prepared in accordance with U.K. GAAP, which differs from U.S. GAAP in certain material respects. In the unaudited pro forma consolidated financial information, AirTouch's results of operations have been adjusted to U.K. GAAP and translated into pounds sterling, as described in the notes to the unaudited pro forma consolidated financial information.

Vodafone AirTouch accounted for the merger with AirTouch using the acquisition method of accounting under U.K. GAAP and the purchase method under U.S. GAAP. The unaudited pro forma consolidated financial information in respect of the AirTouch merger has been prepared on this basis.

### ***Unaudited Pro Forma Consolidated Income Statement Data***

The unaudited pro forma consolidated income statements in respect of the merger with AirTouch assume that the merger took place on April 1, 1998.

The unaudited pro forma consolidated income statement for the year ended March 31, 1999 combines the historical consolidated income statement of Vodafone AirTouch for the year ended March 31, 1999 and the pro forma income statement of AirTouch for the twelve months ended March 31, 1999, as adjusted to U.K. GAAP, after giving effect to certain pro forma adjustments.

The unaudited pro forma consolidated income statement for the six months ended September 30, 1999 combines the unaudited historical consolidated income statement of Vodafone AirTouch, which includes AirTouch from July 1, 1999, with the unaudited historical consolidated income statement of AirTouch for the three months ended June 30, 1999, as adjusted to U.K. GAAP, after giving effect to certain pro forma adjustments.

The following table sets forth the unaudited pro forma consolidated income statement data of Vodafone AirTouch for the year ended March 31, 1999 and the six months ended September 30, 1999 to illustrate the effects of the merger with AirTouch. AirTouch is included in the unaudited consolidated balance sheet of Vodafone AirTouch as of September 30, 1999 which is presented in Vodafone AirTouch's selected financial data.

	Pro forma year ended March 31, 1999		Pro forma six months ended September 30, 1999	
	£	\$	£	\$
(in millions, except per ordinary share and ADS amounts)				
<b>Consolidated Income Statement Data</b>				
<b>U.K. GAAP(1)</b>				
Group turnover .....	7,018	11,550	4,208	6,925
Total group operating profit .....	2	3	253	416
(Loss)/profit on ordinary activities before taxation .....	(342)	(563)	55	91
Loss for the financial period .....	(1,106)	(1,820)	(455)	(749)
Loss per Vodafone AirTouch ordinary share(3) .....	(0.04)	(0.07)	(0.01)	(0.02)
Adjusted earnings per Vodafone AirTouch ordinary share(3) .....	0.03	0.05	0.02	0.03
<b>U.S. GAAP(2)</b>				
Loss for the period .....	(951)	(1,565)	(319)	(525)
Loss per Vodafone AirTouch ordinary share(3)				
Basic .....	(0.03)	(0.05)	(0.01)	(0.02)
Diluted .....	(0.03)	(0.05)	(0.01)	(0.02)
Loss per Vodafone AirTouch ADS(3)				
Basic .....	(0.31)	(0.51)	(0.10)	(0.16)
Diluted .....	(0.31)	(0.51)	(0.10)	(0.16)

- (1) The U.K. GAAP pro forma financial information in pounds sterling has been extracted, without adjustment, from the Listing Particulars issued by Vodafone AirTouch on December 20, 1999 relating to the issue of ordinary shares in connection with the offer for Mannesmann. The translations of such pound sterling amounts into U.S. dollar amounts have been made solely for your convenience at the rate of £1.00 = \$1.6457.
- (2) On June 30, 1999, Vodafone AirTouch completed its merger with AirTouch. Vodafone AirTouch presented unaudited pro forma consolidated financial information for the year ended March 31, 1999 and the six months ended September 30, 1999 to reflect the impact of the merger with AirTouch on its results of operations in its interim report for the six months ended September 30, 1999, which was filed with the SEC on a Report on Form 6-K, dated December 22, 1999, and is incorporated by reference in this offering circular. The U.S. GAAP pro forma financial information above has been extracted, without adjustment, from this Report on Form 6-K.
- (3) On September 30, 1999, Vodafone AirTouch declared a 5-for-1 split for holders of Vodafone AirTouch ordinary shares and ADSs. Prior year per ordinary share and per ADS amounts have been restated to reflect the split.

### ***Formation of U.S. Wireless Telecommunications Business with Bell Atlantic***

On September 21, 1999, Vodafone AirTouch and Bell Atlantic announced an agreement to combine their U.S. wireless assets into an existing partnership. The partnership will also include the U.S. wireless assets of GTE Corporation, which are referred to as the GTE contributed businesses, following completion of GTE's proposed merger with Bell Atlantic, if consummated. Following successful completion, and if Bell Atlantic has conveyed all intended assets, Vodafone AirTouch will have a partnership interest of 45% and Bell Atlantic will have a partnership interest of 55%. If Bell Atlantic does not succeed in contributing the GTE contributed businesses to the partnership, the partnership interests of the parties will be adjusted, so that Vodafone AirTouch will have a partnership interest of 67% and Bell Atlantic will have a partnership interest of 33%. In any event, Bell Atlantic will obtain management control of the partnership pursuant to the rights under the transaction agreement.

The transaction between Vodafone AirTouch and Bell Atlantic is expected to be completed by the end of June 2000.

Vodafone AirTouch will be contributing its U.S. wireless and paging assets, including AirTouch Cellular, AirTouch Paging and its 50% interest in PrimeCo, which are referred to as the Vodafone AirTouch contributed businesses, all of which were acquired on June 30, 1999, into the partnership. In return, Vodafone AirTouch will acquire an interest, as described above, in the partnership, which will consist of the Vodafone AirTouch contributed businesses, and those businesses contributed by Bell Atlantic, which includes Bell Atlantic's 50% interest in PrimeCo, which are referred to as the Bell Atlantic contributed businesses, and the GTE contributed businesses.

Vodafone AirTouch is providing unaudited pro forma consolidated financial information to indicate what the results of operations and financial position of Vodafone AirTouch, on a pro forma basis for the merger with AirTouch, the disposal of the Vodafone AirTouch contributed businesses and acquisition of an interest in the partnership, might have looked like had the merger with AirTouch and the transaction with Bell Atlantic occurred on an earlier date. This information is provided for illustrative purposes only and does not show what the results of operations or financial position of what Vodafone AirTouch would have been if both the merger with AirTouch and the Bell Atlantic transaction had actually occurred on the dates assumed. This information is not indicative of Vodafone AirTouch's future operating results or future consolidated financial position.

For more information, see Vodafone AirTouch's Report on Form 6-K, dated December 21, 1999, containing a description of the Vodafone AirTouch/Bell Atlantic partnership and pro forma financial information relating to such partnership, which is incorporated by reference in this offering circular.

### ***Basis of Preparation***

The unaudited pro forma consolidated financial information reflecting the merger of Vodafone Group and AirTouch and the Bell Atlantic transaction has been prepared in accordance with U.K. GAAP, which differs from U.S. GAAP in certain material respects. In the unaudited pro forma consolidated financial information, the results of operations and financial position of each of Vodafone AirTouch's contributed businesses, Bell Atlantic's contributed businesses and GTE's contributed businesses have been adjusted to U.K. GAAP and translated into pounds sterling, as described in the notes to the pro forma consolidated financial information included in the Report on Form 6-K, dated December 21, 1999, which is incorporated by reference in this offering circular.

As stated above, Vodafone AirTouch accounted for the merger with AirTouch using the acquisition method of accounting under U.K. GAAP and the purchase method under U.S. GAAP. Vodafone AirTouch will account for its interest in the partnership on an equity basis, recognizing a proportionate share of the partnership's results based on its ownership interest under U.K. and U.S. GAAP. The unaudited pro forma consolidated financial information in respect of the merger with AirTouch and the Bell Atlantic transaction has been prepared on this basis.

*Unaudited Pro Forma Consolidated Income Statement Data*

The unaudited pro forma consolidated income statement in respect of the merger with AirTouch and the transaction with Bell Atlantic assume that both transactions took place on April 1, 1998.

The unaudited pro forma consolidated income statement for the year ended March 31, 1999 combines the pro forma consolidated income statement of Vodafone AirTouch, which reflects the merger with AirTouch and which is presented above, with the disposition of the Vodafone AirTouch contributed businesses and with the acquisition of the 45% interest in the partnership. For the purposes of the partnership, the unaudited pro forma consolidated income statement data has been prepared using the pro forma income statements of the Vodafone AirTouch contributed businesses for the year ended March 31, 1999, the pro forma income statements of the Bell Atlantic contributed businesses and the GTE contributed businesses for the year ended December 31, 1998, as adjusted to U.K. GAAP, after giving effect to the pro forma adjustments described in the notes to the unaudited pro forma consolidated financial information.

The unaudited pro forma consolidated income statement for the six months ended September 30, 1999 combines the unaudited pro forma consolidated income statements of Vodafone AirTouch, which reflects the merger with AirTouch, with the disposition of the Vodafone AirTouch contributed businesses for the period and with the acquisition of the 45% interest in the partnership. For the purposes of the partnership, the unaudited pro forma consolidated income statement data has been prepared using the pro forma income statements of the Vodafone AirTouch contributed businesses for the six months ended September 30, 1999 and the pro forma income statements of the Bell Atlantic contributed businesses and the GTE contributed businesses for the six months ended June 30, 1999, as adjusted to U.K. GAAP, after giving effect to the pro forma adjustments described in the notes to the unaudited pro forma consolidated financial information.

*Unaudited Pro Forma Consolidated Balance Sheet Data*

The unaudited pro forma consolidated balance sheet data has been prepared assuming that the transaction with Bell Atlantic took place on September 30, 1999 and combines the unaudited consolidated balance sheet of Vodafone AirTouch at that date with the disposition of the net assets of the Vodafone AirTouch contributed businesses at that date and the acquisition of a 45% equity interest in the partnership. For the purposes of the partnership, the unaudited pro forma consolidated balance sheet data has been prepared using the unaudited historical combined balance sheet of the Vodafone AirTouch contributed businesses at September 30, 1999 and the unaudited historical combined or consolidated balance sheet of the Bell Atlantic contributed businesses and the GTE contributed businesses at June 30, 1999, as adjusted to U.K. GAAP, after giving effect to the pro forma adjustments described in the notes to the unaudited pro forma consolidated financial information.

The following table sets forth the unaudited pro forma consolidated income statement data of Vodafone AirTouch for the year ended March 31, 1999 and the six months ended September 30, 1999 and the unaudited pro forma balance sheet data of Vodafone AirTouch at September 30, 1999 after giving effect to the merger with AirTouch and the Bell Atlantic transaction. For more complete pro forma financial information relating to the Vodafone AirTouch/Bell Atlantic transaction, see Vodafone AirTouch's Report on Form 6-K, dated December 21, 1999, which is incorporated by reference in this offering circular.

	Pro forma year ended March 31, 1999		Pro forma six months ended September 30, 1999	
	£	\$	£	\$
(in millions, except per ordinary share and ADS amounts)				
<b>Consolidated Income Statement Data</b>				
<b>U.K. GAAP (1)</b>				
Group turnover .....	4,077	6,710	2,531	4,165
Total group operating (loss)/profit .....	—	—	232	382
(Loss)/profit on ordinary activities before taxation ..	(335)	(551)	37	61
Loss for the financial period .....	(1,144)	(1,883)	(485)	(798)
Loss per Vodafone AirTouch ordinary share .....	(3.77)p	(6.20)c	(1.59)p	(2.62)c
Adjusted earnings per Vodafone AirTouch ordinary share .....	3.22 p	5.30 c	2.09 p	3.44 c
<b>U.S. GAAP (2)</b>				
Loss for the period .....	(999)	(1,644)	(357)	(588)
Loss per Vodafone AirTouch ordinary share				
Basic .....	(3.29)p	(5.41)c	(1.17)p	(1.93)c
Diluted .....	(3.29)p	(5.41)c	(1.17)p	(1.93)c
Loss per Vodafone AirTouch ADS				
Basic .....	(32.88)p	(54.11)c	(11.68)p	(19.22)c
Diluted .....	(32.88)p	(54.11)c	(11.68)p	(19.22)c

	At September 30, 1999	
	£	\$
(in millions)		
<b>Consolidated Balance Sheet Data</b>		
<b>U.K. GAAP</b>		
Total assets .....	47,521	78,205
Total liabilities .....	6,527	10,741
Shareholders' interest .....	40,994	67,464
<b>U.S. GAAP</b>		
Shareholders' interest .....	36,819	60,593

(1) The U.K. GAAP pro forma financial information in pounds sterling has been extracted, without adjustment, from the Listing Particulars issued by Vodafone AirTouch on December 20, 1999 relating to the issue of ordinary shares in connection with the offer for Mannesmann. The translations of such pound sterling amounts into U.S. dollar amounts have been made solely for your convenience at the rate of £1.00 = \$1.6457.

(2) Vodafone AirTouch filed with the SEC a Report on Form 6-K, dated December 21, 1999, containing unaudited pro forma consolidated financial information reflecting the AirTouch merger and the formation of a new U.S. wireless telecommunications business with Bell Atlantic, which is incorporated by reference in this offering circular. The U.S. GAAP financial information above has been extracted from this Report on Form 6-K.

## **Selected Financial Data**

### ***Mannesmann A.G.***

The following table sets forth selected historical financial data of Mannesmann for each of the five years ended December 31, 1998 and selected historical financial data for the six months ended June 30, 1998 and June 30, 1999. The selected unaudited historical financial data have been derived from, and should be read in conjunction with, Mannesmann's annual consolidated financial statements for 1998 and 1997, including the notes thereto, as extracted from Mannesmann's 1998 Annual Report to Shareholders, Mannesmann's annual consolidated financial statements for 1997 and 1996, including the notes thereto, as extracted from Mannesmann's 1997 Annual Report to Shareholders, and its Report to Shareholders for the first nine months of 1999 and Report to Shareholders for the first half of 1999, which are included in Appendix A to this offering circular.

Mannesmann's financial data is presented in accordance with German accounting standards as prescribed by law, which may differ substantially from U.K. GAAP and U.S. GAAP. These differences, as they relate to Mannesmann, cannot be quantified due to the limited disclosure provided in publicly available financial information. In connection with the preparation of a registration statement relating to its offer for Mannesmann under the Securities Act, Vodafone AirTouch requested that Mannesmann and its independent public accountants provide to Vodafone AirTouch all material information required to be included in such registration statement. Mannesmann, on its own behalf and on behalf of its independent public accountants, denied Vodafone AirTouch's request for information. As a result, Vodafone AirTouch is not able to present any reconciliation to U.S. GAAP of figures prepared in accordance with German accounting standards as prescribed by law. Such differences may be material. See "Risk Factors — Risks Associated with Vodafone AirTouch's Offer for Mannesmann Shares and ADSs — Vodafone AirTouch has not verified the reliability of Mannesmann information" on page 34 of this offering circular and summary of certain significant differences between German accounting standards as prescribed by law and U.S. GAAP included as Appendix B to this offering circular.

The selected unaudited historical financial data at and for the five years ended December 31, 1998 and at and for the six months ended June 30, 1998 and June 30, 1999 were prepared in German marks as prescribed by local law. The financial information presented in this document relating to Mannesmann is expressed in euros ("euros" or "€") or German marks ("marks" or "DM"). Effective January 1, 1999, Germany and ten other member states of the European Union adopted the Euro as their common currency. Amounts stated in Euros appearing herein for periods prior to January 1, 1999 have been translated from marks at the official fixed conversion rate of €1=DM 1.95583. Please see "Exchange Rates" on page 41 of this offering circular.

On January 7, 2000, Mannesmann reported, on a preliminary unaudited basis, financial data for the year ended December 31, 1999. For a summary of this information, see page A-4 of Appendix A to this offering circular.



	Year ended and at December 31,						Six months ended and at June 30,(5)			
	1994	1995	1996	1997	1998		1998	1999		
	€	€	€	€	€	\$	€	€	\$	
(in millions, except per ordinary share amounts)										
<b>Income statement data</b>										
<b>German Accounting Standards</b>										
Net sales .....	15,542	16,409	17,733	19,989	19,065	20,291	9,125	9,741	10,367	
Result from ordinary activities(1) ..	306	466	516	891	1,385	1,474	586	735	782	
Net profit(2) .....	174	358	308	312	630	671	227	250	266	
Profit available for distribution(3) ...	112	150	169	189	239	254	N/A	N/A	N/A	
Earnings per share before goodwill amortization(4) .....	0.79	1.06	1.15	1.34	1.91	2.03	N/A	N/A	N/A	
Earnings per share after goodwill amortization(4) .....	—	—	—	0.85	0.98	1.04	N/A	N/A	N/A	
<b>Balance sheet data</b>										
<b>German Accounting Standards</b>										
Total assets .....	11,025	11,608	12,300	15,069	17,349	18,465	N/A	N/A	N/A	
Long-term obligations .....	25	38	32	789	1,419	1,510	N/A	N/A	N/A	
<b>Other data</b>										
Dividends per share .....	0.31	0.41	0.46	0.51	0.61	0.65	N/A	N/A	N/A	
Shares outstanding .....	366.2	367.0	367.9	368.6	389.8	—	N/A	N/A	N/A	

N/A — Information not available

- (1) Result from ordinary activities shows results from operations, net of interest, before extraordinary items, taxation and minority interests.
- (2) Net profit represents the profit after tax before the impact of minority interests.
- (3) Profit available for distribution represents profits which may be distributed to Mannesmann shareholders as dividends and is profit for the period net of minority interests and changes in revenue reserves.
- (4) During 1998, Mannesmann complied with new German GAAP requirements which no longer permit the cancellation of goodwill amortization in the calculation of earnings per share. Mannesmann continues to calculate and publish earnings per share before goodwill amortization.
- (5) Mannesmann also published limited financial information for the nine months ended September 30, 1999 and September 30, 1998. Sales for the nine months ended September 30, 1999 and September 30, 1998 were €16,138 million and €13,888 million, respectively, and profit from ordinary activities were €1,113 million and €1,078 million, respectively.

## Orange plc

The following table sets forth selected historical financial data of Orange for each of the five fiscal years ended December 31, 1998 and selected historical financial data for Orange for the six months ended June 30, 1998 and June 30, 1999. The selected historical financial data of Orange has been derived from, and should be read in conjunction with, Orange's Registration Statement on Form F-4 filed on September 23, 1999 and its annual audited consolidated financial statements, including the notes thereto, contained in Orange's Report on Form 20-F for the year ended December 31, 1998, which is incorporated by reference in this offering circular, and its unaudited interim consolidated financial statements, contained in Orange's Report on Form 6-K, filed with the SEC on August 27, 1999, which is incorporated by reference in this offering circular.

Orange reports in accordance with U.K. GAAP. The main differences between U.S. GAAP and U.K. GAAP that are relevant to Orange's consolidated financial statements are presented in its Annual Report on Form 20-F for the year ended December 31, 1998, which presents U.S. GAAP financial information for the years ended December 31, 1996, 1997 and 1998 and which is incorporated by reference in this offering circular.

	Year ended and at December 31,					Six months ended and at June 30,			
	1994	1995	1996(1)	1997	1998	1998	1999		
	£	£	£	£	£	\$	£	£	\$
(in millions, except per ordinary share and ADS amounts)									
<b>Consolidated Income Statement Data</b>									
<b>U.K. GAAP</b>									
Turnover .....	143.4	228.7	619.0	913.7	1,212.7	1,995.7	534.4	812.9	1,337.8
Cost of sales .....	(145.1)	(243.6)	(606.4)	(737.3)	(938.3)	(1,544.2)	(414.6)	(596.7)	(982.0)
Operating (loss)/profit .....	(91.7)	(118.1)	(178.1)	(51.7)	13.9	22.9	2.0	39.7	65.3
Loss for the financial year .....	(119.1)	(140.8)	(229.7)	(139.7)	(105.7)	(174.0)	(49.3)	(17.1)	(28.1)
Loss per share(2) .....	(0.16)	(0.18)	(0.21)	(0.12)	(0.09)	(0.15)	(0.04)	(0.01)	(0.02)
Loss per ADS(3) .....	(0.80)	(0.90)	(1.05)	(0.60)	(0.45)	(0.74)	(0.20)	(0.05)	(0.08)
<b>U.S. GAAP</b>									
Net (loss)/profit for the financial year(4) .....	(192.3)	(263.9)	(258.1)	(45.4)	111.4	183.3	35.1	(95.7)	(157.5)
Basic (loss)/profit per share(2) .....	(0.25)	(0.34)	(0.24)	(0.04)	0.09	0.15	0.03	(0.08)	(0.13)
Basic (loss)/profit per ADS(3) .....	(1.25)	(1.70)	(1.20)	(0.20)	0.45	0.74	0.15	(0.40)	(0.66)
<b>Consolidated Balance Sheet Data</b>									
<b>U.K. GAAP</b>									
Total fixed assets .....	388.8	513.5	669.6	896.8	1,304.4	2,146.7	1,051.6	1,502.1	2,472.0
Total assets .....	530.8	729.7	896.7	1,159.9	1,748.9	2,878.2	1,386.2	2,056.9	3,385.0
Creditors: amounts falling due within one year .....	(102.4)	(229.5)	(395.0)	(578.8)	(435.4)	(716.5)	(545.9)	(492.6)	(810.7)
Total assets less current liabilities .....	428.4	500.2	501.7	581.1	1,313.5	2,161.6	840.3	1,564.3	2,574.4
Creditors: amounts falling due in more than one year .....	(827.4)	(1,053.5)	(604.5)	(824.4)	(1,663.4)	(2,737.5)	(1,133.2)	(1,933.4)	(3,181.8)
Total equity shareholders' funds .....	(425.8)	(566.6)	(113.2)	(253.1)	(357.9)	(589.0)	(302.3)	(377.0)	(620.4)
<b>U.S. GAAP</b>									
Equity shareholders' funds(5) .....	(488.6)	(755.4)	(304.8)	(350.4)	(238.1)	(391.8)	(315.2)	(335.8)	(552.6)

(1) Consolidated income statement and balance sheet data for the year ended December 31, 1996 includes the results of operations of HT France and HT Germany (which were acquired on April 2, 1996) for the period from April 2, 1996 to December 31, 1996.

(2) Orange calculated 1999 interim loss per share data using 1,197,079,072 shares, which represents the weighted average number of shares in issue during the period ended June 30, 1999. Orange calculated 1998 profit/(loss) per share data using 1,196,787,298 shares, which represents the weighted average number of shares in issue during the year ended December 31, 1998. Orange calculated 1998 interim profit/(loss) per share data using 1,196,813,752 shares (restated), which represents the weighted average number of shares in issue during the period ended June 30, 1998. Orange calculated 1997 loss per share data using 1,197,109,715 shares, which represents the weighted average number of shares in issue during the year ended December 31, 1997. Orange calculated 1996 loss per share data using 1,094,875,229 issued shares, which represents the weighted average number of shares in issue during the year ended

December 31, 1996. See Note 12 to the consolidated financial statements. For 1994 and 1995, Orange calculated loss per share data assuming 766,423,225 issued shares, which represents the number of shares in issue at December 31, 1995 as adjusted for the subdivision of each £1.00 share into 5 ordinary shares of £0.20 each.

- (3) Orange calculated loss per ADS data by adjusting loss per share data for the ratio of five ordinary shares per ADS.
- (4) Net loss under U.S. GAAP is after the retrospective inclusion of the trading results of HT France and HT Germany in each of the reporting periods 1994 and 1995. See Note 30 to the consolidated financial statements which are contained in Orange's Annual Report on Form 20-F for the year ended December 31, 1998 and incorporated by reference in this offering circular.
- (5) Equity shareholders' funds under U.S. GAAP at December 31, 1994 and 1995 is after the retrospective inclusion of the net liabilities of HT France and HT Germany at the same date. See Note 30 to the consolidated financial statements which are contained in Orange's Annual Report on Form 20-F for the year ended December 31, 1998 and incorporated by reference in this offering circular.
- (6) During 1998 the U.K. Accounting Standards Board issued the following Financial Reporting Standards (FRS): FRS 9: Associates and Joint Ventures; FRS 10: Goodwill and Intangible Assets; FRS 11: Impairment of Fixed Assets and Goodwill; FRS 12: Provisions, Contingent Liabilities and Contingent Assets; FRS 13: Derivatives and Other Financial Instruments: Disclosures and FRS 14: Earnings per Share. Comparative figures have been restated where appropriate. The adoption of these standards has increased the loss (of the year ended December 31) by £0.3 million in 1995; £0.6 million in 1996 and 1997 and £7.6 million in 1998, and for the period ended June 30, 1998 by £0.2 million. Loss per share for the year ended December 31, 1998 has increased by 0.1 pence. Loss per share remains unchanged for the years to December 31, 1997, 1996 and 1994, and for the period to June 30, 1998. Net liabilities at December 31, 1998 remain unchanged. Net liabilities at December 31 decreased by £9.2 million for 1994, £8.6 million for 1995, £8.2 million for 1996, and £7.6 million for 1997. Net liabilities at June 30, 1998 decreased by £7.4 million.

## RISK FACTORS

***An investment in the notes involves certain significant risks. Accordingly, you should consider carefully all of the information set forth herein and, in particular, the risks described below, before you make any decision to invest in the notes.***

### **Risks Associated with Vodafone AirTouch's U.S. Wireless Business Partnership with Bell Atlantic**

***Expected benefits from the U.S. wireless business partnership with Bell Atlantic will not be realized if the transaction is not completed as planned.***

On September 21, 1999, Vodafone AirTouch and Bell Atlantic agreed to create a new wireless business composed of the U.S. wireless interests of Vodafone AirTouch and Bell Atlantic and, if the Bell Atlantic/GTE merger is completed, the U.S. wireless assets of GTE. This partnership remains subject to various conditions, including approval by various regulatory authorities and the receipt of an exemptive order from the SEC or other satisfactory resolution regarding the application of the Investment Company Act of 1940 to Vodafone AirTouch and AirTouch and is subject to third party claims which may or may not affect the scope of the transaction. If for any reason the partnership with Bell Atlantic is not completed as planned, Vodafone AirTouch or the combined Vodafone AirTouch/Mannesmann group may not be able to realize the anticipated benefits from the partnership, such as a nationwide U.S. footprint with a common digital technology, a single brand with a genuinely national identity, revenue enhancements driven by a new national brand and enhanced product development, cost savings through reduced roaming costs, lower customer churn and increased economies of scale and the expanded ability to bundle product offerings with flat-rate coast-to-coast pricing. Such an occurrence would likely adversely affect Vodafone AirTouch's results from the U.S. region of its operations.

***Vodafone AirTouch or the combined Vodafone AirTouch/Mannesmann group may not fully realize the expected benefits from the U.S. wireless business partnership.*** If the new wireless business partnership with Bell Atlantic is completed as planned, there can be no assurance that the expected benefits from

the partnership referred to above will be realized in full or at all. If the partnership is completed as expected, Bell Atlantic will own 55% of the partnership, manage the partnership and designate four of the seven members to its board of directors, while Vodafone AirTouch will own 45% of the partnership and designate the other three directors. As such, Vodafone AirTouch or the combined Vodafone AirTouch/Mannesmann group will not have complete control of the partnership or its ability to achieve its anticipated benefits. If the expected benefits are not realized, cash flows available to meet the obligations under the notes could be adversely affected.

### **Risks Associated with Vodafone AirTouch's Offer for Mannesmann Shares and ADSs**

***Vodafone AirTouch will substantially increase its outstanding debt which may lower its credit rating.*** Vodafone AirTouch believes that, as a result of the offer for Mannesmann and the spin-off of Orange, between €15.0 billion and €20.0 billion of outstanding Mannesmann and Orange debt either may accelerate or is short-term debt which matures during 2000 and will have to be refinanced. In addition, Vodafone AirTouch intends to refinance its existing U.S.\$10.0 billion credit facility. In connection with the foregoing refinancings, Vodafone AirTouch has entered into a new credit facility for borrowings of up to €30.0 billion. The facility is split into three tranches. Tranche A is a €15 billion revolving loan facility which is available in the first year of the facility. Vodafone AirTouch has the option of extending the repayment of advances under tranche A up to 18 months after the date of the facility. Tranche B is a €7.5 billion revolving loan facility, which is also available in the first year of the facility. Vodafone AirTouch has the option of extending the repayment of advances under tranche B up to the second anniversary of the date of the facility. Tranche C is a €7.5 billion revolving loan facility, available for three years.

Advances under any tranche may be drawn in sterling, euro or U.S. dollars. In addition, Vodafone AirTouch has an underwritten commitment from a financial institution under which it may issue up to U.S.\$3.5 billion in one or two year floating rate notes in either the Euro or U.S. market following syndication of the €30.0 billion credit facility, which is expected to be completed in April 2000. On a pro forma basis, after giving effect to Vodafone AirTouch's offer for Mannesmann and assuming the acquisition by Mannesmann of 100% of the outstanding ordinary shares of Orange (according to the latest available published unaudited balance sheets of Orange and Mannesmann) and the incurrence of the additional debt, Vodafone AirTouch would have had approximately £23 billion (\$38 billion) of debt as of September 30, 1999. The new credit facility contains provisions that limit the ability of Vodafone AirTouch and its subsidiaries to encumber their assets and, in the case of its subsidiaries, to incur debt; and requires compliance with maximum leverage and minimum interest coverage ratios. Limitations arising from this new credit facility could adversely affect the ability of Vodafone AirTouch to make strategic acquisitions and invest in expansion of its network coverage and capacity.

Following the announcement of Vodafone AirTouch's proposed offer for Mannesmann, on November 19, 1999, Standard & Poor's placed its long-term "A" credit rating on Vodafone AirTouch on "CreditWatch" with negative implications. Standard & Poor's noted that Mannesmann is highly leveraged and that if, following a successful offer for Mannesmann, Vodafone AirTouch spins off Orange to the enlarged Vodafone AirTouch shareholder group, Vodafone AirTouch will not receive or retain any cash from the divestment. According to Standard & Poor's, this combination will weaken Vodafone AirTouch's financial profile. On November 24, 1999, Standard & Poor's indicated that assuming Vodafone AirTouch's bid was completed on an all-share basis, the most probable long-term credit rating for the combined Vodafone AirTouch/Mannesmann entity would be in the "A" category. There can be no assurance, however, that Standard & Poor's will determine the long-term credit rating

of the combined entity to have a rating which is in the "A" category. On November 19, 1999, Moody's Investors Service confirmed Vodafone AirTouch's long-term debt and corporate credit ratings of A2 for senior unsecured debt and Prime-1 for short-term lending. This confirmation was based on the assumption that the offer for Mannesmann would continue to be an all share offer with no cash payments and that an initial public offering of Mannesmann's engineering and automotive divisions would occur within a relatively short period of time which would yield proceeds particularly to pay off Mannesmann's high debt level. There can be no assurance, however, that Moody's will not set the combined company's long-term credit ratings at lower than A2. Any downgrade by Standard & Poor's or Moody's Investors Service in credit ratings for Vodafone AirTouch would, in most cases, increase Vodafone AirTouch's cost of financing in the future. Furthermore, a downgrade of the credit rating could adversely affect the trading prices of the notes and, possibly, the liquidity of the market for the notes. Vodafone AirTouch is committed to maintaining a strong credit profile and from time to time considers a range of opportunities to provide financial flexibility including making divestments, issuing new capital securities, including convertible securities and ordinary shares, and selling shares in certain operations.

***Vodafone AirTouch may carry out an internal reorganization of the Vodafone AirTouch group following the close of its offer for Mannesmann. The indenture relating to the notes will permit Vodafone AirTouch to effect an internal reorganization, without the consent of noteholders, even if this affects the credit rating of the notes or gives Vodafone AirTouch the option to redeem the notes.*** Under the indenture, if Vodafone AirTouch transfers its assets to another entity, that entity would be required either to assume the obligations of Vodafone AirTouch under the notes or to provide a full and unconditional guarantee of those obligations. If a guarantee were to be provided, the original issuer (Vodafone AirTouch) would have no assets other than a receivable from the guarantor in the amount of the notes and thus no ability to generate revenue to make

payments of interest and principal on the notes. Holders of the notes would then effectively need to look exclusively to the guarantor for any such payments. The consent of noteholders would not be required in connection with such reorganization transaction.

The indenture contains no restrictions on the legal or financial characteristics of the transferee and no restrictions addressing the potential effects of any reorganization transaction on Vodafone AirTouch or the notes. In particular, the indenture would not prohibit such a transaction if it resulted in the credit rating assigned to Vodafone AirTouch or the notes being downgraded by any rating agency or caused additional amounts to become payable in respect of withholding tax on the notes. A downgrade of the credit rating could adversely affect the trading prices of the notes and, possibly, the liquidity of the market for the notes. If additional amounts become payable in respect of withholding tax, the notes will thereafter be subject to redemption at the option of Vodafone AirTouch (or the transferee entity) at any time, as described under "Description of the Notes — Special Situations — Optional Tax Redemption". Vodafone AirTouch has no obligation under the indenture to seek to avoid these results, or any other legal or financial effects that are disadvantageous to you, in connection with a reorganization transaction that is permitted under the indenture, and there can be no assurance that they will not occur.

***Vodafone AirTouch has not verified the reliability of Mannesmann information.*** Vodafone AirTouch has included in this offering circular and in the document attached as Appendix A to this offering circular publicly available financial information with respect to Mannesmann and has incorporated by reference in this offering circular documents containing publicly available information relating to Orange. In connection with the preparation of a registration statement relating to its offer for Mannesmann under the Securities Act, Vodafone AirTouch requested that Mannesmann and its independent public accountants provide to Vodafone AirTouch all material information required to be included in such registration statement. Mannesmann, on

its own behalf and on behalf of its independent public accountants, responded in writing, denying Vodafone AirTouch's request for information. As a result, Vodafone AirTouch has been unable to verify the accuracy of the Mannesmann information included in this document. The inaccuracy of the Mannesmann information could adversely affect the results and operations of the combined entity. In addition, Mannesmann prepares its financial statements under German accounting standards as prescribed by law, which differ in significant respects from U.K. GAAP and U.S. GAAP. Because Vodafone AirTouch has not had access to Mannesmann information, Vodafone AirTouch has been unable to quantify these differences, which may be material. Similarly, Vodafone AirTouch has been unable to prepare pro forma financial information to reflect the effects of the proposed acquisition.

***Expected benefits from the Vodafone AirTouch/Mannesmann combination may not be realized.*** Vodafone AirTouch has made the offer for Mannesmann shares and Mannesmann ADSs with the expectation that the combination of the two companies will result in future cost savings and revenue enhancements. However, the integration of two large telecommunications companies with geographically dispersed operations that have previously operated independently in most respects presents significant management challenges. There can be no assurances as to the extent to which the anticipated benefits expected to result from this integration will be achieved, if at all.

***Even if Vodafone AirTouch consummates the offer, there may be a significant delay before Vodafone AirTouch can obtain control of the management of Mannesmann which could delay the expected benefits of the business combination.*** In order for Vodafone AirTouch to take management control of Mannesmann following a successful offer, Vodafone AirTouch will need to obtain control of both the supervisory and management boards of Mannesmann. Vodafone AirTouch may need to request that the Mannesmann management board call a shareholders' meeting to replace the Mannesmann supervisory board and to pass a "no-confidence" resolution with respect

to the Mannesmann management team. However, under German law, a shareholder must hold its shares for at least three months before it may validly make such a request for a shareholders' meeting. In addition, the management board may evaluate the request for up to four weeks. If the management board refuses to call a shareholders' meeting, Vodafone AirTouch would be entitled to bring an action in the Local Court of Düsseldorf to obtain a court order granting Vodafone AirTouch the right to call such a meeting. Any decision by the Local Court, however, may be appealed by Mannesmann, which could further delay the calling of a shareholders' meeting.

In addition, under Section 16(2) of Mannesmann's articles of association, no shareholder is entitled to vote an amount in excess of five percent of the outstanding capital stock of Mannesmann. This means that regardless of the percentage of the Mannesmann shares that it may own after consummation of the proposed offer, Vodafone AirTouch would be limited to voting a number of shares that does not exceed five percent of the outstanding capital stock of Mannesmann. This restriction on voting rights will be rescinded on June 1, 2000, pursuant to the German law regarding Control and Transparency in Business Enterprises (*Gesetz zur Kontrolle und Transparenz im Unternehmensbereich*).

As a result, it is possible that a shareholders' meeting at which Vodafone AirTouch would be able to replace the present supervisory board will not be able to be called until after June 2000. Such a delay could delay the expected benefits of the business combination.

***Failure to obtain 75% ownership may adversely affect Vodafone AirTouch's flexibility with respect to Mannesmann.***

Although under German law and the Mannesmann articles of association most corporate actions may be taken with the approval of holders of a majority of Mannesmann's outstanding share capital present and voting at a shareholders' meeting, including actions required in order to be able to distribute Orange to the shareholders of Vodafone AirTouch or to sell Orange to a third party after consummation of the offer, a

number of actions that Vodafone AirTouch might want to take with respect to Mannesmann following consummation of the offer may only be taken with the approval of 75% of the outstanding share capital of Mannesmann present and voting at a shareholders' meeting. Such actions include:

- causing Mannesmann to enter into agreements that concern the structure of Mannesmann, including domination agreements and agreements providing for the transfer of Mannesmann's profits to another company, or agreements integrating Mannesmann into another company or group of companies;
- integrating another German stock company into Mannesmann;
- causing Mannesmann to enter into mergers, consolidations, spin-offs or changes in the form of its corporate organization; and
- issuing new shares without granting shareholders preemptive rights.

Therefore, if Vodafone AirTouch does not obtain 75% of the Mannesmann shares in the offer, it may be restricted in its ability to cause Mannesmann to take these actions. In addition, any decision that would infringe upon or change any specific rights granted to a shareholder class would require the consent of 75% of such class.

***Vodafone AirTouch may incur significant tax liabilities and other additional costs in causing Mannesmann to dispose of its industrial businesses and Orange.***

Vodafone AirTouch presently intends to undertake an initial public offering of Mannesmann's engineering and automotive businesses as soon as practicable after acquiring control of Mannesmann consistent with Mannesmann's previously announced strategy. In addition, Vodafone AirTouch presently intends to undertake in due course an initial public offering of minority interests in Arcor and Infostrada. Also, in October 1999 Mannesmann made an offer for all of the outstanding ordinary shares of Orange, one of the four holders of wireless telecommunications licenses in the United Kingdom. As of January 7, 2000, Mannesmann owned more than 91%

of the outstanding shares of Orange. If Vodafone AirTouch's offer for Mannesmann shares is completed, Vodafone AirTouch, through Mannesmann, will have acquired beneficial ownership of those Orange shares that were tendered in the Mannesmann offer. Under European Community merger control law, Vodafone AirTouch will be prohibited from owning both Vodafone Limited and Orange and, therefore, will be required to dispose of its interest in Orange as soon as practicable following the offer becoming unconditional. Presently, Vodafone AirTouch intends to demerge Orange to the enlarged shareholder base of the combined Vodafone AirTouch/Mannesmann entity. Pending the demerger of Orange, Vodafone AirTouch intends to establish an arm's length arrangement to hold its indirect interest in Orange.

The costs of these divestitures may be significant. The tax costs of an initial public offering of Mannesmann's engineering and automotive businesses were initially reported by Mannesmann as potentially being as high as €2.0 billion to €2.5 billion. However, on November 23, 1999 Mannesmann announced that it had decided upon a separation procedure that would ensure that the proceeds from the sale would not be "significantly impaired" by taxation.

Furthermore, Vodafone AirTouch could incur stamp duty taxes of 0.5% of the value of Orange in connection with the distribution of Orange to Vodafone AirTouch shareholders. In addition, if Vodafone AirTouch does not obtain 75% or more of the outstanding share capital of Mannesmann in the offer, Vodafone AirTouch will be subject to an additional stamp duty or stamp duty reserve tax of 0.5% of the value of Orange as part of the intended distribution of Orange to Vodafone AirTouch shareholders. The structuring and implementation of these initial public offerings and divestitures involve significant legal and regulatory issues that could result in the incurrence of unexpected additional costs to Vodafone AirTouch which could reduce the expected benefit of the Vodafone AirTouch/Mannesmann combination.

***Vodafone Limited requires a determination from the U.K. Secretary of State for Trade & Industry before it and***

***Orange can pre-qualify for the U.K. 3G auction.*** Vodafone AirTouch is currently discussing with officials and its advisers the arrangements which will need to be put in place to ensure that Orange and Vodafone Limited are kept separate during the 3G auction in the United Kingdom and that no confidential information flows from one to the other. Once these are agreed the Secretary of State may make a determination which will permit both companies to pre-qualify. Vodafone AirTouch expects that a determination will be made but there can be no assurance that the arrangements will not be disadvantageous.

***The European Commission may impose conditions on the concentration between Vodafone AirTouch and Mannesmann which may reduce the anticipated benefits of the combination.*** Under European Community merger control law, Vodafone AirTouch is required to notify the European Commission of the concentration between Vodafone AirTouch and Mannesmann. Vodafone AirTouch notified the European Commission of the concentration on January 14, 2000. Until the European Commission issues a decision declaring the concentration compatible with the common market, Vodafone AirTouch will not be able to vote any Mannesmann shares acquired or exercise control over Mannesmann without the European Commission's permission. There can be no assurance that the European Commission will issue a clearance decision in relation to the offer without materially adverse restrictions or conditions including commitments to dispose of assets within the European Union. Depending on their nature and extent, any restrictions, conditions or waivers may lessen the anticipated benefits of the transaction.

***Potential change of control provisions may be triggered which may result in Mannesmann losing certain rights.***

Vodafone AirTouch believes that Mannesmann may be a party to a number of concessions, license arrangements and other agreements that contain change of control provisions that could be triggered by a Vodafone AirTouch acquisition of Mannesmann. Vodafone AirTouch does not have all of the information it needs to assess the impact of triggering such change of control provisions; however, such impact could



be material and result in Vodafone AirTouch and/or Mannesmann paying fees or penalties.

***Existence of minority interests in Mannesmann share capital may reduce benefits to Vodafone AirTouch.*** The existence of minority interests in Mannesmann's share capital after the completion of this offer may have various adverse effects upon Vodafone AirTouch. If significant minority interests were present, Vodafone AirTouch could have difficulty implementing the synergies and other operating efficiencies, and realizing the revenue and earnings growth, which it seeks to achieve by combining Mannesmann and Vodafone AirTouch.

***Labor disruptions may have an adverse effect on the business of the combined company.*** There can be no assurance that the combined Vodafone AirTouch/Mannesmann entity will not be subject to strikes and other labor actions which could have an adverse effect on the new entity's business.

#### **Risks Relating to the Notes**

***Interest on the notes will be subject to U.K. withholding tax if definitive notes are issued or if Vodafone AirTouch fails to maintain a listing on a recognized stock exchange.*** In certain cases, holders of book-entry securities will be entitled to receive definitive notes in registered form. Under current U.K. tax law, upon the issuance of such definitive notes, interest thereafter payable in respect of the notes will be subject to U.K. withholding tax (currently at the rate of 20%), subject to the terms of any applicable double tax treaty (or other available reliefs). In addition, for Vodafone AirTouch to avoid the payment of additional amounts in respect of the notes under current law (for so long as they are in bearer form), Vodafone AirTouch will need to maintain a listing of the notes on a "recognised stock exchange" within the meaning of Section 841 of the U.K. Income and Corporation Taxes Act 1988. Vodafone AirTouch has applied for listing of the notes on the London Stock Exchange, which is currently

designated as a "recognised stock exchange". The inability to list the notes may have an adverse effect on Vodafone AirTouch's liquidity and financial position by reason of its obligation to pay such additional amounts as may be necessary so that the net amount received by the holders after such reduction will not be less than the amount that would have been received in the absence of such withholding or deduction. While Vodafone AirTouch has agreed to use its best efforts to obtain and maintain such a listing, as needed, we cannot guarantee that we will be successful. See "Description of the Notes — Payment of Additional Amounts" and "Certain U.S. Federal and U.K. Tax Considerations — United Kingdom Taxation".

***The notes lack a developed public market.*** The notes have not been registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws.

There can be no assurance regarding the future development of a market for the notes or the ability of holders of the notes to sell their notes or the price at which such holders may be able to sell their notes. If such a market were to develop, the notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including, among other things, prevailing interest rates, Vodafone AirTouch's operating results and the market for similar securities. The initial purchasers have advised Vodafone AirTouch that they currently intend to make a market in the notes as permitted by applicable laws and regulations; however, the initial purchasers are not obligated to do so, and any such market-making activities with respect to the notes may be discontinued at any time without notice. Therefore, there can be no assurance as to the liquidity of any trading market for the notes or that an active public market for the notes will develop. See "Underwriting". Vodafone AirTouch has applied

for the listing of the notes on the London Stock Exchange.

Vodafone AirTouch has previously published risk factors relating to investments in its securities in its Report on Form 6-K, dated

September 3, 1999, which is incorporated herein by reference and contains a description of the business of Vodafone AirTouch. See "Risk Factors" on page 19 of such Report on Form 6-K to review these risk factors.

**RATIO OF EARNINGS TO FIXED CHARGES AND TO FIXED CHARGES AND PREFERENCE SHARE DIVIDENDS**

Our consolidated ratios of earnings to fixed charges and earnings to fixed charges and preference share dividends computed under U.K. GAAP and U.S. GAAP for each of our

fiscal years ended March 31, 1995 through 1999 and for the six month period ended September 30, 1999 are as follows:

	Year ended March 31,					Six months ended
	1995	1996	1997	1998	1999	September 30, 1999
<b>U.K. GAAP</b>						
Ratio of Earnings to Fixed Charges .....	15.7	12.0	9.2	6.3	6.7	2.8
Ratio of Earnings to Fixed Charges and Preference Share Dividends .....	15.7	12.0	9.2	6.3	6.7	2.8
<b>U.S. GAAP</b>						
Ratio of Earnings to Fixed Charges .....	14.1	11.7	8.9	5.7	5.8	1.9
Ratio of Earnings to Fixed Charges and Preference Share Dividends .....	14.1	11.7	8.9	5.7	5.8	1.9

For the purpose of computing these ratios, earnings consist of income on ordinary activities, adjusted for:

- fixed charges,
- dividend income from associated undertakings, and
- share of losses from associated undertakings.

Fixed charges consist of one-third of rental expense (being that portion of rental expense representative of interest), interest expense and preference share dividends as reported in our consolidated financial statements. There were no preference share dividends in any of the fiscal years ended March 31, 1995 through 1999.

## USE OF PROCEEDS

We estimate that the net proceeds (after underwriting discounts and commissions) from the sale of the notes will be \$5,195,370,000. We intend to use the proceeds from the sale of the notes to repay debt outstanding under our existing credit facility and short-term commercial paper indebtedness. For a discussion of our new credit facility, see "Description of Credit Facility" below on page 50. The debt outstanding under our existing credit facility matures on April 16, 2000 and bears interest at a variable sterling rate, which was 6.44% as of January 11, 2000. The interest rate on our U.S. dollar short-term

commercial paper on a weighted average basis as of January 11, 2000 was 6.01%. All of the outstanding indebtedness that we will repay was incurred within one year prior to the date of this offering circular. We used the proceeds from this indebtedness primarily to fund working capital requirements and to pay the cash consideration to the former shareholders of AirTouch in connection with the merger of AirTouch and Vodafone Group. Pending disbursement for these purposes, part or most of the proceeds from the sale of the notes may be invested in short-term securities or deposits.

## EXCHANGE RATES

A significant portion of Vodafone AirTouch's liabilities and expenses is denominated in U.S. dollars. The following table shows, for the periods and dates indicated, certain information regarding the U.S. dollar/pound sterling exchange rate, based on the noon buying rate

in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York, referred to as the "Noon Buying Rate", expressed in U.S. dollars per £1.00.

	<u>Period End</u>	<u>Average(1)</u>	<u>High</u>	<u>Low</u>
<b>Year ended March 31,</b>				
1995 .....	1.62	1.56	1.64	1.46
1996 .....	1.53	1.56	1.62	1.50
1997 .....	1.64	1.60	1.71	1.49
1998 .....	1.68	1.65	1.70	1.58
1999 .....	1.61	1.65	1.72	1.60
2000 (through December 31, 1999) .....	1.61	1.61	1.68	1.55

(1) The average of the Noon Buying Rates on the last day of each complete month during the period.

As of February 4, 2000, the latest practicable date for which exchange rate information was available prior to the printing of this document, the Noon Buying Rate for one pound sterling expressed in U.S. dollars was \$1.59.

U.S. dollars, and for the year 1999 the high and low Noon Buying Rates for one euro expressed in U.S. dollars, as well as the respective average Noon Buying Rates during such periods, and the respective Noon Buying Rates at the end of such periods, based upon information provided by The Federal Reserve Bank of New York.

The following table sets forth for the years 1994-1998 the high and low Noon Buying Rates for one German mark expressed in

	<u>Period End</u>	<u>Average(1)</u>	<u>High</u>	<u>Low</u>
<b>Year ended December 31,</b>				
<b>German Mark</b>				
1994 .....	0.65	0.62	0.57	0.67
1995 .....	0.70	0.70	0.64	0.73
1996 .....	0.65	0.66	0.64	0.70
1997 .....	0.56	0.58	0.53	0.65
1998 .....	0.60	0.57	0.54	0.62
<b>Euro</b>				
1999 .....	1.01	1.06	1.18	1.00

(1) The average of the Noon Buying Rates on the last day of each complete month during the period.

As of February 4, 2000, the latest practicable date for which exchange rate information was available prior to the printing of

this document, the Noon Buying Rate for one euro expressed in U.S. dollars was \$0.98.

## CAPITALIZATION

The following table sets out the unaudited actual capital and reserves of Vodafone AirTouch and its consolidated subsidiaries, referred to as Vodafone AirTouch Group, as at September 30, 1999, in accordance with U.K. GAAP.

### Vodafone AirTouch Group

	At September 30, 1999	
	£	\$
	(in millions)	
<b>Capital and reserves(2)</b>		
Called up share capital		
(40.8 billion ordinary shares of \$0.10 each authorized, 31.0 billion ordinary shares allotted, issued and fully paid) .....	1,901	3,029
Share premium account .....	37,058	59,052
Other reserves .....	1,149	1,831
Profit and loss account .....	(549)	(875)
<b>Total equity shareholders' funds .....</b>	<b><u>39,559</u></b>	<b><u>63,037</u></b>

The borrowings and indebtedness of Vodafone AirTouch Group, excluding intra-group borrowings, were as follows:

	At November 30, 1999	
	£	\$
	(in millions)	
<b>Total borrowings and indebtedness(1)-(9) .....</b>	<b><u>7,184</u></b>	<b><u>11,448</u></b>

- (1) Except as disclosed above, in footnote (6) below and in respect of the litigation disclosed beginning on page 85 ("General Information"), the effect of which is not as yet quantifiable, and apart from intra-group liabilities, Vodafone AirTouch Group did not have outstanding as of November 30, 1999 any loan capital issues, or created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or obligations under finance leases, mortgages, charges, guarantees or other material contingent liabilities.
- (2) The total sterling amount has been expressed in U.S. dollars solely for convenience and translated at the close of business rate on November 30, 1999, which was \$1.5935 to £1.00.
- (3) All borrowings and indebtedness were unsecured. Borrowings and indebtedness include long term and short term borrowings and finance lease obligations.
- (4) On July 16, 1999, Vodafone AirTouch launched a €5 billion Euro medium term note program. €1.5 billion principal amount of notes were issued under this program on October 27, 1999 to repay existing indebtedness of Vodafone AirTouch.
- (5) On January 6, 2000, Vodafone AirTouch purchased CommNet Cellular, Inc. for a cash cost of \$813 million and the assumption of \$726 million of debt.
- (6) At the close of business on November 30, 1999, Vodafone AirTouch had given guarantees and indemnities to third parties of £1,363.0 million (\$2,171.9 million). Guarantees and indemnities include £966.9 million in respect of a letter of indemnity provided in September 1999 to a co-investor in certain operating companies in which Vodafone AirTouch has equity interests. The co-investor has provided the lending institutions to the operating companies with certain credit

support documents, which are not legally binding obligations on the co-investor. Prior to Vodafone AirTouch indemnifying the co-investor from any loss it may suffer as a result of the credit support documents, the co-investor has agreed to request other shareholders in the operating companies to make equity contributions in order that the operating companies may discharge their liabilities and, in the event that the co-investor discharges under the credit support documents more than 40% of the operating companies' indebtedness, the co-investor will use its reasonable efforts to cause the operating companies to refinance (if practicable) the remaining debt.

- (7) Except as described above, there has been (i) no material change in (a) Vodafone AirTouch Group's capital and reserves between September 30, 1999 and November 30, 1999, and (b) Vodafone AirTouch Group's capital and reserves since November 30, 1999; and (ii) no material change in the borrowings and indebtedness or contingent liabilities of Vodafone AirTouch Group since November 30, 1999.
- (8) The proceeds to be received from the offering set out in this document will be applied in repaying existing indebtedness of Vodafone AirTouch. See "Use of Proceeds" on page 40.
- (9) As of November 30, 1999, Vodafone AirTouch had cash of £145.1 million (\$231.2 million).

## DESCRIPTION OF VODAFONE AIRTOUCH

### Background

Vodafone AirTouch is one of the world's leading international communications companies with a significant presence in the United Kingdom, the United States, Europe and the Asia Pacific region. Vodafone AirTouch provides a full range of wireless telecommunications services, including cellular, broadband PCS, paging and data communications.

Vodafone AirTouch's ordinary shares are listed on the London Stock Exchange, and its ADSs are listed on the New York Stock Exchange. The company, which is incorporated in England and Wales, had a total market capitalization of over £95.4 billion (\$153.8 billion) at December 31, 1999, making it the third largest company in the FT-SE 100 index and the twenty-fifth largest company in the world based on market capitalization.

Vodafone AirTouch was formed in 1984 as a subsidiary of Racal Electronics Plc. Approximately 20% of Vodafone AirTouch, then known as Racal Telecom Limited, was offered to the public in October 1988. It was fully demerged from Racal Electronics Plc and became an independent company in September 1991, at which point it changed its name to Vodafone Group Plc. On June 29, 1999, Vodafone Group Plc changed its name to Vodafone AirTouch Plc. On June 30, 1999, it merged with AirTouch to create the world's largest wireless telecommunications company in terms of the number of proportionate customers. As a result of the merger, AirTouch became a subsidiary of Vodafone AirTouch. The merger established a combined company with an extensive footprint both in Europe and in the United States, and thus facilitated a major step in Vodafone AirTouch's declared strategy to extend the reach, range and penetration of wireless services to as many customers as possible, in as many geographical territories throughout the world that can sustain viable and profitable operating environments. The merger also created a more competitive, global telecommunications group than either Vodafone Group or AirTouch would have been alone.

### Markets

Vodafone AirTouch now has interests in 24 countries across five continents. The major geographical markets in which it has interests in cellular network operations are Australia, Belgium, Egypt, France, Germany, Greece, Italy, Japan, The Netherlands, New Zealand, Poland, Portugal, South Africa, Spain, Sweden, The United Kingdom and the United States. Vodafone AirTouch also has interests in cellular network operations in Fiji, Hungary, India, Malta, Romania, South Korea and Uganda. As of December 31, 1999, Vodafone AirTouch had approximately 35.5 million proportionate customers (excluding paging customers). Vodafone AirTouch and its ventures serve approximately 394 million people worldwide, calculated on a proportionate basis in accordance with Vodafone AirTouch's percentage interest in its ventures.

Vodafone AirTouch's operations are divided into three geographical areas: (i) the U.K.; (ii) Europe, Middle East and Africa; and (iii) the U.S. and the Asia Pacific region.

### United Kingdom

Vodafone Limited, referred to as Vodafone in this offering circular, introduced cellular technology into the United Kingdom on January 1, 1985 and is the largest of the four cellular operators in the United Kingdom. It has been the U.K. market leader since 1986 in terms of number of customers with over 7.9 million U.K. customers as at December 31, 1999 and coverage of 99% of the U.K. population.

Vodafone was one of the world's first network operators to introduce a network operating to the GSM standard, which has now been adopted by more than 130 countries, and was one of the world's first operators to introduce international roaming. It currently has roaming agreements covering over 100 countries. In addition, Vodafone AirTouch has successfully introduced the "Pay As You Talk", known as "PAYT", prepaid service, which represented 53% of Vodafone AirTouch's U.K. customer base by December 31, 1999.



In May, 1999, the U.K. government announced that it proposed to auction five third generation wireless telephone licenses, one of which is reserved for a new entrant in the U.K. wireless telecommunications market. The auction is now expected to take place in March 2000 and Vodafone has entered to bid for one of the licenses, which would also provide Vodafone with additional systems capacity. The offer for Mannesmann may result in it being more difficult for Vodafone to pre-qualify for this auction. See "Regulation — United Kingdom" and "Risk Factors — Other Risks Relating to the Business — Vodafone Limited requires a determination from the U.K. Secretary of State for Trade & Industry before it and Orange can pre-qualify for the U.K. 3G auction."

3G technology will offer users increased bandwidth connections to their wireless handsets, allowing them to access an extensive range of new services. These will include video telecommunications, high speed access to corporate intranets and the Internet and the provision of electronic mail services which allow the user to access and control a range of messaging options, including e-mail and voice mail.

On January 11, 2000, Vodafone AirTouch announced the launch of its single global platform and branded portal for wireless data and internet services. The global internet platform is an architecture and a set of hardware and software which will be available to all of Vodafone AirTouch's networks and will also be licensed in other markets where appropriate. The timetable for launch of the first version is July 2000. Vodafone AirTouch also announced a number of major global partners across the wireless internet value chain of technology, content and handsets. The press release regarding this announcement is contained in Vodafone AirTouch's Form 6-K, dated January 11, 2000 and incorporated by reference in this offering circular.

### **Europe, Middle East and Africa**

Vodafone AirTouch's operations cover most of the European continent, spanning into areas of future growth such as Eastern Europe, Africa and the Middle East. In Europe, Vodafone AirTouch has interests in operations in Belgium,

France, Germany, Greece, Hungary, Italy, Malta, The Netherlands, Poland, Portugal, Romania, Spain and Sweden.

In total, Vodafone AirTouch had over 12 million proportionate customers in this region as at December 31, 1999. Vodafone AirTouch has controlling stakes in key wireless telecommunications operators: Panafon in Greece (55%); Libertel in The Netherlands (70%); Telecel in Portugal (50.9%); and EuroPolitan in Sweden (71.1%). It also has strategic stakes in Proximus in Belgium (25.0%) and Airtel in Spain (21.7%), as well as long-standing relationships with Mannesmann in the management of D2 in Germany (34.8%), Omnitel in Italy (21.6%) and SFR in France (20%). Vodafone AirTouch is currently considering increasing its stake in Airtel.

Vodafone AirTouch is one of the pioneers in developing the rapidly growing Eastern European markets, having already established a presence in Poland, Romania and Hungary.

In the Middle East and Africa, Vodafone AirTouch holds interests in Egyptian, South African and Ugandan operators.

### ***Agreements with Shareholders of Airtel.***

Vodafone AirTouch recently announced that it has agreed arrangements granting to Acciona, S.A. and affiliates of Torreal, S.A. and Corporacion Financiera Alba, S.A. a series of conditional put options in respect of their shareholdings representing, in aggregate, 16.91% of Airtel.

Should any or all of the put options be exercised and completed, Vodafone AirTouch and/or its affiliates would acquire an additional holding of up to 16.91% in Airtel. Consideration will be issued in Vodafone AirTouch shares or, in certain circumstances, cash and will vary according to which put is exercised. The first set of put options contains provisions whereby Acciona, Torreal and Alba commit up to May 31, 2001 not to sell their participations in Airtel other than to Vodafone AirTouch.

The first set of put options relates to up to 6.85% of Airtel and the consideration (if in shares) will be the issue of a maximum of 335,342,322 Vodafone AirTouch shares, subject to adjustment in certain circumstances.

The second set of puts, which may be exercised by each shareholder only if the first put relating to such shareholder has been exercised and completed, relates to all or part of the remaining 10.06% in Airtel held by Acciona, Torreal and Alba. The consideration (assuming payment in shares) will be based on the average of the 30 day closing price for Vodafone AirTouch shares prior to exercise with a collar of between £2.50 and £4.50 per share and is subject to an annual price accrual, resulting in a maximum of 718,393,440 shares being issued.

The third set of puts may only be exercised by each shareholder if the first put relating to such shareholder has not been exercised and/or completed, and relates to the exchange of up to 16.91% of Airtel for a maximum of 796,270,268 shares in Vodafone AirTouch (assuming payment in shares).

The consideration will be payable in cash (i) in the case of all of the put options, in certain specified circumstances, (ii) in the case of the second and third sets of puts, at the option of Vodafone AirTouch, and (iii) in the case of the second set of puts, if the transfer takes place on or after January 1, 2002, in which case the consideration for the full 10.06% would be €2.9 billion subject to an annual price accrual. In the other cases where the consideration is in cash, it will be the cash equivalent of the price of the relevant number of Vodafone AirTouch shares for each put. Such cash consideration will not be payable until January 1, 2002, subject to an annual price accrual.

The Airtel shares may be subject to pre-emption rights in favour of third parties in certain circumstances.

**Offer for Mannesmann.** On December 24, 1999, Vodafone AirTouch commenced its offer, subject to various terms and conditions, to the shareholders of Mannesmann A.G. for the exchange of 53.7 Vodafone AirTouch ordinary shares for each share or ADS of Mannesmann. On February 3, 2000, Vodafone AirTouch announced that it had reached agreement with the management board of Mannesmann on the terms of a merger to be effected by means of a revised offer by Vodafone AirTouch for Mannesmann.

The revised offer is unanimously recommended to Mannesmann shareholders by the management board of Mannesmann. The revised offer is for the exchange of 58.9646 Vodafone AirTouch ordinary shares for each share or ADS of Mannesmann. Following the revised offer, assuming full acceptance, Mannesmann shareholders will hold 49.5% of the combined group. Dr. Klaus Esser will join the Vodafone AirTouch board as an executive director. Four members of Mannesmann's supervisory board will be invited to join the board of Vodafone AirTouch. The agreement has been approved by Mannesmann's supervisory board. This offer will expire at 6 p.m. (New York City time) on February 17, 2000, unless extended.

A combined Vodafone AirTouch/Mannesmann group would have the most extensive controlled footprint in Europe, would be present in 15 countries in Europe and would have approximately 30 million controlled European customers. It would either control, own or have interests in the number one or two operator in 11 European markets, such as Vodafone in the United Kingdom, D2 in Germany, Omnitel in Italy and Libertel in The Netherlands.

The scale of the combined group would enable it to achieve significant purchasing economies for infrastructure, information technology and handset procurement, particularly with the expected rollout of third-generation networks, as well as savings in the overall cost of network operations. Management expects the merger to generate synergies of approximately £500 million on a proportionate after tax cash flow basis in 2003 (with approximately 20% of such synergies coming from increased revenues, 40% from cost savings and 40% from capital expenditures) and approximately £600 million on a proportionate after tax cash flow basis in 2004 (with approximately 25% of such synergies coming from increased revenues, 40% from cost savings and 35% from capital expenditures).

The foregoing statements regarding anticipated synergy benefits are forward looking statements within the meaning of Section 27A of the Securities Act. By their nature such

statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results to differ materially from those set forth above. For a discussion of these factors, see "Disclosure Regarding Forward Looking Statements".

Vodafone AirTouch seeks to acquire as many outstanding shares of Mannesmann as possible in the offer. In the event that Vodafone AirTouch obtains less than 100% of Mannesmann's shares in the offer, Vodafone AirTouch may, in its discretion, seek to obtain additional Mannesmann shares through open market purchases, additional offers or otherwise. The structure of the combination of the businesses of Vodafone AirTouch and Mannesmann will depend on a further assessment by Vodafone AirTouch of various factors, including tax effects.

The offer was stated to be subject to certain conditions:

- The valid tender of that number of Mannesmann shares and ADSs that, together with Mannesmann shares and ADSs otherwise owned by Vodafone AirTouch or its affiliates, constitute more than 50% of the voting capital stock of Mannesmann outstanding at the close of the offer period;
- Approval by Vodafone AirTouch shareholders of all necessary resolutions to implement the offer;
- Admission to the Official List of the London Stock Exchange of the Vodafone AirTouch ordinary shares to be issued pursuant to the offer;
- Vodafone AirTouch and Orange (or their affiliates) being permitted to pre-qualify for and, if successful in the auction, being granted third-generation U.K. wireless spectrum licenses on terms reasonably satisfactory to Vodafone AirTouch; and
- The expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act.

The Hart-Scott-Rodino waiting period was terminated on January 14, 2000. On January 18, 2000, Vodafone AirTouch announced that the offer will no longer be conditional on confirmation by the U.K. Secretary of State for Trade and Industry of the entitlement of Vodafone AirTouch and Orange, or their affiliates, to bid for 3G spectrum in the United Kingdom. At an extraordinary general meeting held on January 24, 2000, Vodafone AirTouch shareholders approved Vodafone AirTouch's offer for Mannesmann.

See Appendix A to this offering circular for more information.

**Sale of E-Plus.** On October 4, 1999, Vodafone AirTouch reached an agreement with France Telecom S.A. for the sale of Vodafone AirTouch's 17.24% equity interest in E-Plus Mobilfunk GmbH, the third largest of the four German cellular network operators, for a cash consideration net of debt of DM3.42 billion (approximately \$1.9 billion). On December 9, 1999, Bell South Corporation announced that in accordance with the existing agreements among the shareholders of E-Plus it had exercised its right of first refusal to purchase Vodafone AirTouch's 17.24% interest. This purchase was completed on February 4, 2000. Vodafone AirTouch announced in May 1999 that it would divest its interest in E-Plus pursuant to the undertaking it gave to the European Commission at that time in connection with its merger with AirTouch.

#### **United States and the Asia Pacific Region**

**United States.** Vodafone AirTouch is one of the largest providers of wireless telecommunications services in the United States. In the United States, Vodafone AirTouch's cellular and PCS ventures had approximately 9.8 million proportionate customers as at December 31, 1999 and represented over 97 million proportionate POPs. Vodafone AirTouch controls or shares control over cellular systems in 22 of the 30 largest cellular markets in the United States, including Los Angeles, Chicago, Dallas, Detroit, San Francisco, Houston, Atlanta, San Diego, Phoenix and Seattle.

Vodafone AirTouch offers analogue service in all of its U.S. markets and offers digital service, based on code division multiple access (known as CDMA) technology, in most markets. It also offers value-added services such as voice mail, call forwarding, call waiting and three way calling in most of its markets.

Vodafone AirTouch's U.S. PCS operations are carried out jointly within its PrimeCo partnership with Bell Atlantic. Vodafone AirTouch and Bell Atlantic are equal partners in PrimeCo, whose markets complement the existing U.S. cellular franchises of the partners. PrimeCo began providing service in November 1996 and at October 1, 1999 had approximately 1.3 million customers.

Industry surveys indicate the Vodafone AirTouch is among the largest providers of paging services in the United States, with over 3.5 million units in service at December 31, 1999.

On September 21, 1999, Vodafone AirTouch and Bell Atlantic announced an agreement to combine their U.S. wireless assets to form a new business partnership. Bell Atlantic's U.S. wireless assets will include the U.S. wireless assets of GTE if the Bell Atlantic/GTE merger is completed. Vodafone AirTouch's U.S. wireless assets will include CommNet Cellular, Inc. In July 1999, Vodafone AirTouch reached an agreement to acquire 100% of the outstanding capital stock of CommNet Cellular, which provides wireless technology services in the midwest of the United States. The transaction closed on January 6, 2000 for a cash cost of \$813 million and the assumption of \$726 million of debt.

Upon its formation, the partnership would serve approximately 20 million wireless customers and 3.5 million paging customers throughout the United States, based on each party's customers as of September 21, 1999, making it the largest wireless telecommunications operator in the United States. It would have a footprint covering over 90% of the U.S. population and 49 of the top 50 U.S. wireless markets, with 254 million gross POPs.

Under the transaction agreements, the contribution of assets will take place in two stages. In Stage I, Vodafone AirTouch will contribute certain U.S. wireless interests to an existing partnership which holds Bell Atlantic's U.S. wireless interests. Following the Stage I closing, Vodafone AirTouch will hold 65.1% of the partnership and Bell Atlantic will retain the remaining 34.9%. Stage II of the closing will occur on the earlier of the first anniversary of Stage I or shortly after Bell Atlantic completes its merger with GTE or Bell Atlantic's right to merge with GTE is terminated. In Stage II, Vodafone AirTouch will contribute the rest of its U.S. wireless assets and Bell Atlantic will contribute the U.S. wireless assets of GTE if the Bell Atlantic/GTE merger has been completed. In this case, Vodafone AirTouch will own 45% of the partnership and Bell Atlantic 55%. If for any reason the U.S. wireless assets of GTE are not contributed to the venture, the partners' interests will be adjusted so that Vodafone AirTouch will have a 67% interest in the partnership and Bell Atlantic will have a 33% interest. In such a case, however, Bell Atlantic will have the right to increase its interest to 50.5% by acquiring a portion of Vodafone AirTouch's interest at a fair market value.

Whatever the final partnership interests of Bell Atlantic and Vodafone AirTouch, as described above, Bell Atlantic will manage the partnership and will designate four of the seven members to the partnership board of representatives. Vodafone AirTouch will designate the other three representatives. The new business will initially assume or incur approximately \$10 billion in existing and new debt, which is expected to cause Vodafone AirTouch's net consolidated debt to decline by approximately \$4.5 billion. Vodafone AirTouch can elect to sell shares through an initial public offering of a company formed to hold ownership interests in the wireless business at any time after three years from the closing of the transaction. Vodafone AirTouch can also put up to \$20 billion worth of its interest in the partnership to Bell Atlantic or the wireless venture (subject to certain credit tests being met) between three and seven years from the closing of the transaction. Vodafone AirTouch and Bell Atlantic have agreed to a dividend

policy for the first five years of the partnership such that 70% of adjusted net income, before deducting amortisation of goodwill, will be distributed as dividends, provided that the liabilities of the partnership do not exceed the fair value of the partnership's assets, the partnership maintains certain credit tests and Vodafone AirTouch retains a 20% partnership interest. After the five-year period, the board of the partnership will evaluate future dividend policies.

On December 6, 1999, the U.S. Department of Justice approved the transaction, subject to an anticipated consent decree that calls for the disposition of one or two competing wireless properties in each market where an overlap would be created by the venture. The overlapping operations are estimated to serve approximately 3 million customers in several major U.S. markets covering a total of approximately 49 million POPs. Under the terms of the consent decree, Vodafone AirTouch, Bell Atlantic and GTE plan to eliminate their wireless overlaps upon the closing of their respective transactions; however, the decree gives the companies until June 30, 2000 to resolve more than half of the overlapping wireless properties.

The transaction is still subject to approval by various other U.S. regulatory authorities and the receipt of an exemptive order from the SEC or other satisfactory resolution regarding the application of the Investment Company Act of

1940 to Vodafone AirTouch and AirTouch and is subject to third-party claims which may or may not affect the scope of the transaction. See paragraph 4 of "General Information" on page 85 below. Vodafone AirTouch shareholders approved the transaction at an extraordinary general meeting held on January 24, 2000. The transaction is expected to be completed by the end of June 2000.

**Asia Pacific.** Vodafone AirTouch operates networks extensively throughout the region, in Australia, New Zealand, Fiji, India, Japan and South Korea, with over 3.8 million proportionate customers as at December 31, 1999. Vodafone AirTouch is considering an initial public offering of its Australasian business during the first half of 2000 but it intends to maintain a controlling shareholding after any such offering. On October 7, 1999, Vodafone AirTouch announced a series of transactions that now give it an equity interest of more than 20% in each of Japan's nine regional wireless telecommunications companies for a total consideration of approximately \$550 million.

#### **Globalstar**

Vodafone AirTouch holds an approximate 8% interest in Globalstar and has the exclusive rights to provide Globalstar service in the United Kingdom, the United States, Australia, Botswana, Canada, the Caribbean, Greece, Malta, Mexico, Mozambique, Namibia, South Africa and Zimbabwe.

## DESCRIPTION OF CREDIT FACILITY

Vodafone AirTouch believes that, as a result of the offer for the shares and ADSs of Mannesmann and the intended demerger of Orange, between €15.0 billion and €20.0 billion of outstanding Mannesmann and Orange debt either may accelerate or is short-term debt which matures during 2000 which will have to be refinanced. In addition, Vodafone AirTouch intends to refinance its existing U.S.\$10.0 billion credit facility. In connection with the foregoing refinancings, Vodafone AirTouch has entered into a new credit facility for borrowings of up to €30.0 billion and has an underwritten commitment from a financial institution under which it may issue up to U.S.\$3.5 billion in one or two year floating rate notes following syndication of the €30.0 billion credit facility, which is expected to be completed in April 2000.

The new €30.0 billion credit facility is split into three tranches. Tranche A is a €15,000,000,000 one-year revolving credit facility and Tranche B a €7,500,000,000 one-year revolving facility. Both facilities are available in the first year of the facility. Vodafone AirTouch has the option of extending repayment of funds

- under Tranche A, for up to six months after the first anniversary of the date of the facility; and
- under Tranche B, for up to the second anniversary of the date of the facility.

Tranche C is a €7,500,000,000 revolving credit facility, available for three years. Advances may be drawn in U.S. dollars, pounds sterling or euros.

Facility advances will bear interest at a rate per annum equal to the sum of (i) the applicable margin, (ii) LIBOR for pounds

sterling and U.S. dollar drawings or EURIBOR for Euro drawings and (iii) the cost to the lenders of complying with capital adequacy and other regulatory requirements. The applicable margin varies for each of the tranches according to tranche utilization and the credit rating assigned to Vodafone AirTouch at the relevant time, and ranges from 0.45% per annum to 0.95% per annum. A utilization fee of up to 0.30% per annum is payable also depending upon tranche utilization and credit ratings. Commitment fees of 0.125% per annum for Tranches A, B and C are also payable on undrawn amounts of the facility prior to the date that borrowings first become available, after which date the fees may increase to up to 0.25% per annum.

Certain other terms and conditions usual for facilities of this type apply to the facility, including conditions precedent, repayment provisions, representations and warranties, events of default, indemnities, provisions to protect the margin receivable by the lenders and covenants such as a negative pledge, limitations on certain indebtedness, restrictions on sales of assets, compliance with financial ratios and an obligation to repay certain of Mannesmann's existing indebtedness.

If there is a change in control of Vodafone AirTouch, individual lenders may require that their participation in the facility be canceled and prepaid if they are not able to agree to terms on which they are willing to continue to participate in the facility.

Finally, Vodafone AirTouch is required to prepay certain amounts drawn under the facilities in certain circumstances with proceeds from certain issuances of bonds and with proceeds from certain specified dispositions of assets.

## REGULATION

Vodafone AirTouch and its interests are subject to regulation imposed by each of the countries in which they operate and, within Europe, by the European Union (see page 53). Such regulation is generally in the form of industry-specific legislation and competition, or merger control, law.

The following briefly describes the broad regulatory framework and material telecommunication licenses in certain regions in which Vodafone AirTouch has a significant interest.

### United Kingdom

The principal domestic legislation governing the provision of telecommunications services in the United Kingdom is the Telecommunications Act 1984 and the Wireless Telegraphy Acts 1949 to 1998. In order to operate a wireless telecommunication system in the United Kingdom, licenses must generally be obtained under both these acts.

Under its Telecommunications Act license granted on December 9, 1993, which is for a minimum of 25 years from that date revocable by 10 years notice given after December 9, 2008, and subject to certain conditions, Vodafone is licensed to run telecommunications systems of every type in the United Kingdom, including digital and analog cellular telecommunications systems, personal telecommunications networks and fixed telecommunication systems. A supplementary license was issued to Vodafone on December 18, 1996, which permits Vodafone to own and operate international network facilities. On September 27, 1999, Vodafone's 1993 license was amended so as to replace the terms and conditions with the new standard form of license terms. These new licence terms were to give effect to the European Union Licensing Directive which was introduced into U.K. law on December 31, 1997 by the Telecommunications (Licensing) Regulations 1997. The Regulations significantly reduce the scope for introducing new licensing conditions and amending existing ones.

Under its Wireless Telegraphy Act license, Vodafone operates its network in specified radio

frequency bands. The license continues indefinitely, subject to revocation or modification in certain limited circumstances.

Each U.K. public telecommunications operator, which is referred to as a PTO, including Vodafone, is obliged under its license to permit the connection of any other PTO to its network. Vodafone has interconnection agreements with nine U.K. network operators. Under these interconnection agreements, Vodafone delivers calls to the interconnecting operator and pays them for delivering the calls to the called parties. The interconnecting operators deliver calls to Vodafone and pay Vodafone to deliver the calls to Vodafone customers.

The Director General of Telecommunications, the U.K. telecommunications industry regulator, is responsible for enforcing license conditions and may make orders, enforceable in the courts, to secure compliance.

Following an inquiry by the Director General, on December 15, 1998, the Monopolies and Mergers Commission found that the fees charged by the wireless operators, as well as their charges for unanswered and diverted calls, operated against the public interest. The commission recommended that changes be made to the licenses of these wireless operators to remedy the situation. As a result of the inquiry, the Director General amended the licenses of the relevant wireless operators on March 31, 1999. The relevant changes to Vodafone's license reduce termination charges to fixed operators and notional revenue from calls to wireless phones and do not allow Vodafone to charge for diverted calls and calls terminating on a recorded message. However, Vodafone's actual revenue is expected to increase due to increased volume and the mix of call traffic.

In November 1999, it was announced that the Director General intends to determine that Vodafone and BT Cellnet have "market influence" in the U.K. wireless telecommunications market. "Market influence" relates to an operator's market power, but differs from the E.U. test of "significant market

power". Such determination will require the companies, under the terms of their licenses, to provide separate accounts for various activities and to continue to provide wireless air time to service providers. Vodafone currently complies with such obligations. The Director General has also determined that the two companies have an obligation to provide indirect access to their mobile networks to eligible operators because they have significant market power in the mobile market.

Vodafone AirTouch's proposed acquisition of Mannesmann, if successful, and the resulting acquisition of Orange will lead to a change in control of Orange. Under Orange's existing telecommunications' licences, U.K. national regulatory authorities must be notified of this change of control. Under U.K. telecommunications law, Vodafone AirTouch may control both the Vodafone and Orange licences, and there is no power to revoke either licence. However, the E.U. and U.K. competition authorities will not permit both licences to be held by one company. As a result, Vodafone AirTouch intends to de-merge Orange to its shareholders so that it does not hold, either directly or indirectly, both wireless licences.

The auction to award five licences to provide third generation services in the United Kingdom is to be conducted pursuant to the U.K. Mobile Telegraphy (Third Generation Licences) Regulations 1999 and is to last, under its current timetable, for approximately three weeks from the proposed start date of *March 6, 2000*. In order to ensure that both Vodafone AirTouch and Orange (or their affiliates) are entitled to pre-qualify for the auction and satisfy the requirements preventing cross-ownership and/or the sharing of *confidential information between bidders in the auction*, Vodafone AirTouch intends, if its proposed acquisition of Mannesmann is successful, to, as soon as practicably possible, enter into an arm's length arrangement in relation to Mannesmann's shares in Orange.

#### **United States**

Vodafone AirTouch's U.S. cellular, paging and PCS licenses are issued and regulated by the FCC. In addition, Vodafone AirTouch's U.S.

wireless operations are subject to public utility regulation in the states in which service is provided and to local regulations. States are preempted from regulating cellular, PCS and paging rates and market entry but may regulate certain other terms and conditions of service. The location and construction of wireless service facilities are also subject to state or local zoning, land use and other local regulation and fees.

The Telecommunications Act of 1996 fundamentally changed the rules and regulations under which all U.S. providers of telecommunications services operate. Although it did not impose rate regulation on wireless operators, the Act modified certain requirements for interconnection between local telephone companies and commercial wireless radio service carriers. Obligations were imposed on all telecommunications providers, including wireless providers, in a variety of areas. For the first time, wireless operators, including Vodafone AirTouch, were obligated to pay into universal telephone service funds created by the U.S. government, the proceeds of which are designated to reduce the cost of basic telephone service to high cost areas and low income subscribers, and to subsidize telecommunications for schools and libraries. Second, pursuant to provisions of the 1996 Act, Vodafone AirTouch executed new cellular interconnection agreements with the major local carriers in its managed markets to conform with the new Act.

In addition, although not specifically required for wireless carriers by the 1996 Act, the FCC has adopted rules requiring carriers such as Vodafone AirTouch to provide customers in the United States with local number portability by November 24, 2002. *Local number portability is the ability for customers to retain their telephone numbers should they choose to switch landline or wireless carriers*. Vodafone AirTouch does not expect these costs to have a material impact on its results of operations or liquidity.

Vodafone AirTouch will be required to upgrade its cellular and PCS networks in the United States to provide certain functionality to authorized government agencies. The FCC has adopted rules requiring wireless carriers to



electronically provide "Emergency 911" authorities with the physical location of wireless callers requesting emergency assistance. In addition, the Communications Assistance Law Enforcement Act, or CALEA, will require Vodafone AirTouch to provide law enforcement agencies with certain network functionality and other assistance in criminal investigations, including digital wiretapping capabilities. The FCC rules concerning "Emergency 911" services and CALEA both require the responsible government agencies to reimburse Vodafone AirTouch for its costs incurred to upgrade its networks and to provide on-going assistance to law enforcement agencies. However, Vodafone AirTouch can provide no assurance that all of its costs will be recoverable.

The FCC is required to auction 40 MHz of spectrum in 2110-2150 MHz band by September 30, 2002 and 36 MHz band after January 1, 2001. Vodafone AirTouch is lobbying for the former allocation to be licensed for third generation services and the latter allocation to be licensed for cordless mobile radio systems, known as CMRS.

### **European and Other Jurisdictions**

The European Union has taken on an increasingly important role in regulating the telecommunications industry within Europe. Over the past nine years, the European Union has implemented legislation to liberalize the European telecommunications market and to harmonize the relevant laws in each of the E.U. Member States.

The European Commission is currently carrying out a review of the current telecommunications regulatory frameworks to take into account the current state of liberalization of the market.

Several important directives have been implemented by E.U. Member States. Each E.U. Member State has brought local law into conformity with these directives. The European Union Interconnection Directive (97/33/EC) is intended to guarantee the rights of operators to obtain interconnection with networks and services of others both domestically and internationally. The European Union Licensing

Directive (97/13/EC) significantly reduces the scope for introducing new licensing conditions and amending existing ones. The ONP "Numbering" Directive (98/61/EC) requires that geographic and non-geographic number portability is available on request from both fixed and wireless carriers.

The European Commission has considered the current state of implementation and harmonization of E.U. measures across the E.U. in its 1999 Communications Review. A draft framework Directive and further specific legislation is planned to be published for consultation during the first half of 2000.

The European Commission is expected to launch an inquiry into international roaming charges in the early part of 2000. No official announcement of the inquiry has yet been made, any such inquiry will probably cover the terms and conditions of access to fixed and wireless telecommunications infrastructure.

The E.U. has mandated licensing of a third generation of universal wireless telecommunications services, known as UMTS, within Europe by January 1, 2002. Licenses have already been issued in Finland. In a number of E.U. Member States, such as Belgium, France, Germany, Italy, The Netherlands, Spain, Sweden and the United Kingdom, plans are advanced for such licensing, either on a "beauty parade" or an auction basis. Competition for such licenses is likely to be intense in certain jurisdictions and market forces will determine the prices expected to be paid for this spectrum.

Vodafone AirTouch's other cellular and paging operations provide services pursuant to the terms of licenses granted by the telecommunications agency or similar supervisory authority in the various countries. Such agencies typically also promulgate and enforce regulations regarding the construction and operation of network equipment. In certain countries, Vodafone AirTouch faces regulatory obstacles such as legal restrictions on the percentage ownership of telecommunications licensees by foreign entities and transfer restrictions or governmental approval requirements regarding changes in the ownership of such licensees.

## **Greece**

Wireless telecommunications operators in Greece are regulated by the Telecommunications Law, together with related presidential decrees and ministerial decisions. Following certain delays, the Greek government implemented in 1999 a number of directives covering E.U. telecommunications legislation. However, under certain conditions, Greece was granted a derogation from the full liberalization of the telecommunications sector, for fixed line voice telecommunications and fixed networks, in accordance with the provisions of Directive 96/10 of the European Commission, known as the Full Liberalization Directive, until December 21, 2000.

Panafon S.A. was awarded a 20 year license to operate a GSM network on August 4, 1992. In January 1996, the Greek government awarded a DCS 1800 license to OTE Hellenic Organization, S.A., the dominant fixed line operator in Greece, which OTE transferred in the first quarter of 1997 to its wireless subsidiary, COSMOTE, now a joint venture company with Telenor. This license was awarded notwithstanding a provision in Panafon's license which gave it an exclusive right until September 30, 2000 and in contravention of the Full Liberalization Directive, which requires such a license to be awarded only after a competitive tender. As a result, Panafon is to be allocated 2x10 MHz of GSM 1800 spectrum based on a concession contract. The concession contract and license, accompanying this spectrum allocation, are under negotiation.

## **The Netherlands**

In December 1998, a new Telecommunications Act came into force which regulates wireless telecommunications operators in the Netherlands. This act implemented various E.U. directives relating to the harmonization and liberalization of telecommunications, including abolishing the requirement to obtain a licence for telecommunications related activities. However, a license is still required for the use of the relevant spectrum.

At the time of the implementation of the Telecommunications Act, Libertel had already

received licenses for GSM 900 spectrum and two licenses for GSM 1800 spectra and has the rights to use the GSM 1800 spectra until February 25, 2013. As part of the new licensing arrangement, Libertel is subject to a condition requiring national roaming.

In October 1999, the Dutch telecommunications regulator, OPTA, designated Libertel as having significant market power in the wireless market in The Netherlands. The designation will lead to obligations of non-discriminatory interconnection and provision of special access. This decision was suspended by a District Court in December 1999, pending a thorough market investigation.

A Government decision regarding licence conditions and auction rules for UMTS is expected at the beginning of 2000.

## **Germany**

The German telecommunications regulator, the Regulator of Telecommunications and Posts (Reg TP), was created on January 1, 1998 and is now responsible for licensing the radio frequency spectrum. Mannesmann Mobilfunk obtained a GSM 900 license in December 1990 and obtained a GSM 1800 spectrum in October 1999 in an auction conducted by Reg TP. UMTS licenses will be auctioned in May 2000.

Network operators with a market dominant position have an obligation to allow interconnection of their public telecommunications networks with the public telecommunications networks of other carriers. Although Reg TP has declared that the four German wireless operators are not market dominant in the telecommunication market, an inquiry it launched into market dominance in the wireless retail market is continuing. Reg TP plans to introduce number portability in the German telecommunications market but not prior to April 30, 2000.

## **Italy**

The Italian telecommunications regulator, the *Autorita per le Garanzie nelle Comunicazioni*, referred to as the Communications Agency, establishes and monitors the detailed regulations governing the

telecommunications sector and issues licenses, while the Ministry of Communications provides services to the Communications Agency. The Italian government has adopted telecommunications regulations, which implement a number of E.U. liberalization and harmonization directives in the telecommunications sector. There is a regime of declarations, general authorizations and individual licences. Individual licences are required in order to provide fixed public telecommunications services, wireless and personal communications services and the creation and operation of public telecommunications networks.

TIM, Omnitel and WIND are the three GSM 900 — 1800 MHz operators in Italy. BLU has been granted a DCS 1800 license. These companies are subject to parallel rules and regulations embodied in their licences and public concessions. However, only TIM and Omnitel are obliged to provide national roaming to WIND and BLU. All activities covered by the public concession are regulated by the Communications Agency.

On September 28, 1999, the Communications Agency determined that TIM and Omnitel are operators with significant market power in both the wireless and interconnection markets. A duty to provide wireless carrier selection may arise in the future from this decision. Omnitel is appealing the decision. On December 6, 1999, the Communications Agency, as a consequence of the significant market power designation, notified 360 lit, per minute as the maximum value for the wireless termination rates for TIM and Omnitel.

In December 1999, the Communications Agency published general rules for the UMTS licensing procedure.

## **Australia**

The Australian telecommunications market is regulated principally by the Telecommunications Act 1997 and Parts XIB and XIC of the Trade Practices Act 1974 and is monitored by two regulatory agencies, the Australian Communications Authority and the Australian Competition and Consumer Commission, known as the ACCC. Since 1997, the market has been open to full competition.

Vodafone Pacific Pty Limited holds a carrier license under the Telecommunications Act and it holds licenses under the Radiocommunications Act. It also has licenses to use the 900/1800 MHz spectrum allocated to it for renewable five year terms and 15 years, respectively. The Australian government is preparing to auction further 1800 MHz spectra and UMTS spectra destined for third generation services.

Number portability is not currently available in Australia for wireless services. However, a final report has been issued by the ACCC declaring number portability and directing the Australian Communications Authority to determine a solution and a timetable.

All carriers in Australia are required to contribute to the costs of national service provision in loss-making areas such as rural Australia. The incumbent fixed operator has the obligation to provide this service.

The ACCC has issued a discussion paper concerning pricing principles for GSM access charges. The paper suggests that pricing should be guided by costs, instead of long-run incremental costs which have been presumptively applicable to date.

## DESCRIPTION OF THE NOTES

The notes will be governed by a document called an indenture. The indenture is a contract entered into between us and Citibank, N.A., which acts as trustee. A copy of the indenture will be made available upon request to us.

The trustee has two main roles:

- First, the trustee can enforce your rights against us if we default, although there are some limitations on the extent to which the trustee acts on your behalf that are described beginning on page 69 under "Default and Related Matters — Events of Default — Remedies If an Event of Default Occurs"; and
- Second, the trustee performs administrative duties for us, such as sending interest payments to you and sending notices to you.

The indenture and its associated documents contain the full legal text of the matters described in this section. New York law governs the indenture and the notes, except for certain events of default described in the indenture, which are governed by English law.

### General

The 5 year notes will be issued in an aggregate principal amount of \$1,750 million and will mature on February 15, 2005. The 10 year notes will be issued in an aggregate principal amount of \$2,750 million and will mature on February 15, 2010. The 30 year notes will be issued in an aggregate principal amount of \$750 million and will mature on February 15, 2030. Book-entry interests in the notes will be issued as described below in minimum denominations of \$1,000 and in integral multiples of \$1,000.

The notes will be our unsecured, unsubordinated indebtedness and will rank equally with all of our other unsecured and unsubordinated indebtedness. The notes will rank equally without any preference among themselves and with all our present and future unsecured and unsubordinated indebtedness. Because we are a holding company, the notes will effectively rank junior to any indebtedness of our subsidiaries.

The principal corporate trust office of the trustee in the City of New York is designated as the principal paying agent. We may at any time designate additional paying agents or rescind the designation of paying agents or approve a change in the office through which any paying agent acts. So long as Vodafone AirTouch lists any of the notes on the London Stock Exchange, Vodafone AirTouch will maintain a paying agent in the United Kingdom.

Payment of principal of and interest on the notes, so long as the notes are represented by global securities (as discussed below), will be made in immediately available funds. Beneficial interests in the global securities will trade in the same-day funds settlement system of DTC, and secondary market trading activity in such interests will therefore settle in same-day funds.

### Interest Rate

The notes will bear interest at the applicable initial interest rate per annum shown on the cover page of this offering circular, payable semiannually in arrears on February 15 and August 15 of each year, commencing August 15, 2000. Interest on each of the notes will be computed on the basis of a 360 day year of twelve 30 day months.

Our current senior unsecured debt rating by Moody's is A2. Our current rating by S&P of A is on "CreditWatch" with negative implications.

The interest rate payable on the notes will be subject to adjustment during a specified period of time in the event of a confirmed rating change. A confirmed rating change means a decrease in the rating of our unsecured senior debt by either Moody's or S&P to below single A category, which decrease takes place when such rating agency makes its first public announcement of a confirmed rating for our unsecured senior debt following the date on which we (i) declare the offer for the shares and ADSs of Mannesmann unconditional or (ii) terminate such exchange offer, if the exchange offer is unsuccessful. For these purposes, a rating will be considered confirmed when it is not under review (in the case of Moody's) or on CreditWatch (in the case of

S&P). The conditions to which our offer is subject are described under "Description of Vodafone AirTouch — Markets — Europe, Middle East and Africa — Offer for Mannesmann" beginning on page 46 of this offering circular and in Appendix A included herein.

After a rating agency announces a confirmed rating for our unsecured senior debt, as described above, no adjustment will be made to the interest rate payable on the notes in the event of a subsequent decrease in our rating by that rating agency. This will be the case even if that decrease arises out of our offer for Mannesmann or any related transaction, and even if it is attributable to factors that Moody's and S&P have previously indicated could lead to such a decrease.

However, even if the interest rate payable on the notes has already been adjusted once to reflect a confirmed rating change by one of the rating agencies, a second adjustment may be made to reflect such a change by the other

rating agency, if the level of the second rating is below that of the first.

The notes will bear interest at the applicable initial interest rate from the date of issuance of the notes to but excluding the calendar day, if any, on which the confirmed rating change occurs. Each calendar day on which a confirmed rating change occurs is a reset date. Beginning with each reset date, if any (unless such reset date occurs between a record date and an interest payment date in which case beginning on such interest payment date), the notes will bear interest, if Moody's and S&P's ratings are equivalent, at the adjusted coupon rate per annum set forth in the applicable row and column of the table below or, if Moody's and S&P's ratings differ, at the adjusted coupon rate per annum set forth in the applicable column and row that corresponds to the lower rating. The adjusted coupon rate per annum for a note is the respective note's original coupon rate per annum increased by such note's coupon step-up as set forth in the applicable row and column below.

RATING CATEGORY		5 YEAR NOTES		10 YEAR NOTES		30 YEAR NOTES	
MOODY'S	S&P	COUPON STEP-UP	ADJUSTED COUPON	COUPON STEP-UP	ADJUSTED COUPON	COUPON STEP-UP	ADJUSTED COUPON
A3	A-	0%	7.625%	0%	7.750%	0%	7.875%
Baa1	BBB+	0.10%	7.725%	0.15%	7.900%	0.25%	8.125%
Baa2	BBB	0.20%	7.825%	0.25%	8.000%	0.35%	8.225%
Baa3	BBB-	0.35%	7.975%	0.40%	8.150%	0.50%	8.375%
Ba1 or below	BB+ or below	1.25%	8.875%	1.25%	9.000%	1.50%	9.375%

When any change in the interest rate on the notes occurs during any interest payment period, the amount of interest to be paid with respect to such period shall be calculated at a rate per annum equal to the weighted average of the interest rate in effect immediately prior to such change and the adjusted coupon in effect during such interest payment period, calculated by multiplying each such rate by the number of days such rate is in effect during each month of such interest payment period, determining the sum of such products and dividing such sum by the number of days in such interest payment period. All calculations pursuant to the preceding sentence and of interest on the notes will be computed on the basis of a year of twelve 30-day months, and all such changes will be announced promptly by us in a written

press release detailing the days during which any such interest rate has been (and assuming no further change in interest rate prior to the next applicable record date, will be) in effect during such interest payment period and the amount of the interest payment due on the next interest payment date (assuming no further change in interest rate prior to the next applicable record date).

In the event we elect to defease the notes pursuant to the defeasance provisions of the indenture as described under "Defeasance and Discharge", the interest rate in effect for the notes on the date of the irrevocable deposit of the money and/or U.S. Government Obligations as trust funds in trust for the benefit of the holders of the notes will be the rate used by us

in calculating the requisite interest and principal payments necessary to defease the notes (which we call the defeasance coupon). The adjusted coupon and the defeasance coupon will not thereafter be affected by any change in rating.

### **Legal Ownership**

#### ***Street Name and Other Indirect Holders***

We generally will not recognize investors who hold notes in accounts at banks or brokers as legal holders of notes. When we refer to the “holders” of notes we mean only the actual legal and (if applicable) record holder of those notes. Holding notes in accounts at banks or brokers is called holding in “street name”. If you hold notes in street name, we will recognize only the bank or broker or the financial institution the bank or broker uses to hold its notes. These intermediary banks, brokers and other financial institutions pass along principal, interest and other payments on the notes, either because they agree to do so in their customer agreements or because they are legally required. If you hold notes in street name, you should check with your own institution to find out:

- how it handles notes payments and notices;
- whether it imposes fees or charges;
- how it would handle voting if it were ever required;
- whether and how you can instruct it to send you notes and, if the notes are in registered form, have them registered in your own name, so you can be a direct holder as described below; and
- how it would pursue rights under the notes if there were a default or other event triggering the need for holders to act to protect their interests.

#### ***Direct Holders***

Our obligations, as well as the obligations of the trustee and those of any third parties employed by us or the trustee, under the notes run only to the person with whom the notes are deposited, in the case of notes in bearer form, or in the special situations described on

page 59, to persons who are registered as holders of the notes, in the case of notes in registered form. As noted above, we do not have obligations to you if you hold in street name or other indirect means, either because you choose to hold notes in that manner or because the notes are issued in the form of global securities as described below. For example, once we make payment to the person with whom the note is deposited, we have no further responsibility for the payment even if that holder is legally required to pass the payment along to you as a street name customer but does not do so.

#### ***Global Securities***

*What is a Global Security?* A global security is a special type of indirectly held security. Because we will issue notes in the form of global securities, the ultimate beneficial owners can only be indirect holders. We will deposit the global securities with a financial institution we select.

We require that the notes included in a global security not be transferred to the name of any other direct holder unless the special circumstances described below occur. The financial institution that acts as the sole direct holder of a global security is called the “depository”. Any person wishing to own a note must do so indirectly by virtue of an account with a broker, bank or other financial institution that in turn has an account with the depository. For a description of provisions relating to global securities in bearer form, see “— Special Arrangements for Global Securities in Bearer Form” on page 59.

*Special Investor Considerations for Global Securities.* As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depository, as well as general laws relating to securities transfers. We do not recognize this type of investor as a holder of notes and instead deal only with the depository that holds the global security.

If you are an investor in notes that are issued only in the form of global securities, you should be aware that:

- You cannot get notes registered in your own name.
- You cannot receive physical certificates for your interest in the notes.
- You will be a street name holder and must look to your own bank or broker for payments on the notes and protection of your legal rights relating to the notes, as explained earlier under “Street Name and Other Indirect Holders” on page 58:
- You may not be able to sell interests in the notes to some insurance companies and other institutions that are required by law to own their notes in the form of physical certificates.
- The depositary’s policies will govern payments, transfers, exchange and other matters relating to your interest in the global security. We and the trustee have no responsibility for any aspect of the depositary’s actions or for its records of ownership interests in the global security. We and the trustee also do not supervise the depositary in any way.
- The depositary will require that interests in a global security be purchased or sold within its system using same-day funds. By contrast, payment for purchases and sales in the market for corporate bonds and other notes is generally made in next-day funds. This difference could have some effect on how interests in global securities trade, but we do not know what that effect will be.

*Special Situations in Which a Global Security Will Be Terminated.* In a few special situations described later, a global security will terminate and interests in it will be exchanged for physical certificates representing notes. After that exchange, the choice of whether to hold notes directly or in street name will be up to the investor. Investors must consult their own bank or brokers to find out how to have their interests in notes transferred to their own name so that they will be direct holders. The rights of street name investors and direct holders in the notes have been previously described in the subsections entitled “Street Name and Other Indirect Holders” on page 58 and “Direct Holders” beginning on page 58.

The special situations for termination of a global security are:

- When the depositary notifies us that it is unwilling, unable or no longer qualified to continue as depositary and we do not appoint a successor within 120 days.
- When DTC notifies the depositary that it is unwilling, unable or no longer qualified to continue holding certificateless depositary interests issued by the depositary with respect to the global securities, and we do not appoint a successor within 120 days.
- When we elect to exchange the global securities representing such notes for physical certificates representing such notes.
- When an event of default on the notes has occurred and has not been cured. Defaults on notes are discussed below under “— Default and Related Matters — Events of Default” beginning on page 68.

When a global security terminates, the depositary (and neither we nor the trustee) is responsible for deciding the names of the institutions that will be the initial direct holders. For more information, see “— Description of Securities Depositary Agreement — Procedures for Issuing Definitive Notes” on page 72 below.

*Special Arrangements for Global Securities in Bearer Form.* We will deposit global securities representing the notes with Citibank, N.A., acting as “depositary”, who will hold the global security. In turn, it will issue certificateless depositary interests representing 100% of the global security and deposit them with or on behalf of DTC.

You can hold a beneficial interest in the certificateless depositary interests only directly through DTC or indirectly through participants or indirect participants in DTC. These beneficial interests may be held in such denominations as are permitted by DTC. Indirect participants are banks, brokers, dealers, trust companies and other parties, including the Euroclear System and Clearstream Banking société anonyme, Luxembourg, formerly known as Cedelbank, that clear through or maintain a custodial relationship with a participant. For a description

of the arrangements we have made with Citibank, N.A., acting as depository, relating to the deposit of the global security with Citibank, N.A. and Citibank, N.A.'s issuance of certificateless depository interests, see "— Description of the Securities Depository Agreement" beginning on page 70 below. Beneficial interests in the certificateless depository interests are called book-entry securities.

**In the remainder of this description "you" means direct holders and not street name or other indirect holders of notes. Indirect holders should read the previous subsection beginning on page 58 entitled "Street Name and Other Indirect Holders".**

### **Additional Mechanics**

#### ***Form, Exchange and Transfer***

The 5 year notes, the 10 year notes and the 30 year notes will each be represented by separate global securities in bearer form, without coupons. In each case, any notes initially offered and sold in the United States will be represented by a separate global security, which together we refer to as the 144A global securities, and any notes sold pursuant to Regulation S under the Securities Act will be represented by a separate global security, which together we refer to as the Regulation S global securities. The 144A and Regulation S global securities, in each case, will be issued in denominations that in the aggregate equal the outstanding principal amount of notes represented thereby and which are even multiples of \$1,000.

You may have your notes broken into more notes of smaller denominations or combined into fewer notes of larger denominations, as long as the total principal amount is not changed. (Section 305) This is called an exchange.

In the case of registered notes, you may exchange or transfer your notes at the office of the trustee. The trustee acts as our agent for registering notes in the names of holders and transferring registered notes. We may change this appointment to another entity or perform the service ourselves. The entity performing the

role of maintaining the list of registered holders is called the "security registrar". It will also register transfers of the registered notes. However, you may not exchange registered notes for bearer notes. (Section 305)

You will not be required to pay a service charge to transfer or exchange notes, but you may be required to pay any tax or other governmental charge associated with the exchange or transfer. The transfer or exchange of registered notes will only be made if the security registrar is satisfied with your proof of ownership.

We may designate additional transfer agents. We may cancel the designation of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts. (Section 1002)

For a discussion of transfers of book-entry securities issued in respect of global securities in bearer form, see "Description of the Securities Depository Agreement — Transfers and Transfer Restrictions" on page 71.

#### ***Payment and Paying Agents***

If your notes are in registered form, we will pay interest to you if you are a direct holder listed in the trustee's records at the close of business on a particular day in advance of each due date for interest, even if you no longer own the security on the interest due date. That particular day, shown on the cover page, is called the "regular record date". (Section 307)

We will pay interest, principal and any other money due on global securities to the holder thereof by wire transfer of same-day funds. For a discussion of payments with respect to book-entry securities issued in respect of global securities in bearer form, see "Description of the Securities Depository Agreement — Payments" on page 71. Payments on registered notes, if any, will be made at the corporate trust office of the trustee in New York City. That office is currently located at 111 Wall Street, 5th Floor, New York, NY 10043. You must make arrangements to have your payments picked up at or wired from that office. We may also choose to pay interest by mailing checks.



Holders buying and selling notes must work out between them how to compensate for the fact that we will pay all the interest for an interest period to, in the case of registered notes, the one who is the registered holder on the regular record date or, in the case of bearer notes, to the bearer. The most common manner is to adjust the sales price of the notes to pro rate interest fairly between buyer and seller. This pro rated interest amount is called "accrued interest".

**Street name and other indirect holders should consult their banks or brokers for information on how they will receive payments.**

We may also arrange for additional payment offices, and may cancel or change these offices, including our use of the trustee's corporate trust office. These offices are called "paying agents". We may also choose to act as our own paying agent. We must notify you of changes in the paying agents for the notes that you hold. (*Section 1002*)

#### **Registration Covenant; Exchange Offer**

We have agreed to file with the SEC a registration statement under the Securities Act relating to an exchange offer pursuant to which (i) securities that are substantially identical to the 5 year notes, (ii) securities that are substantially identical to the 10 year notes and (iii) securities that are substantially identical to the 30 year notes, in each case, would be offered in exchange for the then outstanding notes tendered at the option of the holders thereof, and to use our reasonable best efforts to cause the exchange offer registration statement to become effective as soon as practicable, but no later than 270 days following the date of the closing of this offering. We refer to any notes exchanged for the 5 year notes, the 10 year notes or the 30 year notes as the exchange notes. We have further agreed to exchange promptly but no later than 45 calendar days after the exchange offer registration statement has become effective exchange notes for all notes validly tendered and not withdrawn on or before the expiration of the exchange offer.

Under existing SEC interpretations, the exchange notes would in general be freely transferable after the exchange offer without further registration under the Securities Act, except that broker-dealers receiving exchange notes in the exchange offer will be subject to a prospectus delivery requirement with respect to resale of those exchange notes. We have taken the position that these broker-dealers may fulfill their prospectus delivery requirements with respect to the exchange notes (other than a resale of any unsold allotment from the original sale of the notes) by delivery of the prospectus contained in the exchange offer registration statement. Under the exchange and registration rights agreement, we are required to allow these broker-dealers to use the prospectus contained in the exchange offer registration statement in connection with the resale of such exchange notes. The exchange offer registration statement will be kept effective for a period of up to 90 days after the exchange offer has been consummated in order to permit resales of exchange notes acquired by broker-dealers in after-market transactions. Each holder of the notes (other than certain specified holders) who wishes to exchange such notes for exchange notes in the exchange offer will be required to represent that any exchange notes to be received by it will be acquired in the ordinary course of its business, that at the time of the commencement of the exchange offer it has no arrangement with any person to participate in the distribution, within the meaning of the Securities Act, of the exchange notes and that it is not an affiliate of us.

However, if (i) on or prior to the completion of the exchange offer the existing SEC interpretations are changed such that the exchange notes would not in general be freely transferable on such date or (ii) the exchange offer has not been completed within 315 days following the date of the closing of this offering we will, in lieu of conducting the exchange offer as contemplated above, file, as soon as practicable a registration statement under the Securities Act relating to the shelf registration of the notes for resale by holders and use our reasonable best efforts to cause the shelf registration statement to become effective and remain effective for a period of up to two years after the closing of this offering. We will, in the

event of the shelf registration, provide to the holders of the notes copies of the prospectus that is a part of the shelf registration statement, notify such holders when the shelf registration for the notes has become effective and take certain other actions as are required to permit unrestricted resales of the notes. A holder of notes that sells such notes pursuant to the shelf registration generally would be required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the exchange and registration rights agreement that are applicable to such a holder (including certain indemnification obligations).

Although we intend to file the registration statement as described above, we cannot assure you that the registration statement will be filed or, if filed, that it will become effective. In the event that any of the following occur:

- neither the registration statement relating to the exchange offer nor, if applicable, the shelf registration statement has become effective within 270 days following the date of the closing of this offering;
- we have neither completed the exchange offer within 45 days of the registration statement becoming effective nor caused a shelf registration statement to become effective within 315 days following the date of the closing of this offering; or
- any registration statement required by the exchange and registration rights agreement is filed and declared effective but is withdrawn by us or ceases to be effective, except as permitted in the exchange and registration rights agreement;

then interest will accrue, in addition to the stated interest on the notes, on the principal amount of the notes, at a per annum rate of 0.25% until such time as no such event is in effect. The notes entitled to such interest are defined in the exchange and registration rights agreement to exclude any notes that have been exchanged for a registered security in an exchange offer or which were not properly tendered or were

withdrawn during the period of such exchange offer. Such additional interest will be payable in each case semiannually in arrears on each February 15 and August 15.

The summary of certain provisions of the exchange and registration rights agreement is not necessarily complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the exchange and registration rights agreement. We will send you a copy of the exchange and registration rights agreement upon request.

The 5 year notes and the exchange 5 year notes, the 10 year notes and the exchange 10 year notes and the 30 year notes and the exchange 30 year notes will each be considered collectively to be a single class for all purposes under the indenture, including, without limitation, waivers, amendments and redemptions. For purposes of this description of notes, except under this caption "Registration Covenant; Exchange Offer", all references herein to notes shall refer collectively to such notes and the relevant exchange notes, unless the context otherwise requires.

#### **Notices**

We and the trustee will send notices only to direct holders, using their addresses as listed in the trustee's records. (*Sections 101 and 106*)

Regardless of who acts as paying agent, all money that we pay to a paying agent that remains unclaimed at the end of two years after the amount is due to direct holders will be repaid to us. After that two-year period, direct holders may look only to us for payment and not to the trustee, any other paying agent or anyone else. (*Section 1003*)

Application will be made to have the exchange notes listed on a European stock exchange which is a "recognised stock exchange" within the meaning of Section 841 of the U.K. Income and Corporation Taxes Act 1988.

#### **Special Situations**

##### ***Mergers and Similar Events***

We are generally permitted to consolidate or merge with another entity. We are also permitted to sell or lease substantially as an entirety our assets to another entity or to buy or

lease substantially as an entirety the assets of another entity. No vote by holders of notes approving any of these actions is required, unless as part of the transaction we make changes to the indenture requiring your approval, as described later under “— Modification and Waiver”. We may take these actions as part of a transaction involving outside third parties or as part of an internal corporate reorganization. We may take these actions even if they result in:

- a lower credit rating being assigned to the notes; or
- additional amounts becoming payable in respect of withholding tax, and the notes thus being subject to redemption at our option, as described later under “— Optional Tax Redemption”.

We have no obligation under the indenture to seek to avoid these results, or any other legal or financial effects that are disadvantageous to you, in connection with a merger, consolidation or sale or lease of assets that is permitted under the indenture. However, we may not take any of these actions unless all the following conditions are met:

- If we merge out of existence or sell or lease our assets, the other entity must assume our obligations on the debt securities, including the obligation to pay the additional amounts described beginning on page 66 under “Payment of Additional Amounts”. This assumption may be by way of a full and unconditional guarantee in the case of a sale or lease of substantially all of our assets substantially as an entirety.
- If such other entity is organized under the laws of a country other than the United States or England and Wales, it must indemnify you against any governmental charge or other cost resulting from the transaction.
- We must not be in default on the notes immediately prior to such action and such action must not cause a default. For purposes of this no-default test, a default would include an event of default that has occurred and not been cured, as described later on page 68 under

“Default and Related Matters — Events of Default — What is An Event of Default?” A default for this purpose would also include any event that would be an event of default if the requirements for notice of default or existence of defaults for a specified period of time were disregarded.

- If we sell or lease our assets substantially as an entirety and the entity to which we sell or lease such assets guarantees our obligations, the guarantee would be set forth in a supplement to the indenture, in which the entity must promise to be bound by every obligation in the indenture, including the events of default described later. Furthermore, in this case, the trustee must receive an opinion of counsel stating that the entity's guarantees are valid and that specified U.S. securities law requirements have been fulfilled. The entity that guarantees our obligations must also deliver certain certificates and other documents to the trustee.
- We must deliver certain certificates and other documents to the trustee.

It is possible that the U.S. Internal Revenue Service may deem a merger or other similar transaction to cause for U.S. federal income tax purposes an exchange of notes for new securities by the holders of the notes. This could result in the recognition of taxable gain or loss for U.S. federal income tax purposes and possible other adverse tax consequences.

### **Modification and Waiver**

There are three types of changes we can make to the indenture and the notes.

*Changes Requiring Your Approval.* First, there are changes that cannot be made to your notes without your specific approval. These are the following types of changes:

- change the stated maturity of the principal or interest on a note;
- reduce any amounts due on a note;
- change any obligation to pay the additional amounts described beginning

on page 66 under "Payment of Additional Amounts";

- reduce the amount of principal payable upon acceleration of the maturity of a note following a default;
- change the place or currency of payment on a note;
- impair your right to sue for payment;
- reduce the percentage of holders of notes whose consent is needed to modify or amend the indenture;
- reduce the percentage of holders of notes whose consent is needed to waive compliance with various provisions of the indenture or to waive specified defaults; and
- modify any other aspect of the provisions dealing with modification and waiver of the indenture. (*Section 902*)

*Changes Requiring a Majority Vote.* The second type of change to the indenture and the notes is the kind that requires a vote of approval by the holders of notes which together represent a majority of the outstanding principal amount of the particular notes affected. Most changes fall into this category, except for clarifying changes, amendments, supplements and other changes that would not adversely affect holders of the notes in any material respect. For example, this vote would be required for us to obtain a waiver of all or part of certain covenants or a waiver of a past default. However, we cannot obtain a waiver of a payment default or any other aspect of the indenture or the notes listed in the first category described previously beginning above under "Changes Requiring Your Approval" unless we obtain your individual consent to the waiver. (*Section 513*)

*Changes Not Requiring Approval.* The third type of change does not require any vote by holders of notes. This type extends to clarifications, amendments, supplements and any other changes that would not adversely affect holders of the notes in any material respect. (*Section 901*)

*Further Details Concerning Voting.* Notes will not be considered outstanding, and

therefore will not be eligible to vote, if we have deposited or set aside in trust for you money for their payment or redemption. Notes will also not be eligible to vote if they have been fully defeased as described beginning on page 67 under "Defeasance and Discharge". (*Section 101*)

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding notes that are entitled to vote or take other action under the indenture. In limited circumstances, the trustee will be entitled to set a record date for action by holders. If we or the trustee set a record date for a vote or other action to be taken by holders of a particular series, that vote or action may be taken only by persons who are holders of *outstanding notes of that series on the record date* and must be taken within 180 days following the record date or another period that we or, if it sets the record date, the trustee may specify. We may shorten or lengthen (but not beyond 180 days) this period from time to time. (*Section 104*)

**Street name and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the notes or request a waiver.**

### ***Redemption and Repayment***

Your notes will not be entitled to the benefit of any sinking fund — that is, we will not deposit money on a regular basis into any separate custodial account to repay your notes. You will not be entitled to require us to buy your notes from you, before its stated maturity.

We shall have the right to redeem each of the 5 year notes, the 10 year notes and/or the 30 year notes, in whole but not in part, at any time, at a redemption price equal to the greater of (i) 100% of the principal amount of the applicable notes plus accrued interest to the date of redemption or (ii) as determined by the quotation agent the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption) discounted to the redemption date on a semiannual basis

(assuming a 360-day year consisting of twelve 30-day months) at the adjusted treasury rate, plus 15 basis points for the 5 year notes and 20 basis points for the 10 and 30 year notes, plus, in each case, accrued interest thereon to the date of redemption.

The definitions of certain terms used in the paragraph above are listed below.

Adjusted treasury rate means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity of the comparable treasury issue, assuming a price for the comparable treasury issue (expressed as a percentage of its principal amount) equal to the comparable treasury price for such redemption date.

Comparable treasury issue means the U.S. Treasury security selected by the quotation agent as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

Comparable treasury price means, with respect to any redemption date, the average of the reference treasury dealer quotations for such redemption date.

Quotation agent means the reference treasury dealer appointed by the trustee after consultation with us.

Reference treasury dealer means (i) either Goldman, Sachs & Co. or Salomon Smith Barney Inc. or their respective successors; provided, however, that if the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a "primary treasury dealer"), we shall substitute therefor another primary treasury dealer; and (ii) any other primary treasury dealer selected by the trustee after consultation with us.

Reference treasury dealer quotations means with respect to each reference treasury dealer and any redemption date, the average, as determined by the trustee, of the bid and asked prices for the comparable treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to the

trustee by such reference treasury dealer at 5:00 p.m. on the third business day preceding such redemption date.

From and after the redemption date, if money for the redemption of the notes called for redemption shall have been made available as provided in the indenture and the notes called for redemption on the redemption date, such notes shall cease to bear interest, and the only right of the holders of such notes shall be to receive payment of the redemption price and all unpaid interest accrued to the date of redemption.

We will give notice to DTC of any redemption we propose to make at least 30 days, but not more than 60 days, before the redemption date. Notice by DTC to participating institutions and by these participants to street name holders of indirect interests in the notes will be made according to arrangements among them and may be subject to statutory or regulatory requirements.

We or our affiliates may purchase notes from investors who are willing to sell from time to time, either in the open market at prevailing prices or in private transactions at negotiated prices. Notes that we or they purchase may, in our discretion, be held, resold or cancelled.

#### **Optional Tax Redemption**

We will have the option to redeem, in whole but not in part, each of the 5 year notes, the 10 year notes and/or the 30 year notes in the three situations described below. In such cases, the redemption price for the applicable notes will be equal to the principal amount of the notes being redeemed plus accrued interest and any additional amounts due on the date fixed for redemption. Furthermore, we must give you between 30 and 60 days' notice before redeeming the notes.

The first situation is where, as a result of a change in, execution of or amendment to any laws or treaties or the official application or interpretation of any laws or treaties, we would be required to pay additional amounts as described later under "Payment of Additional Amounts".

This applies only in the case of changes, executions or amendments that occur on or

after the date of this offering circular and in the jurisdiction where we are incorporated. If succeeded by another entity, the applicable jurisdiction will be the jurisdiction in which such successor entity is organized, and the applicable date will be the date the entity became a successor.

We would not have the option to redeem in this case if we could have avoided the payment of additional amounts or the deduction or withholding by using reasonable measures available to us.

The second situation is where, as a result of any delivery or requirement to deliver notes in definitive registered form, after having used all reasonable efforts to avoid having to issue such definitive registered notes, we would be required to pay additional amounts as described later under "Payment of Additional Amounts".

We would not have the option to redeem in this case if we could have avoided the payment of additional amounts or the deduction or withholding by using reasonable measures available to us.

The third situation is where, following a merger, consolidation or sale or lease of our assets to a person that assumes or, if applicable, guarantees our obligations on the notes, that person is required to pay additional amounts as described later under "Payment of Additional Amounts".

We, or the other person, would have the option to redeem the notes in this situation even if additional amounts became payable immediately upon completion of the merger or sale transaction, including in connection with an internal corporate reorganization. Neither we nor that person have any obligation under the indenture to seek to avoid the obligation to pay additional amounts in this situation.

#### **Payment of Additional Amounts**

The government of any jurisdiction in which we are incorporated may require us to withhold amounts from payments on the principal or any premium or interest on a note for taxes or any other governmental charges. If the jurisdiction requires a withholding of this type, we may be

required to pay you an additional amount so that the net amount you receive will be the amount specified in the note to which you are entitled. However, in order for you to be entitled to receive the additional amount, you must not be resident in the jurisdiction that requires the withholding.

We will *not* have to pay additional amounts under any of the following circumstances:

- The U.S. government or any political subdivision of the U.S. government is the entity that is imposing the tax or governmental charge.
- The withholding is imposed only because the holder was or is connected to the taxing jurisdiction or, if the holder is not an individual, the tax or governmental charge was imposed because a fiduciary, settlor, beneficiary, member or *shareholder of the holder, or a party* possessing a power over a holder that is an estate or trust was or is connected to the taxing jurisdiction. These connections include those where the holder or related party:
  - is or has been a citizen or resident of the jurisdiction;
  - is or has been engaged in trade or business in the jurisdiction; or
  - has or had a permanent establishment in the jurisdiction.
- The withholding is imposed due to the presentation of a note, if presentation is required, for payment on a date more than 30 days after the note became due or after the payment was provided for.
- The withholding is imposed due to the presentation of a note for payment in the United Kingdom.
- The withholding is on account of an estate, inheritance, gift, sale, transfer, personal property or similar tax or other governmental charge.
- The withholding is for a tax or governmental charge that is payable in a manner that does not involve withholding.

- The withholding is imposed or withheld because the holder or beneficial owner failed to comply with any of our requests for the following that the statutes, treaties, regulations or administrative practices of the taxing jurisdiction require as a precondition to exemption from all or part of such withholding:
  - to provide information about the nationality, residence or identity of the holder or beneficial owner; or
  - to make a declaration or satisfy any information requirements.
- The holder is a fiduciary or partnership or other entity that is not the sole beneficial owner of the payment in respect of which the withholding is imposed, and the laws of the taxing jurisdiction require the payment to be included in the income of a beneficiary or settlor of such fiduciary or a member of such partnership or another beneficial owner who would not have been entitled to such additional amounts had it been the holder of such note.
- The payment relates to a note that is in physical form. However, this exception only applies if:
  - the note in physical form was issued at the holder's request following an event of default; and
  - we have not issued physical certificates for the entire principal amount of any of the 5 year notes, the 10 year notes or the 30 year notes.

These provisions will also apply to any taxes or governmental charges imposed by any jurisdiction in which a successor to us is organized. (*Sections 205, 803 and 1004*)

For a discussion of a proposed directive of the European Union relating to withholding taxes, see the section entitled "Certain U.S. Federal and U.K. Tax Considerations — United Kingdom Taxation — European Community Proposed Directive Relating to Withholding Tax" beginning on page 82 of this offering circular.

## **Restrictive Covenants**

The indenture does not contain any covenants restricting our ability to make payments, incur indebtedness, dispose of assets, enter into sale and leaseback transactions, pledge our assets to secure borrowings, issue and sell capital stock, enter into transactions with affiliates, create or incur liens on our property or engage in business other than our present business.

## **Defeasance and Discharge**

### **Full Defeasance**

We can legally release ourselves from any payment or other obligations on the notes, except for various obligations described below (called "full defeasance"), if we, in addition to other actions, put in place the following arrangements for you to be repaid:

- We must deposit in trust for your benefit and the benefit of all other direct holders of the notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the notes on their various due dates.
- We must deliver to the trustee a legal opinion of our counsel, based upon a ruling by the U.S. Internal Revenue Service or upon a change in applicable U.S. federal income tax law, confirming that under then current U.S. federal income tax law we may make the above deposit without causing you to be taxed on the notes any differently than if we did not make the deposit and just repaid the notes ourselves.
- We must deliver to the trustee a legal opinion of our counsel confirming that the deposit, defeasance and discharge will not cause the debt securities to be delisted from the London Stock Exchange. (*Sections 1402 and 1404*)

If we ever did accomplish full defeasance as described above, you would have to rely solely on the trust deposit for repayment on the notes. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely

be protected from claims of our lenders and other creditors if we ever become bankrupt or insolvent. However, even if we take these actions, a number of our obligations relating to the notes will remain. These include the following obligations:

- to register the transfer and exchange of notes;
- to replace mutilated, destroyed, lost or stolen notes;
- to maintain paying agencies; and
- to hold money for payment in trust.

### **Covenant Defeasance**

We can make the same type of deposit described above and be released from all or some of the restrictive covenants (if any) that apply to any of the 5 year notes, the 10 year notes and the 30 year notes. This is called "covenant defeasance". In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and securities set aside in trust to repay the notes. In order to achieve covenant defeasance, we must do the following:

- We must deposit in trust for your benefit and the benefit of all other direct holders of the applicable notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on such notes on their various due dates.
- We must deliver to the trustee a legal opinion of our counsel confirming that under then current U.S. federal income tax law we may make the above deposit without causing you to be taxed on the notes any differently than if we did not make the deposit and just repaid the notes ourselves.

If we accomplish covenant defeasance, the following provisions of the indenture and/or the notes would no longer apply:

- Any covenants applicable to the notes.
- The events of default relating to breach of covenants and acceleration of the

maturity of other debt, described later under "What Is An Event of Default?".

If we accomplish covenant defeasance, you can still look to us for repayment of the notes if there were a shortfall in the trust deposit. In fact, if any event of default occurred (such as our bankruptcy) and the notes become immediately due and payable, there may be such a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall. (*Sections 1403 and 1404*)

### **Default and Related Matters**

#### **Ranking**

The notes are not secured by any of our property or assets. Accordingly, your ownership of notes means you are one of our unsecured creditors. The notes will rank equally with all our other unsecured and unsubordinated indebtedness.

#### **Events of Default**

You will have special rights if an event of default occurs and is not cured, as described later in this subsection.

*What Is an Event of Default?* The term event of default means any of the following:

- We do not pay the principal or any premium on a note within 14 days of its due date.
- We do not pay interest on a note within 21 days of its due date.
- We remain in breach of any covenant or any other term of the indenture for 30 days after we receive a notice of default stating that we are in breach. The notice must be sent by either the trustee or holders of 25% of the principal amount of the affected notes.
- If the total aggregate principal amount of all of our indebtedness for borrowed money which meets one of the following conditions, together with the amount of any guarantees and indemnities described in the next point, equals or exceeds £50 million or, after August 1, 2014, £150 million:



- the principal amount of such indebtedness becomes due and payable prematurely as a result of an event of default (however described) under the agreement(s) governing that indebtedness;
  - we fail to make any payment in respect of such indebtedness on the date when it is due (as extended by any originally applicable grace period);
  - any security that we have granted securing the payment of any such indebtedness becomes enforceable by reason of any default relating thereto and steps are taken to enforce the security.
- We fail to make payment due under any guarantee and/or indemnity (after the expiry of any originally applicable grace period) of another person's indebtedness for borrowed money in an amount that, when added to the indebtedness for borrowed money which meets one of the conditions described in the prior point, equals or exceeds £50 million or, after August 1, 2014, £150 million.
  - We stop paying or are unable to pay our debts as they become due, we are adjudicated or found bankrupt or insolvent or we are ordered by a court or pass a resolution to dissolve.
  - We enter into any composition or other similar arrangement with our creditors under the U.K. Insolvency Act or a receiver or administrator is appointed in relation to, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against, the whole or a substantial part of our undertakings or assets and is not discharged or removed within 90 days. (*Section 501*)

An event of default for each of the 5 year notes, the 10 year notes or the 30 year notes does not necessarily constitute an event of default for any other of such notes.

For these purposes, "indebtedness for borrowed money" means any present or future

indebtedness (whether it is principal, premium, interest or other amounts) for or in respect of:

- money borrowed (including in the form of any bonds, notes, debentures, debenture stock or loan stock); or
- liabilities under or in respect of any acceptance or acceptance credit.

*Remedies if an Event of Default Occurs.*

If an event of default has occurred and has not been cured, the trustee or the holders of 25% in principal amount of, each of the 5 year notes, the 10 year notes or the 30 year notes if affected, may declare the entire principal amount of such affected notes to be due and immediately payable. This is called a declaration of acceleration of maturity. If an event of default occurs because of certain events in bankruptcy, insolvency or reorganization, the principal amount of such affected notes will be automatically accelerated without any action by the trustee, any holder or any other person. A declaration of acceleration of maturity may be cancelled by the holders of at least a majority in principal amount of such affected notes. (*Section 502*)

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee satisfactory protection from expenses and liability. This protection is called an "indemnity". (*Section 603*) If reasonable indemnity is provided, the holders of a majority in principal amount of the relevant outstanding notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. These majority holders may also direct the trustee in performing any other action under the indenture. (*Section 512*) Before you bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the notes the following must occur:

- You must give the trustee written notice that an event of default has occurred and remains uncured.
- The holders of 25% in principal amount of all relevant outstanding notes must

make a written request that the trustee take action because of the default, and must offer satisfactory indemnity to the trustee against the cost and other liabilities of taking that action.

- The trustee must have not taken action for 60 days after receipt of the above notice and offer of indemnity.
- The holders of a majority in principal amount of all relevant outstanding notes must not have given the trustee a direction that is inconsistent with the above notice. (*Section 507*)

However, you are entitled at any time to bring a lawsuit for the payment of money due your note on or after its due date. (*Section 508*)

**Trustee name and other indirect holders could consult their banks or brokers for information on how to give notice or action to or make a request of the trustee and to make or cancel a declaration of acceleration.**

We will furnish to the trustee every year a written statement of certain of our officers that either certify that, to their knowledge, we are in compliance with the indenture and the notes or specify any default. (*Section 1005*)

### **Regarding the Trustee**

We and some of our subsidiaries maintain banking relations with the trustee in the ordinary course of our business.

If an event of default occurs, or an event occurs that would be an event of default if the requirements for giving us default notice or our default having to exist for a specified period of time were disregarded, the trustee may be considered to have a conflicting interest with respect to the notes or the indenture for purposes of the Trust Indenture Act of 1939. In that case, the trustee may be required to resign as trustee under the applicable indenture and we would be required to appoint a successor trustee.

### **Prescription**

To the extent permitted by applicable law, the notes will become void unless presented for payment within a period of the lesser of 10 years from the date they become due or, if payments of principal and interest have not been received by the depositary or paying agent on or prior to such date, the date on which notice is given to holders of the notes that payments have been received.

### **Description of the Securities Depository Agreement**

We will deposit notes represented by global securities in bearer form with Citibank, N.A., as depositary. The provisions described below will be applicable to such notes.

The arrangements for depositing and holding of the global securities in bearer form by Citibank, as depositary, are set forth in a document called the securities depository agreement between us and Citibank, as depositary, and the owners of book-entry securities. This section summarizes that agreement, a copy of which is available upon request to us. Because this section is a summary, it does not describe every aspect of the agreement. The description here is subject to and qualified by the detailed terms in the definitive securities depository agreement that we have entered into with the depositary and the owners of book-entry securities.

### **General**

The global securities in bearer form representing the notes will be deposited with and held by Citibank, as the depositary. Citibank will maintain on our behalf a book-entry register for the applicable notes. It will register DTC or any person DTC nominates as the owner of the certificateless depository interests it will issue in respect of the global securities. For a detailed description of DTC, see "Clearance and Settlement" beginning on page 75.

Ownership of beneficial interests in the certificateless depository interest will be in the form of book-entry securities. Ownership of book-entry securities will be limited to participants or indirect participants in DTC.

Procedures related to the transfer of ownership of book-entry securities are described below under "Transfers and Transfer Restrictions".

The ultimate beneficial owners of the global securities in bearer form can only be indirect holders. We do not recognize this type of investor as a holder of notes and instead only deal with the depository that holds the global security. As an indirect holder, an investor's rights and obligations relating to a global security will be governed by the account rules of Citibank, as depository, DTC and the investor's financial institution. We, the trustee, any paying agent, Citibank, as depository and registrar, and any of our or their agents will not be responsible for the obligations under the rules and procedures of DTC, its participants or an investor's financial institution.

Citibank's policies, as depository, will govern payments, transfers, exchange and other matters relating to the investor's interest in the global security. In general, we have no responsibility for the depository's actions. We also do not supervise Citibank in any way.

We have no responsibility for any aspect of the actions of any participant in DTC or for payments related to, or for its records of, ownership interests in the global security. We also do not supervise the participants in DTC in any way, nor will we govern payments, transfers, exchange and other matters relating to the investor's interest in the global security.

#### **Payments**

Payments related to the notes will be made to Citibank, as depository. Payments to the depository will discharge our payment obligations in respect of the notes. Citibank then must distribute all payments to DTC by wire transfer in immediately available funds. Upon receipt, DTC has informed us that it will credit its participants' accounts on that date with payments in amounts proportionate to their respective ownership interests as shown on DTC's records. Payments by participants in DTC to the owners of book-entry securities will be the participants' responsibility. We expect that payments by participants in DTC to the owners of interests in book-entry securities will be governed by standard customary practices,

as is now the case with the securities held for the accounts of customers registered in street name.

When applicable, Citibank will fix a record date for payments of principal or interest on the certificateless depository interests and on the book-entry securities representing interests in the certificateless depository interests. The record date will be initially fixed as the business day immediately preceding the date fixed for payments of principal or interest on the note represented by such certificateless depository interest.

All payments will be made by Citibank, as depository, without any deduction or withholding for any taxes, duties, assessments or other governmental charges. If the laws or regulations from the country where we are incorporated require withholding, then we will add to the payment so it is the same as it would have been without the withholding. These added payments are subject to various exceptions and limitations that are described in the section called "— Payment of Additional Amounts". They are also subject to the optional redemption rights that are described in "Special Situations — Optional Tax Redemption".

#### **Redemption**

If and when the global securities are redeemed, Citibank, as depository, will deliver all amounts it receives in respect of the redemption to DTC. The redemption price that will be paid for the book-entry securities will be equal to the amount paid to Citibank, as depository, for the applicable global securities.

#### **Transfers and Transfer Restrictions**

Transfers of all or any portion of the certificateless depository interests may be made only through the book-entry register. Until the book-entry securities are exchanged for definitive notes, the certificateless depository interests may only be transferred as a whole by:

- DTC to a nominee of DTC;
- by a nominee of DTC to DTC or another nominee of DTC; or

- by DTC or any such nominee to a successor of DTC or a nominee of such successor.

DTC will record all transfers of the interests in book-entry securities using its book-entry system. DTC will use the customary procedures described in detail in the securities depositary agreement.

The 144A global securities will bear the legend set forth under "Notice to Investors":

No book-entry security may be transferred except in compliance with the transfer restrictions reflected in such legend.

Until and including the 40th day after the closing date with respect to the notes, which we refer to as the restricted period, book-entry securities in a Regulation S global security may be held only through Euroclear or Clearstream, Luxembourg, unless transfer and delivery is made through a 144A global security.

Prior to the expiration of the restricted period, a book-entry security in a Regulation S global security may be transferred to a person who takes delivery in the form of a book-entry security in a 144A global security only upon receipt by the book-entry depositary of written certification from the transferor (in the form provided in the securities depositary agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is purchasing for its own account or for an account or accounts as to which it exercises sole investment discretion and that such person and such account or accounts is a qualified institutional buyer within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A, and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

A book-entry security in a 144A global security may be transferred to a person who takes delivery in the form of a book-entry security in a Regulation S global security, whether before or after the expiration of the restricted period, only upon receipt by the book-entry depositary of a written certification from the transferor (in the form provided in the securities depositary agreement) to the effect that such transfer is being made in accordance

with Rule 903 or Rule 904 of Regulation S or Rule 144 under the Securities Act and that, if such transfer occurs prior to the expiration of the restricted period, the book-entry security transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg.

Any book-entry security in a Regulation S global security that is transferred to a person who takes delivery in the form of a book-entry security in a 144A global security will, upon transfer, cease to be represented by a Regulation S global security and will become represented by a 144A global security and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in a 144A global security for as long as it remains such an interest. Any book-entry security in a 144A global security that is transferred to a person who takes delivery in the form of a book-entry security in a Regulation S global security will, upon transfer, cease to be represented by the 144A global security and will become represented by a Regulation S global security and, accordingly, will thereafter be subject to all transfer restrictions and other procedures as applicable to book-entry securities in Regulation S global securities for as long as it remains such an interest.

#### ***Procedures for Issuing Definitive Notes***

Holders of book-entry securities will receive definitive notes in the situations described earlier under "Legal Ownership — Global Securities — Special Situations When Global Security Will Be Terminated". No definitive notes in bearer form will be issued. Definitive notes issued in exchange for book-entry securities will be issued in registered form only, without coupons. They will be registered in the name or names that Citibank, as depositary, instructs the registrar based on the instructions of DTC.

**There are U.K. tax considerations involved with the issuance of definitive notes. Under current U.K. tax law, a holder of definitive notes in registered form may become subject to U.K. income tax at the lower rate (currently 20%) to be withheld on any payments of interest on the notes as set forth under "Taxation". A holder of**

**definitive notes in registered form will be entitled to receive additional amounts in this situation. See the sections "Payment of Additional Amounts" and "Special Situations — Optional Tax Redemption" for more information on payments related to U.K. taxes. These amounts will not be paid if the holder requested the issuance of definitive notes because of a default and definitive notes have not been issued in exchange for the entire principal amount of the 5 year notes, the 10 year notes or the 30 year notes, as applicable.**

#### ***Action by Holders of Book-Entry Securities***

Citibank, as depositary, must send any notices it receives concerning consents, requests for a waiver or any other action to DTC, as promptly as practicable after receipt. If DTC requests in writing for Citibank to take action, it is expected that Citibank will take the action when it receives reasonable indemnity from DTC.

Citibank will not make any independent decisions relating to the certificateless depositary interests or the global securities.

We understand that under existing industry practices, if we request any action to be taken by the holders of notes or if a holder of notes desires to give or take any action the holder is entitled to give or take under the notes or the indenture, DTC will authorize its participants holding book-entry securities to give or take the action and the participants will then authorize the beneficial owners to take the action or will act upon those owners' instructions.

#### ***Reports***

Citibank, as depositary, must send a copy of any communications that relate to us to DTC immediately after it receives them. This is also true for any communications that relate to the global and the book-entry securities.

#### ***Action by the Depositary***

If a default occurs and DTC requests Citibank, as depositary, to take action, it is expected that Citibank will take the action when it receives reasonable indemnity from DTC. Action taken in the event of a default is subject

to limitations which are described in detail in the securities depositary agreement.

#### ***Charges Incurred by the Depositary Will Be Paid by Us***

We have agreed to pay all charges of Citibank, as depositary, under the securities depositary agreement. We have also agreed to indemnify Citibank against certain liabilities it incurs under the securities depositary agreement.

#### ***Amendment and Termination***

We and Citibank may amend the securities depositary agreement. DTC's consent will not be required in connection with the following amendments:

- to cure any inconsistency, omission, defect or ambiguity in the securities depositary agreement;
- to add to the covenants and agreements of Citibank or us;
- to assign Citibank's rights and duties to a qualified successor;
- to evidence the succession of another person to us and the assumption by the successor of our covenants, where the parties are amending the indenture in a similar way;
- to comply with the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Company Act of 1940 or the Trust Indenture Act of 1939, as amended; or
- to modify, alter, amend or supplement the securities depositary agreement in any other manner that is not adverse to DTC or the holders of book-entry securities.

No amendment to the securities depositary agreement or the book-entry securities that affects DTC or the holders of book-entry securities in an adverse way will be allowed without DTC's consent.

When definitive notes are issued to all of the holders of book-entry securities, the book-entry provisions of the securities depositary agreement will no longer apply. Definitive notes

may be issued upon the resignation of the depositary if no successor has been appointed within 120 days.

***Resignation or Removal of the Depositary***

Citibank may resign at any time by delivering written notice to us, and the resignation will take effect when we appoint a new depositary and the new depositary accepts the appointment. If no successor has been appointed at the end of 120 days after Citibank

gives notice, it may petition a court of competent jurisdiction for the appointment of a successor.

***Obligations of the Depositary***

Citibank, as depositary, must perform only the duties and obligations set forth in the definitive securities depositary agreement. You should not read any implied covenants or obligations into the definitive securities depositary agreement.

## CLEARANCE AND SETTLEMENT

### General

The notes will be held through the book-entry systems operated by DTC and its participants, including Clearstream, Luxembourg and Euroclear. These systems have established *electronic securities and payment transfer, processing, depository and custodial links among themselves and others, either directly or through custodians and depositories.* These links allow notes to be issued, held and transferred among the clearing systems without the physical transfer of certificates.

Special procedures to facilitate clearance and settlement have been established among these clearing systems to trade notes across borders in the secondary market. Where *payments for registered notes in global form will be made in U.S. dollars,* these procedures can be used for cross-market transfers and the notes will be cleared and settled on a delivery against payment basis.

*Cross-market transfers of notes that are not in global form may be cleared and settled in accordance with other procedures that may be established among the clearing systems for these notes.* Investors in notes that are issued outside of the United States, its territories and possessions must initially hold their interests through Euroclear or Clearstream, Luxembourg.

The policies of DTC, Clearstream, Luxembourg and Euroclear will govern payments, transfers, exchange and other matters relating to the investor's interest in notes held by them.

We have no responsibility for any aspect of the actions of DTC, Clearstream, Luxembourg or Euroclear or any of their direct or indirect participants. We have no responsibility for any aspect of the records kept by DTC, Clearstream, Luxembourg or Euroclear or any of their direct or indirect participants. We also do not supervise these systems in any way.

DTC, Clearstream, Luxembourg, Euroclear and their participants perform these clearance and settlement functions under agreements they have made with one another or with their customers. You should be aware that they are not obligated to perform these procedures and

may modify them or discontinue them at any time.

The description of the clearing systems in this section reflects our understanding of the rules and procedures of DTC, Clearstream, Luxembourg and Euroclear as they are currently in effect. These systems could change their rules and procedures at any time.

**As used in this section, any reference to notes also refers to book-entry securities issued in respect of notes in bearer form.**

### The Clearing Systems

#### DTC

DTC has advised us as follows:

- DTC is:
  - a limited purpose trust company organized under the laws of the State of New York;
  - a member of the Federal Reserve System;
  - a "clearing corporation" within the meaning of the Uniform Commercial Code; and
  - a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.
- DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes to accounts of its participants. This eliminates the need for physical movement of certificates.
- Participants in DTC include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. DTC is partially owned by some of these participants or their representatives.
- Indirect access to the DTC system is also available to banks, brokers, dealers

and trust companies that have relationships with participants.

- The rules applicable to DTC and DTC participants are on file with the SEC.

### ***Clearstream, Luxembourg***

Clearstream, Luxembourg has advised us as follows:

- Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository.
- Clearstream, Luxembourg holds securities for its participants and facilitates the clearance and settlement of securities transactions among them. It does so through electronic book-entry changes to the accounts of its participants. This eliminates the need for physical movement of certificates.
- Clearstream, Luxembourg provides other services to its participants, including lending and borrowing of securities. It interfaces with the domestic markets in several countries.
- Clearstream, Luxembourg participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations.
- Indirect access to the Clearstream, Luxembourg system is also available to others that clear through Clearstream, Luxembourg participants or that have relationships with Clearstream, Luxembourg participants.
- As a professional depository, Clearstream, Luxembourg is subject to regulation by the Luxembourg Monetary Institute.

### ***Euroclear***

Euroclear has advised us as follows:

- Euroclear is operated by the Brussels office of Morgan Guaranty Trust Company of New York, which is known as the Euroclear Operator. The Euroclear Operator is under contract with Euroclear Clearance Systems, S.C.,

which is a Belgian cooperative corporation.

- Euroclear holds securities for its participants and facilitates the clearance and settlement of securities transactions among them. It does so through electronic book-entry changes to the accounts of its participants. This eliminates the need for physical movement of certificates.
- Euroclear provides other services to its participants, including lending and borrowing of securities. It interfaces with the domestic markets of several other countries.
- Euroclear participants include banks, including central banks, securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations.
- Indirect access to the Euroclear system is also available to others that clear through Euroclear participants or that have relationships with Euroclear participants.
- All securities in Euroclear are held on a fungible basis. This means that specific certificates are not matched to specific securities.
- The Euroclear operator is the Belgian branch of a New York banking corporation, which is a member bank of the Federal Reserve System. As a member of this system, it is regulated and examined by the Board of Governors of the Federal Reserve System and the New York State Banking Department. It is also regulated by the Belgian Banking Commission.

### **Primary Distribution**

The distribution of notes will be cleared through one or more of the clearing systems that we have described above. Payment for notes will be made on a delivery versus payment or free delivery basis. Customary clearance and settlement procedures are described below.

Purchasers of the notes pursuant to Rule 144A will hold their beneficial interests



under the 144A global securities, and ownership of such interests will be shown on and the transfer of such interests will be effected only through, records maintained by DTC and its participants (with respect to interests of indirect participants). Purchasers of the notes pursuant to Regulation S will hold their beneficial interests under the Regulation S global securities and ownership of such interests will be shown on, and the transfer of such interests will be effected only through, records maintained by DTC and its participants (with respect to the interests of indirect participants).

Initially, investors may hold their book-entry securities in the Regulation S global securities only through Euroclear or Clearstream, Luxembourg as participants in DTC, either directly, if such investors are account holders in Euroclear or Clearstream, Luxembourg, or indirectly, through organizations which are account holders in Euroclear or Clearstream, Luxembourg. After the expiration of the restricted period described below but not earlier, investors may also hold such interests through organizations other than Euroclear and Clearstream, Luxembourg that are participants in DTC. Euroclear and Clearstream, Luxembourg will hold such interests on behalf of their account holders through securities accounts in their respective names on the books of their respective depositaries, which, in turn, will hold such interests in securities accounts in the depositaries' names on the books of DTC.

With respect to notes offered pursuant to Regulation S, the Common Codes are 10776465, 10776473 and 10776481, the ISINs are USG9387SAL90, USG9387SAM73 and USG9387SAN56, and the CUSIP numbers are G9387S AL 9, G9387S AM 7 and G9387S AN 5, for the 5 year notes, 10 year notes and 30 year notes, respectively. With respect to notes offered pursuant to Rule 144A, the ISINs are US92857TAA51, US92857TAB35 and US92857TAC18, and the CUSIP numbers are 92857T AA 5, 92857T AB 3 and 92857T AC 1, for the 5 year notes, 10 year notes and 30 year notes, respectively.

#### ***Clearance and Settlement Procedures — DTC***

DTC participants that hold notes through DTC on behalf of investors will follow the settlement practices applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System.

Notes will be credited to the securities custody accounts of these DTC participants against payment in the same-day funds, for payments in U.S. dollars, on the settlement date. For payments in a currency other than U.S. dollars, notes will be credited free of payment on the settlement date.

#### ***Clearance and Settlement Procedures — Euroclear and Clearstream, Luxembourg***

We understand that investors that hold their notes through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures that are applicable to conventional Eurobonds in registered form.

Notes will be credited to the securities custody accounts of Euroclear and Clearstream, Luxembourg participants on the business day following the settlement date, for value on the settlement date. They will be credited either free of payment or against payment for value on the settlement date.

#### ***Secondary Market Trading***

##### ***Trading between DTC Participants***

We understand that secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC's rules. Secondary market trading will be settled using procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement System.

If payment is made in U.S. dollars, settlement will be in same-day funds. If payment is made in a currency other than U.S. dollars, settlement will be free of payment. If payment is made other than in U.S. dollars, separate payment arrangements outside of the DTC system must be made between the DTC participants involved.

##### ***Trading between Euroclear and/or Clearstream, Luxembourg Participants***

We understand that secondary market trading between Euroclear and/or Clearstream,

Luxembourg participants will occur in the ordinary way following the applicable rules and operating procedures of Euroclear and Clearstream, Luxembourg. Secondary market trading will be settled using procedures applicable to conventional Eurobonds in registered form.

***Trading between a DTC Seller and a Euroclear or Clearstream, Luxembourg Purchaser***

A purchaser of notes that are held in the account of a DTC participant must send instructions to Euroclear or Clearstream, Luxembourg at least one business day prior to settlement. The instructions will provide for the transfer of the notes from the selling DTC participant's account to the account of the purchasing Euroclear or Clearstream, Luxembourg participant. Euroclear or Clearstream, Luxembourg, as the case may be, will then instruct the common depository for Euroclear and Clearstream, Luxembourg to receive the notes either against payment or free of payment.

The interests in the notes will be credited to the respective clearing system. The clearing system will then credit the account of the participant, following its usual procedures. Credit for the notes will appear on the next day, European time. Cash debit will be back-valued to, and the interest on the notes will accrue from, the value date, which would be the preceding day, when settlement occurs in New York. If the trade fails and settlement is not completed on the intended date, the Euroclear or Clearstream, Luxembourg cash debit will be valued as of the actual settlement date instead.

Euroclear participants or Clearstream, Luxembourg participants will need the funds necessary to process same-day funds settlement. The most direct means of doing this is to preposition funds for settlement, either from cash or from existing lines of credit, as for any settlement occurring within Euroclear or Clearstream, Luxembourg. Under this approach, participants may take on credit exposure to Euroclear or Clearstream, Luxembourg until the notes are credited to their accounts one business day later.

As an alternative, if Euroclear or Clearstream, Luxembourg has extended a line

of credit to them, participants can choose not to preposition funds and will allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream, Luxembourg participants purchasing notes would incur overdraft charges for one business day, (assuming they cleared the overdraft as soon as the securities were credited to their accounts). However, interest on the notes would accrue from the value date. Therefore, in many cases, the investment income on notes that is earned during that one business day period may substantially reduce or offset the amount of the overdraft charges. This result will, however, depend on each participant's particular cost of funds.

Because the settlement will take place during New York business hours, DTC participants will use their usual procedures to deliver notes to the depository on behalf of Euroclear participants or Clearstream, Luxembourg participants. The sale proceeds will be available to the DTC seller on the settlement date. For the DTC participants, then, a cross-market transaction will settle no differently than a trade between two DTC participants.

**Special Timing Considerations**

You should be aware that investors will only be able to make and receive deliveries, payments and other communications involving notes through Clearstream, Luxembourg and Euroclear on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, there may be problems with completing transactions involving Clearstream, Luxembourg and Euroclear on the same business day as in the United States. U.S. investors who wish to transfer their interests in the notes, or to receive or make a payment or delivery of notes, on a particular day, may find that the transactions will not be performed until the next business day in Luxembourg or Brussels, depending on whether Clearstream, Luxembourg or Euroclear is used.

## CERTAIN U.S. FEDERAL AND U.K. TAX CONSIDERATIONS

The following describes certain U.S. federal income and U.K. tax consequences of your ownership of the notes.

This section applies to you only if you acquire the notes in this offering governed by this offering circular at the offering price and you hold the notes as capital assets. This section does not apply to you if you are a member of a class of holders subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting;
- investors liable for alternative minimum tax;
- banks;
- certain insurance companies;
- tax-exempt organizations;
- persons that hold notes that are a hedge or that are hedged against interest rate risks;
- persons that hold notes as part of a straddle or conversion transaction for U.S. federal income tax purposes;
- persons that actually or constructively own 10% or more of our voting stock; or
- U.S. persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings, court decisions, and applicable U.K. tax law all as currently in effect. This section is also based on the U.S.-U.K. Income Tax Treaty and the U.S.-U.K. Estate Tax Treaty. These laws are subject to change, possibly on a retroactive basis.

For purposes of this section, you are a U.S. holder if you are a beneficial owner of a note who, or that, is:

- a citizen or resident of the United States;

- a corporation organized under the laws of the United States or of any State thereof;
- an estate the income of which is subject to U.S. federal income tax without regard to its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust.

**Please consult your own tax advisor concerning the consequences of owning these notes in your particular circumstances.**

### U.S. Federal Income Taxation

This subsection describes the United States federal income tax consequences if you are a U.S. holder, as defined above.

Although not entirely free from doubt, we believe the facts and circumstances are such that the provision in the notes that requires a step-up in interest rate if there is a confirmed credit rating change, as described beginning on page 56 under "Description of the Notes - Interest Rate", will not cause any special tax considerations under the Internal Revenue Code and the Treasury regulations. However, the Internal Revenue Service is not bound by our decision and may successfully take an alternative position. If the Internal Revenue Service were to successfully take such alternative position, you may be required to include in income amounts greater than, and prior to, the amount you actually receive, subject to later adjustments. In such event, we will notify you of the timing and the amounts you will be required to include in income. The rest of this subsection assumes that such treatment will not apply.

You will be taxed on any interest on a note as ordinary income at the time you receive or accrue the interest, depending on your method of accounting for U.S. tax purposes. This interest constitutes income from sources

outside the United States, but, with certain exceptions, will be "passive" or "financial services" income, which is treated separately from other types of income for purposes of computing your allowable foreign tax credit.

You will generally recognize gain or loss on the sale or retirement of a note equal to the difference between the amount realized and your tax basis. The gain or loss will be capital gain or loss, except to the extent attributable to accrued and unpaid interest. Capital gain of a noncorporate U.S. holder is generally taxed at a maximum rate of 20% where the property is held for more than one year.

The paying agents for our notes must comply with information reporting requirements in connection with payments of principal and interest to, and the proceeds of a sale before maturity within the United States by, noncorporate U.S. holders. In addition, "backup withholding" at the rate of 31% will apply to these payments unless you provide an accurate taxpayer identification number in the manner required by U.S. law and applicable regulations, certify that you are not subject to backup withholding, and otherwise comply with applicable requirements of the backup withholding rules. Amounts withheld under the backup withholding rules may be credited against your United States federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS. Special rules may require information reporting in the case of payments made outside the United States of the proceeds of the sale of a note through a U.S. broker. Recently finalized treasury regulations, effective after December 31, 2000, expand the definition of a "U.S. broker" for this purpose.

### **United Kingdom Taxation**

*Payments.* Payments of principal on the notes in accordance with the procedures described beginning on page 60 under "Description of the Notes — Additional Mechanics — Payment and Paying Agents" will not be subject to any deduction or withholding for or on account of U.K. taxation. Payments of interest on notes in accordance with the

described procedure will not be subject to withholding or deduction for or on account of U.K. taxation if the notes qualify for the "Quoted Eurobond" exemption, that is to say, so long as the following conditions are satisfied:

- the notes remain in bearer form;
- the notes are listed on a "recognized stock exchange" within the meaning of Section 841 of the Income and Corporation Taxes Act of 1988 (the London Stock Exchange is so recognized); and
- payments of interest are made either
  - by or through a paying agent who is not in the United Kingdom; or
  - by or through a person who is in the United Kingdom, provided certain conditions are met.

*These additional conditions that apply* where the payments of interest are made by or through a person who is in the United Kingdom are as follows:

one of the following must apply:

- the person who beneficially owns both the notes and the related payment must not be resident in the United Kingdom for tax purposes; or
- the notes must be held in a "recognized clearing system" within the meaning of Section 841A of the Income and Corporation Taxes Act 1988. DTC, Euroclear and Clearstream, Luxembourg have each been designated as a recognized clearing system.

A declaration in the form required by law that one of the two circumstances set out immediately above applies must be provided to the person who makes the payment, unless the U.K. Inland Revenue has issued a similar certificate to that person; and the U.K. Inland Revenue must not have issued a direction to the person making the payment that neither of the circumstances is satisfied.

Even if the notes do not qualify for the "Quoted Eurobond" exemption, holders of notes who are resident in the United States will

generally be entitled to receive payments of interest free of withholding of U.K. tax under the double taxation treaty between the United Kingdom and the United States and may therefore be able to obtain a direction to that effect from the appropriate taxation authority in the United Kingdom. Holders of notes who are resident in other jurisdictions may also be able to receive payment free of withholding under an appropriate double taxation treaty and may be able to obtain a direction to that effect.

However, a direction will only be issued on prior application to the relevant tax authorities by the holder in question. If such a direction is not given, the person making the payment will be required to withhold tax, although a holder of notes resident in another jurisdiction who is entitled to relief may subsequently recover the amount withheld from the U.K. Inland Revenue.

In all other cases, payments will generally be made after deduction of tax at the rate of 20%.

Where the notes qualify for the "Quoted Eurobond" exemption and a person in the United Kingdom acts as a collecting agent, *i.e.*, either:

- (a) acts as custodian of the notes and receives interest on the notes, or directs that interest on the notes be paid to another person, or consents to such payment; or
- (b) collects or secures payment of, or receives interest on, the notes for a holder (except by means of clearing a check or arranging for the clearing of a check),

the collecting agent will be required to withhold on account of U.K. tax at the rate of 20% unless any one of certain exceptions applies, including where:

- (i) the collecting agent acts as depository for the clearing system in which the notes are held;
- (ii) the relevant notes are held in a "recognised clearing system" within the meaning of Section 841A of the Income and Corporation Taxes Act 1988;

- (iii) the person beneficially entitled to the interest and the related notes is not resident in the United Kingdom;
- (iv) the person beneficially entitled to the interest is eligible under specified provisions for relief from U.K. tax in respect of the interest;
- (v) the interest fails to be treated as income of, or of the government of, a sovereign power or of an international organization.

For exceptions (ii) to (v) to be available, a declaration in a specified form has to be provided (or a notice issued by the Inland Revenue) to the collecting agent, and, even then, these exceptions will not be available if the Inland Revenue issue an appropriate direction.

The interest has a U.K. source and accordingly may be chargeable to U.K. tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to U.K. tax in the hands of holders of the notes who are not resident in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a U.K. branch or agency in connection with which the interest is received or to which the notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent) tax may be levied on the U.K. branch or agency.

*Optional Tax Redemption.* In the earlier section entitled "Description of the Notes — Optional Tax Redemption" we set out three situations in which we may redeem any notes. As at the date of this offering circular, none of those situations applies in respect of U.K. taxation law.

*Disposal (including Redemption).* A holder of notes who is neither resident nor ordinarily resident in the United Kingdom for tax purposes will not be liable for U.K. taxation in respect of a disposal of a note, any gain accrued in respect of a note or any change in the value of a note.

This may not, however, be the case if the holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the notes are attributable.

*Inheritance Tax.* A holder of notes who is an individual domiciled outside the United Kingdom will generally not be liable for U.K. inheritance tax in respect of his holding of notes. This will be the case if a register of the notes is maintained outside the United Kingdom. If no register is maintained, there may be a liability for inheritance tax if the notes are held in the United Kingdom. If so, exemption from any U.K. inheritance tax liability will normally be available for holders of notes who are domiciled in the United States under the U.S.-U.K. Estate Tax Treaty.

*Stamp Duty and Stamp Duty Reserve Tax.* U.K. stamp duty and stamp duty reserve tax will not be payable by a holder of notes on the issue or transfer by delivery of the notes.

*European Community Proposed Directive Relating to Withholding Tax.* In May 1998, the European Commission presented to the Council of Ministers of the European Union a proposal to oblige member states of the European Union to adopt either a "withholding tax system" or an "information reporting system" in relation to interest, discounts and premiums. It is unclear whether this proposal will be adopted, and if it

is adopted, whether it will be adopted in its current form.

- The "withholding tax system" would require a paying agent established in a member state to withhold tax at a minimum rate of 20% from any interest, discount or premium paid to an individual resident in another member state unless such an individual presents a certificate obtained from the tax authorities of the member state in which he is resident confirming that those authorities are aware of the payment due to that individual.
- The "information reporting system" would require a member state to supply to other member states details of any payment of interest, discount or premium made by paying agents within its jurisdiction to an individual resident in another member state. For these purposes, the term "paying agent" is widely defined and includes an agent who collects interest, discounts or premiums on behalf of an individual beneficially entitled thereto.
- If this proposal is adopted, it will not apply to payments of interest, discounts and premiums made before January 1, 2001.

## VALIDITY OF NOTES

Linklaters will pass upon the validity of the notes for us as to certain matters of English law. The validity of the notes will be passed upon by Sullivan & Cromwell as to certain

matters of New York law. Cleary, Gottlieb, Steen & Hamilton will pass upon the validity of the notes for the purchasers as to certain matters of New York law.

## INDEPENDENT ACCOUNTANTS

Our audited consolidated financial statements as of March 31, 1999 and 1998 and for each of the three years in the period ended March 31, 1999, which are included in our Annual Report on Form 20-F for the year ended March 31, 1999, incorporated by reference in this offering circular, have been audited by Deloitte & Touche, independent auditors, as set forth in their report thereon included therein.

With respect to our unaudited interim consolidated financial statements for the six month periods ended September 30, 1999 and 1998, which are included in our Report on Form 6-K, dated December 22, 1999 and incorporated by reference in this offering circular, Deloitte & Touche reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, as stated in their report appearing therein, they did not audit and they do not express an opinion on the unaudited interim consolidated financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

The financial statements of the businesses to be contributed by us to the new wireless telecommunications business formed by us and Bell Atlantic as of December 31, 1998, 1997 and 1996 and for each of the three years in the period ended December 31, 1998, which are included in our Report on Form 6-K, dated December 21, 1999 and incorporated by reference in this offering circular, have been reported on by Deloitte & Touche, independent auditors, as stated in their report appearing therein.

The consolidated financial statements of AirTouch as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998, which are

incorporated by reference in AirTouch's Annual Report on Form 10-K for the year ended December 31, 1998, are incorporated by reference in this offering circular, and have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

The consolidated financial statements of CMT Partners as of December 31, 1997 and for each of the two years in the period ended December 31, 1997, which are incorporated by reference in AirTouch's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated by reference in this offering circular, except as they relate to Kansas Combined Cellular, have been audited by PricewaterhouseCoopers LLP, independent accountants, and, insofar as they relate to Kansas Combined Cellular, by Arthur Andersen LLP, independent accountants, whose reports appear therein.

With respect to the unaudited consolidated financial information of AirTouch for the three month periods ended March 31, 1999 and 1998 and the three and six month periods ended June 30, 1999 and 1998, incorporated by reference in this offering circular, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate reports dated May 12, 1999 and August 6, 1999 appearing therein state that they did not audit and they do not express an opinion on that unaudited consolidated financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied.

The audited financial statements of Celco Partnership, a business to be contributed by Bell Atlantic to the new wireless telecommunications business formed by us and

Bell Atlantic, as of December 31, 1998, 1997 and 1996 and for each of the three years in the period ended December 31, 1998, which are included in our Report on Form 6-K, dated December 21, 1999 and incorporated by reference in this offering circular, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

The audited financial statements of PrimeCo Personal Communications, L.P., a business to be contributed by Bell Atlantic to the new wireless telecommunications business formed by us and Bell Atlantic, as of December 31, 1998, 1997 and 1996 and for each of the three years in the period ended December 31, 1998, which are included in our Report on Form 6-K, dated December 21, 1999 and incorporated by reference in this offering circular, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

The audited financial statements of the businesses to be contributed by GTE Corporation to the new wireless telecommunications business formed by us and Bell Atlantic as of December 31, 1998, 1997 and 1996 and for each of the three years in the period ended December 31, 1998, which are included in our Report on Form 6-K, dated December 21, 1999 and incorporated by reference in this offering circular, have been audited by Arthur Andersen LLP, independent

auditors, as stated in their report appearing therein.

The financial statements of Mannesmann Mobilfunk GmbH as of December 31, 1998 and 1997, and for each of the years in the three year period ended December 31, 1998, which are included in AirTouch's Annual Report on Form 10-K for the year ended December 31, 1998, are incorporated by reference in this offering circular.

The financial statements of Mannesmann as of December 31, 1998 and 1997 and for the years then ended extracted from Mannesmann's 1998 Annual Report to Shareholders and the financial statements as of December 31, 1997 and 1996 and for the years then ended extracted from Mannesmann's 1997 Annual Report to Shareholders, both sets of which have been reproduced in Appendix A to this offering circular, have been so included without reliance on the reports of its independent public accountants.

The consolidated financial statements of Orange as of December 31, 1998 and 1997 and for each of the three years in the period ended December 31, 1998, which are included in Orange's Annual Report on Form 20-F for the year ended December 31, 1998 and incorporated by reference in this offering circular, contain the audit report issued by Orange's independent auditors. Orange's independent auditors have not consented to the use of its report in this offering circular.



## GENERAL INFORMATION

1. The listing of the notes on the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). It is expected that listing of the notes on the London Stock Exchange will be granted on or around February 9, 2000, subject only to the issue of the global note. Prior to official listing, however, trading will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in dollars and for delivery on the third working day after the day of the transaction.

2. Vodafone AirTouch has obtained all necessary consents, approvals and authorisations in England and Wales in connection with the issue and performance of the notes. The issue of the notes was authorised by resolution of the board of directors of Vodafone AirTouch passed on January 11, 2000.

3. Except as disclosed in this document there has been no significant change in the financial or trading position of Vodafone AirTouch and its subsidiaries since September 30, 1999 and no material adverse change in the financial position or prospects of Vodafone AirTouch since March 31, 1999.

4. Except as disclosed in the paragraphs below, neither Vodafone AirTouch nor any other member of the group is involved or has been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which Vodafone AirTouch is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial position of Vodafone AirTouch and its subsidiaries.

AirTouch is a defendant in 11 class actions which have been consolidated into a single proceeding filed in the Delaware State Court. The plaintiffs alleged that AirTouch and its board had violated various securities laws in considering and accepting the merger of Vodafone Group and AirTouch. The cases were filed in early 1999, and although they have not been further pressed, they formally remain pending. The outcome of this litigation cannot be determined at the present time.

Consequently, it is not possible to assess the impact, if any, of these cases on Vodafone AirTouch's financial position or results of operations, but the impact could be material.

AirTouch and Sam Ginn are defendants in a securities class action filed in January 1999 in the Federal District Court of California, alleging violations of the securities laws in considering and accepting the merger of Vodafone Group and AirTouch. In November 1999, the court granted the defendants' motion to dismiss the complaint. Plaintiffs did not file an amended complaint; however, the time within which to appeal has not expired.

An appeal is pending on a settlement approval in a consumer class action filed in the California State Court alleging a conspiracy to fix prices and allocate the Los Angeles market. Various other class actions regarding price fixing allegations are also outstanding in other California State Courts, including a further case relating to the Los Angeles market which is stayed pending the conclusion of the former appeal, two appeals from two settlements regarding similar allegations in the San Francisco Bay Area and the San Diego market, and initial motions which have been made relating to the Sacramento market in an action filed in December 1998.

On December 1, 1999, U.S. Cellular Investment Company of Los Angeles, Inc. filed a case against AirTouch in the U.S. District Court for the Central District of California, seeking an order to enforce an alleged partnership contract right to require unanimous consent of all partners before the transfer of AirTouch's general partnership interest into Vodafone AirTouch's partnership with Bell Atlantic. The complaint also alleges breach of AirTouch's fiduciary duty as general partner. The complaint was served on AirTouch on December 8, 1999 and consequently Vodafone AirTouch is not currently able to assess the impact, if any, of this action on Vodafone AirTouch, AirTouch or the partnership. Vodafone AirTouch intends to vigorously defend this action.

5. Copies of the latest annual report and consolidated accounts of Vodafone AirTouch

and the latest interim consolidated accounts of Vodafone AirTouch may be obtained, and copies of the indenture and securities depositary agreement will be available for inspection, at the specified offices of each of the paying agents during normal business hours, so long as any of the notes is outstanding.

6. The financial information of Vodafone AirTouch for the five years ended March 31, 1999 and of Orange for the five years ending December 31, 1998 contained in this document does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the "Act"). Statutory accounts of Vodafone AirTouch and Orange have been delivered to the Registrar of Companies in England and Wales. Vodafone AirTouch's auditors and Orange's auditors have made reports under Section 235 of the Act on such statutory accounts of Vodafone AirTouch and Orange, respectively, which reports were not qualified within the meaning of Section 262 of the Act and did not contain any statements made under Section 237(2) or (3) of the Act.

7. Deloitte & Touche (Chartered Accountants) have audited, and rendered unqualified audit reports on, the accounts of Vodafone AirTouch

respectively for the three years ended March 31, 1999.

8. Copies (and certified English translations where the documents in question are not in English) of the following documents may be inspected at the offices of Linklaters, One Silk Street, London EC2Y 8HQ during usual business hours on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this document:

- (i) the memorandum and articles of Association of Vodafone AirTouch;
- (ii) the audited consolidated annual accounts of Vodafone AirTouch for the two years ended March 31, 1999 and Vodafone AirTouch's interim statement of results for the six month period ended September 30, 1999;
- (iii) the purchase agreement referred to below;
- (iv) the indenture;
- (v) the securities depositary agreement; and
- (vi) the exchange and registration rights agreement.

9. The directors of Vodafone AirTouch and their functions are listed below:

<u>Name</u>	<u>Title</u>
Samuel Lou Ginn .....	Non-Executive Chairman
Lord MacLaurin of Knebworth, DL...	Non-Executive Deputy Chairman
Christopher Charles Gent .....	Chief Executive
Peter Richard Bamford.....	Chief Executive Officer for the U.K. region
Julian Michael Horn-Smith .....	Chief Executive Officer for the Europe, Africa and Middle East region
Kenneth John Hydon .....	Financial Director
Arun Sarin .....	Chief Executive Officer for the U.S. and Asia Pacific region
Michael Jay Boskin .....	Non-Executive Director
Professor Sir Alec Nigel Broers .....	Non-Executive Director
Donald George Fisher .....	Non-Executive Director
Paul Hazen .....	Non-Executive Director
Penelope Lesley Hughes .....	Non-Executive Director
Sir David Gerald Scholey, CBE .....	Non-Executive Director
Charles Robert Schwab.....	Non-Executive Director

The business address of the directors is The Courtyard, 2-4 London Road, Newbury, Berkshire RG14 1JX.

A short biography of the directors of Vodafone AirTouch is set out below:

**Sam Ginn** was appointed to the board on June 30, 1999. He was chairman of the board and chief executive officer of AirTouch from December 1993 to June 1999. He was chairman of the board, president and chief executive officer of Pacific Telesis Group from 1988 to 1994 and a director of Pacific Telesis Group from 1983 to 1994. He was chairman of the board of Pacific Bell from 1988 to 1994. He is also a director of Chevron Corporation and Hewlett-Packard Company.

**Lord MacLaurin of Knebworth, DL** 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.

**Chris Gent** was appointed to the board in 1985 and was appointed chief executive in January 1997. He was formerly managing director of Vodafone Limited, the U.K. network operator. He is chairman of Vodafone UK Limited.

**Peter Bamford** was appointed to the board in April 1998 and is managing director of Vodafone UK Limited, with responsibility for Vodafone AirTouch's U.K. operations and became chief executive officer for the U.K. region upon the merger with AirTouch. Before

joining the Vodafone AirTouch group in 1997, he was a director of WH Smith Group Plc.

**Julian Horn-Smith** joined the Vodafone AirTouch group in 1984 and was appointed to the board in June 1996. He is managing director of Vodafone AirTouch International Limited and a director of many of the group's overseas operating companies. Upon the merger with AirTouch he was appointed chief executive officer for the Europe, Middle East and Africa region.

**Ken Hydon**, the Vodafone AirTouch group financial director, was appointed to the board in 1985. He is a director of several group companies, including Vodafone AirTouch International Holdings B.V., and also deals with U.S. investor relations.

**Arun Sarin** was appointed to the board on June 30, 1999 and named chief executive officer for the U.S. and Asia Pacific region. He has been a director of AirTouch since July 1995 and was vice chairman of the board of AirTouch from 1995 until 1997. He was president and chief operating officer of AirTouch from February 1997 to June 1999 and senior vice president, corporate strategy/development and international operations of AirTouch from April 1994 until August 1995. He is a director of The Charles Schwab Corporation and Cisco Systems, Inc.

**Michael Boskin** was appointed to the board on June 30, 1999. He was a director of AirTouch from August 1996 to June 1999. He has been a professor of economics at Stanford University since 1971 and a principal of Boskin & Co., a consulting firm, since 1980. He was chairman of the President's Council of Economics Advisers between February 1989 and January 1993. He is also a director of Exxon Mobil Corporation, Oracle Corporation and First Health Group Corporation.

**Professor Sir Alec Broers** is the Vice Chancellor of Cambridge University and was re-appointed to the board on November 9, 1999. He was previously a member of the Vodafone Group board from January 1998, until completion of the merger with AirTouch. After the merger, he held the position of Director Emeritus of Vodafone AirTouch, an advisory position without director status. He spent many years with IBM and is a fellow of the Royal Society, the Royal Academy of Engineering, the Institution of Electrical Engineers and the Institute of Physics and is a Foreign Associate of the U.S. National Academy of Engineering.

**Don Fisher** was appointed to the board on June 30, 1999. He was a director of AirTouch from January 1994 to June 1999. He is the founder and chairman of the board of The Gap Inc. and was chief executive officer until November 1995. He is a director of The Charles Schwab Corporation and Cornerstone Properties.

**Paul Hazen** was appointed to the board on June 30, 1999. He was a director of AirTouch from April 1993 to June 1999. He became chairman and chief executive officer of Wells Fargo & Company and Wells Fargo Bank N.A. in January 1995. He was president and chief operating officer of Wells Fargo & Company and Wells Fargo Bank N.A. between 1984 and January 1995. He is also a director of Safeway Inc. and Phelps Dodge Corporation.

**Penny Hughes** joined the board in September 1998. Formerly President, GB and Ireland, for The Coca-Cola Company, she now holds a number of non-executive directorships, including Berisford Plc, Body Shop International Plc and Trinity Mirror plc.

**Sir David Scholey** joined the board in March 1998. He is a senior adviser to Warburg Dillon Read, a governor of the BBC and a non-executive director of J Sainsbury plc, Anglo-American plc, the Chubb Corporation, USA and chairman of Close Brothers Group plc.

**Charles Schwab** was appointed to the board on June 30, 1999. He was a director of AirTouch from January 1994 to June 1999. He is the founder, chairman and co-chief executive officer of The Charles Schwab Corporation. He is also a director of The Gap Inc. and Siebel Systems Inc.

**Description of Mannesmann A.G., Vodafone AirTouch's Offer for  
Mannesmann Shares and ADSs and Certain Financial  
Information with Respect to Mannesmann**

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## I. DESCRIPTION OF MANNESMANN

### General

Mannesmann is an international, German-domiciled company with activities in four business segments: telecommunications, engineering, automotive and steel tubes and tubular products. Mannesmann has majority stakes in the leading German mobile operator (D2), the second-largest Italian mobile operator (Omnitel) and a U.K. mobile operator (Orange) and provides fixed network services in Germany and Italy. It is one of Europe's largest telecommunications providers.

### Principal Business Segments

Mannesmann's principal business segments are as follows:

*Mannesmann Telecommunications.* Mannesmann is one of Europe's largest telecommunications providers with interests in Mannesmann Mobifunk GmbH (D2) and Mannesmann Arcor in Germany, Omnitel and Infostrada in Italy, Cegetel in France and tele.ring in Austria. D2 Mannesmann (65.2% owned by Mannesmann and the remainder owned by Vodafone AirTouch) is the largest player in mobile communications in Germany, with more than 8 million D2 Mannesmann network customers.

Mannesmann Arcor (70.0% owned by Mannesmann) provides fixed network services in Germany. Arcor's network is also linked to that of the French telecommunications company, Cegetel, and the Austrian network telephone company, tele.ring. Together with o.tel.o, which is wholly owned by Arcor, Arcor follows a two-brand strategy in the German fixed-line market. Arcor offers internet access and online services together with wholly owned germany.net. Omnitel (55.2% owned by Mannesmann) is the second-largest Italian mobile operator with more than nine million subscribers. Infostrada provides fixed network services in Italy. With Italia Online, its wholly-owned internet service provider, Infostrada offers internet access and also offers online services in Italy.

Mannesmann Eurokom is a strategic telecommunications holding company which manages Mannesmann's international assets and extends Mannesmann's reach through acquisitions and applications for new licenses. Mannesmann's international assets include a 15% stake in the French telecommunications operator, Cegetel, which also provides mobile services through SFR, and tele.ring, the Austrian telecommunications provider (53.8% owned by Mannesmann), which is currently preparing the launch of its mobile service. Other interests include Ipulsys, which develops Internet protocol-based international voice and data services throughout Europe by using its partners' existing network capacities, and Mannesmann Passo, which provides a traffic information service under the brand name, Passo, that can be accessed via mobile telephone.

*Mannesmann Engineering.* The Mannesmann engineering business is a leading global supplier in the fields of hydraulics, materials handling and plastics technology with three main divisions: Mannesmann Rexroth (drives and controls), Mannesmann Dematic (material flow and logistics) and Mannesmann Demag Krauss-Maffei (plastics machinery, compressors, process and laser technology).

*Mannesmann Automotive.* The Mannesmann automotive business is a systems developer and partner to the global automobile industry, with two main divisions: Mannesmann VDO (information systems, cockpit systems and audio and navigation systems) and Mannesmann Sachs (components and systems primarily for chassis and powertrain).

*Mannesmann Tubes.* The Mannesmann tubes business is one of the world's largest producers of steel tubes.

## **Indebtedness**

In connection with its offer for Orange plc ("Orange"), Mannesmann has entered into a £8 billion multicurrency facility agreement. Under the facility, a £6.1 billion multicurrency term loan facility is available to Mannesmann to finance the acquisition of shares of Orange and a £1.9 billion multicurrency revolving credit facility is available to Mannesmann to refinance existing indebtedness of Orange. Amounts drawn under the facility bear interest at the interbank rate offered for the relevant currency plus a margin of 0.50% per annum and mandatory asset costs, if applicable. The facility matures on October 19, 2000.

In addition, Mannesmann incurred other debt in 1999, including €3 billion of ten-year Eurobonds; €1 billion of three-year floating rate notes; a €2 billion European commercial paper program; €2.5 billion of 10-year fixed rate Eurobonds and €2 billion of five-year convertible bonds.

## **Recent Results**

For the year ended December 31, 1998, Mannesmann reported EBITDA of €3,125 million (of which €1,298 million was in telecommunications) and a consolidated profit on ordinary activities before taxation of €1,385 million on net sales of €19,065 million (of which €4,643 million was in telecommunications) and had net assets at that date of €6,360 million. For the six months ended June 30, 1999, Mannesmann reported unaudited consolidated profit on ordinary activities before taxation of €735 million on total sales of €9,741 million (of which €2,809 million was in telecommunications). On November 11, 1999, Mannesmann reported, on an unaudited basis, for the nine months ended September 30, 1999, net sales of €16,138 million (€5,761 million of which was in telecommunications), consolidating for the first time Omnitel and Infostrada in which Mannesmann acquired controlling interests in June 1999. On January 7, 2000, Mannesmann reported, on a preliminary unaudited basis, for the year ended December 31, 1999, EBITDA of approximately €4.3 billion (of which approximately €2.2 billion was in telecommunications) and a consolidated profit on ordinary activities before taxation of approximately €1.4 billion on net sales of approximately €23.2 billion.

## **Recent Developments**

*Disposition of Engineering and Automotive.* In September 1999, Mannesmann announced that it intended to create two separate corporations with their own identities for Mannesmann Engineering and Automotive on the one hand and Mannesmann Telecommunications (including Mannesmann Tubes) on the other and to conduct an initial public offering of the engineering and automotive business by 2001. On November 23, 1999, Mannesmann announced that it would accelerate the timing of the initial public offering of its engineering and automotive division to as early as mid-2000.

*Offer for Orange.* On October 20, 1999, Mannesmann and Orange, a British public limited liability company which operates a digital mobile network in the United Kingdom, announced that they had agreed to terms pursuant to which Mannesmann would make an offer to purchase Orange. On January 12, 2000, Mannesmann reported that as of January 7, 2000 valid acceptances of such offer had been received in respect of more than 91% of the issued share capital of Orange. In the offer, Mannesmann offered 0.0965 newly issued shares of Mannesmann and £6.40 in cash per each Orange unconditionally allotted or issued and fully paid ordinary share of 20p each, subject to certain elections on the part of Orange shareholders to adjust the payment received. On December 20, 1999, the European Commission approved the acquisition of Orange by Mannesmann. As a condition to such approval, Mannesmann agreed to dispose of Orange's 17.5% stake in Connect Austria.

Orange is a mobile telecommunications company that provides a range of communications services, particularly through its digital mobile network in the United Kingdom and sells Orange



products and services both in the United Kingdom and internationally. In 1994 the company was formed when Hong Kong-based Hutchison Whampoa established a mobile phone service provider in the United Kingdom under the name Hutchison Telecommunications. In 1996, Hutchison Whampoa took that company public as Orange and retained a 44.82% interest.

In the United Kingdom, Orange is one of four operators of mobile telephone networks providing wireless communications and paging services. Orange provides digital network coverage over more than 98% of that country's population. As of June 30, 1999, Orange had a total of 2.96 million mobile service customers and a 17.6% share of the United Kingdom mobile subscribers market. Orange's "Just Talk" pre-pay service accounted for 33% of the Orange customer base at June 30, 1999. As of July 31, 1999, subscribers to Orange mobile services were able to roam on 182 networks in 90 countries. Orange also provides paging services in the United Kingdom through Hutchison Paging Limited's two networks and re-sells BT Cellnet and Vodafone AirTouch services through Hutchison Cellular Services Limited.

Orange also provides mobile and data communications services in Europe. Orange also has a 17.45% interest in Connect Austria GmbH, which launched Austria's third mobile network service in October 1998; a 45.50% interest in Orange Communications S.A., which won the third Swiss mobile license in April 1998 and commenced operations on June 29, 1998; and a 50% interest in KPN Orange Belgium N.V., which was awarded the third Belgian mobile license in June 1998 and began a regional service through city by city launches, starting on June 3, 1999. Beyond Europe, Orange has licensed the Orange brand to Hutchison Whampoa affiliated companies Partner Communications for its operations in Israel and Hutchison Telecom for its operations in Hong Kong.

As part of the offer for Orange, Mannesmann and Hutchison entered into a shareholding agreement pursuant to which the parties agreed that for a period of 18 months following the issuance of new Mannesmann shares to Hutchison, Hutchison will abstain from any disposal of any interest in 42,700,423 Mannesmann shares. Subject to certain conditions, Hutchison may make a disposal of its interest in the remainder of the new Mannesmann shares at any time. Moreover, Hutchison may, upon expiration of the lock-up period, make a disposal of any interest in new Mannesmann shares at any time, subject to certain limitations. The transfer restrictions do not prevent Hutchison from accepting a general offer for Mannesmann shares if the acceptance of such offer is recommended by the Mannesmann management board or following the occurrence of a change of control without the disposal of the lock-up shares. At present however, the Mannesmann management board has not made any such recommendation and such change of control has not occurred. Hutchison has announced in a press release that it will not tender its Mannesmann shares in Vodafone AirTouch's offer for all outstanding Mannesmann shares and ADSs.

Further, Mannesmann has also undertaken to use its best endeavors to procure the release of Hutchison from the guarantee between Hutchison and NatWest Leasing Industries Limited with effect from or as soon as practicable after the date that Mannesmann's offer for Orange became unconditional. Mannesmann has agreed to indemnify Hutchison against any and all liabilities that Hutchison incurs in connection with or arising out of such guarantee.

## **II. DESCRIPTION OF VODAFONE AIRTOUCH PLC'S OFFER FOR MANNESMANN SHARES AND ADSs**

On December 23, 1999, Vodafone AirTouch published offer documents in connection with its offer to the shareholders and ADS holders of Mannesmann to exchange 53.7 Vodafone AirTouch ordinary shares for each Mannesmann share or Mannesmann ADS tendered. The offer period commenced on December 24, 1999. On February 3, 2000, Vodafone AirTouch announced that it had reached agreement with the management board of Mannesmann on the terms of a merger to be effected by means of a revised offer by Vodafone AirTouch for Mannesmann. The revised offer is unanimously recommended to Mannesmann shareholders by the management board of Mannesmann. The revised offer is for the exchange of 58.9646 Vodafone AirTouch ordinary shares for each share or ADS of Mannesmann. Following the revised offer, assuming full acceptance, Mannesmann shareholders will hold 49.5% of the combined group. Dr. Klaus Esser will join the Vodafone AirTouch board as an executive director. Four members of Mannesmann's supervisory board will be invited to join the board of Vodafone AirTouch. The agreement has been approved by Mannesmann's supervisory board.

### **Background to and Reasons for the Offer**

*Vodafone AirTouch has made this offer to create one of the world's largest European-based telecommunications operators. A combined Vodafone AirTouch/Mannesmann entity would have over 48 million proportionate customers in 25 countries worldwide.*

Vodafone AirTouch and Mannesmann have worked together for over a decade through partnerships in D2 and Mannesmann Arcor in Germany, Omnitel in Italy and SFR in France. In light of the excellent fit with Mannesmann, Vodafone AirTouch has from time to time discussed with the management of Mannesmann how to better leverage their partnerships. From these discussions, Vodafone AirTouch concluded that it would be Mannesmann's preferred partner in the event that a third party made an offer for Mannesmann. Given these circumstances, the Vodafone AirTouch board was disappointed when, on October 20, 1999, Mannesmann announced a recommended offer for Orange.

*Vodafone AirTouch's strategy has always been to focus on mobile telecommunications. The market for mobile telecommunications is undergoing rapid growth as consumers have endorsed the benefits of mobile telecommunications. Vodafone AirTouch believes that mobile telecommunications will continue to be one of the fastest growing segments of the telecommunications industry as, over time, mobile voice telecommunications replace large amounts of telecommunications traffic currently carried by fixed line networks. In addition, Vodafone AirTouch believes that mobile traffic will be further accelerated through the increasing use of mobile telecommunications for data and Internet services. The Vodafone AirTouch board believes that a combination of Vodafone AirTouch and Mannesmann will be better positioned to take advantage of the opportunities presented by the rapidly growing mobile telecommunications industry due to its greater scale and enhanced footprint (i.e., market coverage).*

### **Management and Integration**

The Vodafone AirTouch board and the Mannesmann management board led by Dr. Klaus Esser agreed that integrating the culture and skills of Mannesmann will be one of Vodafone AirTouch's highest priorities following the merger. To achieve this, Vodafone AirTouch has committed to respect the principle of codetermination in Mannesmann's governance structure. Mannesmann's management board will use best efforts to procure sufficient representation of Vodafone AirTouch on the supervisory board of Mannesmann in order to achieve the successful and prompt integration of the two companies.

An integration committee will be established with representatives from both Vodafone AirTouch and Mannesmann. The committee will be jointly led by Chris Gent and Dr. Klaus Esser.

Mannesmann will have 5 representatives (1 executive and 4 non-executive) out of a total of 19 on the new Vodafone AirTouch board. Dr. Klaus Esser has agreed to join the board of Vodafone AirTouch as an executive director and to continue as Chief Executive Officer of Mannesmann. He will be instrumental in the integration process, and will have particular responsibility for the successful separation of the industrial businesses under the terms of Mannesmann's existing proposals. Following the successful separation of the industrial businesses, Dr. Esser will give up his executive responsibilities at Mannesmann and will become non-executive Deputy Chairman of Vodafone AirTouch.

Mannesmann will be assured of participation in the senior management of the combined group — with senior executives being appointed to positions comparable to those they currently hold within Mannesmann. All the current Chief Executives of the major Mannesmann operating subsidiaries will be confirmed in their respective roles.

### **Mannesmann's Businesses within the Combined Group**

- In October 1999, Mannesmann made an offer for all of the outstanding shares of Orange, one of the four holders of mobile telecommunications licenses in the United Kingdom. On January 12, 2000, Mannesmann reported that as of January 7, 2000 valid acceptances of such offer had been received in respect of more than 91% of the issued share capital of Orange. If Vodafone AirTouch's offer for Mannesmann shares is completed, Vodafone AirTouch, through Mannesmann, will have acquired beneficial ownership of those Orange shares that were tendered in the Mannesmann offer. Under E.U. merger control law, Vodafone AirTouch will be prohibited from owning both Vodafone Limited and Orange and, therefore, will be required to dispose of its interest in Orange as soon as practicable following the offer becoming unconditional. Presently, Vodafone AirTouch intends to demerge Orange to the enlarged shareholder base of the combined Vodafone AirTouch/Mannesmann group. Pending the demerger of Orange, Vodafone AirTouch intends to establish an arm's length arrangement to hold its indirect interest in Orange.
- Vodafone AirTouch will continue to develop Mannesmann's wireless, wireline and internet strategy within the combined group. Specifically, Vodafone AirTouch has agreed not to dispose of the wireline activities of the combined group and to review alternatives to its previously announced intention to undertake a public offering of a minority interest in the wireline businesses.
- Düsseldorf will be retained as one of two dual European headquarters, with responsibility for Mannesmann's existing Continental European mobile and fixed line businesses and other assets to be determined.
- A key strategic objective of the combined group will be to integrate and develop Mannesmann's tele-commerce activities.
- Vodafone AirTouch will retain all current ongoing existing facilities and activities in the Düsseldorf area and will expand Düsseldorf-based activities, with particular emphasis on data products and services. Vodafone AirTouch reaffirmed its public statement of commitment to Mannesmann employees.
- Vodafone AirTouch confirms its commitment to undertake the initial public offerings of the engineering and automotive businesses along the lines of Mannesmann's previously announced plans. Vodafone AirTouch will also pursue the repositioning of Mannesmann's tubes businesses.

## **Plans for Mannesmann's Employees**

Vodafone AirTouch has committed that there will be no redundancies as a result of the offer. Furthermore, Vodafone AirTouch is committed to respecting and retaining the rights of employees, unions and workers' councils of Mannesmann, maintaining a co-determined supervisory board, including the employee representatives, of Mannesmann and fully safeguarding the existing employment rights, including pension rights, of management and employees of Mannesmann.

## **Removal of 5% Voting Restriction**

In order to accelerate the successful integration of the two businesses, Mannesmann has agreed to convene an extraordinary shareholders' meeting to remove the 5% voting restriction in its articles of association as soon as reasonably practicable after the revised offer becomes or is declared unconditional. Mannesmann will cooperate fully with Vodafone AirTouch in the demerger of Orange. The parties have also agreed to cooperate in obtaining all necessary regulatory approvals.

## **Conditions to the Offer**

The offer was stated to be subject to certain conditions:

- The valid tender of that number of Mannesmann shares and ADSs that, together with Mannesmann shares and ADSs otherwise owned by Vodafone AirTouch or its affiliates, constitute more than 50% of the voting capital stock of Mannesmann outstanding at the close of the offer period;
- Approval by Vodafone AirTouch shareholders of all resolutions necessary to implement the offer;
- Admission to the Official List of the London Stock Exchange of the Vodafone AirTouch ordinary shares to be issued pursuant to the offer;
- Vodafone AirTouch and Orange (or their affiliates) being permitted to pre-qualify for and, if successful in the auction, being granted third-generation U.K. wireless spectrum licenses on terms reasonably satisfactory to Vodafone AirTouch; and
- The expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act.

The Hart-Scott-Rodino waiting period was terminated on January 14, 2000. On January 18, 2000, Vodafone AirTouch announced that the offer will no longer be conditional on confirmation by the U.K. Secretary of State for Trade and Industry of the entitlement of Vodafone AirTouch and Orange, or their affiliates, to bid for 3G spectrum in the United Kingdom. At an extraordinary general meeting held on January 24, 2000, Vodafone AirTouch shareholders approved Vodafone AirTouch's offer for Mannesmann.

## **Grounds for Withdrawing the Offer**

In accordance with the German Takeover Code, Vodafone AirTouch reserves the right to withdraw the offer and not purchase Mannesmann shares and ADSs tendered in the offer if any or all of the conditions to the offer have not been satisfied upon expiration of the offer period or if Mannesmann engages in certain actions which may frustrate the offer.

**Expiration Date**

The offer will expire at 6 p.m. New York City time, on February 17, 2000, unless extended.

**Accounting Treatment**

Vodafone AirTouch will account for the offer as an acquisition under generally accepted accounting principles in the United Kingdom and as a purchase for purposes of generally accepted accounting principles in the United States.

**Regulatory Approvals**

The acquisition of Mannesmann securities by Vodafone AirTouch pursuant to the offer is subject to the approval or consent of various regulatory agencies.

In connection with the offer, Vodafone AirTouch is required to notify the European Commission of its offer, and will not be able to vote any Mannesmann securities it acquires or to exercise control over Mannesmann until it obtains European Commission approval of the Mannesmann transaction. Vodafone AirTouch notified the European Commission of the offer on January 14, 2000.

Vodafone AirTouch believes, but does not have sufficient information to determine, that Mannesmann and Orange may be parties to concession agreements, licenses and other arrangements that contain change of control provisions that will be triggered as a result of Vodafone AirTouch acquiring Mannesmann. Vodafone AirTouch is not yet in a position to assess the consequences of the trigger of these change of control provisions, if any.

Specific approvals from other regulatory authorities are not a condition to the offer; nevertheless, conditions imposed by such authorities could be material.

**Purchase of Mannesmann Shares by Vodafone AirTouch Outside of the Offer**

Vodafone AirTouch has obtained exemptive relief from the SEC permitting it to purchase Mannesmann shares outside but during the offer subject to certain conditions.

### III. EXCERPTS FROM PUBLICLY AVAILABLE MANNESMANN DOCUMENTS

#### A. INTRODUCTION

This appendix sets forth certain financial information with respect to Mannesmann, excerpted from the following publicly-available Mannesmann documents:

- (i) Report to Shareholders: Mannesmann in the First Nine Months of 1999;
- (ii) Report to Shareholders: Mannesmann in the First Half of 1999;
- (iii) Mannesmann Annual Report to Shareholders 1998; and
- (iv) Mannesmann Annual Report to Shareholders 1997.

Mannesmann prepares its financial statements under German accounting standards as prescribed by local law which differs in certain significant respects from U.S. GAAP. These differences, as they relate to Mannesmann, cannot be quantified due to the degree of disclosure provided in publicly available financial information. For a summary of certain significant differences between German accounting standards as prescribed by law and U.S. GAAP see Appendix B.

In connection with the preparation of a registration statement relating to its offer for Mannesmann under the Securities Act, Vodafone AirTouch requested that Mannesmann and its independent public accountants provide to Vodafone AirTouch all material information required to be included in such registration statement. Mannesmann, on its own behalf and on behalf of its independent public accountants, responded in writing, denying Vodafone AirTouch's request for information. As a result, Vodafone AirTouch is not able to present any reconciliation to U.S. GAAP of figures prepared in accordance with German accounting standards as prescribed by local law. Such differences may be material.

**B. REPORT TO SHAREHOLDERS**  
**MANNESMANN IN THE FIRST NINE MONTHS 1999**

**Further expansion in Telecommunications**

- Telecommunications and Automotive drive the sales increase
  - Telecommunications up by 73%
  - Automotive increase by 5%
- Telecommunications accounts for 96% of the total investments
- Separation process on track
- Refinancing of the acquisition of the majority stakes in Omnitel and Infostrada completed

*Mannesmann — working for your future*

## Continued growth

From January to September of 1999, Mannesmann significantly increased its sales by 16% to Euro 16.1 bn. This was mainly due to the continued strong growth in Telecommunications helped by the consolidation (as of July 1999) of the two successful Italian companies Omnitel and Infostrada. In total, sales at Mannesmann Telecommunications rose by 73%. Sales in Engineering were at last year's level. Automotive boosted its sales by 5%. Due to market conditions, the Tubes sector experienced decreasing sales. The pace of expansion in Telecommunications resulted in very large investments for the Group of Euro 15 bn, especially by increasing Mannesmann's stakes in Arcor, Omnitel and Infostrada and also through the acquisition of o.tel.o. At 130,800 at the end of September 1999, the number of employees at Mannesmann was 11% higher than last year. This increase is due entirely to the expansion of the scope of consolidation.

<u>Mannesmann</u>	<u>Jan.-Sept.</u> <u>1999</u>	<u>Jan.-Sept.</u> <u>1998</u>	<u>Change</u>
	<u>Euro m</u>	<u>Euro m</u>	<u>%</u>
Sales .....	16,138	13,888	+16
Engineering .....	4,701	4,688	0
Automotive .....	4,241	4,055	+5
Telecommunications .....	5,761	3,322	+73
Tubes .....	1,444	1,865	-23
Employees (30.09.) .....	130,832	117,509	+11
Investments .....	15,009	2,389	

In the nine months to end September 1999, Mannesmann sales increased by 16% to Euro 16.1 bn as compared to last year. Once again, this development was mainly due to the strong growth in Telecommunications. With the consolidation of Omnitel and Infostrada (as of July), this sector which has the strongest growth within the Group also drove Mannesmann's business development outside Germany (+15%) for the first time. Up to September 1999, Mannesmann's acquisitions and divestitures for further portfolio optimisation contributed almost Euro 1.5 bn (approx. 10 percentage points) to the sales increase.

In the nine months to September 1999, Mannesmann invested about Euro 15 bn (previous year period: Euro 2.4 bn). This extremely high level of investment was for the most part due to Telecommunications and in particular the expansion in the European mobile and fixed-line activities. At Euro 14.3 bn, Telecommunications share of Mannesmann's overall investment volume amounted to 96%.

In the Automotive sector, the lower investment volume is a reflection of the fact that last year's figures included special additions (i.e. the acquisitions of Car Communication at Mannesmann VDO and Aralmex at Mannesmann Sachs).

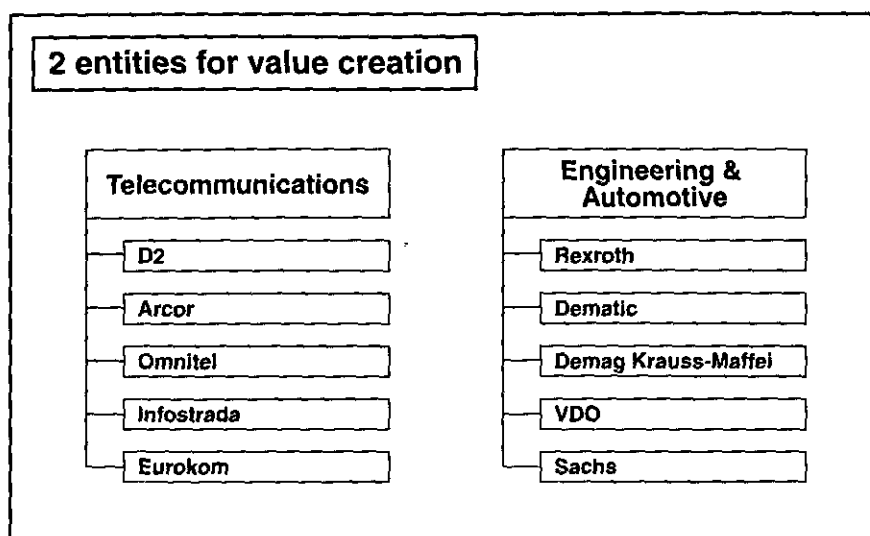
At 130,800 at the end of September 1999, the number of employees at Mannesmann was 11% higher than last year. This increase is due entirely to the expansion of the scope of consolidation. As a result, more than 20% of the Group's employees now work in the Telecommunications sector. With the consolidation of Omnitel and Infostrada, the number of employees working outside of Germany also increased significantly. Their share amounted to 43%.

## Special Events

In September 1999, Mannesmann announced its intention to regroup its Engineering & Automotive sectors into a new stock corporation. Mannesmann confirms to be on track with the decision process regarding the separation of Telecommunications on the one hand and



Engineering & Automotive on the other hand. Mannesmann will use a tax-effective concept, indicated upon announcement in September.



By issuing a Euro 2.5 bn Eurobond in August 1999 and a convertible bond for Euro 2.3 bn in October 1999, Mannesmann concluded the refinancing of its short-term bank liabilities, which were contracted for financing the successful acquisition of the majority stakes in the Italian telecommunications companies Omnitel and Infostrada. Furthermore, Mannesmann issued a commercial paper programme worth Euro 2 bn in August 1999, which will provide the Group with additional flexibility with regard to optimising the financing structure.

By acquiring the majority stake in Omnitel and Infostrada, Mannesmann has further developed its European identity. The Mannesmann shares were subsequently listed on the Milan stock exchange on September 15, 1999.

### Engineering

At Euro 5 bn, **order intake** in the Engineering sector was 3% below last year's level. While the serial business was on the decline, long-term projects were slightly up by 3%.

At **Mannesmann Rexroth**, the business unit Lohmann + Stolterfoht experienced an 8% increase. Order intake at Rexroth Hydraulics (-7%) was affected mainly by the restrained business activity in the German engineering industry. The decline at Rexroth Mecman (-11%) was partly due to the sale of the Transport Technology unit, while Rexroth Star (-5%) suffered from sluggish demand in Europe and North America.

<u>Orders Received</u>	<u>Jan.-Sept. 1999</u>	<u>Jan.-Sept. 1998</u>	<u>Change</u>
	Euro m	Euro m	%
<b>Engineering</b>			
Serial business .....	3,753	3,949	-5
Long-term projects .....	1,219	1,183	+3
<i>Rexroth</i> .....	1,916	1,984	-3
<i>Dematic</i> .....	1,856	1,689	+10
<i>Demag Krauss-Maffei</i> .....	1,240	1,480	-16
./ Intercompany sales .....	-40	-21	+90
Total .....	<u>4,972</u>	<u>5,132</u>	<u>-3</u>

Adjusted for the addition of the new companies — Postal Automation Systems (France), Colby Packaging (Australia), Donati Sollevamenti (Italy), Slany (Czech Republic) and Protomark (United States) — order intake at **Mannesmann Dematic** was 3% above last year's value. This development was mainly due to a 12% growth in Systems on a comparable basis. Order intake in Cranes and Handling Equipment was at about the same level as last year. Components experienced a decline of 5%, while Mobile Cranes undercut last year's very high order intake value by 7%.

As part of portfolio restructuring measures, **Mannesmann Demag Krauss-Maffei** has sold the majority of shares in the Automotive Technology business unit to Siemens during the period under review. Furthermore, the companies Dorr-Oliver (process technology) and First Light Technology as well as the linear motor business were sold. Adjusted for the business activities that were sold, order intake at Mannesmann Demag Krauss-Maffei was 3% below last year's level. This was mainly due to a large worldwide decline in Compressors (-37%). Mannesmann Plastics Machinery (-3%) showed slight decreases, while Process Engineering — without Dorr-Oliver — experienced a 6% increase.

**Sales** in Engineering amounted to Euro 4,701 m. Due to the 2% decline in the domestic companies, sales at **Mannesmann Rexroth** did not quite reach the previous year's level, despite the stable business situation of the foreign companies. While Rexroth Indramat (+14%) and Lohmann + Stolterfoht (+4%) recorded increases, Rexroth Mecman (-6%), Rexroth Hydraulics and Rexroth Star (-4% respectively) as well as Brueninghaus Hydromatik (-1%) experienced declining sales.

Compared to the same period last year, **Mannesmann Dematic** increased its sales by 17% to approx. Euro 1.5 bn. 9 percentage points of this increase have been attributed to the inclusion of the new companies. On a comparable basis, sales of Systems and Mobile Cranes were up 16% each. Components as well as Cranes and Handling Equipment showed declines of 5% and 4% respectively.

Adjusted for the sold business activities, sales at **Mannesmann Demag Krauss-Maffei** were 2% below the same period last year. The decline in Compressors (-19%) affected all locations and product groups. Sales at Mannesmann Plastics Machinery were down 2%. Some of these declines were compensated in part by larger sales in Process Technology, which experienced a 39% sales increase — without Dorr-Oliver — and residual accounts in Metallurgy.

Compared to the same period last year, Engineering investments were up 16%. At Mannesmann Demag Krauss-Maffei, they were for the most part attributable to manufacturing facilities of Mannesmann Plastics Machinery.

At the end of September 1999, the Engineering sector had 45,226 **employees**. The increase in the number of employees at Mannesmann Dematic through the inclusion of the new companies as well as new hires in the domestic and international companies was offset by declines at Mannesmann Rexroth and Mannesmann Demag Krauss-Maffei due to the sale of several business

units. The increase in **personnel expenditure** in the Engineering sector resulted from the large personnel growth at Mannesmann Dematic.

### Automotive

Due to the 8% growth at **Mannesmann VDO**, Automotive sales increased to Euro 2.6 bn, mainly as a result of continued high demand for automobiles and the expansion in the scope of consolidation. Almost 4 percentage points of this increase are due to the inclusion of the new companies, namely Car Audio Electronics (China), Lucas Kienzle (Great Britain) and VDO Halla (South Korea). Cockpit Systems (+25%) and Fuel Systems (+12%) were mainly responsible for the sales increase. Only Information Systems Commercial Vehicles (-5%) did not reach last year's level because of decreases in France and Brazil.

Sales at **Mannesmann Sachs** were slightly below last year's level. The decline resulting from the sale of Sintermetal SA (Spain) could not be fully compensated by the inclusion of Sachs Automotive (Mexico). Strong increases in Torque Converters (+45%), 24 percentage points of which were due to the new Mexican activities, and the increase in Rubber Metal Parts (+7%) were offset by decreases in the original equipment business for shock absorbers (-1.5%) and clutches (-11%).

The significant decrease in **investment volume** to Euro 276 m is due to the special effect of the acquisition of Philips Car Systems, now VDO Car Communication, during the previous year.

Mannesmann VDO was mainly responsible for increase in **personnel** in Automotive. About 70% of this personnel increase was due to the inclusion of the new companies in China, Great Britain and South Korea. As a result, the **personnel expenditure** in the Automotive sector increased as well.

<b>Sales</b>	<b>Jan.-Sept. 1999</b>	<b>Jan.-Sept. 1998</b>	<b>Change</b>
<b>Mannesmann</b>	<b>Euro m</b>	<b>Euro m</b>	<b>%</b>
<i>Rexroth</i> .....	1,887	1,915	-1
<i>Dematic</i> .....	1,479	1,267	17
<i>Demag Krauss-Maffei</i> .....	1,377	1,560	-12
Engineering* .....	4,701	4,688	0
<i>VDO</i> .....	2,637	2,435	+8
<i>Sachs</i> .....	1,608	1,624	-1
Automotive* .....	4,241	4,055	+5
<i>Mobilfunk</i> .....	3,628	2,702	+34
<i>Arcor</i> .....	925	640	+45
<i>Omnitel**</i> .....	1,037		
<i>Infostrada**</i> .....	180		
<i>Eurokom</i> .....	15	2	
Telecommunications* .....	5,761	3,322	+73
<i>Tubes</i> .....	1,444	1,865	-23
Other companies .....	127	105	+21
Total .....	16,274	14,035	+16
./. Intercompany sales between sectors .....	136	147	-7
Mannesmann .....	16,138	13,888	+16
Domestic sales .....	7,821	6,687	+17
Foreign sales .....	8,317	7,201	+15

\* sectors consolidated

\*\* consolidated for the first time

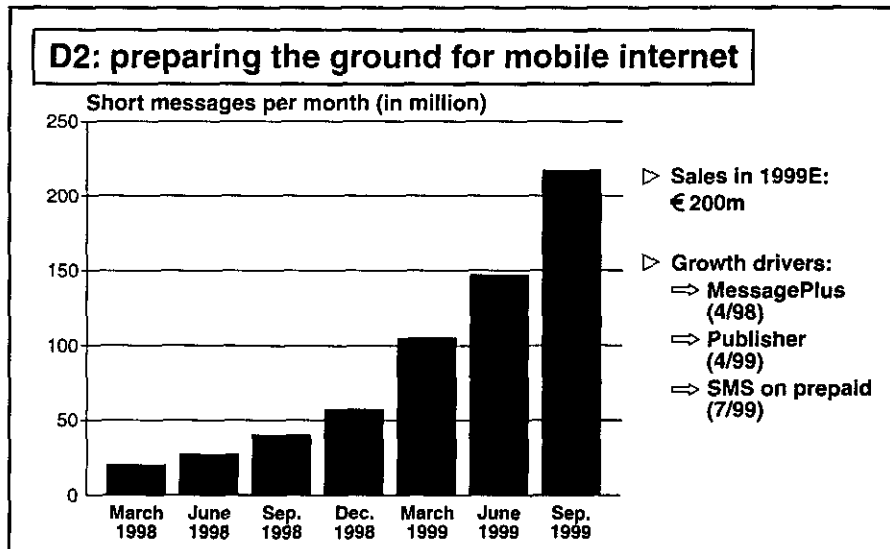
## Telecommunications

In Telecommunications sales were up by 73% in the first nine months of 1999. Adjusted for the first-time consolidation of o.tel.o, Omnitel and Infostrada, underlying sales rose by 31%.

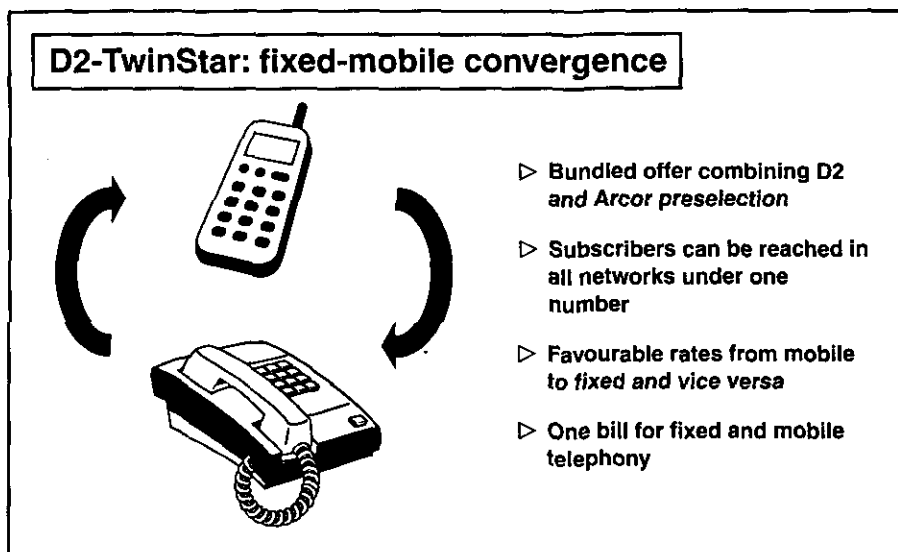
**Mannesmann Mobilfunk** increased its sales by 34% to about Euro 3.6 bn as compared to the previous year. This puts average monthly total sales (incl. terminals business) at approx. Euro 58 per subscriber. At the end of September 1999, Mannesmann Mobilfunk's D2-network had more than 8.1 million subscribers. With an average monthly net growth of 245,000 subscribers since the beginning of the year, Mannesmann Mobilfunk experienced a 30% increase as compared to the same period last year. The churn rate (12-month average) amounted to approx. 13%.

With the targeted launch of new products and further tariff adjustments, Mannesmann Mobilfunk supported the strong growth of mobile telecommunications in Germany once more. At Internationale Funkausstellung (IFA) in August/September 1999, Mannesmann Mobilfunk launched further innovative products with D2-WAP, the access into the mobile internet, and D2-TwinStar, a product for the integration of mobile telecommunications and fixed-line networks.

For a rate of only Pfennigs 39 per minute 24 hours a day, D2-WAP offers a broad and qualified range of services and information. With the D2-portal, D2-subscribers can access the services of leading media brands, such as Yahoo!, Handelsblatt Interactive as well as news broadcasts and receive the latest news on their mobile display. D2-WAP subscribers can e.g. access real-time traffic information and also manage their stock portfolio. Since Mannesmann Mobilfunk has created its WAP service as an open technical platform, which does not only give access to contents provided by Mannesmann Mobilfunk, D2-subscribers can also directly access WAP pages on the internet.



With D2-TwinStar, D2-subscribers can call between their fixed-line connection and their D2-mobile for Pfennigs 39 per minute (in the D2-BestCitySpecial tariff local calls from D2-mobile to the own fixed-line connection just cost Pfennigs 29 per minute) 24 hours a day as of September 1, 1999. As a result of the D2-Arcor-preselection contract, calls originating from the fixed-line network are charged at the low D2-TwinStar fixed-line network rate. Thereby, customers receive only one single D2-bill. With a special service, D2-TwinStar subscribers can be reached under a single telephone number on both their mobile and fixed telephone lines. In addition, calls can be transferred to three individually specified lines. If the subscriber is unavailable, the call is transferred to the D2-mailbox.



Since August 1, 1999, the tariffs D2-Classic, D2-ClassicPremium and D2-Data have also been eligible for the options D2-BestCitySpecial or D2-BestWeekend. With the more favourable D2-CallYa rates, Mannesmann Mobilfunk is boosting the strong growth in the prepaid market. Moreover, since October D2-CallYa customers using D2-BestFriend have been able to place calls to one specified telephone number 24 hours a day for Pfennigs 39 per minute. The current development of sent messages via SMS (Short Message Service) confirms the large growth potential of mobile data communication. In September 1999, D2-subscribers sent 220 million messages. This corresponds to an increase of about 270% since the end of 1998. Regarding the strong growth in data volume, Mannesmann Mobilfunk successfully bid on October 28, 1999 for an additional frequency spectrum (2 × 5.4 MHz in the 1800 frequency band) for a total purchase price of Euro 110 m in order to increase the capacity for voice and especially data communication in the D2-network more efficiently.

With regard to further network expansion and quality improvement, **investments** at Mannesmann Mobilfunk amounted to about Euro 470 m (+54%).

As a result of strong market growth, Mannesmann Mobilfunk increased its **number of employees** to 7,686 (+10%) specifically in customer service areas.

Compared to the same period last year, **Mannesmann Arcor** increased its **sales** by 45% to Euro 925 m. The subsidiary o.tel.o. and its participations, which were consolidated as of June 1, 1999, contributed about Euro 185 m (29 percentage points) to the sales increase. Furthermore, the strong growth was supported by business customers through the expansion of the product portfolio and a stronger sales force. In September, the call volume of Mannesmann Arcor reached up to 42 million minutes. Mannesmann Arcor is the first nation-wide competitor to offer — by the end of 1999 — a complete package in 10 large cities with Arcor-ISDN for DM 39.90 per month, including all additional ISDN services and free internet access. With this monthly rate, Arcor is already 25% more cost-effective than a comparable product of Deutsche Telekom before the first call is even made. Rates for local calls start at Pfennigs 3 per minute, rates for domestic calls at Pfennigs 6 per minute. For the year 2000 another 30 cities will be integrated.

On October 29, 1999, Mannesmann Arcor agreed on the acquisition of a 64.9% stake in ISIS Multimedia Net GmbH. The transaction is still subject to approval through the cartel authorities. With this planned acquisition, Mannesmann Arcor will further expand the telecommunications network with regard to local infrastructure and significantly strengthen its market position in the larger Rhine-Ruhr area.

As of October 1, 1999, Mannesmann Arcor has cut the tariffs for calls into the D2- and D1-networks once again by up to 51%. Furthermore, with the tariff plus mobil Arcor offers its customers an even more attractive rate for two specified phone numbers at Pfennigs 39 per minute 24 hours a day.

In the internet market, the Arcor Group is successfully positioned with three brands — Arcor, o.tel.o and germany.net — and thus can address different customer segments. For business customers, Arcor offers complete solutions for their internet website — from connection to design — while o.tel.o mainly concentrates on private customers. germany.net focuses on entertainment and community areas. Arcor customers benefit from the interconnection of existing networks, the creation of a joint technical platform for internet services and the joint development of new services. Since October 1, 1999, germany.net has offered a new on-line tariff starting at Pfennigs 2.9 per minute without any additional monthly fee or connection charge. As of December 1, 1999, Mannesmann Arcor will lower its on-line tariffs. With Internet by Call, basic, minutes or sunny, customers can choose from four different tariff options based on user profile. With 180 and 750 free minutes respectively, the tariff packages basic and minutes offer optimal service for new or existing on-line users, who spend about 10 to 20 hours per month on-line. At Pfennigs 2.9 per minute from 9:00 p.m. to 9:00 a.m., Pfennigs 3.9 per minute during the day and a basic rate of DM 9.90, the sunny tariff offers the lowest per-minute price for Arcor-Online. With this tariff, prices for internet surfing are 24 hours a day more favourable than a local call. The three tariff packages basic, minutes and sunny include the accepted online service: A single nation-wide access number, access to internet newsgroups, a mailbox with two e-mail addresses and 10 MB memory for a personal homepage.

Besides the further expansion in network capacity, the main part of Mannesmann Arcor's **investments** stem from the stake increase in Arcor and the acquisition of o.tel.o.

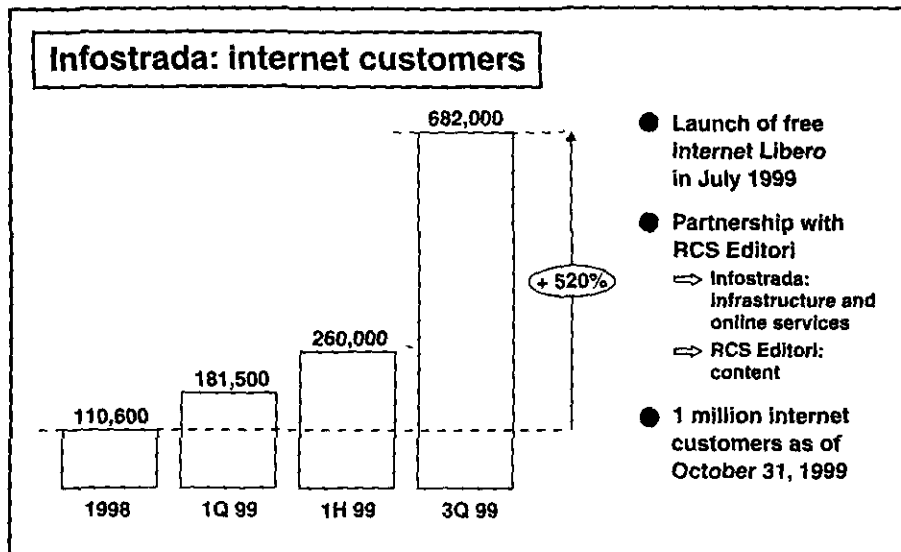
The increase in the **number of employees** (+34%) and personnel expenditure is mostly due to the inclusion of o.tel.o.

Compared to the same period last year, **Omnitel** increased its **sales** in the first three quarters of 1999 by 74% to Euro 2.6 bn. Since the beginning of the year, the number of customers rose by 2.7 million (+44%) to about 8.9 million. This underlines Omnitel's strong performance in the Italian market and its position as the second largest mobile telecommunications provider in Europe.

The new internet products Omnitel 2000 and [www.spazioomnitel.it](http://www.spazioomnitel.it) (virtual store) had an excellent start. Omnitel 2000 is the first multi-access internet portal and already offers in its initial phase more than 150 different services, e.g. business news and traffic reports. **Investments** worth about Euro 7.6 bn mainly concern the addition of tangible and intangible assets (incl. goodwill) resulting from the first-time consolidation of Omnitel. Regular investments amounted to Euro 636 m at the end of September 1999.

Since the beginning of the year, the **number of employees** has increased by 34% to 7,359.

Since the end of 1998, **Infostrada** has increased its **sales** by about 260% to Euro 503 m. Since the beginning of this year, the number of voice subscribers rose by 144% to about 2.2 million. Furthermore, being one of the largest internet providers in the Italian market, Infostrada strengthened its position with regard to number of subscribers and traffic and increased the total number of internet customers to about 682,000. A significant portion thereof came from the free internet service Libero, which was launched in mid-July of 1999 and experienced a subscriber boom with about 430,000 subscribers at the end of September. In September of 1999, Infostrada signed a memorandum with Italy's leading press publishing company RCS Editori about the development of internet strategies. In the first phase, it is planned to integrate the network infrastructure as well as Infostrada's online services and the contents of RCS Editori. In the second phase a joint venture will be under consideration that aims to extend existing and develop new services.



**Investments** worth Euro 2.7 bn mainly concern the addition of tangible and intangible assets (incl. goodwill) resulting from the first-time consolidation of Infostrada. At the end of September 1999, the company's regular investments were Euro 186 m.

During the current year, the **number of employees** increased to 2,928.

The international activities managed by **Mannesmann Eurokom** continued their positive development.

The number of subscribers at the French mobile telecommunications company **SFR** has increased to about 5.8 million by the end of September. The fixed-line network operators **Cegetel 7** and **Cegetel Entreprises** raised the number of activated telephone lines to about 1.3 million.

At the end of September, **tele.ring**, the Austrian fixed-line network operator, had 58,000 registered subscribers. In August 1999 the internet call-by-call service 1012surfnet was launched. The build-up of the GSM 1,800 mobile telecommunications network is proceeding according to schedule. The commercial start of operations is planned for the first half of 2000.

Starting in December 1999, **ipulsys** — formerly euro.map — will offer international IP-based solutions for voice and data communication using the infrastructure of the domestic Mannesmann companies. Innovative solutions will be developed through collaboration of the individual companies and sold by partners in the respective countries. Furthermore, the international services offered should also be available to other ISPs (Internet Service Provider), national and international companies.

During the first half of 1999, about Euro 0.8 bn of Eurokom **investments** were devoted to the acquisition of shares in Omnistrada (OliMan). For this period of time, this interest was still treated according to the equity method.

Increases in the **number of employees** and **personnel expenditure** is mainly due to the development of tele.ring.

<u>Employees</u>	<u>30 Sept.</u> <u>1999</u>	<u>30 Sept.</u> <u>1998</u>	<u>Change</u> <u>%</u>
<i>Rexroth</i> .....	20,176	21,294	-5
<i>Dematic</i> .....	14,845	13,144	+13
<i>Demag Krauss-Maffei</i> .....	10,205	11,370	-10
Engineering .....	45,226	45,808	-1
<i>VDO</i> .....	25,055	23,458	+7
<i>Sachs</i> .....	20,021	19,952	0
Automotive .....	45,076	43,410	+4
<i>Mobilfunk</i> .....	7,686	6,960	+10
<i>Arcor</i> .....	8,727	6,495	+34
<i>Omnitel*</i> .....	7,359		
<i>Infostrada*</i> .....	2,928		
<i>Eurokom</i> .....	692	260	+166
Telecommunications .....	27,392	13,715	+100
Tubes .....	11,423	12,963	-12
Other companies .....	1,715	1,613	+6
Mannesmann .....	130,832	117,509	+11
Domestic companies .....	74,629	72,741	+3
Foreign companies .....	56,203	44,768	+26

\* consolidated for the first time

### **Tubes**

In the Tubes sector, almost all product areas experienced a decline in **sales**. In particular Mannesmann Brazil (-44%), Präzisrohr (-25%), Mannesmann Pipe & Steel Corporation (-21%) as well as the joint venture Vallourec & Mannesmann Tubes (-36%) were strongly affected by this development. Only Pressfitting increased its sales (+2%) as compared to last year.

Effective as of October 1, 1999, Mannesmannröhren-Werke AG sold Mannesmann Pressfitting GmbH and Mannesmann Cylinder Systems GmbH to the investment group Bessemer.

Adjustments both domestically and abroad were responsible for a decline in the **number of employees** and in **personnel expenditure**.



<u>Investments</u>	Jan.-Sept.	Jan.-Sept.	Change
	1999	1998	
	Euro m	Euro m	%
<i>Rexroth</i> .....	71	134	-47
<i>Dematic</i> .....	122	64	+91
<i>Demag Krauss-Maffei</i> .....	115	68	+69
Engineering .....	308	266	+16
<i>VDO</i> .....	164	607	-73
<i>Sachs</i> .....	112	177	-37
Automotive .....	276	784	-65
<i>Mobilfunk</i> .....	472	307	+54
<i>Arcor</i> .....	2,439	268	
<i>Omnitel*</i> .....	7,577		
<i>Infostrada*</i> .....	2,732		
<i>Eurokom</i> .....	1,116	588	+90
Telecommunications .....	14,336	1,163	
Tubes .....	40	108	-63
Other companies .....	49	68	-28
Mannesmann .....	15,009	2,389	

\* consolidated for the first time

<u>Sales</u>	<u>Jan.-June</u>	<u>Jan.-June</u>	<u>Change</u>
	<u>1999</u>	<u>1998</u>	
	m Euro	m Euro	%
<i>Rexroth</i> .....	1,234	1,284	-4
<i>Dematic</i> .....	959	875	+10
<i>Demag Krauss-Maffei</i> .....	926	948	-2
Engineering* .....	3,085	3,071	0
<i>VDO</i> .....	1,788	1,641	+9
<i>Sachs</i> .....	1,088	1,109	-2
Automotive* .....	2,873	2,747	+5
<i>D2</i> .....	2,280	1,699	+34
<i>Arcor</i> .....	541	411	+32
<i>Eurokom</i> .....	6	1	+500
Telecommunications* .....	2,809	2,099	+34
Tubes & Trading .....	978	1,238	-21
Other companies .....	84	68	+24
Total .....	9,829	9,223	+7
./ Intercompany sales between sectors .....	88	98	-10
Mannesmann .....	9,741	9,125	+7
Domestic sales .....	5,029	4,361	+15
Foreign sales .....	4,712	4,764	-1

\* Sectors consolidated

**Engineering** sales reached last year's level of Euro 3.1 bn.

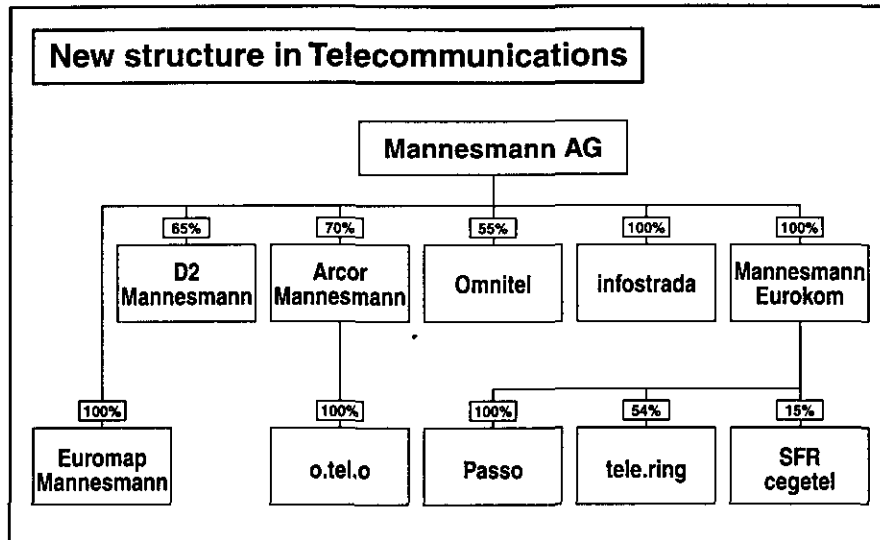
The sales decline at **Mannesmann Rexroth** was particularly strong at the foreign companies (-5%). Rexroth Indramat increased sales by 13%, while all other business units were unable to achieve the sales volume of the first six months of 1998. Rexroth Hydraulics (-7%), Lohmann + Stolterfoht (-5%) and Rexroth Star (-4%) posted the largest declines.

Adjusted for the first time consolidation of the new companies Postal Automation Systems (France), Colby Packaging (Australia), Donati Sollevamenti (Italy), Slany (Czech Republic) and Protomark (United States), sales at Mannesmann Dematic rose by 4%. On a comparable basis, Systems increased its sales volume by 6% and Mobile Cranes improved by 11%, while Cranes and Handling Equipment were only slightly above last year's level.

Adjusted for the deconsolidated business units, **Mannesmann Demag Krauss-Maffei** exceeded last year's sales by 4%. Sales at Mannesmann Plastics Machinery and Compressors decreased by 1% and 7% respectively. Transport Technology, in which Mannesmann now only holds a 25% interest, and the companies now sold, Dorr-Oliver and First Light Technology, are no longer included in the figures for the first half of 1999.

VDO was responsible for the sales increase (+5%) in the **Automotive** sector. During the first six months of 1999, **Mannesmann VDO** benefitted from the continued positive development in the automotive markets. Adjusted for the consolidation of the new companies Car Audio Electronics (China), Lucas Kienzle (Great Britain) and VDO Halla (Korea), sales increased by 5%. With the exception of Information Systems Commercial Vehicles (-6%), all business units exceeded last year's figures. Cockpit Systems (26%) and Fuel Systems (15%) showed the strongest growth.

Sales at **Mannesmann Sachs** were slightly below last year's level (-2%). Increases at Torque Converters (+35%) and Rubber Metal Parts (+5%) were offset by decreases in the original equipment business for shock absorbers (-6%) and clutches (-16%).

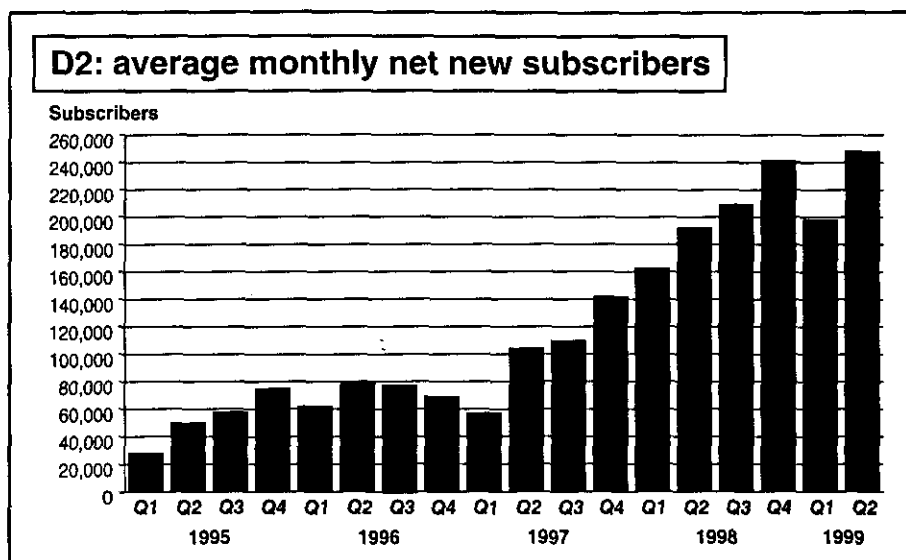


In Telecommunications, Mannesmann D2 increased its sales by 34% to about Euro 2.3 bn compared to the previous year. This puts average monthly revenues (incl. terminals business) at about Euro 58 per subscriber. Until the end of June 1999, Mannesmann D2 had grown its subscriber base to approx. 7.3 million. During the first six months of 1999, Mannesmann D2 achieved an average net growth of about 220,000 subscribers per month, which represents a 24% increase over the same period last year. The churn rate (12-month average) amounted to approx. 12%.

In the second quarter of 1999, D2 subscribers further benefitted from tariff decreases. On April 1, 1999 and on May 1, 1999, rates for the prepaid tariff D2-CallYa as well as those for the high-usage tariffs D2-ClassicPremium and D2-Classic were reduced significantly. In addition, as of May 1999, tariffs for D2-Fun customers became more attractive. Rates for the tariff option D2-BestCitySpecial were reduced to DM 0,29 around the clock. With the introduction of the new tariff option D2-BestWeekend, D2-customers pay again only DM 0,29 around the clock for domestic calls at weekends and public holidays.

The explosive growth in messages sent with the SMS (Short Message Service) continued in the first six months of 1999. During the month of June, D2 subscribers sent about 145 million messages. Since the end of 1998, the message volume more than doubled (+140%).

The mobile internet access D2-WAP, which was presented at this year's CeBIT, is planned to be available for D2-customers from September 1999 onwards. For this product, Mannesmann D2 has already won attractive co-operation partners such as Yahoo!, the leading internet search engine in the German-speaking World Wide Web, and important media companies like the business newspaper Handelsblatt. In the first half-year 1999, international roaming was available in 84 countries world-wide.



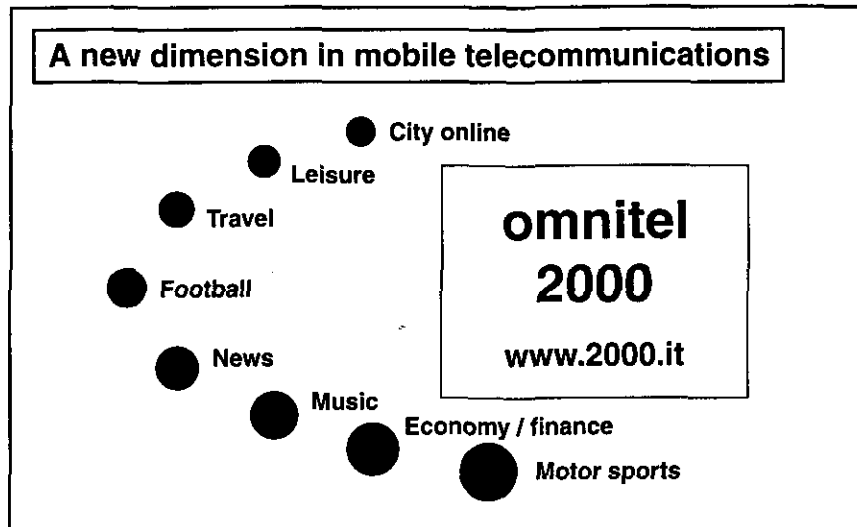
**Mannesmann Arcor** significantly strengthened its market position as the leading private competitor by acquiring o.tel.o's fixed-line operation. Sales increased by 32% to € 540 m. In June 1999, the call volume of Arcor and o.tel.o reached about 37 million minutes per working day.

With its new tariff package Arcor sunny, Mannesmann Arcor lowered its telephone rates as of August 1, 1999. For a monthly fee of DM 9.90, prices for long-distance calls are cut by up to 40%. At DM 0.39 per minute after 6 p.m., telephone calls into the D2-network will be especially favourable. As of July 15, 1999, Arcor also cut its rates for Arcor-Call by Call. During leisure time, for example, a domestic long-distance call will only cost DM 0.08 per minute (-16%). Mannesmann o.tel.o, which will concentrate on expanding the private customer business in the future, also significantly reduced its domestic and international rates. In the future, the 100% Arcor subsidiary germany.net will be responsible for the development of online services. With more than 900,000 users, Arcor currently handles a strongly increasing internet volume (e.g. Arcor — Internet by Call, o.tel.o online 0 10 11, Free Internet).

In July 1999, Mannesmann Arcor and Deutsche Bahn agrees on a co-operation to build and operate a digital mobile phone network for the railways operations in Germany. The total volume of the contract is € 1.5 bn. Mannesmann Arcor will be the general contractor for the project and is responsible for the planning and building of the GSM-R Network (Global System for Mobile Communications-Rail). Once again, this project shows the high competence of Arcor as leading full range provider within the telecommunications market.

**Mannesmann Eurokom** continued to focus on the development of new markets and market segments in European mobile and fixed-line telecommunications.

Mannesmann acquired Olivetti's stake in OliMan for a purchase price of about Euro 7.6 bn. Thereby, Mannesmann increased its interest in the Italian mobile telecommunications company Omnitel Pronto Italia (OPI) to about 55% and its interest in the Italian fixed-line operator Infostrada to 100%. Both companies will be integrated in the consolidated financial statements for the second half of 1999.



During the first six months of 1999, sales at **Omnitel Pronto Italia** almost doubled to Euro 1.6 bn. The EBITDA significantly improved to about Euro 670 m. At a penetration rate of 41%, the number of subscribers increased to about 7.9 million by the end of June. As in the first three months of the year, OPI's average market share of net customer growth stayed at 44% for the second quarter. The new internet portal Omnitel 2000 ([www.2000.it](http://www.2000.it)), which subscribers can access from a mobile telephone through WAP technology as well as via voice recognition and from a fixed-line telephone or the internet was very successfully launched in the Italian market. At first, more than 150 different services such as business news, travel and traffic services can be accessed in this way.

In the first six months of 1999, **Infostrada** boosted its sales to about Euro 324 m. By the end of June, the company already had about 2 million telephony customers and 260,000 Internet subscribers, which corresponds to increases of 126% and 135% respectively, since the beginning of the year. With the introduction of free Internet access with no basic fee, Infostrada has become a leader in the areas of web services and e-Commerce in the Italian market.

The French mobile telecommunications company SFR increased its subscriber base to about 5.2 million by the end of June. Cegetel 7 and Cegetel Entreprises raised the number of activated telephone lines to about 1.2 million.

tele.ring, which had been successful in the Austrian fixed-line business so far, began setting up a mobile network after receiving the fourth mobile telecommunications license for Austria. The start of operations is scheduled for the first half of 2000.

*In the **Tubes** sector, almost all business units experienced decreasing sales. The largest declines were reported by Mannesmann Brazil (-48%), the trading business of Mannesmann Pipe & Steel Corporation in the United States (-36%) and Vallourec & Mannesmann Tubes (-36%). Large-diameter tubes and pressfittings achieved last year's sales level.*

### **Employees**

At the end of June 1999, the Mannesmann Group had 120,570 employees. This 4% increase is mainly due to further changes in the scope of consolidation.

At Dematic, the 15% increase resulted mainly from the inclusion of several more foreign companies. The number of employees at Rexroth decreased by 2%. The 10% reduction at Demag-Krauss-Maffei was mainly caused by deconsolidations.

In Automotive, the increase in the number of employees (+5%) was due to new recruitment at VDO as well as the first-time consolidation of the companies Car Audio Electronics (China), VDO Halla (Korea), Lucas Kienzle (Great Britain) and Sachs Automotive (Mexico).

Telecommunications increased its figures mainly through an increase at Arcor (+43%) due to the acquisition of o.tel.o. The employees at Omnitel and Infostrada are not included in the half-year numbers.

In the Tubes sector, adjustments in Brazil led to a decrease of 15%.

The 6% increase in personnel expenditure was mainly caused by increases in the number of employees as well as increased wages and social security payments. Furthermore, exchange rate fluctuations were noticeable.

<u>Employees</u>	<u>30 June</u> <u>1999</u>	<u>30 June</u> <u>1998</u>	<u>Change</u> <u>%</u>
<i>Rexroth</i> .....	20,575	20,889	-2
<i>Dematic</i> .....	14,557	12,643	+15
<i>Demag Krauss-Maffei</i> .....	10,155	11,268	-10
Engineering .....	45,287	44,800	+1
<i>VDO</i> .....	24,681	22,977	+7
<i>Sachs</i> .....	20,259	19,937	+2
Automotive .....	44,940	42,914	+5
<i>D2</i> .....	7,369	6,476	+14
<i>Arcor</i> .....	9,218	6,467	+43
<i>Eurokom</i> .....	540	246	+120
Telecommunications .....	17,127	13,189	+30
Tubes & Trading .....	11,549	13,531	-15
Other companies .....	1,667	1,576	+6
Mannesmann .....	120,570	116,010	+4
Domestic companies .....	74,493	71,244	+5
Foreign companies .....	46,077	44,766	+3

### Investments

About Euro 13 bn (96%) of the very high investment volume for the first half of 1999 was used for the expansion of European telecommunications activities.

The largest individual sum resulted from raising Mannesmann's interest in Omnitel and Infostrada as well as the acquisition of CCIL (an addition of Euro 10.3 bn in fixed assets incl. goodwill). The significant increase at Arcor was especially caused by the inclusion of o.tel.o and the acquisition of stakes that were previously held by AT&T and Unisource.

The decrease in Automotive investments is due to the special effects of the acquisition of Philips Car Systems (VDO) and Aralmex (Sachs) during the previous year.

<u>Investments</u>	Jan.-June	Jan.-June	<u>Change</u>
	<u>1999</u>	<u>1998</u>	
	€m	€m	%
<i>Rexroth</i> .....	45	98	-54
<i>Dematic</i> .....	124	36	+244
<i>Demag Krauss-Maffei</i> .....	25	29	-14
Engineering .....	194	163	+19
<i>VDO</i> .....	132	556	-76
<i>Sachs</i> .....	85	134	-37
Automotive .....	217	690	-69
<i>D2</i> .....	251	182	+38
<i>Arcor</i> .....	2,122	202	
<i>Eurokom</i> .....	10,593	82	
Telecommunications .....	12,966	466	
Tubes & Trading .....	25	55	-55
Other companies .....	39	22	+77
<b>Mannesmann</b> .....	<b>13,441</b>	<b>1,396</b>	

**D. MANNESMANN**

**CONSOLIDATED FINANCIAL STATEMENTS  
1998**



## ANALYSIS OF KEY INDICATORS

### Return on gross operating assets

	Gross operating assets	Result from ordinary activities	Goodwill amortization	Net interest and miscellaneous	Gross operating result	Return on gross operating assets 1998	Return on gross operating assets 1997
	In € m	In € m	In € m	In € m	In € m	In %	In %
Rexroth .....	1,287	179	36	16	231	18.0	16.5
Dematic .....	925	94	24	12	130	14.1	11.5
Demag Krauss-Maffei .....	1,181	-44	56	11	23	1.9	-2.2
<b>Engineering</b> .....	<u>3,393</u>	<u>229</u>	<u>116</u>	<u>39</u>	<u>384</u>	<u>11.3</u>	<u>5.0</u>
VDO .....	1,709	69	50	33	152	8.9	10.6
Sachs .....	1,122	147	31	2	180	16.0	7.9
<b>Automotive</b> .....	<u>2,831</u>	<u>216</u>	<u>81</u>	<u>35</u>	<u>332</u>	<u>11.7</u>	<u>9.2</u>
Mobilfunk .....	1,981	1,296	47	-10	1,333	67.3	53.2
Arcor .....	1,415	-150	9	12	-129	-9.1	-21.5
Eurokom .....	1,963	-164	97	9	-58	-2.9	-10.3
<b>Telecommunications</b> .....	<u>5,359</u>	<u>982</u>	<u>153</u>	<u>11</u>	<u>1,146</u>	<u>21.4</u>	<u>20.0</u>
<b>Tubes</b> .....	<u>1,459</u>	<u>26</u>	<u>1</u>	<u>58</u>	<u>85</u>	<u>5.8</u>	<u>8.9</u>
<b>Other Companies</b> .....	<u>446</u>	<u>-68</u>	<u>—</u>	<u>27</u>	<u>-41</u>	<u>-9.2</u>	<u>-2.9</u>
	<u>13,488</u>	<u>1,385</u>	<u>351</u>	<u>170</u>	<u>1,906</u>	<u>14.1</u>	<u>10.3</u>

### Gross Operating Assets

	31/12/98	31/12/97
	In € m	In € m
Intangible and tangible assets .....	7,718	6,692
+Accumulated goodwill amortization .....	1,045	800
+Equity investments .....	1,391	1,145
+Stocks .....	3,137	6,179
+Trade debtors .....	2,792	2,878
+Other receivables and other assets .....	1,308	754
+Prepayments .....	42	54
-Payments received on account of orders .....	-1,033	-3,803
-Trade creditors .....	-1,452	-1,696
-Amounts owed to affiliated companies and companies linked by participating interest .....	-322	-204
<b>Gross operating assets</b> .....	<u>14,626</u>	<u>12,799</u>
<b>Annual average gross operating assets*</b> .....	<u>13,488</u>	

\* including pro rata adjustment from changes in the scope of consolidation in the amount of €-224 million

### Boosting value with the Value Increase Process

In recent years, we introduced you to our yardstick for measuring profitability, the return on gross operating assets (GOA), and to our system of value-oriented management which

we call the Value Increase Process (VIP). It is through these management tools that the dynamic portfolio optimization is consistently effected at Mannesmann. With the help of the

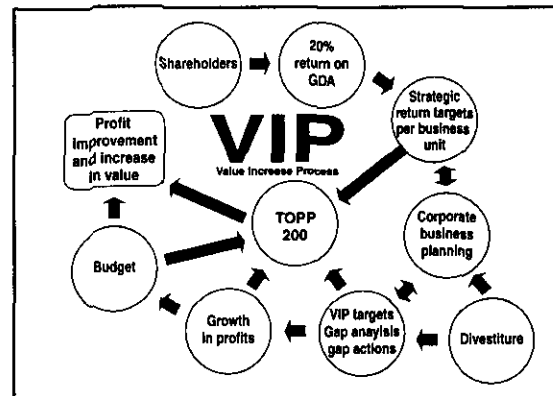
## ANALYSIS OF KEY INDICATORS — (Continued)

VIP, we put our funding to the most efficient use based on earnings potential; the return on GOA is the measure of the operational success on the basis of the Group's operating assets. Our strategic controlling system provides clarity internally for our management and externally for our reporting. By publishing target returns as well as planned and achieved progress in our results, we want to enable you to critically monitor our steps on the way to our target return on GOA of 20%. The 1998 return on GOA of 14.1% is an important step towards our milestone of 15% overall for the Group in the year 2000.

The development of the gross operating assets reflects the dynamism of Mannesmann's growth strategy. Between the end of 1995 and 1998 alone, our gross operating assets increased from €10.2 billion to €14.6 billion. Mannesmann added to its assets particularly in Telecommunications and in the well-positioned *business units in Automotive and Engineering*. This documents the core of our value-enhancing strategy: growth where our strengths lie and where there is attractive earnings potential. During the same period, there were also major structural shifts in favour of businesses with a high profit potential. Thus, for example, the share of Telecommunications in the Group assets at year-end had increased from 16% (1995) to 42% (1998). With this value-oriented channelling of investment funds, we have created the basis for continued earnings growth.

Our strategy of portfolio optimization also includes joint venture solutions and divestments. Mannesmann will withdraw from fields of business where earnings potential is lacking and in areas where we have no strengths of our own. Since mid-1995, we have concluded a total of 43 such transactions (joint venture agreements and sales) with an aggregate volume of over €7 billion. This dynamic portfolio development is also reflected positively in the progress of the gross operating assets and, in particular, in the development of the return on GOA.

While our overall operating assets have increased significantly, we have steadily raised the return on gross operating assets from 7.4% (1995) to 14.1% (1998). The development of the return on GOA in the Engineering and Automotive sectors documents the success of our continual portfolio optimization: in 1998, Engineering had improved its return on GOA to 11.3%, Automotive to 11.7%. Thus, both Group sectors have moved significantly closer to the target returns of 15% announced for the year 2000. Through high investment and the acquisition of equity interests, the asset base of the Telecommunications sector has grown considerably in recent years. Despite the planned start-up losses at Mannesmann Arcor and Eurokom, the positive development at Mannesmann Mobilfunk boosted the return on GOA for Telecommunications to 21.4% in 1998. The strategic focus here continues to be on value-driven growth in Europe.



The strategic targets in competition with others which Mannesmann aims to achieve through its large-scale investments are agreed and made binding in the management process as part of our VIP. Our holistic controlling instruments and the associated TOPP 200 system of incentives based on target returns and strategic target earnings ensure that the growth opportunities arising for Mannesmann are quickly grasped and utilized. The next milestone in our planning is a return on GOA of 15% overall for the Group in the year 2000.

## ANALYSIS OF KEY INDICATORS — (Continued)

### Gross profit significantly higher

This year, the profit and loss account was prepared for the first time using the *cost-of-sales method*. The previous year's figures have been adjusted to the new classification.

Net sales were down on the previous year by €924 million. This decline resulted essentially from the sale of the business units Energy and Environmental Technology, Petrochemicals and Refining, Tubes and Steel Trading and Building Installations as well as joint ventures in Metallurgy and Defense Engineering. Adjusted for these effects, Group sales rose by 14%. The total sales of the deconsolidated business units in the previous year amounted to about €4.2 billion. Increases in sales due to changes in equity investments were on the order of €1.1 billion; prominent among these was the addition of VDO Car Communication to the Automotive sector.

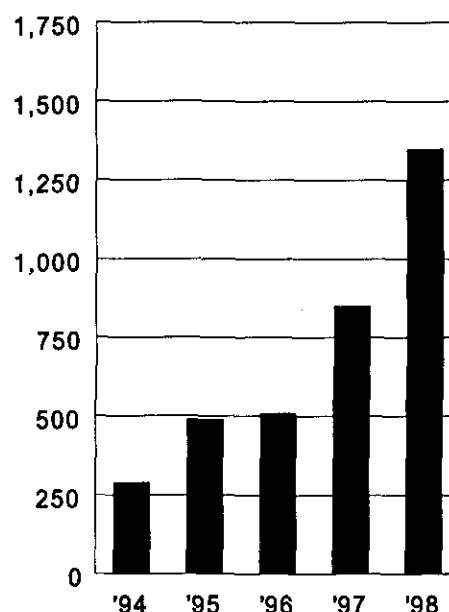
The cost structure was improved in 1998. This is particularly noticeable in the disproportionately high reduction in the cost of sales, which is reflected in the significant increase in the gross profit, which rose by nearly 5 percentage points. €610 million (previous year: €527 million) was spent on research and development. This represents an intensification of R&D activity in the Group of 0.6 percentage points. The following table shows the functional cost breakdown in a year-on-year comparison:

	Functional cost breakdown (in % of sales)	
	1998	1997
Cost of sales .....	68.9	74.4
Gross profit .....	30.2	25.6
Selling expenses .....	11.4	11.8
General administrative expenses .....	6.1	5.3
Research and development expenditure .....	3.2	2.6

The result from ordinary activities increased by 56% in 1998 to €1.4 billion. The return on equity thus increased to 25.5%. *Reduced restructuring expenses and, in*

particular, income from the sale of our 10% stake in Otis Europe SA produced a positive extraordinary result. This positive development of earnings led to a marked increase in tax expenditure, essentially domestic. At about 56%, the tax ratio as the ratio of income tax expenditure to earnings before taxes is on a par with the previous year. The overall net profit for the year was doubled against the previous year, to €630 million.

### Result from ordinary activities (in €m)



### Indicators for the earnings situation (in %)

	1998	1997
Return on gross operating assets .....	14.1	10.3
Return on equity .....	25.5	21.1
Return on sales .....	7.3	4.5

### Development of EBITDA underscores dynamic growth

This year for the first time we are showing the indicator EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). This represents an operating result without the effects on earnings and cash flow of taxes, financing and investments. The EBITDA and its

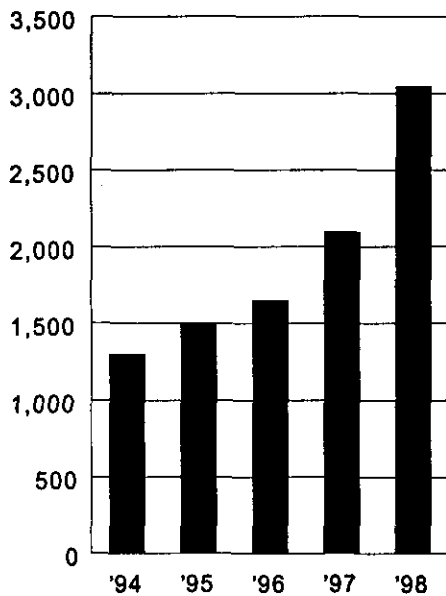
## ANALYSIS OF KEY INDICATORS — (Continued)

growth against the previous year are a measure of the success in the marketplace, of the increase in earnings and, thus, also of the potential for further growth in profit and of the value of the company in future. In adding the EBITDA to our reporting, we are taking account of the growing importance of Mannesmann's telecommunications business. We have, therefore, shown the EBITDA both for the Group as a whole and separately for our telecommunications activities.

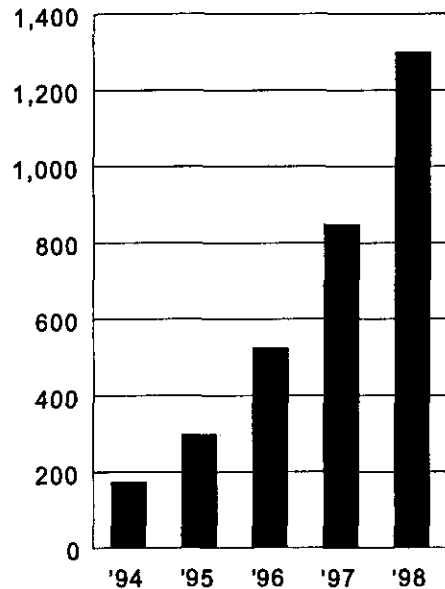
In 1998, Mannesmann increased its Group EBITDA by over 40% to €3.1 billion (1997: €2.2 billion). This includes the net income from equity investments, as it contains income from major activities of the Telecommunications sector.

To illustrate Mannesmann's telecommunications business on its own, we have computed the proportional EBITDA for this Group sector. It is comprised of the proportional EBITDA of our major equity investments in this sector and in this manner describes the pertinent operational business. At €1.3 billion in 1998 after €831 million the year before, Mannesmann increased the proportional EBITDA for Telecommunications by 56%. This increase was achieved through marked improvements in earnings by the operational companies as well as through the expansion of our equity investments in the telecommunications field.

**Group EBITDA (in €m)**



**Proportional EBITDA of Telecommunications (in €m)**



## ANALYSIS OF KEY INDICATORS — (Continued)

### Financing indicators

	<u>1998</u>	<u>1997</u>
EBITDA (in €m) .....	3,125	2,204
Proportional EBITDA of Telecommunications (in €m)	1,298	831
Leverage including pension obligations (in %) .....	34.2	60.8
Financial debts leverage (in %) .....	—	5.2

At €2 billion, the cash flow from operating activities was slightly below that of the previous year. On the other side of the ledger, there were investments totalling €2.9 billion. These included the purchase of VDO Car Communication and the further strengthening of our activities in Telecommunications through increased interests in Arcor and OliMan, our joint venture with Olivetti, and the purchase of a stake in tele.ring. The increase in shareholders' equity — neutral in its effect on profits — resulted, above all, from the 1998 capital increase. On the whole, our net cash/debt position improved by €364 million in 1998 and was in the black at €130 million on the balance sheet date. Taking into account the provisions for pensions as an interest-bearing asset item, our leverage, i.e. the ratio of net financial debts to equity, came to 34.2% on the balance sheet date.

### Development of the net cash/debt position (in €m)

	<u>1998</u>	<u>1997</u>
Cash flow from operating activities .....	2,033	2,117
Cash flow from investment activities .....	-2,900	-3,251
<b>Net cash flow</b> .....	<b>-867</b>	<b>-1,134</b>
Change in equity not affecting profits .....	1,231	153
<b>Change in the net cash/debt position</b> .....	<b>364</b>	<b>-981</b>
<b>Net cash/debt position as of Jan. 1</b> .....	<b>-234</b>	<b>747</b>
<b>Net cash/debt position as of Dec. 31</b> .....	<b><u>130</u></b>	<b><u>-234</u></b>

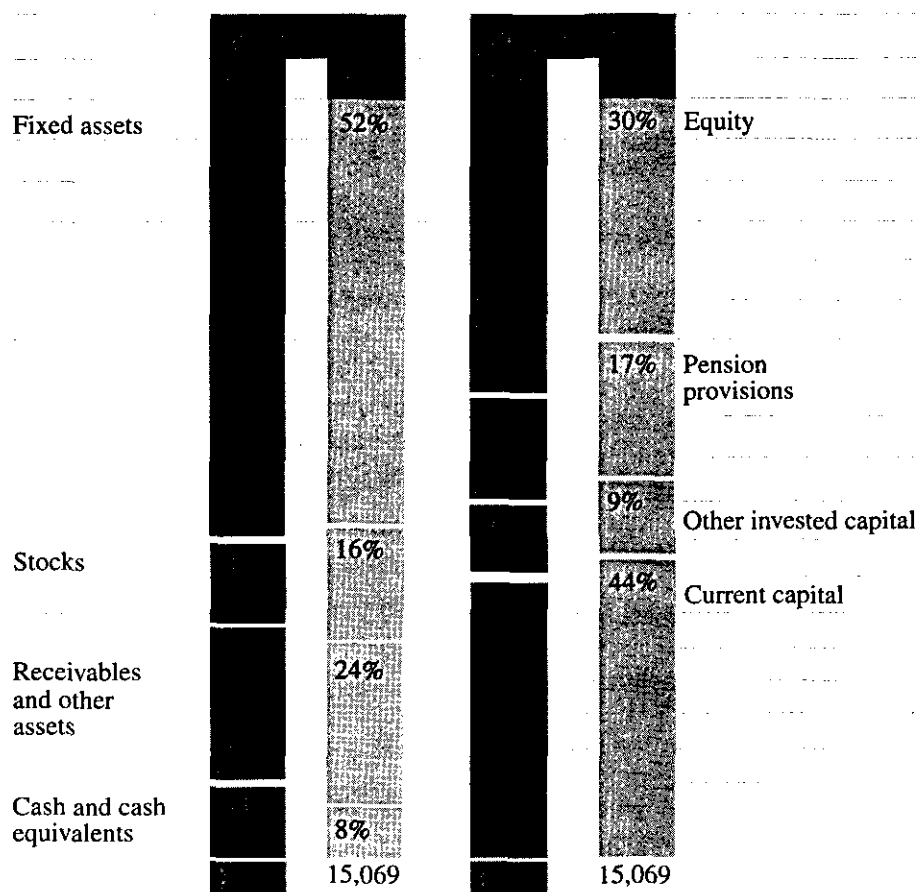
### Net cash/debt position (in €m)

	<u>1998</u>	<u>1997</u>
Investments .....	59	109
Cash at bank and in hand ...	1,618	1,018
Borrower's note loans .....	256	—
<b>Cash and cash equivalents</b>	<b>1,933</b>	<b>1,127</b>
Loans .....	466	12
Amounts owed to credit institutions .....	1,337	1,349
<b>Financial debts</b> .....	<b>1,803</b>	<b>1,361</b>
<b>Net cash/debt position</b> .....	<b><u>130</u></b>	<b><u>-234</u></b>

## ANALYSIS OF KEY INDICATORS — (Continued)

### Assets and Capital structure: equity base strengthened

**Balance sheet structure of the Mannesmann Group**



The structure of our balance sheet reveals a marked increase in assets against the previous year totalling more than €2 billion. The change in fixed assets resulted essentially from the expansion of our international telecommunications activities and from the purchase of VDO Car Communication, which led to a significant rise in the goodwill shown under intangible assets as well as of the tangible assets. Overall, fixed assets rose by 19% against the previous year and accounted for 54% of total assets. The ratio of invested capital, i.e. equity and long-term provisions and long-term liabilities, to fixed assets stands at 112%.

The decline in stocks is due, in particular, to the elimination of the business units Metallurgy, Energy and Environmental Technology, Petrochemicals and Refining, and Tubes and Steel Trading.

Equity capital increased against the previous year by about €1.9 billion or 41%, essentially as the result of the June capital increase of €1.7 billion. This raised the equity ratio by almost seven percentage points to 37%.

**ANALYSIS OF KEY INDICATORS — (Continued)**

**Balance sheet indicators (in %)**

	<u>1998</u>	<u>1997</u>
Equity ratio.....	36.7	29.9
Ratio of fixed assets to total assets .....	53.9	52.3
Ratio of invested capital to fixed assets .....	111.6	105.4

## PROFIT AND LOSS ACCOUNT

	<u>Notes</u>	<u>1998</u>	<u>1997</u>
		in €m	in €m
<b>Net sales</b> .....	(1)	<b>19,065</b>	19,989
Cost of sales .....		-13,305	-14,878
<b>Gross profit</b> .....		<b>5,760</b>	<b>5,111</b>
Research and development expenditure .....		-610	-527
Selling expenses .....		-2,176	-2,361
General administrative expenses .....		-1,162	-1,052
Other operating income .....	(2)	756	471
Other operating expenses .....	(3)	-1,088	-759
Net income from equity investments .....	(4)	140	158
Value adjustments to financial assets and short-term investments		-42	-10
Net interest .....	(5)	-193	-140
<b>Result from ordinary activities</b> .....		<b>1,385</b>	891
Extraordinary result .....	(6)	34	-194
Taxes on profit .....		-789	-385
<b>Net profit for the year</b> .....		<b>630</b>	312
Minority interests in profit .....		-274	-213
Minority interests in loss .....		125	151
Changes in revenue reserves .....		-242	-61
<b>Profit available for distribution</b> .....		<b>239</b>	<b>189</b>



## BALANCE SHEET

	<u>Notes</u>	<u>31/12/98</u> in €m	<u>31/12/97</u> in €m
<b>Assets</b>			
Intangible assets .....		2,816	2,003
Tangible assets .....		4,902	4,689
Financial assets .....		1,629	1,188
<b>Fixed assets</b> .....	(7)	<b>9,347</b>	7,880
Stocks .....	(8)	3,137	6,179
Payments received on account of orders .....		-1,033	-3,803
		2,104	2,376
Trade debtors .....	(9)	2,792	2,878
Other receivables and other assets .....	(9)	1,308	754
Investments .....	(10)	59	109
Cash at bank and in hand .....		1,618	1,018
<b>Current assets</b> .....		<b>7,881</b>	7,135
<b>Prepayments</b> .....	(11)	<b>121</b>	54
		<b>17,349</b>	<b>15,069</b>
<b>Equity and Liabilities</b>			
Subscribed capital .....		997	942
Capital reserve .....		3,205	1,523
Revenues reserves .....		1,165	886
Profit available for distribution of Mannesmann AG .....		239	189
Minority interests .....		754	958
<b>Equity</b> .....	(12)	<b>6,360</b>	4,498
Provisions for pensions and similar obligations .....	(13)	2,305	2,501
Other provisions .....	(14)	3,540	3,948
<b>Provisions</b> .....		<b>5,845</b>	6,449
Loans .....		466	12
Amounts owed to credit institutions .....		1,337	1,349
Trade creditors .....		1,452	1,696
Other liabilities .....		1,865	1,039
<b>Liabilities</b> .....	(15)	<b>5,120</b>	4,096
<b>Deferred income</b> .....		<b>24</b>	26
		<b>17,349</b>	<b>15,069</b>

## FUNDS STATEMENT

	1998	1997
	in €m	in €m
Net profit for the year .....	630	312
Depreciation of fixed assets .....	1,556	1,201
Change in provisions for pensions .....	-196	275
Other income/expenses not affecting payments .....	-75	10
Changes in the accounting of provisions for pensions not affecting 1998 result .....	—	-314
<b>Cash flow according to DVFA/SG .....</b>	<b>1,915</b>	<b>1,484</b>
Income from the disposal of assets .....	-48	-45
Change in stocks .....	3,042	-1,030
Change in payments received on account .....	-2,770	499
Increase in receivables(1) .....	-278	-390
Change in other provisions .....	-408	894
Increase in liabilities .....	580	299
Changes in the accounting of stocks and deferred taxes not affecting 1998 result .....	—	406
<b>Cash flow from operating activities .....</b>	<b>2,033</b>	<b>2,117</b>
Investments in fixed assets .....	-2,567	-3,403
Additions owing to expansion in the scope of consolidation .....	-694	-1,013
Profit on the disposal of fixed assets .....	554	1,169
Increase in loans .....	-193	-4
<b>Cash flow from investment activities .....</b>	<b>-2,900</b>	<b>-3,251</b>
<b>Net cash flow .....</b>	<b>-867</b>	<b>-1,134</b>
Dividend of the previous year .....	-189	-169
Other changes in equity .....	1,420	414
Total accounting changes not affecting 1998 result .....	—	-92
<b>Change in net cash/debt position(2) .....</b>	<b>364</b>	<b>-981</b>
<b>Balance of net cash/debt position as of Dec. 31(2) .....</b>	<b>130</b>	<b>-234</b>

(1) excluding borrower's note loans

(2) including borrower's note loans

## NOTES

### Introduction of the cost-of-sales method

In 1998, the profit and loss account was prepared for the first time using the **cost-of-sales method**. In switching to the reporting structure used internationally, we are facilitating the comparison of our results at the international level by showing our functional cost structure. The figures for the previous year have been adjusted to the classification of the cost-of-sales method.

The operating expenses are classified into the **functional areas** of

- production
- research and development
- sales
- general administration

The cost of sales comprises all the costs of the goods and services sold plus the additional periodic expenses occurring in the area of production which are not capitalized on the balance sheet date. These are deducted from the sales revenue. The resulting balance is the gross profit. The functional costs for the areas of research and development, sales and general administration are period and not sales-related. Operating expenses which cannot reasonably be attributed to these functional areas are reported under other operating expenses.

### Scope of consolidation

In addition to Mannesmann AG, 96 domestic and 161 foreign companies in which Mannesmann AG holds a direct or indirect majority of the shareholders' voting rights are included in the consolidated financial statements. Excluding companies that have joined and merged with the Group in the current year, this year's consolidated financial statements contain 33 new companies. 57 companies dropped out of the scope of consolidation. Two companies that were already included in the consolidated financial statements and three companies that are included for the first time merged with

consolidated companies. Three domestic companies are omitted pursuant to Art. 296(1)(1)HGB. The assets of these companies are tied to a specific purpose so that their inclusion would have impaired the informative value of the consolidated financial statements. Being of minor importance, 52 domestic and 142 foreign companies are omitted from the consolidated financial statements according to Art. 296(2)HGB. Three domestic joint ventures, in each of which a participation of 50% is held, are included in the consolidated financial statements on a pro rata basis according to Art. 310 HGB. In compliance with the regulations concerning associated companies, eight domestic and 12 foreign equity investments are shown in the consolidated financial statements according to Art. 311 and Art. 312 HGB. The major Mannesmann Group investment holdings are shown on page 93.

The complete list of the Mannesmann Group investment holdings has been deposited with the Commercial Register of the Düsseldorf Local Court.

### Consolidation, accounting and valuation principles

Pursuant to Art. 265(7)(2) HGB, some items of the profit and loss account and balance sheet are combined and shown separately in the Notes in order to improve the clarity of presentation. For the purpose of their inclusion in the consolidated financial statements, the financial statements of the individual companies are drawn up uniformly according to the accounting and valuation principles that apply to Mannesmann AG. Capital consolidation of the companies included in the consolidated financial statements is according to the revaluation method; the acquisition costs of the subsidiaries are offset against the revalued equity attributable to the parent company at the time of acquisition or first-time consolidation. Resulting differences are shown as goodwill on the assets side and as differences arising from capital consolidation on the liabilities side. Equity participations are included in the consolidated financial

**NOTES — (Continued)**

statements from the time of acquisition according to the equity share method pursuant to Art. 312(1)(1)(2) HGB. Loans and other receivables, liabilities, intercompany results, net sales, and income and expenses between the consolidated companies are eliminated. A tax deferral is made for the consolidation measures affecting the result; the tax items on the assets and liabilities sides are subsequently offset.

Major restructuring measures were initiated in the Group sectors Engineering and Tubes in 1998 which will be completed in 1999. These relate to the business units Metallurgy, Energy and Environmental Technology, Petrochemicals and Refining as well as the Mannesmann Trading Organization. To take account of the new structure of the Group in the 1998 financial statements already, we drew up the balance sheet as follows:

- The net assets of the business units and the legal entities are shown in one line under other assets.
- The operating results of the business units transferred to joint ventures or sold are also shown together in one line in other operating and/or extraordinary results. Earnings from deconsolidation were not taken.

Amounts pertaining to these units are, therefore, no longer contained in the other items of the consolidated profit and loss account and the consolidated balance sheet.

**Profit and loss account**

The income from equity investments also contains tax credits from the distribution of profits by domestic companies and foreign income tax deducted at source.

**Fixed assets**

Intangible assets purchased are valued at acquisition cost and are depreciated to schedule using the straight line method over the probable useful life.

Tangible assets are shown at acquisition or production costs and, insofar as they are subject to wear and tear, with due consideration of scheduled depreciation over the probable useful life. Non-scheduled depreciation is taken if, on the balance sheet date, the value to be applied is less than the book value and this reduction in value is thought to be permanent. Scheduled depreciation is based on the following useful life periods:

Goodwill .....	10 to 20 years
Buildings .....	25 to 50 years
Plant facilities .....	10 to 20 years
Technical equipment and machinery .....	5 to 33 years
Telecommunications equipment .....	3 to 20 years
Plant and office equipment	2 to 10 years
Vehicles .....	4 to 7 years

Significant intercompany results arising from deliveries and services relating to tangible assets between consolidated companies are eliminated. As regards the depreciation of buildings, the principles of Art. 7 of the German Income Tax Act (EStG) apply. Movable assets are depreciated according to the briefest fiscally permitted useful life in each case, generally by the declining-balance method. Additions in the first half of the year are subject to full, and additions in the second half of the year to one-half of the annual depreciation. The change from the declining-balance method to uniform distribution of the residual value over the remaining useful life permitted by Art. 7(3)EStG is made in the year in which it results in a higher amount of depreciation than would ensue from continued application of the declining-balance method. Minor assets according to Art. 6(2) EStG are written off in full in the year of acquisition. Different value thresholds apply abroad. The equity portion of the special items with a reserve element is allocated to the revenue reserves with due consideration of differences in tax rates. Shares in affiliated companies and equity investments are reported in the balance sheet at acquisition cost. Where permanent reduction in value is

## NOTES — (Continued)

probable, an unscheduled write-off is taken on the lower of cost or market value.

### Current assets

Raw materials and supplies are valued at acquisition cost or lower daily rates, work in progress and finished goods in the serial segments at production cost. In addition to the cost of direct material and prime cost, production costs also include appropriate shares of the necessary material and production overheads and production-related depreciation on the assumption of normal utilization. General administrative expenses and expenses for social facilities, voluntary welfare benefits and company pension schemes as well as interest on borrowed funds are not capitalized. Inventories from long-term production are valued at the cost price incurred up to the balance sheet date.

Merchandise is predominantly valued at accrued average stock ledger prices or lower daily rates. The last-in-first-out principle is applied to certain like stocks, whereby it is assumed that the most recently acquired stocks have been consumed or sold first. Downward adjustments are made to take account of the inventory risks arising from storage duration, reduced usability, etc.

As regards stock from deliveries between consolidated companies, the Group intercompany results are added or subtracted in the amount of the difference between the Group production cost and the balance-sheet valuation by the recipient, with due consideration of the lower-of-cost-or-market principle. Payments received from customers on account of orders are deducted from stocks. Receivables and other assets are stated at the nominal amount.

Recognizable risks are taken account of by appropriate downward adjustments. Interest-free receivables with terms of more than one year are discounted. Short-term investments are valued at acquisition cost or the lower market price on the balance sheet date.

### Provisions

Pursuant to FAS 87/88, the projected unit credit method is used to value the provisions for pensions and similar obligations, with consideration being given to the trend in salaries and pensions as well as fluctuation; the interest rate is based on the situation on the capital market. These provisions also contain the difference between existing cash assets and the amount of the provisions calculated according to FAS for the employees covered by the Group's benefit funds. The amount of the other provisions takes account of all recognizable risks and uncertain financial obligations.

### Liabilities

Liabilities are generally stated at the amounts repayable.

### Accrued and deferred items

These items also contain investment allowances that are taken to income in instalments.

### Currency translation

The items in the profit and loss account are translated at the average rate of the financial year, with the exception of depreciation, for which the historical rate is assumed. The result for the financial year is translated at the middle rate at balance sheet date; differences arising from the translation are recorded under other operating expenses. Foreign currency receivables are valued at the buying rate on the day of accrual, or at the lower rate at balance sheet date or, if covered by forward transactions, at the forward rate. Liabilities in foreign currencies are valued at the selling rate on the day of incurrence or at the higher rate at balance sheet date or, if covered by forward transactions, at the forward rate. As regards the included financial statements of the foreign companies, current assets, liabilities and provisions are translated at the middle rate at balance sheet date. The other items are

## NOTES — (Continued)

translated at the average rate of the corresponding year of addition (historical rate). The difference resulting from the translation of the balance sheet items is offset against the equity without effect on the result.

### **Funds statement**

The funds statement illustrates the change in the net cash/debt position on the basis of the three areas of operating activities, investment activity and change in equity not affecting

profits. The net cash/debt position is broken down into cash and cash equivalents (defined as cash at bank and in hand, short-term investments, borrower's note loans) minus financial debts (loans, amounts owed to credit institutions). The increase in the net cash/debt position by a total €364 million in the financial year represents the difference between the €806 million rise in cash and cash equivalents and the €442 million increase in financial debts. The funds statement also reflects changes in the scope of consolidation.

## EXPLANATION OF THE PROFIT AND LOSS ACCOUNT

### 1. Net sales by division

	<u>Total sales*</u>		<u>External sales</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	in €m	in €m	in €m	in €m
Rexroth .....	2,547	2,264	2,495	2,194
Dematic .....	1,989	1,742	1,975	1,734
Demag Krauss-Maffei .....	<u>2,132</u>	<u>4,412</u>	<u>2,110</u>	<u>4,366</u>
<b>Engineering</b> .....	<b><u>6,602</u></b>	<b><u>8,325</u></b>	<b><u>6,580</u></b>	<b><u>8,294</u></b>
VDO .....	3,338	2,195	3,337	2,194
Sachs .....	<u>2,150</u>	<u>2,054</u>	<u>2,142</u>	<u>2,047</u>
<b>Automotive</b> .....	<b><u>5,482</u></b>	<b><u>4,243</u></b>	<b><u>5,479</u></b>	<b><u>4,241</u></b>
Mobilfunk .....	3,731	2,857	3,710	2,850
Arcor .....	939	618	929	612
Eurokom .....	5	1	4	—
<b>Telecommunications</b> .....	<b><u>4,654</u></b>	<b><u>3,472</u></b>	<b><u>4,643</u></b>	<b><u>3,462</u></b>
<b>Tubes</b> .....	<b><u>2,338</u></b>	<b><u>3,445</u></b>	<b><u>2,314</u></b>	<b><u>3,380</u></b>
<b>Other companies</b> .....	<b><u>153</u></b>	<b><u>731</u></b>	<b><u>49</u></b>	<b><u>612</u></b>
	<b><u>19,229</u></b>	<b><u>20,216</u></b>	<b><u>19,065</u></b>	<b><u>19,989</u></b>

\* Group sectors consolidated

The net sales in 1998 take account of the new Group structure, i.e., the Engineering and

Tubes business units transferred to joint ventures or sold in 1999 are not shown.

### Net sales by region

	<u>1998</u>	<u>1997</u>
	in €m	in €m
Germany .....	9,325	8,836
Other EU countries .....	4,057	4,439
Rest of Europe .....	837	976
Africa .....	274	371
Asia .....	786	1,412
North America .....	2,770	2,848
Latin America .....	871	918
Australia and other territories .....	<u>145</u>	<u>189</u>
	<b><u>19,065</u></b>	<b><u>19,989</u></b>

## EXPLANATION OF THE PROFIT AND LOSS ACCOUNT — (Continued)

### 2. Other operating income

	1998	1997
	in €m	in €m
Cost reimbursements .....	109	100
Foreign exchange gains .....	61	62
Income from the dissolution of provisions .....	299	141
Other .....	287	168
	<b>756</b>	<b>471</b>

### 3. Other operating expenses

	1998	1997
	in €m	in €m
Amortization of goodwill .....	351	181
Bad-debt allowances .....	121	99
Foreign exchange losses .....	95	61
Other .....	521	418
	<b>1,088</b>	<b>759</b>

The item Other also includes earnings from the Engineering business units transferred to joint ventures.

### 4. Net income from equity investments

	1998	1997
	in €m	in €m
Income from profit transfer agreements .....	11	2
(of which from affiliated companies) .....	(11)	(2)
Income from equity investments .....	56	79
(of which from affiliated companies) .....	(49)	(7)
Income from equity investments in associated companies .....	79	79
Losses absorbed under transfer agreements .....	-6	-2
	<b>140</b>	<b>158</b>



**EXPLANATION OF THE PROFIT AND LOSS ACCOUNT — (Continued)**

**5. Net interest**

	<u>1998</u>	<u>1997</u>
	in €m	in €m
Income from other investments and long-term loans .....	6	1
Other interest and similar income .....	83	84
(of which from affiliated companies) .....	(11)	(3)
Interest and similar expenses .....	-156	-76
(of which from affiliated companies) .....	<u>(-34)</u>	<u>(-2)</u>
<b>Net interest affecting cash</b> .....	<b>-67</b>	<b>9</b>
Interest portion of addition to provisions for pensions and similar obligations	<u>-126</u>	<u>-149</u>
	<u><b>-193</b></u>	<u><b>-140</b></u>

**6. Extraordinary result**

	<u>1998</u>	<u>1997</u>
	in €m	in €m
Extraordinary income .....	207	40
Extraordinary expenses .....	<u>-173</u>	<u>-234</u>
	<u><b>34</b></u>	<u><b>-194</b></u>

The extraordinary income and expenses of the financial year refer to structural measures, such as the sale of and withdrawal from business units and locations. They also include

the profit from the sale of the interest in Otis Europe SA. The item also contains operating results of sold business units.

**Cost of materials**

	<u>1998</u>	<u>1997</u>
	in €m	in €m
Cost of raw materials, supplies and other goods purchased .....	7,392	8,688
Cost of purchased services .....	<u>2,173</u>	<u>2,543</u>
	<u><b>9,565</b></u>	<u><b>11,231</b></u>

**Personnel costs**

	<u>1998</u>	<u>1997</u>
	in €m	in €m
Wages and salaries .....	<u>3,873</u>	<u>4,153</u>
Social security and other pension costs .....	1,032	1,031
(of which for retirement pension) .....	<u>(131)</u>	<u>(83)</u>
	<u><b>4,905</b></u>	<u><b>5,184</b></u>

The other pension costs do not include the interest portion of the addition to provisions for pensions in the amount of €126 million

(previous year: €149 million), which is shown under net interest.

**EXPLANATION OF THE PROFIT AND LOSS ACCOUNT — (Continued)**

**Average number of employees by division**

	<b>Wage earners</b>	<b>Salaried staff</b>	<b>Trainees</b>	<b>Total workforce</b>	
				<b>1998</b>	<b>1997</b>
Rexroth .....	10,467	9,810	650	20,927	19,198
Dematic .....	5,959	6,556	392	12,907	12,068
Demag Krauss-Maffei .....	4,819	5,928	518	11,265	23,270
<b>Engineering</b> .....	<b>21,245</b>	<b>22,294</b>	<b>1,560</b>	<b>45,099</b>	<b>54,536</b>
VDO .....	12,287	10,052	697	23,036	16,143
Sachs .....	14,512	4,814	534	19,860	17,567
<b>Automotive</b> .....	<b>26,799</b>	<b>14,866</b>	<b>1,231</b>	<b>42,896</b>	<b>33,710</b>
Mobilfunk .....	—	6,556	155	6,711	5,401
Arcor .....	1,389	5,360	5	6,754	7,321
Eurokom .....	—	272	2	274	254
<b>Telecommunications</b> .....	<b>1,389</b>	<b>12,188</b>	<b>162</b>	<b>13,739</b>	<b>12,976</b>
<b>Tubes</b> .....	<b>9,996</b>	<b>2,957</b>	<b>131</b>	<b>13,084</b>	<b>15,301</b>
<b>Other companies</b> .....	<b>95</b>	<b>1,422</b>	<b>79</b>	<b>1,596</b>	<b>3,912</b>
	<b>59,524</b>	<b>53,727</b>	<b>3,163</b>	<b>116,414</b>	<b>120,435</b>

## EXPLANATION OF THE BALANCE SHEET

### 7. Fixed assets (development in €m)

	Acquisition and production costs					Write-ups	Accumulated depreciation	Book values		Depreciation
	01/01/98	Expansion of scope of cons.	Reclassifications/transfers	Additions	Disposals			31/12/98	31/12/97	
Property rights .....	143	50		37	56		70	104	66	37
Goodwill .....	2,732	521		686	185		1,045	2,709	1,932	351
Payments on account .....	5			-2				3	5	
<b>Intangible assets ..</b>	<b>2,880</b>	<b>571</b>		<b>721</b>	<b>241</b>		<b>1,115</b>	<b>2,816</b>	<b>2,003</b>	<b>388</b>
Land and buildings	2,676	25	104	1	287		1,214	1,305	1,373	66
Technical equipment and machinery ...	7,232	48	1,037	8	434		5,238	2,653	2,449	800
Other facilities, plant and office equipment .....	1,976	27	223	36	449		1,416	397	396	251
Payments on account for assets	57	2		13	1			71	57	
Assets under construction .....	414	16	-1,364	1,424	14			476	414	
<b>Tangible assets ...</b>	<b>12,355</b>	<b>118</b>		<b>1,482</b>	<b>1,185</b>		<b>7,868</b>	<b>4,902</b>	<b>4,689</b>	<b>1,117</b>
Shares in affiliated companies .....	240	1	3	165	153		68	188	193	48
Loans to affiliated companies .....	2			1	1			2	2	
Investments in associated companies .....	904	3	-3	203	47			1,060	904	
Other equity investments .....	60			112	16		13	143	48	4
Loans to companies linked by participating interest .....	11			194			4	201	7	
Long-term investments .....	7			13	5			15	6	
Other loans .....	64	1		3	13	1	36	20	28	
<b>Financial assets ...</b>	<b>1,288</b>	<b>5</b>		<b>691</b>	<b>235</b>	<b>1</b>	<b>121</b>	<b>1,629</b>	<b>1,188</b>	<b>52</b>
	<b>16,523</b>	<b>694</b>		<b>2,894</b>	<b>1,661</b>	<b>1</b>	<b>9,104</b>	<b>9,347</b>	<b>7,880</b>	<b>1,557</b>

The disposals shown in the schedule of fixed assets include net book values of €236 million from companies that have been eliminated from the scope of consolidation. Fixed values of €48 million for track systems,

spare parts and works equipment are recorded under technical equipment and machinery. The depreciation for the financial year includes extraordinary depreciation of € 206 million.

## EXPLANATION OF THE BALANCE SHEET — (Continued)

### Investments by division

	1998	1997
	in €m	in €m
Rexroth .....	190	158
Dematic .....	185	83
Demag Krauss-Maffei .....	104	129
<b>Engineering</b> .....	<b>479</b>	<b>370</b>
VDO .....	603	133
Sachs .....	259	181
<b>Automotive</b> .....	<b>862</b>	<b>314</b>
Mobilfunk .....	477	436
Arcor .....	604	1,208
Eurokom .....	883	1,503
<b>Telecommunications</b> .....	<b>1,964</b>	<b>3,147</b>
<b>Tubes</b> .....	<b>159</b>	<b>617</b>
<b>Other companies</b> .....	<b>124</b>	<b>83</b>
	<b>3,588</b>	<b>4,531</b>

### 8. Stocks

	1998	1997
	in €m	in €m
Raw materials and supplies .....	555	533
Work in progress .....	1,668	4,604
Finished goods and merchandise .....	763	767
Payments on account .....	151	275
	<b>3,137</b>	<b>6,179</b>

### 9. Receivables and other assets

	1998	1997
	in €m	in €m
Trade debtors .....	2,792	2,878
(of which with a remaining term of more than 1 year) ....	(22)	(39)
Affiliated companies .....	352	103
(of which with a remaining term of more than 1 year) ....	(2)	(3)
Companies linked by participating interest .....	75	155
(of which with a remaining term of more than 1 year) ....	(10)	(13)
Other assets .....	881	496
(of which with a remaining term of more than 1 year) ....	(37)	(132)
	<b>4,100</b>	<b>3,632</b>

The other assets consist, among other things, of loans and tax claims. In 1998, borrower's note loans and the net assets of the business activities are also shown, the sale

and/or transfer of which to a joint venture does not take place until after the balance sheet date.

## EXPLANATION OF THE BALANCE SHEET — (Continued)

### 10. Investments

The Investments are mostly fixed-interest bearing securities. They serve as capital investments.

### 11. Prepayments

Of the prepayments of the financial year €79 million relate to deferred taxes.

### 12. Equity

In the year under review, the share capital of Mannesmann AG rose by a nominal €54,296,436.81 from a nominal €942,347,392.15 to a nominal €996,643,828.96.

On May 29, 1998, the Shareholders' Meeting resolved to conduct a stock split and to introduce share certificates. A single share with a nominal value of €25.56 was to be replaced by ten share certificates, while one share with a nominal value of €51.13 was replaced by 20 share certificates.

In March 1998, the Board of Management decided to make partial use of the authorization pursuant to Art. 3(5) of the Articles of Association to increase the share capital by up to a nominal €255,645,940.60 through the issue of new shares. The capital was increased in June 1998 in two tranches with subscription rights being excluded by a total nominal €52,918,709.71 from a nominal €942,347,392.15 to a nominal €995,266,101.86. The new share certificates were issued at a price of €81.81 each; private investors who applied for shares during the early order period were granted a discount of €1.02.

In October 1998, the Board of Management decided to make partial use of the authorization pursuant to Art. 3(7) of the Articles of Association to increase the share capital by up to a nominal €22,739,067.30 for the purpose of issuing employee shares. The capital was increased by a nominal

€1,362,439.48; the new shares were issued at a price of €92.72 each. The employee shares issued in the year under review account for 0.14% of the share capital.

In the 1998 financial year, a nominal €9,458.90 of the contingent capital created to indemnify the shareholders of Mannesmann VDO AG (formerly VDO Adolf Schindling AG) and Hartmann & Braun AG (now Eltag Bailey Hartmann & Braun GmbH & Co. KG), who retired owing to the incorporation of said companies, was issued according to Art. 3(8) of the Articles of Association. Of the contingent capital increase authorized under Art. 3(9) of the Articles of Association to indemnify the shareholders of Krauss-Maffei AG, who retired on that company's incorporation, a nominal €5,828.73 was used.

The share capital of Mannesmann AG as of December 31, 1998, is divided between 389,853,180 bearer share certificates. On December 31, 1998, pursuant to the Articles of Association, the outstanding authorized capital for the issue of shares, valid until June 30, 1999, amounted to a nominal €202,727,230.89 (Art. 3(5)), the outstanding authorized capital for the issue of bearer shares in return for non-cash contributions with subscription rights of shareholders excluded, valid until May 29, 2003, amounted to a nominal €127,822,970.30 and the outstanding authorized capital for the issue of employee shares, valid until June 28, 2001, amounted to a nominal €21,376,627.83 (Art. 3(7)). Authority also existed under Art. 3(8) of the Articles of Association for a contingent capital increase in the amount of a nominal €1,859,261.80, subject to a time limit up to June 30, 2004, and, according to Art. 3(9) of the Articles of Association, for a contingent capital increase in the amount of a nominal €1,163,981.53, subject to a time limit up to June 28, 2006.

The revenue reserves are other revenue reserves.

## EXPLANATION OF THE BALANCE SHEET — (Continued)

### Development of equity

	<u>in €m</u>
<b>Status on 31/12/97</b> .....	<b>4,498</b>
Dividend distribution by Mannesmann AG for 1997 .....	-189
Increases in subscribed capital at Mannesmann AG .....	55
Transfer of the premiums from the capital increases to the capital reserve .....	1,682
Appropriation from the net profit for the year 1998 to other revenue reserves .....	242
Other changes in revenue reserves .....	37
Profit available for distribution for 1998 .....	239
Other changes to minority interests .....	-204
<b>Status on 31/12/98</b> .....	<b><u>6,360</u></b>

### 13. Provisions for pensions and similar obligations

The company pension scheme that is in place for Mannesmann employees operates essentially through direct undertakings and pension funds maintained by the Group. The assessment of pensions is always based on length of service in the Group with the exact amount of the payment being based partly on the average salary and partly on schedules of

fixed amounts. The pension provisions were valued in accordance with the American GAAP using the projected unit credit method, with consideration being given to the anticipated trend in salaries and pensions. Valuation in Germany was based on the following assumptions:

	<u>1998</u>	<u>1997</u>
	in %	in %
Interest rate .....	6.5	6.5
Salary trend .....	2.5	2.5
Pension trend .....	1.5	1.5

In other countries, the assumptions were modified to fit the respective circumstances.

Pension provisions developed as follows in the fiscal year:

	<u>1998</u>	<u>1997</u>
	in €m	in €m
<b>Status on January 1</b> .....	<b>2,501</b>	<b>2,226</b>
Accounting changes in 1997 .....	—	314
Changes not affecting profits .....	-296	-89
Personnel costs .....	100	51
Interest expense .....	126	149
Pension payments .....	<u>-126</u>	<u>-150</u>
<b>Status on December 31</b> .....	<b><u>2,305</u></b>	<b><u>2,501</u></b>

Personnel costs are assigned to the functional costs, the expense for accumulated interest is shown under net interest. The change in 1998 not affecting profits resulted essentially from the elimination of the

Engineering and Tubes business units. The computation of the pension obligations in Germany was based on the new mortality index "Heubeck 1998".

## EXPLANATION OF THE BALANCE SHEET — (Continued)

### 14. Other provisions

	1998	1997
	in €m	in €m
Tax provisions .....	875	520
(of which provisions for deferred taxes) .....	(—)	(3)
Other provisions .....	2,665	3,428
	<b>3,540</b>	<b>3,948</b>

The other provisions relate essentially to warranties, outstanding costs for invoiced orders, anticipated losses from pending transactions, structural measures, severance pay, anniversary payments to employees, holiday entitlements, other personnel costs and other risks in conjunction with current business.

The total amount of the other provisions includes €249 million in long-term provisions (previous year: €255 million).

### 15. Liabilities

	1998	Remaining term up to 1 year	Remaining term more than 5 years	1997	Remaining term up to 1 year	Remaining term more than 5 years
	in €m	in €m	in €m	in €m	in €m	in €m
Loans .....	466	6	460	12	12	—
Credit institutions .....	1,337	323	952	1,349	359	780
<b>Financial debts</b> .....	<b>1,803</b>	<b>329</b>	<b>1,412</b>	<b>1,361</b>	<b>371</b>	<b>780</b>
Trade creditors .....	1,452	1,451	—	1,696	1,691	1
Liabilities on bills .....	18	18	—	25	25	—
Affiliated companies .....	1,028	1,019	—	87	86	—
Companies linked by participating interest .....	114	101	—	117	110	1
Other liabilities .....	705	681	7	810	763	7
(of which for taxes) .....	(325)			(237)		
(of which for social security)	(106)			(115)		
	<b>5,120</b>	<b>3,599</b>	<b>1,419</b>	<b>4,096</b>	<b>3,046</b>	<b>789</b>

Of the liabilities to credit institutions, €35 million (previous year: €41 million) is secured by mortgages. The increase in liabilities to affiliated companies is due to the elimination of the Engineering and Tubes business units.

The other liabilities also include liabilities arising from wages and salaries as well as taxes and levies.

**E. MANNESMANN**

**CONSOLIDATED FINANCIAL STATEMENTS  
1997**



## Analysis of Key Indicators

### Return on gross operating assets (in DMm)

	Gross operating assets	Result from ordinary activities	Goodwill amortization	Net interest and miscellaneous	Gross operating result	Return on gross operating assets 1997	Return on gross operating assets 1996
Demag .....	4,460	-287	40	33	-214	-4.8	-4.5
Dematic .....	1,646	126	40	24	190	11.5	8.2
Rexroth .....	2,418	319	20	61	400	16.5	13.7
Krauss-Maffei .....	1,357	49	13	23	85	6.3	5.6
<b>Engineering*</b> .....	<b>7,439</b>	<b>207</b>	<b>113</b>	<b>51</b>	<b>371</b>	<b>5.0</b>	<b>3.1</b>
VDO .....	2,054	144	49	25	218	10.6	10.2
Sachs .....	2,207	120	26	29	175	7.9	5.4
<b>Automotive</b> .....	<b>4,261</b>	<b>264</b>	<b>75</b>	<b>54</b>	<b>393</b>	<b>9.2</b>	<b>7.5</b>
Mobilfunk .....	3,620	1,841	92	-7	1,926	53.2	38.1
Arcor .....	1,682	-367	6	—	-361	-21.5	—
Eurokom .....	1,673	-230	51	6	-173	-10.3	-47.1
<b>Telecommunications</b>	<b>6,975</b>	<b>1,244</b>	<b>149</b>	<b>-1</b>	<b>1,392</b>	<b>20.0</b>	<b>26.9</b>
<b>Tubes &amp; Trading</b> ...	<b>2,999</b>	<b>120</b>	<b>11</b>	<b>136</b>	<b>267</b>	<b>8.9</b>	<b>0.3</b>
<b>Other companies</b> ...	<b>1,423</b>	<b>-93</b>	<b>7</b>	<b>45</b>	<b>-41</b>	<b>-2.9</b>	<b>1.2</b>
	<u>23,097</u>	<u>1,742</u>	<u>355</u>	<u>285</u>	<u>2,382</u>	<u>10.3</u>	<u>8.0</u>

\* Adjusted for funds (DM 2,442 million) and interest income (DM 90 million) at Mannesmann Demag

### Instruments of value-oriented corporate management

Mannesmann gives its shareholders an undertaking to work for a continuous improvement in profits and for an increase in the value of their investment. Mannesmann is developing the profit potential and is utilizing the strategic opportunities in its Group sectors through a value-oriented portfolio management. We call our system of value-oriented management, which encompasses all of the functions and personnel in the Group in holistic fashion, the Value Increase Process, abbreviated VIP. VIP focuses on expansion of the business areas with high earnings potential with a view to boosting the return on investment. This is particularly reflected in the development of our Telecommunications sector.

	Gross operating assets	31/12/97	31/12/96
		in DMm	in DMm
Intangible and tangible assets .....		13,088	9,399
+ Accumulated goodwill amortization .....	1,565		1,681
+ Participating interests	2,241		1,855
+ Stocks .....	12,085		11,329
+ Trade debtors .....	5,628		5,063
+ Other receivables and other assets .....	1,475		1,300
+ Prepayments .....	107		84
- Payments received on account of orders ....	-7,438		-6,461
- Trade creditors .....	-3,318		-2,792
- Amounts owed to affiliated companies and companies linked by participating interest .....	-399		-299
<b>Gross operating assets</b>	<b>25,034</b>		<b>21,159</b>
<b>Annual average gross operating assets</b> ....	<b>23,097</b>		

### Analysis of Key Indicators

The target returns for our strategic business units were agreed based on their

individual earnings potential. The control of investments and planning are based on these target returns. Strategic measures aimed at achieving a first-class market and competitive position are set as binding and monitored as so-called VIP targets. If the potential-based target returns contained in the planning of our business units are not achieved, we carry out a deficit analysis to determine the reasons. Measures to correct the deficits become part of the VIP target agreements. Success in implementing the VIP targets, attaining budgeted results, growth in earnings and achieving the targeted return are parts of the system of incentives which forms part of the VIP. The central indicator in value-oriented corporate management at Mannesmann is the return on gross operating assets (GOA). We have targeted a return on GOA of 15 per cent for the year 2000.

The calculation of the gross operating assets is based on the complete registration of all assets employed in the Group. The gross operating assets are compared with an operating result. This result is based on the result from ordinary activities and is a result before goodwill amortization and before interest. Mannesmann Demag as a plant construction company, funds and the interest income on them are added. These are derived essentially from payments on account received from customers and are an important part of the company's operating profit. This effect is eliminated in the GOA for the full Engineering sector. In order to make the internal control target and system more transparent outwardly, we make the underlying figures from our external invoicing and from the internal control system comparable throughout. We have made further progress here with the accounting changes of stocks from long-term constructions made this year. These accounting changes do

not affect the calculated returns, making an adjustment of the previous year's figures unnecessary. The return on gross operating assets came to 10.3 per cent in 1997 on the basis of increased assets compared with the previous year (previous year: 8.0 per cent).

### Result return further improved

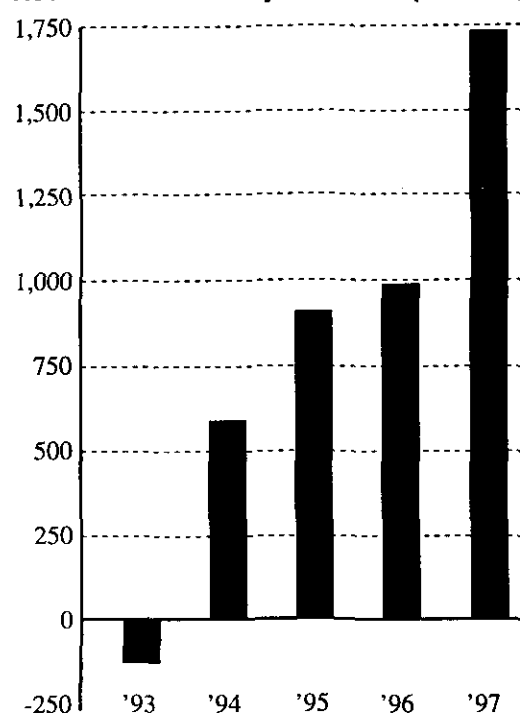
The result from ordinary activities amounted to DM 1,742 million and was thus 72 per cent above that of the previous year. The return on equity was raised by almost eight percentage points. This jump in earnings resulted from the growth at Mannesmann Mobilfunk and in foreign business. Sales rose by 13 per cent in total. On the expense side, the trend towards increasingly capital-intensive production can be seen in the declining ratio of personnel costs and in the 13 per cent increase in depreciation.

The other items of income and expenses increased significantly as a consequence of the higher structural expense, in particular in the extraordinary result of Demag, Krauss-Maffei and Röhrenwerke. Due to the improvement in earnings of the German companies, the taxes on profit rose significantly compared to the previous year. The mathematical tax rate climbed to 55 per cent (previous year: 39 per cent). At DM 610 million, the end result was a net profit for the year on a par with that of the previous year.

### Earnings indicators

	<u>1997</u>	<u>1996</u>
Return on gross operating assets	<b>10.3</b>	8.0
Return on equity	<b>21.1</b>	13.5
Return on sales	<b>4.5</b>	2.9

### Result from ordinary activities (in DMm)



### Breakdown of expenditure in % of total operating output

	1997	1996	Change
Cost of materials	55.0	55.3	-0.3
Personnel costs	25.4	27.1	-1.7
Depreciation	5.7	5.7	—
Net interest	0.7	0.7	—
Other income and exp.	9.8	8.4	+1.4
Taxes	1.9	1.1	+0.8
Net profit for the year	1.5	1.7	-0.2

### Net cash/debt position: financing by leverage

After the high cash flow in 1996 that was influenced by one-time effects (about DM 1.5 billion from the sale of Hartmann & Braun and of the interest in TI), funds of over DM 4 billion were provided from operating activities in 1997. On the other side of the ledger was a use of funds for investments more than twice that of the previous year. This includes in particular our interests in Arcor and Cegetel as well as the joint venture with Olivetti. The outflow of cash for these investments led compared with the previous year to a reduction in cash balances and to increased financial debts,

resulting in a net debt position on the balance sheet date. To make our finance structure more readily understandable, we are thus including leverage in the table of financing indicators for the first time this year. This shows the ratio of net debt to equity. Including the pension provisions as an interest-bearing capital item, our leverage on the balance sheet date was 60.8 per cent. Excluding pension provisions, it was 5.2 per cent.

### Financing Indicators

	1997	1996
Cash flow from operating activities (DMm)	4,141	4,936
Net cash flow (DMm)	-2,218	2,212
Leverage including pension obligations (%)	60.8	37.5
Financial debts leverage (%)	5.2	—

### Net cash/debt position Dm/m

	1997	1996
Investments	213	208
Cash at bank and in hand	1,992	2,458
<b>Cash and cash equivalents</b>	<b>2,205</b>	<b>2,666</b>
Loans	25	46
Amounts owed to credit institutions	2,638	1,159
<b>Financial debts</b>	<b>2,663</b>	<b>1,205</b>
<b>Net cash/debt position</b>	<b>-458</b>	<b>1,461</b>

### Assets and capital structure: still sound

The high volume of investment in the financial year under review is reflected in the changed balance sheet ratios. Additions of goodwill and increases in financial assets stemming from the acquisition of shareholdings and from the joint venture as well as the first-time consolidation of Arcor led to a marked increase in funds employed in the Telecommunications sector. Overall fixed assets increased by 36 per cent, accounting for 52 per cent of total assets.

The ratio of invested capital to fixed assets stands at 105 per cent. Invested capital is

composed of the equity, long-term provisions and long-term liabilities.

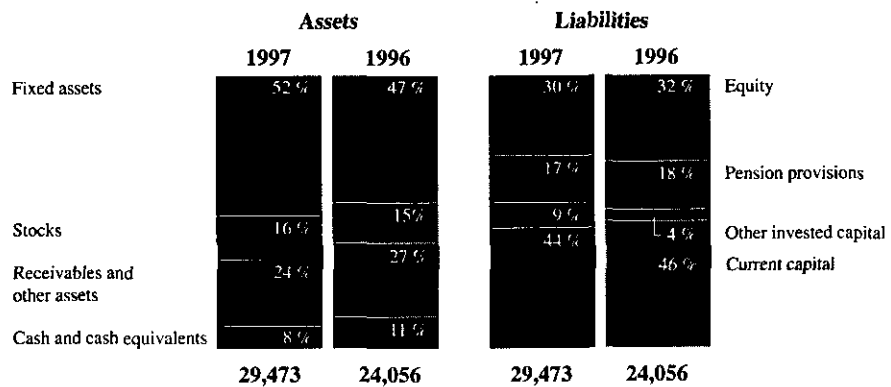
The rise in stocks is largely due to the accounting changes in the long-term construction business carried out in 1997 (see page 58).

**Balance sheet indicators**

	<u>1997</u>	<u>1996</u>
Equity ratio.....	<b>29.9</b>	32.1
Ratio of fixed assets to total assets.....	<b>52.3</b>	47.1
Ratio of invested capital to fixed assets.....	<b>105.4</b>	114.3

Total assets rose by approx. 23 per cent. The equity ratio dropped slightly by 2 percentage points.

**Balance sheet structure of the Mannesmann Group**



## Profit and Loss Account

	<u>Notes</u>	<u>1997 in DMm</u>	<u>1996 in DMm</u>
<b>Net sales</b> .....	(1)	<b>39,096</b>	34,683
Change in stocks of finished goods, work in progress, other own work capitalized .....	(2)	843	746
<b>Total operating output</b> .....		<b>39,939</b>	35,429
Other operating income .....	(3)	922	854
Cost of materials .....	(4)	-21,965	-19,576
Personnel costs .....	(5)	-10,140	-9,596
Depreciation of intangible and tangible assets .....		-2,276	-2,032
Other operating expenses .....	(6)	-4,754	-3,960
Net income from participations .....	(7)	309	132
Value adjustments to financial assets and investments .....		-19	-3
Net interest .....	(8)	-274	-238
<b>Result from ordinary activities</b> .....		<b>1,742</b>	1,010
Extraordinary result .....	(9)	-380	-13
Taxes on profit .....		-752	-394
<b>Net profit for the year</b> .....		<b>610</b>	603
Minority interests in profit .....		-416	-260
Minority interests in loss .....		295	40
Allocations to the Group's revenue reserves .....		-120	-52
<b>Profit available for distribution</b> .....		<b>369</b>	331

## Balance Sheet

	<u>Notes</u>	<u>31/12/97</u> <u>in DMm</u>	<u>31/12/96</u> <u>in DMm</u>
<b>ASSETS</b>			
Intangible assets .....		3,917	1,949
Tangible assets .....		9,171	7,450
Financial assets .....		2,323	1,935
<b>Fixed assets</b> .....	(10)	<b>15,411</b>	<b>11,334</b>
Stocks .....	(11)	12,085	10,070
Payments received on account of orders .....		<u>-7,438</u>	<u>-6,461</u>
		<b>4,647</b>	3,609
Trade debtors .....	(12)	5,628	5,063
Other receivables and other assets .....	(12)	1,475	1,300
Investments .....	(13)	213	208
Cash at bank and in hand .....		1,992	2,458
<b>Current assets</b> .....		<b>13,955</b>	<b>12,638</b>
<b>Prepayments</b> .....		<b>107</b>	<b>84</b>
		<u><b>29,473</b></u>	<u><b>24,056</b></u>
<b>EQUITY AND LIABILITIES</b>			
Subscribed capital .....		1,843	1,839
Capital reserve .....		2,978	2,935
Revenue reserves .....		1,734	1,484
Profit available for distribution of Mannesmann AG .....		369	331
Minority interests .....		1,874	1,121
<b>Equity</b> .....	(14)	<b>8,798</b>	<b>7,710</b>
Provisions for pensions and similar obligations .....	(15)	4,892	4,354
Other provisions .....	(16)	7,721	5,973
<b>Provisions</b> .....		<b>12,613</b>	<b>10,327</b>
Amounts owned to credit institutions .....		2,638	1,159
Trade creditors .....		3,318	2,792
Other creditors .....		2,056	1,998
<b>Liabilities</b> .....	(17)	<b>8,012</b>	<b>5,949</b>
<b>Deferred income</b> .....		<b>50</b>	<b>70</b>
		<u><b>29,473</b></u>	<u><b>24,056</b></u>

## Funds Statement

	<u>1997</u> in DMm	<u>1996</u> in DMm
<b>Net profit for the year</b> .....	<b>610</b>	603
Depreciation of fixed assets .....	2,349	2,063
Additions to provisions for pensions .....	538	113
Other income/expense not affecting payments .....	21	37
Changes in the accounting of provisions for pensions not affecting 1997 result .....	-615	—
<b>Cash flow according to DVFA/SG</b> .....	<b>2,903</b>	2,816
Income from the disposal of assets .....	-88	-204
Increase in stocks .....	-2,015	-1,197
Increase in payments received on account .....	977	1,366
Variation in receivables .....	-763	693
Increase in other provisions .....	1,748	467
Increase in liabilities .....	585	995
Changes in the accounting of stocks and deferred taxes not affecting 1997 result .....	794	—
<b>Increase in funds from operating activities</b> .....	<b>4,141</b>	4,936
Investments in fixed assets .....	-6,657	-3,274
Additions owing to expansion in the scope of consolidation .....	-1,981	-288
Profit on the disposal of fixed assets .....	2,287	839
Increase in loans .....	-8	-1
<b>Use of funds for investment activities</b> .....	<b>-6,359</b>	-2,724
<b>Net cash flow</b> .....	<b>-2,218</b>	2,212
Dividend of the previous year .....	-331	-294
Other changes in equity .....	809	107
Change in financial debts .....	1,458	-638
Total accounting changes not affecting 1997 result .....	-179	—
<b>Change in funds from financing activities</b> .....	<b>1,757</b>	-825
<b>Change in funds</b> .....	<b>-461</b>	1,387
<b>Balance of funds as of Jan. 1</b> .....	<b>2,666</b>	1,279
<b>Balance of funds as of Dec. 31</b> .....	<b>2,205</b>	2,666
Change in funds .....	-461	1,387
Change in financial debts .....	-1,458	638
<b>Change in net cash/debt position</b> .....	<b>-1,919</b>	2,025
<b>Balance of net cash/debt position as of Jan. 1</b> .....	<b>1,461</b>	-564
<b>Balance of net cash/debt position as of Dec. 31</b> .....	<b>-458</b>	1,461

## NOTES

### Coming closer to international accounting standards

In the 1997 consolidated financial statements, we have altered our accounting principles in a number of important items. These changes were made in the interest of:

- improving the information about the earnings and asset situation of our company;
- greater uniformity between external *accounting and our internal system of value-oriented management*;
- improved international comparability while still conforming fully with German commercial law.

The following changes have been made starting with the financial year 1997:

During production, the **stocks from long-term constructions** held at Demag and Dematic are valued at the total costs incurred up to the balance sheet date. Unlike the percentage-of-completion method, turnover and the receipt of the profit for the order are recorded only after completion of the project rather than in line with its progress. Impending losses continue to be taken into account as soon as they are recognized.

The use of this accounting method greatly improves the insight into the asset and income situation in the area of long-term constructions thus leading to a correct periodical presentation.

**The provisions for pensions and similar obligations** are valued according to the U.S. accounting regulations (FAS 87/88); this is being done in order to render a better picture of the actual financial burden on the company

than the previous valuation pursuant to Art. 6a of the German Income Tax Act (EStG) permits.

Starting with the financial year 1997, non-mandatory provisions for operating expenses are no longer formed. Provisions for operating expenses formed in prior years will remain in existence until used or until the reason for the provision no longer exists. This step brings us into line with international accounting standards under which only provisions of a binding nature towards third parties are shown in the accounts.

In order to present a periodically correct result, we will continue to consider deferred taxes in the event of temporary valuation differences between the consolidated result and the tax account. As a consequence, from 1997 on, we are also including the deferred tax assets of foreign companies in the tax deferral of the Group. As in the past, however, deferred taxes on losses carried forward will not be included in the tax deferral.

### Effects of the accounting changes on the 1997 consolidated financial statements

#### Equity

To ensure a periodically correct presentation of the result also in this financial year, the year of the changeover, we have set off the effects of the changes in our accounting principles that relate to the previous years (stocks from long-term constructions, pension provisions, deferred taxes) against the revenue reserves and the minority interests as of January 1, 1997 without impacting the profit and loss account. This resulted in an increase in the equity of approx. DM 179 million as of January 1, 1997.



NOTES — (continued)

	<u>in DMm</u>
<b>Amount on 31/12/96</b> .....	<b>7,710</b>
Accounting changes	
Long-term constructions .....	+657
Pension provisions .....	-615
Deferred taxes .....	+137
<b>Amount on 01/01/97 based on the new accounting methods</b> .....	<b>7,889</b>

**Result**

The result from ordinary activities and the net profit for the year 1997 were affected by the accounting changes.

For purposes of comparison, we have computed the result and net profit for 1996 as if we had already applied the new accounting and valuation methods a year earlier.

	<b>Result from ordinary activities</b>		<b>Net profit for the year</b>	
	<u>1997 in DMm</u>	<u>1996 in DMm</u>	<u>1997 in DMm</u>	<u>1996 in DMm</u>
<b>Previous accounting</b> .....	<b>1,627</b>	1,010	<b>531</b>	603
Accounting changes				
Long-term constructions .....	<b>+132</b>	-25	<b>+132</b>	-25
Pension provisions .....	<b>-47</b>	-41	<b>-47</b>	-41
Provisions for operating expenses .....	<b>+30</b>	—	<b>+30</b>	—
Deferred taxes .....	<b>—</b>	—	<b>-36</b>	+24
<b>New accounting</b> .....	<b>1,742</b>	944	<b>610</b>	561

**Scope of consolidation**

In addition to Mannesmann AG, 122 domestic and 161 foreign companies in which Mannesmann AG holds a direct or indirect majority of the shareholders' voting rights are included in the consolidated financial statements. Excluding companies that have both joined the Group and have been merged in the current year, this year's consolidated financial statements contain 16 new companies. 18 companies dropped out of the scope of consolidation. Ten companies that were included in the consolidated financial statements in the prior year and five companies that are included for the first time in 1997 were merged with other consolidated companies. Four domestic companies are not included pursuant to Art. 296(1) No. 1 HGB. The assets of these companies are tied to a specific purpose so that their inclusion would have

impaired the informative value of the consolidated financial statements. Being of minor importance, a further 41 domestic and 115 foreign companies are not included in the consolidated financial statements according to Art. 296(2) HGB. Three domestic joint ventures, in each of which a participation of 50% is held, are included in the consolidated financial statements on a pro rata basis according to Art. 310 HGB. In compliance with the regulations concerning associated companies, seven domestic and 18 foreign participations are shown in the consolidated financial statements according to Art. 311 and Art. 312 HGB. The major Mannesmann Group investment holdings are shown on page 81. The complete list of the Mannesmann Group investment holdings is shown in a separate document deposited with the Düsseldorf Local Court.

## NOTES — (continued)

### **Consolidation, accounting and valuation principles**

Pursuant to Art. 265(7) No. 2 HGB, certain items of the profit and loss account and of the balance sheet are combined and the more detailed information is shown separately in the Notes in order to improve the clarity of presentation. As a means of evaluating output, the total operating output is included as a subtotal in the profit and loss account. For the purpose of their inclusion in the consolidated financial statements, the financial statements of the individual companies are drawn up uniformly according to the accounting and valuation principles that apply to Mannesmann AG.

Investments in the companies included in the consolidated financial statements are consolidated by offsetting the acquisition costs of the subsidiaries against the revalued equity attributable to the parent company at the time of acquisition or first consolidation (revaluation method). Resulting differences are shown as goodwill on the assets side and as differences arising from capital consolidation on the liabilities side. Equity participations are included in the consolidated financial statements from the time of acquisition according to the equity share method pursuant to Art. 312(1) Sentence 1, No. 2 HGB. Loans and other receivables, liabilities, intercompany results, net

sales, and income and expenses between the consolidated companies are eliminated. Deferred taxes are calculated on those consolidation measures affecting the result; deferred tax assets and liabilities are subsequently netted.

### **Profit and loss account**

The income from participations also contains tax credits on the distribution of profits by domestic companies and foreign income tax deducted at source.

### **Fixed assets**

Intangible assets purchased are shown at their acquisition cost and are depreciated using the straight line method over the probable useful life. In order to ensure as accurate a presentation of the asset and earnings situation as possible, we have raised the maximum useful life for the goodwill from the acquisition of companies from 10 to 20 years for new additions starting in 1997.

Tangible assets are shown at acquisition or production cost and, if depreciable, subjected to scheduled depreciation over the probable useful life. Non-scheduled depreciation is taken if, on the balance sheet date, the value to be applied is less than the book value and this reduction in value is thought to be permanent. Scheduled depreciation is based on the following useful life periods:

**NOTES — (continued)**

Significant intercompany results arising from deliveries of tangible assets between consolidated companies are eliminated. As regards the depreciation of buildings, the principles of Art. 7 of the German Income Tax Act (EStG) apply. Movable assets are depreciated according to the briefest fiscally permitted useful life in each case, generally by the declining-balance method. Additions in the first half of the year are subject to full, and additions in the second half of the year to one-half of the annual depreciation. The change from the declining-balance method to the uniform distribution of the residual value over the remaining useful life permitted by Art. 7(3) EStG is made in the year in which it results in a higher amount of depreciation than would ensue from continued application of the declining-balance method. Minor assets

according to Art. 6(2) EStG are written off in full in the year of acquisition.

Different value thresholds apply abroad. The equity portion of the special items with a reserve element is allocated to the revenue reserves with due consideration of differences in tax rates.

Shares in affiliated companies and participations are reported in the balance sheet at acquisition cost. Where a permanent reduction in value is probable, an unscheduled write-off is taken to reach the lower value.

Tax-privileged loans for the procurement of housing and interest-free loans are discounted to their current value. Deductions of unaccrued interest are shown as depreciation and additions of accrued interest as write-ups.

Buildings .....	25 to 50 years
Factory facilities .....	10 to 20 years
Technical equipment and machinery .....	5 to 33 years
Telecommunications equipment .....	3 to 20 years
Factory and office equipment .....	2 to 10 years
Vehicles .....	4 to 7 years

**Current assets**

Raw materials and supplies are valued at acquisition cost or lower daily rates, work in progress and finished goods in the series business at production cost. In addition to the cost of direct material and prime cost, production cost also includes appropriate shares of the necessary material and production overheads as well as production-related depreciation on the assumption of normal utilization. General administration cost and expenditure on social facilities, on voluntary welfare benefits and company pension schemes as well as interest on borrowed funds are not capitalized. Stocks from long-term constructions are valued at the total costs incurred up the balance sheet date.

Goods purchased for resale are predominantly valued at accrued average stock ledger prices or lower daily rates. The last-in-first-out principle is applied to certain groups of homogeneous stocks, whereby it is assumed

that the most recently acquired stocks have been consumed or sold first. Downward adjustments are made to take account of the stock risks arising from storage duration, reduced usability, etc.

As regards stocks from deliveries between consolidated companies, the Group intercompany results are added or subtracted in the amount of the difference between the Group production cost and the balance sheet valuation by the recipient, with due consideration of the lower-of-cost-or-market principle. Payments received from customers on account of orders are deducted from stocks.

Receivables and other assets are stated at the nominal amount. Recognizable risks are taken account of by appropriate downward adjustments. Interest-free receivables with terms of more than one year are discounted. Short-term investments are valued at acquisition cost or the lower market price on the balance sheet date.

**NOTES — (continued)**

**Provisions**

Pursuant to FAS 87/88, the projected unit credit method is used to value the provisions for pensions and similar obligations with consideration being given to the trend in salaries and pensions as well as to fluctuation; the interest rate is based on the situation on the capital market. These provisions also contain the difference between existing plan assets and the pension obligation calculated according to FAS for the employees covered by the Group's benefit funds. The amount of the other provisions takes account of all

recognizable risks and uncertain financial obligations.

**Liabilities**

Liabilities are generally stated at the amounts repayable.

**Accrued and deferred items**

These items also contain investment allowances that are taken to income in instalments.

**Currency translation**

	<u>31/12/97</u>	<u>Rate on 31/12/96</u>	<u>Average rate for the year</u>	
			<u>1997</u>	<u>1996</u>
<b>Translation rates of selected currencies:</b>				
Brazil Real 1.00 .....	<b>1.61</b>	1.49	<b>1.61</b>	1.50
France FFr 100 .....	<b>29.88</b>	29.64	<b>29.71</b>	29.41
Great Britain £1.00 .....	<b>2.98</b>	2.63	<b>2.84</b>	2.35
Italy L1,000 .....	<b>1.02</b>	1.02	<b>1.02</b>	0.98
Japan ¥100 .....	<b>1.38</b>	1.34	<b>1.44</b>	1.38
Spain Ptas 100 .....	<b>1.18</b>	1.19	<b>1.18</b>	1.19
USA US\$1.00 .....	<b>1.79</b>	1.55	<b>1.73</b>	1.50

The items in the profit and loss account are translated at the average rate for the financial year, with the exception of depreciation, for which the historical rate is taken. The result for the financial year is translated at the middle rate at balance sheet date; differences arising from the translation are recorded under other operating expenses. Foreign currency receivables are valued at the buying rate on the day of accrual, or at the lower rate at balance sheet date or, if covered by forward transactions, at the forward rate. Liabilities in foreign currencies are valued at the selling rate on the day of incurrence or at the higher rate at balance sheet date or, if covered by forward transactions, at the forward rate. As regards the financial statements of foreign companies included in the consolidation,

current assets, liabilities and provisions are translated at the middle rate at balance sheet date. The other items are translated at the average rate for the corresponding year of addition (historical rate). The difference resulting from the translation of the balance sheet items is offset against equity without effect on the result for the year.

**Funds statement**

The cash flow in the funds statement is broken down into the three areas of operating activities, investment activities and financing activities. The funds comprise cash at bank and in hand and investments. The funds statement also reflects changes in the scope of consolidation.

## EXPLANATION OF THE PROFIT AND LOSS ACCOUNT

### 1. Net sales

#### Net sales by division:

	Total sales*		External sales	
	1997 in DMm	1996 in DMm	1997 in DMm	1996 in DMm
Demag .....	5,841	6,220	5,758	6,092
Dematic .....	3,407	2,949	3,391	2,918
Rexroth .....	4,428	4,060	4,292	3,933
Krauss-Maffei .....	2,789	2,182	2,781	2,176
<b>Engineering</b> .....	<b>16,283</b>	<b>15,235</b>	<b>16,222</b>	<b>15,119</b>
VDO .....	4,293	3,695	4,290	3,693
Sachs .....	4,018	3,877	4,004	3,868
<b>Automotive</b> .....	<b>8,299</b>	<b>7,566</b>	<b>8,294</b>	<b>7,561</b>
Mobilfunk .....	5,588	4,209	5,575	4,203
Arcor .....	1,209	—	1,197	—
Eurokom .....	2	—	—	—
<b>Telecommunications</b> .....	<b>6,790</b>	<b>4,209</b>	<b>6,772</b>	<b>4,203</b>
<b>Tubes &amp; Trading</b> .....	<b>6,738</b>	<b>6,654</b>	<b>6,610</b>	<b>6,509</b>
<b>Other companies</b> .....	<b>1,429</b>	<b>1,545</b>	<b>1,198</b>	<b>1,291</b>
	<u><b>39,539</b></u>	<u><b>35,209</b></u>	<u><b>39,096</b></u>	<u><b>34,683</b></u>

\* Group sectors consolidated

#### Net sales by region:

	1997 in DMm	1996 in DMm
Germany .....	17,281	15,039
Other EU countries .....	8,682	8,233
Rest of Europe .....	1,910	1,773
Africa .....	726	908
Asia .....	2,761	2,336
North America .....	5,570	4,555
Latin America .....	1,796	1,515
Australia and other territories .....	370	324
	<u><b>39,096</b></u>	<u><b>34,683</b></u>

**EXPLANATION OF THE PROFIT AND LOSS ACCOUNT — (Continued)**

**2. Change in stocks of finished goods and in work in progress and other own work capitalized**

	<u>1997</u> <u>in DMm</u>	<u>1996</u> <u>in DMm</u>
Increase in stocks of finished goods and in work in progress .....	662	551
Other own work capitalized .....	181	195
	<u>843</u>	<u>746</u>

**3. Other operating income**

	<u>1997</u> <u>in DMm</u>	<u>1996</u> <u>in DMm</u>
Cost reimbursements .....	196	153
Foreign exchange gains .....	122	94
Income from the dissolution of provisions .....	276	292
Other .....	328	315
	<u>922</u>	<u>854</u>

**4. Cost of materials**

	<u>1997</u> <u>in DMm</u>	<u>1996</u> <u>in DMm</u>
Cost of raw materials, consumables and other goods purchased .....	16,992	15,545
Cost of purchased services .....	4,973	4,031
	<u>21,965</u>	<u>19,576</u>

**5. Personnel costs/Employees**

	<u>1997</u> <u>in DMm</u>	<u>1996</u> <u>in DMm</u>
Wages and salaries .....	8,123	7,705
Social security and other pension costs .....	2,017	1,891
(of which for retirement pension) .....	(163)	(192)
	<u>10,140</u>	<u>9,596</u>

The other pension costs do not include the interest portion of the addition to provisions for pensions in the amount of DM 292 million

(previous year: DM 252 million), which is shown under net interest.

**EXPLANATION OF THE PROFIT AND LOSS ACCOUNT — (Continued)**

**Average number of employees by division:**

	Wage Earners	Salaried Staff	Trainees	Total workforce	
				1997	1996
Demag .....	5,811	10,280	609	16,700	18,326
Dematic .....	5,477	6,204	387	12,068	11,678
Rexroth .....	9,645	8,901	652	19,198	19,018
Krauss-Maffei .....	2,473	3,805	292	6,570	6,646
<b>Engineering</b> .....	<b>23,406</b>	<b>29,190</b>	<b>1,940</b>	<b>54,536</b>	<b>55,668</b>
VDO .....	8,289	7,529	325	16,143	15,747
Sachs .....	12,656	4,438	473	17,567	19,421
<b>Automotive</b> .....	<b>20,945</b>	<b>11,967</b>	<b>798</b>	<b>33,710</b>	<b>35,168</b>
Mobilfunk .....	—	5,302	99	5,401	4,212
Arcor .....	1,746	5,575	—	7,321	—
Eurokom .....	—	244	10	254	181
<b>Telecommunications</b> .....	<b>1,746</b>	<b>11,121</b>	<b>109</b>	<b>12,976</b>	<b>4,393</b>
<b>Tubes &amp; Trading</b> .....	<b>11,335</b>	<b>3,781</b>	<b>185</b>	<b>15,301</b>	<b>20,885</b>
<b>Other companies</b> .....	<b>753</b>	<b>2,959</b>	<b>200</b>	<b>3,912</b>	<b>4,353</b>
	<u><b>58,185</b></u>	<u><b>59,018</b></u>	<u><b>3,232</b></u>	<u><b>120,435</b></u>	<u><b>120,467</b></u>

**6. Other operating expenses**

	1997 in DMm	1996 in DMm
Other taxes .....	142	156
Administration costs .....	1,793	1,449
Selling costs .....	1,626	1,672
Bad-debt allowances .....	194	164
Foreign exchange losses .....	119	100
Other .....	880	419
	<u><b>4,754</b></u>	<u><b>3,960</b></u>

**7. Net income from participations**

	1997 in DMm	1996 in DMm
Income from profit transfer agreements .....	3	5
(of which from affiliated companies) .....	(3)	(5)
Income from participations .....	155	46
(of which from affiliated companies) .....	(14)	(14)
Income from participations in associated companies .....	154	81
Losses absorbed under transfer agreements .....	-3	—
	<u><b>309</b></u>	<u><b>132</b></u>

**EXPLANATION OF THE PROFIT AND LOSS ACCOUNT — (Continued)**

**8. Net interest**

	<u>1997</u> in DMm	<u>1996</u> in DMm
Income from other investments and long-term loans .....	3	3
Other interest and similar income .....	164	161
(of which from affiliated companies) .....	(6)	(8)
Interest and similar expenses .....	-149	-150
(of which from affiliated companies) .....	(-4)	(-3)
Net interest affecting cash .....	18	14
Interest portion of addition to provisions for pensions and similar obligations .....	<u>-292</u>	<u>-252</u>
	<u>-274</u>	<u>-238</u>

**9. Extraordinary result**

	<u>1997</u> in DMm	<u>1996</u> in DMm
Extraordinary income .....	79	294
Extraordinary expenses .....	<u>-459</u>	<u>-307</u>
	<u>-380</u>	<u>-13</u>

The extraordinary income and expenses refer to structural measures, such as the sale of and withdrawal from product sectors and

locations as well as measures in connection with cooperative arrangements.



## EXPLANATION OF THE BALANCE SHEET

### 10. Fixed assets (development in DMm)

	Acquisition and production costs						Accumulated depreciation	Book values 31/12/97	Book values 31/12/96	Depreciation
	01/01/97	Expansion of scope of cons.	Reclassifi- cations/ transfers	Additions	Disposals	Write-ups				
Property rights .....	227	8		90	49		146	130	104	67
Goodwill .....	3,521	239		2,080	497		1,565	3,778	1,839	373
Payments on account .....	6			4	1			9	6	
<b>Intangible assets</b> .....	<b>3,754</b>	<b>247</b>		<b>2,174</b>	<b>547</b>		<b>1,711</b>	<b>3,917</b>	<b>1,949</b>	<b>440</b>
Land and buildings .....	5,434	25	133		394		2,512	2,686	2,787	138
Technical equipment and machinery .....	13,164	722	2,115	27	2,021		9,218	4,789	3,561	1,255
Other equipment, factory and office equipment .....	3,887	400	68	61	614		3,028	774	721	469
Payments on account for assets	65	90		-42	1			112	65	
Assets under construction .....	316	497	-2,316	2,383	70			810	316	
<b>Tangible assets</b> .....	<b>22,866</b>	<b>1,734</b>		<b>2,429</b>	<b>3,100</b>		<b>14,758</b>	<b>9,171</b>	<b>7,450</b>	<b>1,862</b>
Shares in affiliated companies ..	1,253		12	670	1,469		88	378	1,205	39
Loans to affiliated companies ...	3							3	3	
Shares in associates companies	414		131	1,527	303			1,769	414	
Other participations .....	257		-143	37	34		23	94	236	2
Loans to companies linked by participating interest .....	2			20			9	13	1	7
Long-term investments .....	13			1	1		1	12	12	
Other loans .....	132			23	30	1	72	54	64	
<b>Financial assets</b> .....	<b>2,074</b>			<b>2,278</b>	<b>1,837</b>	<b>1</b>	<b>193</b>	<b>2,323</b>	<b>1,935</b>	<b>48</b>
	<u>28,694</u>	<u>1,981</u>		<u>6,881</u>	<u>5,484</u>	<u>1</u>	<u>16,662</u>	<u>15,411</u>	<u>11,334</u>	<u>2,350</u>

The disposals shown in the schedule of fixed assets include net book values of DM 383 million from companies that have been eliminated from the scope of consolidation. Fixed values of DM 95 million for track systems, spare parts and works equipment are

recorded under technical equipment and machinery. The depreciation for the financial year includes extraordinary depreciation of DM 96 million, of which DM 55 million are included in the extraordinary result.

**EXPLANATION OF THE BALANCE SHEET — (Continued)**

**Investments by division:**

	<u>1997</u> in DMm	<u>1996</u> in DMm
Demag .....	110	338
Dematic .....	163	88
Rexroth .....	309	322
Krauss-Maffei .....	142	102
<b>Engineering</b> .....	<b>724</b>	<b>850</b>
VDO .....	261	193
Sachs .....	353	204
<b>Automotive</b> .....	<b>614</b>	<b>397</b>
Mobilfunk .....	852	752
Arcor .....	2,363	1,045
Eurokom .....	2,940	135
<b>Telecommunications</b> .....	<b>6,155</b>	<b>1,932</b>
<b>Tubes &amp; Trading</b> .....	<b>1,207</b>	<b>306</b>
<b>Other companies</b> .....	<b>162</b>	<b>98</b>
	<u><b>8,862</b></u>	<u><b>3,583</b></u>

**11. Stocks**

	<u>1997</u> in DMm	<u>1996</u> in DMm
Raw materials and supplies .....	1,043	1,000
Work in progress .....	9,004	6,968
Finished goods and merchandise .....	1,501	1,461
Payments on account .....	537	641
	<u><b>12,085</b></u>	<u><b>10,070</b></u>

**12. Receivables and other assets**

	<u>1997</u> in DMm	<u>1996</u> in DMm
Trade debtors .....	5,628	5,063
(of which with a remaining term of more than 1 year) .....	(76)	(66)
Affiliated companies .....	201	207
(of which with a remaining term of more than 1 year) .....	(6)	(21)
Companies linked by participating interest .....	304	202
(of which with a remaining term of more than 1 year) .....	(26)	(27)
Other assets .....	970	891
(of which with a remaining term of more than 1 year) .....	(259)	(113)
	<u><b>7,103</b></u>	<u><b>6,363</b></u>

The other assets are mainly loans and tax claims.

## EXPLANATION OF THE BALANCE SHEET — (Continued)

### 13. Investments

The investments are mostly fixed-interest bearing securities. They serve as capital investments.

### 14. Equity

In the year under review, the share capital of Mannesmann AG rose by a nominal DM3,676,050.00 from a nominal DM1,839,395,250.00 to a nominal DM1,843,071,300.00. In September 1997, the Board of Management decided to make partial use of the authorization pursuant to Art. 3(6) of the Articles of Association to increase the share capital by up to a nominal DM47,752,100.00 for the purpose of issuing employee shares. The capital was increased by a nominal DM3,278,350.00; the shares with a par value of DM50.00 each were issued at a price of DM648.50 each. The employee shares issued in the year under review account for 0.18 percent of the share capital.

In the 1997 financial year, a nominal DM31,550.00 of the contingent capital created to indemnify the shareholders of Mannesmann VDO AG (formerly VDO Adolf Schindling AG) and Hartmann & Braun AG (now Eltag Bailey Hartmann & Braun GmbH & Co. KG), who retired owing to the incorporation of said companies, was used according to Art. 3(7) of the Articles of Association. Of the contingent capital increase authorized under Art. 3(8) of the Articles of Association to indemnify the shareholders of Krauss-Maffei AG, who retired on that company's incorporation, a nominal DM366,150.00 was used.

The share capital of Mannesmann AG as of December 31, 1997 is divided between 18,361,426 ordinary shares with a par value of DM50.00 each and 9,250,000 ordinary shares with a par value of DM100.00 each. On December 31, 1997, pursuant to the Articles of Association, the outstanding authorized capital increase for the issue of bearer shares, valid until June 30, 1999, amounted to a nominal DM500,000,000.00 (Art. 3 [5]), and the outstanding authorized capital increase for the issue of employee shares, valid until June 28, 2001, amounted to a nominal DM44,473,750.00 (Art. 3 [6]). Authority also exists under Art. 3(7) of the Articles of Association for a contingent capital increase in the amount of a nominal DM3,654,900.00, subject to a time limit up to June 30, 2004, and, according to Art. 3(8), for a contingent capital increase in the amount of a nominal DM2,287,950.00, subject to a time limit up to June 28, 2006.

The revenue reserves are other revenue reserves. The amounts resulting from adjustment of the previous years' figures because of the changes in accounting methods, which did not affect the 1997 result, are transferred to these revenue reserves.

## EXPLANATION OF THE BALANCE SHEET — (Continued)

### Development of equity:

	<u>in DMm</u>
<b>Balance as of 31/12/96</b> .....	<u><b>7,710</b></u>
Accounting changes not affecting the 1997 result .....	+179
Dividend distribution by Mannesmann AG for 1996 .....	-331
Increases in subscribed capital at Mannesmann AG .....	+4
Transfer of the premiums from the capital increases to the capital reserve .....	+43
Appropriation from the net profit for the year 1997 to other revenue reserves .....	+120
Other changes in revenue reserves .....	-82
Net profit for the year 1997 .....	+369
Other changes to minority interests .....	<u>+786</u>
<b>Balance as of 31/12/97</b> .....	<u><b>8,798</b></u>

### 15. Provisions for pensions and similar obligations

The company pension scheme that is in place for Mannesmann employees operates essentially through direct undertakings and pension funds maintained by the Group. Pensions are generally based on length of service in the Group with the exact amount of the payment being based partly on the average salary and partly on schedules of fixed amounts.

The pension provisions were valued in accordance with U.S. GAAP using the projected unit credit method with consideration being given to the trend in salaries and pensions. The valuation in Germany was based on the following assumptions:

	1997 in %	1996 in %
Interest rate .....	6.5	6.5
Salary trend .....	2.5	2.5
Pension trend .....	1.5	1.5

These assumptions were adjusted to local circumstances where necessary for valuation abroad.

The amount to the pension provisions breaks down as follows:

	1997 in DMm	1996 in DMm
Service cost .....	94	96
Interest expense .....	324	355
Return on plan assets .....	-32	-29
Actuarial adjustment .....	5	-4
<b>Total expense</b> .....	<b>391</b>	<b>418</b>

The interest expense less return on plan assets is shown under net interest. Service cost and actuarial adjustments are shown

under personnel costs. The amount of the pension provisions are derived as follows:

**EXPLANATION OF THE BALANCE SHEET — (Continued)**

	1997 in DMm	1996* in DMm
Vested benefit obligation .....	4,895	5,100
Non-Vested benefit obligation .....	191	171
Accumulated benefit obligation .....	5,086	5,271
Effects of future salary increases .....	163	168
Projected benefit obligation .....	5,249	5,439
Plan assets of the benefit plans .....	-426	-470
Actuarial adjustment .....	69	—
<b>Pension provisions .....</b>	<b><u>4,892</u></b>	<b><u>4,969</u></b>

**16. Other provisions**

	1997 in DMm	1996 in DMm
Tax provisions .....	1,017	925
(of which provisions for deferred taxes) .....	(5)	(474)
Other accruals .....	6,704	5,048
	<b><u>7,721</u></b>	<b><u>5,973</u></b>

The other accruals mainly relate to guarantees, outstanding costs for invoiced orders, anticipated losses from pending transactions, structural measures, indemnities, service anniversary payments to employees, holiday entitlements, other personnel costs and other risks connected with current business.

The total amount of the other accruals includes long-term provisions of DM498 million (previous year DM489 million).

**17. Liabilities**

	1997 in DMm	Remaining term up to 1 year in DMm	Remaining term more than 5 years in DMm	1996 in DMm	Remaining term up to 1 year in DMm	Remaining term more than 5 years in DMm
Loans .....	25	25	—	46	23	—
Credit institutions .....	2,638	701	1,526	1,159	908	50
Financial debts .....	2,663	726	1,526	1,205	931	50
Trade creditors .....	3,318	3,307	1	2,792	2,750	—
Liabilities on bills .....	48	48	—	41	41	—
Affiliated companies .....	171	168	—	113	104	—
Companies linked by participating interest .....	228	216	1	186	186	—
Other liabilities .....	1,584	1,493	14	1,612	1,540	13
(of which for taxes) .....	(463)			(313)		
(of which for social security) .....	(224)			(229)		
	<b><u>8,012</u></b>	<b><u>5,958</u></b>	<b><u>1,542</u></b>	<b><u>5,949</u></b>	<b><u>5,552</u></b>	<b><u>63</u></b>

\* For reasons of comparison, the previous year's figures have been adjusted to the new accounting methods.

## EXPLANATION OF THE BALANCE SHEET — (Continued)

The other liabilities also include liabilities arising from wages and salaries as well as taxes and levies.

### Liabilities secured by mortgages:

	<u>1997</u>	<u>1996</u>
	in DMm	in DMm
Amounts owed to credit institutions .....	81	65
Other liabilities .....	<u>—</u>	<u>—</u>
	<u>81</u>	<u>65</u>

### Contingent liabilities and other financial obligations

#### Contingent liabilities

	<u>1997</u>	<u>1996</u>
	in DMm	in DMm
Liabilities on bills of exchange .....	102	61
Liabilities from guarantees .....	38	66
Liabilities from warranty contracts .....	233	131
Security for liabilities of third parties .....	10	10

As of 31/12/97 the nominal value of the other financial obligations not shown under the contingent liabilities totalled DM3,239 million. These relate to obligations under rental and leasing contracts, as well as from capital projects.

Mannesmann is liable for the liabilities of Elsag Bailey Hartmann & Braun GmbH & Co. KG (formerly Hartmann & Braun AG), Frankfurt/Main, as well as of Kronprinz AG (formerly Mannesmann Kronprinz AG), substantiated by the time the completion of these companies' incorporation is announced.

### Maturity of other financial obligations:

	<u>Rental and leasing contracts in DMm</u>
1998 .....	201
1999 .....	169
2000 .....	147
2001 .....	135
2002 .....	168
thereafter .....	<u>359</u>
	<u>1,179</u>

### Profit Distribution

#### Derivative financial instruments

Mannesmann utilizes derivative financial instruments exclusively as a hedge against interest rate and currency risks.

As of 31/12/97, the Group held interest rate cover for underlying transactions worth DM264 million. The volume of forward exchange rate transactions was DM4,284

## EXPLANATION OF THE BALANCE SHEET — (Continued)

million as of 31/12/97. Over 90 per cent of the existing forward exchange rate transactions are on a short-term basis, with terms of less than one year. All derivative financial instruments are purchased and sold through banks with a first-class credit rating within the framework of defined limits, and are subject to rigorous monitoring. This is ensured, in particular, by a strict separation of trading, settlement and monitoring responsibilities.

### **Total remuneration of the Board of Management, the Supervisory Board and former members of the Board of Management**

*The remuneration of the Board of Management for the 1997 financial year amounted to DM9,542,954.00. A total of DM5,840,431.00 was paid to former members of the Board of Management and their surviving dependants. An amount of DM48,660,897.00 has been set aside as a provision for pension obligations towards former members of the Board of Management and their surviving dependants. The remuneration of the Supervisory Board for the 1997 financial year amounts to DM1,366,500.00.*

### **Loans to members of the Board of Management**

As of 31/12/97, the loans to members of the Board of Management amounted to

DM273,403.00. The interest payable on the loans was four per cent; the agreed terms are between six and ten years.

As against the amount of DM322,022.00 as of 31/12/1996, DM48,619.00 have been repaid in 1997.

### **Profit Distribution, Proposed Profit Distribution of Mannesmann AG**

Profit for the year . . .	DM542,614,260.00
Appropriations to revenue reserves	<u>-DM174,000,000.00</u>
Profit available for distribution . . . . .	<u>DM368,614,260.00</u>

It is proposed that the profit available for distribution of DM368,614,260.00 be used to pay a dividend of DM10.00 per share with a par value of DM50.00. The dividend derives from earnings subject to full taxation in Germany, so that domestic shareholders will receive a tax credit of DM4.29 per share for the year 1997.

Düsseldorf, March 16, 1998

*Mannesmann Aktiengesellschaft*

Board of Management  
Funk, Esser, Mihatsch, Peter, Sattler  
Prinz Wittgenstein

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**Summary of Certain Significant Differences between German  
Accounting Standards as Prescribed by Law and U.S. GAAP**

U.S. GAAP and German accounting standards as prescribed by law ("German GAAP") differ in certain significant respects. The following is a brief discussion of the material differences as determined by management of Vodafone AirTouch Plc.

### **Intangible assets**

Under U.S. GAAP, purchased intangible assets must be capitalized, while self-generated intangibles assets may be capitalized in certain limited circumstances. Goodwill is recorded and amortized over its estimated useful life, not exceeding 40 years. In accordance with German GAAP, purchased intangible assets must be capitalized, while self-generated intangibles may not be capitalized. Goodwill is recorded when assets and liabilities of a company are acquired and is amortized over its estimated useful life, not exceeding 15 years.

### **Tangible fixed assets**

In accordance with U.S. GAAP, tangible fixed assets are depreciated over their estimated useful lives. The methods used for tax and book depreciation may be different. German GAAP specifies that methods for both tax and book depreciation be the same.

### **Leases**

U.S. GAAP prescribes that leases which meet certain criteria be accounted for as capital leases. These criteria are designed to determine whether substantially all of the risks and rewards of ownership of the leased asset are transferred to the lessee. Leased assets classified as capital leases and the underlying obligations of the lease are recorded on the lessee's balance sheet. Under German GAAP, lease transactions are generally recorded as operating leases. Neither the leased asset nor the underlying obligation are recorded on the balance sheet.

### **Marketable securities and investments**

Under U.S. GAAP, equity and debt securities are recorded at fair value, with unrealized gains and losses recorded as a separate component to equity if they are classified as "available for sale" securities, at fair value, with unrealized gains and losses recorded in the profit and loss account if they are classified as "trading", or at amortized cost, if they are classified as "held-to-maturity", in accordance with Statement of Financial Accounting Standard ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under German GAAP, marketable securities are recorded at the lower of cost or market.

### **Long-term contracts**

For long-term contracts under U.S. GAAP, there are two types of recognition, completed contract or percentage of completion. Where reasonable estimates of the percentage of completion are possible, the percentage of completion method should be used. Where reasonable estimates are not possible, the completed contract method should be used. For German GAAP, profit is generally realized on a completed contract basis.

### **Deferred taxation**

Under U.S. GAAP, deferred tax assets and liabilities are recognized for the estimated future tax effects attributable to temporary differences and carryforwards, based on currently enacted tax rates. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that are not expected to be realized. Under German GAAP, deferred tax assets and liabilities are generally not provided for.

## **Pension Accruals**

U.S. tax and labor laws require that U.S. pension plans must be partly funded in independent pension funds. U.S. GAAP prescribes that unfunded pension liabilities and excess pension funds be accounted for in the balance sheet using the "projected unit credit" actuarial valuation method. Under German law, pension plans do not have to be funded. German GAAP requires unfunded plans to be stated at their actuarial present value, based on interest rates, retirement age, life expectancy and other factors, some of which are prescribed by German law.

## **Accruals or provisions**

Under U.S. GAAP, an accrual is recorded by a charge to income if it is both probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. If only a range of loss can be reasonably estimated, the amount at the low end of the range should be recognized.

Under German GAAP, a charge to income is recorded if an asset has been impaired or a liability actually or possibly has been incurred. In the event of a loss contingency, the general German GAAP principle of prudence would prevail and would result in a charge to income. This amount is generally provided for when the loss incurrence is possible rather than probable.

## **Foreign currency translation**

Under U.S. GAAP, assets and liabilities denominated in a foreign currency are translated at year-end rates. Unrealized gains and losses arising from the translation of balances denominated in a foreign currency are taken to the profit and loss account.

Under German GAAP, balance sheet items are included either at the rate prevailing at the date of purchase/sale or at the rate at the balance sheet date if the latter increases the liability or reduces the asset. Any unrealized losses arising from the translation of balances denominated in a foreign currency are taken to the profit and loss account.

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## UNDERWRITING

We have entered into a purchase agreement with respect to the notes. Subject to certain conditions, each initial purchaser has

severally agreed to purchase the principal amount of notes indicated in the following table.

<u>Initial Purchasers</u>	<u>Principal Amount of 7.625% Notes due 2005</u>	<u>Principal Amount of 7.750% Notes due 2010</u>	<u>Principal Amount of 7.875% Notes due 2030</u>
Goldman, Sachs & Co. ....	\$ 700,000,000	\$1,100,000,000	\$300,000,000
Salomon Smith Barney Inc. ....	\$ 700,000,000	\$1,100,000,000	\$300,000,000
Banc of America Securities LLC.....	\$ 175,000,000	\$ 275,000,000	\$ 75,000,000
Lehman Brothers International (Europe).....	\$ 175,000,000	\$ 275,000,000	\$ 75,000,000
Total .....	\$1,750,000,000	\$2,750,000,000	\$750,000,000

The purchase price for the notes will be the initial offering price set forth on the cover page of the offering circular less an underwriting discount of 0.350%, 0.450% and 0.875% of the principal amount of the 5 year notes, the 10 year notes and the 30 year notes, respectively. The initial purchasers propose to offer the notes at the offering price set forth on the cover page of the offering circular. After the notes are released for sale, the initial purchasers may change the offering price and other selling terms.

The notes have not been and will not be registered under the Securities Act for offer or sale as part of their distribution and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to, the registration requirements of the Securities Act.

Each initial purchaser has agreed that it will only offer or sell the notes in the United States to qualified institutional buyers in reliance on Rule 144A under the Securities Act. Any offer or sale of notes in reliance on Rule 144A will be made by broker-dealers who are registered as such under the Securities Exchange Act of 1934. Vodafone AirTouch has been advised by the initial purchasers that the initial purchasers, through certain selling agents, propose to resell notes outside the United States in offshore transactions in reliance on Regulation S under the Securities Act and in accordance with applicable law. The note offering price and underwriting discount are the same for the notes sold pursuant to Rule 144A and Regulation S. Terms used above have the meanings given to them by

Regulation S and Rule 144A under the Securities Act.

Each initial purchaser has acknowledged and agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the notes within the United States or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering or the original issue date of the notes unless in accordance with Rule 903 of Regulation S or Rule 144A. The initial purchasers will send to each dealer to which it sells notes during the 40-day period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until the expiration of the 40-day period referred to above, an offer or sale of notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The notes are new issues of securities with no established trading market. We have been advised by the initial purchasers that the initial purchasers intend to make a market in the notes but they are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes.

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