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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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**Form 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)  
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: March 31, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-10086

**VODAFONE GROUP PUBLIC LIMITED COMPANY**

(formerly VODAFONE AIRTOUCH PUBLIC LIMITED COMPANY)

(Exact Name of Registrant as specified in its Charter)

**England**

(Jurisdiction of incorporation or organization)

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

(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>     | <u>Name of each exchange<br/>on which registered</u> |
|--------------------------------|--|
| Ordinary shares of \$0.10 each | New York Stock Exchange*                             |

\* Listed, not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

**None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

|  |                |
|--|----------------|
| Ordinary Shares of \$0.10 each . . . . .             | 65,012,501,146 |
| 7% Cumulative Fixed Rate Shares of £1 each . . . . . | 50,000         |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes  No

Indicate by check mark which financial statements item the registrant has elected to follow:

Item 17  Item 18

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**VODAFONE GROUP PLC**  
**TABLE OF CONTENTS AND FORM 20-F CROSS REFERENCE GUIDE**

|                                 |  | <u>Page</u> |
|---------------------------------|--|-------------|
| Definitions and Technical Terms |  | 3           |
| Introduction                    |  | 4           |
| Forward-Looking Statements      |  | 4           |
| <b>PART I</b>                   |  |             |
| Item 1                          | Identity of Directors, Senior Management and Advisers                        | 6           |
| Item 2                          | Offer Statistics and Expected Timetable                                      | 6           |
| Item 3                          | Key Information  | 6           |
|                                 | — Selected Financial Data  | 6           |
|                                 | — Risk Factors   | 8           |
| Item 4                          | Information on the Company   | 11          |
|                                 | — History and Development of the Company                                     | 11          |
|                                 | — Business Overview  | 15          |
|                                 | — Organizational Structure   | 39          |
|                                 | — Property, Plants and Equipment   | 39          |
| Item 5                          | Operating and Financial Review and Prospects                                 | 40          |
|                                 | — Operating Results  | 41          |
|                                 | — Liquidity and Capital Resources  | 52          |
|                                 | — Research and Development, Patents and Licenses, etc.                       | 56          |
|                                 | — Trend Information  | 57          |
| Item 6                          | Directors, Senior Management and Employees                                   | 59          |
|                                 | — Directors and Senior Management  | 59          |
|                                 | — Compensation   | 62          |
|                                 | — Board Practices  | 73          |
|                                 | — Employees  | 75          |
|                                 | — Share Ownership  | 75          |
| Item 7                          | Major Shareholders and Related Party Transactions                            | 77          |
|                                 | — Major Shareholders   | 77          |
|                                 | — Related Party Transactions   | 77          |
| Item 8                          | Financial Information  | 77          |
|                                 | — Consolidated Statements and Other Financial Information                    | 77          |
|                                 | — Significant Changes  | 78          |
| Item 9                          | The Offer and Listing  | 79          |
|                                 | — Share Price History  | 79          |
|                                 | — Markets  | 80          |
| Item 10                         | Additional Information   | 80          |
|                                 | — Memorandum and Articles of Association                                     | 80          |
|                                 | — Material Contracts   | 84          |
|                                 | — Exchange Controls  | 85          |
|                                 | — Taxation   | 85          |
|                                 | — Documents on Display   | 88          |
| Item 11                         | Quantitative and Qualitative Disclosures About Market Risk                   | 88          |
| Item 12                         | Description of Securities Other Than Equity Securities                       | 89          |
| <b>PART II</b>                  |  |             |
| Item 13                         | Defaults, Dividend Arrearages and Delinquencies                              | 90          |
| Item 14                         | Material Modifications to the Rights of Security Holders and Use of Proceeds | 90          |

|  | <u>Page</u> |
|--|-------------|
| Item 15 Reserved . . . . .             | 90          |
| Item 16 Reserved . . . . .             | 90          |
| Item 17 Financial Statements . . . . . | 90          |

**PART III**

|  |    |
|--|----|
| Item 18 Financial Statements . . . . . | 90 |
| Item 19 Exhibits . . . . .             | 90 |

## Definitions and Technical Terms

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

|                           |  |
|---------------------------|--|
| “Active customer”         | A registered customer who has made or received a call in the last three months or, where information on incoming calls is not available, a customer who has made a chargeable call in the last three months.   |
| “AirTouch”                | AirTouch Communications, Inc. and its subsidiary undertakings (and, where the context requires, its interests in joint ventures and associated undertakings). AirTouch was renamed Vodafone Americas Asia Inc. on September 27, 2000.                  |
| “ADSs”                    | American Depositary Shares, each representing ten Vodafone ordinary shares.  |
| “ARPU”                    | Average revenue per customer.  |
| “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. |
| “Company”                 | Vodafone Group Plc, not including its subsidiary undertakings and its investments in joint ventures and associated undertakings.   |
| “EBITDA”                  | Earnings before interest, tax, depreciation and amortization.  |
| “GPRS”                    | General packet radio service, an enhancement to the GSM mobile communications system that supports data packets, enabling continuous flows of data packets over the system for such applications as web browsing and file transfer.                    |
| “GSM”                     | Global system for mobile communications, a standard for digital wireless telephone transmissions at a frequency of 900 MHz, 1800 MHz, or 1900 MHz.   |
| “Mannesmann”              | Mannesmann AG and its subsidiary undertakings (and where the context requires, its interests in joint ventures and associated undertakings).   |
| “Market penetration”      | Total number of registered customers in a market divided by the estimated population in that market, expressed as a percentage.  |
| “Multi-media portal”      | Service which provides web access from a range of fixed and mobile devices.  |
| “Proportionate customers” | The number of registered customers of a venture multiplied by Vodafone’s effective percentage ownership interest in the venture.   |
| “Registered customer”     | Unless the context otherwise requires, a mobile handset connected to a cellular network.   |
| “Service provider”        | A company, either third-party or operated in-house, providing retail services to the mobile telecommunications market.   |
| “SMS”                     | Short Message Service.   |
| “The Group” or “Vodafone” | The Company and its subsidiary undertakings (and, where the context requires, its interests in joint ventures and associated undertakings).  |
| “UMTS”                    | Universal Mobile Telecommunications System, also known as 3G.  |
| “Venture customers”       | The number of registered customers in ventures in which Vodafone has an ownership interest.  |
| “WAP”                     | Wireless application protocol, a standard for providing cellular phones, pagers and other handheld devices with secure access to e-mail and text based web pages.  |
| “3G”                      | Third generation wireless service or UMTS, the new digital standard for wireless telecommunications.   |

## Introduction

On July 28, 2000, following shareholder approval, Vodafone AirTouch Public Limited Company was renamed Vodafone Group Public Limited Company. References in this document to “Vodafone” or “the Group” refer to Vodafone Group Public Limited Company and its subsidiary undertakings (and, where the context requires, its interests in joint ventures and associated undertakings). References to “the Company” refer to Vodafone Group Public Limited Company only.

The Company publishes its Consolidated Financial Statements in pounds sterling. In this Annual Report, references to “US dollars”, “\$”, “cents” or “¢” are to United States currency and references to “pounds sterling”, “£”, “pence” or “p” are to UK currency. References to “euros” or “€” are to the currency of the European Union, which is used in “paperless” transactions (pending the issue of euro banknotes and coins). Merely for convenience, this Annual Report contains translations of certain pounds sterling and euro amounts into US dollars at specified rates. These translations should not be construed as representations that the pounds sterling or euro amounts actually represent such US dollar amounts or could be converted into US dollars at the rate indicated or at any other rate. Unless otherwise indicated, the translations of pounds sterling and euro amounts into US dollars have been made at \$1.419 per £1.00 and \$0.8794 per €1.00, the noon buying rate in the City of New York for cable transfers in pounds sterling and euro amounts as certified for customs purposes by the Federal Reserve Bank of New York (the “Noon Buying Rate”) on March 30, 2001. The Noon Buying Rate on June 22, 2001 was \$1.4140 per £1.00 and \$0.8570 per €1.00. See “Item 3. Key Information — Selected Financial Data — Exchange rates” of this Annual Report for information regarding the Noon Buying Rates for the fiscal years ended March 31, 1997 through March 31, 2001, and for the period from December 2000 to June 22, 2001.

## Forward-Looking Statements

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to Vodafone’s financial condition, results of operations and businesses and certain of Vodafone’s plans and objectives with respect to these items. In particular, among other statements, this statement and certain statements concerning the Company’s expectations and plans, strategy, management’s objectives, the effect of regulatory developments, prospects, trends in market shares, market standing, overall market trends, risk management, churn rate, exchange rates and revenues and general and administration expenses, contain forward-looking statements. In addition, forward-looking statements also include statements made with respect to expectations as to launch and roll-out dates, as well as the scope thereof, for products and services, future performance, costs, revenues, improvements in margin, expected synergies and tax savings, cash flows, future average revenue per customer and future revenues derived from the new non-voice services which the Group is currently developing, expected EBITDA results, growth, wireless penetration rates and growth in internet use and other trend projections.

Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as “anticipates”, “aims”, “due”, “could”, “may”, “should”, “expects”, “believes”, “intends”, “plans”, “targets”, “goal” or “estimates”. By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Actual results and developments are likely to differ, and could differ materially from those expressed or implied by these forward-looking statements due to many factors. These factors include, but are not limited to, the following:

- changes in economic conditions in markets served by Vodafone’s operations that 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, slower customer growth or reduced customer retention;
- greater than expected growth in customers and usage, requiring increased investment in network capacity;
- the impact on capital spending from the deployment of new technologies, or the rapid obsolescence of existing technology;

- the possibility that technologies, including wireless internet platforms, and services, including 3G services, will not perform according to expectations or that vendors' performance will not meet Vodafone's requirements;
- the ability of Vodafone to achieve the anticipated cost savings or revenue enhancements in connection with its partnership with Verizon Communications, and/or its acquisition of Mannesmann;
- changes in the projected growth rates of the mobile telecommunications industry;
- the accuracy of or any changes in Vodafone's projected revenue model or global branding strategy;
- the ability of Vodafone to meet the objectives of management initiatives;
- lower than anticipated future penetration rates and average revenue per user rates;
- future revenue contributions of data services offered by Vodafone as a percentage of total revenue, leading to difficulties in meeting Vodafone's target improvements in margin;
- lower than expected impact of GPRS and Vizzavi Europe's partnership with Vodafone's operators on Vodafone's future revenues;
- the ability of Vodafone to harmonize mobile platforms, including the Global Internet Platform, any delays, impediments or other problems associated with the roll-out and scope of 3G technology and services, multi-mode handsets, SIM swaps, color displays, and Vizzavi services in new markets;
- the ability of Vodafone to offer new services, such as short-code dialing, Eurocall, traffic telematic services for the automotive industry, GPRS roaming ability, assisted roaming, mobile payment facilities (with E-wallet and micropayment functionality), chat, instant messaging and unified messaging, streaming audio and video, or with the delivery and performance of GPRS handsets and other key products from suppliers;
- greater than anticipated prices of new mobile handsets;
- any conditions imposed in connection with regulatory approvals sought in connection with pending acquisitions and dispositions;
- the ability to realize benefits from entering into partnerships for developing data and internet services;
- changes in the regulatory framework in which Vodafone operates; and
- changes in exchange rates, including particularly the exchange rate of the pound to the euro.

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 "Item 3. Key Information — Risk Factors". All subsequent written or oral forward-looking statements attributable to Vodafone, or any persons acting on behalf of the Group, are expressly qualified in their entirety by the factors referred to above.

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### Selected Financial Data

The selected financial data set out on the following pages should be read in conjunction with the Consolidated Financial Statements of the Company for the three years ended March 31, 2001, which appear elsewhere in this Annual Report. The consolidated financial statements of the Company for the year ended March 31, 2001, prepared in accordance with the Company's statutory obligations under the laws of the United Kingdom ("UK"), will be delivered to the UK's Registrar of Companies.

#### Selected consolidated financial data

The selected consolidated financial data for the five years ended March 31, 2001 are derived from the Consolidated Financial Statements of the Company included in this Annual Report.

|  | Year ended and at March 31,                              |         |         |         |         |         |
|--|--|---------|---------|---------|---------|---------|
|  | 2001(1)  |         | 2000(2) | 1999    | 1998    | 1997    |
|  | \$   | £       | £       | £       | £       | £       |
|  | (in millions, except per ordinary share and ADS amounts) |         |         |         |         |         |
| <b>Consolidated Profit and Loss Account Data</b>               |  |         |         |         |         |         |
| <b>UK GAAP(3)</b>  |  |         |         |         |         |         |
| Group turnover . . . . .                                       | 21,291   | 15,004  | 7,873   | 3,360   | 2,471   | 1,749   |
| Of which in respect of:  |  |         |         |         |         |         |
| continuing operations . . . . .                                | 9,418  | 6,637   | 4,498   | 3,302   | 2,408   | 1,642   |
| acquisitions . . . . .   | 11,873   | 8,367   | 3,375   | 58      | 63      | 107     |
| (Loss) / profit for the financial year . . . . .               | (13,854)   | (9,763) | 487     | 637     | 419     | 364     |
| Basic (loss) / earnings per ordinary share(4) . . . . .        | (0.23)   | (0.16)  | 0.02    | 0.04    | 0.03    | 0.02    |
| Diluted (loss) / earnings per ordinary share(4) . . . . .      | (0.23)   | (0.16)  | 0.02    | 0.04    | 0.03    | 0.02    |
| Adjusted basic earnings per ordinary share(4) . . . . .        | 0.05   | 0.04    | 0.05    | 0.04    | 0.03    | 0.02    |
| Basic (loss) / earnings per ADS(4) . . . . .                   | (2.26)   | (1.59)  | 0.18    | 0.41    | 0.27    | 0.24    |
| Cash dividends per ordinary share(5) . . . . .                 | 0.02   | 0.01    | 0.01    | 0.01    | 0.01    | 0.01    |
| Cash dividends per ADS(5) . . . . .                            | 0.20   | 0.14    | 0.13    | 0.13    | 0.11    | 0.10    |
| <b>US GAAP(3)</b>  |  |         |         |         |         |         |
| Group turnover . . . . .                                       | 15,755   | 11,103  | 7,873   | 3,360   | 2,471   | 1,749   |
| (Loss) / profit for the financial year . . . . .               | (10,034)   | (7,071) | 553     | 510     | 374     | 342     |
| Basic (loss) / earnings per ordinary share(4) . . . . .        | (0.16)   | (0.12)  | 0.02    | 0.03    | 0.02    | 0.02    |
| Diluted (loss) / earnings per ordinary share(4) . . . . .      | (0.16)   | (0.12)  | 0.02    | 0.03    | 0.02    | 0.02    |
| Basic (loss) / earnings per ADS(4) . . . . .                   | (1.63)   | (1.15)  | 0.20    | 0.33    | 0.24    | 0.22    |
| <b>Consolidated Balance Sheet Data</b>                         |  |         |         |         |         |         |
| <b>UK GAAP(3)</b>  |  |         |         |         |         |         |
| Total assets . . . . .   | 244,160  | 172,065 | 153,368 | 3,643   | 2,502   | 2,422   |
| Long-term obligations . . . . .                                | 15,942   | 11,235  | 6,374   | 1,179   | 685     | 573     |
| Shareholders' funds . . . . .                                  | 206,313  | 145,393 | 140,833 | 815     | 283     | 770     |
| Non-equity minority interests . . . . .                        | 1,602  | 1,129   | 1,004   | 4       | 23      | 24      |
| <b>US GAAP(3)</b>  |  |         |         |         |         |         |
| Total assets . . . . .   | 336,256  | 236,967 | 173,347 | 4,719   | 4,026   | 3,019   |
| Long-term obligations . . . . .                                | 17,441   | 12,291  | 6,382   | 1,187   | 694     | 573     |
| Shareholders' funds . . . . .                                  | 220,686  | 155,522 | 146,334 | 1,858   | 1,440   | 1,337   |
| Non-equity minority interests . . . . .                        | 1,602  | 1,129   | 1,004   | 4       | 23      | 24      |
| <b>Other Data</b>  |  |         |         |         |         |         |
| Weighted average number of shares(4)                           |  |         |         |         |         |         |
| Basic . . . . .  | —  | 61,439  | 27,100  | 15,445  | 15,365  | 15,302  |
| Diluted . . . . .  | —  | 61,398  | 27,360  | 15,510  | 15,410  | 15,335  |
| US dollar equivalent dividends per ordinary share(5) . . . . . | —  | \$ 0.02 | \$ 0.02 | \$ 0.02 | \$ 0.02 | \$ 0.02 |

Notes:

- (1) Vodafone's interest in Verizon Wireless, Vodafone's partnership with Verizon Communications, has been accounted for as an associated undertaking and the results of Verizon Wireless have been included in the consolidated profit and loss account on the equity basis of consolidation from April 3, 2000. The results of Mannesmann have been included in the consolidated profit and loss account from April 12, 2000. The results of Airtel Móvil S.A. ("Airtel") have been fully consolidated with effect from December 29, 2000. Prior to the acquisition of a controlling interest, Vodafone's interest in Airtel was accounted for as an associated undertaking. See "Item 4. Information on the Company — Business Overview" for further details on the above transactions.
- (2) The consolidated financial statements prepared for the year ended March 31, 2000 include the results of AirTouch from June 30, 1999.
- (3) The consolidated financial statements are prepared in accordance with UK GAAP, which differ in certain significant respects from US GAAP. For further details, see Note 35 of Notes to the Consolidated Financial Statements, "Supplementary information for United States investors".
- (4) See Note 9 of Notes to the Consolidated Financial Statements, "Earnings per share". Adjusted earnings per share is calculated after adjusting for goodwill amortization and exceptional items. It is not a recognized measure under US GAAP, however, it is presented under UK GAAP in order to highlight underlying performance. Earnings per ADS is calculated by multiplying earnings per ordinary share by ten, the number of ordinary shares per ADS.
- (5) The final dividend for the year ended March 31, 2001 was proposed by the directors on May 29, 2001.

**Dividends**

The table below sets forth the amounts of interim, final and total cash dividends paid and proposed in respect of each fiscal year indicated both in pounds sterling per ordinary share and translated, solely for convenience, into US dollars per ordinary share at the Noon Buying Rate on each of the respective payment dates for such interim and final dividends, in both cases, where relevant, net of the associated Advance Corporation Tax.

| <u>Year ended March 31</u> | <u>Pounds Per Ordinary Share</u> |              |              | <u>Translated Into US Dollars Per Ordinary Share</u> |              |              |
|----------------------------|----------------------------------|--------------|--------------|--|--------------|--------------|
|                            | <u>Interim</u>                   | <u>Final</u> | <u>Total</u> | <u>Interim</u>                                       | <u>Final</u> | <u>Total</u> |
| 1997 .....                 | 0.005                            | 0.005        | 0.010        | 0.008  | 0.008        | 0.016        |
| 1998 .....                 | 0.005                            | 0.006        | 0.011        | 0.009  | 0.009        | 0.018        |
| 1999 .....                 | 0.013*                           | —            | 0.013        | 0.020*   | —            | 0.020        |
| 2000 .....                 | 0.006                            | 0.007        | 0.013        | 0.010  | 0.010        | 0.020        |
| 2001 .....                 | 0.007                            | 0.007**      | 0.014        | 0.010  | ***          | ***          |

\* In 1999 there were two interim dividends, the first of £0.006 per ordinary share and the second of £0.007 per ordinary share. There was no final dividend.

\*\* The final dividend for the year was proposed on May 29, 2001 and will be payable on August 10, 2001 to holders of record as of June 8, 2001.

\*\*\* The final dividend will be payable in US dollars to ADS holders under the terms of the deposit agreement.

The Company has historically paid, and its directors expect that the Company will continue to pay, dividends semi-annually, with the regular interim dividend with respect to the first six months of the Company's fiscal year payable in February and the regular final dividend with respect to the second six months of the Company's fiscal year payable in August. The amount of future dividends of the Company will be dependent on its earnings and financial condition and other factors affecting its business.



## Exchange rates

Cash dividends, if any, will be paid by the Company in respect of ordinary shares in pounds sterling, and exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs on conversion by the ADS Depository of all such cash dividends paid. Moreover, fluctuations in the exchange rate between pounds sterling and the US dollar will affect the US dollar equivalent of the pound sterling price of the ordinary shares on The London Stock Exchange and, as a result, will affect the market price of the ADSs in the United States.

The following table sets forth, for the periods and dates indicated, the period end, average, high and low Noon Buying Rates for pounds sterling expressed in US dollars per £1.00, to two decimal places.

| <u>Years ended March 31</u> | <u>Period end</u> | <u>Average(1)</u> | <u>High</u> | <u>Low</u> |
|-----------------------------|-------------------|-------------------|-------------|------------|
| 1997 .....                  | 1.64              | 1.60              | 1.71        | 1.49       |
| 1998 .....                  | 1.68              | 1.65              | 1.70        | 1.58       |
| 1999 .....                  | 1.60              | 1.65              | 1.72        | 1.60       |
| 2000 .....                  | 1.59              | 1.61              | 1.68        | 1.55       |
| 2001 .....                  | 1.42              | 1.47              | 1.60        | 1.40       |
| <u>Month</u>                |                   |                   | <u>High</u> | <u>Low</u> |
| December 2000 .....         |                   |                   | 1.50        | 1.44       |
| January 2001 .....          |                   |                   | 1.50        | 1.46       |
| February 2001 .....         |                   |                   | 1.48        | 1.44       |
| March 2001 .....            |                   |                   | 1.47        | 1.42       |
| April 2001 .....            |                   |                   | 1.45        | 1.42       |
| May 2001 .....              |                   |                   | 1.44        | 1.41       |
| June 2001(2) .....          |                   |                   | 1.42        | 1.37       |

Notes:

- (1) The average of the Noon Buying Rates on the last day of each full month during the period.
- (2) In respect of June 2001, for the period from June 1 through June 22, 2001. The Noon Buying Rate was \$1.4140 per £1.00 on June 22, 2001.

## Risk Factors

An investment in the securities of the Company involves significant risk as a result of risks associated with the business of the Group and other factors.

### Risks associated with Vodafone's business

**Increased competition may reduce market share or revenues.** Vodafone faces intensifying competition in each of its markets. Increased competition has led to declines in the prices the Group charges for its wireless services and is expected to lead to further price declines in the future. The Group may in some countries be able to match or exceed declines in average revenue per customer with reductions in operating cash costs per customer. However, there can be no assurance that the Group will be able to do so. If it cannot, the Group may experience decreased profitability.

Competition could also lead to a decrease in the rate at which the Group adds new customers and to a decrease in the size of the Group's market share as customers choose to receive wireless service from other providers. Customer deactivations are measured by the Group's churn rate. There can be no assurance that the Group will not experience increases in churn rates, particularly as competition intensifies. An increase in churn rates could adversely affect profitability because the Group would experience lower revenues and increased selling costs to replace customers, although such costs would have a future revenue stream to mitigate the impact.

**Expected benefits from investment in networks, licenses and new technology may not be realized.** Vodafone has made substantial investments in the acquisition of 3G licenses and in its wireless networks. Vodafone expects to

continue to make substantial investments in its wireless networks due to increased usage and the need to offer new services and greater functionality afforded by 3G technology. Accordingly, the current rate of the Group's capital expenditures and the rate of such expenditures in future years could materially exceed that experienced by the Group in recent years. The Group's wireless telecommunications interests in Australia, Belgium, France, Germany, Italy, Japan, the Netherlands, New Zealand, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom have been awarded licenses in the auctions for 3G mobile spectrum in their respective markets. Auctions or other allocation procedures for 3G licenses are currently taking place or are planned in various other countries. Please see "Item 4. Information on the Company – History and Development of the Company – Third generation licenses and network infrastructure" for more information on expenditures in connection with the acquisition of 3G licenses and expected expenditure in connection with the roll-out of 3G services. There can be no assurance that the commercial launch of 3G services will proceed according to anticipated schedules or that the returns expected on this investment will be achieved.

***Delays in the development of handsets and network components may hinder the deployment of new technologies.*** The Group's operations, including the operations of its ventures, depend in part upon the successful deployment of continuously evolving wireless telecommunications technologies. The Group uses technologies from a number of vendors and makes significant capital expenditures in connection with the deployment of such technologies. There can be no assurance that technologies will be developed according to anticipated schedules, that they will perform according to expectations or that they will achieve commercial acceptance. Commercially viable 3G handsets may not be available in the timeframe required, which may delay commercial launch of 3G services. The introduction of software and other network components may also be delayed. The failure of vendor performance or technology performance to meet Vodafone's expectations or the failure of a technology to achieve commercial acceptance could result in additional capital expenditures by the Group or a reduction in profitability due to the recognition of the impairment of assets.

***Vodafone may not be able to offset declines in revenues per customer through increased revenues from the introduction of new services.*** As part of its strategy to increase usage of its networks, Vodafone is planning to offer new services to its existing customers, including internet and data services accessible over mobile phones, and to increase revenues from services as a percentage of total revenue. New services include short-code dialing, Eurocall, traffic telematic services for the automotive industry, prepaid and GPRS roaming ability, assisted roaming, mobile payment facilities (with E-wallet and micropayment functionality), chat, instant messaging and unified messaging, streaming audio and video. However, Vodafone may not be able to introduce commercially these new services, or may experience significant delays due to problems such as the availability of new mobile handsets or higher than anticipated prices of new handsets. In addition, even if these services are introduced in accordance with expected time schedules, there is no assurance that revenues from such services will be able to offset declines in average revenue per customer, due to a trend toward prepaid services and lower tariffs in some of Vodafone's major markets, or lower revenue growth due to the expected decline in customer growth in more mature mobile telecommunications markets.

***Vodafone's strategic objectives may be impeded by the fact that it does not have a controlling interest in some of its ventures.*** Some of the Group's interests in wireless licenses are held through entities in which it is a significant but not controlling owner. Under the governing documents for some of these partnerships and corporations, certain key matters such as the approval of business plans and decisions as to the timing and amount of cash distributions require the consent of the partners. In others, these matters may be approved without Vodafone's consent. Vodafone may enter into similar arrangements as it participates in ventures formed to pursue additional opportunities. Although the Group has not been materially constrained by the nature of its wireless ownership interests, no assurance can be given that its partners will not exercise their veto power or their controlling influence in any of the Group's ventures in a way that will hinder the Group's corporate objectives and reduce any anticipated cost savings or revenue enhancement resulting from these ventures.

***Vodafone's attempts to mitigate effects of exchange rate fluctuations may not be successful which would have a substantial impact on its revenues and costs.*** Because over 75% of the Group's consolidated revenues come from operations outside of the United Kingdom, principally from operations in countries of the European Economic and Monetary Union which use the euro as their common currency, foreign currency exchange rates,

particularly, the exchange rate of pounds sterling to the euro, are material to its results of operations. The exchange rate of pound to the euro has recently experienced particular volatility. Although the Group attempts to mitigate in part the effect of foreign currency fluctuations through the use of foreign currency contracts and foreign currency-denominated credit arrangements, there can be no assurance that it will be successful in its foreign currency hedging efforts. If the Group does not succeed in its worldwide foreign currency hedging efforts in general and with respect to the euro in particular, its consolidated revenues and losses will be substantially affected.

***Regulatory decisions and changes in the regulatory environment could adversely affect Vodafone's business.*** Because Vodafone has ventures in a large number of geographic areas, it must comply with an extensive range of requirements that regulate and supervise the licensing, construction and operation of its telecommunications networks and services. In particular, there are agencies which regulate and supervise the allocation of frequency spectrum and which monitor and enforce competition laws which apply to the wireless telecommunications industry. Decisions by regulators regarding the granting, amendment or renewal of licenses, to Vodafone or to third parties, could adversely affect the Group's future operations in these geographic areas. Vodafone cannot provide any assurances that governments in the countries in which it operates will not issue telecommunications licenses to new operators whose services will compete with it. In addition, Vodafone may be affected by other changes in the regulatory environment concerning the use of wireless phones. For instance, a law recently enacted in New York state makes it unlawful for a person to operate a motor vehicle while using a wireless phone, unless the phone can be, and is, operated without the use of the driver's hands. Further details on the regulatory framework in certain regions in which the Group operates can be found in "Item 4. Information on the Company – Business Overview – Regulation", below.

***Vodafone's ability to retain customers and attract new customers may be impaired by actual or perceived health risks associated with the transmission of radiowaves from wireless telephones, transmitters and associated equipment.*** Recently, concerns have been expressed in some countries where Vodafone operates, particularly the UK and the US, that the electromagnetic signals emitted by wireless telephone handsets and base stations may pose health risks at exposure levels below existing guideline levels, and interfere with the operation of electronic equipment. In addition, several wireless industry participants, including Verizon Wireless, have had lawsuits filed against them alleging various health consequences as a result of wireless phone usage or seeking protective measures. While Vodafone is not aware that such health risks have been substantiated, there can be no assurance that the actual, or perceived, risks associated with radiowave transmission will not impair its ability to retain customers and attract new customers or reduce wireless telecommunications usage or result in further litigation. In such event, because of the Group's strategic focus on wireless telecommunications, its business and results of operations may be more adversely affected than that of other companies in the telecommunications sector.

#### **Risks relating to the Company's ordinary shares and ADSs**

***The price of the Company's ordinary shares and ADSs could fall if its shareholders sell a substantial number of shares in the public market.*** The Company has issued a substantial number of ordinary shares in connection with recent acquisitions. As a result, significant shareholders in companies that it has acquired have acquired blocks of the Company's shares. Most of these shares are not subject to any contractual selling restrictions. The persons holding these shares may not intend to be long term holders of the Company's shares and, subject to any contractual restrictions and applicable law, may elect to sell (or transfer the economic interest in) all or a portion of their shares at any time. Sales of a substantial number of the Company's shares, or the expectation that such sales could occur, could adversely affect the market price of the Company's ordinary shares and ADSs.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **History and Development of the Company**

The Company is one of the world's leading wireless telecommunications companies with a significant presence in Continental Europe, the United Kingdom, the United States and the Asia Pacific region through the Company's subsidiary undertakings, joint ventures and associated undertakings, with further interests in wireless telecommunications businesses in the Middle East and Africa region. The Group presently operates in 29 countries worldwide. At March 31, 2001, based on the registered customers of wireless telecommunications ventures in which it had ownership interests at that date, the Group had approximately 83 million customers, excluding paging customers, calculated on a proportionate basis in accordance with the Company's percentage interest in these ventures, and more than 188 million registered venture customers, as described in "Business Overview — Business activities — Wireless Telecommunications" below. Vodafone provides a full range of wireless telecommunications services, including voice and data communications.

Following the completion of a number of major business transactions during the last financial year, Vodafone has acquired interests in certain non-mobile telecommunications businesses and has also established a joint venture with Vivendi Universal to develop a multi-access internet portal in Europe.

Vodafone Group Plc was formed in 1984 as a subsidiary of Racal Electronics Plc. Then known as Racal Telecom Limited, approximately 20% of the Company's capital 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 time it changed its name to Vodafone Group Plc. Following its merger with AirTouch, the Company changed its name to Vodafone AirTouch Plc on June 29, 1999 and, following approval by the shareholders in General Meeting, reverted to its former name, Vodafone Group Plc, on July 28, 2000. The Company is incorporated as a public limited company in England. Its registered office is The Courtyard, 2-4 London Road, Newbury, Berkshire RG14 1JX, England.

The Company's ordinary shares are listed on the London Stock Exchange and the Frankfurt Stock Exchange and the Company's ADSs are listed on the New York Stock Exchange. The Company had a total market capitalization of approximately £104 billion at June 22, 2001, making it the third largest company in the Financial Times Stock Exchange 100 index, or FTSE 100, and the one of the twenty largest companies in the world based on market capitalization at that date.

### **Acquisitions of businesses**

The Company has completed a number of major business transactions over the past three years, which have increased the geographic footprint and customer base of its wireless operations and have significantly impacted the results of operations.

On June 30, 1999, the Company completed its merger with AirTouch. The merger created one of the world's largest international wireless telecommunications companies, in terms of the number of proportionate customers, with an extensive presence in both Europe and in the United States. In Europe, the merger resulted in the addition of three subsidiary undertakings, including one entity previously accounted for as an associated undertaking, and six new associated undertakings, increasing Vodafone's presence in Europe to seven subsidiary network companies and seven associated undertakings, covering most of the European continent. In addition, the transaction resulted in AirTouch's operations in the United States and Japan being incorporated into the Group. Between June 30, 1999 and September 30, 1999, the Company issued approximately 3,046 million ordinary shares (stated prior to the capitalization issue of four shares for every one share held) to the transferring AirTouch shareholders, in addition to a cash consideration of £3,477 million.

Vodafone's initial investment in Japan, following the merger, comprised direct shareholdings in nine regional mobile telecommunications companies, with ownership interests ranging from 4.5% to 15%. On October 7, 1999, Vodafone announced a series of transactions that resulted in the Company increasing its equity interests to more than 20% in each of these companies, and becoming the second largest shareholder, behind Japan Telecom, in each venture. The total consideration paid for the increased ownership interests in the three Digital Phone and six Digital Tu-Ka

companies was £342 million (\$550 million). Subsequently, in an agreement with its partners, Japan Telecom and British Telecommunications plc (“BT”), Vodafone agreed to restructure its interests in Japan. This resulted in J-Phone Communications Co, Ltd, in which Vodafone had a direct 26% stake, acquiring a controlling interest of approximately 50% in each of the existing operating companies, becoming collectively known as the J-Phone Group. Vodafone’s effective ownership interests were largely unchanged by this reorganization. The nine regional operating companies were subsequently reorganized into three new regional companies, J-Phone East, J-Phone West and J-Phone Tokai.

On April 3, 2000, the first stage of the transaction for the combination of the US cellular operations of the Company, Bell Atlantic and GTE was completed. The combined entity, which initially consisted of the US cellular operations of AirTouch and Bell Atlantic, was launched as Verizon Wireless. Following completion of the merger of Bell Atlantic and GTE to form Verizon Communications, the second stage of the transaction was completed by the contribution of the US cellular operations of GTE to Verizon Wireless on July 10, 2000, creating a nationwide network on a single digital technology, covering almost 90% of the US population and 96 of the top 100 wireless telecommunications markets within the United States. Vodafone owns 45% of Verizon Wireless.

Vodafone has substantially increased its customer base in Europe through the completion of four significant transactions. On April 12, 2000, Vodafone received conditional European Commission consent to the acquisition of Mannesmann AG, or Mannesmann, following the receipt of valid acceptances representing approximately 98.62% of Mannesmann’s issued share capital and 99.72% of its convertible bonds in issue. At March 31, 2000, the Company had issued approximately 30,141 million ordinary shares in aggregate to the transferring Mannesmann shareholders and convertible bond holders. The completion of the Mannesmann acquisition has had a major impact on the results of the Continental Europe region, bringing in both Mannesmann Mobilfunk GmbH (“D2”) in Germany and Omnitel Pronto Italia S.p.A in Italy as subsidiaries in two of Europe’s most important markets. The businesses have since been rebranded D2 Vodafone and Omnitel Vodafone, respectively. Subsequently, through a series of separate transactions with minority shareholders, the Group increased its ownership interest in Mannesmann to 99.46%.

Through the Mannesmann acquisition, Vodafone also acquired an increased shareholding in Société Française du Radiotéléphone (“SFR”) in France and controlling interests in certain fixed line telecommunications operators, principally Mannesmann Arcor AG & Co KG and Infostrada S.p.A. in Italy. Vodafone also acquired beneficial ownership of Orange plc, one of the four wireless telecommunications operators in the UK, as well as interests in Mannesmann’s non-telecommunications businesses.

Vodafone subsequently sold its interests in Orange and certain other acquired Mannesmann businesses, as described under “Sales of Businesses” below.

On December 29, 2000, the Company completed its acquisition of a total of 4,061,948 shares in Airtel in Spain, representing approximately 52.1% of the issued share capital of Airtel. The acquisition increased the Group’s stake in Airtel to 73.8%. The Company issued 3,097,446,624 new listed ordinary shares to the transferring Airtel shareholders, representing a value of approximately £7.9 billion for the acquired shares.

Following receipt of regulatory approvals and the agreement of Swisscom AG’s shareholders, Vodafone acquired a 25% equity interest in Swisscom Mobile SA for CHF4.5 billion (£1.8 billion) during the first calendar quarter of 2001. The consideration for the 25% stake represented an enterprise value of approximately £7.3 billion for Swisscom Mobile, including net debt of £0.2 billion. Swisscom Mobile is the largest wireless operator in Switzerland. The Company satisfied the first £0.85 billion tranche of the consideration by the issue of 422,869,008 new Vodafone shares and the payment of CHF25 million in cash. The second tranche of £0.98 billion will be satisfied in cash or Vodafone shares, or a combination of both, at the Company’s discretion and is payable by March 2002.

On December 21, 2000, *eircom* plc announced the proposed demerger of *eircom* plc’s mobile communications business, Eircell, to a new company, called Eircell 2000 plc, and Vodafone announced a separate offer for the entire share capital of Eircell 2000 plc. Eircell is the leading provider of mobile telecommunications services in Ireland, with over 1.5 million customers at March 31, 2001. At the date it was launched, the offer valued Eircell at approximately €3.6 billion, including the assumption of €250 million of net debt. The offer was declared unconditional on May 14, 2001, following the receipt of valid acceptances representing approximately 79.6% of the total shareholding in

Eircell. The offer remained open for acceptance until May 27, 2001 and, in accordance with the Articles of Association, all of Eircell's shareholders were deemed to have accepted the offer at that date. Vodafone has issued approximately 1,046 million new ordinary shares to shareholders in consideration for their ownership interests.

In addition, in February 2001, Vodafone won a license to operate the second GSM network in Albania. The cost of the license was \$38 million and Panafon Vodafone, the Company's subsidiary undertaking in Greece, is managing the network start-up. The Group has a 51% direct ownership interest in Vodafone Albania, the remaining shareholding being held by Panafon Vodafone.

As a consequence of these transactions, Vodafone now has operations in 17 European countries and the most extensive controlled footprint in Europe through investments in 12 controlled subsidiaries. The Company either controls, owns or invests in the number one or two operator in 15 European markets. At March 31, 2001, the Group had approximately 61.9 million registered proportionate customers in Europe based on the venture customers of its European operations at that date, excluding Eircell, which was acquired after the end of the financial year. Eircell had over 1.5 million registered customers at March 31, 2001.

On May 2, 2001, the Company announced that it had agreed to acquire BT's 17.8% shareholding in Airtel for a cash consideration of £1.1 billion, increasing its ownership interest in Airtel to approximately 91.6%. The acquisition was completed on June 29, 2001, following the receipt of regulatory approval.

In the Asia Pacific region, Vodafone acquired shareholdings in Japan Telecom through the acquisition of an aggregate 15% equity interest from West Japan Railway Company and Central Japan Railway Company. The total cash consideration was Yen 249.7 billion (£1.4 billion), and the transaction was completed in two stages with the acquisition of a 7.5% shareholding on January 31, 2001 and a 7.5% shareholding on April 12, 2001. Vodafone completed the acquisition of a further 10% shareholding in Japan Telecom from AT&T for a cash consideration of \$1.35 billion (£0.9 billion) on April 26, 2001. Japan Telecom is the controlling shareholder in J-Phone Communications Co. Ltd and the J-Phone Group.

Concurrent with the agreement to acquire BT's interest in Airtel, the Company announced that it had agreed to acquire BT's ownership interests in Japan Telecom and the J-Phone Group for a total cash consideration of £3.7 billion. The acquisition of BT's interests in Japan Telecom and J-Phone Communications Co. Ltd. was completed on June 1, 2001. The acquisition of BT's interests in the operating subsidiaries of J-Phone Communications is expected to be completed in July 2001. Following these acquisitions, Vodafone has a 45% interest in Japan Telecom and a 46% interest in J-Phone Communications, not including its indirect interest through Japan Telecom's stake in J-Phone Communications. In addition, upon completion, Vodafone will have interests of 18.9%, 15.2% and 14.9%, respectively, in J-Phone East, J-Phone West and J-Phone Tokai, the J-Phone Communications regional wireless companies, not including Vodafone's indirect interests through Japan Telecom and J-Phone Communications in these companies.

In an offering that closed on November 3, 2000, the Company acquired newly issued shares representing approximately 2.18% of China Mobile (Hong Kong) Limited's share capital for a cash consideration of \$2.5 billion. On February 27, 2001, Vodafone and China Mobile completed the signing of a strategic alliance agreement, setting out the principal terms for a strategic alliance and cooperation between the two parties in mobile services, technology, operations and management. Vodafone and China Mobile also intend to explore opportunities for joint ventures and other equity-based strategic alliances in areas such as research and development of wireless data services, international investment opportunities and regional and/or global alliances.

On April 4, 2001, Vodafone extended further its geographical footprint with the acquisition of a 34.5% stake in Grupo Iusacell, S.A. de C.V. in Mexico for a cash consideration of \$973 million.

### **Sales of businesses**

During fiscal 2000, Vodafone divested its interest in E-Plus Mobilfunk GmbH pursuant to an undertaking given to the European Commission in connection with its merger with AirTouch. On December 9, 1999, Bell South Corporation announced that, in accordance with the existing agreements among the shareholders of E-Plus Mobilfunk GmbH, it

had exercised its right of first refusal to purchase Vodafone's 17.24% interest. Vodafone completed the sale to Bell South on February 4, 2000 and realized a profit on disposal of £0.9 billion.

The formation of Verizon Wireless resulted in net proceeds to the Group of approximately £2.5 billion relating to the assumption of Group debt agreed with the other parties. Further proceeds of £1.8 billion were realized following the disposal of overlapping properties in the US, such disposals being a condition of the regulatory approval of the transaction.

Following the acquisition of Mannesmann, Vodafone agreed the sale of a number of Mannesmann businesses for an aggregate value of approximately £33.3 billion. Cash proceeds during the year totaled approximately £27.9 billion, including loan repayments to Vodafone of approximately £1.9 billion. Vodafone has used the proceeds from these divestments to reduce its indebtedness.

In April 2000, Mannesmann reached an agreement with Siemens AG and Robert Bosch GmbH for the sale of a controlling interest in Atecs Mannesmann AG, its engineering and automotive business. The transaction valued Atecs at approximately €9.6 billion, including pension and non-trading financial liabilities to be assumed on closing. On September 29, 2000, a payment of approximately €3.1 billion (£1.9 billion) plus interest was made to Mannesmann in exchange for the pending transfer of a 50% plus two shares stake in Atecs Mannesmann, which was completed on April 17, 2001, following approval from the relevant European and US regulatory authorities. Atecs Mannesmann also repaid Group loans of €1.55 billion (£1.0 billion) in March 2001. Vodafone may also realize further proceeds of between €3.7 billion and €3.8 billion upon the exercise of certain put options over its remaining stake in Atecs Mannesmann between April 17, 2001 and December 31, 2003.

As a condition to its approval, on April 12, 2000, of Vodafone's acquisition of Mannesmann, the European Commission required Vodafone to dispose as soon as practicable of its interest in Orange, one of four wireless telecommunications operators in the United Kingdom. Mannesmann acquired Orange in 1999 and Orange became a subsidiary of Vodafone as a result of the Mannesmann acquisition. On May 30, 2000, the Company and Mannesmann announced they had reached an agreement to sell Orange to France Telecom. The transaction was completed on August 22, 2000, following the receipt of conditional approval by the European Commission and approval by the shareholders of France Telecom. The consideration comprised a cash payment of approximately €21.4 billion (£13.2 billion), a €2.2 billion France Telecom loan note and 113,846,211 France Telecom shares, representing 9.87% of the outstanding share capital of France Telecom. In addition, France Telecom assumed Orange's existing debts, and its financial obligation regarding its UK 3G license, totaling £4.1 billion. The loan note was redeemed in March 2001 and realized proceeds of £1.4 billion. The Company also renegotiated and exercised its put options over France Telecom shares for a total value of approximately €11.6 billion, of which €6.7 billion (£4.2 billion) was received in March 2001 with the balance receivable in March 2002. On April 19, 2001, the Company monetized the remaining cash payment of €4.9 billion that it was due to receive from France Telecom on March 25, 2002 for €4.7 billion.

On October 9, 2000, Mannesmann completed the sale of its tubes business to Salzgitter for a nominal consideration. In the period prior to completion, Mannesmann made capital contributions to the tubes business totaling €271 million. Mannesmann also completed the sale of Les Manufactures Horlogères, its luxury watches business, to Richemont S.A. in December 2000, for a cash consideration of approximately €1.8 billion (£1.1 billion).

Vodafone reached an agreement for the sale of its interest in Infostrada S.p.A., Mannesmann's fixed line telecommunications operator in Italy, to Enel S.p.A. in October 2000. Vodafone and Enel amended the terms of the agreement after the Italian anti-trust authority approved the sale subject to the imposition of certain conditions on Enel. On March 29, 2001, Vodafone completed the sale of the entire issued share capital of Infostrada to Enel and received total proceeds of €7.4 billion (approximately £4.7 billion). Enel also assumed Infostrada's net debt, including €0.8 billion (£0.5 billion) of debt owed to the Group that was repaid on acquisition.

On May 8, 2001, the Company announced that an agreement had been reached to sell its 100% equity stake in the Austrian telecommunications company, tele.ring Telekom Service GmbH. The transaction completed on June 29, 2001, following receipt of regulatory approval.

### Third generation licenses and network infrastructure

Licenses for the operation of third generation, or 3G, wireless services, the new digital standard for mobile communications, have been awarded to the Group's network businesses in most of Vodafone's major markets. Further details of the licenses awarded in Vodafone's major markets are included in "Business Overview — Business activities — Wireless Telecommunications" below.

Cumulative expenditure on 3G licenses was £13.2 billion at March 31, 2001, of which £13.1 billion was spent in fiscal 2001. The acquisition of these licenses has been funded from the Group's existing borrowing facilities. Vodafone expects to participate in additional 3G license allocation procedures in other markets in which it operates. No assurances can be given that Vodafone will be successful in obtaining any 3G licenses for which it intends to apply or bid.

In connection with the roll-out of 3G services, Vodafone presently expects to incur expenditure on 3G network infrastructure of approximately £1.0 billion in fiscal 2002, increasing to approximately £2.5 billion in fiscal 2003. The launch of 3G services will be timed to coincide with handset availability. These expenditures are expected to be financed through operating cash flows and existing borrowing facilities. Further details regarding 3G network roll-out are included in "Business Overview — Business activities — Wireless Telecommunications" below.

### Business Overview

#### Revenues and operating income

The following table shows consolidated Group turnover and consolidated total Group operating profit for the Company for the three years ended March 31, 2001, by geographic region.

|                                | Years ended March 31, |              |              |                                     |            |            |
|--------------------------------|-----------------------|--------------|--------------|-------------------------------------|------------|------------|
|                                | Group turnover        |              |              | Total Group operating (loss)/profit |            |            |
|                                | 2001                  | 2000         | 1999         | 2001                                | 2000       | 1999       |
|                                | £m                    | £m           | £m           | £m                                  | £m         | £m         |
| Mobile telecommunications:     |                       |              |              |                                     |            |            |
| Continental Europe . . . . .   | 9,577                 | 1,705        | 945          | (7,227)                             | 66         | 258        |
| United Kingdom . . . . .       | 3,444                 | 2,901        | 2,088        | 778                                 | 695        | 643        |
| United States . . . . .        | 9                     | 2,585        | —            | (219)                               | (100)      | —          |
| Asia Pacific . . . . .         | 713                   | 565          | 327          | (92)                                | 8          | 9          |
| Middle East & Africa . . . . . | 308                   | 117          | —            | 181                                 | 127        | 53         |
|                                | 14,051                | 7,873        | 3,360        | (6,579)                             | 796        | 963        |
| Other operations:              |                       |              |              |                                     |            |            |
| Continental Europe . . . . .   | 953                   | —            | —            | (419)                               | —          | —          |
|                                | <u>15,004</u>         | <u>7,873</u> | <u>3,360</u> | <u>(6,998)</u>                      | <u>796</u> | <u>963</u> |

Other operations analyzed in the above table mainly comprise the results of Arcor, Mannesmann's fixed line business in Germany, Telecommerce, a German IT and data services business, Cegetel of France and Vizzavi Europe, Vodafone's 50%-owned multi-access consumer portal joint venture with Vivendi Universal.

Vodafone's interest in Verizon Wireless, which was formed on April 3, 2000, has been accounted for using equity accounting in the current year. In the year ended March 31, 2000, turnover of £2,585 million and operating losses of £100 million (after goodwill amortization) in respect of Vodafone's US businesses were fully consolidated. Vodafone's proportionate share of the turnover of its US operations, based on its effective ownership interests, was £5,008 million, for the year ended March 31, 2001.

The results and net assets of Mannesmann have been consolidated in the Company's financial statements with effect from April 12, 2000, the date the acquisition was completed. Businesses sold following the acquisition of Mannesmann, including Atecs Mannesmann, Orange, Mannesmann's watches and tubes businesses, Infostrada and tele.ring, have not been consolidated in the results for the year — see "Sales of businesses" above.



The results and net assets of Airtel have been fully consolidated with effect from December 29, 2000. Prior to the acquisition of a controlling interest, Vodafone's 21.7% interest in Airtel was accounted for as an associated undertaking under the equity accounting method.

Total Group operating losses of £6,998 million for the year ended March 31, 2001 (2000 — profit of £796 million, 1999 — profit of £963 million) is after charging exceptional operating costs of £320 million (2000 — £30 million, 1999 — £Nil) and goodwill amortization of £11,882 million (2000 — £1,712 million, 1999 — £9 million). See Note 3 of Notes to the Consolidated Financial Statements elsewhere in this Annual Report for a further analysis of business segment information.

### **Business strategy**

Vodafone's strategy is to concentrate on wireless telecommunications globally, to extend the reach, range and penetration of wireless services to as many customers as possible in as many geographic territories throughout the world as can sustain viable and profitable operating environments, and to provide its customers with new services made available by continuing technological developments in wireless telecommunications. The continued development of the Group will encapsulate the further development of existing businesses through the rollout of a single Vodafone brand, the introduction of new services, based on data transmission and the Internet, the achievement of financial targets and the completion of the integration process for recent acquisitions. Where appropriate, and if circumstances allow, the Company may make further acquisitions or disposals of businesses and will explore opportunities to increase its ownership in businesses where Vodafone has existing shareholdings.

### **Business activities — Wireless Telecommunications**

#### **Geographic operations**

Vodafone now has interests in 29 countries across five continents. Based on the Group's ownership interests at March 31, 2001, Vodafone, through its subsidiary undertakings, joint ventures, associated undertakings and investments, had almost 83 million registered customers, excluding paging customers, calculated on a proportionate basis in accordance with Vodafone's percentage interest in its ventures. There were over 188 million registered customers in ventures in which the Company either has control or invests.

From June 5, 2000, Vodafone's geographical division of operations were reorganized into the following regions: Continental Europe, the Americas and Asia Pacific, and the UK, Middle East and Africa. The results for the Asia Pacific region and Vodafone's Middle East and Africa operations are reported as separate segments.

The following table sets forth a summary of Vodafone's worldwide cellular operations at March 31, 2001, and venture customer growth in the year then ended.

### Summary of Worldwide Cellular Operations

| Country                       | Operator             | Percentage ownership(1) | Venture customers at March 31, 2001<br>(thousands) | Proportion prepaid<br>(percent) | Venture customer growth(2)<br>(percent) | Registered proportionate customers<br>(thousands) | Proportion of customers active in controlled ventures<br>(percent) |
|-------------------------------|----------------------|-------------------------|--|---------------------------------|---|---|--|
| <b>Continental Europe</b>     |                      |                         |  |                                 |   |   |  |
| Germany                       | D2 Vodafone          | 99.2                    | 20,968   | 60                              | 89                                      | 20,807  | 87   |
| Greece                        | Panafon Vodafone     | 55.0                    | 2,340  | 68                              | 32                                      | 1,287   | 84   |
| Hungary                       | Vodafone             | 50.1                    | 223  | 89                              | 375                                     | 112   | 87   |
| Italy                         | Omnitel Vodafone(3)  | 76.1                    | 15,680   | 90                              | 40                                      | 11,937  | 93   |
| Malta                         | Vodafone             | 80.0                    | 107  | 88                              | 138                                     | 86  | 100  |
| Netherlands                   | Libertel Vodafone(3) | 70.0                    | 3,281  | 69                              | 34                                      | 2,297   | 91   |
| Portugal                      | Telecel Vodafone     | 50.9                    | 2,478  | 75                              | 38                                      | 1,261   | 93   |
| Spain                         | Airtel(3)            | 73.8                    | 7,148  | 56                              | 27                                      | 5,275   | 88   |
| Sweden                        | Europolitan Vodafone | 71.1                    | 1,008  | 23                              | 14                                      | 717   | 89   |
| Belgium                       | Proximus             | 25.0                    | 3,662  | 57                              | 59                                      | 915   |  |
| France                        | SFR                  | 31.9                    | 10,347   | 44                              | 31                                      | 3,297   |  |
| Poland                        | Plus GSM             | 19.6                    | 2,641  | 38                              | 56                                      | 518   |  |
| Romania                       | Connex GSM           | 20.1                    | 1,315  | 57                              | 72                                      | 264   |  |
| Switzerland                   | Swisscom             | 25.0                    | 3,314  | 40                              |   | 828   |  |
| <b>Total</b>                  |                      |                         | <b>74,512</b>                                      | <b>63</b>                       |   | <b>49,601</b>                                     |  |
| <b>United Kingdom</b>         | Vodafone             | 100.0                   | <b>12,279</b>                                      | <b>65</b>                       | <b>40</b>                               | <b>12,279</b>                                     | <b>88</b>  |
| <b>United States</b>          | Verizon Wireless(4)  | 45.0                    | <b>27,122(5)</b>                                   | <b>8</b>                        |   | <b>11,570(4)</b>                                  |  |
| <b>Asia Pacific</b>           |                      |                         |  |                                 |   |   |  |
| Australia                     | Vodafone(3)          | 91.0                    | 2,111  | 33                              | 47                                      | 1,921   | 96   |
| New Zealand                   | Vodafone(3)          | 100.0                   | 889  | 77                              | 88                                      | 889   | 96   |
| China                         | China Mobile(6)      | 2.2                     | 52,000   | 34                              |   | 1,134   |  |
| Fiji                          | Vodafone             | 49.0                    | 55   | 87                              | 129                                     | 27  |  |
| India                         | RPG Cellular         | 20.6                    | 67   | 49                              | 49                                      | 14  |  |
| Japan                         | J-Phone              | 26.6-30.9               | 9,966  | 3                               | 23                                      | 2,826   |  |
| Korea                         | Shinsegi             | 11.7                    | 3,315  | —                               | (7)                                     | 387   |  |
| <b>Total</b>                  |                      |                         | <b>68,403</b>                                      | <b>29</b>                       |   | <b>7,198</b>                                      |  |
| <b>Middle East and Africa</b> |                      |                         |  |                                 |   |   |  |
| Egypt                         | Click GSM Vodafone   | 60.0                    | 1,171  | 85                              | 189                                     | 703   | 97   |
| Kenya                         | Safaricom            | 40.0                    | 94   | 100                             |   | 37  |  |
| South Africa                  | Vodacom              | 31.5                    | 5,108  | 79                              | 66                                      | 1,609   |  |
| <b>Total</b>                  |                      |                         | <b>6,373</b>                                       | <b>81</b>                       |   | <b>2,349</b>                                      |  |
| <b>Group Total</b>            |                      |                         | <b>188,689</b>                                     | <b>43</b>                       |   | <b>82,997</b>                                     | <b>90</b>  |

Notes:

- (1) All ownership percentages are stated as of March 31, 2001 and exclude options, warrants or other rights or obligations of Vodafone to increase or decrease ownership in any venture. Ownership interests have been rounded to the nearest tenth of one percent.
- (2) Venture customer growth is for the twelve month period to March 31, 2001.
- (3) Networks where the calculation of active customers is based on both making or receiving a call in the last three months, as described below.
- (4) The Group's proportionate customer base has been adjusted for Verizon Wireless's proportionate ownership of its customer base of approximately 94.8%.
- (5) This number has been amended to reflect Verizon Wireless's recent adjustment of 900,000 to their venture customer base, which was made after the publication of the Group's customer numbers on April 5, 2001.
- (6) Venture customers for China Mobile are based on estimates prepared at the time of the publication of the Group's customer numbers on April 5, 2001.

The changes to the Company's effective percentage ownership interests in Germany, Greece, Italy, Spain, France, Australia and Japan since March 31, 2001, as a consequence of the acquisition of increased stakes in such businesses, are discussed in the description of each region's business activities below.

On April 25, 2001, Vodafone announced new key performance indicators as a better guide for investors to the underlying trends in its businesses. These included the reporting of active customers as a proportion of the registered customer base, with active customers defined as customers who have made or received a chargeable call in the last three months or, where information is not available, as customers who have made a chargeable call in the last three months. The new analysis for the quarter ended March 31, 2001 showed that the total active customer base was 90% of registered customers in Vodafone's controlled businesses. This comprised contract activity levels of 94% and prepaid activity levels of 88%. Vodafone's major networks in Germany, Italy and the UK registered activity levels of 87%, 93% and 88%, respectively. The level in Germany of 87% includes contract inactivity of 11%, which is unusually high, as Germany is one of the few markets that currently operate two year contracts.

Indicative information shows that the level of inactivity has increased in Vodafone's major markets which has contributed to a decrease in registered ARPU, as described in "Item 5. Operating and Financial Review and Prospects" below. Vodafone believes that the underlying trends in ARPU are better reflected by active ARPU and expects that the future quarterly reporting of these new key performance indicators will highlight comparative trends.

On April 1, 2001, the Company implemented a planned reorganization of its overall management structure and governance process, in response to the rapid expansion of the Group, and reorganized its geographical division of operations. See "Item 6. Directors, Senior Management and Employees – Board Practices" for a description of changes to governance procedures. The Group's European operations have been split into three new regions: Southern Europe, Central Europe and Northern Europe, Middle East and Africa. The remaining regions have been designated as the Americas and Asia region and the Pacific region.

The Company does not believe that these changes to its division of operations will materially affect the way in which it conducts business across geographic lines or the manner in which it manages its worldwide interests. The description of each region's business activities below is based on the geographical division of Vodafone's operations at March 31, 2001.

On July 5, 2001, the Company announced that its worldwide registered proportionate customer base had increased from 83 million at March 31, 2001 to over 93.1 million at June 30, 2001. The increase of 10.1 million included 7.1 million registered proportionate customers added through acquisitions and increases in existing ownership interests. Venture customers increased to over 202.6 million registered customers. The Northern Europe, Middle East and Africa region, Central Europe region, and Southern Europe region had registered proportionate customer bases of over 24.1 million, over 23.2 million and almost 22.1 million, respectively. The Americas and Asia region had over 20.6 million registered proportionate customers and the Pacific region had almost 3.1 million registered proportionate customers.

### **Continental Europe**

Vodafone has a number of interests in the Continental Europe region, which have been structured as stand-alone ventures. This structure enables Vodafone to more effectively address national and regional business issues.

There have been significant changes in Vodafone's interests in the Continental Europe region during the last financial year. The completion of the Mannesmann acquisition increased the Group's effective ownership interests in Mannesmann Mobilfunk GmbH (rebranded as D2 Vodafone) in Germany to 99.1% and in Omnitel Pronto Italia S.p.A. (rebranded as Omnitel Vodafone) in Italy to 76.0%, compared with ownership interests of 34.8% and 21.6%, respectively, prior to the transaction. Additionally, the Group's effective ownership interest in SFR in France increased from 20.0% to 31.9%. Subsequently, through a series of separate transactions with minority shareholders, the Group has increased its ownership interests in Mannesmann from 98.62% at the date of closing of the acquisition to 99.46% presently. This has resulted in the Group's effective interests in D2 Vodafone, Omnitel Vodafone and SFR increasing to 99.2%, 76.1% and 31.9%, respectively, at March 31, 2001, and 99.7%, 76.5% and 31.9%, respectively, at the present time. The Company has announced that Mannesmann AG intends to enter into a

domination and profit and loss transfer agreement with Vodafone Deutschland GmbH, a wholly owned subsidiary of the Company, under which Mannesmann AG will relinquish overall management of the company to Vodafone Deutschland and will agree to transfer its entire profits to Vodafone Deutschland. The agreement has been approved by Mannesmann AG's supervisory board and is subject to approval by the annual general meeting of Mannesmann AG and entry into the Commercial Register before it is legally effective.

In separate transactions, Vodafone increased its percentage shareholding in Airtel from 21.7% to 73.8% and acquired a 25% ownership interest in Swisscom Mobile. Vodafone Albania was also formed during the year and the Group has an effective ownership interest of 76.9% in the new venture.

The Company has majority shareholdings in four European subsidiary undertakings listed on public stock exchanges, each of which now trade under the Vodafone brand: Europolitan Vodafone in Sweden (71.1% ownership interest), Libertel Vodafone in the Netherlands (70.0%), Panafon Vodafone in Greece (52.8%) and Telecel Vodafone in Portugal (50.9%).

Following the end of the financial year, the Company's offer for the entire share capital of Eircell closed and Eircell has become a wholly owned subsidiary undertaking of the Company. Eircell had over 1.5 million registered customers at March 31, 2001. The Company has also completed the acquisition of BT's ownership interests in Airtel in Spain, increasing its percentage shareholding from 73.8% to 91.6% on completion.

Set out below is a summary of the business activities of Vodafone in each of its major wireless telecommunications markets in the Continental Europe region.

**Germany.** Vodafone has an effective 99.7% interest in Mannesmann Mobilfunk GmbH, which operates under the brand name D2 Vodafone. Customer growth in the German cellular market was over 90% in the year to March 31 2001, a rate which exceeded that of previous years and all other European markets. Germany is the largest wireless market in Europe based on customer numbers.

D2 Vodafone retained its market leadership in this highly competitive four-operator market and had 20,968,000 registered venture customers at March 31, 2001, representing growth of 89% in the year. This substantial growth was attributable principally to prepaid services, which represented 60% of the closing customer base, up from 32% at March 31, 2000. Active customers represented approximately 87% of the total registered customer base.

During the year, D2 Vodafone continued to make significant investments in its network. D2 Vodafone's cellular network consisted of 130 mobile switching centers and approximately 13,000 base stations at March 31, 2001.

D2 Vodafone leads the Group's European networks in terms of messaging and data revenues, which represented 16.2% of total monthly service revenues in March 2001. Service revenues are the total revenue of an entity, excluding revenue from connection fees and equipment sales. SMS comprises the largest element of data-related revenues at present.

D2 Vodafone launched GPRS commercial service on February 28, 2001 on its existing network. This high-speed technology makes it possible to transmit data packets at speeds up to 100,000 bits per second, and offers mobile users more convenient access to the Internet.

In August 2000, the German government licensed six operators to offer third generation mobile services, or UMTS, the new digital standard for mobile telecommunications. D2 Vodafone paid approximately £5.1 billion for a twenty-year license. Infrastructure rollout for 3G services is proceeding according to plan and, subject to handset availability, 3G service is expected to be available in 2002.

**Greece.** Vodafone has a 52.8% interest in Panafon Vodafone, the leading cellular operator in Greece in terms of number of customers. Panafon Vodafone is listed on the Athens Stock Exchange and its shares also trade in the form of Global Depositary Shares on the London Stock Exchange and are quoted on NASDAQ. As of March 31, 2001, Panafon had a market capitalization of £1.9 billion (\$2.7 billion), making it one of the top ten companies by market capitalization on the Athens Stock Exchange.

On May 11, 2001, Panafon Vodafone increased its shareholding in Unifon SA, one of Panafon Vodafone's largest service providers, from 19.6% to 100%. The acquisition was funded by the issue of 21,626,396 Panafon Vodafone shares and resulted in a reduction in Vodafone's stake in Panafon Vodafone from 55% to 52.8%. As a result of the acquisition, Panafon Vodafone owns an extensive distribution network of retail outlets which now service two-thirds of its contract customer base.

Panafon Vodafone also announced, on May 24, 2001, its intention to increase its holding in NextNet SA, a service provider business, from 20.1% to 100%. The acquisition will be financed by the issue of shares, subject to shareholder approval in both companies and clearance from local authorities, although Vodafone will retain its controlling ownership interest in Panafon Vodafone. These acquisitions are in line with Panafon Vodafone's strategy to consolidate its service providers and to broaden and improve the variety of services offered to customers.

Panafon Vodafone increased its registered customer base by 32% during the year to March 31, 2001, to close at 2,340,000, of which 68% were connected to prepaid services. Panafon Vodafone continues to maintain its market leadership with a market share of over 36%. In October 2000, Panafon Vodafone launched CU, a prepaid product aimed at the youth market, with low SMS and CU to CU customer charges. During the first quarter in 2001, CU accounted for approximately 50% of Panafon Vodafone's new prepaid customers, generating ARPU that is 60% higher than the existing prepaid product, À La Carte.

Panafon Vodafone's network consists of 17 MSCs and over 1,400 base stations, giving population coverage of 98% and geographical (land) coverage of over 76%. GPRS service was launched on its network in April 2001, with service now available for both retail and corporate customers. The Greek government is expected to conduct an auction of four UMTS licenses in the third quarter of 2001.

**Ireland.** Vodafone's offer for the entire share capital of Eircell was declared unconditional on May 14, 2001 following the receipt of valid acceptances representing approximately 79.6% of the total shareholding in Eircell. The offer remained open for acceptance until May 27, 2001 and, in accordance with the Articles of Association of Eircell, all shareholders were deemed to have accepted the offer at that date.

Eircell is the leading provider of mobile telecommunications services in Ireland, with 1,522,000 registered customers at March 31, 2001, and a market share of over 58%. There are two other mobile operators in Ireland, one of which began service in February 2001. Eircell has experienced rapid growth in recent years, with mobile penetration in Ireland increasing to approximately 68% at March 31, 2001, and offers a range of voice and data services to its prepaid and contract customers. Eircell also offers a wide-area paging service through its wholly-owned subsidiary, Eirpage.

Eircell's mobile network consists of a GSM 900/1800 digital network and an analog network. A dual band GSM 900/1800 network has been launched in most of the population centers. The regulator has given consent to close down the analog network by July 31, 2001.

The Irish government is expected to award up to four 3G licenses during 2001, with one license being reserved for a new entrant. Licenses will be awarded by way of a "beauty contest" with a license fee being required by the government.

**Italy.** Vodafone has an effective ownership interest of 76.5% in Omnitel Pronto Italia S.p.A., the second largest of four operators in Italy, which operates under the brand name Omnitel Vodafone. It had a market share of approximately 35% at March 31, 2001.

The Italian market is characterized by a high level of prepaid product. Omnitel Vodafone's registered customer base grew by 40% in the year and was 15,680,000 at March 31, 2001, of which 90% were on prepaid tariffs. At March 31, 2001, 93% of the registered customer base was active.

Omnitel Vodafone is amongst the Group's leading European networks in terms of messaging and data revenues, which represented 7.2% of total monthly service revenues in March 2001. SMS comprises the largest element of

data revenues at present, resulting from high levels of SMS penetration in the marketplace, with 49.1% of the customer base using SMS in March 2001.

In the year to March 31, 2001, Omnitel Vodafone increased its number of base stations by 37% to 7,466 base stations, including over 1,600 1800 MHz stations. GPRS service is now being tested with corporate customers and commercial launch, subject to handset availability, is anticipated later in 2001.

Following an auction, five operators were licensed to offer third generation mobile services in November 2000. Omnitel Vodafone's fifteen year license cost approximately £1.6 billion and 3G services are anticipated to be available in the second half of 2002.

**The Netherlands.** Vodafone has a 70% shareholding in Libertel Vodafone, a digital GSM network operator. Libertel Vodafone is listed on the Amsterdam Stock Exchange and, as of March 31, 2001, had a market capitalization of approximately £1.8 billion (\$2.6 billion).

Libertel Vodafone maintained its position as the second largest mobile network operator, by number of registered customers, in the highly competitive Dutch market during the year ended March 31, 2001. One of five GSM operators in the Netherlands, Libertel Vodafone increased its total registered customer base by 34% to 3,281,000 at March 31, 2001. Prepaid customers made up 69% of the registered customer base at March 31, 2001, with the proportion of active customers estimated to be 91%.

Libertel Vodafone was successful in winning one of five fifteen year UMTS licenses, auctioned in July 2000, at a cost of approximately £467 million.

**Portugal.** Vodafone has a 50.9% shareholding in Telecel Vodafone, which is listed on the Lisbon and Oporto Stock Exchanges. As of March 31, 2001, Telecel Vodafone had a market capitalization of approximately £1.5 billion (\$2.1 billion).

Telecel Vodafone is the second largest operator in Portugal in terms of total customers, but has maintained its market leadership in the corporate sector and has more contract customers than any of its competitors in the Portuguese market. Telecel Vodafone increased its registered customer base by 38% to 2,478,000 at March 31, 2001.

Telecel continues to focus on the provision of a wide range of telecommunications services and has invested significantly in its network to ensure that the increased services can be delivered effectively. Telecel offers dual band access to both GSM 900 and 1800 frequencies, using Enhanced Full Rate (EFR) technology.

Telecel Vodafone was awarded one of four UMTS licenses in January 2001 for a fee of approximately £65 million.

**Spain.** Through a number of agreements entered into during January, July and September 2000, and following the receipt of regulatory approvals, the Group increased its shareholding in Airtel from 21.7% to 73.8% on December 29, 2000. Airtel has been consolidated in the Group accounts as a subsidiary undertaking from that date. On June 29, 2001, the Group completed its acquisition of BT's 17.8% stake in Airtel for a cash consideration of €1.77 billion (approximately £1.1 billion), which has increased the Group's ownership interest to approximately 91.6%. The two remaining shareholders retain a put option to sell their stakes in Airtel to Vodafone.

Airtel had 7,148,000 registered customers at March 31, 2001, representing growth of 27% in the year. 56% of the customer base are connected to its prepaid tariffs. A third operator entered the market during the year and the increased competition reduced the market share of both Airtel and the other existing operator. This reduced market share also reflects a revised approach to the less profitable prepaid market and increased focus on customer retention, with reduced subsidies being paid to distributors for the acquisition of new prepaid customers. The business is expected to be rebranded as Airtel Vodafone in the second half of 2001.

In March 2000, Airtel was awarded one of four 3G licenses by the Spanish government.

**Sweden.** Vodafone has a 71.1% interest in Europolitan Holdings AB, Sweden's third mobile network operator operating under the brand name Europolitan Vodafone. Europolitan Holdings, which is listed on the Stockholm Stock Exchange, had a market capitalization of approximately £2.1 billion (\$3.0 billion) as of March 31, 2001.

Europolitan Vodafone's registered customer base increased by 14% during the year to 1,008,000, reflecting the high levels of market penetration in Sweden. Europolitan Vodafone, which has traditionally targeted high value customers through tailored service offerings, began to actively address the prepaid market at the end of 2000. By March 31, 2001, 23% of the registered customer base was connected to a prepaid service.

In November 2000, Europolitan Vodafone was awarded a fifteen year UMTS license, for no fee, in a "beauty contest". The extensive infrastructure rollout requirements are being satisfied primarily through a network build program, which Europolitan Vodafone has undertaken as a joint venture with Hutchison Investor 3G Access AB, one of the other UMTS license holders in Sweden.

**France.** Prior to the acquisition of Mannesmann, Vodafone had a 20% interest in SFR. Through the acquisition of Mannesmann, the Group acquired an approximate 15% interest in Cegetel Groupe S.A., the French telecommunications group, which is the leading privately owned provider of wireless and wireline services in France and has the remaining 80% shareholding in SFR. Accordingly, Vodafone's effective ownership interest in SFR has increased to approximately 31.9%.

SFR has the second largest customer base of the three wireless carriers in the highly competitive French market. During the year, SFR expanded its customer base by 31% to over 10.3 million registered customers at March 31, 2001. SFR expects to launch GPRS service to the corporate market by October 2001, with full commercial launch anticipated early in 2002.

SFR was one of only two applicants for four third generation licenses offered by the French government and was awarded a license on May 31, 2001. The French government has announced that it will hold a new licensing round for the two remaining licenses in 2002. Any changes to the conditions of the licenses would also be applied to the first two third generation license holders. The original license cost to SFR was €4.95 billion.

### **United Kingdom**

Vodafone UK is the largest of four cellular network operators in the United Kingdom in terms of number of customers and has been the UK market leader since 1986. The highly competitive UK mobile phone market grew by 16.3 million net new customers in the year to March 31, 2001, resulting in a total market of 43.4 million registered customers. On this basis, market penetration in the UK is 72%, compared with 46% at the beginning of the year.

Vodafone UK had a market share of 28.3% at March 31, 2001, 1.1 million customers ahead of the nearest competitor. Net customer connections during the year were 3,488,000, increasing Vodafone UK's registered customer base to 12,279,000 at March 31, 2001. There were 1,499,000 inactive customers at March 31, 2001, approximately 12% of the registered customer base, of which 1,455,000 were prepaid customers.

Strong growth in the contract customer base continued throughout the year, resulting in net additions of 582,000 and a registered contract customer base of 4,294,000 at March 31, 2001. Continued focus on high value customers ensured that Vodafone UK's share of the corporate market was maintained at over 50%. At March 31, 2001, Vodafone UK's in-house service provider companies accounted for 59% of the contract customer base.

Prepaid products continued to drive the growth in the UK wireless market. The introduction of new tariffs and products stimulated this growth, resulting in 2,906,000 net connections in the year ended March 31, 2001. Prepaid customers totaled 7,985,000 registered customers at March 31, 2001, representing 65% of Vodafone's UK customer base.

An investment of £610 million in network infrastructure improved network quality significantly and enhanced Vodafone UK's position as the leading network in the UK. The network was rated number one in the Office of Telecommunications, or Oftel, customer satisfaction survey in the UK in October 2000. Oftel is the UK regulator for

the telecommunications industry. At March 31, 2001, Vodafone's UK digital network consisted of 95 mobile switching centers and approximately 7,800 digital base stations in service, giving declared coverage of 99%. The principal components of the network have been purchased mainly from Ericsson and also from Nokia. Vodafone ceased providing service on the analog network on June 1, 2001, pursuant to an agreement with the Department of Trade and Industry in the UK.

Commercial service of GPRS was launched in April 2001 in the corporate market, following successful and extensive trials. Initial feedback from customers has been encouraging.

Vodafone UK was awarded one of the five 3G licenses for £5.964 billion (\$9.5 billion) in the auction conducted by the UK government in April 2000. 3G development is progressing and the first 3G call was made by Vodafone in April 2001. Commercial launch of 3G services is anticipated for the second half of 2002.

## **United States**

Vodafone's interests in the United States comprise a 45% ownership interest in Verizon Wireless, which was formed at the beginning of the year by the combination of the US cellular operations of Vodafone, Bell Atlantic and GTE. The business has its headquarters in New York City and Bedminster, NJ, and has approximately 40,000 employees.

Under the transaction agreements, the contribution of assets by the parties involved two stages. In Stage I, Vodafone contributed certain US wireless interests to an existing partnership which held Bell Atlantic's US wireless interests. On completion of Stage I, on April 3, 2000, Vodafone held 65.1% of Verizon Wireless and Bell Atlantic owned the remaining 34.9%. Stage II of the closing occurred shortly after completion of the merger between Bell Atlantic and GTE, to form Verizon Communications, on June 30, 2000. In Stage II, Verizon Communications contributed the US wireless assets of GTE and Vodafone's ownership interest was reduced to 45%. Verizon Communications designates four of the seven members of Verizon Wireless's board of representatives, while Vodafone designates the three other members. Please see "Item 10. Additional Information — Material Contracts" for more information on the transaction agreements for the formation of Verizon Wireless. Verizon Wireless has filed a Registration Statement with the SEC relating to a proposed initial public offering of a minority stake in the partnership.

The formation of Verizon Wireless created a nationwide network using CDMA digital technology, serving 96 of the top 100, US wireless markets. Verizon Wireless is the leading mobile telecommunications provider in the United States in terms of number of customers, network coverage, revenues and cash flow. The approval of the transaction by the US Department of Justice was subject to a consent decree that called for the disposition of one of two competing wireless properties in each market where an overlap would be created by the new venture. It is estimated that the overlapping operations served approximately 3 million customers in several major US markets. The disposal of the overlapping properties is almost complete and generated proceeds of approximately £1.8 billion to Vodafone in the year ended March 31, 2001.

In the year to March 31, 2001, Verizon Wireless maintained its leadership in a highly competitive market place, which currently comprises six nationwide networks and several regional and small rural carriers. Verizon Wireless ended the year with a registered customer base of 27,122,000, after elimination at the year end of 900,000 additional inactive accounts, holding a 24% share of the market with over 6.5 million more customers than its nearest competitor.

Verizon Wireless offers analog and digital service in all of its US markets, its digital service being principally based on CDMA technology. Since the US operations offer dual-mode cellular telephones capable of sending and receiving both analog and certain digital transmissions, Verizon Wireless's analog and digital cellular customers can roam to virtually any cellular market in the United States. Substantially all of the company's network capital expenditures relate to the expansion of digital capacity and coverage, although it is expected that analog and digital technologies will continue to co-exist for the foreseeable future, due to the existing base of analog customers and the fact that analog networks provide the only common roaming platform currently available throughout the US.

In the year to March 31, 2001, Verizon Wireless has focused on gaining and increasing high value customers through new customer additions and migration of existing analog customers to digital price plans. At March 31, 2001,



digital customers totaled approximately 60% of the customer base and generated 85% of peak-hour usage. Verizon Wireless has more digital customers than any other US wireless operator. The increase in the company's digital customer base contributed to a strong financial performance for the year.

SingleRate<sup>SM</sup> plans, which eliminate long distance and roaming charges, are the cornerstone of the Verizon Wireless product offerings. Customers can choose from several large bundles of minutes, based on their usage requirements, ranging from 150 minutes to 2,000 minutes per month. During the year, the company launched an innovative churn management program, "New Every Two", to increase customer loyalty. Under the program, digital customers are eligible to receive a free digital handset, or handset credit, after every two years of service with a two-year contract renewal.

At March 31, 2001, Verizon Wireless had almost one million data customers, with the number of data customers having doubled in the second half of the year. Verizon Wireless has launched its Mobile Web service where customers can use their handset to access the "MyVZW" portal. Verizon Wireless has also extended its data offerings during the period to include the first wireless service for the next-generation smart phone in the US, being a Web-ready handset incorporating a personal digital assistant. Plans to deploy the first phase of the first commercial 3G high-speed data mobile network in the US have also been announced.

In January 2001, Verizon Wireless was declared the winning bidder for 113 licenses in the Federal Communications Commission's auction of 1.9 GHz spectrum, which would add capacity for advanced services in markets including New York, Boston, Los Angeles, Philadelphia, Washington, D.C., Seattle and San Francisco, for a total price of \$8.8 billion. Licenses for some of these bands had been previously awarded to NextWave Personal Communications in a 1996 auction. The FCC subsequently declared NextWave's licenses to have been automatically cancelled after NextWave stopped making installment payments on the amounts bid for its licenses, pursuant to its filing for Chapter 11 bankruptcy protection in 1998. On June 22, 2001, the US Court of Appeals for the D.C. Circuit ruled in a case brought by NextWave that, under the bankruptcy code, the FCC may not revoke spectrum licenses for failure to make payments for the licenses, as the installment payment obligations were dischargeable in bankruptcy. The court remanded the matter to the FCC for further proceedings. Verizon Wireless has urged the FCC and NextWave to settle the dispute quickly in a way that would permit the results of the FCC auction completed in January 2001 to stand and for the spectrum to be deployed by Verizon Wireless and the other winners of the re-auction.

## **Asia Pacific**

Vodafone's interests in the Asia Pacific region are in Australia, China, Fiji, India, Japan, New Zealand and South Korea, with almost 7.2 million proportionate registered customers as at March 31, 2001. Each interest operates as a stand-alone venture dealing with national or regional business issues arising from running a wireless telecommunications business in the particular country or region.

Set forth below is a description of the business developments and activities of Vodafone in each of its major markets in the Asia Pacific region.

**Japan.** Through the merger with AirTouch, Vodafone acquired an initial direct shareholding in nine regional mobile telecommunications companies in Japan, with ownership interests ranging from 4.5% to 15% in the six Digital Tu-Ka companies and the three Digital Phone companies. Subsequently, Vodafone increased its equity interests to more than 20% in each of these companies, becoming the second largest shareholder, behind Japan Telecom, in each venture. The total consideration paid for the increased ownership was £0.3 billion. Following this transaction, Vodafone entered into an agreement with its partners, Japan Telecom and BT, to restructure its ownership interests, resulting in J-Phone Communications Co, Ltd, in which Vodafone had a direct 26% stake, acquiring a controlling interest of approximately 50% in each of the nine regional operating companies. Vodafone's effective ownership interests were largely unchanged by this reorganization. Japan Telecom and BT had ownership interests in J-Phone Communications of 54% and 20%, respectively, following the reorganization, with Japan Telecom being the parent company and controlling shareholder of J-Phone Communications. The nine regional operating companies in the J-Phone Group were subsequently reorganized into three new regional companies, J-Phone East, J-Phone West and J-Phone Tokai, with effect from October 1, 2000. J-Phone Communications and the three regional operating companies are collectively known as the J-Phone Group.

In transactions completed before and after March 31, 2001, Vodafone acquired shareholdings in Japan Telecom through the acquisition of an aggregate 15% equity interest from West Japan Railway Company and Central Japan Railway Company for a cash consideration of Yen 249.7 billion (£1.4 billion). The transaction was completed in two stages with the acquisition of a 7.5% shareholding on January 31, 2001 and a 7.5% shareholding on April 12, 2001. Vodafone completed the acquisition of a further 10% shareholding in Japan Telecom from AT&T for a cash consideration of \$1.35 billion (£0.9 billion) on April 26, 2001.

On May 2, 2001, the Company announced that it had agreed to acquire, for a cash consideration of approximately £3.7 billion, BT's ownership interests in Japan Telecom and the J-Phone Group, comprising £3.07 billion for BT's combined shareholdings of 20% in Japan Telecom and 20% in J-Phone Communications, with a further €1.04 billion (£0.65 billion) for BT's aggregate direct interest of approximately 4.9% in the J-Phone operating companies. The acquisition of BT's interests in Japan Telecom and J-Phone Communications Co. Ltd was completed on June 1, 2001. The acquisition of BT's interests in the J-Phone operating companies is expected to be completed in July 2001.

Completion of these transactions has increased Vodafone's ownership interest in Japan Telecom to 45% and in J-Phone Communications to 46%, excluding the indirect interest held through Japan Telecom. Vodafone's total effective ownership interest in the operating companies of the J-Phone Group will increase to between approximately 58% and 63%. Vodafone has not, however, acquired control of the J-Phone Group through these transactions and will account for its interests on an equity basis rather than full consolidation.

The J-Phone Group, with approximately 10 million registered customers and a market share of approximately 16%, is the third largest operator in the Japanese market in terms of numbers of customers. Japan is the second largest wireless telecommunications market in the world.

Japan's cellular market remained robust as mobile services continued to expand. The number of mobile phone users increased by 9.8 million, or 19.2%, year-on-year to 60.9 million at March 31, 2001 and market penetration was 48%. This growth is driven by the ability to access mobile internet services using phones with an "always-on" capacity, which differentiates the service in Japan from the Group's other main markets. There are now nearly 35 million mobile internet access-enabled handsets in the Japanese market, approximately 57% of the total customer base.

J-Phone added 1,859,000 new customers during the year, increasing its customer base by 23% to 9,966,000 at March 31, 2001. Almost 6,200,000 (62%) of its customers now have internet-capable phones, a higher proportion of its customer base than any other operator.

A combination of increased competition and the Japanese consumers' appetite for internet-access phones resulted in a substantial increase in customer upgrade and connection costs compared with the previous year. Japan's four operators depend largely on independent retail shops and exclusive dealers to attract new customers.

The Japan digital cellular standard uses a narrow-band Japanese TDMA, a radio access technology called PDC. The merger of the nine operating companies during the year allowed the J-Phone Group to offer national coverage to its customers.

J-Phone launched its first commercial Java-compatible handsets in the Tokyo area in June 2001, with roll-out to other markets to follow. The new handset will enable J-Phone's internet customers to customize software in their phones and to run a variety of other applications. It will also enable three dimensional animated graphics, games and advertisements.

On June 30, 2000, the Ministry of Post and Telecommunications awarded one of three 3G licenses to J-Phone Communications. No license fees were required by the Japanese government. J-Phone has postponed the planned launch date of its 3G (IMT 2000) service due to major revisions in the international standards for W-CDMA technical specifications, 3GPP, which were announced in December 2000. Revised launch dates of June 2002 are scheduled for the Tokyo area, with planned launches in other regions in October 2002.

**China.** On October 4, 2000, Vodafone and China Mobile (Hong Kong) Limited announced that they had entered into a memorandum of understanding setting out the principal terms for a strategic alliance and cooperation between the two parties in mobile services, technology, operations and management. A strategic alliance agreement was signed on February 27, 2001. Vodafone and China Mobile also intend to explore opportunities for joint ventures and other equity-based strategic alliances in areas such as research and development of wireless data services, international investment opportunities and regional and/or global alliances.

Concurrent with the signing of the memorandum of understanding, the Company agreed to purchase an equity interest in China Mobile. In an offering that closed on November 3, 2000, the Company acquired newly issued shares representing approximately 2.18% of China Mobile's share capital for a cash consideration of \$2.5 billion. At March 31, 2001, China Mobile had approximately 52 million registered customers.

**Australia, New Zealand and Fiji.** Network operations in Australia, New Zealand and Fiji, all of which operate under the Vodafone brand name, increased their registered customer base by an aggregate 58% in the year to March 31, 2001, ending the year with almost 3.1 million registered venture customers.

Australia and New Zealand operate digital networks based on the GSM technical standard, providing coverage to approximately 92% and 97% of the population, respectively. The digital network in Australia consists of approximately 1,962 operational base stations that are controlled by 16 base station controllers and are managed by 13 Ericsson mobile switching centers. In New Zealand, the digital network consists of approximately 589 operational base stations that are controlled by 18 base station controllers and are managed by six Nokia mobile switching centers. Nokia supplies all core network components in New Zealand except for microwave equipment.

In Australia, which is a highly competitive market with five mobile networks, Vodafone's customer base increased by 47% in the year, attracting 671,000 net new customers and giving a market share of approximately 19%. More than 5% of average customer service revenues come from SMS, data and internet services. In New Zealand, strong growth continued with an 88% increase in the registered customer base to 889,000, an addition of 416,000 net new customers during the year. VIZZAVI, the Group's global wireless internet and data platform, was launched in New Zealand in December 2000. In Fiji, Vodafone's strong growth continued with a total of 55,000 registered customers at March 31, 2001.

Australia and New Zealand acquired 3G spectrum for A\$254 million (£87 million) and NZ\$29 million (£8 million), respectively, in recent auctions conducted in these countries and both expect to introduce 3G services by 2004.

On June 22, 2001, the Group announced that it had acquired an interest in 97.79% of the share capital of Mobile Communications Holdings Limited (MCH) in Australia. In accordance with the terms of the agreement, the remaining MCH shares will be compulsorily acquired. MCH holds an interest of 4.5% in the Group's Australian subsidiary, Vodafone Pacific Limited. Vodafone's effective ownership interest in its Australian operations has increased from 91% to 95.5% following this transaction.

### **Middle East and Africa**

Vodafone's operations and ownership interests in the Middle East and Africa region comprise Misfone in Egypt (60%), Vodacom in South Africa (31.5%) and Safaricom in Kenya (40%). On May 31, 2000, Vodafone announced that its wholly owned subsidiary, Vodafone Kenya Limited, had signed an agreement with Telkom Kenya to form Safaricom Limited. Safaricom Limited has a 15 year GSM 900 license and is currently the only cellular operator in Kenya. On June 14, 2000, Vodafone announced that it had agreed to divest its 36.8% holding in Celtel in Uganda to its partner, MSI Cellular Investments (Uganda) B.V., for approximately \$7 million in cash. The transaction was completed on June 28, 2000.

Proportionate registered customers in the Middle East and Africa region increased to 2,349,000 at March 31, 2001, which represents growth of 1,131,000 (93%) on the closing customer base at March 31, 2000.

**Egypt.** Vodafone has a 60% shareholding in Misfone, Egypt's second largest mobile operator, which operates under the brand name ClickGSM Vodafone. Since its launch in November 1998, ClickGSM Vodafone had increased

the number of customers connected to its network to approximately 1,171,000 by March 31, 2001. This represents an almost tripling of the customer base in the last year.

ClickGSM Vodafone offers both contract and prepaid services, with prepaid customers representing approximately 85% of the customer base.

**South Africa.** Vodafone has a 31.5% interest in Vodacom, South Africa's largest mobile operator with approximately 59% of the market. Its customer base increased by 66% in the year to March 31, 2001 to over 5.1 million registered customers, of whom approximately 79% are connected to the prepaid service, Vodago.

Vodacom offers a wide range of services and, at the end of 1999, was awarded a license to operate in Tanzania. Vodacom Tanzania was launched in August 2000 and had 83,000 customers at March 31, 2001, almost all of whom were connected to prepaid services.

### **Mobile data services**

Revenue streams from messaging data and internet data services continued to increase as a percentage of Vodafone's total service revenues during the year to March 31, 2001. Data represented over 8% of service revenues in Vodafone's controlled subsidiaries during the year and, for the month of March 2001, data as a percentage of service revenues increased to over 9%. Including the proportionate revenue streams of the Group's joint ventures and associated undertakings, data represented over 6% of service revenues for the year and 7% in March 2001.

These results are for periods prior to the introduction of GPRS services, which have now been launched in almost all of Vodafone's major European subsidiaries. Vodafone expects that the "always-on" feature of GPRS handsets, combined with color screens and a generally wider choice of handsets, will accelerate the take-up and usage of data services, including internet-based services. The Group presently has delivery of GPRS handsets from various suppliers, including Motorola, Ericsson, Panasonic, Siemens and Sagem, and Vodafone expects that a wider variety of GPRS phones, PDAs and PC cards will become available during the third quarter of this calendar year. Vodafone is developing strategic relationships with a number of handset manufacturers to enhance the features and functionality of terminals.

Vodafone has a target of deriving between 20% and 25% of service revenues from data services by March 2004. Messaging and internet data services have been introduced in all of Vodafone's controlled subsidiaries and GPRS service has been commercially launched in Australia, Germany, Greece, the Netherlands, New Zealand, Portugal, Spain and the United Kingdom. GPRS service is expected to be launched in Italy and Sweden before the end of 2001.

During the year to March 31, 2001, Vodafone has continued to implement its strategy to develop a global Internet platform. The development of the platform is the responsibility of the Vodafone Global Internet and Platform Services organization located in California. Important milestones have been reached, including completion of the long-term platform road map and architecture, building the development and deployment team and identifying key technology partners. The first version of the platform has been deployed in New Zealand, where customers are currently using mobile Internet services with the VIZZAVI brand.

The current version of the platform offers an attractive user interface including quick and easy navigation, integration of services across multiple access devices: desktop, mobile phones and personal digital assistants, personal information management (calendar, e-mail), user personalization for Web and WAP pages, local content integration, alerts on content and information and location-based services for users with WAP phones.

During 2001, Vodafone intends to add increased functionality including unified and instant messaging, mobile commerce, voice navigation, mobile-PIM synchronization, personal account consolidations, enhanced m-commerce and fully integrated shopping and location-based services. The next full release of the platform is expected to be available commercially by the end of the calendar year 2001.

During the course of 2001 the platform will also be deployed for Vodafone operators in Australia, Egypt and Romania. The Group is in discussions with affiliates in Japan, the United States, China and Europe for their use of the entire platform, or key elements of it.

Vizzavi Europe, Vodafone's 50%-owned joint venture with Vivendi Universal, has been created to develop and implement a common European multi-access internet portal throughout the parties' respective wireless, fixed and cable television networks in Europe. It received clearance from the European Commission in July 2000 to operate its proposed services in Europe. Operating under the brand name VIZZAVI, the joint venture has begun service in the Netherlands, the UK and France as a personal computer and mobile portal. Vizzavi Europe is expected to roll out its services to Germany, Italy, Greece, Spain and Portugal by the end of 2001 and will be well placed to take advantage of the growth in wireless services expected with the roll out of GPRS in these markets. At March 31, 2001, Vizzavi Europe had more than 700,000 customers. Headquartered in London, the company currently has more than 800 employees in six countries.

In addition to its core offering, Vizzavi Europe has launched services such as WAP games, e-mail, picture mail, music streaming, news and finance content and location-based services. Later this year, functionality such as unified messaging, instant messaging and e-commerce capabilities will be added to the portal. With the advent of GPRS's "always on" capability and the introduction of new devices and technology, VIZZAVI customers will see continuous enhancements to the portal.

The Company recognizes the benefits of creating a strong portal offering which will serve to increase airtime usage, reduce churn and create additional value. VIZZAVI forms a core part of achieving the data revenue targets that Vodafone has set itself.

### **3G**

The status of the 3G licensing processes in Vodafone's major markets is discussed in greater detail in the description of business activities above. The Company, or entities in which Vodafone has an interest, have been awarded 3G licenses in Australia, Belgium, France, Germany, Italy, Japan, the Netherlands, New Zealand, Poland, Portugal, Spain, Sweden, Switzerland, and the UK. Cumulative expenditure on 3G licenses was £13.2 billion at March 31, 2001, which was funded from the Group's existing borrowing facilities. Most of this expenditure occurred in fiscal 2001. Vodafone expects to participate in additional 3G license allocation procedures in other markets in which it operates. No assurances can be given that Vodafone will be successful in obtaining any 3G licenses for which it intends to apply or bid.

The construction of 3G network infrastructure has already commenced in preparation for the launch of commercial service. Vodafone presently expects to incur expenditure on 3G network infrastructure of approximately £1.0 billion in fiscal 2002, increasing to approximately £2.5 billion in fiscal 2003. These expenditures are expected to be financed through operating cash flows and existing borrowing facilities. Vodafone has entered into contracts with three key suppliers, notably Ericsson, Nokia and Siemens, for the delivery of 3G network infrastructure.

The commercial launch of 3G services in Vodafone's largest markets is expected to take place in the second half of 2002. The original and imposed launch date set for Spain under the license terms has recently been postponed until June 2002 by the Spanish government. The Group's network roll-out program continues to be influenced by the availability and delivery of commercial quantities of dual mode GSM/3G handsets in the second half of 2002. The launch of 3G services is expected to provide even more capacity, bandwidth and speed and is expected to provide the platform for more sophisticated products such as video streaming and picture messaging. 3G technology is expected to enable mobile to substitute for fixed telephone services in the provision of voice and narrow-band data services, as well as for some broadband applications.

### **Marketing and distribution**

Vodafone engages in two forms of marketing: brand marketing designed to increase general public awareness of the Vodafone brand or other local brands — its values, products and services — and marketing specifically directed at certain distribution channels. Brand communications include sponsorships, advertising on radio and television, in general circulation newspapers, magazines and in specialized publications.

The Company believes that the adoption of a single, ubiquitous Vodafone brand in all markets will maximize the return from the Group's investment in marketing and application development and will increase customer loyalty. The Company's strategy is to progressively introduce the Vodafone brand into all businesses where it has control. This is being done in association with the Company's subsidiaries in order to enhance the global brand without destroying existing local brand equity. The progressive roll-out of the Vodafone identity is being associated with new services, such as single rate roaming charges and tariffs in Europe, to enhance the attractiveness of the Company and its operating companies to customers.

In January 2001, brand migration started in Europe, with new dual brand logos now replacing existing logos in the Company's subsidiaries in Germany (D2 Vodafone), Greece (Panafon Vodafone), Italy (Omnitel Vodafone), the Netherlands (Libertel Vodafone), Portugal (Telecel Vodafone), Sweden (Europolitan Vodafone) and Egypt (Click GSM Vodafone). It is expected that Airtel in Spain will be rebranded as Airtel Vodafone in the second half of 2001.

This marks the beginning of a transition phase, which is expected to lead to a consistent identity and brand positioning for all of the Group's subsidiaries by early 2002. In parallel, the brand campaign will support the launch of Group-wide services. It is intended that Vodafone will become one of the world's top ten global brands.

Development of the Group's multi-access internet portal will be achieved under the global brand name, VIZZAVI. In Europe, the VIZZAVI brand is being rolled out under the joint venture with Vivendi Universal.

In addition to the Group's initiatives to establish a global Vodafone brand, marketing is also handled on a local market basis, where network brand marketing utilizes both mass-market media such as television and national newspapers and more targeted media aimed at specific market segments, such as specialized magazines. Customer database marketing is widely used to communicate directly and, linked with customer service, provides a strong basis for building customer relationships.

Distribution is achieved through a wide variety of channels, with different emphasis in different markets. Service providers are prevalent in some markets, although the Group's commitment to maintaining close links to the customer has resulted in a move to acquire service providers and operate them in-house. Independent dealers are used in all markets, with own-branded stores, "store-within-stores" and kiosks becoming increasingly popular. Products and services are available directly in most markets, either via direct response advertising or over the Internet. The advent of the "phone in a box" prepaid product has led to the use of supermarket chains and multiple retailers to achieve mass distribution, with top-up vouchers available in a wide selection of outlets such as petrol stations, newsagents and local stores.

In territories where the service provider model operates, marketing to third-party service providers includes maintaining a competitive tariff structure, providing technical and other training to their staff and providing financial incentives for service providers, their dealers and sales persons. It also entails providing assistance on advertising campaigns and supporting the development of both specialist retail outlets and programs with multiple retailers. Service providers receive discounts on Vodafone's airtime rates for each tariff. Service providers also receive financial incentives from Vodafone related to their success in attracting new customers to the network. These comprise gross connection bonuses, airtime growth awards and other specific incentives.

In the United States, Verizon Wireless offers a nationwide US footprint under a single brand, operating a common digital technology. Verizon Wireless sells its service directly to customers through its own sales force and stores, telemarketing centers and the Internet, and indirectly through arrangements with independent agents such as consumer electronic stores, specialized cellular stores, automobile dealers, department stores, and other retail stores. In certain markets, cellular service is sold through resellers who, pursuant to FCC requirements, are allowed to purchase blocks of cellular telephone numbers and to access cellular services at wholesale rates for resale to the public. The costs of attracting new customers primarily consist of advertising and marketing costs, costs of direct distribution, including costs related to the company's stores, compensation paid to independent agents or to its own sales force, and handset subsidies.

The Company's ventures in Japan market their products and services under the common J-Phone brand, and advertise to promote brand awareness. Japan's four operators depend largely on a combination of non-exclusive and exclusive agent channels, as well as direct channels, to market their products and services.

## Project Momentum

Project Momentum is intended to achieve coordination across the Group and to ensure the realization of economies of scale, as Vodafone moves from being a series of national operating companies into a global company.

Significant progress has been made over the last year in the five key areas of product management and innovation, brand management, IT and technology, supply chain management and multi-national account management. On April 1, 2001, Thomas Geitner was appointed Chief Executive, Group Products and Services, with new global responsibilities for the co-ordination of these activities across Vodafone's businesses.

These five key functions supplement the Group's existing regional structures. The initial focus will be in the three new regions in Europe with subsequent rollout to the Group's other businesses. Each of these new initiatives is currently projected to contribute towards the achievement of after tax cash savings for the Group of £600 million in 2004 and to lead to the introduction of 3G services and customer experience of seamless services across Vodafone's global footprint.

*Product management and innovation:* Vodafone has begun to offer its customers Group-wide product offerings, with services such as short-code dialing, Eurocall and Assisted Roaming being successfully launched on Vodafone networks in Europe. Short-code dialing allows voice products to "travel" with the customer, with short code dialing and utilization of the mailbox being identical in each of the visited networks. With Eurocall, Vodafone has introduced a flat-rate single tariff in Europe, a service already being used by more than 1.6 million customers.

The enhanced data capabilities of GPRS and 3G, together with the deployment of new handsets, will allow a new set of innovative products to be delivered to customers. New products such as location based services, mobile payment facilities (with micro-payment and e-Wallet functionality), prepaid and GPRS roaming, unified messaging and instant messaging have target launch dates throughout 2001 and 2002. Further programs to enable access to the Internet and specific applications for business customers will follow.

*Brand management:* The key features of the Company's strategy to introduce a global Vodafone brand to all of its operating subsidiaries are discussed above in "Marketing and distribution".

*IT and Technology:* The next generation of mobile services is expected to be accompanied by the development and implementation of standardized platforms across Vodafone's controlled networks and, where possible, the networks of its affiliates. GPRS is expected to allow mobile data access speeds that match today's fixed desktop computer with substantial reductions in call set-up times through an "always on" capability for the customer, improving the customer friendliness of mobile data applications. Vodafone's initial focus will be to offer the benefits of GPRS technology by the launch of an expanded data services portfolio, with harmonized technologies and a common billing system. The launch of 3G services will provide even more capacity, bandwidth and speed and is expected to provide the platform for more sophisticated products such as video streaming and picture messaging. 3G technology is expected to enable mobile services to substitute fixed telephone services in the provision of voice and narrow-band data services, as well as in some broadband applications.

*Supply chain management:* Global procurement initiatives, initially concentrating on handsets, interconnect agreements, IT and network infrastructure, will enable the Group to leverage its purchasing strength, to improve supply chain processes across Vodafone companies and to develop strategic partnerships with selected suppliers in order to harmonize product and technology planning.

*Multi-national account management:* Vodafone's global account management team forms relationships with customers who have a significant requirement for cross border business. Relationships already exist with a number of multi-national organizations, using unified technology support from Vodafone's networks.

## Business activities — Non-Wireless Telecommunications

Through the successful offer for Mannesmann, Vodafone also acquired Mannesmann's interests in certain fixed line businesses. On March 29, 2001, Vodafone completed the sale of Infostrada, Mannesmann's fixed line

telecommunications operator in Italy, as described under “History and Development of the Company – Sales of businesses” above.

Following the disposal of Infostrada, Vodafone’s non-wireless telecommunications businesses mainly comprise interests in Mannesmann Arcor AG & Co KG (“Arcor”), a German fixed line business, Telecommerce, a German IT and data services business, Cegetel of France, Vizzavi Europe, the Group’s 50%-owned multi-access consumer portal joint venture with Vivendi Universal and Japan Telecom.

Through Arcor, the Group provides fixed network services in Germany. Prior to the acquisition of Mannesmann, Vodafone held a 3.7% interest in Arcor. Following the acquisition of Mannesmann, the Group’s effective interest in Arcor has increased to 73.3%. The company is the leading wireline competitor to Deutsche Telekom in Germany with its network being linked to that of the French telecommunications company, Cegetel, and the Austrian network telephone company, tele.ring. Together with the fixed-line telephone company, o.tel.o, which is wholly-owned, Arcor pursues a two-brand strategy in the German fixed-line market. Arcor offers both business and residential customers a complete range of voice, data and value added services, while o.tel.o concentrates on the residential customer segment. Arcor, together with its wholly-owned subsidiary, germany.net, also offers internet access and online services. By March 31, 2001, Arcor had more than 2.2 million contract voice customers and more than 16.2 billion voice and internet minutes were switched over Arcor’s network in the financial year.

In addition to its wireline activities, Arcor provides telecommunication services for Deutsche Bahn AG, the German railway company. An important part of this is a long-term contract under which Arcor has been building a GSM network for railway operations in Germany. With the build-up of the point to multi-point joint venture, Arctel, and the recent acquisition of a controlling stake in the city carrier Netcom Kassel, Arcor is successfully pursuing its multi-access strategy. Vodafone is considering its strategic options in respect of its stake in Arcor.

Telecommerce provides a range of activities for Group and external customers, from the maintenance of IT facilities to the development of technologies and services supporting cellular networks. The main contribution to revenue is derived from the IT-solutions business.

Cegetel, in which the Group has a 15% stake, is the second largest fixed line operator in France. The company also provides internet access services. At December 31, 2000, Cegetel had a share of over 15% of the French telecommunications market with over 2.5 million fixed line customers.

Vizzavi Europe, Vodafone’s 50/50 joint venture with Vivendi Universal to develop a multi-access portal for the European market, was created in May 2000 and received clearance to operate its services from the European Commission in July 2000. Further details regarding the operations of this new venture are included in “Business activities – Wireless Telecommunications – Mobile data services” above.

Japan Telecom is one of Japan’s leading fixed line telecommunications companies and the parent company of J-Phone Communications which, together with its three subsidiary operating companies, comprises the J-Phone Group. Through a series of transactions completed after the end of the financial year, the Group has acquired a 45% ownership interest in Japan Telecom. These transactions are further described in “History and Development of the Company – Acquisitions of businesses” above. Japan Telecom is the third largest fixed-line telecommunications operator in Japan, offering both voice and data services.

## **Competition**

Vodafone faces intensifying competition in each of its geographic markets. As with other telecommunications operators, the Group is subject to indirect competition from providers of other telecommunications services in the domestic markets in which it operates in addition to direct competition from other current operators of wireless telecommunications services. Competitive pressures have led to reductions in tariffs, together with other retention initiatives, in order to manage the level of customer churn. Competitive pressures have also led to increased connection and selling costs for new customers, including increased marketing costs.



A summary of Vodafone's competitive position in its main markets is provided in the following table. This information has been prepared as at the dates indicated in the footnotes to the table.

| <u>Country</u>                     | <u>Service name</u>  | <u>Number of competitors</u> | <u>Names of competitors</u>  | <u>Total number of customers in market</u><br>(millions) | <u>Market share</u><br>(%) | <u>Position in market</u> |
|------------------------------------|----------------------|------------------------------|--|--|----------------------------|---------------------------|
| <b>Continental Europe(1)</b>       |                      |                              |  |  |                            |                           |
| Germany . . . . .                  | D2 Vodafone          | 3                            | T-Mobil, E-Plus, Viag Interkom   | 54.4   | 39.7                       | 1st                       |
| Greece . . . . .                   | Panafon Vodafone     | 2                            | Cosmote, Stet Hallas   | 6.5  | 36.5                       | 1st                       |
| Ireland . . . . .                  | Eircell              | 2                            | Esat Digifone, Meteor  | 2.7  | 59.2                       | 1st                       |
| Italy . . . . .                    | Omnitel Vodafone     | 3                            | TIM, Blu, Wind   | 45.0   | 35.1                       | 2nd                       |
| Netherlands . . . . .              | Libertel Vodafone    | 4                            | KPN Mobile, Telfort,<br>Dutchtone, Ben   | 11.6   | 28.6                       | 2nd                       |
| Portugal . . . . .                 | Telecel Vodafone     | 2                            | TMN, Optimus   | 7.3  | 34.2                       | 2nd                       |
| Spain . . . . .                    | Airtel               | 2                            | Telefonica Moviles, Amena  | 25.7   | 28.0                       | 2nd                       |
| Sweden . . . . .                   | Europolitan Vodafone | 2                            | Telia Mobile, Comvig   | 6.6  | 15.6                       | 3rd                       |
| Belgium . . . . .                  | Proximus             | 2                            | Mobistar, KPN Orange   | 6.5  | 58.0                       | 1st                       |
| France . . . . .                   | SFR                  | 2                            | Bouygues, Orange France  | 31.7   | 33.9                       | 2nd                       |
| Switzerland . . . . .              | Swisscom Mobile      | 2                            | Diax, Orange Comms   | 4.8  | 46.9                       | 1st                       |
| <b>United Kingdom(1)</b> . . . .   | Vodafone             | 3                            | BTCellnet, One2One, Orange   | 44.2   | 28.1                       | 1st                       |
| <b>United States(2)(3)</b> . . . . | Verizon Wireless     | 5                            | AT&T Wireless,<br>Cingular Wireless,<br>Nextel Communications Inc.,<br>Sprint PCS, Voicestream<br>Communications | 109.5  | 24.0                       | 1st                       |
| <b>Asia Pacific</b>                |                      |                              |  |  |                            |                           |
| Australia(4) . . . . .             | Vodafone             | 4                            | Telstra, Optus, One.Tel, Orange  | 10.0   | 20.0                       | 3rd                       |
| Japan(5) . . . . .                 | J-Phone              | 3                            | NTT DoCoMo, au, Tuka Group   | 62.0   | 16.4                       | 3rd                       |
| <b>Middle East and Africa(6)</b>   |                      |                              |  |  |                            |                           |
| Egypt . . . . .                    | Click GSM Vodafone   | 1                            | Mobinil  | 2.5  | 46.4                       | 2nd                       |
| South Africa . . . . .             | Vodacom              | 1                            | MTN  | 8.6  | 59.1                       | 1st                       |

(1) Source: Mobile Communications — data as of May 1, 2001.

(2) Cellular Telecommunications Industry Association and Paul Kagan Associates — data as of December 31, 2000.

(3) Nationwide competitors only.

(4) Asia Pacific Communications — data as of December 31, 2000.

(5) Japanese Market Publication — data as of May 1, 2001.

(6) Internally derived market statistics — data as of March 31, 2001.

The Group expects that competition will continue from existing operators as well as from a variety of new market entrants following the award of new 3G licenses. Please see "Item 5. Operating and Financial Review and Prospects – Trend Information" for additional information. The scope of this increased competition, and the extent of the impact on the results of operations, depends on a variety of factors, the outcome of which is currently uncertain.

## Regulation

Vodafone and its interests are subject to regulation imposed by each of the countries in which they operate and, within Europe, by the European Union, as discussed below. 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 has a significant interest.

## European Union and other jurisdictions

The European Union ("EU") has taken on an increasingly important role in regulating the telecommunications industry within Europe. Over the past nine years, the EU has implemented legislation to liberalize the European telecommunications market and to harmonize the relevant laws in each of the EU Member States. Several important directives have been adopted by the EU and each EU Member State has brought local law into conformity with these directives.

The current regulatory framework consists of more than twenty different legislative texts. 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 European Commission has considered the current state of implementation and harmonization of EU measures across the EU in its 1999 Communications Review. On April 26, 2000 the European Commission announced that it will propose a new framework directive covering all communications infrastructure and associated services, but not broadcast or internet content services. The Commission intends to replace the many different European directives and regulations with only five new directives. Proposals for this new legislative framework were published on July 12, 2000 together with a proposal for a decision on radio spectrum policy and a proposal for a regulation for access to the unbundled local loops of fixed operators which was subsequently adopted and came into force on January 4, 2001. On April 5, 2001 the Council of Ministers reached political agreement on three of the five new directives: the framework directive; the directive on access and interconnection; and the directive on authorizations. It reached political agreement on the remaining Universal Service and User Rights Directive, and the Data Protection Directive at the Council meeting on June 27, 2001. All five directives will be transmitted to the European Parliament for a second reading and are still able to be amended before their final adoption. Implementation of the new directives in national legislation is foreseen for mid-2003.

Under these proposed directives access and interconnection issues will continue to be regulated by reference to significant market power. However, a determination of significant market power will no longer involve a market share threshold of 25% but where an undertaking either individually or jointly with others, enjoys a position equivalent to dominance, that is, a position of economic strength affording it the power to behave to an appreciable extent independently of competitors, customers and ultimately consumers. In assessing joint dominance, national regulatory authorities are to take into the utmost account the Commission's guidelines on market analysis and calculation of significant market power.

In particular, the European Parliament has made a number of other proposals for inclusion in the proposed directives and it is not yet certain if any of these will be adopted. They include operators with significant market power having to make international roaming retail prices and mobile call-termination prices cost-based; operators displaying the price-per-minute of an international roaming call on the screen of the handset or communicate this information by voice message, in real time; discouraging the use of spectrum auctions in favor of administrative pricing of spectrum; giving operators the right to voluntarily sell, rent or otherwise trade rights to use radio spectrum while preventing speculative stockpiling.

The European Commission launched an inquiry into international roaming charges in January 2000. The preliminary results of the inquiry were published in December 2000. No regulatory action has yet been announced but further investigation is expected to take place. This could have consequences for the IOT regime of the GSM Association or the clearance of the Vodafone Eurocall product.

By its decision of April 12, 2000, clearing the acquisition of Mannesmann by Vodafone, the European Commission accepted undertakings provided by Vodafone. The undertakings required Vodafone to dispose of Orange plc and to implement certain measures "to enable third parties to provide advanced mobile services to their customers". The disposal of Orange plc was completed on August 22, 2000.

The EU has mandated licensing of networks for IMT-2000 using a standard of third generation of universal mobile telecommunications services, known as UMTS, within Europe by January 1, 2002. Licenses have already been

issued in Austria, Belgium, Finland, Italy, Spain, the United Kingdom, Germany, the Netherlands, Portugal and Sweden. Greece is proposing an auction and Ireland has decided to hold a “beauty contest”. In France, two bids in a “beauty contest” for up to four licenses were received. Licenses were issued to both bidders. There are two remaining licenses which are yet to be issued. The European Commission issued a communication on March 20, 2001 which set out a proposal that national regulatory authorities consult each other prior to licensing spectrum so as to ensure consistency in the licensing methods and conditions for services that are offered by operators throughout the European Union. It also proposes avoiding excessive regulation such as price control and suggests the sharing of 3G infrastructure.

Vodafone’s other cellular and paging operations outside of the European Union 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, including some within the European Union (e.g. Italy), Vodafone 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.

### **Germany**

The German telecommunications regulator, the Regulator of Telecommunications and Posts (“Reg TP”), was created on January 1, 1998, after the Telecommunications Act had come into force on July 1, 1996. D2 Vodafone obtained a GSM 900 license in December 1990 and obtained GSM 1800 spectrum in October 1999 in an auction conducted by Reg TP. In August 2000, D2 Vodafone was awarded one of six UMTS licenses issued following an auction.

All network operators have an obligation to allow interconnection of their public telecommunications networks with those of other carriers. Cost orientation of interconnection prices applies only to dominant operators on the relevant market. Reg TP has declared that the four German wireless operators are not market dominant in the interconnection market. The significant market power test, as required by EU law, was not adopted in this decision and Germany has come under pressure from the European Commission to change the test.

An inquiry launched by Reg TP into market dominance in the wireless retail market is continuing. It is currently unclear how this will impact D2 Vodafone. Reg TP has ordered the implementation of mobile number portability in the German telecommunications market from February 1, 2002. D2 Vodafone has challenged this decision by filing a lawsuit against the Reg TP. The court in the first instance found against D2 Vodafone and a further appeal has been lodged.

### **Italy**

The Italian telecommunications regulator, the *Autorita per la Garanzie nelle Comunicazioni*, referred to as the Communications Agency or “the Firm”, establishes and monitors the detailed regulations governing the telecommunications sector and issues licenses, while the Ministry of Communications provides services to the Communications Agency. According to the EU liberalization and harmonization directives in the telecommunications sector, the Italian government has implemented a system based on, general authorizations and individual licenses. Individual licenses 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 Vodafone and WIND are the three original GSM 900/1800 MHz operators in Italy. BLU was granted a DCS 1800 license and its operations commenced on May 15, 2000. TIM and Omnitel Vodafone are required to provide national roaming services to BLU until November 2001 at cost-based prices. However, WIND provides to BLU national roaming on commercial terms. On August 4, 2000, the Communications Agency established that no regulatory intervention in favor of mobile virtual network operators and indirect access providers seemed to be justified. The review of the current national regulatory framework should take into account the period of time for the return on initial investments incurred by a new entrant to the mobile market and this period has been estimated at not less than eight years from the commercial start-up of 3G mobile systems.

On September 28, 1999, the Communications Agency determined that TIM and Omnitel were operators with significant market power in both the mobile and interconnection markets. On December 6, 1999, the Communications Agency, following its determination regarding the significant market power designation of TIM and Omnitel Vodafone, established 360 lira per minute as the maximum value for the wireless termination rates for TIM and Omnitel Vodafone. A new cost calculation is due to be determined in the summer of 2001.

On October 23, 2000 the auction for five UMTS licenses in Italy concluded, following the withdrawal of BLU. Licenses were awarded to Omnitel, TIM, WIND, ISPE and Andala on February 10, 2001. At the end of December 2000, Omnitel Vodafone was granted an additional 2x5MHz spectrum (GSM 1800) refarmed by the Defense Ministry.

The Communications Agency has decided that mobile number portability is to be implemented by April 30, 2002, but an initial experimental phase is to be launched by November 2001.

Omnitel Vodafone's obligation to pay a universal service contribution of 16.67 billion lira (approximately £5.4 million) has been suspended until July 2001, pending finalization of proceedings challenging the liability for the payment and the amount.

### **The Netherlands**

The Telecommunications Act, which came into force in December 1998 regulates, amongst others, wireless telecommunications operators in the Netherlands. It abolished the requirement to obtain a license for telecommunications related activities, although a license is still required for the use of spectrum.

At the time of the implementation of the Telecommunications Act, Libertel Vodafone had already received licenses for GSM 900 spectrum and two licenses for GSM 1800 spectrum and has the rights to use the GSM 1800 spectrum until February 25, 2013. As part of the new licensing arrangement, Libertel Vodafone was awarded a UMTS license in July 2000. It paid €714 million for this license. Libertel Vodafone is subject to a condition requiring national roaming, which it currently offers on commercial terms.

In November 2000, the Dutch telecommunications regulator, OPTA, designated Libertel Vodafone as having significant market power (SMP) in the wireless market in the Netherlands. The designation will lead to obligations of non-discriminatory interconnection and special access. The obligations came into force from December 21, 2000. Libertel Vodafone has appealed the decision.

OPTA has also started its review of the national interconnection market and is due to announce its conclusions in September 2001. An SMP designation in the national market for interconnection would lead to an obligation of cost-based mobile termination tariffs.

OPTA and the European Commission are also investigating the interconnection/mobile termination rates of Libertel Vodafone. The European Commission has obtained documents from Libertel Vodafone for this purpose.

### **Spain**

A number of Royal Decrees and laws regulate telecommunications in Spain, including that which created the Spanish telecommunications regulator, the Telecommunications Market Commission ("TMC").

Following a bid process, Airtel was awarded a license for GSM 900 to compete with the fixed and mobile incumbent, Telefónica. Telefónica was not required to pay a license fee and this was found to be inconsistent with European law on December 18, 1996. On July 24, 1997 Airtel's license was amended in line with EU practice. Airtel was compensated for paying the initial fee through several means including the provision of additional spectrum and extending its license to a 25 year period, renewable for another 5 years. Telefónica and Airtel were also provided with DCS 1800 licenses, although Airtel was not required to pay a fee. The third entrant, Retevisión Móviles, was awarded its DCS 1800 license on June 24, 1998. Each of the three operators has lodged applications seeking additional 1800 MHz spectrum which, as a result of Ministerial inaction, have been effectively rejected. Airtel and the other operators have instituted legal proceedings challenging the rejection.

On March 13, 2000, the three existing operators and a new entrant, Xfera, were awarded UMTS licenses through a beauty contest procedure. These licenses are for 20 years and can be extended for a further 10 years. One of the unsuccessful bidders is challenging the validity of Xfera's license. The licenses require the launch of 3G services by August 2001, although the government has informally indicated that it will delay the launch date until mid-2002. The General Budget Law for 2001 was adopted on December 30, 2000. It includes provision for a spectrum fee, which was previously in the General Telecommunications Law, applicable to all mobile operators. The amount of the fee is significantly increased for all operators for 2001 and, for Airtel, is approximately 39 billion Spanish pesetas. Airtel and the other operators have instituted legal proceedings challenging the validity of the fee as included in the General Budget Law.

On August 4, 2000, Airtel was designated as an operator with significant market power in the interconnection market. Airtel has appealed against this decision. Mobile number portability was required to be implemented in Spain by October 2000.

## **France**

Telecommunications in France are governed by the French Code des Postes et Télécommunications ("the Code"). The regulator, ART (the Autorité de régulation des télécommunications) ensures that operators comply with the obligations resulting from regulatory and legislative rules which apply to them under the provisions of the Code and from the consents from which they benefit. Requests for licenses are sent to the ART, which conducts investigations into license applications on behalf of the Telecommunications Minister. The ART also sanctions any breaches by way of license suspension or revocation, reduction in the term of the license or by fines. The grant of a license is also subject to the operator contributing financially to a universal service fund, legal separation into subsidiaries of separate activities and accounting separation. ART is also responsible for the numbering plan and the administration of spectrum frequencies, both of which are issued upon payment of a fee. However, the Agence Nationale des Fréquences is responsible for planning, managing and monitoring use of the frequency spectrum.

SFR's GSM license was granted on March 25, 1991, and expires on March 24, 2006, but is renewable. It covers both 900 MHz and 1800 MHz spectrum.

The ART decided in September 1999 that SFR, together with France Telecom Mobiles ("FTM"), has significant market power in the mobile telephony market and the interconnection market. As a result of the latter, SFR's interconnection prices are to move towards cost orientation. To achieve this, the ART set up a working group, which issued guidelines in May 2001.

Carrier pre-selection became compulsory for calls terminating on mobile networks from November 1, 2000. There is no discussion to introduce Carrier Selection from mobiles. ART published the results of its public consultation on number portability, and mobile operators plan to make a common proposal to ART in October, containing a working plan and solutions to be implemented within 12 to 18 months.

France decided to award four 3G licenses by way of a beauty contest, each comprising twice 5 MHz (paired) and 5 MHz (unpaired). The very high frequency fees amount to a total of 32 billion FF over the 15 years of the license. Some refarming fees to free up UMTS spectrum are also being discussed. The conditions of the licenses include minimum roll-out obligations and new UMTS entrants can request national roaming onto existing GSM operators, but on commercial terms and provided they reach a minimum coverage. The ART received only two applications from SFR and FTM/Orange, which were awarded a license on May 31, 2001. The government has announced it will hold a new licensing round for the remaining two licenses in 2002. Any changes to the conditions of the licenses by, for example, lowering the fee or extending the term, would also be applied to the two first UMTS license holders.

## **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 of these Acts.

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

Vodafone was issued a license under the Telecommunications Act in 1985. This license was largely superseded by a license granted to Vodafone on December 9, 1993. On September 27, 1999, the 1985 and 1993 licenses were amended so as to replace the terms and conditions with the new standard form of license terms, to give effect to the European Union Licensing Directive which was introduced into UK law on December 31, 1997.

Under its Wireless Telegraphy Act license, Vodafone operates its network in specific radio frequency bands. The license continues indefinitely, subject to revocation or modification in certain limited circumstances.

Each UK 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 ten UK network operators.

Following a reference by the Director General relating to charges for calls made from fixed telephones to mobile phones on the BT Cellnet and Vodafone networks, the Competition Commission (then the Monopolies and Mergers Commission) found that the fees charged, as well as charges for unanswered and diverted calls, operated against the public interest. As a result of the inquiry, the Director General amended the licenses of BT Cellnet and Vodafone on March 31, 1999. The relevant changes reduced 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. The charges for calls to mobiles beyond the expiry of the price-cap in March 2002, are currently being reviewed by the Director General and the results are expected to be published by the end of July 2001.

The Director General announced on March 29, 2000 that he had determined that Vodafone and BT Cellnet have "market influence" in the UK wireless telecommunications market. "Market influence" relates to an operator's market power, but differs from the EU test of "significant market power". Such determination requires the companies, under the terms of their licenses, to provide separate accounts for various activities and to continue to provide wireless airtime 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. On July 21, 2000, the Director General made a determination that the charges payable by a particular provider of indirect access services using Vodafone's network is to be retail minus a factor between 15.8% and 24.5% depending on tariff type. As a result of a recent High Court judgement in a case brought by a third party against the UK Government, the license modification relating to the market influence determination in respect of Vodafone was rendered unlawful. In the interests of legal certainty the Director General needed to reconsider the original determination and following a consultation it did so on April 10, 2001. The Director General has also determined that Vodafone has significant market power in the mobile market in the United Kingdom. Both determinations are being reviewed as part of his regular review of the mobile telecommunications market, the results of which are expected to be published by the end of July 2001.

The Regulation of Investigatory Powers Act 2000, gives the government powers to require interception of data and other communications. Its enactment will require a degree of expenditure by telecommunications providers to comply with its terms.

On December 12, 2000 the UK Government published a White Paper which proposed, in accordance with EU proposals, that the current telecommunications licensing system in the United Kingdom be replaced by a system of general authorizations. It also proposed replacing the Office of Telecommunications and other electronic communications regulators with a new unified regulatory body (OFCOM) which would be responsible for regulation of all communications and broadcasting matters. It is unlikely any new legislation will come into effect until 2002. The White Paper confirms the UK Government's intention to commission an independent review to advise on the principles which should govern spectrum management.

## **United States**

US cellular, paging and PCS licenses are issued and regulated by the Federal Communications Commission (“FCC”). In addition, US wireless operations are subject to 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, although federal law does limit local discretion in this area.

The Telecommunications Act of 1996 (the “1996 Act”) imposes obligations on all telecommunications providers, including wireless providers, in a variety of areas. Wireless operators are obligated to pay into universal telephone service funds created by the US government. The purpose of these funds, among other things, is to eliminate subsidies to high-cost areas and low-income subscribers embedded in the interconnect rates paid to local telephone companies and replace the embedded subsidies with discrete and explicit subsidy mechanisms. The 1996 Act, accordingly, also sets out a framework for negotiating interconnection arrangements between wireless carriers and local wireline telephone companies under cost definitions and other rules that eliminate embedded subsidies from interconnection rates. Pursuant to provisions of the 1996 Act, Verizon Wireless is a party to new cellular interconnection agreements with the major local carriers in their managed markets.

In addition, although not specifically required for wireless carriers by the 1996 Act, the FCC has adopted rules requiring carriers such as Verizon Wireless to provide customers in the United States with local number portability — the ability for customers to retain their telephone numbers should they choose to switch landline or wireless carriers, by November 24, 2001. Verizon Wireless is also required to upgrade its equipment to provide more advanced location-detection capabilities in conjunction with emergency services. The specific deadlines for various phases of implementation of this capability depend on whether the carrier elects a handset-based or a network-based solution, although in either case, the FCC contemplates meaningful deployment by October 1, 2001.

Verizon Wireless, will be required to upgrade its cellular and PCS networks in the United States to provide certain functionality to authorized government agencies to enable them to conduct lawful wiretaps and other forms of electronic surveillance. The FCC rules in relation to such functionality require the responsible government agencies to reimburse carriers for their costs incurred to upgrade their networks and to provide ongoing assistance to law enforcement agencies. However, Vodafone can provide no assurance that all, or any, such costs incurred by Verizon Wireless will be recoverable.

The FCC auctioned 422 personal communications licenses for spectrum in the 1900 MHz band in December 2000/January 2001. Verizon Wireless was declared the winning bidder for 113 of the 422 licenses at a cost of \$8.78 billion. The award of these licenses is subject to litigation, as described under “Business activities – Wireless Telecommunications – United States” above.

## **Australia**

The Australian telecommunications market is regulated primarily by the Australian Competition and Consumer Commission (“ACCC”), and the Australian Communications Authority (“ACA”). Their work is overseen by the Department of Communications, Information Technology and the Arts. Since 1997, the market has been open to full competition.

Vodafone Pacific Limited holds a carrier license under the Telecommunications Act and also holds licenses under the Radiocommunications Act to use the 900/1800 MHz spectrum allocated to it. The 900 MHz spectrum licenses are for five year terms and are expected to be renewed for further five year terms until twenty five years following issue (in late December 1992) and the 1800 MHz spectrum licenses are for fifteen year fixed terms (some spectrum was allocated in 1998, some in 2000). On March 20, 2001, Vodafone was awarded a 15 year 3G license for mobile spectrum in all major population centers in Australia.

The ACA has issued a direction requiring that all mobile network operators implement mobile number portability by September 25, 2001.

On December 22, 2000, the ACCC released a draft paper on pricing principles for mobile access charges. The draft proposes that wholesale prices decrease in line with retail prices.

## Japan

Telecommunications in Japan are governed by the Telecommunications Business Law enacted in 1985. The Ministry of Public Management, Home Affairs, Posts and Telecommunications (former MPT) has the authority to allocate frequency and to grant licenses.

Japan previously had single national and international operators, the Nippon Telegraph and Telephone Corporation (“NTT”) and International Telegraph and Telephone Corporation (“KDD”) respectively. The Japanese market has been liberalized in stages over the last 15 years. NTT, which was privatized in 1985, still has a dominant market position within Japan. It partially demerged its mobile subsidiary, NTT DoCoMo, in 1992, yet DoCoMo continues to enjoy a dominant position in the mobile telecommunications service market. KDD was privatized in 1998 and merged with DDI Corp and ICO Corp in October 2000, forming KDDI Corp. KDDI is the second largest mobile carrier, by market share, in Japan.

In Japan, i-mode, a system similar to WAP, is widely used and is very popular. i-mode was launched in Japan in 1999 by DoCoMo and allows exchange of emails, e-banking, e-trade and navigates to a wide range of internet sites. Today, other mobile telecommunication service carriers also similar services.

In June 2000, the Japanese Government awarded, free of charge, 3G licenses to three groups of existing telecommunication service carriers: NTT DoCoMo, J-Phone and IDO/DDI Cellular. NTT DoCoMo originally planned to launch its 3G service in Tokyo in May 2001 but has subsequently delayed the launch until later in 2001. J-Phone plans to launch its 3G services in Tokyo in June 2002 and other regions in October 2002.

In June, the Diet – the Japanese legislature – passed legislation that will create a new framework for telecoms regulation. The law directs the Ministry (known as “Soumusho”) to develop regulations that would govern the behavior of dominant carriers, adopt new universal service approaches, and create an independent telecoms dispute resolution body.

Much of the details that will determine how this legislative framework actually operates going forward are yet to be determined and it is not clear how Japan intends to address competition in the mobile market.

## Organizational Structure

Details of the Group’s principal subsidiary undertakings, associated undertakings and joint ventures can be found in Note 34 of Notes to the Consolidated Financial Statements.

## Property, Plants and Equipment

Vodafone’s principal tangible fixed assets comprise properties and equipment in respect of the Group’s mobile telecommunications network infrastructure. Network equipment includes base stations and switch equipment, which is connected by fixed microwave transmission links or fixed cable links. Further details regarding the description and location of these assets is included in “Business Overview – Business activities – Wireless Telecommunications” above.

The properties of the Group comprise computerized mobile telephone exchanges, operator centers and ancillary commercial centers suitable for the operation of its cellular networks and related businesses, together with related accommodation, including retail premises. As at March 31, 2001, these properties were principally in Germany, Greece, Hungary, Italy, the Netherlands, Portugal, Spain, Sweden, United Kingdom, Australia, New Zealand and Egypt, and are either freehold or held under long-term or short-term leases. Approximately 37% by value of the Group’s properties were owned and approximately 2% were held under leases running for 50 years or longer. Vodafone’s corporate head office is in Newbury, United Kingdom.

At March 31, 2001 tangible fixed assets associated with the network infrastructure of the Group were included in the consolidated balance sheet at a net book value of £7,770 million (including properties with a net book value of £789 million). The net book value at March 31, 2001 of non-infrastructure assets was £2,816 million, including freehold properties with a net book value of £323 million. The Group expects to continue to expand its network



infrastructure in the fiscal year ending March 31, 2002, as described under “Item 5. Operating and Financial Review and Prospects”.

On April 3, 2000, the Group contributed its US cellular, PCS and paging tangible fixed assets, with a net book value of approximately £2.8 billion, to Verizon Wireless, a new partnership with Verizon Communications (formerly Bell Atlantic) in the United States.

The tangible fixed assets acquired by Vodafone during the financial year relate to the assets of Mannesmann and Airtel at acquisition. Mannesmann’s wireless businesses, D2 Vodafone and Omnitel Vodafone, hold properties and equipment associated with their network infrastructure in Germany and Italy, respectively. The assets of Mannesmann’s fixed-line businesses, Arcor, primarily consists of properties and fixed line network infrastructure in Germany. Airtel’s acquired tangible fixed assets of £1,010 million consist primarily of properties and technical equipment associated with its network infrastructure in Spain.

### **Environmental impact**

The mobile communications industry has a less significant impact on the environment than other industrial sectors. The Group’s operations impact the environment in the areas of waste disposal, energy usage and asset construction, location and utilization. Vodafone operates an active program to manage the environmental impact of its operations, with environmental considerations forming a part of the Group’s overall business strategy.

The Group has established a framework of principles including:

- a ‘waste hierarchy’, promoting re-use, recovery or recycling of assets;
- establishing Group-wide targets for reducing and minimizing greenhouse gas emissions; and
- the integration of environmental factors into procurement processes.

Recently, concerns have been expressed in some of Vodafone’s main markets over the development and siting of telecommunications masts. The concerns surround both the visual and environmental impact of their location, as well as concerns about health risks arising from the electromagnetic fields emitted by the masts. Current scientific research concludes that exposure to the radio frequency emissions from telecommunications masts does not cause any adverse health consequences. However, research is continuing in this field which may take a further three or four years to complete.

Vodafone’s guidelines for the construction of base stations adopt stringent EU recommendations on limiting the general public’s exposure to electromagnetic fields and also comply with exposure guidelines laid down by the International Commission for Non-Ionizing Radiation Protection, and local and national guidelines where these are more stringent.

## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion is based on the Consolidated Financial Statements included elsewhere in this Annual Report. Such Consolidated Financial Statements are prepared in accordance with Generally Accepted Accounting Principles in the United Kingdom, or UK GAAP, which differ in certain significant respects from US GAAP. Reconciliations of the material differences in such Consolidated Financial Statements to US GAAP are set forth in Note 35 of Notes to the Consolidated Financial Statements, “Supplementary information for United States investors”.

The Group had previously considered itself in three geographical divisions: Europe, Middle East & Africa; United Kingdom; and United States & Asia Pacific. In fiscal year 2001, due to the expanding service areas gained through acquisitions in the current year, the Group increased its geographical divisions to five: Continental Europe; United Kingdom; United States; Asia Pacific; and Middle East & Africa. The information below is presented on the basis of these geographic divisions.

On April 1, 2001, the Company implemented a planned reorganization of its overall management structure and governance process, in response to the rapid expansion of the Group, and reorganized its geographical divisions of operations. The Group’s European operations have been split into three new regions: Southern Europe; Central

Europe; and Northern Europe, Middle East and Africa. The remaining regions have been designated as the Americas and Asia region and the Pacific region. Vodafone intends to present its operating results on the basis of these regions for the 2002 fiscal year.

The results of AirTouch, including the results of the acquired US businesses, have been consolidated from June 30, 1999, the date of closure of the merger.

The Group's interest in Verizon Wireless, which was formed on April 3, 2000, has been accounted for using equity accounting in the current year and the Group's share of results is disclosed within continuing operations. In the year ended March 31, 2000, turnover of £2,585 million and operating losses of £100 million (after goodwill amortization) in respect of the Group's US businesses were fully consolidated.

The results and net assets of Mannesmann have been consolidated in the Group's financial statements with effect from April 12, 2000, the date the acquisition was completed. Non-core businesses sold following the acquisition of Mannesmann, including Atecs Mannesmann, Orange, Mannesmann's watches and tubes businesses, Infostrada and tele.ring, have not been consolidated in the results for the year.

The results and net assets of Airtel have been fully consolidated with effect from December 29, 2000. Prior to the acquisition of a controlling interest, the Group's 21.7% interest in Airtel was accounted for as an associated undertaking within continuing operations under the equity accounting method.

## Operating Results

The statutory consolidated profit and loss account presented on page F-2, and the accompanying notes, have been prepared on the basis required by Generally Accepted Accounting Principles in the United Kingdom, or UK GAAP, and are summarized below.

|  | Continuing<br>operations | Acquisitions   | Years ended March 31, |            |            |
|--|--------------------------|----------------|-----------------------|------------|------------|
|  |                          |                | 2001                  | 2000       | 1999       |
|  | £m                       | £m             | £m                    | £m         | £m         |
| <b>Income and expenses items</b>   |                          |                |                       |            |            |
| Turnover . . . . .   | 6,637                    | 8,367          | 15,004                | 7,873      | 3,360      |
| Cost of sales, selling, distribution and administrative<br>expenses (including amortization of goodwill) . . . . . | (5,593)                  | (15,850)       | (21,443)              | (6,892)    | (2,513)    |
| Operating (loss)/profit . . . . .  | 1,044                    | (7,483)        | (6,439)               | 981        | 847        |
| Share of (loss)/profit of joint ventures and associated<br>undertakings . . . . .                                  | (26)                     | (533)          | (559)                 | (185)      | 116        |
| Total Group operating (loss)/profit  | <u>1,018</u>             | <u>(8,016)</u> | <u>(6,998)</u>        | <u>796</u> | <u>963</u> |
| Total Group operating profit before amortization of goodwill<br>and exceptional costs . . . . .                    | 3,117                    | 2,087          | 5,204                 | 2,538      | 972        |
| Amortization of goodwill . . . . .   | (1,843)                  | (10,039)       | (11,882)              | (1,712)    | (9)        |
| Exceptional operating costs . . . . .  | (256)                    | (64)           | (320)                 | (30)       | —          |
|  | <u>(1,018)</u>           | <u>(8,016)</u> | <u>(6,998)</u>        | <u>796</u> | <u>963</u> |
| Exceptional non-operating items . . . . .  |                          |                | 80                    | 954        | 66         |
| Net interest expense . . . . .   |                          |                | (1,177)               | (401)      | (94)       |
| Taxation . . . . .   |                          |                | (1,290)               | (685)      | (252)      |
| (Loss)/profit on ordinary activities after taxation . . . . .  |                          |                | <u>(9,385)</u>        | <u>664</u> | <u>683</u> |
| (Loss)/profit for the financial year . . . . .   |                          |                | <u>(9,763)</u>        | <u>487</u> | <u>637</u> |

Amounts for acquisitions primarily comprise the results of Mannesmann and its subsidiary and associated undertakings, excluding businesses sold or held for resale on acquisition, the results of Airtel and the Group's share of the results of Swisscom Mobile from the date of the acquisition of these businesses to March 31, 2001.

## **Fiscal 2001 compared to fiscal 2000**

### **Turnover**

The Group's turnover increased to £15,004 million for the year ended March 31, 2001 from £7,873 million for the year ended March 31, 2000. This reflects strong growth in turnover from continuing operations, which increased from £5,288 million to £6,637 million, after adjusting for the results of US operations included in prior year turnover. The remaining increase in turnover includes £8,367 million in respect of acquired businesses. By type of activity, turnover for the year ended March 31, 2001 is analyzed as £14,051 million for mobile telecommunications businesses (2000 — £7,873 million) and £953 million for other operations (2000 — £Nil), mainly fixed line operations acquired as part of the Mannesmann transaction that did not exist in the fiscal year ended March 31, 2000.

Turnover from mobile telecommunications businesses in the Continental Europe region, including turnover from acquisitions of £7,414 million, increased almost six-fold to £9,577 million for the year ended March 31, 2001, compared with £1,705 million for the year ended March 31, 2000. Included within acquisitions is turnover relating to D2 Vodafone (Germany) and Omnitel Vodafone (Italy), which became subsidiary undertakings following the acquisition of Mannesmann, and turnover for Airtel, which became a subsidiary on December 29, 2000. These businesses had previously been accounted for as associated undertakings, reflecting the Group's ownership interests before their respective acquisitions. The region's venture customer base in controlled businesses increased almost eight-fold from 6,995,000 registered customers at March 31, 2000 to 53,233,000 registered customers at March 31, 2001. This increase includes organic growth of 52% during the year in businesses in which the Group had a controlling interest at March 31, 2001. Growth in prepaid services has been an important factor in explaining this result, with approximately 63% of the region's proportionate customers being connected to prepaid products at March 31, 2001, compared with 53% at March 31, 2000. As a result of this trend towards prepaid services, and the general trend of lower tariffs across the region, average revenue per customer, or ARPU, decreased in the region's main markets, Germany and Italy. ARPU is calculated for the twelve month period to the end of the fiscal year and excludes handset revenues and connection fees.

In D2 Vodafone in Germany, ARPU decreased from €559 for the year ended March 31, 2000 to €378 in this fiscal year. The substantial increase in the prepaid customer base, which represented 60% of the closing customer base, up from 32% at March 31, 2000, and reductions in incoming national interconnect revenues, were the principal reasons for this decrease. Excluding inactive customers, ARPU for the year amounted to €430, split between an active contract ARPU of €683 and an active prepaid ARPU of €178. Active ARPU has been calculated by adjusting registered ARPU for the proportion of active customers at March 31, 2001. In Omnitel Vodafone in Italy, an 11% decrease in ARPU to €338 was reported for the year to March 31, 2001. A reduction in fixed-to-mobile rates in February 2000 contributed significantly to this decrease. Excluding inactive customers, ARPU for the year was €364.

In the United Kingdom, turnover increased by 19% to £3,444 million in 2001 from £2,901 million in the prior year, reflecting a 40% growth in the customer base and the increased usage of data services, offset by the impact of tariff reductions. Vodafone UK maintained its clear leadership with a market share of over 28%, 1.1 million customers ahead of the nearest competitor. The registered customer base of 12,279,000 at March 31, 2001 included 1,499,000 inactive customers, approximately 12% of the registered base, of which 1,455,000 were prepaid customers. Strong growth in the contract customer base continued throughout the year, resulting in net additions of 582,000 and giving a closing contract customer base of 4,294,000. The introduction of new prepaid tariffs and products stimulated prepaid growth, with 2,906,000 net connections in the year ended March 31, 2001. Prepaid customers totaled 7,985,000 at March 31, 2001, representing 65% of Vodafone's UK customer base. Overall ARPU decreased by 19% to £306 for 2001, compared with £380 for 2000. UK ARPU for this fiscal year has been calculated based on total UK service revenue, consistent with other territories, whereas the calculation was formerly based on UK network service revenue only. ARPU for the contract customer base for the twelve months to March 31,

2001 was £550 compared with £562 for the year to March 31, 2000. Prepaid ARPU has declined from £178 for the year to March 31, 2000 to £156 for this year, due primarily to the impact of lower usage customers being added to the base and the increasing numbers of inactive customers. Excluding inactive customers, contract ARPU was £556 and prepaid ARPU was £191.

Following the formation of Verizon Wireless, the Group's US businesses have been consolidated using equity accounting and their turnover is not included in the profit and loss account. The Group's share of the turnover of its joint ventures and associated undertakings in the United States amounted to £5,098 million in the year ended March 31, 2001. This compares with consolidated turnover of £2,585 million, and share of turnover from joint ventures totaling £362 million, in the nine months to March 31, 2000, following completion of the merger with AirTouch. The Group's proportionate share of the customer base of US cellular operations at March 31, 2001 was 11,570,000 compared with 10,553,000 at March 31, 2000. Verizon Wireless has focused on increasing the number of high value customers through new customer additions and migration of existing analog customers to digital price plans and, at March 31, 2001, digital customers totaled over 60% of the customer base and generated 85% of peak-hour usage. The increase in ARPU in the Group's US operations to \$551 from \$472 last year is due to the growth of the digital customer base and the impact of bundled minute plans. In addition, at March 31, 2001, Verizon Wireless had almost one million data customers, with the number of data customers having doubled in the second half of the year.

Turnover for the Asia Pacific region, which comprises the turnover of the Group's subsidiary operations in Australia and New Zealand, increased by 26% to £713 million for the year ended March 31, 2001. The number of venture customers in these operations increased by 57% to 3,000,000 at March 31, 2001, from 1,913,000 at March 31, 2000.

Turnover for the Middle East and Africa region comprises the turnover of Misrfone (Egypt). The almost three-fold increase in turnover from £117 million to £308 million in fiscal 2001 reflects strong customer growth in Egypt, where the customer base increased from 405,000 customers at March 31, 2000 to 1,171,000 customers at March 31, 2001.

Turnover for the Group's other operations mainly comprises turnover relating to Mannesmann Arcor, a German fixed line business, and Telecommerce, a German IT and data services business. Mannesmann Arcor is the leading wireline competitor to Deutsche Telekom in Germany and provides telecommunication services for Deutsche Bahn AG, the German railway company. By March 31, 2001, Mannesmann Arcor had more than 2.2 million contract voice customers and more than 16.2 billion voice and internet minutes were switched over its network in the financial year. The revenue of Mannesmann Arcor in the year ended March 31, 2001 reached approximately €1.6 billion. Telecommerce provides a range of activities for Group and external customers, from the maintenance of IT facilities to the development of technologies and services supporting cellular networks. The main contribution to revenue is derived from the IT-solutions business.

### **Mobile data revenues**

In the year to March 31, 2001, mobile data, including SMS, data and internet services, accounted for 8.1% of service revenues in Vodafone's controlled subsidiaries, comprised of 7.7% for messaging and 0.4% for internet data. Data service revenues reached 9.3% of service revenues in the month of March 2001, up from 1% in the prior year. This reflects particularly strong growth in SMS usage in controlled networks, which accounted for 8.8% of service revenues in March 2001 for controlled subsidiaries. For the total Group including associates, mobile data represented 6.2% of service revenues for the year and 7.0% in March 2001, measured on a proportionate basis.

In the Group's main markets of Germany, Italy and the UK, the growth of data revenues, mainly SMS, has resulted in revenues from data and internet services as a proportion of total service revenues increasing to 13.4%, 6.2% and 6.6%, respectively, for the year ended March 31, 2001. Data and internet revenues in Germany, Italy and the UK represented 16.2%, 7.2% and 7.6%, respectively, of service revenues in March 2001. SMS revenues were the principal component of these revenue streams and represented approximately 97% of data revenues in Germany and Italy, and over 85% of data revenues in the UK.

For J-Phone, the Group's associated undertaking in Japan, data revenues represented 12.9% of service revenues in March 2001. Internet data is the main component of data revenues, representing 8.2% of total service revenues. A driver of this growth in Japan is the ability to access mobile internet services using phones with an "always-on" capacity, which differentiates the service in Japan from the Group's other main markets. Almost 62% of J-Phone's customers now have internet-capable phones, a higher proportion of its customer base than any other operator in Japan.

### **Operating profit and costs**

The total Group operating loss of £6,998 million for the year ended March 31, 2001 compares with a total Group operating profit of £796 million for the year ended March 31, 2000. This is after amortization charges for goodwill of £11,882 million (2000 — £1,712 million) and charging exceptional operating costs of £320 million (2000 — £30 million). Before goodwill and exceptional operating costs, total Group operating profit more than doubled from £2,538 million in the year ended March 31, 2000 to £5,204 million in the year ended March 31, 2001.

The increase in the goodwill amortization charge from £1,712 million to £11,882 million is primarily due to amortization of the goodwill arising from the acquisition of Mannesmann, provisionally calculated to be £83 billion, goodwill on formation of the Verizon Wireless partnership and a full year's amortization charge for goodwill relating to the acquired AirTouch operations (excluding US businesses contributed to Verizon Wireless). These charges for goodwill amortization have not affected the cash flows of the Group.

Exceptional operating costs of £320 million primarily comprise impairment charges of £91 million in relation to the carrying value of certain assets within the Group's Globalstar service provider businesses described below, exceptional reorganization costs of £85 million relating to the restructuring of the Group's operations in Germany and the US, and £141 million in relation to the Group's share of the restructuring costs incurred by Verizon Wireless.

In the Continental Europe region, total Group operating profit, before goodwill amortization and exceptional items, increased from £955 million in fiscal 2000 to £3,035 million in fiscal 2001, including operating profit from acquisitions of £2,300 million. This increase primarily reflects the rapid growth in customer numbers in all major markets, the acquisition of Mannesmann, the Group's increased shareholding in Airtel and the acquisition of a 25% equity interest in Swisscom Mobile. In Germany, connection and marketing costs associated with the near doubling of the customer base lowered the margin on earnings before interest, tax, depreciation and amortization, or EBITDA, of D2 Vodafone by six percentage points to 35%. This represents an improvement on the 30% margin reported in the first half of the financial year, partly due to the implementation of changes to commercial policies as D2 Vodafone focused on maximizing economic returns rather than continuing to increase the size of its customer base. In Italy, which has much lower equipment subsidies, customer growth of 40% during the year contributed to an EBITDA margin of 45%, an increase of three percentage points over last year. In the rest of Continental Europe, strong operating results were reported throughout the region with particularly strong improvements in profit margins in the Group's subsidiaries in Greece, the Netherlands and Spain.

In the UK, total operating profit before goodwill amortization increased by 13% from £706 million to £795 million. The percentage growth in operating profit was less than the percentage increase in turnover as increased usage was offset by connection costs on customer growth and tariff reductions.

In the United States, total Group operating profit, before goodwill amortization and exceptional costs, was £1,237 million for the year ended March 31, 2001, compared with the results of US operations acquired during the year to March 31, 2000 of £541 million. This reflects the inclusion of the results of US operations for a full twelve month period, the profitable trading of Verizon Wireless during the year, as the business has focused on gaining high value customers through new customer additions and the migration of existing analog customers to digital price plans, offset by the costs of migrating US customers from analog to digital networks.

Total Group operating profit, before goodwill amortization, for the Asia Pacific region increased by £17 million to £205 million for the year ended March 31, 2001. This increase reflects organic growth in Australia, New Zealand and Fiji, and the Group's share of the results of its associated undertakings in Japan. Japan's cellular market remained robust as mobile services continued to expand, with the number of mobile phone users increasing by

19% year on year. J-Phone added 1,859,000 new customers during the year, increasing its customer base by 23% to 9,966,000 at March 31, 2001, representing a market share of approximately 16%. Almost 6,200,000 (62%) of its customers now have internet-capable phones, a higher proportion of its customer base than any other operator in Japan. A combination of competitor activity and the Japanese consumers' appetite for internet-access phones resulted in a substantial increase in customer upgrade and connection costs compared with the previous year, leading to a decrease in the J-Phone Group's EBITDA margin in the year.

In the Middle East and Africa region, total Group operating profit before goodwill amortization increased from £148 million to £213 million for the year ended March 31, 2001. This profit growth is attributable to strong operating results in both the Group's subsidiary in Egypt and associated undertaking in South Africa.

The Group's other operations reported an operating loss, before goodwill and exceptional items, of £281 million. This includes the results of Mannesmann Arcor, which is EBITDA positive, Telecommerce, the Group's share of the start-up losses incurred by Vizzavi Europe, a 50% owned multi-access consumer portal joint venture with Vivendi Universal, and the Group's share of the results of Cegetel, the second largest fixed line operator in France in which Vodafone has a 15% stake.

Consolidated cost of sales increased from £4,359 million in the year ended March 31, 2000 to £8,702 million in the year ended March 31, 2001, including £4,851 million in respect of acquisitions completed in the year. Cost of sales for continuing operations represented 58.0% of turnover in fiscal 2001, an increase from 55.4% last year. The Group's cost of sales consist primarily of financial incentives to service providers and dealers, payments to landline and mobile operators for delivering calls outside the Group's networks and for providing landline or microwave links, depreciation of network infrastructure, the cost of customer equipment sold and network operating costs. The Group's cost of sales as a proportion of turnover increased in fiscal 2001 due primarily to increases in the level of equipment costs, depreciation of the network infrastructure and payments of financial incentives in relation to the increase in customer connections.

The Group's equipment costs and cost of providing financial incentives to service providers and dealers for obtaining new customers amounted to £3,364 million (22.4% of turnover) compared with £1,853 million (23.5% of turnover) in 2000. In Germany, the significant customer growth in a highly competitive market resulted in a substantial increase in total customer acquisition costs, although blended cost to connect per customer remained largely unchanged at €116. Customer churn was 11%, a decrease of four percentage points from last year. In Italy, net connection costs stabilized at €37 per customer in the year to March 31, 2001 despite growing competitive pressures. Churn increased slightly from 13% to 14%. The Italian market is characterized by a high level of prepaid product and relatively low ARPU, with customer acquisition costs and churn also being low in comparison with other major markets in Europe. In the UK, cost to connect for contract customers increased to £121 for the year to March 31, 2001, from £94 for the previous year, reflecting the competitive market and the connection of higher value customers in the period. Prepaid cost to connect in the UK for the year to March 31, 2001, was £56 compared with £50 in the twelve months to March 31, 2000, reflecting competitive pressures. Vodafone UK has recently announced significant reductions in distribution incentives for prepaid products in order to improve the profitability of this market segment.

Selling and distribution costs increased to £1,162 million in the year ended March 31, 2001, compared with £869 million in the year ended March 31, 2000, representing 7.7% and 11.0% of turnover for each year, respectively. Selling and distribution costs as a proportion of turnover for the Group's continuing operations was 7.4% in fiscal 2001, compared with 8.0% for acquisitions. In fiscal 2000, selling and distribution costs for acquisitions were 16.7% of turnover, resulting in an increase in the aggregate proportion of these costs to 11.0% of turnover. The percentage result for acquisitions in 2000 reflects the higher connection costs incurred by the US operations acquired through the merger with AirTouch, which are not consolidated in the results for this year following the formation of Verizon Wireless.

Administrative expenses increased from £1,664 million to £11,579 million in the year ended March 31, 2001. Administrative expenses include a charge for goodwill amortization of £9,585 million (2000 — £674 million), which relates to the consolidation of subsidiary undertakings, and £176 million (2000 — £30 million) in relation to

exceptional operating costs. Excluding amortization charges for goodwill and exceptional operating costs, administrative expenses represented 12.1% of Group turnover in fiscal 2001, compared with 12.2% in fiscal 2000.

### Profit on ordinary activities before interest

During the year ended March 31, 2001, the Group reported a loss on ordinary activities before interest of £6,918 million, compared with a profit in the year ended March 31, 2000 of £1,750 million. The items having the most significant impact on this result were the increase, before goodwill amortization and exceptional items, in total Group operating profit of £2,666 million to £5,204 million, including £2,087 million from acquisitions, offset by an increase of £10,170 million in the charge for the amortization of goodwill to £11,882 million, including amortization of goodwill attributed to joint ventures and associated undertakings, an increase in exceptional operating costs by £290 million to £320 million and a decrease in the profit from exceptional non-operating items from £954 million in the year ended March 31, 2000 to £80 million this year. The exceptional, non-operating profit of £954 million in the year ended March 31, 2000, arose mainly from the disposal of the Group's interest in E-Plus Mobilfunk, as described below.

The increase in the charge for the amortization of goodwill in the year ended March 31, 2001 reflects the increase in the net book value of capitalized goodwill, including amounts attributed to joint ventures and associated undertakings, from £40,453 million at March 31, 2000 to £125,808 million at March 31, 2001. This includes goodwill, before amortization charges, of £83,028 million arising on the acquisition of Mannesmann during the year.

Exceptional non-operating items of £80 million in the year ended March 31, 2001 are analyzed below.

|   | £m        |
|---|-----------|
| Profit on termination of hedging instrument .....   | 261       |
| Impairment of fixed asset investments .....         | (193)     |
| Profit on disposal of fixed assets .....            | 6         |
| Profit on disposal of fixed asset investments ..... | 6         |
|   | <u>80</u> |

The profit on termination of the hedging instrument arose in March 2001 upon the settlement of a hedging transaction entered into by the Group in February 2001, in order to obtain protection against an adverse market-related price adjustment included in the original terms of the agreement for the sale of Infostrada. This hedging transaction terminated with cash proceeds to the Group of approximately €410 million.

The impairments of fixed asset investments relate to the write-down of the value of the Group's investments in Globalstar and Shinsegi Telecom, Inc. Vodafone holds an approximate 7.8% interest in the Globalstar partnership, a consortium of leading telecommunications companies established to develop, through a constellation of 48 low-earth orbiting satellites, a cellular telephone service for remote locations not covered by existing mobile communications infrastructures. The Group has the exclusive rights to provide Globalstar service in certain territories. Vodafone has an 11.7% interest in Shinsegi Telecom, which operates wireless telecommunications services in South Korea. This interest was acquired through the merger with AirTouch.

### Net interest payable

Total Group net interest payable, including the Group's share of the net interest expense of joint ventures and associated undertakings, increased by £776 million to £1,177 million. Net interest costs in respect of the Group's net borrowings increased by £517 million to £850 million, compared with £333 million (before exceptional finance costs of £17 million) in the year to March 31, 2000. The increase includes interest on Mannesmann's debt of £12,551 million, which was assumed at acquisition on April 12, 2000.

### Taxation

The effective rate of taxation for the year to March 31, 2001, before amortization of goodwill and exceptional non-operating items, increased to 33.9% from 32.5% in the year ended March 31, 2000. The 1.4% increase in the

effective tax rate is primarily the result of the integration of the Mannesmann businesses into the Group's result. The results of the Mannesmann businesses have been consolidated since the completion of the acquisition of Mannesmann on April 12, 2000.

## **Fiscal 2000 compared to fiscal 1999**

### **Turnover**

The Group's turnover increased by £4,513 million from £3,360 million for the year ended March 31, 1999 to £7,873 million for the year ended March 31, 2000. Turnover from acquisitions completed in the year accounted for £3,375 million of this increase, with turnover from continuing operations increasing by £1,138 million (34%).

Turnover for the Continental Europe region, including turnover from acquisitions of £598 million, increased by 80% from £945 million for the year ended March 31, 1999 to £1,705 million for the year ended March 31, 2000. Included within acquisitions is turnover relating to Europolitan (Sweden) and Telecel (Portugal), which became subsidiary undertakings following the merger with AirTouch. Europolitan had previously been accounted for as an associated undertaking, reflecting the Group's ownership interests before the merger. Including acquisitions, the region's venture customer base in controlled businesses increased by 165% from 2,643,000 customers at March 31, 1999 to 6,995,000 at March 31, 2000. This increase includes organic venture customer growth of 47% during the fiscal year in businesses in which the Group had a controlling interest at March 31, 2000. Growth in prepaid services was an important feature of this result, with over 52% of the region's proportionate customers being connected to prepaid products at March 31, 2000, compared with 33% at March 31, 1999. As a result of this trend towards prepaid services, and the general trend of lower tariffs across the region, average revenue per customer (at constant exchange rates) declined from £354 in 1999 to £318 in the year ended March 31, 2000. Average network churn in the region remained low during 2000 at 20.5%, calculated on a rolling twelve month period for controlled businesses at March 31, 2000.

In the United Kingdom, turnover increased by 39% from £2,088 million to £2,901 million, reflecting turnover from acquisitions of £75 million, strong growth in the prepaid customer base, the success of data services and increased minutes' usage, offset by the impact of tariff reductions. Vodafone UK continued to be the market leader with 8,791,000 customers and a market share of 32%, approximately 1.4 million customers ahead of its nearest competitor. Net new customer connections in the year ended March 31, 2000 totaled 3,216,000, including net connections for prepaid customers of 3,233,000 (1999 — 1,648,000). Prepaid customers in the UK region totaled 5,079,000 at March 31, 2000 and represented almost 58% of the UK customer base. Overall average revenue per customer decreased from £378 for the year ended March 31, 1999 to £305 in this fiscal year, reflecting the increase in the prepaid customer base. Average revenue per prepaid customer increased by 10% in the year ended March 31, 2000 to £175 (£199 before trade discounts) compared with £159 (£178 before trade discounts) for the year ended March 31, 1999. For the contract customer base, average revenue per customer was stable at £421 (£554 before trade discounts) for the year ended March 31, 2000 compared with £423 (£553 before trade discounts) in the prior year. This reflected tariff reductions being balanced by increased usage. Overall churn in the year ended March 31, 2000 increased to 29.8% compared with 26.0% in the previous year. Churn in the second half of the year declined following management actions to reduce network churn. Roaming revenues, both from Vodafone customers using their phones overseas and visitors using the UK network, represented 24% of contract digital outgoing airtime and access revenues in 2000, compared with 23% in the previous year.

Turnover in the United States of £2,585 million, and the Group's share of turnover from joint ventures totaling £362 million, was in respect of US operations acquired following the merger with AirTouch. The total venture customer base of the Group's US cellular operations at March 31, 2000 was 12,544,000, including 2,462,000 customers of the CMT and PrimeCo joint ventures. Strong growth in the US customer base reflected the continued roll-out of AirTouch's US digital network, with 4,196,000 proportionate customers connected to the digital network at March 31, 2000, representing 40% of the customer base. On average, customers connected to the digital network generate higher revenues and a lower level of churn than those connected to the analog network. The migration of customers from analog to digital was stimulated during the period by incentives, an extensive advertising campaign and a new range of tariffs. Average revenue per customer for the twelve month period to



March 31, 2000 for subsidiary US networks was £293 (at average exchange rates), 7% lower than the same period in the previous twelve month period. The benefits of customer migration to the digital network, together with higher usage, began to offset the effect of tariff reductions resulting in a reversal in the decline in ARPU in some markets. Churn on wholly owned networks during the year ended March 31, 2000 was 29% compared with 27% in the comparable period.

Turnover for the Asia Pacific region, which comprised the turnover of the Group's subsidiary operations in Australia and New Zealand, increased by 73% to £565 million for the year ended March 31, 2000. The number of venture customers in these operations increased by 66%, from 1,152,000 at March 31, 1999 to 1,913,000 at March 31, 2000.

Turnover for the Middle East and Africa region comprises the turnover of Misrfone (Egypt) for the nine months following the completion of the merger with AirTouch, when Misrfone became a subsidiary undertaking. Previously, Misrfone had been accounted for as an associated undertaking reflecting the Group's ownership interest prior to the merger with AirTouch.

### **Operating profit and costs**

Total Group operating profit decreased from £963 million for the year ended March 31, 1999 to £796 million for the year ended March 31, 2000 after goodwill amortization charges of £1,712 million (1999 — £9 million) and exceptional reorganization costs of £30 million incurred in the US following the merger with AirTouch.

In the Continental Europe region, total Group operating profit, before goodwill amortization, increased from £261 million to £955 million, including operating profit from acquisitions of £682 million. This growth reflects an increase in the total proportionate customers from 3,136,000 at March 31, 1999 to 14,444,000 at March 31, 2000, and strong trading throughout the region, in particular by subsidiaries in the Netherlands and Sweden, and by associated undertakings in Germany, Italy and Spain. This was offset by a reduction in operating profit in the Group's associated undertaking in France due to high connection costs incurred on customer growth. After charging goodwill amortization costs of £889 million, total Group operating profit for the Continental Europe region declined from £258 million in 1999 to £66 million in 2000, including a reduction in the share of operating profit from joint ventures and associated undertakings from an operating profit of £58 million to an operating loss of £216 million.

In the UK, total operating profit before goodwill amortization increased by 10% from £644 million to £706 million. This growth in operating profit was less than the increase in turnover as increased usage was offset by connection costs on record customer growth, 36% higher than last year, and tariff reductions. Goodwill amortization costs for the UK region were £11 million in 2000 (1999 — £1 million).

In the United States, total Group operating profit, before goodwill amortization and exceptional items, was £541 million for the year ended March 31, 2000 and comprised the results of US operations acquired during the year. The level of profitability of US operations was affected by the costs of migrating US customers from analog to digital. Exceptional operating costs of £30 million comprise reorganization costs incurred in the US following the merger with AirTouch.

Total Group operating profit, before goodwill amortization, for the Asia Pacific region increased by £174 million to £188 million for the year ended March 31, 2000. This increase reflects strong organic growth in Australia, New Zealand and Fiji, the first full year of results for New Zealand and the Group's share of the results of its associated undertakings in Japan. The results of the Group's operations in Japan, which were acquired through the merger with AirTouch, were reported for the first time in the Asia Pacific results for fiscal 2000 and had 1,907,000 proportionate customers at March 31, 2000.

In the Middle East and Africa region, total Group operating profit before goodwill amortization increased from £53 million to £148 million for the year ended March 31, 2000. This increase is attributable to the strong trading of the Group's operations in Egypt and South Africa, and to the increase in the Group's stake in Misrfone (Egypt) as a result of the merger with AirTouch.

Consolidated cost of sales increased from £1,809 million in the year ended March 31, 1999 to £4,359 million in the year ended March 31, 2000, including £1,768 million in respect of acquisitions completed in the year. Cost of sales for continuing operations represented 57.6% of turnover in fiscal 2000, an increase from 53.8% last year. The Group's cost of sales consist primarily of financial incentives to service providers and dealers, payments to landline and mobile operators for delivering calls outside the Group's networks and for providing landline or microwave links, depreciation of network infrastructure, the cost of customer equipment sold and network operating costs. The Group's cost of sales as a proportion of turnover increased in fiscal 2000 due primarily to increases in the level of equipment costs, depreciation of the network infrastructure and payments of financial incentives in relation to the increase in customer connections.

The Group's equipment costs and cost of providing financial incentives to service providers and dealers for obtaining new customers amounted to £1,853 million (23.5% of turnover) compared with £760 million (22.6% of turnover) in 1999. In the United Kingdom, average cost to connect in 2000 was £50 for prepaid customers, compared with £43 in the twelve months ended March 31, 1999, and average cost to connect for contract customers increased from £88 to £94 over the same period. Average cost to connect in the United States was £141 for the year ended March 31, 2000. In addition the network intersystem costs in the businesses acquired, particularly the United States, were higher than those in the existing businesses. Such costs in the United States represented 18.9% of turnover compared with an average of 13.6% across the rest of the Group.

Selling and distribution costs increased from £243 million in the year ended March 31, 1999 to £869 million in the year ended March 31, 2000, representing 7.2% and 11.0% of turnover for each year, respectively. Selling and distribution costs as a proportion of turnover for the Group's continuing operations were 6.8% in fiscal 2000, compared with 16.7% for acquisitions. The percentage result for acquisitions reflects the higher connection costs incurred by US operations.

Administrative expenses increased from £461 million to £1,664 million in the year ended March 31, 2000. Administrative expenses in 2000 include a charge for goodwill amortization of £674 million, which relates to the consolidation of subsidiary undertakings (1999 — £8 million). Excluding amortization charges for goodwill, administration costs in 2000 represented 12.6% of Group turnover, a reduction from 13.5% in 1999. This decrease is the result of lower indirect costs in acquired entities, particularly in the US.

### **Profit on ordinary activities before interest**

During the year ended March 31, 2000, the Group's profit on ordinary activities before interest increased by 70% from £1,029 million to £1,750 million. The items having the most significant impact on this result were the increase in total Group operating profit from £972 million to £2,538 million, before goodwill amortization and exceptional items, and an increase in the profit on disposal of fixed asset investments from £66 million in 1999 to £954 million in 2000. The increase in total Group operating profit, before amortization of goodwill and exceptional reorganization costs, includes £1,435 million from acquisitions.

The increase in the charge for the amortization of goodwill from £9 million to £1,712 million in the year ended March 31, 2000, reflects the increase in the net book value of capitalized goodwill from £182 million at March 31, 1999 to £40,453 million at March 31, 2000. This includes goodwill, before amortization charges, of £40,968 million arising on the merger with AirTouch.

The profit on disposal of fixed asset investments of £954 million primarily comprises a profit of £939 million on the disposal of the Group's 17.24% shareholding in E-Plus Mobilfunk GmbH. This disposal was a condition to the European Commission's approval of the merger with AirTouch. The remaining profit on disposal includes the sale of the Group's 20% interest in a UK service provider business, Martin Dawes Telecommunications Limited, and the disposal of the Group's 50% shareholding in Comfone AG in Switzerland.

### **Net interest payable**

During the year ended March 31, 2000, net interest payable on the Group's borrowings increased by £257 million to £333 million, before charging £17 million of exceptional finance costs incurred in restructuring the Group's

borrowing facilities as a result of the Mannesmann acquisition. This increase is primarily due to a £5,135 million increase in net borrowings during the year, reflecting the additional debt arising from the merger with AirTouch.

### **Taxation**

In the year ended March 31, 2000, the Group provided for corporation tax at an effective rate of approximately 32.5% (excluding the effects of the amortization of goodwill and disposal of fixed asset investments), compared with the UK statutory rate of 30%. This effective tax rate increased by 3.8% from 28.7% in 1999, primarily as a result of the higher tax rates attributable to the former AirTouch operations, whose results have been included for the nine month period following merger completion.

### **Balance sheet**

Total fixed assets increased from £150,851 million last year to £154,375 million at March 31, 2001. At March 31, 2000, the Group's interest in Mannesmann was included in fixed asset investments at a cost of £101,246 million. Following completion of the Mannesmann acquisition on April 12, 2000, and the consolidation of the acquired net assets, goodwill has been provisionally calculated to be £83,028 million, of which £3,602 million has been attributed to investments in associated undertakings with the remaining balance being analyzed within intangible assets.

The assets of the US businesses contributed to Verizon Wireless have been treated as having been disposed, including attributed goodwill of approximately £19.5 billion arising from the AirTouch transaction of which £17.5 billion and £2.0 billion was previously included in intangible fixed assets and investments in joint ventures, respectively. The Group's interest in the new venture has been equity accounted within investments in associated undertakings at an initial value of £19,809 million. The remaining increase in intangible assets primarily comprises £13,347 million in respect of 3G licenses and goodwill on the acquisition of a controlling interest in Airtel of approximately £7,740 million.

Other fixed asset investments at March 31, 2001 totaled £2,955 million (2000 — £442 million, excluding the investment in Mannesmann AG of £101,246 million as at March 31, 2000) and include the Group's equity interests in China Mobile (2.18%) and Japan Telecom (7.5%), which were acquired during the year.

Tangible fixed assets increased from £6,307 million to £10,586 million at March 31, 2001, of which network infrastructure assets of £7,770 million (2000 — £5,397 million) represented approximately 73% (2000 — 86%) of the total. Additions to network infrastructure in the year, excluding acquisitions, totaled £2,756 million (2000 — £1,610 million), primarily comprising expenditure on digital network infrastructure in Germany, Italy and the UK. The fair value of fixed assets from acquired businesses totaled £4,840 million, of which £2,466 million related to network infrastructure, primarily in Germany, Italy and Spain, and £710 million related to fixed line operations in Mannesmann Arcor. The formation of Verizon Wireless resulted in the disposal of fixed assets with a net book value of £2,755 million, including network infrastructure assets with a net book value of £2,038 million.

Current asset investments with an aggregate value of £13,211 million primarily comprise the Group's remaining interest in Atecs Mannesmann, a balancing payment of approximately £3,092 million receivable from the exercise of a put option over France Telecom shares and liquid investments with a value of £7,593 million. Liquid investments relate primarily to proceeds from the disposal of Infostrada and receipts following the conversion of France Telecom shares and loan notes, which were received as part of the consideration for the disposal of Orange, both in March 2001.

### **Equity shareholders' funds**

Total equity shareholders' funds increased from £140,833 million at March 31, 2000 to £145,393 million at March 31, 2001. The increase primarily comprises new share capital and share premium of £9,950 million, including shares issued as consideration for acquisitions completed during the year, net currency translation gains of £5,197 million, offset by a loss for the year of £9,763 million (after goodwill amortization of £11,882 million) and dividends paid and declared in respect of the year totaling £887 million.

On December 29, 2000, Vodafone completed the acquisition of approximately 52.1% of the issued share capital of Airtel, increasing the Group's stake to 73.8%. The Company issued 3,097,446,624 new listed ordinary shares to the transferring Airtel shareholders, representing a transaction value of approximately £7.9 billion for the acquired shares. Additionally, Vodafone acquired a 25% equity interest in Swisscom Mobile for CHF4.5 billion during the first quarter of 2001. The first tranche of £0.85 billion was satisfied by the issue of 422,869,008 new Vodafone shares and the payment of CHF25 million in cash. The second tranche of £0.98 billion will be satisfied in cash or Vodafone shares, or a combination of both, at the Company's discretion and is payable by March 2002. The deferred consideration is shown as shares to be issued.

### **Inflation**

Inflation has not had a significant effect on the Group's results of operations and financial condition during the three years ended March 31, 2001.

### **Exchange rates**

Due to the wide diversity of the Group's foreign currency investments, movements in exchange rates had no material impact on the total Group operating profit, before goodwill amortization, in any of the three years ended March 31, 2001. In fiscal 2001, the adverse impact of movements in the exchange rate of pounds sterling to euro was offset by favorable exchange rate movements against the US dollar. Retranslating the goodwill amortization charge for the year ended March 31, 2001 at the average exchange rates applicable for the year ended March 31, 2000 would increase the charge by £242 million to £12,124 million, with a corresponding increase in total Group operating loss.

### **Introduction of the Single European Currency**

Vodafone's local management has established working groups to manage the implementation of appropriate change programs where the introduction of the euro currency is expected to have a significant impact on business operations. In EU markets not yet committed to the introduction of the euro, preliminary assessments have been carried out. Based on these assessments, Vodafone believes that the financial cost of preparing for the introduction of the euro is not material to the Group.

### **Accounting principles**

The Consolidated Financial Statements in respect of the year ended March 31, 2001 comply with Financial Reporting Standard 18 – "Accounting Policies", issued by the Accounting Standards Board in the United Kingdom during the year. Implementation of the new standard has not had any effect on the financial results for the year or required changes to prior year comparatives.

Two other Financial Reporting Standards ("FRSs") were issued by the Accounting Standards Board during the year.

FRS 17 replaces SSAP 24 "Accounting for Pension Costs" and changes existing accounting and disclosure requirements for defined benefit pension schemes. Although transitional rules apply, when fully implemented the principal changes will be the inclusion of pension scheme surpluses or deficits on the balance sheet, analysis of components of the pension charge between operating profit and net interest and the reporting of actuarial gains and losses in the statement of total recognized gains and losses. It is not anticipated that these changes will have a material effect on the Group's results or balance sheet.

FRS 19 replaces SSAP 15 "Accounting for Deferred Tax" and prescribes significant changes to the existing accounting and disclosure for deferred tax. The requirements of FRS 19 must be adopted for the first time in the Group accounts for the year ending March 31, 2002. The main change is that deferred tax must be recognized on a full provision basis in the Group's accounts, as opposed to the partial provision method presently adopted by the Group. On implementation of FRS 19, a prior year adjustment will be required to reflect the change in basis of accounting.

## **US GAAP reconciliation**

The principal differences between US GAAP and UK GAAP, as they relate to the Company's Consolidated Financial Statements, are the non-consolidation of certain subsidiary undertakings, the timing of the recognition of connection revenues and expenses, methods of accounting for goodwill for acquisitions completed before March 31, 1998, the determination of the fair value of the share consideration as a component of the purchase price of acquisitions, thereby affecting the calculation of goodwill, completed after March 31, 1998, the accounting for certain reorganization costs in the purchase price allocation, capitalization of interest, the treatment of deferred taxation, the recognition of tax benefits on the exercise of share options and the treatment of dividends declared or proposed after the year end by the board of directors.

In the year to March 31, 2001, revenues under US GAAP were £11,103 million compared with revenues under UK GAAP of £15,004 million. There were no differences reported in the years ended March 31, 2000 or 1999. The difference in fiscal 2001 relates primarily to the non-consolidation of subsidiaries, being Omnitel Vodafone and Airtel. For both subsidiary undertakings, the existence of significant participating rights of minority shareholders has required the equity method of accounting to be adopted under US GAAP rather than the full consolidation of results under UK GAAP. This has not affected the net income of the Group.

Net loss under US GAAP for the year to March 31, 2001 was £7,071 million, compared with a net loss for the year of £9,763 million under UK GAAP. In the year ended March 31, 2000, the net profit under US GAAP of £553 million compared with a net profit under UK GAAP of £487 million. In both fiscal years, the most significant adjustments giving rise to these differences were the amortization of goodwill and other intangible assets and the adjustment for deferred taxation. In the year to March 31, 2001, the higher charge for the amortization of goodwill and other intangibles under US GAAP of £5,293 million (2000 – £425 million) was offset by a credit for income taxes, primarily deferred tax, of £7,771 million (2000 – £439 million). Additionally, an adjustment of £365 million was made for the capitalization of interest under US GAAP in respect of 3G licenses acquired during the year.

For a further explanation of the differences between UK GAAP and US GAAP, including a summary of the impact of recently issued US accounting standards, see Note 35 of Notes to the Consolidated Financial Statements, "Supplementary information for United States investors," included in this Annual Report.

## **Liquidity and Capital Resources**

### **Cash flows and funding**

The major sources of Group liquidity over the three years ended March 31, 2001 have been cash generated from operations, borrowings arranged centrally through a mixture of long term and short term capital market issues and borrowings drawn from committed bank facilities. Additionally, in the year ended March 31, 2001, proceeds totaling approximately £32.2 billion resulted from the sale of certain of the acquired Mannesmann operations and the formation of Verizon Wireless.

Cash generated by operating activities was £4,587 million in 2001, compared with £2,510 million in 2000 and £1,045 million in 1999. The increase of £2,077 million from fiscal 2000 to fiscal 2001 is due primarily to the inclusion of the operating cash flows of Mannesmann's subsidiaries acquired during the year, which contributed £2,863 million to net operating cash flows, the acquisition of Airtel in Spain and the operating cash flows of the Group's continuing operations, reflecting their strong cash generation. These increases are offset by the exclusion of the operating cash flows of the Group's US wireless businesses contributed to Verizon Wireless in fiscal 2001, the Group's interest in the US partnership being consolidated using equity accounting. The increase of £1,465 million from 1999 to 2000 was due primarily to the inclusion of the operating cash flows of the acquired AirTouch businesses, which contributed £945 million to net operating cash flows following the merger, and increased operating cash flows from the Group's continuing operations.

In the year ended March 31, 2001, cash proceeds of £27.9 billion, including loan repayments, were realized from the sale of certain of the acquired Mannesmann operations. A further £4.3 billion resulted from the formation of Verizon Wireless, relating to the assumption of Group debt by Verizon Wireless under an agreement with the

other partners and the disposal of overlapping properties in the United States. Other exceptional cash inflows of £901 million resulted from the termination of a hedge transaction and closure of interest and currency swap derivative instruments, as described in Note 28 of Notes to the Consolidated Financial Statements, "Analysis of cash flows", included in this Annual Report.

These cash inflows, and the net cash inflow generated by operating activities, were applied primarily to fund the purchase of intangible assets (£13,163 million), including 3G licenses, purchase tangible fixed assets (£3,698 million), acquire fixed asset investments (£3,254 million), primarily China Mobile and Japan Telecom, and to pay tax (£1,585 million) and equity dividends (£773 million). The resulting net cash inflow, before repayment of debt and management of liquid resources, was £13,744 million. This cash inflow was offset by the consolidation of the net debt of Mannesmann and Airtel, totaling £13,184 million at completion of the respective acquisitions, and other non-cash movements of £639 million, primarily relating to exchange movements.

The following table presents, in chronological order, a summary of significant business acquisitions and disposals and significant expenditures in connection with the acquisition of licenses for 3G spectrum, in the twelve month period from April 1, 2000 to March 31, 2001, and their impact on the Group's indebtedness. Solely for convenience, the amounts presented have been translated into US dollars and pounds sterling at actual rates for dollar denominated transactions or, otherwise, at the respective exchange rates on March 30, 2001.

| <u>Date:</u>                | <u>Event:</u>  | <u>Impact on debt</u> |            |
|-----------------------------|--|-----------------------|------------|
|                             |  | £ billion             | \$ billion |
| April 3, 2000 . . . . .     | Following the contribution of Vodafone's US wireless assets to Verizon Wireless on April 3, 2000, Verizon Wireless assumed or incurred approximately \$10 billion in existing and new debt, which caused net consolidated debt to decline by \$4 billion.  | 2.5                   | 4.0        |
| April 12, 2000 . . . . .    | Following the completion of the acquisition of Mannesmann, Vodafone consolidated Mannesmann's net debt of approximately £12.5 billion. With the exception of £0.6 billion of long-term bank debt and Mannesmann bonds, Mannesmann's debt was refinanced through issuances under the Group's \$15 billion commercial paper program. | (12.5)                | (17.7)     |
| June 30, 2000 . . . . .     | Sale of overlapping properties in connection with the completion of Stage II of the formation of Verizon Wireless.   | 1.5                   | 2.1        |
| August 7, 2000 . . . . .    | Payment of €0.7 billion for the acquisition of 3G license in the Netherlands.  | (0.4)                 | (0.6)      |
| August 22, 2000 . . . . .   | Completion of the sale of Orange, with receipt of £13.2 billion in cash, £1.3 billion of loan notes and 113.8 million France Telecom shares.   | 13.2                  | 18.7       |
| September 1, 2000 . . . . . | Payment of £5.9 billion for the acquisition of 3G license in the United Kingdom, which had been awarded on April 24, 2000.   | (5.9)                 | (8.4)      |
| September 4, 2000 . . . . . | Payment of €8.5 billion for the acquisition of 3G license in Germany, which had been awarded on August 17, 2000.   | (5.1)                 | (7.2)      |

| <u>Date:</u>                 | <u>Event:</u>   | <u>Impact on debt</u> |            |
|------------------------------|---|-----------------------|------------|
|                              |   | £ billion             | \$ billion |
| September 29, 2000 . . . . . | Receipt of a prepayment of €3.1 billion from Siemens and Bosch for the sale of a 50% plus two shares interest in Atecs Mannesmann.  | 1.9                   | 2.7        |
| November 3, 2000 . . . . .   | Acquisition of a 2.18% stake in China Mobile for \$2.5 billion.   | (1.7)                 | (2.5)      |
| December 7, 2000 . . . . .   | Completion of sale of watches business for €1.8 billion.  | 1.1                   | 1.6        |
| December 11, 2000 . . . . .  | Payment of €2.5 billion for license in Italy.   | (1.5)                 | (2.2)      |
| December 29, 2000 . . . . .  | Through completion of the acquisition of a majority interest in Airtel, Vodafone took on approximately €1 billion of debt that was subsequently refinanced.   | (0.7)                 | (0.9)      |
| January 31, 2001 . . . . .   | Acquisition of 7.5% stake in Japan Telecom for Yen 124.6 billion, funded through commercial paper issuance.   | (0.7)                 | (1.0)      |
| March 13, 2001 . . . . .     | Exercise of put option over France Telecom shares with proceeds of €6.7 billion and redemption of a loan note of £1.4 billion, these amounts being related to the consideration received from the sale of Orange to France Telecom. | 5.6                   | 7.9        |
| March 13, 2001 . . . . .     | Proceeds from sale of conflicted properties in the US.  | 0.3                   | 0.5        |
| March 23, 2001 . . . . .     | Repayment of loan of €1.5 billion by Atecs Mannesmann.  | 1.0                   | 1.4        |
| March 29, 2001 . . . . .     | Sale of Infostrada, resulting in cash proceeds of €7.2 billion, with a further €0.8 billion from the repayment of an intercompany loan.   | 5.2                   | 7.4        |

Net debt increased to £6,722 million at March 31, 2001, compared with £6,643 million last year. Net debt at March 31, 2001 comprised cash and liquid investments of £7,661 million (2000 — £189 million) and gross borrowings of £14,383 million (2000 — £6,832 million), mainly capital market debt with maturities from June 2001 to February 2030.

The Group remains committed to maintaining a strong financial position as demonstrated by its credit ratings of P-1/F1/A-1 short term and A2/A/A long term from Moody's, Fitch Ratings and Standard and Poor's, respectively. The credit ratings reflect the financial strength of the Group and were reconfirmed by each of the rating agencies on May 2, 2001, following the announcement of the acquisition of further equity interests in Japan and Spain. These acquisitions are being financed, in part, by an offering of 1.825 billion new Vodafone ordinary shares on May 2, 2001 that raised approximately £3.5 billion.

The Group's preservation of its credit ratings has enabled it to access a wide range of debt finance including commercial paper, bonds and committed bank facilities. The Group has dollar and euro commercial paper programs for \$15 billion and £2 billion, respectively, which it uses to meet its short term liquidity requirements. The commercial paper facilities were backed by a \$14.55 billion (£10.2 billion) committed bank facility. This facility was replaced on June 27, 2001 with a \$13.275 billion committed bank facility which expires in June 2002, with a one year term-out option. The \$13.275 billion bank facility is with a pool of thirty seven banks, with Royal Bank of

Scotland acting as Agent and US Swingline Agent. The interest rate for drawdowns on the facility is linked to LIBOR, or in the case of an advance denominated in euros, EURIBOR. The Group also has approximately £13.0 billion (pounds sterling equivalent) of capital market debt in issue, with maturities from July 2001 to February 2030.

The following table sets forth a summary of Vodafone's material bond issues since April 1, 2000, uses of proceeds of each issue and committed bank facilities currently available to the Group.

| <u>Bond Issues</u>  | <u>Use of Proceeds</u>   |
|---|--|
| <i>May 9, 2000</i>  |  |
| <ul style="list-style-type: none"> <li>• \$0.75 billion of Floating Rate Notes due June 5, 2001; and</li> <li>• \$3 billion of Floating Rates Notes due December 19, 2001.</li> </ul> | General corporate purposes, including working capital and the payment of costs in connection with the acquisition of 3G licenses.  |
| <i>May 25, 2000</i>   |  |
| <ul style="list-style-type: none"> <li>• Yen 60 billion of Notes due February 25, 2002.</li> </ul>  | General corporate purposes, including working capital.   |
| <i>June 1, 2000</i>   |  |
| <ul style="list-style-type: none"> <li>• Yen 80 billion of Notes due March 15, 2001.</li> </ul>   | General corporate purposes, including working capital.   |
| <i>June 21, 2001</i>  |  |
| <ul style="list-style-type: none"> <li>• €0.4 billion 5.4% bond with maturity June 21, 2006.</li> </ul>   | General corporate purposes, including working capital.   |
| <i>June 22, 2001</i>  |  |
| <ul style="list-style-type: none"> <li>• £0.25 billion bond with issue date July 10, 2001 and maturity July 10, 2008.</li> </ul>  | General corporate purposes, including working capital.   |
| <u>Committed Bank Facilities</u>  | <u>Amounts drawn</u>   |
| <i>June 27, 2001</i>  |  |
| <ul style="list-style-type: none"> <li>• \$13.275 billion 364-day Bank Facility (with a twelve month term-out).</li> </ul>  | As of July 5, 2001, no amounts had been drawn from the bank facility. The bank facility is available for general corporate purposes, including working capital, although it serves principally as a back-up to Vodafone's \$15 billion commercial paper program. |

Vodafone believes that it has sufficient funding for its expected working capital requirements. Further details regarding the maturity, currency and interest rates of the Group's gross borrowings at March 31, 2001 are included in Note 18 of Notes to the Consolidated Financial Statements, "Financial liabilities and assets", included in this Annual Report.

In addition, certain of the Group's subsidiary undertakings have committed facilities that may only be used to fund their operations. Misrfone in Egypt has a facility of EGP2.4 billion (£438 million) that expires in 2005 and VRAM Telecommunications Company Limited in Hungary has a facility of €350 million that fully expires in 2008. In addition, Mannesmann AG in Germany has bilateral facilities totaling €562 million, which expire in 2004 and 2006. Of these aggregate committed facilities of approximately £1,005 million, the undrawn amount at March 31, 2001 was £322 million.

Vodafone has completed a number of transactions after the end of the fiscal year 2001, as follows.

On April 4, 2001, Vodafone completed its acquisition of a 34.5% stake in Grupo Iusacell, S.A. de C.V. for a cash consideration of \$973 million.



On April 12, 2001, following the second payment of Yen 125.1 billion (£0.7 billion), the acquisition of a 15% stake in Japan Telecom from West Japan Railway Company and Central Japan Railway Company was completed. The initial payment of Yen 124.6 billion (£0.7 billion) was made on January 31, 2001.

On April 19, 2001, the Company monetized the remaining cash payment of €4.9 billion that it was due to receive from France Telecom on March 25, 2002 for €4.7 billion. The cash payment due from France Telecom was in respect of the repurchase of France Telecom shares, which Vodafone had received in part consideration for the trade sale of Orange.

On April 26, 2001, Vodafone completed the acquisition of a further 10% stake in Japan Telecom from AT&T for a cash consideration of \$1.35 billion (£0.9 billion).

On May 2, 2001, Vodafone announced that it had agreed to acquire BT's ownership interests in Japan Telecom and the J-Phone Group for a cash consideration of £3.7 billion and the acquisition of BT's 17.8% shareholding in Airtel for a cash consideration of £1.1 billion. The acquisition of BT's interests in Japan Telecom and J-Phone Communications Co. Ltd was completed on June 1, 2001. The Airtel transaction was completed on June 29, 2001.

In an offering on May 2, 2001, the Company raised approximately £3.5 billion through the issue of 1.825 billion new Vodafone ordinary shares at 194p per share (equivalent to \$27.83 per ADS). The new Vodafone shares issued represented approximately 2.8% of Vodafone's issued ordinary share capital prior to the offering. The proceeds from this offering were used to finance, in part, the acquisition of BT's interests in Japan Telecom, the J-Phone Group and Airtel.

### **Financial assets and liabilities**

Details of the Group's treasury management and policies are set out in "Item 11. Quantitative and Qualitative Disclosures About Market Risk". Analyses of financial assets and liabilities, including the maturity profile of debt, currency and interest rate structure, are included in Notes 18 and 19 of Notes to the Consolidated Financial Statements included in this Annual Report.

### **Capital commitments**

Capital commitments in respect of fixed asset expenditure contracted for but not provided at March 31, 2001, amounted to £861 million (2000 – £442 million).

In the year ending March 31, 2002, the Group expects to spend approximately £5 billion on capital expenditure, excluding 3G licenses but including expenditure by Eircell, the Group's recently acquired wireless operator in Ireland. Of this expenditure, approximately 3% relates to investment in GPRS capability and 20% relates to expenditure on 3G network infrastructure. The majority of this expenditure will be in the Group's businesses in Europe, with over £1.0 billion of capital expenditure expected to be incurred in Germany, almost £0.9 billion in the UK and over £0.7 billion in Italy. Capital expenditure in each of the Group's Asia Pacific and Middle East and Africa regions is expected to be approximately £0.2 billion, and the Group's non-mobile operations are expected to spend over £0.3 billion on capital investment.

The Group presently expects investment in capital expenditure to be at a similar level for the following year, with expenditures on 3G network infrastructure increasing to approximately 50% of the total. 3G network launches will be timed to coincide with handset availability, presently expected for the second half of 2002. Capital expenditure programs are projected to fall in subsequent years once 3G network services are launched and spend on GSM infrastructure is curtailed.

### **Research and Development, Patents and Licenses, etc.**

Vodafone has, in previous years, viewed itself primarily as a user rather than prime developer of technology. However, during the year ended March 31, 2001, it has created a new Group Research and Development function to increase its influence on the development of the technology it will use in the future. The new function is built on the research and development capability that already existed within the Group, and became fully operational in

April 2001. It consists of four centers, one in each of the UK, the Netherlands, Germany and the US, and it will serve the Group as a center of excellence in applied research in mobile communications and its applications.

The work of the function is organized into five main streams: strategic technology analysis, applied research, technical standards development, intellectual property and showcase laboratory management. The function will evaluate and test technologies to advance mobile communications or to improve service quality or operational efficiency, develop, test and demonstrate prototype products and enhanced network capabilities, and publicize and demonstrate technical innovation to customers and media. The work of the function is undertaken as a balanced mix of in-house proprietary projects, collaboration with suppliers, university sponsored projects and involvement in major international research and development programs. The work is carried out within the four research and development centers and within the operating companies, and is designed as a systematic and coordinated program of research and development for product and service innovation, and for technical vision for business strategy.

The research and development program is shared with all of Vodafone's subsidiaries. They are able to influence the program through governance mechanisms, management processes and working interfaces that are designed to allow delivery of the results of the program directly into the business units where they are needed. The program provides the Group with policy, strategy and leadership for participation in technical standards bodies and industry fora. It also provides technical underpinning for the Group's public policies and government relations, and provides for effective and efficient management of the Group's intellectual property.

The primary areas of focus for research and development are emerging radio access technologies, radio propagation and network design, radio spectrum, core network architectures and technologies, mobile multi-media, commerce and voice, mobile application enablers including security, payment and application interfaces, terminal devices and smart cards, and telematics applications.

The Group spent £72 million in the fiscal year 2001 on research and development, compared with £46 million in 2000 and £37 million in 1999. This expenditure was incurred principally on the enhancement of D2 Vodafone's network capabilities in Germany to allow it to offer innovative mobile data communication services, and in preparation for the launch of prepaid roaming, and on core network development in the UK, including 3G, and on the development of the radio networks to enhance performance capabilities.

## **Trend Information**

Vodafone expects that the trend of decreasing average revenue per customer will continue in the current year, reflecting the increased proportion of prepaid customers, who use their phones less frequently, in the overall mix of the customer base. The gap between contract ARPU, which has begun to stabilize, and prepay ARPU is widening and has prompted a review of the Group's policy towards the payment of prepaid connection bonuses to retailers. The economic model of continuing high customer connection costs to generate lower marginal ARPU is not sustainable. The focus in the coming year will be to maximize economic returns rather than continuing to increase the size of the customer base, even if this results in some loss of market share. Initial reductions in handset subsidies have been implemented and more actions are envisaged over the coming months to further reduce customer connection costs and improve customer retention.

Vodafone expects a lower rate of customer growth in fiscal 2002 due to the reduction in handset subsidies and the high penetration rates already present in its major markets, although the potential for more rapid growth still exists in the US, Japan and China, where penetration rates are still at relatively low levels. Emphasis will move to customer retention, particularly those of highest value, and Vodafone will aim to stimulate more usage of voice and data services through the introduction of a new range of data applications. Over the past two financial years, the churn rate on the contract customer base has declined as the Group has focused on retaining higher value customers. Intensifying competition, combined with reductions in subsidies for prepaid product, has driven up prepaid customer churn during the final quarter of fiscal 2001. Due to the substantial growth in the prepaid customer base, particularly in the last fiscal year, prepaid churn is likely to continue to increase.

The global market for mobile telecommunications continues to provide the potential for significant revenue growth. Vodafone believes mobile telecommunications will become the substitute for fixed line networks in both voice and

data services for the consumer and will be enhanced to provide services that have never been available to users before. In addition, the development of multi-access internet portals will provide customers with new communication facilities. The development of a wide variety of services using potentially a wide array of handheld devices, coupled with growth in voice and data volumes, will require additional bandwidth or spectrum in networks. This type of spectrum has been acquired by wireless operators, including Vodafone, through the purchase of 3G licenses, which have now been awarded in most of the Group's main markets by the respective governments, either in "beauty contests" or sold to the highest bidder in government-run auctions.

The cost of obtaining 3G licenses and the associated capital expenditures relating to the design and rollout of 3G network infrastructure varies by country. The high costs of licenses in some markets has had implications for the strategies of mobile operators in those countries, who have looked to form partnerships with other content and portal providers, and to exploit relationships with operators in lower cost markets. Such alliances could increase the competitive environment relating to the commercial launch of 3G services in the Group's main markets.

Investing in 3G networks involves significant risk due to the uncertainty as to the timing of uptake and revenue streams and the high license costs and capital expenditures. Vodafone expects that capital expenditures for the fiscal years 2002 and 2003 will total approximately £10 billion, a higher level than in previous years, as GPRS services and the construction of 3G networks are rolled out throughout the Group's businesses. Approximately 40% of the projected capital expenditure will be in respect of GPRS and 3G infrastructure. Capital expenditure programs are then projected to fall in subsequent years once 3G network services are launched and expenditure on GSM infrastructure is curtailed.

Data services are expected to be a key driver of future revenue growth and profitability. Vodafone anticipates that revenues from data services will represent between 20% and 25% of the Group's service revenues by March 2004. In addition, through Vizzavi Europe, a 50/50 joint venture with Vivendi Universal, the Group is developing a multi-access internet portal for Europe. The VIZZAVI platform has already been rolled out in certain key European markets and this program will continue through 2001. Vizzavi Europe is expected to be contributing to operating profit in fiscal 2004. The strategy of many mobile operators is to develop pan-European operations and this is likely to lead to further consolidation and partnerships among operators and to increased competitive pressures.

The introduction of GPRS services has now commenced in almost all of Vodafone's major European subsidiaries and it is expected that the "always-on" feature of GPRS handsets, combined with color screens and a generally wider choice of handsets, will accelerate the take-up and usage of data services, including internet-based services. The anticipated availability of a wider variety of GPRS phones, PDAs and PC cards during the third quarter of 2001 will enhance existing services.

The launch of commercial 3G service in Vodafone's largest markets is expected to take place in the second half of 2002. The network roll-out program continues to be influenced by the availability and delivery of commercial quantities of dual mode GSM/3G handsets in the second half of 2002. The launch of 3G services is expected to provide even more capacity, bandwidth and speed and is expected to provide the platform for more sophisticated products such as video streaming and picture messaging. 3G technology is expected to enable mobile to substitute for fixed telephone services in the provision of voice and narrow-band data services, as well as for some broadband applications.

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### Directors and Senior Management

The business of the Company is managed by its Board of directors. The Company's Articles of Association provide that, until otherwise determined by ordinary resolution, the number of directors will not be less than three. The Company's Board of directors presently consists of fifteen directors, eleven of whom served throughout the year ended March 31, 2001. As at March 31, 2001, there were five executive directors and ten non-executive directors, including the Chairman.

The acquisition of Mannesmann AG and formation of Verizon Wireless with Bell Atlantic in April 2000, have resulted in a year of change for the Board. Following the formation of Verizon Wireless, Arun Sarin resigned as an executive director but accepted an invitation to remain on the Board in a non-executive capacity. The Mannesmann acquisition resulted in changes to the Board in May 2000. Josef Ackermann, Jürgen Schrempp and Henning Schulte-Noelle, all then members of the Supervisory Board of Mannesmann AG, were appointed as non-executive directors on May 1, 2000. Thomas Geitner joined the Board on May 15, 2000. Sam Ginn and Charles Schwab resigned on May 23, 2000 and Lord MacLaurin was re-appointed Chairman. Paul Hazen was elected Deputy Chairman and the senior non-executive director in succession to Lord MacLaurin. Klaus Esser, who joined the Board as a Deputy Chairman on June 5, 2000, resigned from the Board on September 30, 2000. Don Fisher decided to leave the Board in October 2000. The Company considers all its present non-executive directors, except Arun Sarin, to be fully independent. The five executive directors are Sir Christopher Gent (the Chief Executive), Julian Horn-Smith, Peter Bamford, Thomas Geitner and Kenneth Hydon.

Biographical details of the directors and senior management are as follows:

### Directors

#### Chairman

**Lord MacLaurin of Knebworth, DL**, aged 64, has been a member of the Board of directors since January 1997. He is Chairman of the Nominations Committee and a member of the Remuneration Committee. He was Chairman of Tesco Plc from 1985 to 1997, and has been a director of Enterprise Oil Plc, Guinness Plc, National Westminster Bank Plc and Whitbread Plc. Lord MacLaurin is Chairman of the England and Wales Cricket Board and is a member of the Supervisory Board of Mannesmann AG.

#### Deputy Chairman

**Paul Hazen**, non-executive Deputy Chairman, aged 59, has been a member of the Board of directors since June 1999 and became a Deputy Chairman and the Board's nominated senior non-executive director in May 2000. He is also Chairman of the Audit Committee. He became a director of AirTouch in April 1993. He has recently retired as Chairman and Chief Executive Officer of Wells Fargo & Company and its principal subsidiary, Wells Fargo Bank, N.A. Mr Hazen is also a director of Safeway Inc., Phelps Dodge Corporation, Xstrata AG and E.piphany and he is Chairman of Accel-KKR.

#### Executive directors

**Sir Christopher Gent**, Chief Executive, aged 53, has been a member of the Board of directors since August 1985 and the Chief Executive Officer of the Company since January 1997. He is a member of the Nominations Committee. He was the Managing Director of Vodafone Limited, the UK network operator, from January 1985 to December 1996. He is Chairman of the Supervisory Board of Mannesmann AG, a member of the Board of Representatives of the Verizon Wireless partnership, and a non-executive director of China Mobile (Hong Kong) Limited.

**Julian M. Horn-Smith**, Group Chief Operating Officer, aged 52, has been a member of the Board of directors since June 1996. He was appointed Group Chief Operating Officer on April 1, 2001, having been Chief Executive of Vodafone's Continental Europe businesses and a director of several of the Group's overseas operating companies.

He is the Chairman of the Management Board of Mannesmann AG. He is also a non-executive director of Smiths Group Plc.

**Peter R. Bamford**, Chief Executive Northern Europe, Middle East and Africa Region, aged 47, has been a member of the Board of directors since April 1998. He has responsibility for the Group's Northern Europe, Middle East and Africa businesses. He was Managing Director of Vodafone UK Limited until April 2001. Before joining Vodafone in 1997, Mr Bamford was a director of WH Smith Group Plc.

**Thomas Geitner**, Chief Executive, Group Products and Services, aged 46, has been a member of the Board of directors since May 2000. He is responsible for the development of pan-European products and services and the achievement of revenue and cost synergies between the operating companies in the Group's European Region. He is a non-executive director of Vizzavi Limited. Prior to joining Vodafone, he was a member of the Management Board of RWE AG and Chief Executive Officer of o.tel.o GmbH. He is Deputy Chairman of the Management Board of Mannesmann AG.

**Kenneth J. Hydon**, Financial Director, aged 56, has been a member of the Board of directors since 1985. He is director of several subsidiaries of the Company, including Vodafone International Holdings BV. Mr Hydon is a member of the Supervisory Board of Mannesmann AG and is a member of the Board of Representatives of the Verizon Wireless partnership.

#### **Non-executive directors**

**Dr. Josef Ackerman**, aged 53, has been a member of the Board of directors since May 2000 and is a member of the Audit Committee. He has been a member of the Board of Managing Directors of Deutsche Bank AG since 1996 and, in addition, he serves on the supervisory boards of Linde AG, Stora Enso Oyj, EUREX Frankfurt AG and EUREX Zurich AG. He was also a member of the Sair Group from May 1995 to April 1999 and Winterthur Group from May 1996 to November 1996. He has recently become a member of the Board of the Nasdaq Stock Market, Inc.

**Dr. Michael J. Boskin**, aged 55, has been a member of the Board of directors since June 1999 and is a member of the Remuneration Committee and the Audit Committee. 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 was Chairman of the President's Council of Economic Advisers from February 1989 until January 1993. He is also a director of ExxonMobil Corporation, First Health Group Corp. and Oracle Corporation.

**Professor Sir Alec Broers**, aged 62, is the Vice-Chancellor of Cambridge University. He first joined the Board of directors in January 1998. He is a member of the Nominations Committee and chairs the Group's Charitable Trust. He spent many years with IBM and is a fellow of the Royal Society, the Royal Academy of Engineering, the Institute of Electrical Engineers and the Institute of Physics. He is also a Foreign Associate of the US National Academy of Engineering.

**Penelope L. Hughes**, aged 41, has been a member of the Board of directors since September 1998, and will take the chair of the Remuneration Committee in August 2001. She also chairs the Company's pension trustee company. Mrs Hughes has held posts with The Coca-Cola Company, Next Plc and Body Shop Plc and is currently a non-executive director of Scandinaviska Enskilda Banken A.B. and Trinity Mirror plc and Chairman of Web-Angel plc.

**Arun Sarin**, non-executive director, aged 46, has been a member of the Board of directors since June 1999 and was Chief Executive Officer for the United States and Asia Pacific region until he resigned on April 15, 2000, when he became a non-executive director. He is a member of the Nominations Committee. He was a director of AirTouch from July 1995 and was President and Chief Operating Officer from February 1997 to June 1999. He is a director of The Gap, Inc., The Charles Schwab Corporation and Cisco Systems, Inc.

**Sir David Scholey, CBE**, aged 66, has been a member of the Board of directors since March 1998. He is Chairman of the Remuneration Committee and a member of the Audit Committee. He is also senior advisor to UBS Warburg, Chairman of Close Brothers Group plc, Deputy Chairman of Anglo American plc, and a director of the Chubb

Corporation, USA. Sir David was formerly a director of The Bank of England and J Sainsbury Plc, and a governor of the British Broadcasting Corporation.

**Jürgen Schrempp**, aged 56, has been a member of the Board of directors since May 2000 and is a member of the Remuneration Committee. He has been Chairman of the Board of Management of DaimlerChrysler AG since 1998. From 1995 until 1998 he was Chairman of the Board of Management of Daimler-Benz AG. He serves on the supervisory boards of Allianz AG and HypoVereinsbank AG and is a member of the Board of Directors of the New York Stock Exchange and Sasol Ltd. He was a member of the Supervisory Board of Mannesmann AG until May 2000.

**Dr. Henning Schulte-Noelle**, aged 58, has been a member of the Board of directors since May 2000 and is a member of the Nominations Committee. He was appointed Chairman of the board of management of Allianz AG in 1991. He was a member of the Supervisory Board of Mannesmann AG from 1994 to 2000, and is a member of the supervisory boards of BASF AG, Dresdner Bank AG, Linde AG, Muenchener Rückversicherungs AG, Siemens AG, Thyssen Krupp AG and E.ON.

### Senior management

Members of the Group's Executive Committee who are not also executive directors, are regarded as senior managers of the Company. As at, and for the year ending, March 31, 2001, the Executive Committee comprised the executive directors, details of whom are shown above, and the senior managers listed below. Further details of the Executive Committee can also be found under "Board Practices" below.

**Brian Clark**, Chief Executive Pacific Region, aged 52, took up this position on joining Vodafone in 1997. He is based in Australia and was previously Managing Director and Chief Executive Officer of Telkom SA Ltd, South Africa.

**Alan Harper**, Group Strategy Director, aged 44, joined Vodafone in 1995 as Group Commercial Director and he subsequently became Managing Director of Vodafone Ltd, the UK network operating company. He was appointed Group Strategy Director in July 2000. Prior to joining Vodafone he held the post of Business Strategy Director with Mercury One2One and senior roles with Unitel and STC Telecoms.

**Thomas Isaksson**, President Global Platform and Internet Services, aged 47, was appointed to this position in February 2000. Previously he was Chief Executive of Europolitan Holdings AB, Vodafone's Swedish operating company, and before that he was the President and Chief Executive Officer of Ericsson Radio Systems Inc., USA.

**Bill Kever**, President Americas Asia Region, aged 55, was appointed to this position in April 2000. He joined the business in 1965, holding positions in Pacific Bell and subsequently AirTouch. Immediately prior to his current appointment, he was an Executive Vice President of AirTouch Communications and President of AirTouch International. He is a member of the Board of Representatives of the Verizon Wireless partnership.

**Stephen Scott**, Company Secretary and Group Legal Director, aged 47, was appointed to this position in the Group in 1991, prior to which he was employed in the Racal Group legal department, having moved into industry in 1980 from private law practice in London. He is a director of the Group's pension trustee company.

**Phil Williams**, Group Human Resources Director, aged 50, was appointed to this position in the Group in 1989. He is a director of several group companies and is also a director of the Group's pension trustee company and the Vodafone Group Charitable Trust. Prior to joining Vodafone, he was Personnel Director with Costain and Burmah Castrol.

In April 2001, the following were appointed to the Executive Committee.

**Vittorio Colao**, Chief Executive Southern Europe Region, aged 39, was appointed to the position on April 1, 2001. He is currently Chief Executive and was formerly Chief Operating Officer of Omnitel Pronto Italia S.p.A., before which he was a partner at McKinsey & Co. He is currently a member of the Aspen Institute and a non-executive director of Finmeccanica.

**Jurgen von Kuczowski**, Chief Executive Central Europe Region, aged 60, was appointed to this position on April 1, 2001. He joined Mannesmann Mobilfunk GmbH in October 1990 as Director of Sales and Distribution and was Chairman of the Board of Management.

## **Compensation**

The information in this section relates to the directors and senior management of the Company during the year ended March 31, 2001. There have been no changes to the constitution of the Board since the end of the financial year. Vittorio Colao and Jurgen von Kuczowski both joined the Executive Committee on April 1, 2001.

## **Remuneration Committee**

The Remuneration Committee of the Board consists only of independent non-executive directors of the Company and, as at March 31, 2001, comprised Sir David Scholey as Chairman, Lord MacLaurin, Michael Boskin, Penny Hughes and Jürgen Schrempp. When appropriate, the Committee invites the views of the Chief Executive and the Group Human Resources Director and commissions reports from expert remuneration consultants. The results of market surveys and other analyses from external sources are also made available to the Committee, which has resolved to review its policy with the Board on a regular basis to ensure it continues to meet the Company's requirements. The Company is committed both to complying with, and being seen as a leader in, best practice in areas of corporate governance and executive remuneration.

## **Remuneration policy**

It is vital for the Group to employ people of the high caliber essential to the successful leadership and efficient management of a global business at the leading edge of the telecommunications industry. As a result of recent transactions, most notably the merger with AirTouch and the acquisition of Mannesmann, the Group has one of the highest capitalizations on the London Stock Exchange and is one of the twenty largest companies by capitalization in the world. The scale and complexity of the Group continues to grow, with operations in 29 countries in five continents.

The executive talent needed to maximize returns for shareholders in this industry is very scarce and the future performance of the Group will depend upon its ability to provide incentives to its employees and to provide remuneration packages which are competitive in actual and prospective value when measured against the best in the industry.

In determining the Group's broad policy for executive remuneration, and in constructing the remuneration arrangements of each executive director, the Board, advised by the Remuneration Committee consisting entirely of independent non-executive directors, aims to provide remuneration which ensures the retention, motivation and incentivization of the Group's senior executives.

As more fully described below, the key principles of the Global Market-Related Remuneration program, which was implemented following approval of the Remuneration Policy at the Company's Annual General Meeting held on July 27, 2000, are as follows: The remuneration of executives with global responsibilities is set by reference to a global peer group, with a high proportion contingent upon the achievement of demanding levels of corporate performance and compliance with share ownership requirements; base salary and short term incentive plans (at 100% of base salary target level) represent approximately 20% of total stretch target remuneration; and approximately 80% of total stretch target remuneration will be delivered by share incentive awards which will only vest on the achievement of very demanding performance targets. All options under this policy will be granted at market value. The award levels for options will be determined using the Black-Scholes formula, an internationally accepted methodology for valuing share options, and at the date of vesting will be exercisable at the market price at the time of grant.

## **Salaries and benefits**

### **Executive directors' remuneration**

The components of executive directors' remuneration packages are salary, on which pension benefits are calculated, short term incentives, long term incentives, pension benefits and a car. The executive directors participate in the

Company's executive share option schemes and are entitled to participate in its all-employee share incentive schemes, the Sharesave Scheme and the Profit Sharing Scheme. Each of these components, and key terms of the various incentive and benefit programs, are explained further below.

Thomas Geitner, appointed to the Board as an executive director on May 15, 2000, is an employee of Mannesmann AG and has a remuneration package comprising salary, annual cash bonus, pension, a car and other benefits normally provided to executives of his status in Germany. He also participates in the Company's executive share option scheme.

**Salary** Salaries are reviewed annually with effect from July 1 and adjustments made to reflect competitive pay levels, changes in responsibilities and Group performance. If the responsibilities of executive directors change during the year the Remuneration Committee reviews remuneration packages, including salaries, at that time. Only base salary is used to determine pensionable salary.

**Bonus** In April 2000, cash payments were made as part of a special bonus, (not under the STIP) to executive directors to address an under-provisioning under then current remuneration arrangements, relative to market competitive remuneration levels, following the acquisitions of AirTouch and Mannesmann. Cash payments of £5 million (Sir Christopher Gent), £2 million (Julian Horn-Smith and Ken Hydon) and £1 million (Peter Bamford and Arun Sarin) were made. The remaining part of the special bonus was conditionally awarded in the form of restricted shares, described below under long term incentives.

**Short term incentives** The Vodafone Group Short Term Incentive Plan ("STIP") was approved by shareholders at the Company's 1998 Annual General Meeting. Executive directors are eligible to participate in the STIP. The STIP comprises two elements: a base award and an enhancement award. The target level for base awards granted to executive directors for the year ended March 31, 2001 was 100% of salary with a maximum of 200% of salary. Awards are contingent on achievement of a one year performance target. The base award is delivered in the form of shares, receipt of which is deferred for a further two years. An enhancement award of up to 50% of the original value of the base award may be payable, subject to the achievement of a further two year performance target. Release of the base award and the enhancement award after the total three year period is also dependent upon the continued employment of the participant. No enhancement awards vested during the year.

The target and maximum levels of STIP awards were increased for 2000 awards from previous levels, in line with shareholder approvals obtained in July 2000. For the year ended March 31, 2001, the one year target was the achievement of Group budgeted pro forma proportionate EBITDA. For the two year period from April 1, 2000, the additional two year target was that the growth in adjusted earnings per share must exceed the growth in the UK retail price index by 6 percentage points over the two year period.

The Group may, at its discretion, pay a cash sum up to the value of the base award in the event that an executive director declines the provisional base award of shares after the first year. In these circumstances, the executive director will cease to be eligible to receive an enhancement award for that year. Details of the executive directors' interests in the STIP are disclosed in "Short Term Incentive Plan" below.

**Long term incentives** Long term incentives are provided to executive directors in the form of restricted shares and share options, each of which are described in more detail below. Details of the executive directors' interests in long term incentives are disclosed in "Long Term Incentive Plan" and "Share options" below.

Arun Sarin has previously received long term cash incentive awards under the AirTouch Long Term Incentive Program. No awards were granted to him under this plan during the year and as a non-executive director he is no longer eligible to receive such awards.

*Restricted shares* – Awards of restricted shares are made to executive directors annually under the Vodafone Group Long Term Incentive Plan (LTIP) by the Trustees of the Vodafone Group Employee Trust. If and to the extent that the LTIP performance targets are achieved over the three year performance period the shares are released to participants. The target level for awards granted in June 2000 to executive directors is 28% of salary and the maximum is 75% of salary. No LTIP awards vested during the year.



Previously disclosed special bonus awards of restricted shares granted under the Vodafone Group 1999 Long Term Stock Incentive Plan were made as part of the special bonus described above. The awards were made to Sir Christopher Gent (£5 million), Julian Horn-Smith (£2 million) and Ken Hydon (£2 million) on July 28, 2000, the number of restricted shares being determined by reference to the share price at April 14, 2000 of 312.5 pence. Vesting of these awards is subject to the achievement of stretching two year EBITDA growth targets.

*Executive share options* – Executive directors are eligible to receive a grant of executive options if they hold unexercised options worth in aggregate less than four times salary at grant. The normal annual grant is up to one times salary. Options are granted at market value under either the Vodafone Group 1998 Company (Inland Revenue approved) or Executive (unapproved) Share Option Schemes. Options are exercisable subject to achievement of performance targets. The target for options granted in the year to March 31, 2001, requires adjusted earnings per share over the three year performance period to be at least 9 percentage points above the growth in the UK Retail Prices Index for the same period.

*Global Market-related Remuneration (“GMR”)* – GMR has been introduced for all executive directors. The key principles and elements of GMR may be summarized as follows:

Global peer group – remuneration levels and practices are benchmarked by reference to a global peer group. The global peer group for the 2000 GMR awards comprises UK and non-UK telecommunications and high technology companies selected primarily on the basis of comparable sales and profits results and for which remuneration data is available. The original group comprises: Alltel, America Online, Applied Materials, AT&T, Bell Atlantic, BellSouth, British Telecom, Cable & Wireless, Cisco Systems, EMC, GTE, Hewlett Packard, IBM, Intel, Lucent, SBC Communications and Sun Microsystems. The group will be adjusted on a consistent basis over the performance period to reflect corporate events, e.g. Verizon Communications now replaces Bell Atlantic and GTE.

Pay for performance – a high and increasing level of remuneration is contingent on the achievement of high and demanding levels of corporate performance. Vodafone is firmly committed to making a significant proportion of executive directors’ remuneration contingent upon the achievement of stretch performance targets. Over 80% of executive directors’ total stretch target remuneration is made up of performance-contingent remuneration that depends on achievement both against absolute targets and on performance relative to global peer group companies.

Share ownership guidelines – participation in the highest levels of remuneration is contingent on executives complying with share ownership requirements. Introduced in 2000, the guidelines require ownership levels of four and three times salary respectively for the Chief Executive and other executive directors. These levels must be attained by 2003 and progress must be shown towards attainment of the targets before this time. The Remuneration Committee may impose penalties for non-compliance. Sir Christopher Gent, Julian Horn-Smith and Ken Hydon each committed in July 2000 to acquire and maintain substantial minimum levels of shareholding in the Company for the next three years, subject to them remaining directors for that time. Sir Christopher Gent undertook to acquire and maintain a shareholding of two million shares within twelve months and has attained this target. Julian Horn-Smith and Ken Hydon each undertook to maintain a holding of not less than 500,000 shares.

The size of the GMR option grant is determined by a calculation which is based upon: the three year historical total shareholder return (TSR) performance of Vodafone relative to global peer group companies; the remuneration of the Chief Executive Officer of those companies; the sum of the local market-related remuneration which is made up of basic salary, STIP, LTIP award and the Executive Share Option Scheme allocation; and the Black-Scholes formula.

Vodafone’s three year TSR performance relative to the global peer group companies gives a relative performance ranking for Vodafone. This ranking is applied to the list of remuneration levels for all peer group company Chief Executive Officers which gives the stretch target remuneration for the Company’s Chief Executive. The stretch target GMR level for the executive directors is 50% of the Chief Executive’s stretch target GMR level. The sum of the local market-related remuneration package is deducted from this GMR level and the difference is adjusted by the Black-Scholes formula to give the face value of shares to be placed under option. This value is divided by the market share price to determine the size of the GMR option grant. The market price on the day prior to grant is the option price.

For options granted in July 2000 there is a dual performance target. Up to 50% of the option is exercisable for achievement of EBITDA targets and up to 50% is exercisable dependent on total shareholder return (TSR) performance relative to companies comprised in the global peer group. Performance is measured over three, four and five financial years from grant.

In order to exercise the option in full, compound pro forma proportionate EBITDA growth in excess of 30% per annum and TSR performance equal to or above the 90th percentile will have to be attained. No part of the option is exercisable if EBITDA growth is less than 15% and if TSR performance is below median.

Sir Christopher Gent's GMR option grant made in July 2000 is over 5.4 million shares, exercisable in normal circumstances in not less than three years from the date of grant at a price of 291.5 pence per share. The extent to which he can exercise the option is dependent upon the achievement of the GMR performance targets. Even if these targets are met, the option only has value if and to the extent that the share price at exercise exceeds the 291.5 pence per ordinary share option price.

On July 2, 2001, the Company announced that it had made GMR option grants at a price of 157.5 pence per ordinary share to Sir Christopher Gent (8,000,000 shares), Peter Bamford (3,711,746 shares), Thomas Geitner (4,427,646 shares), Julian Horn-Smith (5,091,905 shares) and Ken Hydon (3,711,746 shares). Vesting of the options is conditional on the achievement of performance targets that have been set by the Remuneration Committee of the Board. The vesting period for the GMR options is five years, but exercise is permitted to the extent that targets have been achieved within the fourth and fifth performance year. The awards are also conditional on the directors being compliant with the Company's share ownership guidelines, as described in more detail above.

## **Pensions**

Sir Christopher Gent, Julian Horn-Smith, Peter Bamford and Ken Hydon are contributing members of the Vodafone Group Pension Scheme, which is a scheme approved by the Inland Revenue. Peter Bamford, whose benefits under the scheme are restricted by Inland Revenue earnings limits, also participates in the defined contribution Vodafone Group Funded Unapproved Retirement Benefits scheme to enable pension benefits to be provided on his basic salary above the Inland Revenue earnings cap. Thomas Geitner participates in the Essener Verband Retirement Scheme. Further details on the pension benefits earned by the directors in the year to March 31, 2001 can be found on page 68.

## **Non-executive directors**

The remuneration of the non-executive directors, including the Chairman, is established by the Board of directors as a whole and details of each individual non-executive director's remuneration are included in the table below. Except as detailed below, non-executive directors do not participate in any of the Company's share schemes or other employee benefit schemes, nor does the Company make any contribution to their pension arrangements.

Certain non-executive directors hold share options relating to their service with AirTouch, whose policy was to grant share options to non-executive directors. No options have been granted to non-executive directors in their capacity as non-executive directors of the Company.

The appointment of the Chairman is subject to the terms of an agreement between the Company and Lord MacLaurin with a three year term that began on May 23, 2000. The Chairman is provided with a car. The appointment of Sam Ginn, during his tenure as Chairman, was subject to the terms of an agreement under which, in addition to his fee, Sam Ginn was provided with a car and certain other benefits. Klaus Esser was also provided with a car for the period between June and September 2000 when he was Deputy Chairman. The other non-executive directors are engaged on letters of appointment which set out their duties and responsibilities and confirm their remuneration. Each of these appointments may be terminated at any time by the Company without the payment of compensation.

### All-employee share incentive schemes

Sharesave Options – UK based executive directors are eligible to participate in the Vodafone Group 1998 Sharesave Scheme. This is an Inland Revenue approved scheme open to all UK permanent employees. The maximum that can be saved each month is £250 and savings plus interest may be used to acquire shares by exercising the related option. The options have been granted at up to a 20% discount to market value. Participants can elect either a three or five year savings term.

Profit Sharing Scheme – Executive directors are also eligible to participate in the Vodafone Group Profit Sharing Scheme. This is an Inland Revenue approved scheme open to all UK permanent employees. Eligible employees may contribute up to 5% of their salary each month, up to a maximum of £665, to enable trustees of the scheme to purchase shares on their behalf. An equivalent number of shares is purchased for the employee with contributions made by the employing company. To receive the maximum income tax relief afforded to this type of scheme, shares must be retained by the trustees for three years.

US Share Plans – US based executive directors are eligible to participate in all employee option grants made under the Vodafone Group 1999 Long Term Stock Incentive Plan and to participate in the Vodafone 1999 Employee Share Purchase Plan which permits employees to purchase shares at a discount.

### Remuneration for the year to March 31, 2001

The aggregate compensation paid by Vodafone to its directors and senior management\* as a group for services in all capacities for the year ended March 31, 2001, is set out below. The aggregate number of directors and senior management in the year ended March 31, 2001 was 25, compared to 16 in the year ended March 31, 2000, which included the Company's directors and one executive officer.

|  | <u>2001</u>   | <u>2000</u>  |
|--|---------------|--------------|
|  | £000          | £000         |
| Salaries and fees . . . . .              | 5,986         | 3,607        |
| Bonuses . . . . .                        | 13,589        | 785          |
| Incentive schemes . . . . .              | 3,033         | 2,510        |
| Benefits . . . . .                       | 767           | 192          |
| Compensation for loss of office. . . . . | 10,272        | —            |
|  | <u>33,647</u> | <u>7,094</u> |

\* Aggregate compensation for senior management is in respect of those individuals who were members of the Executive Committee as at, and for the year ended, March 31, 2001, other than executive directors.

The remuneration of the directors for the year to March 31, 2001 was as follows:

|                                       | Salary/fees  |              | Bonus         |            | Incentive schemes(1) |              | Benefits   |            | Compensation for loss of office |          | Total         |              |
|---------------------------------------|--------------|--------------|---------------|------------|----------------------|--------------|------------|------------|---------------------------------|----------|---------------|--------------|
|                                       | 2001         | 2000         | 2001          | 2000       | 2001                 | 2000         | 2001       | 2000       | 2001                            | 2000     | 2001          | 2000         |
|                                       | £000         | £000         | £000          | £000       | £000                 | £000         | £000       | £000       | £000                            | £000     | £000          | £000         |
| <b>Chairman</b>                       |              |              |               |            |                      |              |            |            |                                 |          |               |              |
| Lord MacLaurin(2) . . . . .           | 397          | 204          | —             | —          | —                    | —            | 17         | 12         | —                               | —        | 414           | 216          |
| <b>Deputy Chairman</b>                |              |              |               |            |                      |              |            |            |                                 |          |               |              |
| Paul Hazen(3). . . . .                | 89           | 39           | —             | —          | —                    | —            | —          | —          | —                               | —        | 89            | 39           |
| <b>Chief Executive</b>                |              |              |               |            |                      |              |            |            |                                 |          |               |              |
| Sir Christopher Gent. . . . .         | 1,069        | 837          | 5,000         | 325        | 783                  | 162          | 31         | 34         | —                               | —        | 6,883         | 1,358        |
| <b>Executive directors</b>            |              |              |               |            |                      |              |            |            |                                 |          |               |              |
| Peter Bamford . . . . .               | 582          | 451          | 1,000         | —          | 426                  | 83           | 31         | 29         | —                               | —        | 2,039         | 563          |
| Thomas Geitner(4) . . . . .           | 414          | —            | —             | —          | 341                  | —            | 12         | —          | —                               | —        | 767           | —            |
| Julian Horn-Smith . . . . .           | 582          | 458          | 2,000         | 150        | 426                  | 90           | 23         | 24         | —                               | —        | 3,031         | 722          |
| Ken Hydon. . . . .                    | 582          | 454          | 2,000         | 195        | 426                  | 86           | 28         | 27         | —                               | —        | 3,036         | 762          |
| <b>Non-executive directors</b>        |              |              |               |            |                      |              |            |            |                                 |          |               |              |
| Josef Ackermann(5) . . . . .          | 57           | —            | —             | —          | —                    | —            | —          | —          | —                               | —        | 57            | —            |
| Michael Boskin . . . . .              | 62           | 39           | —             | —          | —                    | —            | —          | —          | —                               | —        | 62            | 39           |
| Professor Sir Alec Broers . . . . .   | 62           | 35           | —             | —          | —                    | —            | —          | —          | —                               | —        | 62            | 35           |
| Penny Hughes . . . . .                | 62           | 52           | —             | —          | —                    | —            | —          | —          | —                               | —        | 62            | 52           |
| Arun Sarin(6) . . . . .               | 81           | 391          | 1,000         | —          | —                    | 463          | 14         | 17         | 1,119                           | —        | 2,214         | 871          |
| Sir David Scholey. . . . .            | 62           | 52           | —             | —          | —                    | —            | —          | —          | —                               | —        | 62            | 52           |
| Jürgen Schrempp(5). . . . .           | 57           | —            | —             | —          | —                    | —            | —          | —          | —                               | —        | 57            | —            |
| Henning Schulte-Noelle(5) . . . . .   | 57           | —            | —             | —          | —                    | —            | —          | —          | —                               | —        | 57            | —            |
| Klaus Esser(7) . . . . .              | 31           | —            | —             | —          | —                    | —            | 4          | —          | 9,153                           | —        | 9,188         | —            |
| Don Fisher(8). . . . .                | 35           | 39           | —             | —          | —                    | —            | —          | —          | —                               | —        | 35            | 39           |
| Sam Ginn(9). . . . .                  | 42           | 176          | —             | —          | —                    | —            | 2          | 25         | —                               | —        | 44            | 201          |
| Charles Schwab(10). . . . .           | 9            | 39           | —             | —          | —                    | —            | —          | —          | —                               | —        | 9             | 39           |
| <b>Former directors(11) . . . . .</b> | <b>—</b>     | <b>156</b>   | <b>—</b>      | <b>25</b>  | <b>—</b>             | <b>1,584</b> | <b>396</b> | <b>26</b>  | <b>—</b>                        | <b>—</b> | <b>396</b>    | <b>1,791</b> |
|                                       | <u>4,332</u> | <u>3,422</u> | <u>11,000</u> | <u>695</u> | <u>2,402</u>         | <u>2,468</u> | <u>558</u> | <u>194</u> | <u>10,272</u>                   | <u>—</u> | <u>28,564</u> | <u>6,779</u> |

Notes:

- (1) These figures are the value of the awards under the Vodafone Group Short Term Incentive Plan applicable to the year ended March 31, 2001 or, in the case of Thomas Geitner, under the Vodafone-Mannesmann Short Term Incentive Plan.
- (2) Lord MacLaurin was appointed Chairman on May 23, 2000, prior to which he was Deputy Chairman.
- (3) Following Lord MacLaurin's appointment as Chairman, Paul Hazen was appointed Deputy Chairman on May 23, 2000.
- (4) Thomas Geitner joined the Board on May 15, 2000. Salary and benefits for Thomas Geitner have been translated at the average exchange rate for the year of DM3.19 per £1.00.
- (5) Appointed to the Board on May 1, 2000.
- (6) Information for Arun Sarin covers both the period April 1, 2000 to April 15, 2000, when he was an executive director, and the period April 16, 2000 to March 31, 2001 as a non-executive director. Payments made for Arun Sarin's services as a non-executive director comprised fees of £60,000 and benefits of £13,000. Compensation for loss of office payments to Arun Sarin were based on final salary at the date of his resignation as an executive director and were made in accordance with the terms of his service contract. Salary and benefits for Arun Sarin have been translated at the average exchange rate for the year of \$1.48 per £1.00.

- (7) Klaus Esser, Chairman of the Management Board of Mannesmann AG at the time of the Company's acquisition of Mannesmann, joined the Board of the Company on June 5, 2000 as Deputy Chairman. He resigned on September 30, 2000 to pursue other interests. Fees and benefits in the table relate to his services as a director of the Company. Compensation for loss of office comprises a payment of DM25,500,000 by Mannesmann, to which Dr Esser was entitled under his agreement with Mannesmann AG, and a payment of €2,000,000 in final settlement of lifetime benefits awarded to him by the Supervisory Board of Mannesmann in February 2000.
- (8) Fees for Don Fisher are for the period to October 19, 2000, when he resigned from the Board.
- (9) Salary and benefits for Sam Ginn are for the period to May 23, 2000, when he resigned from the Board.
- (10) Fees for Charles Schwab are for the period to May 23, 2000, when he resigned from the Board.
- (11) Under the terms of an agreement Sam Ginn provides consultancy services to the Group and is entitled to certain benefits. The estimated value of benefits received by him from the date of his resignation to March 31, 2001 was £65,000, translated at the average exchange rate for the year of \$1.48 per £1.00. Payments totaling £311,000 were made to a former director during the year pending recovery of the sum under the terms of an insured long-term disability plan. Under the terms of the Life President arrangements of Sir Ernest Harrison the estimated value of benefits received by him in the year ended March 31, 2001 was £20,000 (2000: £20,000).

## Pensions

Pension benefits earned by the directors in the year to March 31, 2001 were:

| <u>Name of Director</u>        | <u>Increase<br/>in accrued<br/>pension during<br/>the year</u> | <u>Transfer value of<br/>increase in accrued<br/>pension and change<br/>in retirement age</u> | <u>Accumulated<br/>total accrued<br/>pension at<br/>year end(1)</u> |
|--------------------------------|--|---|---|
|                                | £000   | £000  | £000  |
| Sir Christopher Gent . . . . . | 90   | 1,161   | 411   |
| Peter Bamford(4) . . . . .     | 3  | 29  | 12  |
| Thomas Geitner(2) . . . . .    | 10   | 105   | 10  |
| Julian Horn-Smith . . . . .    | 47   | 578   | 226   |
| Ken Hydon . . . . .            | 57   | 842   | 283   |
| Arun Sarin(3) . . . . .        | 179  | 3,507   | 269   |

Notes:

- (1) The pension benefits earned by the directors are those which would be paid annually on retirement, on service to the end of the year, at the normal retirement age. Salaries have been averaged over three years in accordance with Inland Revenue regulations. The increase in accrued pension during the year excludes any increase for inflation. The transfer value has been calculated on the basis of actuarial advice in accordance with the Faculty and Institute of Actuaries' Guidance Note GN11. No director elected to pay Additional Voluntary Contributions.
- (2) In respect of Thomas Geitner the amounts have been translated at the average exchange rate for the year of DM3.19 per £1.00.
- (3) In respect of Arun Sarin the amounts have been translated at the average exchange rate for the year of \$1.48 per £1.00.
- (4) Contributions paid to a funded unapproved retirement benefit scheme for the benefit of Peter Bamford amounted to £99,550 in the year.
- (5) The accrued pension for Klaus Esser at the date of his resignation was £307,000 per annum (translated at the average exchange rate for the year of DM3.19 per £1.00). There was no increase in accrued pension during his period of service as a director.

## Share options

The following information summarizes the directors' options under the Vodafone Group Savings Related Share Option Scheme, the Vodafone Group 1998 Sharesave Scheme, the Vodafone Group Executive Share Option Scheme, all Inland Revenue approved schemes, the Vodafone Group Share Option Scheme, which is not Inland Revenue approved, the AirTouch Communications, Inc. 1993 Long Term Stock Incentive Plan and the Vodafone Group 1999 Long Term Stock Incentive Plan. No other directors have options under any of these schemes. Only under the Vodafone Group 1998 Sharesave Scheme may shares be offered at a discount in future grants of options.

|                                  | Options held<br>at April 1, 2000 or date<br>of appointment | Options<br>granted<br>during the<br>year | Options<br>exercised<br>during the<br>year | Options held<br>at date of<br>registration | Options held<br>at March 31,<br>2001 | Weighted<br>average<br>exercise<br>price at<br>March 31,<br>2001 | Date from<br>which<br>exercisable | Latest<br>expiry date |
|----------------------------------|--|--|--|--|--------------------------------------|--|-----------------------------------|-----------------------|
|                                  | (Number)   | (Number)                                 | (Number)                                   | (Number)                                   | (Number)                             | (Pence)  |                                   |                       |
| Paul Hazen (1) . . . . .         | 473,050  | —  | 473,050                                    | —  | —                                    | —  | —                                 | —                     |
| Sir Christopher Gent . . . . .   | 2,576,145  | 5,892,664                                | 1,231,270                                  | —  | 7,237,539                            | 267.1  | 7/99                              | 7/10                  |
| Peter Bamford . . . . .          | 1,497,670  | 2,797,255                                | 776,000                                    | —  | 3,518,925                            | 263.1  | 7/00                              | 7/10                  |
| Thomas Geitner . . . . .         | —  | 2,933,055                                | —  | —  | 2,933,055                            | 290.4  | 7/03                              | 7/10                  |
| Julian Horn-Smith . . . . .      | 2,062,440  | 2,816,455                                | 145,500                                    | —  | 4,733,395                            | 204.9  | 7/98                              | 7/10                  |
| Ken Hydon . . . . .              | 1,434,020  | 2,888,248                                | 9,270                                      | —  | 4,312,998                            | 224.5  | 7/00                              | 7/10                  |
| Arun Sarin (1),(2) . . . . .     | 11,250,000   | —  | —  | —  | 11,250,000                           | 202.4  | 12/99                             | 5/06                  |
| Don Fisher (1),(3) . . . . .     | 350,000  | —  | —  | 350,000                                    | —                                    | 45.1   | 11/94                             | 5/05                  |
| Sam Ginn (1),(4) . . . . .       | 18,875,000   | —  | —  | 18,875,000                                 | —                                    | 95.0   | 1/99                              | 01/07                 |
| Charles Schwab (1),(3) . . . . . | 709,150  | —  | —  | 709,150                                    | —                                    | 57.7   | 11/94                             | 4/06                  |
|                                  | <u>39,227,475</u>  | <u>17,327,677</u>                        | <u>2,635,090</u>                           | <u>19,934,150</u>                          | <u>33,985,912</u>                    |  |                                   |                       |

### Notes:

- (1) All options held by Paul Hazen, Arun Sarin, Don Fisher, Sam Ginn and Charles Schwab are in respect of American Depositary Shares, each representing ten ordinary shares of the Company, which are traded on the New York Stock Exchange.
- (2) The terms of Arun Sarin's stock options allow exercise until the earlier of the date on which Arun Sarin ceases to be a director of Vodafone and the seventh anniversary of the respective dates of grant.
- (3) Don Fisher and Charles Schwab exercised all outstanding options after their date of resignation. The pre-tax gains on exercise, translated at the average exchange rate for the year of \$1.48 per £1.00, were £679,000 and £1,320,000 respectively.
- (4) The latest expiry dates for the exercise of Sam Ginn's outstanding share options are April 15, 2005 and January 28, 2007 in respect of options over 15,000,000 ordinary shares and 3,875,000 ordinary shares, respectively.

Further details of options outstanding at March 31, 2001 are as follows:

|                                | Exercisable                            |                                 |                    | Exercisable                            |                                 |                    | Not yet exercisable |                                 |                                      |
|--------------------------------|--|---------------------------------|--------------------|--|---------------------------------|--------------------|---------------------|---------------------------------|--------------------------------------|
|                                | Market price greater than option price |                                 |                    | Option price greater than market price |                                 |                    |                     |                                 |                                      |
|                                | Options held                           | Weighted average exercise price | Latest expiry date | Options held                           | Weighted average exercise price | Latest expiry date | Options held        | Weighted average exercise price | Earliest date from which exercisable |
|                                | (Number)                               | (Pence)                         |                    | (Number)                               | (Pence)                         |                    | (Number)            | (Pence)                         |                                      |
| Sir Christopher Gent . . . . . | 278,000                                | 58.7                            | 7/04               | —                                      | —                               | —                  | 6,959,539           | 275.4                           | 7/01                                 |
| Peter Bamford . . . . .        | 150,500                                | 58.7                            | 7/04               | —                                      | —                               | —                  | 3,368,425           | 272.2                           | 7/01                                 |
| Thomas Geitner . . . . .       | —                                      | —                               | —                  | —                                      | —                               | —                  | 2,933,055           | 290.4                           | 7/03                                 |
| Julian Horn-Smith . . . . .    | 1,570,500                              | 56.6                            | 7/03               | —                                      | —                               | —                  | 3,162,895           | 278.6                           | 7/01                                 |
| Ken Hydon . . . . .            | 1,044,000                              | 58.7                            | 7/04               | —                                      | —                               | —                  | 3,268,998           | 277.5                           | 7/01                                 |
| Arun Sarin . . . . .           | <u>5,000,000</u>                       | 108.8                           | 4/05               | <u>1,562,500</u>                       | 277.3                           | 5/06               | <u>4,687,500</u>    | 277.3                           | 5/01                                 |
|                                | <u>8,043,000</u>                       |                                 |                    | <u>1,562,500</u>                       |                                 |                    | <u>24,380,412</u>   |                                 |                                      |

The Company's register of directors' interests (which is open to inspection) contains full details of directors' shareholdings and options to subscribe.

These options by exercise price were:

| Option Price<br>(Pence)  | Options held at<br>April 1, 2000<br>or date of<br>appointment<br>(Number) | Options<br>granted<br>during the<br>year<br>(Number) | Options<br>exercised<br>during the<br>year<br>(Number) | Options held at<br>date of<br>resignation<br>(Number) | Options held at<br>March 31, 2001<br>(Number) |
|--|---|--|--|---|---|
| Vodafone Group Plc 1988 Executive Share Option Scheme (Approved)     |   |  |  |   |   |
| Vodafone Group Plc 1988 Share Option Scheme (Unapproved)             |   |  |  |   |   |
| Vodafone Group Plc 1998 Company Share Option Scheme (Approved)       |   |  |  |   |   |
| Vodafone Group Plc 1998 Executive Share Option Scheme (Unapproved)   |   |  |  |   |   |
| 39.7   | 35,000  | —  | 35,000   | —   | —   |
| 46.7   | 110,500   | —  | 110,500  | —   | —   |
| 48.3   | 848,000   | —  | 532,000  | —   | 316,000                                       |
| 58.7   | 4,193,000   | —  | 1,466,000  | —   | 2,727,000                                     |
| 155.9  | 1,520,500   | —  | —  | —   | 1,520,500                                     |
| 255.0  | 764,000   | —  | —  | —   | 764,000                                       |
| 282.3  | —   | 1,522,500  | —  | —   | 1,522,500                                     |
| Vodafone Group Plc 1988 Savings Related Share Option Scheme          |   |  |  |   |   |
| Vodafone Group Plc 1998 Sharesave Scheme                             |   |  |  |   |   |
| 37.2   | 18,540  | —  | 18,540   | —   | —   |
| 38.6   | 26,810  | —  | —  | —   | 26,810  |
| 48.0   | 43,125  | —  | —  | —   | 43,125  |
| 127.1  | 7,670   | —  | —  | —   | 7,670   |
| 215.6  | 3,130   | —  | —  | —   | 3,130   |
| 226.0  | —   | 1,493  | —  | —   | 1,493   |
| AirTouch Communications, Inc. 1993 Long Term Stock Incentive Plan(1) |   |  |  |   |   |
| 23.2   | 123,050   | —  | 123,050  | —   | —   |
| 36.8   | 31,350  | —  | —  | 31,350  | —   |
| 37.8   | 750,000   | —  | 250,000  | 500,000   | —   |
| 40.8   | 3,875,000   | —  | —  | 3,875,000   | —   |
| 41.8   | 29,850  | —  | —  | 29,850  | —   |
| 45.5   | 75,000  | —  | 25,000   | 50,000  | —   |
| 45.9   | 75,000  | —  | 25,000   | 50,000  | —   |
| 50.6   | 27,700  | —  | —  | 27,700  | —   |
| 52.2   | 29,150  | —  | —  | 29,150  | —   |
| 51.8   | 29,400  | —  | —  | 29,400  | —   |
| 52.6   | 53,000  | —  | —  | 53,000  | —   |
| 56.7   | 75,000  | —  | 25,000   | 50,000  | —   |
| 58.0   | 29,900  | —  | —  | 29,900  | —   |
| 60.4   | 25,750  | —  | —  | 25,750  | —   |
| 75.9   | 21,150  | —  | —  | 21,150  | —   |
| 89.1   | 18,350  | —  | —  | 18,350  | —   |
| 104.3  | 75,000  | —  | 25,000   | 50,000  | —   |
| 105.8  | 16,800  | —  | —  | 16,800  | —   |
| 108.8  | 20,000,000  | —  | —  | 15,000,000  | 5,000,000                                     |
| 117.1  | 15,800  | —  | —  | 15,800  | —   |
| 136.1  | 10,700  | —  | —  | 10,700  | —   |
| 159.9  | 12,250  | —  | —  | 12,250  | —   |
| 232.5  | 8,000   | —  | —  | 8,000   | —   |
| Vodafone Group 1999 Long Term Stock Incentive Plan                   |   |  |  |   |   |
| 277.3(1)   | 6,250,000   | —  | —  | —   | 6,250,000                                     |
| 291.5  | —   | 15,803,684   | —  | —   | 15,803,684                                    |
|  | <u>39,227,475</u>   | <u>17,327,677</u>                                    | <u>2,635,090</u>                                       | <u>19,934,150</u>                                     | <u>33,985,912</u>                             |

Notes:

- (1) Share options which take the form of American Depositary Shares, each representing ten ordinary shares in the Company, which are traded on the New York Stock Exchange. The number and option price have been converted into the equivalent amounts for the Company's ordinary shares, with the option price being translated at the average exchange rate for the year of \$1.48 per £1.00.

Options granted at market value under the executive scheme or the unapproved scheme may not be exercised unless, between the date of grant and the date of first vesting (three years after the date of grant), there has been real growth in the consolidated adjusted earnings per share of the Company and options granted at a discount to market value may not be exercised unless the growth in the consolidated adjusted earnings per share of the Company, in the same period, exceeds the growth in the Index of Retail Prices by 2%. Under the 1998 schemes, the performance criteria are different and options will only be exercisable if, over any period of three consecutive financial years following grant, the Company achieves growth in consolidated adjusted earnings per share which exceeds growth in the Index for that period by an average of 3% per annum.

Details of the options exercised by directors of the Company in the year to March 31, 2001, are as follows:

|                                | Options exercised<br>during the<br>year | Option<br>price | Market price<br>at date of<br>exercise | Gross<br>pre-tax<br>gain |
|--------------------------------|---|-----------------|--|--------------------------|
|                                | (Number)                                | (Pence)         | (Pence)                                | (£000)                   |
| Sir Christopher Gent . . . . . | 500,000                                 | 58.7            | 289.75                                 | 1,155                    |
|                                | 80,000                                  | 58.7            | 217.00                                 | 127                      |
|                                | 110,000                                 | 58.7            | 205.00                                 | 161                      |
|                                | 532,000                                 | 48.3            | 321.00                                 | 1,451                    |
|                                | 9,270                                   | 37.2            | 300.00                                 | 24                       |
|                                | <u>1,231,270</u>                        |                 |  | <u>2,918</u>             |
| Peter Bamford . . . . .        | 725,000                                 | 58.7            | 316.50                                 | 1,869                    |
|                                | 51,000                                  | 58.7            | 309.00                                 | 128                      |
|                                | <u>776,000</u>                          |                 |  | <u>1,997</u>             |
| Julian Horn-Smith . . . . .    | 35,000                                  | 39.7            | 295.30                                 | 89                       |
|                                | 110,500                                 | 46.7            | 295.30                                 | 275                      |
|                                | <u>145,500</u>                          |                 |  | <u>364</u>               |
| Ken Hydon . . . . .            | 9,270                                   | 37.2            | 271.50                                 | 22                       |
| Paul Hazen(1) . . . . .        | 250,000                                 | 37.8            | 256.83                                 | 548                      |
|                                | 123,050                                 | 23.2            | 256.83                                 | 287                      |
|                                | 25,000                                  | 45.5            | 256.83                                 | 53                       |
|                                | 25,000                                  | 45.9            | 256.83                                 | 53                       |
|                                | 25,000                                  | 56.7            | 256.83                                 | 50                       |
|                                | 25,000                                  | 104.3           | 256.83                                 | 38                       |
|                                | <u>473,050</u>                          |                 |  | <u>1,029</u>             |

Note:

(1) The stock options exercised by Paul Hazen were in respect of American Depositary Shares, each representing ten ordinary shares of the Company, which are traded on the New York Stock Exchange. The number, option price and market price have been converted into the equivalent amounts for the Company's ordinary shares, and have been translated at the average exchange rate for the year of \$1.48 : £1.

The aggregate gross pre-tax gain made on the exercise of share options in the year by the above Company's directors was £6,330,000 (2000 — £93,910,000). The closing middle market price of the Company's shares at the year end was 193p, its highest closing price in the year having been 355.5p and its lowest closing price having been 182p.



## Short Term Incentive Plan

Conditional awards of ordinary shares made to executive directors under the Vodafone Group Short Term Incentive Plan ("STIP"), and dividends on those shares paid under the terms of the Company's scrip dividend scheme, are shown below. No STIP shares vested during the year for any director.

|                                | Total interest in STIP at April 1, 2000 |                              | Shares conditionally awarded during the year as base award in respect of 1999/2000 STIP awards |                                    | Shares conditionally awarded during the year as enhancement shares in respect of 1999/2000 STIP awards |                                | Number of shares added during the year through scrip dividend scheme |                                  | Total interest in STIP as at March 31, 2001 |                              |                     |
|--------------------------------|---|------------------------------|--|------------------------------------|--|--------------------------------|--|----------------------------------|---|------------------------------|---------------------|
|                                | Number of shares as base award          | Number of enhancement shares | Number   | Value at date of award (1)(2) £000 | Number   | Value at date of award(2) £000 | In respect of base awards  | In respect of enhancement shares | Number of shares as base award              | Number of enhancement shares | Total value(3) £000 |
| Sir Christopher Gent . . . . . | 62,789                                  | 31,397                       | 52,048   | 162                                | 26,024   | 81                             | 451  | 226                              | 115,288                                     | 57,647                       | 334                 |
| Julian Horn-Smith . . . . .    | 35,055                                  | 17,530                       | 29,060   | 90                                 | 14,530   | 45                             | 252  | 125                              | 64,367                                      | 32,185                       | 186                 |
| Ken Hydon . . . . .            | 33,382                                  | 16,688                       | 27,671   | 86                                 | 13,835   | 43                             | 239  | 119                              | 61,292                                      | 30,642                       | 177                 |

Notes:

- (1) Included within directors' emoluments for the year ended March 31, 2000.
- (2) Value at date of award is based on the purchase price of the Company's ordinary shares on July 6, 2000 of 311.25p.
- (3) The value at March 31, 2001 is calculated using the closing middle market price of the Company's ordinary shares of 193p.

## Long Term Incentive Plan

Conditional awards of ordinary shares made to executive directors under the Vodafone Group 1998 Long Term Incentive Plan and Vodafone Group 1999 Long Term Stock Incentive Plan, and dividends on those shares paid under the terms of the Company's scrip dividend scheme, are shown below. No LTIP shares vested during the year for any director.

|                                | Plan (1)(2) | Total interest in LTIP at April 1, 2000 | Number of shares conditionally awarded during the year |                                | Number of shares added during the year through scrip dividend scheme | Total interest in LTIP at March 31, 2001 |                     |
|--------------------------------|-------------|---|--|--------------------------------|--|--|---------------------|
|                                |             | Number                                  | Number   | Value at date of award(3) £000 |  | Number of shares                         | Total value(4) £000 |
| Sir Christopher Gent . . . . . | 1           | 285,830                                 | 209,627  | 675                            | 1,980  | 497,437                                  | 960                 |
|                                | 2           | —                                       | 1,600,000  | 5,000                          | 4,432  | 1,604,432                                | 3,097               |
| Peter Bamford . . . . .        | 1           | 147,282                                 | 114,130  | 368                            | 1,035  | 262,447                                  | 507                 |
|                                | 2           | —                                       | —  | —                              | —  | —  | —                   |
| Julian Horn-Smith . . . . .    | 1           | 159,586                                 | 114,130  | 368                            | 1,097  | 274,813                                  | 530                 |
|                                | 2           | —                                       | 640,000  | 2,000                          | 1,772  | 641,772                                  | 1,239               |
| Ken Hydon . . . . .            | 1           | 151,958                                 | 114,130  | 368                            | 1,060  | 267,148                                  | 516                 |
|                                | 2           | —                                       | 640,000  | 2,000                          | 1,772  | 641,772                                  | 1,239               |

Notes:

- (1) Restricted share awards under the Vodafone Group 1998 Long Term Incentive Plan.
- (2) Restricted share awards under the Vodafone Group 1999 Long Term Stock Incentive Plan.
- (3) The value of awards under the Vodafone Group 1998 Long Term Incentive Plan is based on the purchase price of the Company's ordinary shares on June 2, 2000 of 322p. The value of awards under the Vodafone Group 1999 Long Term Stock Incentive Plan is based on the purchase price of the Company's ordinary shares on April 14, 2000 of 312.5p.

- (4) The value at March 31, 2001 is calculated using the closing middle market price of the Company's ordinary shares of 193p.

Arun Sarin received £434,000 (translated at the average exchange rate for the year of \$1.48 per £1.00) on termination of his employment as an executive director. This was payable under the accelerated vesting provisions of the AirTouch Long Term Cash Incentive Program in respect of awards made in 1998, 1999 and 2000.

On July 5, 1999, Arun Sarin was granted a Restricted Stock Award (the "Award") over 3,040,150 Vodafone shares under the Vodafone Group 1999 Long Term Stock Incentive Plan. The Award was split into three tranches. The first tranche of 1,040,150 vested immediately on grant. The second and third tranches, which were due to vest on July 5, 2000 and July 5, 2001, vested on April 15, 2000, when he resigned as an executive director and was appointed a non-executive director. The value of the shares at the date of vesting was £6,005,000, based on the middle market price of the Company's ordinary shares of 300.25p.

Sam Ginn holds 1,135,935 phantom ADRs awarded under the AirTouch Communications, Inc. 1993 Long Term Stock Incentive Plan, which expire on January 28, 2007, and which are payable in the form of ADRs. Don Fisher's interest in 16,230 phantom ADRs was released to him on December 20, 2000, on which date their value was £398,000 based on the middle market price of the Company's ordinary shares of 245p.

## **Board Practices**

### **Organization**

The Company's Articles of Association, approved by shareholders at the Extraordinary General Meeting held on May 24, 1999, provide that every director who was elected or last re-elected at or before the Annual General Meeting held in the third calendar year before the current year shall automatically retire. Accordingly, Julian Horn-Smith, Peter Bamford and Sir David Scholey will be retiring and, being eligible, will offer themselves for re-election at the Company's Annual General Meeting to be held on July 25, 2001.

The shareholders of Vodafone in general meeting may from time to time by ordinary resolution appoint any person to be a director. The directors may from time to time appoint one or more directors, but any director so appointed shall retire at the next Annual General Meeting of the Company, but shall then be eligible for re-election. The Board may from time to time appoint one or more directors to be holder of any executive office for such period and on such terms as it decides. A director so appointed shall cease to hold such office, when he ceases to be a director of the Company.

The Board, which meets six times each year and on one other occasion in the year to consider strategy, provides the effective leadership and control required for a listed company. Actual financial results are presented to each meeting, together with reports from the executive directors in respect of their areas of responsibility. From time to time, the Board receives detailed presentations from non-Board members on matters of significance or on new opportunities for the Group. Financial budgets and forecasts are regularly discussed at Board meetings. The non-executive directors periodically visit different parts of the Group and are provided with briefings and information to assist them to perform their duties.

The Board is confident that its members have the knowledge, talent and experience to perform the functions required of a director of a listed company. Accordingly, it has not introduced a formal training program for directors. On appointment, all directors are provided with guidance as to their duties, responsibilities and liabilities as a director of a public and listed company and also have the opportunity to discuss organizational, operational and administrative matters with the Chairman, the Chief Executive and the Company Secretary.

The Board has a formal schedule of matters specifically reserved to it for decision, including the approval of Group commercial strategy, major capital projects, the adoption of any significant change in accounting policies or practices and material contracts not in the ordinary course of business. The directors have access to the advice and services of the Company Secretary and have resolved to ensure the provision, to any director who believes it may be required in the furtherance of his or her duties, of independent professional advice at the cost of the Company.

The executive directors, together with certain other Group functional heads and regional Chief Executive Officers, meet on ten occasions each year as the Executive Committee under the chairmanship of the Chief Executive. This Committee is responsible for the day-to-day management of the Group's businesses, the overall financial performance of the Group in fulfillment of strategy, plans and budgets and Group capital structure and funding. It also reviews major acquisitions and disposals.

During the year two new management committees, the Group Operational Review Committee and the Group Policy Committee, were created to oversee, together with the Executive Committee, the execution of the Board's strategy and policy.

The Group Operational Review Committee, which meets ten times a year under the chairmanship of the Group Chief Operating Officer, comprises other executive directors, certain Group functional heads and regional Chief Executive Officers. This Committee is responsible for the operational performance and achievement of targets of the Group's business, with a focus on the growth of non-voice services, global new products and services, brand development, technology and other cost and revenue synergies within the Group's regions.

The Group Policy Committee, which meets eight times each year, is chaired by the Chief Executive. The Financial Director and the Group Chief Operating Officer, together with certain other Group functional heads, join him on the Committee, which is responsible for the determination of policy and the monitoring of non-operational areas of activity which are important to the Group overall, including strategy, finance, human resources, legal, regulatory and corporate affairs.

### **Service contracts**

The Remuneration Committee has determined that in the cases of UK based executive directors their appointments to the Board will be on the terms of a contract which can be terminated by the Company at the end of an initial term of two years or at any time thereafter on one year's notice.

Contracts on such a basis were granted to Julian Horn-Smith on June 4, 1996, to Chris Gent and Ken Hydon on January 1, 1997 and to Peter Bamford on April 1, 1998, each of which is now, therefore, terminable by the Company on one year's notice. The service contracts of these executive directors contained a provision increasing the period of notice required from the Company to two years in the event that the contract is terminated by the Company within one year of a change of control of the Company. To be compliant with best standards of corporate governance, each of these executive directors has now waived this provision without separate recompense. These executive directors are required to give the Company one year's notice if they wish to terminate their contracts. The Company has the right, at its absolute discretion, to pay an amount equal to one year's salary to any of these executive directors in lieu of giving him notice. The service contracts of these executive directors do not provide for any other benefits payable upon termination.

Thomas Geitner entered into a fixed term five year contract from May 15, 2000. This is the normal contract arrangement for Mannesmann AG board members. Mr Geitner has agreed to replace this contract, without separate recompense, with one that contains different provisions in relation to duration and termination. The new contract is for an initial three year term and will then be indefinite until terminated by either party. The period of notice for termination is one year and notice will not be possible until the end of the initial three years. Upon termination of his contract, Mr Geitner is entitled to a payment equal to the amount of the total payments due for the remainder of his appointment period.

### **Committees of the Board**

The standing Board committees are the Audit Committee, the Nominations Committee and the Remuneration Committee.

The Audit Committee, which usually meets on three occasions in the year, is chaired by Paul Hazen and the other members of the Committee are Josef Ackermann, Michael Boskin and Sir David Scholey. Lord MacLaurin and Klaus Esser served on this Committee during the year. Under its terms of reference the Committee is required, amongst

other things, to review the scope and extent of the activity of the Group Internal Audit Department, to monitor the relationships with external auditors, to review the Company's statutory accounts and other published financial statements and information, to monitor compliance with statutory and listing requirements for any exchange on which the Group's shares are quoted and to institute special projects or other investigations as it sees fit.

The Nominations Committee meets as required and was chaired until his retirement from the Board by Sam Ginn. The responsibility of chairmanship of this Committee has now passed to Lord MacLaurin. Sir Alec Broers, Sir Christopher Gent, Arun Sarin and Henning Schulte-Noelle also serve on this Committee. Penny Hughes and Charles Schwab left the Committee during the year. The Committee, which provides a formal and transparent procedure for the appointment of new directors to the Board, generally engages external consultants to advise on prospective Board appointees.

The Remuneration Committee was chaired by Lord MacLaurin until his re-appointment as Chairman of the Company on May 23, 2000, when the Chairmanship was transferred to Sir David Scholey. Lord MacLaurin and Sir David Scholey are joined on this Committee by Michael Boskin, Penny Hughes and Jürgen Schrempp. Penny Hughes will chair the Committee from August 1, 2001. Sam Ginn and Don Fisher served on this Committee during the year. See "Remuneration Committee" above for further information on this Committee.

## Employees

During the year ended March 31, 2001, the Group had an average of 53,325 full time employees (March 31, 2000: 29,465, March 31, 1999: 12,642) of which 83% were based in the Group's mobile businesses (2000 and 1999: 100%). The significant increase in the number of employees compared to the year ended March 31, 2000, principally reflects the acquisitions of Mannesmann and Airtel which were completed during the fiscal year, partly offset by the transfer of employees in the US wireless businesses to Verizon Wireless. Of total average employees, 20% were based in the United Kingdom (2000: 33%, 1999: 61%). See Note 31 of Notes to the Consolidated Financial Statements, "Employees", for an analysis of employees by category of activity. The Group considers its relations with its employees to be good.

## Share Ownership

### Directors' interests in the shares of Vodafone

#### Beneficial interests

The directors' beneficial interests in the ordinary shares of Vodafone Group Plc are shown below:

|                                  | <u>June 22, 2001</u> | <u>March 31, 2001</u> | <u>April 1, 2000<br/>or date of<br/>appointment</u> |
|----------------------------------|----------------------|-----------------------|---|
| Lord MacLaurin . . . . .         | 82,100               | 65,100                | 65,100  |
| Sir Christopher Gent. . . . .    | 2,006,609            | 1,904,759             | 641,369   |
| Peter Bamford . . . . .          | 152,570              | 67,576                | 11,612  |
| Thomas Geitner . . . . .         | 12,350               | 12,350                | 12,350  |
| Julian Horn-Smith . . . . .      | 783,390              | 781,337               | 622,928   |
| Ken Hydon . . . . .              | 1,219,365            | 1,217,314             | 1,093,295   |
| Paul Hazen. . . . .              | 422,450              | 422,450               | 161,550   |
| Josef Ackermann . . . . .        | Nil                  | Nil                   | Nil   |
| Michael Boskin. . . . .          | 212,500              | 212,500               | 212,500   |
| Sir Alec Broers. . . . .         | 5,000                | 5,000                 | Nil   |
| Penny Hughes . . . . .           | 22,500               | 22,500                | Nil   |
| Arun Sarin . . . . .             | 5,408,416            | 5,408,416             | 3,407,350   |
| Sir David Scholey. . . . .       | 50,000               | 50,000                | 50,000  |
| Jürgen Schrempp. . . . .         | Nil                  | Nil                   | Nil   |
| Henning Schulte-Noelle . . . . . | Nil                  | Nil                   | Nil   |

Other than those individuals included in the table above, members of the Group's Executive Committee as at March 31, 2001, had an aggregate beneficial interest in 840,355 ordinary shares of Vodafone as at June 22, 2001, none of whom had an individual beneficial interest amounting to greater than 1% of the Company's ordinary shares.

No director had, since April 1, 2001, any interest in the shares of any subsidiary company except Julian Horn-Smith who, at the end of the financial year, owned 18,000 ordinary shares of Panafon SA, the Group's Greek subsidiary company.

### Interests in share options of Vodafone at June 22, 2001

As at June 22, 2001, the directors held options, exercisable at the prices set forth below, for the following numbers of ordinary shares:

|                               | Options held at<br>June 22, 2001<br>(Number) | Range of<br>exercise<br>prices<br>(Pence) | Weighted average<br>exercise price at<br>June 22, 2001<br>(Pence) | Date from<br>which<br>exercisable | Latest<br>expiry<br>date |
|-------------------------------|--|---|---|-----------------------------------|--------------------------|
| Sir Christopher Gent. . . . . | 9,513,803                                    | 48.0-291.5                                | 267.1   | July 9, 2000                      | July 3, 2010             |
| Peter Bamford . . . . .       | 3,779,700                                    | 58.7-291.5                                | 263.0   | July 9, 2000                      | July 3, 2010             |
| Thomas Geitner . . . . .      | 2,933,055                                    | 282.3-291.5                               | 290.4   | July 3, 2003                      | July 3, 2010             |
| Julian Horn-Smith . . . . .   | 5,742,395                                    | 38.6-291.5                                | 205.8   | July 5, 1999                      | July 3, 2010             |
| Ken Hydon. . . . .            | 5,309,889                                    | 38.6-291.5                                | 224.5   | July 9, 2000                      | July 3, 2010             |
| Arun Sarin . . . . .          | 6,562,500                                    | 114.0-290.7                               | 202.4   | April 15, 1999                    | July 5, 2006             |

Other than those individuals included in the table above, as at June 22, 2001, members of the Group's Executive Committee as at March 31, 2001, held options for 9,634,289 ordinary shares at prices ranging from 48.3 pence to 291.5 pence per ordinary share, with a weighted average exercise price of 209 pence per ordinary share exercisable at dates ranging from July 1999 to July 2010, and options for 751,844 ADSs at prices ranging from \$16.125 to \$58.6875 per ADS, with a weighted average exercise price of \$38.95 per ADS, exercisable at dates ranging from June 1999 to July 2007.

Lord MacLaurin, Paul Hazen, Dr Josef Ackermann, Michael Boskin, Professor Sir Alec Broers, Penny Hughes, Sir David Scholey, Jürgen Schrempp and Dr Henning Schulte-Noelle held no options at June 22, 2001.

The number and option price of the outstanding share options at June 22, 2001 have been converted into the equivalent amounts of Vodafone ordinary shares with the option price being translated at \$1.4140 per £1.00, the noon buying rate in the City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York on June 22, 2001.

### Employees' interests in share options of Vodafone

See Note 35 of Notes to the Consolidated Financial Statements included in this Annual Report, "Supplementary information for United States investors — Stock based compensation", for a brief description of the Company's share option plans.

On July 2, 2001, the Company announced that it had granted Global Employee ("GEM") share options to more than 42,000 employees in twelve subsidiaries, under the terms of the Vodafone Group 1999 Long Term Stock Incentive Plan. The grant involved approximately 238 million ordinary shares, the exercise price of the options being determined by reference to the market value of ordinary shares at the time of grant, giving a provisional grant value of over £375 million. The share options can be exercised after three years and up to ten years after the grant date.

## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **Major Shareholders**

Hutchison Whampoa Limited held 2,131,910,365 of the Company's ordinary shares of \$0.10 each at June 22, 2001, representing approximately 3.13% of the Company's ordinary share capital at that date. Hutchison Whampoa Limited's initial shareholding of approximately 6% in the equity of the Company was acquired in February 2000, as a consequence of the Company's share offer for the entire share capital of Mannesmann. There is no difference in the voting rights attached to the ordinary shares held by Hutchison Whampoa Limited from all other ordinary shares.

The Bank of New York held approximately 13.77% of the Company's ordinary shares of \$0.10 each at June 22, 2001 as nominee for the custodian of the Company's American Depositary Receipt ("ADR") program. The total number of ADRs outstanding at June 22, 2001 was 937,273,229. At this date, 803 holders of record of ordinary shares had registered addresses in the United States and in total held approximately 0.12% of the ordinary shares of the Company.

There is no other person known to the Company who owns more than 3% of the ordinary shares of the Company. The Company is not directly or indirectly owned or controlled by any foreign government or any other legal entity. There are no arrangements known to the Company that could result in a change of control to the Company.

### **Related Party Transactions**

Following approval by the Board of directors, on June 19, 2000 Vodafone Americas Asia Inc. (formerly AirTouch Communications, Inc.), a subsidiary undertaking of the Company, entered into an agreement for the sale of a Gulfstream III aircraft to Salt Aire Associates, LLC and Mill Creek Systems, LLC. The price agreed by the Board for the sale of the aircraft was \$10 million based on three independent market valuations at the time of sale. The sole member of Salt Aire Associates, LLC is the Ginn 1985 Family Trust and Sam Ginn, who was Chairman of the Company until his resignation on May 23, 2000, is a trustee and beneficiary of the Trust.

Since April 1, 2000, the Company has not been, and is not now, a party to any other material transactions, or proposed transactions, in which any member of the key management personnel (including directors, any other executive officer, senior manager, any spouse or relative of any of the foregoing, or any relative of such spouse), had or was to have a direct or indirect material interest.

During the year ended March 31, 2001, and as of June 22, 2001, neither any director nor any other executive officer, nor any associate of any director or any other executive officer, was indebted to the Company.

Vodafone regularly enters into transactions with its joint ventures and associated undertakings. Information regarding the value of transactions and loans with joint ventures and associated undertakings is provided in the Notes to the Consolidated Financial Statements in this Annual Report, for financial statements prepared up to and including March 31, 2001.

## **ITEM 8. FINANCIAL INFORMATION**

### **Consolidated Statements and Other Financial Information**

Refer to Item 18 included elsewhere in this Annual Report.

### **Legal proceedings**

Except as disclosed in the paragraphs below the Company and its subsidiaries are not involved in any legal or arbitration proceedings (including any governmental proceedings which are pending or known to be contemplated) which may have, or have had in the 12 months preceding the date of this document, a significant effect on the financial position or profitability of the Company and its subsidiaries.

On July 29, 1998, Suzanne Ball on behalf of herself and other individuals filed a claim alleging violations of Business and Professional Code Section 17200 in connection with various billing practices of personal communications

services and cellular carriers. The trial court dismissed the case and plaintiffs appealed. The case was reversed in part on appeal and remanded to the trial court. In response to the trial court, plaintiffs filed a First Amended Complaint on or about November 13, 2000. Action is currently pending at the trial court level. The outcome of the litigation cannot be determined at this time. Consequently, it is not possible to assess the impact, if any, of this action on the Company. The Company intends to vigorously defend this action.

An appeal by Arthur Garabedian and two consumer objectors is pending on a settlement approval in a Los Angeles/ Orange County consumer class action filed in the Orange County, California state court alleging, among other things, price fixing of cellular service rates. A related case brought by Eurus Cady and Thomas Nicola in the same court was stayed pending the conclusion of the Garabedian appeal. Similar class actions brought in the San Francisco Bay area and the San Diego market were settled and have been dismissed. A similar class action brought by Rita Parrish in December 1998 is pending in the Sacramento, California state court alleging, among other things, price fixing of cellular service in the Sacramento Valley market. Discovery is proceeding. The Company intends to vigorously defend this action.

On December 1, 1999, US Cellular Investment Company of Los Angeles, Inc. filed a case against AirTouch in the US 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 the Company's partnership with Bell Atlantic. The complaint also alleges breach of AirTouch's fiduciary duty as a general partner. AirTouch was granted summary judgement and the plaintiff has appealed.

On February 14, 2000, Jacqueline Orloff on behalf of herself and other individuals filed a consumer class action case against AirTouch in the United States District Court of Northern Ohio, alleging that AirTouch Entities engaged in preferential rates to current customers for secret discounts. The complaint was served on AirTouch on February 14, 2000. In June 2000, the Court granted AirTouch's motion to refer the case to the FCC on primary jurisdiction grounds and stayed the case. Orloff filed a complaint with the FCC on April 12, 2001. The matter is proceeding before the FCC. The Company is not currently able to assess the impact, if any, of this action on the Company, AirTouch or the partnership. The Company intends to vigorously defend this action.

By decision of September 7, 1999 Omnitel was designated, together with Telecom Italia Mobile, as having significant market power in the mobile and interconnection markets by the Italian Communications Regulatory Authority (NRA). As a result of this designation Omnitel has obligations in relation to interconnection to other operators and the NRA may seek to regulate the cost of interconnection between fixed and mobile networks. Due to the fact that the regulatory measures regarding tariffs may have an adverse effect on Omnitel's earnings, Omnitel initiated legal proceedings against its designation as having significant market power in the interconnection market before the Regional Administrative Tribunal (TAR Lazio). By a decision of October 27, 1999 TAR Lazio rejected the request to suspend the effect of the designation. Omnitel appealed this decision before the Council of State (highest administrative tribunal), which refused to suspend the application of the decision of designation (decision of the Council of State of December 17, 1999). The proceedings are still in process on the merits. The NRA is currently re-evaluating the positions of the operators with regard to significant market power and could apply new criteria. If this were to happen, Omnitel would be able to invoke the application of these criteria in the pending proceedings.

### **Dividend policy**

Please see "Item 3. Key Information – Dividends" for information on the Company's dividend policy.

### **Significant Changes**

For a description of significant changes occurring since March 31, 2001, see Note 33 of Notes to the Consolidated Financial Statements, "Subsequent events", included in this Annual Report.

## ITEM 9. THE OFFER AND LISTING

### Share Price History

The following tables set forth, for the periods indicated, (i) the reported high and low middle market quotations of ordinary shares on the London Stock Exchange, (ii) the reported high and low sales prices of ordinary shares on the Frankfurt Stock Exchange, and (iii) the reported high and low sales prices of ADSs on the NYSE.

#### Five year data on an annual basis

| Fiscal Year     | London Stock Exchange     |      | Frankfurt Stock Exchange* |      | NYSE            |       |
|-----------------|---------------------------|------|---------------------------|------|-----------------|-------|
|                 | Pounds per ordinary share |      | Euros per ordinary share  |      | Dollars per ADS |       |
|                 | High                      | Low  | High                      | Low  | High            | Low   |
| 1996/1997 ..... | 0.60                      | 0.44 | —                         | —    | 9.62            | 6.80  |
| 1997/1998 ..... | 1.25                      | 0.53 | —                         | —    | 20.77           | 8.67  |
| 1998/1999 ..... | 2.45                      | 1.11 | —                         | —    | 39.52           | 19.15 |
| 1999/2000 ..... | 3.99                      | 2.13 | —                         | —    | 63.06           | 34.11 |
| 2000/2001 ..... | 3.56                      | 1.82 | 5.82                      | 2.87 | 56.63           | 26.01 |

#### Two year data on a quarterly basis

| Fiscal Year           | London Stock Exchange     |      | Frankfurt Stock Exchange* |      | NYSE            |       |
|-----------------------|---------------------------|------|---------------------------|------|-----------------|-------|
|                       | Pounds per ordinary share |      | Euros per ordinary share  |      | Dollars per ADS |       |
|                       | High                      | Low  | High                      | Low  | High            | Low   |
| <b>1999/2000</b>      |                           |      |                           |      |                 |       |
| First Quarter .....   | 2.70                      | 2.04 | —                         | —    | 42.90           | 34.11 |
| Second Quarter .....  | 2.88                      | 2.28 | —                         | —    | 47.55           | 37.19 |
| Third Quarter .....   | 3.27                      | 2.57 | —                         | —    | 53.00           | 42.75 |
| Fourth Quarter .....  | 3.99                      | 2.72 | —                         | —    | 63.06           | 45.06 |
| <b>2000/2001</b>      |                           |      |                           |      |                 |       |
| First Quarter .....   | 3.56                      | 2.42 | 5.82                      | 4.14 | 56.63           | 36.31 |
| Second Quarter .....  | 3.20                      | 2.36 | 5.13                      | 3.95 | 48.31           | 34.06 |
| Third Quarter .....   | 2.87                      | 2.32 | 4.94                      | 3.79 | 42.56           | 34.00 |
| Fourth Quarter .....  | 2.47                      | 1.82 | 3.97                      | 2.87 | 36.69           | 26.01 |
| <b>2001/2002</b>      |                           |      |                           |      |                 |       |
| First Quarter** ..... | 2.29                      | 1.53 | 3.70                      | 2.57 | 33.26           | 21.70 |

#### Six month data on a monthly basis

| Month               | London Stock Exchange     |      | Frankfurt Stock Exchange* |      | NYSE            |       |
|---------------------|---------------------------|------|---------------------------|------|-----------------|-------|
|                     | Pounds per ordinary share |      | Euros per ordinary share  |      | Dollars per ADS |       |
|                     | High                      | Low  | High                      | Low  | High            | Low   |
| December 2000 ..... | 2.77                      | 2.32 | 4.55                      | 3.79 | 36.69           | 34.25 |
| January 2001 .....  | 2.47                      | 2.17 | 3.97                      | 3.45 | 36.69           | 32.75 |
| February 2001 ..... | 2.38                      | 1.83 | 3.82                      | 2.92 | 35.10           | 26.01 |
| March 2001 .....    | 2.13                      | 1.82 | 3.42                      | 2.87 | 30.86           | 26.50 |
| April 2001 .....    | 2.29                      | 1.86 | 3.70                      | 3.06 | 33.26           | 26.18 |
| May 2001 .....      | 2.06                      | 1.80 | 3.49                      | 3.05 | 29.18           | 25.48 |
| June 2001** .....   | 1.82                      | 1.53 | 3.03                      | 2.57 | 25.52           | 21.70 |

\* The Company's ordinary shares have been traded on the Frankfurt Stock Exchange since April 3, 2000, and therefore information has not been provided for prior periods.

\*\* High and low share prices only reported until June 22, 2001



The current authorized share capital comprises 78,000,000,000 ordinary shares of \$0.10 each and 50,000 7% cumulative fixed rate shares of £1.00 each.

## **Markets**

The principal trading market for the Company's ordinary shares is the London Stock Exchange. The Company's ordinary shares are also listed on the Frankfurt Stock Exchange.

Vodafone ADSs, each representing ten ordinary shares, are listed on the New York Stock Exchange. The ADSs are evidenced by American Depositary Receipts issued by The Bank of New York, as Depositary under a Deposit Agreement, dated as of October 12, 1988 as amended and restated as of December 26, 1989, as further amended and restated as of September 16, 1991 and as further amended and restated as of June 30, 1999, among Vodafone Group Plc, the Depositary, and the holders from time to time of ADRs issued thereunder.

## **ITEM 10. ADDITIONAL INFORMATION**

### **Memorandum and Articles of Association**

The following description summarizes certain provisions of the Company's Memorandum and Articles of Association and applicable English law. This summary is qualified in its entirety by reference to the Companies Act 1985 of Great Britain (the "Companies Act"), as amended, and the Company's Memorandum and Articles of Association. Information on where investors can obtain copies of the Memorandum and Articles of Association is provided under the heading "Documents on Display" below.

All of the Company's ordinary shares are fully paid. Accordingly, no further contribution of capital may be required by the Company from the holders of such shares.

### ***Objects and Purposes***

The Company is incorporated under the name Vodafone Group Plc, and is registered in England and Wales under registered number 1833679. The Company's objects and purposes are set forth in the fourth clause of its Memorandum of Association and cover a wide range of activities, including to carry on the business of a holding company, to carry on business as dealers in, operators, manufacturers, repairers, designers, developers, importers and exporters of electronic, electrical, mechanical and aeronautical equipment of all types as well as to carry on all other businesses necessary to attain the Company's objectives. The Memorandum of Association grants the Company a broad range of powers to effect these objectives.

### ***Directors***

The Company's Articles of Association provide for a board of directors, consisting of not fewer than three directors, who shall manage the business and affairs of the Company.

Under the Company's Articles of Association, a director cannot vote in respect of any proposal in which the director, or any person connected with the director, has a material interest other than by virtue of the director's interest in the Company's shares or other securities. However, this restriction on voting does not apply to resolutions (a) giving the director or a third party any guarantee, security or indemnity in respect of obligations or liabilities incurred at the request of or for the benefit of the Company, (b) giving any guarantee, security or indemnity to the director or a third party in respect of obligations of the Company for which the director has assumed responsibility under an indemnity or guarantee, (c) relating to an offer of securities of the Company in which the director participates as a holder of shares or other securities or in the underwriting, (d) concerning any other company in which the director (together with any connected person) is a shareholder or an officer or is otherwise interested, provided that the director (together with any connected person) is not interested in more than 1% of any class of the company's equity share capital or the voting rights available to its shareholders, (e) relating to the arrangement of any employee benefit in which the director will share equally with other employees, and (f) relating to any insurance that the Company purchases or renews for its directors or any group of people, including directors.

In accordance with best practice in the UK for corporate governance, compensation awarded to executive directors is decided by a remuneration committee consisting exclusively of non-executive directors.

The directors are empowered to exercise all the powers of the Company to borrow money, subject to the limitation that the aggregate amount of all liabilities and obligations of the Group outstanding at any time, shall not exceed an amount equal to 1.5 times the aggregate of the Group's share capital and reserves calculated in the manner prescribed in the Articles of Association, unless sanctioned by an ordinary resolution of the Company's shareholders.

No person is disqualified from being a director or is required to vacate that office by reason of age. If at a general meeting a director who is 70 or more years of age is proposed for election or re-election, that director's age must be set out in the notice of the meeting.

Directors are not required to hold any shares of the Company as a qualification to act as a director.

## **Rights attaching to the Company's shares**

### ***Dividends Rights***

Holders of the Company's ordinary shares may, by ordinary resolution, declare dividends but may not declare dividends in excess of the amount recommended by the directors. The directors may also pay interim dividends. No dividend may be paid other than out of profits available for distribution. Dividends on ordinary shares will be announced and paid in pounds sterling. Dividends with respect to ADSs held by the depositary will be converted by the depositary into US dollars, and the depositary will distribute them to the holders of ADSs.

If a dividend has not been claimed for one year after the passing of either the resolution passed at a general meeting declaring that dividend or the resolution of the directors providing for payment of that dividend, the directors may invest the dividend or use it in some other way for the benefit of the Company until the dividend is claimed. If the dividend remains unclaimed for 12 years after either the passing of the relevant resolution either declaring that dividend or providing for payment of that dividend, it will be forfeited and belong to the Company.

The Company's Articles of Association permit a scrip dividend scheme or schemes under which holders of ordinary shares may be given the opportunity to elect to receive fully paid ordinary shares instead of cash, or a combination of shares and cash, with respect to future dividends.

### ***Voting Rights***

The Company's Articles of Association provide that voting on special and extraordinary resolutions at a general meeting shall be decided on a poll. On a poll, each shareholder who is entitled to vote and be present in person or by proxy has one vote for every share held. Ordinary resolutions shall be decided on a show of hands, where each shareholder who is present at the meeting has one vote regardless of the number of shares held, unless a poll is demanded. In addition, the Articles of Association allow persons appointed as proxies of shareholders entitled to vote at general meetings to vote on a show of hands, as well as to vote on a poll and attend and speak at general meetings. Holders of the Company's ordinary shares do not have cumulative voting rights.

Under English law, two shareholders present in person constitute a quorum for purposes of a general meeting, unless a company's articles of association specify otherwise. The Company's Articles of Association do not specify otherwise, except that the shareholders do not need to be present in person, and may instead be present by proxy, to constitute a quorum.

Under English law, shareholders of a public company such as the Company are not permitted to pass resolutions by written consent.

Record holders of the Company's ADSs are entitled to attend, speak and vote on a poll or a show of hands at any general meeting of the Company's shareholders by the depositary's appointment of them as proxies with respect to the underlying ordinary shares represented by their ADSs. Alternatively, holders of ADSs are entitled to vote by

supplying their voting instructions to the depositary or its nominee, who will vote the ordinary shares underlying their ADSs in accordance with their instructions.

### ***Liquidation Rights***

In the event of the liquidation of the Company, after payment of all liabilities and deductions in accordance with English law, the holders of the Company's 7% cumulative fixed rate shares would be entitled to a sum equal to the capital paid up on such shares, together with certain dividend payments, in priority to holders of the Company's ordinary shares.

### ***Preemptive Rights and New Issues of Shares***

Under Section 80 of the Companies Act, directors are, with certain exceptions, unable to allot relevant securities without the authority of the shareholders in a general meeting. Relevant securities as defined in the Companies Act include the Company's ordinary shares or securities convertible into the Company's ordinary shares. In addition, Section 89 of the Companies Act imposes further restrictions on the issue of equity securities (as defined in the Companies Act, which include the Company's ordinary shares and securities convertible into ordinary shares) which are, or are to be, paid up wholly in cash and not first offered to existing shareholders. The Company's Articles of Association allow shareholders to authorize directors for a period up to five years to allot (a) relevant securities generally up to an amount fixed by the shareholders and (b) equity securities for cash other than in connection with a rights issue up to an amount specified by the shareholders and free of the restriction in Section 89. In accordance with institutional investor guidelines, the amount of relevant securities to be fixed by shareholders is normally restricted to one third of the existing issued ordinary share capital, and the amount of equity securities to be issued for cash other than in connection with a rights issue is restricted to 5% of the existing issued ordinary share capital.

### ***Disclosure of Interests in the Company's Shares***

There are no provisions in the Articles whereby persons acquiring, holding or disposing of a certain percentage of the Company's shares are required to make disclosure of their ownership percentage, although there are such requirements under the Companies Act.

The basic disclosure requirement under Sections 198 to 211 of the Companies Act imposes upon a person interested in the shares of the Company a statutory obligation to notify the Company in writing and containing details set out in the Companies Act where:

- (a) he acquires (or becomes aware that he has acquired) or ceases to have (or becomes aware that he has ceased to have) an interest in shares comprising any class of the Company's issued and voting share capital; and
- (b) as a result, EITHER he obtains, or ceases to have:
  - (i) a "material interest" in 3%, or more; or
  - (ii) an aggregate interest (whether "material" or not) in 10%, or more

of the Company's voting capital or the percentage of his interest in the Company's voting capital remains above the relevant level and changes by a whole percentage point.

A "material" interest means, broadly, any beneficial interest (including those of a spouse or a child or a step-child, those of a company which is accustomed to act in accordance with the relevant person's instructions or in which one third or more of the votes are controlled by such person and certain other interests set out in the Companies Act) other than those of an investment manager or an operator of a unit trust/recognized scheme/collective investment scheme/open-ended investment company.

Sections 204-206 of the Companies Act set out particular rules of disclosure where two or more parties (each a "concert party") have entered into an agreement to acquire interests in shares of a public company, and the

agreement imposes obligations/restrictions on any concert party with respect to the use, retention or disposal of the shares in the company and an acquisition of shares by a concert party pursuant to the agreement has taken place.

Under Section 212 of the Companies Act, the Company may by notice in writing require a person that the Company knows or has reasonable cause to believe is or was during the preceding three years interested in the Company's shares to indicate whether or not that is correct and, if that person does or did hold an interest in the Company's shares, to provide certain information as set out in the Companies Act.

Sections 324 to 329 of the Companies Act further deal with the disclosure by persons (and certain members of their families) of interests in shares or debentures of the companies of which they are directors and certain associated companies.

There are additional disclosure obligations under Rule 3 of the Substantial Acquisitions Rules where a person acquires 15% or more of the voting rights of a listed company or when an acquisition increases his holding of shares or rights over shares so as to increase his voting rights beyond that level by a whole percentage point. Notification in this case should be to the London Stock Exchange and to the Company no later than 12 noon on the business day following the date of the acquisition.

The City Code on Takeovers and Mergers also contains strict disclosure requirements with regard to dealings in the securities of an offeror or offeree company on all parties to a takeover and also to their respective associates during the course of an offer period.

### ***General Meetings and Notices***

Shareholders must provide the Company with an address in the United Kingdom in order to be entitled to receive notices of shareholders' meetings. In certain circumstances, the Company may give notices to shareholders by advertisement in newspapers in the United Kingdom. Holders of the Company's ADSs are entitled to receive notices under the terms of the deposit agreement relating to the ADSs.

Under the Company's Articles of Association, the annual general meeting of shareholders must be held within 15 months of the preceding annual general meeting and at a time and place determined by the directors.

### ***Variation of Rights***

If, at any time, the Company's share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Companies Act, either with the consent in writing of the holders of three fourths in nominal value of the shares of that class or upon the adoption of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class.

At every such separate meeting, all of the provisions of the Articles of Association relating to proceedings at a general meeting apply, except that (a) the quorum is to be the number of persons (which must be at least two) who hold or represent by proxy not less than one-third in nominal value of the issued shares of the class or, if such quorum is not present on an adjourned meeting, one person who holds shares of the class regardless of the number of shares he holds, (b) any person present in person or by proxy may demand a poll, and (c) each shareholder will have one vote per share held in that particular class in the event a poll is taken.

Class rights are deemed not to have been varied by the creation or issue of new shares ranking equally with or subsequent to that class of shares in sharing in profits or assets of the Company, or by a repurchase of the shares by the Company.

### ***Limitations on Voting and Shareholding***

There are no limitations imposed by English law or the Company's Articles of Association on the right of non-residents or foreign persons to hold or vote the Company's shares other than those limitations that would generally apply to all of the shareholders.

## **Material Contracts**

### **Acquisition of Mannesmann**

On February 3, 2000, the Company and Mannesmann AG entered into an agreement on the terms of an acquisition by the Company, to be effected through a revised offer by the Company for Mannesmann AG. The agreement provided for an exchange ratio of 58.9646 shares in the Company for each Mannesmann AG share, the composition of the Vodafone Board of directors, representation of the Company on the supervisory board of Mannesmann AG, some future strategies of the combined group and other procedures for integration. The agreement is governed by the law of the Federal Republic of Germany.

### **Formation of Verizon Wireless**

The disposal of the US wireless assets of Vodafone in exchange for an interest in Cellco Partnership, an existing Bell Atlantic Corporation (“Bell Atlantic”) partnership doing business as Bell Atlantic Mobile (“Cellco” or “Bell Atlantic Mobile”), was first announced on September 21, 1999 (the “Transaction”). Pursuant to the US Wireless Alliance Agreement dated September 21, 1999 between the Company and Bell Atlantic and the Amendment to the US Wireless Alliance Agreement dated April 3, 2000 between the same parties, the new wireless business (the “Partnership”) retained Cellco and its subsidiaries’ current US wireless assets and assumed their liabilities. Bell Atlantic also contributed certain assets and liabilities, including its 50% interest in PrimeCo Personal Communications, and, following its merger with GTE Corporation (“GTE”), contributed an acquired interest in GTE’s US wireless interests in exchange for a further interest in the Partnership.

Under the transaction agreements, the contribution of assets by the parties involved two stages. Pursuant to the Amended and Restated Partnership Agreement regarding the Cellco Partnership between members of the Bell Atlantic Group and Vodafone entered into on April 3, 2000, in Stage I, Vodafone contributed certain US wireless interests to an existing partnership which held Bell Atlantic’s US wireless interests. On completion of Stage I, on April 3, 2000, the Company held 65.1% of Verizon Wireless and Bell Atlantic owned the remaining 34.9%. Stage II of the closing was required to occur shortly after the completion of the merger between Bell Atlantic and GTE to form Verizon Communications, which took place on June 30, 2000. In Stage II, Verizon Communications contributed the US wireless assets of GTE and the Company’s ownership interest was reduced to 45%. Pursuant to this agreement, Verizon Communications designates four of the seven members of Verizon Wireless’ board of representatives, while the Company designates the three other members. Under the agreement, Verizon Wireless has a right of indemnification from the Company and Verizon Communications for losses, as the term is defined in the agreements, that may be incurred in connection with the businesses formerly conducted by the Company, Bell Atlantic and GTE, and pertaining to events which occurred or causes of action which existed prior to April 3, 2000, with respect to the Company and Bell Atlantic, and prior to July 10, 2000 with respect to GTE.

Under another of the transaction agreements, the Investment Agreement, dated April 3, 2000, between the Company, Bell Atlantic and Cellco Partnership, the Company has the right to require Verizon Communications or Verizon Wireless to acquire a percentage of the Company’s interest in the partnership with an aggregate market value of up to \$20 billion between three to seven years from July 10, 2000. The agreement includes a provision for registration rights if the consideration for the Company’s interest is paid in Bell Atlantic shares or shares of a publicly-traded company. Also, as contemplated in this agreement, Verizon Wireless has filed a Registration Statement with the SEC relating to a proposed initial public offering of a minority stake in the partnership.

### **Disposition of Orange plc**

In relation to the disposition of Orange plc, on May 29, 2000, the Company, Mannesmann AG and France Telecom entered into the following three agreements: a Share Purchase Agreement, a Put Option Agreement and a Call Option Agreement. The Share Purchase Agreement provided for the sale of the whole of the issued share capital of Orange to France Telecom in exchange for £13.8 billion in cash, subject to adjustment for the actual net debt of Orange at March 31, 2000, and approximately 130 million France Telecom shares (subject to adjustment to reflect changes in the share capital of France Telecom). The France Telecom shares were subject to a lock-up period of six months following the close of the transaction and certain orderly market disposition restrictions. The France Telecom

transaction was structured so that neither the Company nor Mannesmann AG would own more than 10% of France Telecom while holding the shares paid in consideration and France Telecom repurchased approximately 15.5 million of the consideration shares immediately following the close of the transaction in exchange for a loan note to bring the Company's holding below 10%.

Through the Put Option Agreement, France Telecom granted Mannesmann AG three put options on the France Telecom shares, the first of which was to follow the initial public offering of Orange, the second could be exercised at the end of March 2001 and the third could be exercised at the end of March 2002.

Through the Call Option Agreement, Mannesmann AG granted to France Telecom a call option on the France Telecom shares which could be exercised (in whole or in part) at any time following the close of the transaction.

These put and call option arrangements have been superseded by an agreement entered into between the Company, Mannesmann AG, France Telecom and a subsidiary of the Company on February 27, 2001. Pursuant to this agreement, France Telecom agreed to repurchase the Company's entire France Telecom shareholding in three tranches and to redeem the loan note referred to above. Two of these tranches were repurchased by France Telecom, and the loan note was redeemed, in March 2001. The outstanding third tranche will be repurchased by France Telecom in March 2002. On April 19, 2001, the Company monetized the remaining cash payment of €4.9 billion that it was due to receive from France Telecom on March 25, 2002 for €4.7 billion.

All agreements were governed by English law. Please see "Information on the Company – History and Development of the Company" for more information on these transactions.

### **Bank Facility**

Please see "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources" for a description of Vodafone's \$13.275 billion credit facility.

### **Exchange Controls**

There are no UK government laws, decrees or regulations that restrict or that affect the export or import of capital, including but not limited to, foreign exchange controls on remittance of dividends on the ordinary shares or on the conduct of the Group's operations, except as otherwise set forth under "Taxation", below.

Under English law (and the Company's Memorandum and Articles of Association), persons who are neither residents nor nationals of the United Kingdom may freely hold, vote and transfer ordinary shares in the same manner as United Kingdom residents or nationals.

### **Taxation**

The following is a summary of the principal US federal and UK tax consequences to beneficial owners of Vodafone ADSs (Vodafone ADS in this context also means Vodafone ordinary shares) who are residents of the United States ("US Holders") of the ownership of Vodafone ADSs but is not a complete analysis or listing of all of the possible tax consequences of such ownership. Investors are advised to consult their tax advisers with respect to the tax consequences of the ownership of Vodafone ADSs including specifically the consequences under state and local tax laws. The statements regarding US and UK tax laws set out below are based on those laws in force on the date of this Annual Report.

US Holders will be treated as the owners of the underlying ordinary shares for the purposes of the United States-United Kingdom double taxation conventions relating to income and gains and to estate and gift taxes (the "Estate and Gift Tax Convention") and for the purposes of the US Internal Revenue Code of 1986, as amended.

### **United States federal income tax consequences of the ownership of Vodafone ADSs by a US resident**

This section describes the material US federal income tax consequences of ownership of Vodafone ADSs which are held as capital assets for US tax purposes.

## Taxation of dividends

Dividends paid to a US Holder by Vodafone with respect to the Vodafone ADSs will be taxable as ordinary income to the US Holder for US federal income tax purposes to the extent the dividend is paid out of Vodafone's current or accumulated earnings and profits, as determined for US federal income tax purposes, based on the US dollar value of the dividend on the date the dividend is actually or constructively received, calculated by reference to the exchange rate on the relevant date.

The IRS procedures operate under the existing United States-United Kingdom double tax treaty and state that a beneficial owner of a Vodafone ADS and of any cash dividend paid with respect thereto who is a US person for US federal income tax purposes, and who is eligible for benefits under the United States-United Kingdom tax treaty with respect to income derived in connection with such ADS (each such holder referred to as an eligible US Holder), who receives a dividend from Vodafone may be entitled to a US tax credit for UK tax withheld. If an eligible US Holder were so entitled, the foreign tax credit would be equal to one-ninth of any dividend received and would give rise to additional dividend income of the same amount. Eligible US Holders that do not elect, or are not permitted, to claim a foreign tax credit may be entitled to claim a deduction for foreign tax withheld. By reason of the recent amendments to the relevant provisions of UK tax law, the United States and United Kingdom have entered into negotiations of a new tax treaty.

**Each US Holder is urged to consult his or her tax adviser concerning whether the US Holder is eligible for benefits under the United States-United Kingdom tax treaty and whether, and to what extent, a foreign tax credit or deduction will be available with respect to dividends received from Vodafone.**

Each eligible US Holder that relies on the United States-United Kingdom tax treaty should consider disclosing this reliance on the eligible US Holder's US federal income tax return. A US Holder that fails to disclose reliance on a treaty where disclosure is required would be subject to penalties under US federal income tax law.

Distributions by Vodafone in excess of current and accumulated earnings and profits, as determined for US federal income tax purposes, will be treated as a return of capital to the extent of the eligible US Holder's basis in its Vodafone ADSs and thereafter as capital gain. Dividends paid by Vodafone will not be eligible for the dividends-received deduction allowed to US corporations in respect of dividends received from other US corporations. US Holders should consult their own tax advisers regarding the treatment of any foreign currency gain or loss on any pounds sterling received on Vodafone ADSs which are not converted into US dollars on the date the pounds sterling are actually or constructively received by the depository or by the US Holder. For foreign tax credit limitation purposes, dividends paid by Vodafone will be income from sources outside of the United States.

## Taxation of capital gains

Upon a sale or other disposition of Vodafone ADSs a US Holder will recognize a gain or loss for US federal income tax purposes in an amount equal to the difference between the US dollar value of the amount realized and the US Holder's tax basis, determined in US dollars, in the Vodafone ADSs. A gain or loss recognized will be a long-term capital gain or loss with respect to Vodafone ADSs held for more than 12 months at the time of the sale or other disposition and any gain recognized generally will be income from sources within the United States for foreign tax credit limitation purposes. A US Holder that is liable for both US federal income tax and UK tax on the sale or other disposition of Vodafone ADSs should consult with his or her tax adviser to determine the US Holder's entitlement to credit the UK tax against the US federal income tax liability.

The foregoing discussion does not address all aspects of US federal income taxation that may be relevant to stockholders who are subject to special provisions of US federal income tax. For example:

- Stockholders liable for alternative minimum tax
- Stockholders that actually or constructively will own 10% or more of the outstanding stock of Vodafone
- Stockholders that hold their stock as part of an integrated investment composed of Vodafone shares or ADSs and one or more other investments

- Stockholders whose “functional currency” is not the US dollar
- Financial institutions
- Insurance companies
- Tax-exempt organizations
- Traders in securities that elect mark-to-market accounting treatment
- Broker-dealers

### **United Kingdom tax consequences of the ownership of Vodafone ADSs by a US resident**

This section describes the material UK tax consequences of ownership of Vodafone ADSs.

#### **Taxation of dividends**

A US Holder (who holds less than 10% of the voting stock of Vodafone) who is not resident for tax purposes in the UK who receives a dividend from Vodafone will not have any further UK tax to pay in respect of the dividend but will not be able to claim any payment in respect of the dividend under the United States-United Kingdom tax treaty. See “United States Federal Income Tax Consequences of the Ownership of Vodafone ADSs by a US Resident-Taxation of Dividends.”

#### **Taxation of capital gains**

A US Holder who is neither resident nor ordinarily resident for tax purposes in the UK will not normally be liable for UK tax on capital gains realized on the disposal of Vodafone ADSs. However, this will not apply if at the time of the disposal, the US Holder carries on a trade, which for these purposes include a profession or vocation, in the UK through a branch or agency and the disposed Vodafone ADSs are or have been used in or for the purposes of that trade or are or have been used or held by or for the purposes of the branch or agency. An individual US Holder who is only temporarily not resident in the UK may, under anti-avoidance legislation, still be liable for UK tax on capital gains realized, subject to any available exemption or relief.

#### **Inheritance tax**

An individual who is domiciled in the United States (for the purposes of the Estate and Gift Tax Convention) and is not a national of the United Kingdom will not be subject to UK Inheritance Tax in respect of the Vodafone ADSs on the individual’s death or on a transfer of the Vodafone ADS during the individual’s lifetime, provided that any applicable US federal gift or estate tax is paid, unless the Vodafone ADS is part of the business property of a UK permanent establishment of an enterprise or pertains to a UK fixed based of an individual used for the performance of independent personal services. Where the Vodafone ADS has been placed in trust by a settlor, the Vodafone ADS may be subject to UK Inheritance Tax unless the settlor was, when the trust was created, domiciled in the United States and not a UK national. The Estate and Gift Tax Convention generally provides a credit for the amount of any tax paid in the United Kingdom against the US federal tax liability in a case where the Vodafone ADS is subject both to UK Inheritance Tax and to US federal gift or estate tax.

#### **UK Stamp Duty and Stamp Duty Reserve Tax**

Stamp Duty will, subject to certain exceptions, be payable at the rate of 1½% on any instrument transferring ordinary shares to the Custodian of the Depository on the amount or value of the consideration or in certain circumstances on the value of such ordinary shares. In accordance with the terms of the Deposit Agreement, any tax or duty payable by the Depository or the Custodian of the Depository on deposits of ordinary shares will be charged by the Depository to the party to whom ADRs are delivered against such deposits.

No Stamp Duty will be payable on any transfer of an ADR, provided that the ADR (and any separate instrument of transfer) is executed and retained at all times outside the United Kingdom. A transfer of an ADR in the United States



will in such circumstances not give rise to Stamp Duty. A transfer of an ADR in the United Kingdom could attract Stamp Duty at a rate of ½%. The amount of Stamp Duty payable is generally calculated at the applicable rate on the purchase price of the ordinary shares. There is no charge to ad valorem Stamp Duty on gifts. On a transfer from nominee to beneficial owner (the nominee having at all times held the ordinary shares on behalf of the transferee) under which no beneficial interest passes and which is neither a sale nor arises under a contract of sale nor is in contemplation of sale, a fixed £5.00 Stamp Duty will be payable.

Stamp Duty Reserve Tax will be payable on any agreement to transfer ordinary shares or any interest therein unless an instrument transferring the ordinary shares or that interest is executed and stamped within two months of the date on which the agreement is made, or, where the agreement is conditional, within two months of the day on which the condition is satisfied. Stamp Duty Reserve Tax will generally be payable at the rate of ½% but will be payable at a maximum rate of 1½% in the case of a transfer into a depository receipt facility (such as established under the Deposit Agreement) or to a nominee for a clearance service.

### **Documents on Display**

The Company is subject to the information requirements of the US Securities and Exchange Act 1934. In accordance with these requirements, the Company files its Annual Report and other related documents with the Securities and Exchange Commission (SEC). These documents may be inspected by investors at the SEC's public reference rooms located at 450 Fifth Street, NW Washington, DC 20549. Information on the operation of the public reference room can be obtained in the US by calling the SEC on 1-800-SEC-0330.

### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Group's treasury function provides a centralized service to the Group for funding, foreign exchange, interest rate management and counterparty risk management. Treasury operations are conducted within a framework of policies and guidelines authorized and reviewed annually by the Board of the Company. The Group accounting function provides regular update reports of treasury activity to the Board. The Group uses a number of derivative instruments that are transacted, for risk management purposes only, by specialist treasury personnel. The internal control environment is reviewed regularly by the Group's internal auditors. There has been no significant change during the fiscal year, or since the end of the year, to the types of financial risks faced by the Group or the Group's approach to the management of those risks.

The Group's main interest rate exposures are to pounds sterling, euro and US dollar interest rates. Under the Group's interest rate management policy, interest rates are fixed when net interest is forecast to have a significant impact on profits. Therefore, the term structure of interest rates is managed within limits approved by the Board, using derivative financial instruments such as swaps, futures and forward rate agreements. At the end of the year, 72% (2000 — 65%) of the Group's gross borrowings were fixed for a period of at least one year. Based on all interest rate sensitive instruments, a one hundred basis point rise in market interest rates for all currencies in which the Group had borrowings at March 31, 2001 would affect profit before taxation by approximately £40 million. The interest rate management policy has remained unaffected by the acquisitions completed during the financial year, although there has been an increase in the weighting of the exposure to euro interest rates.

The Group's policy is to borrow centrally, using a mixture of long term and short term capital market issues and borrowing facilities, to meet anticipated funding requirements. These borrowings, together with cash generated from operations, are lent or contributed as equity to subsidiaries. The Board has approved ratios consistent with those used by companies with high credit ratings for net interest cover, market capitalization to net debt and EBITDA to net debt, which establish internal limits for the maximum level of debt that the Group may have outstanding. These ratios are shared with the credit rating agencies. For the fiscal year ended March 31, 2001, Group interest, excluding the Group's share of interest payable by joint ventures and associated undertakings, is covered 6.2 times by Group EBITDA plus dividends from joint ventures and associated undertakings. Group EBITDA is the operating profit of the Group's subsidiary undertakings before exceptional reorganization costs, plus depreciation and amortization.

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

Translating the current year local currency operating results at average exchange rates for 2000 would result in total Group operating losses approximately £240 million greater than those actually reported. This primarily arose as a result of the strength of sterling against the euro, which depreciated against sterling by approximately 4%, offset by movements in the US dollar exchange rate. A 10% strengthening of sterling against all currencies in which the Group's international net earnings are denominated would reduce the 2001 total Group operating loss by £707 million (2000 — reduction in total Group operating profit by £9 million). The increase in exchange rate risk exposure is due to the increase in the proportion of operating losses after amortization of goodwill, in the Group's international businesses to those of the Group in total. This is expected to continue in future years following acquisitions made by the Group in fiscal 2000 and fiscal 2001.

The Group's policy is not to hedge its international assets with respect to foreign currency balance sheet translation exposure, since net tangible assets represent a small proportion of the market value of the Group and international operations provide risk diversity. However, 86% of gross borrowings were denominated in currencies other than sterling in anticipation of dividend streams and cash flows from profitable international operations and this provides a partial hedge against profit and loss account translation exposure. The relative strength of sterling against certain currencies of countries where the Group operates has resulted in a currency translation adjustment of £5,197 million (credit) to Group reserves in the year ended March 31, 2001 (2000 — £1,130 million charge). The credit in 2001 relates primarily to currency translation adjustments in relation to certain of the goodwill capitalized in the year which is held as a foreign currency denominated asset, primarily as a result of the movement of sterling against the US dollar and Japanese yen. In 2000, the adjustment related to the movement of sterling against the US dollar, Japanese yen, euro and Swedish krona.

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

Additional information is set out in Notes 18 and 19 of Notes to the Consolidated Financial Statements in this Annual Report.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

### ITEMS 15-16. RESERVED

### ITEM 17. FINANCIAL STATEMENTS

Not applicable.

## PART III

### ITEM 18. FINANCIAL STATEMENTS

#### Index to Financial Statements

|  |     |
|--|-----|
| Report of independent auditors .....                               | F-1 |
| Consolidated profit and loss accounts .....                        | F-2 |
| Consolidated balance sheets .....                                  | F-3 |
| Consolidated cash flows .....                                      | F-4 |
| Consolidated statements of total recognized gains and losses ..... | F-5 |
| Movements in equity shareholders' funds .....                      | F-5 |
| Notes to Consolidated Financial Statements .....                   | F-6 |
| Financial Statement Schedules*                                     |     |
| Schedule II — Valuation and qualifying accounts .....              | S-1 |

\* All other schedules have been omitted because they are not required under the applicable instructions or because the substance of the required information is shown in the financial statements.

### ITEM 19. EXHIBITS

#### Index to Exhibits

- 1.1 Amended Memorandum and Articles of Association of the Company (incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form F-3 (File No. 333-10762)).
- 2.1 Indenture, dated as of February 10, 2000, between the Company and Citibank, N.A., as Trustee, including forms of debt securities (incorporated by reference from Amendment No. 1 to the Company's Registration Statement on Form F-3. (File No. 333-10762))
- 2.2 Securities Depositary Agreement, dated as of February 10, 2000, by and among the Company, Citibank, as Book-Entry Depositary, and the owners of book-entry securities in debt securities (incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form F-3 (File No. 333-10762)).
- 4.1 Share Purchase Agreement among Mannesmann AG, the Company and France Telecom, dated May 29, 2000 (incorporated by reference to the Company's Registration Statement on Form F-4 (File No. 333-12826)).
- 4.2 Put Option Agreement among Mannesmann AG, the Company and France Telecom, dated May 29, 2000 (incorporated by reference to the Company's Registration Statement on Form F-4 (File No. 333-12826)).

- 4.3 Call Option Agreement among France Telecom, Mannesmann AG, and the Company, dated May 29, 2000 (incorporated by reference to the Company's Registration Statement on Form F-4 (File No 333-12826)).
- 4.4 Agreement for US. \$13,275,000,000 Revolving Credit Facility, dated June 27, 2001, among the Company, ABN AMRO Bank, N.V., Bank of America International Limited, Barclays Capital, BNP Paribas, Deutsche Bank AG London, HSBC Investment Bank plc, ING Bank N.V., London Branch, Lehman Brothers International (Europe), National Australia Bank Limited, Salomon Brothers International Limited, The Royal Bank of Scotland Plc, TD Bank Europe Limited, UBS Warburg Ltd and Westdeutsche Landesbank Girozentrale, with The Royal Bank of Scotland Plc as Agent and US Swingline Agent.
- 4.5 Vodafone Group Long Term Incentive Plan.
- 4.6 Vodafone Group Short Term Incentive Plan.
- 4.7 Vodafone Group 1999 Long Term Stock Incentive Plan.
- 4.8 Vodafone Group 1998 Company Share Option Plan.
- 4.9 Vodafone Group 1998 Executive Share Option Plan.
- 4.10 Directors' Service Contracts.
- 8.1 The list of the Company's subsidiaries is incorporated by reference to Note 34 of the Notes to Consolidated Financial Statements included in the Annual Report.
- 10.1 Consent of Deloitte & Touche.

## Report of independent auditors

To the Board of Directors of Vodafone Group Plc

We have audited the accompanying consolidated balance sheets of Vodafone Group Plc and subsidiaries (“the Group”) as of March 31, 2001 and 2000, and the related consolidated profit and loss accounts, consolidated cash flows and consolidated statements of total recognized gains and losses and movements in equity shareholders’ funds for each of the three years in the period ended March 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 18, all expressed in pounds sterling. These financial statements and financial statement schedule are the responsibility of the Group’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United Kingdom and the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, in conformity with accounting principles generally accepted in the United Kingdom (which differ in certain material respects from generally accepted accounting principles in the United States of America — see Note 35). Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Our audits also comprehended the translation of certain amounts into US dollars and, in our opinion, such translation has been made in conformity with the basis described in Note 1. Such US dollar amounts are presented solely for the convenience of readers in the United States.

DELOITTE & TOUCHE  
Chartered Accountants & Registered Auditors  
Hill House  
1 Little New Street  
London EC4A 3TR  
England

May 29, 2001  
(July 2, 2001 as to Note 33)

**Consolidated profit and loss accounts**  
**For the years ended March 31**

|  | <u>Note</u> | <u>2001</u>     | <u>2001</u>     | <u>2000</u>    | <u>1999</u>  |
|--|-------------|-----------------|-----------------|----------------|--------------|
|  |             | \$m             | £m              | £m             | £m           |
| Turnover: Group and share of joint ventures and associated undertakings                                      |             |                 |                 |                |              |
| Continuing operations . . . . .  |             | 21,505          | 15,155          | 11,521         | 4,058        |
| Acquisitions . . . . .   |             | <u>12,541</u>   | <u>8,838</u>    | <u>—</u>       | <u>—</u>     |
|  |             | 34,046          | 23,993          | 11,521         | 4,058        |
| Less: Share of joint ventures . . . . .  | 4           | (139)           | (98)            | (362)          | —            |
| Share of associated undertakings . . . . .   | 4           | <u>(12,616)</u> | <u>(8,891)</u>  | <u>(3,286)</u> | <u>(698)</u> |
|  |             | <u>21,291</u>   | <u>15,004</u>   | <u>7,873</u>   | <u>3,360</u> |
| Group turnover   |             |                 |                 |                |              |
| Continuing operations . . . . .  |             | 9,418           | 6,637           | 7,873          | 3,360        |
| Acquisitions . . . . .   |             | <u>11,873</u>   | <u>8,367</u>    | <u>—</u>       | <u>—</u>     |
|  | 3           | <u>21,291</u>   | <u>15,004</u>   | <u>7,873</u>   | <u>3,360</u> |
| Operating (loss)/profit  |             |                 |                 |                |              |
| Continuing operations . . . . .  |             | 1,481           | 1,044           | 981            | 847          |
| Acquisitions . . . . .   |             | <u>(10,618)</u> | <u>(7,483)</u>  | <u>—</u>       | <u>—</u>     |
|  | 4           | <u>(9,137)</u>  | <u>(6,439)</u>  | 981            | 847          |
| Share of operating loss in joint ventures and associated undertakings  |             |                 |                 |                |              |
| Continuing operations . . . . .  |             | (37)            | (26)            | (185)          | 116          |
| Acquisitions . . . . .   |             | <u>(756)</u>    | <u>(533)</u>    | <u>—</u>       | <u>—</u>     |
|  |             | <u>(793)</u>    | <u>(559)</u>    | <u>(185)</u>   | <u>116</u>   |
| Total Group operating (loss)/profit: Group and share of joint ventures and associated undertakings . . . . . |             | (9,930)         | (6,998)         | 796            | 963          |
| Exceptional non-operating items . . . . .  | 5           | <u>113</u>      | <u>80</u>       | <u>954</u>     | <u>66</u>    |
| (Loss)/profit on ordinary activities before interest . . . . .   | 3           | <u>(9,817)</u>  | <u>(6,918)</u>  | 1,750          | 1,029        |
| Net interest payable . . . . .   | 6           | (1,670)         | (1,177)         | (401)          | (94)         |
| Group . . . . .  |             | (1,206)         | (850)           | (350)          | (76)         |
| Share of joint ventures and associated undertakings . . . . .  |             | <u>(464)</u>    | <u>(327)</u>    | <u>(51)</u>    | <u>(18)</u>  |
| (Loss)/profit on ordinary activities before taxation . . . . .   |             | (11,487)        | (8,095)         | 1,349          | 935          |
| Tax on (loss)/profit on ordinary activities . . . . .  | 7           | <u>(1,830)</u>  | <u>(1,290)</u>  | <u>(685)</u>   | <u>(252)</u> |
| Group . . . . .  |             | (1,586)         | (1,118)         | (494)          | (241)        |
| Share of joint ventures and associated undertakings . . . . .  |             | <u>(244)</u>    | <u>(172)</u>    | <u>(191)</u>   | <u>(11)</u>  |
| (Loss)/profit on ordinary activities after taxation . . . . .  |             | (13,317)        | (9,385)         | 664            | 683          |
| Equity minority interests . . . . .  |             | (453)           | (319)           | (137)          | (46)         |
| Non-equity minority interests . . . . .  |             | <u>(84)</u>     | <u>(59)</u>     | <u>(40)</u>    | <u>—</u>     |
| (Loss)/profit for the financial year . . . . .   |             | (13,854)        | (9,763)         | 487            | 637          |
| Equity dividends . . . . .   | 8           | <u>(1,258)</u>  | <u>(887)</u>    | <u>(620)</u>   | <u>(197)</u> |
| Retained (loss)/profit for the Group and its share of joint ventures and associated undertakings . . . . .   | 22          | <u>(15,112)</u> | <u>(10,650)</u> | <u>(133)</u>   | <u>440</u>   |
| Basic (loss)/earnings per share . . . . .  | 9           | <u>(22.55)c</u> | <u>(15.89)p</u> | <u>1.80p</u>   | <u>4.12p</u> |
| Diluted (loss)/earnings per share . . . . .  | 9           | <u>(22.56)c</u> | <u>(15.90)p</u> | <u>1.78p</u>   | <u>4.11p</u> |
| Adjusted basic earnings per share . . . . .  | 9           | <u>5.32c</u>    | <u>3.75p</u>    | <u>4.71p</u>   | <u>3.77p</u> |

The accompanying notes are an integral part of these Consolidated Financial Statements.

**Consolidated balance sheets**  
**At March 31**

|   | <u>Note</u> | <u>2001</u><br>\$m | <u>2001</u><br>£m | <u>2000</u><br>£m |
|---|-------------|--------------------|-------------------|-------------------|
| Fixed assets  |             |                    |                   |                   |
| Intangible assets . . . . .                                       | 10          | 154,443            | 108,839           | 22,206            |
| Tangible assets . . . . .   | 11          | 15,021             | 10,586            | 6,307             |
| Investments . . . . .   |             | 49,594             | 34,950            | 122,338           |
| <b>Investments in joint ventures:</b>                             |             |                    |                   |                   |
| Share of gross assets . . . . .                                   |             | —                  | —                 | 2,912             |
| Share of gross liabilities . . . . .                              |             | —                  | —                 | (241)             |
| Loans to joint ventures . . . . .                                 |             | 121                | 85                | —                 |
|   | 12          | 121                | 85                | 2,671             |
| Investments in associated undertakings . . . . .                  | 12          | 45,280             | 31,910            | 17,979            |
| Other investments . . . . .                                       | 12          | 4,193              | 2,955             | 101,688           |
|   |             | <u>219,058</u>     | <u>154,375</u>    | <u>150,851</u>    |
| Current assets  |             |                    |                   |                   |
| Stocks . . . . .  | 13          | 448                | 316               | 190               |
| Debtors . . . . .   | 14          | 5,811              | 4,095             | 2,138             |
| Investments . . . . .   | 15          | 18,746             | 13,211            | 30                |
| Cash at bank and in hand . . . . .                                |             | 97                 | 68                | 159               |
|   |             | 25,102             | 17,690            | 2,517             |
| Creditors: amounts falling due within one year . . . . .          | 16          | (17,563)           | (12,377)          | (4,441)           |
| Net current assets/(liabilities) . . . . .                        |             | 7,539              | 5,313             | (1,924)           |
| Total assets less current liabilities . . . . .                   |             | 226,597            | 159,688           | 148,927           |
| Creditors: amounts falling due after more than one year . . . . . | 17          | (15,942)           | (11,235)          | (6,374)           |
| Provisions for liabilities and charges . . . . .                  |             | (952)              | (671)             | (193)             |
| <b>Investments in joint ventures:</b>                             |             |                    |                   |                   |
| Share of gross assets . . . . .                                   |             | 125                | 88                | —                 |
| Share of gross liabilities . . . . .                              |             | (207)              | (146)             | —                 |
|   | 12          | (82)               | (58)              | —                 |
| Other provisions . . . . .  | 20          | (870)              | (613)             | (193)             |
|   |             | <u>209,703</u>     | <u>147,782</u>    | <u>142,360</u>    |
| Capital and reserves  |             |                    |                   |                   |
| Called up share capital . . . . .                                 | 21          | 5,753              | 4,054             | 3,797             |
| Share premium account . . . . .                                   | 22          | 68,526             | 48,292            | 39,577            |
| Merger reserve . . . . .  | 22          | 137,521            | 96,914            | 96,914            |
| Other reserve . . . . .   | 22          | 1,453              | 1,024             | 1,120             |
| Profit and loss account . . . . .                                 | 22          | (8,328)            | (5,869)           | (575)             |
| Shares to be issued . . . . .                                     | 21          | 1,388              | 978               | —                 |
| Total equity shareholders' funds . . . . .                        |             | 206,313            | 145,393           | 140,833           |
| Equity minority interests . . . . .                               |             | 1,788              | 1,260             | 523               |
| Non-equity minority interests . . . . .                           | 23          | 1,602              | 1,129             | 1,004             |
|   |             | <u>209,703</u>     | <u>147,782</u>    | <u>142,360</u>    |

The accompanying notes are an integral part of these Consolidated Financial Statements.

**Consolidated cash flows**  
**For the years ended March 31**

|   | <u>Note</u> | <u>2001</u>    | <u>2001</u>    | <u>2000</u>    | <u>1999</u>    |
|---|-------------|----------------|----------------|----------------|----------------|
|   |             | \$m            | £m             | £m             | £m             |
| Net cash inflow from operating activities . . . . .                                 | 28          | 6,509          | 4,587          | 2,510          | 1,045          |
| Dividends received from joint ventures and associated undertakings . . . . .        |             | 501            | 353            | 236            | 3              |
| Net cash outflow for returns on investments and servicing of finance. . . . .       | 28          | (67)           | (47)           | (406)          | (90)           |
| Taxation. . . . .   |             | (2,249)        | (1,585)        | (325)          | (195)          |
| Net cash outflow for capital expenditure and financial investment . . . . .         | 28          | (26,977)       | (19,011)       | (756)          | (688)          |
| Net cash inflow/(outflow) from acquisitions and disposals. . . . .                  | 28          | 43,497         | 30,653         | (4,756)        | (317)          |
| Equity dividends paid. . . . .  |             | <u>(1,097)</u> | <u>(773)</u>   | <u>(221)</u>   | <u>(118)</u>   |
| Cash inflow/(outflow) before management of liquid resources and financing . . . . . |             | 20,117         | 14,177         | (3,718)        | (360)          |
| Management of liquid resources  |             |                |                |                |                |
| Short term deposits . . . . .   |             | (10,701)       | (7,541)        | (33)           | —              |
| Net cash (outflow)/inflow from financing  |             |                |                |                |                |
| Issue of ordinary share capital. . . . .  |             | 92             | 65             | 362            | 11             |
| Issue of shares to minorities . . . . .   |             | 63             | 44             | 37             | —              |
| Purchase of shares from minorities . . . . .  |             | —              | —              | —              | (18)           |
| Capital element of finance lease payments . . . . .                                 |             | (13)           | (9)            | —              | —              |
| Debt due within one year:   |             |                |                |                |                |
| (Decrease)/increase in short term debt . . . . .                                    |             | (577)          | (407)          | 598            | (130)          |
| Repayment of debt acquired . . . . .  |             | (10,190)       | (7,181)        | (449)          | —              |
| Issue of new bonds. . . . .   |             | 4,006          | 2,823          | —              | —              |
| Debt due after one year:  |             |                |                |                |                |
| Increase/(decrease) in bank loans . . . . .   |             | 65             | 46             | (550)          | 490            |
| Repayment of debt acquired . . . . .  |             | (2,940)        | (2,072)        | (377)          | —              |
| Issue of new bonds. . . . .   |             | —              | —              | 4,246          | —              |
| Net cash (outflow)/inflow from financing. . . . .                                   |             | <u>(9,494)</u> | <u>(6,691)</u> | <u>3,867</u>   | <u>353</u>     |
| (Decrease)/increase in cash in the year . . . . .                                   |             | <u>(78)</u>    | <u>(55)</u>    | <u>116</u>     | <u>(7)</u>     |
| Reconciliation of net cash flow to movement in net debt                             |             |                |                |                |                |
| (Decrease)/increase in cash in the year . . . . .                                   |             | (78)           | (55)           | 116            | (7)            |
| Cash outflow/(inflow) from decrease/(increase) in debt. . . . .                     |             | 9,649          | 6,800          | (3,468)        | (360)          |
| Cash outflow from increase in liquid resources . . . . .                            |             | <u>10,701</u>  | <u>7,541</u>   | <u>33</u>      | <u>—</u>       |
| Decrease/(increase) in net debt resulting from cash flows . . . . .                 |             | 20,272         | 14,286         | (3,319)        | (367)          |
| Debt acquired on acquisition of subsidiary undertakings. . . . .                    |             | (19,477)       | (13,726)       | (2,133)        | —              |
| Translation difference. . . . .   |             | (893)          | (629)          | 316            | (19)           |
| Other movements . . . . .   |             | <u>(14)</u>    | <u>(10)</u>    | <u>1</u>       | <u>(5)</u>     |
| Increase in net debt in the year. . . . .   |             | (112)          | (79)           | (5,135)        | (391)          |
| Opening net debt. . . . .   |             | <u>(9,426)</u> | <u>(6,643)</u> | <u>(1,508)</u> | <u>(1,117)</u> |
| Closing net debt . . . . .  | 29          | <u>(9,538)</u> | <u>(6,722)</u> | <u>(6,643)</u> | <u>(1,508)</u> |

The accompanying notes are an integral part of these Consolidated Financial Statements.



**Consolidated statements of total recognized gains and losses**  
**For the years ended March 31**

|  | <u>2001</u>           | <u>2001</u>           | <u>2000</u>         | <u>1999</u>       |
|--|-----------------------|-----------------------|---------------------|-------------------|
|  | \$m                   | £m                    | £m                  | £m                |
| (Loss)/profit for the financial year                             |                       |                       |                     |                   |
| Group . . . . .  | (12,286)              | (8,658)               | 914                 | 550               |
| Share of joint ventures . . . . .                                | (45)                  | (32)                  | 14                  | —                 |
| Share of associated undertakings . . . . .                       | <u>(1,523)</u>        | <u>(1,073)</u>        | <u>(441)</u>        | <u>87</u>         |
|  | <u>(13,854)</u>       | <u>(9,763)</u>        | <u>487</u>          | <u>637</u>        |
| Currency translation   |                       |                       |                     |                   |
| Group . . . . .  | 3,893                 | 2,743                 | (355)               | 13                |
| Share of joint ventures . . . . .                                | 64                    | 45                    | (35)                | —                 |
| Share of associated undertakings . . . . .                       | <u>3,418</u>          | <u>2,409</u>          | <u>(740)</u>        | <u>(7)</u>        |
|  | <u>7,375</u>          | <u>5,197</u>          | <u>(1,130)</u>      | <u>6</u>          |
| Total recognized gains and losses relating to the year . . . . . | <u><u>(6,479)</u></u> | <u><u>(4,566)</u></u> | <u><u>(643)</u></u> | <u><u>643</u></u> |

**Movements in equity shareholders' funds**  
**For the years ended March 31**

|   | <u>2001</u>           | <u>2001</u>           | <u>2000</u>           | <u>1999</u>       |
|---|-----------------------|-----------------------|-----------------------|-------------------|
|   | \$m                   | £m                    | £m                    | £m                |
| (Loss)/profit for the financial year . . . . .  | (13,854)              | (9,763)               | 487                   | 637               |
| Equity dividends . . . . .  | <u>(1,258)</u>        | <u>(887)</u>          | <u>(620)</u>          | <u>(197)</u>      |
|   | (15,112)              | (10,650)              | (133)                 | 440               |
| Currency translation . . . . .  | 7,375                 | 5,197                 | (1,130)               | 6                 |
| New share capital subscribed, net of issue costs . . . . .  | 12,731                | 8,972                 | 140,037               | 19                |
| Unvested option consideration . . . . .   | —                     | —                     | 1,165                 | —                 |
| Goodwill transferred to the profit and loss account<br>in respect of business disposals . . . . . | 1                     | 1                     | 18                    | 11                |
| Scrip dividends . . . . .   | 95                    | 67                    | 81                    | 64                |
| Shares to be issued . . . . .   | 1,388                 | 978                   | —                     | —                 |
| Other . . . . .   | <u>(7)</u>            | <u>(5)</u>            | <u>(20)</u>           | <u>(8)</u>        |
| Net movement in equity shareholders' funds . . . . .  | 6,471                 | 4,560                 | 140,018               | 532               |
| Opening equity shareholders' funds . . . . .  | <u>199,842</u>        | <u>140,833</u>        | <u>815</u>            | <u>283</u>        |
| Closing equity shareholders' funds . . . . .  | <u><u>206,313</u></u> | <u><u>145,393</u></u> | <u><u>140,833</u></u> | <u><u>815</u></u> |

The accompanying notes are an integral part of these Consolidated Financial Statements.

## Notes to Consolidated Financial Statements

### 1. Basis of Consolidated Financial Statements

The Consolidated Financial Statements are prepared in conformity with generally accepted accounting principles in the United Kingdom ("UK GAAP"), which differ in certain material respects from generally accepted accounting principles in the United States of America ("US GAAP") — see Note 35. The accompanying financial statements do not represent the UK statutory financial statements of the Company. The UK statutory financial statements for the year ended March 31, 2001, on which the auditors' report was unqualified, will be delivered to the Registrar of Companies in the UK.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Amounts in the Consolidated Financial Statements are stated in pounds sterling (£), the currency of the country in which the Company is incorporated. The translation into US dollars of the Consolidated Financial Statements as of, and for the fiscal year ended March 31, 2001, is for convenience only and has been made at the noon buying rate for cable transfers as announced by the Federal Reserve Bank of New York for customs purposes on March 30, 2001. This rate was \$1.419 to £1. This translation should not be construed as a representation that the pound sterling amounts actually represented have been, or could be, converted into dollars at this or any other rate.

The Consolidated Financial Statements in respect of the year ended March 31, 2001 have been prepared in accordance with applicable accounting standards and comply with a new Financial Reporting Standard ("FRS") issued by the Accounting Standards Board in the United Kingdom during the year, FRS 18, "Accounting Policies". Adoption of this FRS has not had any effect on the Consolidated Financial Statements for fiscal 2001 or required any restatement of prior year comparatives.

### 2. Accounting policies

#### *Accounting convention*

The Consolidated Financial Statements are prepared under the historical cost convention.

#### *Basis of consolidation*

The Consolidated Financial Statements include the accounts of the Company and its subsidiary undertakings (the "Group") and the Group's share of the results of its joint ventures and associated undertakings for financial statements made up to March 31, 2001. A listing of the Group's principal subsidiary undertakings, joint ventures and associated undertakings is given in Note 34.

The acquisitions of Mannesmann AG and Airtel Móvil S.A., and the acquisitions of interests in Verizon Wireless and Swisscom Mobile SA, have been accounted for as acquisitions in accordance with Financial Reporting Standard 6, "Acquisitions and Mergers".

Prior to the formation of Verizon Wireless, the turnover and operating results of the Group's US wireless and paging operations were consolidated within Group operating profit from continuing operations. From April 3, 2000, the Group has equity accounted for its interest in the operating results of Verizon Wireless, which is included in the Group's share of the operating profit of joint ventures and associated undertakings from continuing operations. The turnover and operating loss (after goodwill amortization) of the Group's US businesses for the year ended March 31, 2000 were £2,585m and £100m, respectively. The net assets of the US businesses contributed to the Verizon Wireless joint venture have been treated as having been disposed, and the Group's interest in the new venture is included within fixed asset investments as an interest in an associated undertaking.

## **2. Accounting policies (continued)**

### *Foreign currencies*

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

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

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

### *Turnover*

Turnover primarily consists of charges to mobile customers for monthly access charges and airtime usage and to fixed line customers for access charges and line usage. Turnover is recognized as services are provided. Unbilled turnover resulting from mobile services provided from the billing cycle date to the end of each period is accrued and unearned monthly access charges relating to periods after each accounting period end are deferred.

Turnover also includes equipment sales, which are recognized upon delivery of equipment to customers, and connection charges, which are recognized upon activation of customers.

### *Derivative financial instruments*

Transactions in derivative financial instruments are undertaken for risk management purposes only.

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign currency risk. To the extent that such instruments are matched against an underlying asset or liability, they are accounted for using hedge accounting.

Gains or losses on interest rate instruments are matched against the corresponding interest charge or interest receivable in the profit and loss account over the life of the instrument. For foreign exchange instruments, gains or losses and premiums or discounts are matched to the underlying transactions being hedged.

Termination payments made or received in respect of derivative financial instruments held for hedging purposes are spread over the life of the underlying exposure where the underlying exposure continues to exist. Where the underlying exposure ceases to exist, any termination payments are taken to the profit and loss account.

### *Pensions*

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

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

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

### *Research and development*

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

**2. Accounting policies (continued)**

*Scrip dividends*

Dividends satisfied by the issue of ordinary shares are credited to reserves. The nominal value of the shares issued is offset against the share premium account.

*Goodwill*

Goodwill is calculated as the surplus of cost over fair value attributed to the net assets (excluding goodwill) of subsidiary, joint venture or associated undertakings acquired.

For acquisitions made after the financial year ended March 31, 1998, goodwill is capitalized and held as a foreign currency denominated asset, where applicable. Goodwill is amortized on a straight line basis over its estimated useful economic life. For acquired network businesses, whose operations are governed by fixed term licenses, the amortization period is determined primarily by reference to the unexpired license period and the conditions for license renewal. For other acquisitions, including customer bases, the amortization period for goodwill is typically between 5 and 10 years.

For acquisitions made before the adoption of FRS 10, "Goodwill and Intangible Assets", on April 1, 1998, goodwill was written off directly to reserves. Goodwill written off directly to reserves is reinstated in the profit and loss account when the related business is sold.

*Other intangible fixed assets*

Purchased intangible fixed assets, including license fees, are capitalized at cost.

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

*Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation.

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

|  |                       |
|--|-----------------------|
| Freehold buildings . . . . .               | 25-50 years           |
| Leasehold premises . . . . .               | the term of the lease |
| Motor vehicles . . . . .                   | 4 years               |
| Computers and software . . . . .           | 3-5 years             |
| Equipment, fixtures and fittings . . . . . | 5-10 years            |

The cost of tangible fixed assets include directly attributable incremental costs incurred in their acquisition and installation.

## **2. Accounting policies (continued)**

### *Investments*

The Consolidated Financial Statements include investments in associated undertakings using the equity method of accounting. An associated undertaking is an entity in which the Group has a participating interest and, in the opinion of the directors, can exercise significant influence in its management. The profit and loss account includes the Group's share of the operating profit or loss, exceptional items, interest income or expense and attributable taxation of those entities. The balance sheet shows the Group's share of the net assets or liabilities of those entities, together with loans advanced and attributed goodwill.

The Consolidated Financial Statements include investments in joint ventures using the gross equity method of accounting. A joint venture is an entity in which the Group has a long term interest and exercises joint control. Under the gross equity method, a form of the equity method of accounting, the Group's share of the aggregate gross assets and liabilities underlying the investment in the joint venture is included in the balance sheet and the Group's share of the turnover of the joint venture is disclosed in the profit and loss account.

Other investments, held as fixed assets, comprise equity shareholdings and other interests. They are stated at cost less provision for any impairment. Dividend income is recognized upon receipt and interest when receivable.

### *Stocks*

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

### *Deferred taxation*

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

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

### *Leases*

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

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

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

### 3. Segmental analysis

The Group's business is principally the supply of mobile telecommunications services and products. Other operations primarily comprise fixed line telecommunications businesses acquired as part of the acquisition of Mannesmann AG and the Vizzavi Europe joint venture. The Group had previously considered itself in three geographical divisions: Europe, Middle East & Africa; United Kingdom; and United States & Asia Pacific. In fiscal year 2001, due to the expanding service areas gained through acquisitions, the Group increased its geographical divisions to five: Continental Europe; United Kingdom; United States; Asia Pacific; and Middle East & Africa. Prior year comparatives have been restated accordingly.

|  | <u>Continuing<br/>operations</u> | <u>Acquisitions</u> | <u>2001</u>    | <u>2000</u>  | <u>1999</u>  |
|--|----------------------------------|---------------------|----------------|--------------|--------------|
|  | £m                               | £m                  | £m             | £m           | £m           |
| Group turnover   |                                  |                     |                |              |              |
| Mobile telecommunications:   |                                  |                     |                |              |              |
| Continental Europe . . . . .   | 2,163                            | 7,414               | 9,577          | 1,705        | 945          |
| United Kingdom . . . . .   | 3,444                            | —                   | 3,444          | 2,901        | 2,088        |
| United States . . . . .  | 9                                | —                   | 9              | 2,585        | —            |
| Asia Pacific . . . . .   | 713                              | —                   | 713            | 565          | 327          |
| Middle East and Africa . . . . .   | 308                              | —                   | 308            | 117          | —            |
|  | <u>6,637</u>                     | <u>7,414</u>        | <u>14,051</u>  | <u>7,873</u> | <u>3,360</u> |
| Other operations:  |                                  |                     |                |              |              |
| Continental Europe . . . . .   | —                                | 953                 | 953            | —            | —            |
|  | <u>6,637</u>                     | <u>8,367</u>        | <u>15,004</u>  | <u>7,873</u> | <u>3,360</u> |
| Operating profit/(loss)  |                                  |                     |                |              |              |
| Mobile telecommunications:   |                                  |                     |                |              |              |
| Continental Europe . . . . .   | 346                              | (7,190)             | (6,844)        | 282          | 200          |
| United Kingdom . . . . .   | 777                              | —                   | 777            | 692          | 639          |
| United States . . . . .  | (179)                            | —                   | (179)          | (73)         | —            |
| Asia Pacific . . . . .   | 7                                | —                   | 7              | 34           | 8            |
| Middle East and Africa . . . . .   | 95                               | —                   | 95             | 46           | —            |
|  | <u>1,046</u>                     | <u>(7,190)</u>      | <u>(6,144)</u> | <u>981</u>   | <u>847</u>   |
| Other operations:  |                                  |                     |                |              |              |
| Continental Europe . . . . .   | (2)                              | (293)               | (295)          | —            | —            |
|  | <u>1,044</u>                     | <u>(7,483)</u>      | <u>(6,439)</u> | <u>981</u>   | <u>847</u>   |
| Share of operating profit/(loss) in joint ventures and associated undertakings                               |                                  |                     |                |              |              |
| Mobile telecommunications:   |                                  |                     |                |              |              |
| Continental Europe . . . . .   | 92                               | (475)               | (383)          | (216)        | 58           |
| United Kingdom . . . . .   | 1                                | —                   | 1              | 3            | 4            |
| United States . . . . .  | (40)                             | —                   | (40)           | (27)         | —            |
| Asia Pacific . . . . .   | (99)                             | —                   | (99)           | (26)         | 1            |
| Middle East and Africa . . . . .   | 88                               | (2)                 | 86             | 81           | 53           |
|  | <u>42</u>                        | <u>(477)</u>        | <u>(435)</u>   | <u>(185)</u> | <u>116</u>   |
| Other operations:  |                                  |                     |                |              |              |
| Continental Europe . . . . .   | (68)                             | (56)                | (124)          | —            | —            |
|  | <u>(26)</u>                      | <u>(533)</u>        | <u>(559)</u>   | <u>(185)</u> | <u>116</u>   |
| Total Group operating profit/(loss): Group and share of joint ventures and associated undertakings . . . . . | <u>1,018</u>                     | <u>(8,016)</u>      | <u>(6,998)</u> | <u>796</u>   | <u>963</u>   |

### 3. Segmental analysis (continued)

|   | Continuing<br>operations | Acquisitions   | 2001           | 2000         | 1999         |
|---|--------------------------|----------------|----------------|--------------|--------------|
|   | £m                       | £m             | £m             | £m           | £m           |
| Total Group operating profit/(loss) is analyzed as follows:               |                          |                |                |              |              |
| Total Group operating profit/(loss) before goodwill and exceptional items |                          |                |                |              |              |
| Mobile telecommunications:  |                          |                |                |              |              |
| Continental Europe .....  | 735                      | 2,300          | 3,035          | 955          | 261          |
| United Kingdom.....   | 795                      | —              | 795            | 706          | 644          |
| United States.....  | 1,237                    | —              | 1,237          | 541          | —            |
| Asia Pacific .....  | 205                      | —              | 205            | 188          | 14           |
| Middle East and Africa .....  | 215                      | (2)            | 213            | 148          | 53           |
|   | <u>3,187</u>             | <u>2,298</u>   | <u>5,485</u>   | <u>2,538</u> | <u>972</u>   |
| Other operations:   |                          |                |                |              |              |
| Continental Europe .....  | (70)                     | (211)          | (281)          | —            | —            |
|   | <u>3,117</u>             | <u>2,087</u>   | <u>5,204</u>   | <u>2,538</u> | <u>972</u>   |
| Amortization of goodwill.....   | (1,843)                  | (10,039)       | (11,882)       | (1,712)      | (9)          |
| Exceptional operating items.....  | (256)                    | (64)           | (320)          | (30)         | —            |
|   | <u>1,018</u>             | <u>(8,016)</u> | <u>(6,998)</u> | <u>796</u>   | <u>963</u>   |
| Exceptional non-operating items (note 5)                                  |                          |                |                |              |              |
| Mobile telecommunications:  |                          |                |                |              |              |
| Continental Europe .....  | 1                        | 262            | 263            | 941          | 1            |
| United Kingdom.....   | (21)                     | —              | (21)           | 11           | —            |
| United States.....  | (33)                     | —              | (33)           | —            | —            |
| Asia Pacific .....  | (134)                    | —              | (134)          | —            | 2            |
| Middle East and Africa .....  | 5                        | —              | 5              | 2            | 63           |
|   | <u>(182)</u>             | <u>262</u>     | <u>80</u>      | <u>954</u>   | <u>66</u>    |
| Other operations:   |                          |                |                |              |              |
| Continental Europe .....  | —                        | —              | —              | —            | —            |
|   | <u>(182)</u>             | <u>262</u>     | <u>80</u>      | <u>954</u>   | <u>66</u>    |
| (Loss)/profit on ordinary activities before interest                      |                          |                |                |              |              |
| Mobile telecommunications:  |                          |                |                |              |              |
| Continental Europe .....  | 439                      | (7,441)        | (7,002)        | 1,007        | 259          |
| United Kingdom.....   | 757                      | —              | 757            | 706          | 643          |
| United States.....  | (252)                    | —              | (252)          | (100)        | —            |
| Asia Pacific .....  | (226)                    | —              | (226)          | 8            | 11           |
| Middle East and Africa .....  | 188                      | (2)            | 186            | 129          | 116          |
|   | <u>906</u>               | <u>(7,443)</u> | <u>(6,537)</u> | <u>1,750</u> | <u>1,029</u> |
| Other operations:   |                          |                |                |              |              |
| Continental Europe .....  | (70)                     | (311)          | (381)          | —            | —            |
|   | <u>836</u>               | <u>(7,754)</u> | <u>(6,918)</u> | <u>1,750</u> | <u>1,029</u> |

Turnover is by origin, which is not materially different from turnover by destination. Group turnover in Germany and Italy for the year ended March 31, 2001 was £4,005m and £2,967m, respectively (2000 and 1999 — £Nil and £Nil).

### 3. Segmental analysis (continued)

Amounts for acquisitions primarily comprise the results of Mannesman AG and its subsidiary and associated undertakings, the results of Airtel Móvil S.A. and the Group's share of the results of Swisscom Mobile SA. Further details regarding acquisitions are included in note 24.

Exceptional operating items of £320m primarily comprise impairment charges of £91m in relation to the carrying value of certain assets within the Group's Globalstar service provider businesses, exceptional reorganization costs of £85m relating to the restructuring of the Group's operations in Germany and the US, and £141m in relation to the Group's share of the restructuring costs incurred by Verizon Wireless. The geographical analysis of the exceptional operating items comprises charges of £64m in Continental Europe, £222m in the US, £33m in Asia Pacific, £3m in the Middle East and Africa and a profit of £2m in the United Kingdom.

Included within total Group operating profit/(loss) are the following amounts in respect of depreciation and amortization:

|   | <u>2001</u>   | <u>2000</u>  | <u>1999</u> |
|---|---------------|--------------|-------------|
|   | £m            | £m           | £m          |
| Depreciation and amortization charges, excluding goodwill |               |              |             |
| Mobile communications:                                    |               |              |             |
| Continental Europe.....                                   | 950           | 145          | 65          |
| United Kingdom.....                                       | 268           | 226          | 172         |
| United States.....  | 6             | 294          | —           |
| Asia Pacific.....   | 107           | 84           | 52          |
| Middle East and Africa.....                               | 36            | 9            | —           |
|   | <u>1,367</u>  | <u>758</u>   | <u>289</u>  |
| Other operations:   |               |              |             |
| Continental Europe.....                                   | 250           | —            | —           |
|   | <u>1,617</u>  | <u>758</u>   | <u>289</u>  |
| Amortization of goodwill                                  |               |              |             |
| Mobile communications:                                    |               |              |             |
| Continental Europe.....                                   | 10,200        | 889          | 3           |
| United Kingdom.....                                       | 19            | 11           | 1           |
| United States.....  | 1,234         | 611          | —           |
| Asia Pacific.....   | 264           | 180          | 5           |
| Middle East and Africa.....                               | 29            | 21           | —           |
|   | <u>11,746</u> | <u>1,712</u> | <u>9</u>    |
| Other operations:   |               |              |             |
| Continental Europe.....                                   | 136           | —            | —           |
|   | <u>11,882</u> | <u>1,712</u> | <u>9</u>    |



### 3. Segmental analysis (continued)

|   | <u>2001</u>    | <u>2000</u>    |
|---|----------------|----------------|
|   | £m             | £m             |
| Net assets/(liabilities) and attributed goodwill (before net borrowings) of subsidiary undertakings |                |                |
| Mobile telecommunications:  |                |                |
| Continental Europe . . . . .  | 107,318        | 104,887        |
| United Kingdom . . . . .  | 7,154          | 729            |
| United States . . . . .   | (450)          | 20,837         |
| Asia Pacific . . . . .  | 2,821          | 1,074          |
| Middle East and Africa . . . . .  | 916            | 826            |
|   | <u>117,759</u> | <u>128,353</u> |
| Other operations:   |                |                |
| Continental Europe . . . . .  | 4,104          | —              |
| Asia Pacific . . . . .  | 704            | —              |
|   | <u>122,567</u> | <u>128,353</u> |
| Share of net assets and attributed goodwill of joint ventures and associated undertakings           |                |                |
| Mobile communications:  |                |                |
| Continental Europe . . . . .  | 6,306          | 13,690         |
| United Kingdom . . . . .  | 1              | —              |
| United States . . . . .   | 21,534         | 2,710          |
| Asia Pacific . . . . .  | 3,580          | 4,142          |
| Middle East and Africa . . . . .  | 188            | 108            |
|   | <u>31,609</u>  | <u>20,650</u>  |
| Other operations:   |                |                |
| Continental Europe . . . . .  | 328            | —              |
|   | <u>31,937</u>  | <u>20,650</u>  |
| Total net assets, before net borrowings . . . . .   | 154,504        | 149,003        |
| Net borrowings . . . . .  | (6,722)        | (6,643)        |
|   | <u>147,782</u> | <u>142,360</u> |

The Group's total net assets, before net borrowings, primarily comprise long-lived assets of £154,375m (2000: £150,851m). Total net assets before net borrowings in Germany and Italy at March 31, 2001 were £62,358m and £30,652m, respectively. Net assets, before net borrowings, in Germany and Italy at March 31, 2000 were £8,144m and £2,760m, excluding the investment in Mannesmann of £101,246m which represented the fair value of consideration at that date.

### 3. Segmental analysis (continued)

|  | <u>2001</u>   | <u>2000</u>  | <u>1999</u> |
|--|---------------|--------------|-------------|
|  | £m            | £m           | £m          |
| Capital expenditure on intangible and tangible fixed assets (excluding goodwill) |               |              |             |
| Mobile communications:   |               |              |             |
| Continental Europe . . . . .   | 9,389         | 622          | 244         |
| United Kingdom . . . . .   | 6,892         | 807          | 400         |
| United States . . . . .  | 67            | 587          | —           |
| Asia Pacific . . . . .   | 366           | 256          | 141         |
| Middle East and Africa . . . . .   | 174           | 41           | —           |
|  | <u>16,888</u> | <u>2,313</u> | <u>785</u>  |
| Other operations:  |               |              |             |
| Continental Europe . . . . .   | 380           | —            | —           |
|  | <u>17,268</u> | <u>2,313</u> | <u>785</u>  |

### 4. Operating profit

|  | <u>Continuing</u> |                | <u>2001</u>    | <u>2000</u>  | <u>1999</u>  |
|--|-------------------|----------------|----------------|--------------|--------------|
|  | operations        | Acquisitions   | £m             | £m           | £m           |
|  | £m                | £m             | £m             | £m           | £m           |
| Group turnover . . . . .                 | 6,637             | 8,367          | 15,004         | 7,873        | 3,360        |
| Cost of sales . . . . .                  | 3,851             | 4,851          | 8,702          | 4,359        | 1,809        |
| Gross profit . . . . .                   | <u>2,786</u>      | <u>3,516</u>   | <u>6,302</u>   | <u>3,514</u> | <u>1,551</u> |
| Selling and distribution costs . . . . . | 489               | 673            | 1,162          | 869          | 243          |
| Administrative expenses . . . . .        | 1,253             | 10,326         | 11,579         | 1,664        | 461          |
| Amortization of goodwill . . . . .       | 152               | 9,433          | 9,585          | 674          | 8            |
| Exceptional operating items . . . . .    | 112               | 64             | 176            | 30           | —            |
| Other administration costs . . . . .     | 989               | 829            | 1,818          | 960          | 453          |
| Total operating expenses . . . . .       | <u>1,742</u>      | <u>10,999</u>  | <u>12,741</u>  | <u>2,533</u> | <u>704</u>   |
| Operating (loss)/profit . . . . .        | <u>1,044</u>      | <u>(7,483)</u> | <u>(6,439)</u> | <u>981</u>   | <u>847</u>   |

#### 4. Operating profit (continued)

Operating (loss)/profit has been arrived at after charging:

|   | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|---|-------------|-------------|-------------|
|   | £m          | £m          | £m          |
| Depreciation of tangible fixed assets                   |             |             |             |
| Owned assets . . . . .                                  | 1,568       | 698         | 255         |
| Leased assets . . . . .                                 | 25          | 48          | 27          |
| Amortization of goodwill . . . . .                      | 9,585       | 674         | 8           |
| Amortization of other intangible fixed assets . . . . . | 24          | 12          | 7           |
| Research and development . . . . .                      | 72          | 46          | 37          |
| Bad debt expense . . . . .                              | 127         | 71          | 20          |
| Payments under operating leases                         |             |             |             |
| Plant and machinery . . . . .                           | 19          | 76          | 10          |
| Other assets . . . . .                                  | 229         | 278         | 167         |
| Auditors' remuneration                                  |             |             |             |
| Audit work . . . . .                                    | 3           | 1           | 1           |
| Other fees  |             |             |             |
| United Kingdom . . . . .                                | 2           | 3           | 1           |
| Overseas . . . . .                                      | 6           | 4           | —           |

Auditors' other fees shown above exclude £4m (2000 — £6m, 1999 — £1m) of fees payable for professional services incurred in the period in connection with mergers and acquisitions. These fees have been accounted for as acquisition costs upon completion of the transaction. Auditors' other fees incurred on specific capital projects during the year and totaling £10m (2000 — £3m, 1999 — £2m) have also been excluded, of which £4m (2000 — £2m, 1999 — £1m) was incurred by overseas operations.

#### Joint ventures and associated undertakings

Group turnover includes sales to joint ventures and associated undertakings of £211m (2000 — £303m, 1999 — £255m) primarily comprising network airtime and access charges. Total operating costs include charges from joint ventures and associated undertakings of £84m (2000 — £82m, 1999 — £75m), primarily comprising roaming charges.

The Group's share of the turnover and operating (loss)/profit of joint ventures and associated undertakings is further analyzed as follows:

|                                   | <u>Continuing operations</u> | <u>Acquisitions</u> | <u>2001</u>  | <u>2000</u>  | <u>1999</u> |
|-----------------------------------|------------------------------|---------------------|--------------|--------------|-------------|
|                                   | £m                           | £m                  | £m           | £m           | £m          |
| Share of turnover:                |                              |                     |              |              |             |
| Joint ventures . . . . .          | 98                           | —                   | 98           | 362          | —           |
| Associated undertakings . . . . . | 8,419                        | 472                 | 8,891        | 3,286        | 698         |
|                                   | <u>8,517</u>                 | <u>472</u>          | <u>8,989</u> | <u>3,648</u> | <u>698</u>  |
| Share of operating (loss)/profit: |                              |                     |              |              |             |
| Joint ventures . . . . .          | (42)                         | —                   | (42)         | (40)         | —           |
| Associated undertakings . . . . . | 16                           | (533)               | (517)        | (145)        | 116         |
|                                   | <u>(26)</u>                  | <u>(533)</u>        | <u>(559)</u> | <u>(185)</u> | <u>116</u>  |

## 5. Exceptional non-operating items

|  | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|--|-------------|-------------|-------------|
|  | £m          | £m          | £m          |
| Profit on termination of hedging instrument.....   | 261         | —           | —           |
| Impairment of fixed asset investments.....         | (193)       | —           | —           |
| Profit on disposal of fixed assets.....            | 6           | —           | —           |
| Profit on disposal of fixed asset investments..... | <u>6</u>    | <u>954</u>  | <u>66</u>   |
|  | <u>80</u>   | <u>954</u>  | <u>66</u>   |

The profit on termination of the hedging instrument arose in March 2001 upon the settlement of a hedging transaction entered into by the Group in order to obtain protection against an adverse market-related price adjustment included in the original terms of the agreement for the sale of Infostrada S.p.A. This hedging transaction was terminated with cash proceeds to the Group of approximately €410 million. The impairments of fixed asset investments are in relation to the Group's interests in Globalstar and Shinsegi Telecom, Inc.

The profit on disposal of fixed asset investments in the year ended March 31, 2000 arose primarily from the disposal of the Group's 17.24% shareholding in E-Plus Mobilfunk GmbH, the disposal of the Group's 20% shareholding in a UK service provider, Martin Dawes Telecommunications Limited, and the disposal of the Group's 50% shareholding in Comfone AG in Switzerland.

The profit on disposal of fixed asset investments in the year ended March 31, 1999 arose from the reduction in the Group's interest in Globalstar from 5.2% to 3.0%, the profit on disposal of the Group's French service provider business and an adjustment to the profits realized in relation to business disposals in 1998 following finalization of the relevant completion accounts.

## 6. Net interest payable

|   | <u>2001</u>  | <u>2000</u> | <u>1999</u> |
|---|--------------|-------------|-------------|
|   | £m           | £m          | £m          |
| Parent and subsidiary undertakings  |              |             |             |
| Interest receivable and similar income.....                                   | <u>(306)</u> | <u>(55)</u> | <u>(14)</u> |
| Interest payable and similar charges  |              |             |             |
| Bank loans and overdrafts.....  | 438          | 214         | 19          |
| Other loans.....  | 707          | 174         | 71          |
| Finance leases.....   | 11           | —           | —           |
| Exceptional finance costs.....  | <u>—</u>     | <u>17</u>   | <u>—</u>    |
|   | <u>1,156</u> | <u>405</u>  | <u>90</u>   |
| Group net interest payable.....   | <u>850</u>   | <u>350</u>  | <u>76</u>   |
| Share of joint ventures:  |              |             |             |
| Interest payable and similar charges.....                                     | <u>2</u>     | <u>3</u>    | <u>—</u>    |
| Share of associated undertakings:   |              |             |             |
| Interest receivable and similar income.....                                   | (6)          | (3)         | —           |
| Interest payable and similar charges.....                                     | <u>331</u>   | <u>51</u>   | <u>18</u>   |
|   | <u>325</u>   | <u>48</u>   | <u>18</u>   |
| Share of joint ventures and associated undertakings net interest payable..... | <u>327</u>   | <u>51</u>   | <u>18</u>   |
| Net interest payable.....   | <u>1,177</u> | <u>401</u>  | <u>94</u>   |

Included in Group interest receivable in the above analysis are amounts received on loans to businesses held for resale on completion of the acquisition of Mannesmann AG. The maximum loans outstanding to these businesses during the year ended March 31, 2001 was £2,173m.

## 6. Net interest payable (continued)

The exceptional finance costs in the year ended March 31, 2000 were incurred in restructuring the Group's borrowing facilities in relation to the acquisition of Mannesmann AG.

## 7. Tax on (loss)/profit on ordinary activities

|  | <u>2001</u>  | <u>2000</u> | <u>1999</u> |
|--|--------------|-------------|-------------|
|  | £m           | £m          | £m          |
| United Kingdom   |              |             |             |
| Corporation tax charge at 30% (2000 — 30%, 1999 — 31%) | 217          | 117         | 164         |
| Transfer (from)/to deferred taxation                   | <u>(35)</u>  | <u>11</u>   | <u>5</u>    |
|  | <u>182</u>   | <u>128</u>  | <u>169</u>  |
| International  |              |             |             |
| Current tax — Current year                             | 841          | 691         | 83          |
| — Prior year   | (48)         | —           | —           |
| Transfer to/(from) deferred taxation                   | 280          | (134)       | —           |
| Tax on exceptional non-operating items                 | <u>35</u>    | <u>—</u>    | <u>—</u>    |
|  | <u>1,108</u> | <u>557</u>  | <u>83</u>   |
|  | <u>1,290</u> | <u>685</u>  | <u>252</u>  |
| Parent and subsidiary undertakings                     | 1,118        | 494         | 241         |
| Share of joint ventures                                | (12)         | (57)        | —           |
| Share of associated undertakings                       | <u>184</u>   | <u>248</u>  | <u>11</u>   |
|  | <u>1,290</u> | <u>685</u>  | <u>252</u>  |

The tax on exceptional non-operating items of £35m (2000 — £Nil, 1999 — £Nil) is in respect of the profit on termination of a hedging instrument in March 2001 (see note 5).

The increase in the effective tax rate for the year ended March 31, 2001 is primarily the result of the integration of the Mannesmann businesses into the Group's results.

## 8. Equity dividends

|   | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|---|-------------|-------------|-------------|
|   | £m          | £m          | £m          |
| Interim dividend paid of 0.688p (2000 — 0.655p, 1999 — 0.624p) per ordinary share . . .   | 423         | 203         | 97          |
| Second interim dividend of Nilp (2000 — Nilp, 1999 — 0.648p) per ordinary share . . . . . | —           | —           | 100         |
| Proposed final dividend of 0.714p (2000 — 0.680p, 1999 — Nilp) per ordinary share . . . . | <u>464</u>  | <u>417</u>  | <u>—</u>    |
|   | <u>887</u>  | <u>620</u>  | <u>197</u>  |

Dividends per share for the comparative periods have been adjusted to give effect to the capitalization (bonus) issue on September 30, 1999.

## 9. Earnings per share

|  | <u>2001</u>   | <u>2000</u>   | <u>1999</u>   |
|--|---------------|---------------|---------------|
| Weighted average number of shares (millions) in issue during the year and used to calculate: |               |               |               |
| Basic and adjusted earnings per share . . . . .  | 61,439        | 27,100        | 15,445        |
| Dilutive effect of employee share options . . . . .  | (41)          | 260           | 65            |
| Diluted earnings per share . . . . .   | <u>61,398</u> | <u>27,360</u> | <u>15,510</u> |
|  | <u>2001</u>   | <u>2000</u>   | <u>1999</u>   |
|  | £m            | £m            | £m            |
| (Loss)/earnings for basic (loss)/earnings per share . . . . .                                | (9,763)       | 487           | 637           |
| Goodwill amortization . . . . .  | 11,882        | 1,712         | 9             |
| Exceptional operating items, net of attributable taxation . . . . .                          | 230           | 19            | —             |
| Exceptional non-operating items, net of attributable taxation . . . . .                      | (45)          | (954)         | (64)          |
| Exceptional finance costs, net of attributable taxation . . . . .                            | —             | 12            | —             |
| Adjusted basic earnings per share . . . . .  | <u>2,304</u>  | <u>1,276</u>  | <u>582</u>    |

(Loss)/earnings for basic (loss)/earnings per share represents the net (loss)/profit attributable to ordinary shareholders, being the (loss)/profit on ordinary activities after taxation and minority interests, and has also been used to calculate diluted earnings per share. Adjusted basic earnings per share has been presented in order to highlight the underlying performance of the Group.

The weighted average number of shares for the comparative periods have been adjusted to give effect to the capitalization (bonus) issue on September 30, 1999.

## 10. Intangible fixed assets

|  | <u>Goodwill</u> | <u>License and spectrum fees</u> | <u>Total</u>   |
|--|-----------------|----------------------------------|----------------|
|  | £m              | £m                               | £m             |
| Cost   |                 |                                  |                |
| April 1, 2000 . . . . .  | 22,197          | 724                              | 22,921         |
| Exchange movements . . . . .                                       | 2,561           | 59                               | 2,620          |
| Acquisitions (note 24) . . . . .                                   | 87,185          | 104                              | 87,289         |
| Additions . . . . .  | —               | 13,210                           | 13,210         |
| Reclassifications from associated undertakings (note 12) . . . . . | 11,490          | —                                | 11,490         |
| Disposals . . . . .  | (18,963)        | —                                | (18,963)       |
| March 31, 2001 . . . . .   | <u>104,470</u>  | <u>14,097</u>                    | <u>118,567</u> |
| Amortization   |                 |                                  |                |
| April 1, 2000 . . . . .  | 686             | 29                               | 715            |
| Exchange movements . . . . .                                       | 11              | 2                                | 13             |
| Charge for the year . . . . .                                      | 9,585           | 24                               | 9,609          |
| Disposals . . . . .  | (609)           | —                                | (609)          |
| March 31, 2001 . . . . .   | <u>9,673</u>    | <u>55</u>                        | <u>9,728</u>   |
| Net book value   |                 |                                  |                |
| March 31, 2001 . . . . .   | <u>94,797</u>   | <u>14,042</u>                    | <u>108,839</u> |
| March 31, 2000 . . . . .   | <u>21,511</u>   | <u>695</u>                       | <u>22,206</u>  |

For acquisitions of subsidiary undertakings and customer bases prior to April 1, 1998, the cumulative goodwill written off to reserves, net of the goodwill attributed to business disposals, was £698m and £28m, respectively, at March 31, 2001 (2000 — £698m and £28m).

## 11. Tangible fixed assets

|   | Land<br>and<br>buildings | Equipment,<br>fixtures and<br>fittings | Network<br>infra-<br>structure | Total         |
|---|--------------------------|--|--------------------------------|---------------|
|   | £m                       | £m                                     | £m                             | £m            |
| Cost                                    |                          |  |                                |               |
| April 1, 2000                           | 295                      | 1,006                                  | 6,716                          | 8,017         |
| Exchange movements                      | 37                       | (212)                                  | 223                            | 48            |
| Acquisitions of businesses (note 24)    | 315                      | 2,059                                  | 2,466                          | 4,840         |
| Additions                               | 156                      | 1,146                                  | 2,756                          | 4,058         |
| Disposals of businesses                 | (182)                    | (617)                                  | (2,264)                        | (3,063)       |
| Disposals                               | (37)                     | (431)                                  | (114)                          | (582)         |
| Reclassifications                       | 4                        | (79)                                   | 75                             | —             |
| March 31, 2001                          | <u>588</u>               | <u>2,872</u>                           | <u>9,858</u>                   | <u>13,318</u> |
| Accumulated depreciation and impairment |                          |  |                                |               |
| April 1, 2000                           | 35                       | 356                                    | 1,319                          | 1,710         |
| Exchange movements                      | 1                        | 12                                     | (28)                           | (15)          |
| Charge for the year                     | 49                       | 490                                    | 1,054                          | 1,593         |
| Impairment loss                         | 10                       | 3                                      | 27                             | 40            |
| Disposals of businesses                 | (18)                     | (64)                                   | (226)                          | (308)         |
| Disposals                               | (12)                     | (218)                                  | (58)                           | (288)         |
| March 31, 2001                          | <u>65</u>                | <u>579</u>                             | <u>2,088</u>                   | <u>2,732</u>  |
| Net book value                          |                          |  |                                |               |
| March 31, 2001                          | <u>523</u>               | <u>2,293</u>                           | <u>7,770</u>                   | <u>10,586</u> |
| March 31, 2000                          | <u>260</u>               | <u>650</u>                             | <u>5,397</u>                   | <u>6,307</u>  |

The net book value of land and buildings comprises freeholds of £323m (2000 — £195m), long leaseholds of £114m (2000 — £10m) and short leaseholds of £86m (2000 — £55m). The net book value of network infrastructure includes £225m (2000 — £147m) in respect of assets held under finance leases (see note 25).

Network infrastructure at March 31, 2001 comprises:

|                          | Freehold<br>premises | Short term<br>leasehold<br>premises | Equipment,<br>fixtures and<br>fittings | Total        |
|--------------------------|----------------------|-------------------------------------|--|--------------|
|                          | £m                   | £m                                  | £m                                     | £m           |
| Cost                     | 48                   | 901                                 | 8,909                                  | 9,858        |
| Accumulated depreciation | 7                    | 153                                 | 1,928                                  | 2,088        |
| Net book value           | <u>41</u>            | <u>748</u>                          | <u>6,981</u>                           | <u>7,770</u> |
| March 31, 2000           | <u>36</u>            | <u>405</u>                          | <u>4,956</u>                           | <u>5,397</u> |
| Net book value           | <u>36</u>            | <u>405</u>                          | <u>4,956</u>                           | <u>5,397</u> |

## 12. Fixed asset investments

### Joint ventures and associated undertakings

|   | Joint<br>ventures | Associated<br>undertakings |
|---|-------------------|----------------------------|
|   | £m                | £m                         |
| Share of net assets/(liabilities), excluding capitalized goodwill |                   |                            |
| April 1, 2000   | 652               | 1,023                      |
| Exchange movements  | 46                | 44                         |
| Acquisitions  | —                 | (311)                      |
| Disposals   | (418)             | (11)                       |
| Impairment in carrying value of investments (note 5)              | —                 | (7)                        |
| Share of retained results   | (49)              | 888                        |
| Share of goodwill amortization in associated undertaking          | —                 | (5)                        |
| Reclassifications   | (289)             | (747)                      |
| March 31, 2001  | <u>(58)</u>       | <u>874</u>                 |
| Capitalized goodwill  |                   |                            |
| April 1, 2000   | 2,019             | 16,923                     |
| Exchange movements  | —                 | 2,366                      |
| Acquisitions (note 24)  | —                 | 25,536                     |
| Disposals   | (2,019)           | (32)                       |
| Goodwill amortization   | —                 | (2,292)                    |
| Reclassifications to intangible assets (note 10)                  | —                 | (11,490)                   |
| March 31, 2001  | <u>—</u>          | <u>31,011</u>              |
| Loan advances   |                   |                            |
| April 1, 2000   | —                 | 33                         |
| Exchange movements  | —                 | (2)                        |
| Loan advances   | 85                | —                          |
| Loan repayments   | —                 | (6)                        |
| March 31, 2001  | <u>85</u>         | <u>25</u>                  |
| Net book value  |                   |                            |
| March 31, 2001  | <u>27</u>         | <u>31,910</u>              |
| March 31, 2000  | <u>2,671</u>      | <u>17,979</u>              |

The goodwill capitalized in the year in respect of associated undertakings of £25,536m relates primarily to the Group's acquisition of interests in Verizon Wireless, Swisscom Mobile SA and in respect of associated undertakings acquired as part of the Mannesmann AG transaction.

Reclassifications of associated undertakings primarily comprise amounts in respect of the Group's interests in certain of Mannesmann AG's subsidiary undertakings and Airtel Móvil S.A., which were accounted for as associated undertakings prior to the acquisition by the Group of controlling stakes during the year.

The Group's share of its joint ventures' and associated undertakings' post acquisition accumulated (losses)/profits at March 31, 2001 amounted to £(58)m (2000 — £(44)m) and £941m (2000 — £402m) respectively.

The maximum aggregate loans to joint ventures and associated undertakings (including former joint ventures and associated undertakings) during the year which are not included within the period end balance were £Nil and £8m (2000 — £Nil and £13m).

For acquisitions of associated undertakings prior to April 1, 1998, the cumulative goodwill written off to reserves, net of the goodwill attributed to business disposals, was £467m at March 31, 2001 (2000 — £468m). The movement during the year relates to the disposal of the Group's interest in Celtel Limited.



## 12. Fixed asset investments (continued)

The Group's principal joint ventures, associated undertakings and fixed asset investments are detailed in note 34.

The Group's share of its joint ventures and associated undertakings comprises:

|   | Joint ventures |              | Associated undertakings |               |
|---|----------------|--------------|-------------------------|---------------|
|   | 2001<br>£m     | 2000<br>£m   | 2001<br>£m              | 2000<br>£m    |
| Share of turnover of joint ventures and associated undertakings . . . . . | <u>98</u>      | <u>362</u>   | <u>8,891</u>            | <u>3,286</u>  |
| Share of assets   |                |              |                         |               |
| Fixed assets . . . . .  | 65             | 790          | 7,519                   | 2,439         |
| Current assets . . . . .  | <u>23</u>      | <u>103</u>   | <u>3,232</u>            | <u>1,341</u>  |
|   | <u>88</u>      | <u>893</u>   | <u>10,751</u>           | <u>3,780</u>  |
| Share of liabilities  |                |              |                         |               |
| Liabilities due within one year . . . . .                                 | 144            | 164          | 5,889                   | 1,737         |
| Liabilities due after more than one year . . . . .                        | 2              | 77           | 3,865                   | 1,020         |
| Minority interests . . . . .  | —              | —            | 123                     | —             |
|   | <u>146</u>     | <u>241</u>   | <u>9,877</u>            | <u>2,757</u>  |
| Share of net (liabilities)/assets . . . . .                               | (58)           | 652          | 874                     | 1,023         |
| Loans . . . . .   | 85             | —            | 25                      | 33            |
| Attributed goodwill net of amortization charges . . . . .                 | <u>—</u>       | <u>2,019</u> | <u>31,011</u>           | <u>16,923</u> |
|   | <u>27</u>      | <u>2,671</u> | <u>31,910</u>           | <u>17,979</u> |
| Analyzed as:  |                |              |                         |               |
| Fixed asset investments . . . . .   | 85             | 2,671        | 31,910                  | 17,979        |
| Provisions for liabilities and charges . . . . .                          | (58)           | —            | —                       | —             |
|   | <u>27</u>      | <u>2,671</u> | <u>31,910</u>           | <u>17,979</u> |

The Group's share of turnover, profits and losses, assets and liabilities of Verizon Wireless included in the above analysis is as follows:

|  | 2001<br>£m     |
|--|----------------|
| Share of:  |                |
| Turnover . . . . .   | <u>5,000</u>   |
| Profit before taxation, before goodwill amortization . . . . . | 926            |
| Goodwill amortization . . . . .                                | <u>(1,229)</u> |
| Loss on ordinary activities before taxation . . . . .          | (303)          |
| Tax on loss on ordinary activities . . . . .                   | <u>(53)</u>    |
| Loss on ordinary activities after taxation . . . . .           | <u>(356)</u>   |
| Fixed assets . . . . .   | 5,027          |
| Current assets . . . . .                                       | 1,342          |
| Liabilities due within one year . . . . .                      | (3,529)        |
| Liabilities due after more than one year . . . . .             | (2,394)        |
| Minority interests . . . . .                                   | <u>(123)</u>   |
| Share of net assets . . . . .                                  | 323            |
| Attributed goodwill net of amortization charges . . . . .      | <u>21,205</u>  |
| Share of net assets and attributed goodwill . . . . .          | <u>21,528</u>  |

## 12. Fixed asset investments (continued)

### Other fixed asset investments

|   | <u>£m</u>    |
|---|--------------|
| Cost or valuation                         |              |
| April 1, 2000 .....                       | 101,688      |
| Exchange movements .....                  | 17           |
| Additions .....                           | 2,953        |
| Disposals .....                           | (91)         |
| Impairment loss (note 5) .....            | (186)        |
| Reclassifications .....                   | (101,326)    |
| Dividends received from investments ..... | (100)        |
| March 31, 2001 .....                      | <u>2,955</u> |

Additions primarily comprise the acquisition of a 2.18% ownership interest in China Mobile (Hong Kong) Limited and a 7.5% interest in Japan Telecom Co., Ltd.

Reclassifications primarily comprise an amount of £101,246m in respect of the investment in Mannesmann AG at March 31, 2000 which represented the fair value of the consideration for the acquisition up to that date. The results and net assets of the acquired businesses were consolidated in the Group's financial statements from April 12, 2000, following the receipt of approval for the acquisition from the European Commission.

Fixed asset investments at March 31, 2001, include 5,861,959 shares in Vodafone held by a Qualifying Employee Share Ownership Trust ('QUEST'). These shares had a £Nil cost to the Group. Further detail is provided within note 21 to the accounts.

Fixed asset investments also include 7,039,587 shares in Vodafone held by the Vodafone Group Employee Trust to satisfy the potential award of shares under the Group's Long Term Incentive Plan and Short Term Incentive Plan, and 3,288,042 shares in Vodafone held by the Group's Australian and New Zealand businesses in respect of an employee share option plan established during the year. The cost to the Group of these shares was £28m and their market value at March 31, 2001 was £20m.

## 13. Stocks

|                             | <u>2001</u> | <u>2000</u> |
|-----------------------------|-------------|-------------|
|                             | £m          | £m          |
| Goods held for resale ..... | <u>316</u>  | <u>190</u>  |

## 14. Debtors

|   | <u>2001</u>  | <u>2000</u>  |
|---|--------------|--------------|
|   | £m           | £m           |
| Due within one year:                              |              |              |
| Trade debtors . . . . .                           | 1,852        | 943          |
| Amounts owed by associated undertakings . . . . . | 132          | 23           |
| Taxation recoverable . . . . .                    | 249          | —            |
| Other debtors . . . . .                           | 269          | 221          |
| Prepayments and accrued income . . . . .          | 1,199        | 532          |
|   | <u>3,701</u> | <u>1,719</u> |
| Due after more than one year:                     |              |              |
| Trade debtors . . . . .                           | 11           | 34           |
| Other debtors . . . . .                           | 21           | 10           |
| Prepayments . . . . .                             | 24           | 46           |
| Deferred taxation (note 20) . . . . .             | 338          | 329          |
|   | <u>394</u>   | <u>419</u>   |
|   | <u>4,095</u> | <u>2,138</u> |

## 15. Investments

|  | <u>2001</u>   | <u>2000</u> |
|--|---------------|-------------|
|  | £m            | £m          |
| Liquid investments (note 29) . . . . . | 7,593         | 30          |
| Other investments . . . . .            | 5,618         | —           |
|  | <u>13,211</u> | <u>30</u>   |

Other investments primarily comprise the Group's remaining interest in Atecs Mannesmann AG and a balancing payment of £3,092m receivable in March 2002 in relation to the exercise of an option over France Telecom shares acquired by the Group as a result of the disposal of Orange plc in the year.

## 16. Creditors: amounts falling due within one year

|   | <u>2001</u>   | <u>2000</u>  |
|---|---------------|--------------|
|   | £m            | £m           |
| Bank loans, other loans and overdrafts . . . . .  | 3,601         | 94           |
| Commercial paper . . . . .                        | —             | 700          |
| Finance leases . . . . .                          | 10            | —            |
| Trade creditors . . . . .                         | 1,899         | 706          |
| Amounts owed to associated undertakings . . . . . | 7             | 2            |
| Taxation . . . . .                                | 2,540         | 535          |
| Other taxes and social security costs . . . . .   | 285           | 54           |
| Other creditors . . . . .                         | 1,314         | 436          |
| Accruals and deferred income . . . . .            | 2,257         | 1,497        |
| Proposed dividend . . . . .                       | 464           | 417          |
|   | <u>12,377</u> | <u>4,441</u> |

The weighted average interest rate on short term borrowings at March 31, 2001 was 5.8% (2000 — 6.2%).

## 17. Creditors: amounts falling due after more than one year

|  | <u>2001</u>   | <u>2000</u>  |
|--|---------------|--------------|
|  | £m            | £m           |
| Bank loans . . . . .                   | 578           | 184          |
| Other loans . . . . .                  | 10,052        | 5,854        |
| Finance leases . . . . .               | 142           | —            |
| Other creditors . . . . .              | 7             | 33           |
| Accruals and deferred income . . . . . | 456           | 303          |
|  | <u>11,235</u> | <u>6,374</u> |

Bank loans of £578m are repayable in more than two years but not more than five years from the balance sheet date.

Other loans are repayable as follows:

|   |               |              |
|---|---------------|--------------|
| Repayable in more than one year but not more than two years . . . . .   | 622           | 481          |
| Repayable in more than two years but not more than five years . . . . . | 3,629         | 1,497        |
| Repayable in more than five years . . . . .                             | 5,801         | 3,876        |
|   | <u>10,052</u> | <u>5,854</u> |

Other loans falling due after more than one year primarily comprise bond issues by the Company, or its subsidiaries, analyzed as follows:

|  | <u>2001</u>   | <u>2000</u>  |
|--|---------------|--------------|
|  | £m            | £m           |
| 7.875% Sterling bond due 2001 . . . . .  | —             | 249          |
| 7.125% US Dollar bond due 2001 . . . . . | —             | 156          |
| 5.007% Euro bond due 2002 . . . . .      | 622           | —            |
| 7.0% US Dollar bond due 2003 . . . . .   | 192           | 156          |
| 4.875% Euro bond due 2004 . . . . .      | 1,536         | —            |
| 7.5% Sterling bond due 2004 . . . . .    | 248           | 248          |
| 5.25% Euro bond due 2005 . . . . .       | 286           | —            |
| 7.625% US Dollar bond due 2005 . . . . . | 1,226         | 1,089        |
| 6.35% US Dollar bond due 2005 . . . . .  | 141           | 125          |
| 5.75% Euro bond due 2006 . . . . .       | 928           | 893          |
| 7.5% US Dollar bond due 2006 . . . . .   | 281           | 250          |
| 5.5% Deutschmark bond due 2008 . . . . . | 127           | 123          |
| 6.65% US Dollar bond due 2008 . . . . .  | 352           | 313          |
| 4.75% Euro bond due 2009 . . . . .       | 1,680         | —            |
| 7.75% US Dollar bond due 2010 . . . . .  | 1,917         | 1,702        |
| 7.875% US Dollar bond due 2030 . . . . . | 516           | 459          |
| Other . . . . .                          | —             | 91           |
|  | <u>10,052</u> | <u>5,854</u> |

Finance leases are repayable as follows:

|   |            |          |
|---|------------|----------|
| Repayable in more than one year but not more than two years . . . . .   | 10         | —        |
| Repayable in more than two years but not more than five years . . . . . | 30         | —        |
| Repayable in more than five years . . . . .                             | 102        | —        |
|   | <u>142</u> | <u>—</u> |

## 18. Financial liabilities and assets

### Net debt

|  | <u>2001</u>  | <u>2000</u>  |
|--|--------------|--------------|
|  | £m           | £m           |
| Liquid investments . . . . .                         | (7,593)      | (30)         |
| Cash at bank and in hand . . . . .                   | (68)         | (159)        |
| Debt due in one year or less, or on demand . . . . . | 3,611        | 794          |
| Debt due after one year . . . . .                    | 10,772       | 6,038        |
|  | <u>6,722</u> | <u>6,643</u> |

### Maturity of financial liabilities

The maturity profile of the Group's borrowings at March 31, was as follows:

|   | <u>2001</u>   | <u>2000</u>  |
|---|---------------|--------------|
|   | £m            | £m           |
| Within one year . . . . .                           | 3,611         | 794          |
| Between one to two years . . . . .                  | 632           | 481          |
| Between two to three years . . . . .                | 679           | 188          |
| Between three to four years . . . . .               | 3,249         | 404          |
| Between four to five years . . . . .                | 309           | 1,089        |
| Between five to six years . . . . .                 | 1,219         | 125          |
| Between six to seven years . . . . .                | 10            | 1,156        |
| Between seven to eight years . . . . .              | 489           | —            |
| Between eight to nine years . . . . .               | 3,607         | 434          |
| Between nine to ten years . . . . .                 | 10            | 1,702        |
| Between ten to eleven years . . . . .               | 10            | —            |
| Between eleven to twelve years . . . . .            | 11            | —            |
| Between twelve to thirteen years . . . . .          | 11            | —            |
| Between thirteen to fourteen years . . . . .        | 10            | —            |
| Between fourteen to fifteen years . . . . .         | 6             | —            |
| Between sixteen to seventeen years . . . . .        | 4             | —            |
| Between twenty eight to twenty nine years . . . . . | 516           | —            |
| Between twenty nine to thirty years . . . . .       | —             | 459          |
|   | <u>14,383</u> | <u>6,832</u> |

The maturities of the Group's other financial liabilities at March 31, was as follows:

|   | <u>2001</u> | <u>2000</u> |
|---|-------------|-------------|
|   | £m          | £m          |
| In more than one year but not more than two years . . . . .   | 4           | 33          |
| In more than two years but not more than five years . . . . . | 3           | 3           |
|   | <u>7</u>    | <u>36</u>   |

## 18. Financial liabilities and assets (continued)

### Borrowing facilities

The Group had the following undrawn committed borrowing facilities available to it on March 31:

|  | <u>2001</u>   | <u>2000</u>   |
|--|---------------|---------------|
|  | £m            | £m            |
| Expiring in one year or less .....                               | 10,234        | 5,689         |
| Expiring in more than one year but not more than two years ..... | —             | —             |
| Expiring in more than two years .....                            | —             | 4,562         |
|  | <u>10,234</u> | <u>10,251</u> |

In addition to the above, certain of the Group's subsidiaries had non-recourse committed facilities at March 31, 2001 of £1,005m in aggregate, of which £322m was undrawn. Of the total committed facilities, £438m expires between two and five years, with the remainder expiring in more than five years.

### Interest rate and currency of financial liabilities

After taking into account the various interest rate and currency swaps entered into by the Group, the currency and interest rate exposure of the financial liabilities of the Group was:

| Currency                          | Total         | Floating rate financial liabilities | Fixed rate financial liabilities | Non-interest bearing financial liabilities | Fixed rate financial liabilities |   | Non-interest bearing financial liabilities — weighted average period until maturity |
|-----------------------------------|---------------|-------------------------------------|----------------------------------|--|----------------------------------|---|---|
|                                   |               |                                     |                                  |  | Weighted average interest rate   | Weighted average time for which rate is fixed |   |
|                                   | £m            | £m                                  | £m                               | £m   | %                                | Years   | Years   |
| At March 31, 2001:                |               |                                     |                                  |  |                                  |   |   |
| Sterling .....                    | 1,994         | 1,496                               | 498                              | —  | 7.7                              | 1.8   | —   |
| Euro .....                        | 5,819         | 1,076                               | 4,743                            | —  | 5.1                              | 5.8   | —   |
| US Dollar .....                   | 5,368         | 567                                 | 4,801                            | —  | 7.5                              | 8.7   | —   |
| Other .....                       | 1,209         | 865                                 | 337                              | 7  | 0.5                              | 1.0   | 2.2   |
| Gross financial liabilities ..... | <u>14,390</u> | <u>4,004</u>                        | <u>10,379</u>                    | <u>7</u>                                   | <u>6.2</u>                       | <u>6.8</u>                                    | <u>2.2</u>  |
| At March 31, 2000:                |               |                                     |                                  |  |                                  |   |   |
| Sterling .....                    | 2,298         | 871                                 | 1,422                            | 5  | 6.7                              | 1.6   | 0.7   |
| Euro .....                        | 1,895         | 322                                 | 1,511                            | 62   | 3.8                              | 1.6   | 1.3   |
| US Dollar .....                   | 2,057         | 578                                 | 1,479                            | —  | 7.3                              | 13.1  | —   |
| Other .....                       | 618           | 614                                 | —                                | 4  | —                                | —   | 3.2   |
| Gross financial liabilities ..... | <u>6,868</u>  | <u>2,385</u>                        | <u>4,412</u>                     | <u>71</u>                                  | <u>5.9</u>                       | <u>5.5</u>                                    | <u>1.4</u>  |

Interest on floating rate borrowings is based on national LIBOR equivalents or government bond rates in the relevant currencies.

## 18. Financial liabilities and assets (continued)

### Financial assets

| Currency               | Total         | Floating rate<br>financial assets | Fixed rate<br>financial assets | Non-interest bearing assets |  |
|------------------------|---------------|-----------------------------------|--------------------------------|-----------------------------|--|
|                        |               |                                   |                                | Equity<br>investments       | Other<br>non-interest<br>bearing<br>financial assets |
|                        | £m            | £m                                | £m                             | £m                          | £m   |
| At March 31, 2001:     |               |                                   |                                |                             |  |
| Sterling               | 45            | 17                                | —                              | 28                          | —  |
| Euro                   | 8,518         | 2,541                             | —                              | 334                         | 5,643  |
| US Dollar              | 5,098         | 5,067                             | —                              | 8                           | 23   |
| Other                  | 2,605         | 36                                | —                              | 2,562                       | 7  |
| Gross financial assets | <u>16,266</u> | <u>7,661</u>                      | <u>—</u>                       | <u>2,932</u>                | <u>5,673</u>   |
| At March 31, 2000:     |               |                                   |                                |                             |  |
| Sterling               | 18            | 11                                | —                              | 7                           | —  |
| Euro                   | 232           | 128                               | —                              | 79                          | 25   |
| US Dollar              | 134           | 2                                 | 32                             | 66                          | 34   |
| Other                  | 291           | 48                                | —                              | 240                         | 3  |
| Gross financial assets | <u>675</u>    | <u>189</u>                        | <u>32</u>                      | <u>392</u>                  | <u>62</u>  |

Financial assets comprise cash in hand and at bank of £68m (2000: £159m), liquid investments of £7,593m (2000: £30m), current asset investments of £5,618m (2000: £Nil), trade and other debtors due in more than one year of £32m (2000: £44m) and fixed asset investments, other than joint ventures and associated undertakings, of £2,955m (2000: £442m, excluding the fair value of the consideration for the acquisition of Mannesmann AG of £101,246m as at March 31, 2000). Liquid investments arose primarily from the receipt of sales proceeds following the disposal of Infostrada S.p.A. and receipts in relation to the France Telecom shares and loan notes received from the disposal of Orange plc and are not indicative of the financial position throughout the year.

Floating rate financial assets comprise cash and short term deposits of £4,484m (2000: £189m), US Dollar denominated commercial paper totaling £1,162m, invested with counterparties having a single-A credit rating or above, and a further £2,015m of purchase and resale agreements denominated in Euro collateralised with AAA-rated Government or Supra-national bonds.

The weighted average rate and period for fixed rate financial assets were 4.9% and 3.7 years, respectively, at March 31, 2000.

Other current asset investments of £5,618m (2000: £Nil) primarily comprise the estimated fair value of the Group's remaining interest in Atecs Mannesmann and a balancing payment, receivable in Euros, of approximately £3,092m in relation to the exercise of an option over France Telecom shares acquired by the Group as a result of the disposal of Orange plc during the year.

Equity investments of £2,932m (2000: £392m) include £2,510m (2000: £Nil) represented by listed investments. Equity investments denominated in other currencies include £1,759m denominated in HK Dollar and £704m denominated in Japanese Yen.

## 19. Financial instruments

### Fair values of financial assets and liabilities

The carrying amounts and estimated fair value of the Group's outstanding financial instruments are set out below:

|   | 2001<br>Net carrying<br>amount | 2001<br>Estimated<br>fair value | 2000<br>Net carrying<br>amount | 2000<br>Estimated<br>fair value |
|---|--------------------------------|---------------------------------|--------------------------------|---------------------------------|
|   | £m                             | £m                              | £m                             | £m                              |
| Fixed asset investments (excluding investments in joint ventures and associated undertakings) . . . . . | 2,955                          | 2,350                           | 442                            | 442                             |
| Cash at bank and in hand and liquid investments . . . . .   | 7,661                          | 7,661                           | 189                            | 189                             |
| Current asset investments . . . . .   | 5,618                          | 5,618                           | —                              | —                               |
| Borrowings:   |                                |                                 |                                |                                 |
| Short term . . . . .  | 3,611                          | 3,611                           | 794                            | 794                             |
| Long term . . . . .   | 10,772                         | 11,058                          | 6,038                          | 6,017                           |
| Derivative financial instruments:   |                                |                                 |                                |                                 |
| Interest rate . . . . .   | —                              | 2                               | —                              | 57                              |
| Foreign exchange . . . . .  | —                              | (1)                             | —                              | (66)                            |

The Group's exposure to market risk, which is the sensitivity of the value of financial instruments to changes in related currency and interest rates, is minimized because gains and losses on the underlying assets and liabilities offset gains and losses on derivative financial instruments.

Fixed asset investments at March 31, 2000 in the above table excludes £101,246m in relation to the fair value of the consideration for the acquisition of Mannesmann AG.

The following methods and assumptions were used to estimate the fair values shown above.

*Fixed asset investments (excluding investments in joint ventures and associated undertakings)* — The net book value of fixed asset investments at March 31, 2001 comprises investments recorded at an original cost of £3,141m (2000 — £442m). An impairment loss of £186m has been set against the Group's investments in Globalstar and Shinsegi Telecom Inc. Investments include traded and untraded equity investments in companies involved in providing telecommunications services. Listed investments are stated at fair value based on their quoted share price at March 31, 2001. Fixed asset investments do not include any valuation in respect of existing customer bases or other intangible assets.

*Cash at bank and in hand and liquid investments* — The carrying values of cash and liquid investments approximate to their fair values because of the short term maturity of these instruments.

*Current asset investments* — The carrying values of current asset investments are recorded in the accounts at the estimated fair value of the expected proceeds from disposal.

*Borrowings (excluding foreign exchange contracts)* — The carrying values of short term borrowings approximate to fair value because of their short term maturity. The fair value of quoted long term borrowings is based on year end mid-market quoted prices. The fair value of other borrowings is estimated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

*Foreign exchange contracts and interest rate swaps and futures* — The Group enters into foreign exchange contracts, interest rate swaps and futures in order to manage its foreign currency and interest rate exposure. The fair value of these financial instruments was estimated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.



## 19. Financial instruments (continued)

### Hedges

The Group's policy is to use derivative instruments to hedge against exposure to movements in interest rates and exchange rates. Changes in the fair value of instruments used for hedging are not recognized in the financial statements until the hedged exposure is itself recognized. Unrecognized gains and losses on instruments used for hedging are set out below:

|   | <u>Gains</u> | <u>Losses</u> | <u>Total net gains/ (losses)</u> |
|---|--------------|---------------|----------------------------------|
|   | £m           | £m            | £m                               |
| Unrecognized gains and losses on hedges at April 1, 2000 .....                          | 88           | (97)          | (9)                              |
| Less: gains and losses arising in previous years that were recognized in the year ..... | <u>(86)</u>  | <u>97</u>     | <u>11</u>                        |
| Gains and losses arising before April 1, 2000 that were not recognized at               |              |               |                                  |
| March 31, 2001 .....  | 2            | —             | 2                                |
| Gains and losses arising in the year that were not recognized at March 31, 2001 .....   | <u>4</u>     | <u>(5)</u>    | <u>(1)</u>                       |
| Unrecognized gains and losses on hedges at March 31, 2001 .....                         | <u>6</u>     | <u>(5)</u>    | <u>1</u>                         |
| <i>Of which:</i>  |              |               |                                  |
| <i>Gains and losses expected to be recognized in 2001 .....</i>                         | <u>6</u>     | <u>(5)</u>    | <u>1</u>                         |

### Currency exposures

Taking into account the effect of forward contracts and other derivative instruments, the Group did not have a material financial exposure to foreign exchange gains or losses on monetary assets and monetary liabilities denominated in foreign currencies at March 31, 2001.

Short-term debtors and creditors have been omitted from the analyses in notes 18 and 19.

## 20. Provisions for liabilities and charges

|                               | <u>Deferred taxation</u> | <u>Post employment benefits</u> | <u>Other provisions</u> | <u>Total</u> |
|-------------------------------|--------------------------|---------------------------------|-------------------------|--------------|
|                               | £m                       | £m                              | £m                      | £m           |
| April 1, 2000 .....           | 105                      | 27                              | 61                      | 193          |
| Exchange movements .....      | 3                        | 4                               | 11                      | 18           |
| Acquisitions (note 24) .....  | 58                       | 142                             | 64                      | 264          |
| Profit and loss account ..... | 169                      | 23                              | 15                      | 207          |
| Utilized in the year .....    | —                        | (30)                            | (15)                    | (45)         |
| Disposals .....               | <u>—</u>                 | <u>(24)</u>                     | <u>—</u>                | <u>(24)</u>  |
| March 31, 2001 .....          | <u>335</u>               | <u>142</u>                      | <u>136</u>              | <u>613</u>   |

### Deferred taxation

The £245m charge in respect of deferred taxation in the profit and loss account (note 7) includes a charge of £76m in relation to deferred tax assets.

## 20. Provisions for liabilities and charges (continued)

The net deferred tax (asset)/liability is analyzed as follows:

|   | <u>2001</u> | <u>2000</u>  |
|---|-------------|--------------|
|   | £m          | £m           |
| Deferred tax on unvested options . . . . .                            | (169)       | (193)        |
| Deferred tax on closure of derivative financial instruments . . . . . | (118)       | —            |
| Deferred tax on sub-letting of US communications towers . . . . .     | —           | (136)        |
| Accelerated capital allowances . . . . .                              | 6           | 11           |
| Other timing differences (net) . . . . .                              | <u>278</u>  | <u>94</u>    |
|   | <u>(3)</u>  | <u>(224)</u> |
| Analyzed as:  |             |              |
| Deferred tax asset (note 14) . . . . .                                | (338)       | (329)        |
| Deferred tax provision . . . . .                                      | <u>335</u>  | <u>105</u>   |
|   | <u>(3)</u>  | <u>(224)</u> |

The amounts unprovided for deferred taxation are:

|  | <u>2001</u>   | <u>2000</u>   |
|--|---------------|---------------|
|  | <u>Amount</u> | <u>Amount</u> |
|  | unprovided    | unprovided    |
|  | £m            | £m            |
| Accelerated capital allowances . . . . .   | 738           | 161           |
| Gains subject to rollover relief . . . . . | 7             | 7             |
| Other timing differences . . . . .         | <u>(601)</u>  | <u>(92)</u>   |
|  | <u>144</u>    | <u>76</u>     |

The potential net tax benefit in respect of tax losses carried forward at March 31, 2001 was £14m in United Kingdom subsidiaries (2000 — £16m) and £305m in international subsidiaries (2000 — £51m). These losses are only available for offset against future profits arising from the same trade within these companies.

In addition, the Group's share of losses of United Kingdom and international joint venture undertakings that are available for offset against future trading profits in these entities is £10m and £Nil, respectively (2000 — £Nil and £Nil). The Group's share of losses of United Kingdom and international associated undertakings that are available for offset against future trading profits in these entities is £Nil and £173m, respectively (2000 — £Nil and £105m).

### Other provisions

Other provisions primarily comprise amounts provided for legal claims.

## 21. Called up share capital

|   | 2001                  |              | 2000                  |              |
|---|-----------------------|--------------|-----------------------|--------------|
|   | Number                | £m           | Number                | £m           |
| Authorized  |                       |              |                       |              |
| Ordinary shares of US\$0.10 each . . . . .                    | 78,000,000,000        | 4,875        | 78,000,000,000        | 4,875        |
| 7% cumulative fixed rate shares of £1 each . . . . .          | 50,000                | —            | 50,000                | —            |
|   | <u>78,000,050,000</u> | <u>4,875</u> | <u>78,000,050,000</u> | <u>4,875</u> |
| Ordinary shares allotted, issued and fully paid April 1 . . . | 61,334,032,162        | 3,797        | 3,099,406,734         | 155          |
| Allotted and issued during the year . . . . .                 | <u>3,678,468,984</u>  | <u>257</u>   | <u>58,234,625,428</u> | <u>3,642</u> |
| March 31 . . . . .  | <u>65,012,501,146</u> | <u>4,054</u> | <u>61,334,032,162</u> | <u>3,797</u> |

### Allotted during the year

|  | Number               | Nominal value | Proceeds  |
|--|----------------------|---------------|-----------|
|  |                      | £m            | £m        |
| UK share option schemes . . . . .                                    | 12,106,211           | 1             | 9         |
| US share option schemes and restricted stock awards . . . . .        | 63,174,870           | 5             | 61        |
| Total for share option schemes and restricted stock awards . . . . . | 75,281,081           | 6             | 70        |
| Scrip dividends . . . . .  | 24,740,349           | 2             | —         |
| Shares issued as consideration for the acquisition of interests in:  |                      |               |           |
| Mannesmann AG . . . . .  | 58,131,922           | 4             | —         |
| Airtel Móvil S.A. . . . .  | 3,097,446,624        | 216           | —         |
| Swisscom Mobile SA . . . . .   | <u>422,869,008</u>   | <u>29</u>     | <u>—</u>  |
|  | <u>3,678,468,984</u> | <u>257</u>    | <u>70</u> |

At March 31, 2000, 30,141,094,250 ordinary shares of \$0.10 each had been issued to shareholders of Mannesmann AG, following the receipt of valid acceptances of the Company's Offer representing approximately 98.62% of the issued share capital and approximately 99.72% of Convertible Bonds in issue. Between April 1, 2000 and August 31, 2000 a further 58,131,922 ordinary shares were issued to shareholders of Mannesmann AG, which, together with other stake increases, has increased the Group's interest in the company to 98.826% of its issued share capital.

On December 29, 2000, the Group completed its acquisition of a total of 4,061,948 shares in Airtel Móvil S.A., representing approximately 52.1% of the issued share capital. In consideration for their shareholdings the Company issued 3,097,446,624 new ordinary shares to the transferring shareholders.

Following the receipt of regulatory approvals and the agreement of Swisscom AG's shareholders, the acquisition of a 25% equity interest in Swisscom Mobile SA was completed. The Company satisfied the first tranche of consideration by the issue of 422,869,008 ordinary shares and the payment of CHF25 million in cash. The second tranche will be satisfied in ordinary shares or cash, or a combination of both, at the Company's discretion and is payable by March 2002. The deferred consideration of approximately £978m has been disclosed as 'Shares to be issued' within equity shareholders' funds.

In February 1998, the Company established a Qualifying Employee Share Ownership Trust ('QUEST') to operate in connection with the Company's Savings Related Share Option Scheme. The trustee of the QUEST is Vodafone Group Share Trustee Limited, a wholly owned subsidiary of the Company. At March 31, 2001 the trustee held 5,861,959 Vodafone Group ordinary shares. No shares had been issued to the trustee during the year. The market value at March 31, 2001 for the total shareholding of the trustee was £11m. The dividend rights in respect of these shares have been waived. During the year 6,670,405 shares had been transferred to option holders exercising options under the Savings Related Share Option Scheme.

## 21. Called up share capital (continued)

In July 1998, the Company established an Employee Benefit Trust ('EBT') to operate in connection with the Company's Savings Related Share Option Scheme and the executive share schemes. The trustee of the EBT is Vodafone Group Share Schemes Trustee Limited, a wholly owned subsidiary of the Company. A total of 874,656 new ordinary shares have been allotted for use by the EBT during the year, all of which have been transferred to employees exercising options under the relevant share option schemes.

The proceeds of share issues which have not been issued to parties outside the Group have been shown as deductions from the Group profit and loss account reserves.

### Options

A summary of the options outstanding at March 31, 2001 to subscribe for shares in the Company is provided in the following table.

| <u>Range of exercise prices</u>  | <u>Total shares/<br/>ADSs under<br/>option</u><br><small>(millions)</small> | <u>Weighted<br/>average<br/>period remaining<br/>to full vesting</u><br><small>(months)</small> | <u>Weighted<br/>average<br/>exercise price</u> | <u>Exercisable<br/>shares/<br/>ADSs at<br/>March 31, 2001</u><br><small>(millions)</small> | <u>Exercisable<br/>shares/<br/>ADSs weighted<br/>average exercise<br/>price</u> |
|--|---|---|--|--|---|
| Ordinary shares:   |   |   |  |  |   |
| Vodafone Group Savings Related<br>and Sharesave Schemes  |   |   |  |  |   |
| £0.01 — £1.00 .....  | 7.6   | 10  | £0.43  | —  | —   |
| £1.01 — £2.00 .....  | 6.8   | 17  | £1.27  | —  | —   |
| £2.01 — £3.00 .....  | 12.2  | 34  | £2.21  | —  | —   |
|  | <u>26.6</u>   |   |  | <u>—</u>   |   |
| Vodafone Group Executive Schemes   |   |   |  |  |   |
| £0.01 — £1.00 .....  | 30.4  | —   | £0.54  | 29.3   | £0.54   |
| £1.01 — £2.00 .....  | 64.9  | 3   | £1.58  | 1.7  | £1.63   |
| £2.01 — £3.00 .....  | 67.0  | 25  | £2.68  | 1.2  | £2.69   |
|  | <u>162.3</u>  |   |  | <u>32.2</u>  |   |
| Vodafone Group 1999 Long Term<br>Stock Incentive Plan  |   |   |  |  |   |
| £2.01 — £3.00 .....  | 22.1  | 27  | £2.90  | —  | —   |
|  | <u>22.1</u>   |   |  | <u>—</u>   |   |
| American Depositary Shares:<br>AirTouch Communications, Inc.<br>1993 Long Term Stock Incentive<br>Plan |   |   |  |  |   |
| \$0.01 — \$10.00 .....   | 4.8   | —   | \$7.06   | 4.8  | \$7.06  |
| \$10.01 — \$20.00 .....  | 18.1  | —   | \$16.31  | 18.1   | \$16.31   |
| \$20.01 — \$30.00 .....  | 1.1   | —   | \$20.04  | 1.1  | \$20.04   |
| \$30.01 — \$40.00 .....  | 2.3   | —   | \$34.45  | 2.3  | \$34.45   |
|  | <u>26.3</u>   |   |  | <u>26.3</u>  |   |
| Vodafone Group 1999 Long Term<br>Stock Incentive Plan  |   |   |  |  |   |
| \$40.01 — \$50.00 .....  | 28.0  | —   | \$41.73  | 27.7   | \$41.72   |
| \$50.01 — \$60.00 .....  | 0.8   | 2   | \$55.58  | 0.6  | \$54.63   |
|  | <u>28.8</u>   |   |  | <u>28.3</u>  |   |

## 21. Called up share capital (continued)

American Depositary Shares, each representing ten Vodafone ordinary shares, are listed on the New York Stock Exchange. Following the merger with AirTouch, some rights to acquire AirTouch Communications, Inc. 1993 Long Term Stock Incentive Plan options were converted into rights to acquire Vodafone shares. No further awards will be granted under this scheme.

A put option has been granted to certain shareholders with an interest of approximately 0.6% in the ordinary share capital of Mannesmann AG. The Company will issue approximately 175,000,000 ordinary shares to the transferring shareholders in consideration for their shares in Mannesmann AG.

Put options have been granted to certain shareholders of Airtel Móvil S.A. for up to 8.43% of the current share capital of Airtel Móvil S.A. If exercised, these options would result in a maximum of 613.8 million Vodafone shares being issued to the transferring shareholders, although at the Company's option the consideration may be satisfied in cash. The maximum number of shares that may be issued as consideration will vary based on movements in the Euro exchange rate.

Details of the Group's share offer in respect of the acquisition of Eircell are included in note 33 — Subsequent events.

## 22. Reserves

|   | Share<br>Premium<br>Account | Merger<br>reserve | Other<br>reserve | Profit<br>and loss<br>account |
|---|-----------------------------|-------------------|------------------|-------------------------------|
|   | £m                          | £m                | £m               | £m                            |
| April 1, 2000 .....   | 39,577                      | 96,914            | 1,120            | (575)                         |
| Shares issued in respect of the acquisition of Airtel Móvil S.A. . . .                        | 7,699                       | —                 | —                | —                             |
| Shares issued in respect of the acquisition of an interest in<br>Swisscom Mobile SA .....     | 811                         | —                 | —                | —                             |
| Other allotments of shares .....  | 202                         | —                 | —                | —                             |
| Loss for the financial year .....   | —                           | —                 | —                | (10,650)                      |
| Goodwill transferred to the profit and loss account in respect of<br>business disposals ..... | —                           | —                 | —                | 1                             |
| Currency translation .....  | —                           | —                 | —                | 5,197                         |
| Transfer in respect of issue of shares to employee trusts<br>(note 21) .....                  | 5                           | —                 | —                | (5)                           |
| Transfer to profit and loss account .....   | —                           | —                 | (96)             | 96                            |
| Scrip dividends .....   | (2)                         | —                 | —                | 67                            |
| March 31, 2001 .....  | <u>48,292</u>               | <u>96,914</u>     | <u>1,024</u>     | <u>(5,869)</u>                |

The currency translation movement includes a loss of £518m (2000 — gain of £316m) in respect of foreign currency net borrowings.

For acquisitions prior to April 1, 1998, the cumulative goodwill written off to reserves, net of the goodwill attributed to business disposals, was £1,193m at March 31, 2001 (2000 — £1,194m). See notes 10 and 12 for details of the movement.

### **23. Non-equity minority interests**

Non-equity minority interests of £1,129m (2000 — £1,004m) comprise £1,125m (2000 — £1,000m) of Class D & E Preferred Shares issued by Vodafone Americas Asia Inc. and £4m (2000 — £4m) non-cumulative redeemable preference shares issued by Vodafone Pacific Limited.

The aggregate redemption value of the Class D & E Preferred Shares, on which annual dividends of \$51.43 per share are payable quarterly in arrears, is \$1.65 billion. The holders of the Preferred Shares are not entitled to vote unless their dividends are in arrears and unpaid for six quarterly dividend periods, in which case holders can vote for the election of two directors. The maturity date of the 825,000 Class D Preferred Shares is April 6, 2020, although they may be redeemed at the option of the company, in whole or in part, after April 7, 2018. The 825,000 Class E Preferred Shares have a maturity date of April 7, 2018 with no early redemption. The Preferred Shares have a redemption price of \$1,000 per share plus all accrued and unpaid dividends.

The holders of the shares issued by Vodafone Pacific Limited have the right to vote and receive such dividend as the directors declare, subject to a pre-defined limit on the amount of that dividend. These shares are redeemable by either the company or the holder of the shares under certain circumstances and are generally not entitled to any participation in the profits or assets of the company other than as prescribed. These securities rank in priority to all other classes of share issued by the company as regards return of capital.

### **24. Acquisitions and disposals**

The Group has undertaken a number of transactions during the year including completion of the acquisition of Mannesmann AG, contribution of the Group's US cellular operations to Verizon Wireless, the acquisition of a controlling interest in Airtel Móvil S.A. and the acquisition of a 25% interest in Swisscom Mobile SA.

The total goodwill capitalized in respect of transactions completed during the year has been provisionally assessed to be £112,721m of which £87,171m, £25,536m and £14m is in respect of subsidiary undertakings, associated undertakings and customer bases respectively.

Further details of these transactions are given below.

#### **Acquisition of Mannesmann AG**

On April 12, 2000, the Group received approval from the European Commission for the acquisition of Mannesmann AG. Among the interests held by Mannesmann AG were majority stakes in the German mobile operator, Mannesmann Mobilfunk GmbH ("D2 Vodafone") and the Italian mobile operator, Omnitel Pronto Italia S.p.A. ("Omnitel Vodafone"). Prior to the acquisition of Mannesmann AG, the Group held interests in D2 Vodafone and Omnitel Vodafone of approximately 34.8% and 21.6%, respectively, and these were accounted for as associated undertakings. In accordance with Financial Reporting Standard 2, "Accounting for Subsidiary Undertakings", and in order to give a true and fair view, purchased goodwill has been calculated as the sum of the goodwill arising on each stake increase in D2 Vodafone and Omnitel Vodafone, being the difference at the date of each purchase between the fair value of the consideration given and the fair value of the identifiable assets and liabilities attributable to the interest purchased. This represents a departure from the statutory method, under which goodwill is calculated as the difference between cost and fair value on the date that D2 Vodafone and Omnitel Vodafone became subsidiary undertakings. The statutory method would not give a true and fair view because it would result in the Group's share of D2 Vodafone's and Omnitel Vodafone's retained reserves, during the period that they were associated undertakings, being recharacterized as goodwill. The effect of this departure is to increase retained profits, and purchased goodwill, by £49m.

## 24. Acquisitions and disposals (continued)

The table below sets out the details of the acquisition of Mannesmann AG which has been accounted for as an acquisition.

|  | At acquisition(1) | Assets held<br>for resale(2) | Accounting policy<br>conformity | Revaluations(3) | Fair value     |
|--|-------------------|------------------------------|---------------------------------|-----------------|----------------|
|  | £m                | £m                           | £m                              | £m              | £m             |
| Fixed assets   |                   |                              |                                 |                 |                |
| Intangible fixed assets . . . . .  | 1,060             | —                            | (1,060)(4)                      | —               | —              |
| Tangible fixed assets . . . . .  | 3,091             | —                            | 485 (5)                         | 254 (6)         | 3,830          |
| Investments in associated undertakings . . . . .   | 665               | —                            | (648)(7)                        | —               | 17             |
| Other investments . . . . .  | 13                | —                            | 76 (8)                          | 301 (9)         | 390            |
| Current assets   |                   |                              |                                 |                 |                |
| Stocks . . . . .   | 173               | —                            | —                               | 1               | 174            |
| Debtors . . . . .  | 2,655             | —                            | 196 (10)                        | (962)(11)       | 1,889          |
| Assets held for resale . . . . .   | —                 | 30,222                       | —                               | —               | 30,222         |
| Cash at bank and in hand . . . . .   | 576               | —                            | —                               | —               | 576            |
| Current liabilities  |                   |                              |                                 |                 |                |
| Overdrafts . . . . .   | (41)              | —                            | —                               | —               | (41)           |
| Short term borrowings . . . . .  | (6,937)           | —                            | 19                              | —               | (6,918)        |
| Other creditors due within one year . . . . .  | (3,648)           | —                            | 42                              | (482)(11)       | (4,088)        |
| Long term liabilities  |                   |                              |                                 |                 |                |
| Long term borrowings . . . . .   | (7,776)           | —                            | (153)(12)                       | 1,761 (13)      | (6,168)        |
| Provisions for liabilities and charges . . . . .   | (258)             | —                            | (6)                             | —               | (264)          |
| Net (liabilities)/assets . . . . .   | <u>(10,427)</u>   | <u>30,222</u>                | <u>(1,049)</u>                  | <u>873</u>      | <u>19,619</u>  |
| Minority interests . . . . .   |                   |                              |                                 |                 | (549)          |
| Share of net assets previously held as<br>investments in associated undertakings . . . . . |                   |                              |                                 |                 | (662)          |
| Goodwill(14) . . . . .   |                   |                              |                                 |                 | <u>83,028</u>  |
| Consideration . . . . .  |                   |                              |                                 |                 | <u>101,436</u> |
| Consideration satisfied by:  |                   |                              |                                 |                 |                |
| Ordinary shares . . . . .  |                   |                              |                                 |                 | 101,366        |
| Other (including acquisition costs) . . . . .  |                   |                              |                                 |                 | 70             |
|  |                   |                              |                                 |                 | <u>101,436</u> |

### Notes:

- (1) Excludes those operations that have been subsequently sold.
- (2) Assets held for resale represent the anticipated net sale proceeds of businesses that have been subsequently sold, or held as current asset investments at March 31, 2001.
- (3) The revaluations are provisional and may be subject to adjustment in the year ending March 31, 2002.
- (4) Elimination of acquired intangibles, including goodwill.
- (5) Restatement of certain tangible fixed asset carrying values in accordance with UK GAAP.
- (6) Revaluation of certain tangible fixed assets to fair value.
- (7) Restatement of carrying value of associated undertakings in accordance with UK GAAP.
- (8) Reclassification of associated undertaking to trade investments.
- (9) Revaluation of trade investments to fair value.
- (10) Primarily the recognition of a deferred tax asset in accordance with UK GAAP.
- (11) Revaluation of certain working capital balances to fair value.
- (12) Restatement of long term borrowings in accordance with UK GAAP.
- (13) Revaluation of long term borrowings to fair value.
- (14) The total goodwill of £83,028m derived above has been allocated as £79,426m in respect of subsidiary undertakings and £3,602m for associated undertakings.

## 24. Acquisitions and disposals (continued)

### *Impact on cash flows*

The acquired Mannesmann businesses contributed £2,863m to the Group's net operating cash flows, received £53m in respect of returns on investments and servicing of finance, paid £841m in respect of taxation, utilized £8,188m for investing activities and contributed £26,358m from acquisitions and disposals.

### *Pre-acquisition results of Mannesmann AG*

The summarized profit and loss accounts of Mannesmann AG, prepared under German GAAP, for the years ended December 31, 1999 (translated at the average exchange rate for the year of £1 = €1.524) and December 31, 1998 (translated at the exchange rate on December 31, 1998 of £1 = €1.416) are given below. The accounts for the 12 months ended December 31, 1999 are the last consolidated accounts prepared by the company prior to the acquisition on April 12, 2000.

|  | Year ended<br>December 31, 1999 | Year ended<br>December 31, 1998 |
|--|---------------------------------|---------------------------------|
|  | £m                              | £m                              |
| Net sales . . . . .  | 15,264                          | 13,464                          |
| Cost of sales . . . . .  | (10,369)                        | (9,396)                         |
| Gross profit . . . . .   | 4,895                           | 4,068                           |
| Research and development expenditure . . . . .                             | (460)                           | (431)                           |
| Selling expenses . . . . .   | (1,995)                         | (1,537)                         |
| General administrative expenses . . . . .                                  | (972)                           | (821)                           |
| Other operating income . . . . .   | 578                             | 534                             |
| Other operating expenses . . . . .   | (763)                           | (768)                           |
| Net income from equity investments . . . . .                               | 77                              | 99                              |
| Value adjustments to financial assets and short-term investments . . . . . | (3)                             | (30)                            |
| Net interest . . . . .   | (341)                           | (136)                           |
| Result from ordinary activities . . . . .                                  | 1,016                           | 978                             |
| Extraordinary result . . . . .   | (138)                           | 24                              |
| Taxes on profit . . . . .  | (552)                           | (557)                           |
| Net profit for the year . . . . .  | 326                             | 445                             |
| Minority interests in profit . . . . .                                     | (379)                           | (194)                           |
| Minority interests in loss . . . . .                                       | 117                             | 88                              |
| Changes in revenue reserves . . . . .                                      | 283                             | (171)                           |
| Profit available for distribution . . . . .                                | <u>347</u>                      | <u>168</u>                      |



## 24. Acquisitions and disposals (continued)

A consolidated profit and loss account for Mannesmann AG for the period from January 1, 2000 to April 12, 2000 was not prepared by the company. In order to provide information which highlights the impact of the acquisition of Mannesmann AG on the continuing activities of the Group, aggregated pro forma financial information is presented below for the acquired operations, excluding businesses held for resale on acquisition.

|                            | <u>Aggregated pro forma<br/>results for the period from<br/>January 1, 2000 to April 12, 2000</u> |
|----------------------------|---|
|                            | £m  |
| Turnover . . . . .         | <u>2,079</u>  |
| Operating profit . . . . . | <u>641</u>  |

### *Disposals of businesses acquired with Mannesmann AG*

Following the acquisition of Mannesmann AG, the Group has agreed the sale of certain acquired businesses including Orange plc, Atecs Mannesmann AG, Mannesmann's watches and tubes businesses, Infostrada S.p.A., tele.ring Telekom Service GmbH and Ipulsys. In accordance with Financial Reporting Standard 7, "Fair Values in Acquisition Accounting" the fair value of the Group's investment in these businesses at acquisition has been deemed to equal the value of the subsequent net sale proceeds. The results of these businesses have been excluded from the Group's consolidated profit and loss account for the year and no gain or loss on disposal has been recorded. No ownership interests in these businesses have been retained by the Group, except in the case of Atecs Mannesmann AG where the Group holds a remaining interest of 50% less two shares over which certain put and call options exist which may be exercised before December 31, 2003. A balancing payment in respect of France Telecom shares received as part of the consideration for the sale of Orange plc is receivable in March 2002 and is held as a current asset investment at March 31, 2001.

### **Acquisition of an interest in Verizon Wireless**

On September 21, 1999, the Company announced an agreement with Bell Atlantic and GTE to combine their US cellular operations to create the largest mobile operator in the United States, Verizon Wireless. The first stage of the transaction, involving the contribution of the US cellular operations of Vodafone and Bell Atlantic was completed on April 3, 2000, with the Group holding an initial stake of 65.1% of Verizon Wireless. Following the completion of the merger of Bell Atlantic and GTE to form Verizon Communications, the second stage of the transaction completed with the contribution of the US cellular operations of GTE to Verizon Wireless on July 10, 2000, reducing the Group's interest to 45%. The Group's assets contributed to the joint venture partnership have been treated as having been disposed, including the attributed goodwill of £19.5 billion, and the Group's interest in the new venture has been accounted for as an acquisition and is included within investments in associated undertakings. The Group also contributed its interest in Primeco Personal Communications LLP to the venture and was required to dispose of certain conflicting properties. No gain or loss has been recorded in the Group's consolidated profit and loss account in respect of the disposal of the US cellular and paging businesses or the disposal of the conflicting properties.

## 24. Acquisitions and disposals (continued)

The net assets contributed to Verizon Wireless were as follows:

|  | <u>£m</u>      |
|--|----------------|
| Intangible fixed assets . . . . .  | 18,329         |
| Tangible fixed assets . . . . .  | 2,755          |
| Investments in joint ventures . . . . .  | 2,543          |
| Investments in associated undertakings . . . . .                                       | 61             |
| Other investments . . . . .  | 1              |
| Net current assets . . . . .   | 586            |
| Long term borrowings . . . . .   | (2,500)        |
| Minority interests . . . . .   | <u>(68)</u>    |
| Net assets . . . . .   | 21,707         |
| Proceeds on disposal of conflicting properties and interests in fixed assets . . . . . | <u>(1,898)</u> |
|  | <u>19,809</u>  |

The share of assets/(liabilities) acquired on formation of Verizon Wireless were:

|  | <u>Book value<br/>at acquisition</u> | <u>Accounting policy<br/>conformity</u> | <u>Revaluations(1)</u> | <u>Fair value<br/>at acquisition</u> |
|--|--------------------------------------|---|------------------------|--------------------------------------|
|  | £m                                   | £m                                      | £m                     | £m                                   |
| Fixed assets . . . . .                             | 14,152                               | (11,245)(2)                             | (262)(3)               | 2,645                                |
| Current assets . . . . .                           | 890                                  | —                                       | (26)(4)                | 864                                  |
| Liabilities due within one year . . . . .          | (1,601)                              | —                                       | (9)(4)                 | (1,610)                              |
| Liabilities due after more than one year . . . . . | (2,643)                              | 686 (5)                                 | —                      | (1,957)                              |
| Minority interests . . . . .                       | <u>(112)</u>                         | <u>—</u>                                | <u>—</u>               | <u>(112)</u>                         |
|  | <u>10,686</u>                        | <u>(10,559)</u>                         | <u>(297)</u>           | <u>(170)</u>                         |
| Goodwill . . . . .                                 |                                      |   |                        | 19,979                               |
| Cost of investment in Verizon Wireless . . . . .   |                                      |   |                        | <u>19,809</u>                        |

Notes:

- (1) The revaluations are provisional and may be subject to adjustment in the year ending March 31, 2002.
- (2) Elimination of acquired intangibles, including goodwill, of £11,209m and capitalized interest in tangible fixed assets of £36m.
- (3) Revaluation of certain tangible fixed assets to fair value.
- (4) Revaluation of certain current assets and liabilities to fair value.
- (5) Restatement of deferred tax liabilities

## 24. Acquisitions and disposals (continued)

### Pre-acquisition results of Verizon Wireless

Verizon Wireless was formed on April 3, 2000 and therefore pre-acquisition results cannot be provided. In order to illustrate the effects on the Group's profit and loss account of the formation of the partnership, the following unaudited pro forma financial information is provided for the year ended March 31, 2000. This information is based on the unaudited results of the Group's contributed businesses for the year ended March 31, 2000, the unaudited results of the Cellco partnership (comprising Bell Atlantic and GTE) for the year ended December 31, 1999 and the unaudited results of Primeco Personal Communications, LLP, for the year ended December 31, 1999. The Group's share of results as shown below have been adjusted to conform materially to the Group's accounting policies under UK GAAP. The pro forma financial information does not include any amounts for taxation.

|   | Year ended<br>March 31, 2000 |
|---|------------------------------|
|   | £m                           |
| Share of:                                 |                              |
| Operating profit .....                    | 748                          |
| Disposal of fixed asset investments ..... | 2                            |
| Interest payable .....                    | (180)                        |
| Profit on ordinary activities .....       | 570                          |
| Minority interests .....                  | (34)                         |
| Profit for the financial year .....       | <u>536</u>                   |

### Acquisition of Airtel Móvil S.A.

On December 29, 2000, approval was received from the European Commission for the acquisition of 52.1% of Airtel Móvil S.A. The acquisition increased the Group's stake in Airtel Móvil S.A. to 73.8%. Prior to the acquisition of this additional stake, the Group's interest of 21.7% was accounted for as an associated undertaking. As described on page F-34, the piecemeal approach to calculating goodwill has been adopted in accordance with Financial Reporting Standard 2. Adopting the statutory method would not give a true and fair view because it would result in the Group's share of retained reserves, during the period that Airtel Móvil S.A. was an associated undertaking, being recharacterized as goodwill. The effect of this departure is to increase retained profits, and purchased goodwill by £57m. The table below sets out details of the acquisition which has been accounted for as an acquisition.

|  | At acquisition | Accounting<br>policy conformity | Revaluations(1) | Fair value   |
|--|----------------|---------------------------------|-----------------|--------------|
|  | £m             | £m                              | £m              | £m           |
| Intangible fixed assets .....  | 374            | (270)(2)                        | —               | 104          |
| Tangible fixed assets .....  | 1,010          | —                               | —               | 1,010        |
| Cash at bank and in hand .....   | 7              | —                               | —               | 7            |
| Other net current liabilities .....  | (130)          | —                               | 1(3)            | (129)        |
| Short term borrowings .....  | (268)          | —                               | —               | (268)        |
| Long term borrowings .....   | (372)          | —                               | —               | (372)        |
| Net assets .....   | <u>621</u>     | <u>(270)</u>                    | <u>1</u>        | 352          |
| Minority interests .....   |                |                                 |                 | (92)         |
| Share of net assets previously held as investments in<br>associated undertakings ..... |                |                                 |                 | (85)         |
| Goodwill .....   |                |                                 |                 | <u>7,740</u> |
| Consideration — Vodafone ordinary shares .....   |                |                                 |                 | <u>7,915</u> |

#### Notes:

- (1) The revaluations are provisional and may be subject to adjustment in the year ending March 31, 2002.
- (2) Elimination of certain acquired intangibles, including goodwill.
- (3) Net fair value adjustment in respect of working capital balances.

## 24. Acquisitions and disposals (continued)

### Impact on cash flows

Airtel contributed £135m to the Group's net operating cash flows, paid £9m in respect of returns on investments and servicing of finance, paid £5m in respect of taxation and utilized £70m for investing activities, following the Group's acquisition.

### Pre-acquisition results of Airtel Móvil S.A.

The profit after tax of Airtel Móvil S.A. for the years ended December 31, 2000 and December 31, 1999 was £167m and £97m, respectively, prepared under Spanish GAAP and translated at the average exchange rate for the years of £1 = ESP273.66 and £1 = ESP252.66, respectively.

### Other acquisitions

The Group undertook a number of other acquisitions during the year as summarized below:

|   | <u>Consideration</u> | <u>Fair value net</u><br><u>assets acquired</u> | <u>Goodwill</u><br><u>capitalized</u> |
|---|----------------------|---|---------------------------------------|
|   | £m                   | £m  | £m                                    |
| Swisscom Mobile SA. . . . .                 | 1,828                | 57  | 1,771                                 |
| Other . . . . .                             | 84                   | (119)   | 203                                   |
|   | <u>1,912</u>         | <u>(62)</u>                                     | <u>1,974</u>                          |
| The goodwill has been allocated as follows: |                      |   |                                       |
| Subsidiary undertakings . . . . .           |                      |   | 5                                     |
| Customer bases . . . . .                    |                      |   | 14                                    |
| Associated undertakings . . . . .           |                      |   | 1,955                                 |
|   |                      |   | <u>1,974</u>                          |

The Group completed the acquisition of a 25% interest in Swisscom Mobile SA for a total consideration of £1,828m. The consideration will be settled in two tranches. The first tranche was settled with the issue of new ordinary shares with a value of £840m and £10m in cash. The second tranche of approximately £978m will be satisfied in ordinary shares or cash, or a combination of both, at the Group's discretion and is payable by March 2002. The share of net assets acquired is provisionally calculated as £57m, resulting in goodwill of £1,771m and no significant fair value adjustments have been made.

Other acquisitions include the purchase of a further stake in the UK service provider, Uniqueair, the acquisition of an interest in Mobitel, a Greek service provider, and further fair value adjustments made in the year in respect of the AirTouch Communications, Inc. transaction in the prior year which have revised the provisional value of goodwill from £40,968m to £41,102m.

## 25. Leased assets

### Operating leases

Future minimum amounts payable under non-cancelable operating leases at March 31, 2001 are as follows:

| <u>Years ending March 31:</u> | <u>£m</u>    |
|-------------------------------|--------------|
| 2002 .....                    | 451          |
| 2003 .....                    | 140          |
| 2004 .....                    | 129          |
| 2005 .....                    | 110          |
| 2006 .....                    | 95           |
| Thereafter .....              | <u>372</u>   |
|                               | <u>1,297</u> |

### Finance leases

Tangible fixed assets at March 31, 2001 include the following amounts in respect of finance leases:

|                                | <u>Equipment,<br/>fixtures<br/>and fittings</u> | <u>Network<br/>infrastructure</u> | <u>Total</u> |
|--------------------------------|---|-----------------------------------|--------------|
|                                | <u>£m</u>                                       | <u>£m</u>                         | <u>£m</u>    |
| Cost .....                     | 19  | 373                               | 392          |
| Accumulated depreciation ..... | <u>(19)</u>                                     | <u>(148)</u>                      | <u>(167)</u> |
| Net book value .....           | <u>—</u>  | <u>225</u>                        | <u>225</u>   |
| March 31, 2000                 |   |                                   |              |
| Net book value .....           | <u>3</u>  | <u>144</u>                        | <u>147</u>   |

Liabilities under leases for network infrastructure assets, with an original cost of £226m and net book value at March 31, 2001 of £89m, have been unconditionally satisfied by call deposits and other assets, trust deed and set-off arrangements. Accordingly, lease liabilities and the corresponding financial assets in respect of these network infrastructure assets are not included in the Group's balance sheet.

## 26. Capital commitments

|   | <u>2001</u> | <u>2000</u> |
|---|-------------|-------------|
|   | <u>£m</u>   | <u>£m</u>   |
| Tangible and intangible fixed asset expenditure contracted for but not provided ..... | <u>861</u>  | <u>442</u>  |

Details of business acquisitions completed after March 31, 2001 are included in note 33 — Subsequent events.

## 27. Contingent liabilities

|  | <u>2001</u>  | <u>2000</u>  |
|--|--------------|--------------|
|  | <u>£m</u>    | <u>£m</u>    |
| Guarantees and indemnities of bank or other facilities including those in respect of the Group's joint ventures, associated undertakings and investments ..... | <u>1,339</u> | <u>1,155</u> |

Guarantees and indemnities include £1,221m in respect of a letter of indemnity provided by the Company, in September 1999, and subsequently extended, to a co-investor in certain operating companies in which the Group 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.

## 28. Analysis of cash flows

|  | 2001            | 2000           | 1999         |
|--|-----------------|----------------|--------------|
|  | £m              | £m             | £m           |
| Net cash inflow from operating activities                            |                 |                |              |
| Operating (loss)/profit  | (6,439)         | 981            | 847          |
| Exceptional items  | 176             | 30             | —            |
| Depreciation   | 1,593           | 746            | 282          |
| Amortization of goodwill   | 9,585           | 674            | 8            |
| Amortization of other intangible fixed assets                        | 24              | 12             | 7            |
|  | <u>4,939</u>    | <u>2,443</u>   | <u>1,144</u> |
| Decrease/(increase) in stocks  | 15              | (65)           | (15)         |
| Increase in debtors  | (350)           | (271)          | (213)        |
| Increase in creditors  | 67              | 433            | 130          |
| Payments in respect of exceptional items                             | (84)            | (30)           | (1)          |
|  | <u>4,587</u>    | <u>2,510</u>   | <u>1,045</u> |
| Net cash outflow for returns on investments and servicing of finance |                 |                |              |
| Interest received  | 296             | 57             | 16           |
| Termination of hedging instruments                                   | 901             | —              | —            |
| Dividends from investments   | 102             | —              | —            |
| Interest paid  | (1,254)         | (370)          | (85)         |
| Interest element of finance leases                                   | (11)            | —              | —            |
| Dividends paid to minority shareholders in subsidiary undertakings   | (81)            | (93)           | (21)         |
|  | <u>(47)</u>     | <u>(406)</u>   | <u>(90)</u>  |
| Net cash outflow for capital expenditure and financial investment    |                 |                |              |
| Purchase of intangible fixed assets                                  | (13,163)        | (185)          | (18)         |
| Purchase of tangible fixed assets                                    | (3,698)         | (1,848)        | (737)        |
| Purchase of investments  | (3,254)         | (17)           | (4)          |
| Disposal of interests in tangible fixed assets                       | 275             | 294            | 14           |
| Disposal of investments  | 513             | 991            | 54           |
| Loans to joint ventures  | (85)            | —              | —            |
| Loans repaid by associated undertakings                              | 5               | 9              | 3            |
| Loans to acquired businesses held for sale                           | (1,509)         | —              | —            |
| Loans repaid by acquired businesses held for sale                    | 1,905           | —              | —            |
|  | <u>(19,011)</u> | <u>(756)</u>   | <u>(688)</u> |
| Net cash inflow/(outflow) from acquisitions and disposals            |                 |                |              |
| Purchase of subsidiary undertakings                                  | (219)           | (4,062)        | (255)        |
| Net cash acquired with subsidiary undertakings                       | 542             | 4              | —            |
| Proceeds on formation of joint venture                               | 2,544           | —              | —            |
| Purchase of interests in associated undertakings                     | (79)            | (717)          | (75)         |
| Purchase of customer bases   | (15)            | (9)            | (10)         |
| Disposal of interest in subsidiary undertaking                       | —               | —              | 19           |
| Disposal of interests in joint ventures and associated undertakings  | 1,878           | 28             | 4            |
| Disposal of acquired businesses held for sale                        | <u>26,002</u>   | <u>—</u>       | <u>—</u>     |
|  | <u>30,653</u>   | <u>(4,756)</u> | <u>(317)</u> |

Net cash outflow for returns on investments and servicing of finance includes exceptional cash inflows of £261m in respect of the termination of the Infostrada hedge transaction (note 5) and £640m realized from the early closure of interest and currency swap instruments.

## 28. Analysis of cash flows (continued)

Material non-cash transactions during the year comprise the issue of new ordinary shares in relation to increased ownership interests in Mannesmann AG, the acquisition of a controlling shareholding in Airtel Móvil S.A. in December 2000 and the acquisition of a minority interest in Swisscom Mobile SA in March 2001. In addition, the formation of Verizon Wireless in April 2000 involved the contribution of the Group's US wireless assets to a US partnership. Further details of these transactions are included in notes 21 and 24.

## 29. Analysis of net debt

|  | April 1,<br>2000 | Cash flow     | Acquisitions<br>(excluding cash<br>& overdrafts) | Other non-cash<br>changes & exchange<br>movements | March 31,<br>2001 |
|--|------------------|---------------|--|---|-------------------|
|  | £m               | £m            | £m   | £m  | £m                |
| Liquid investments .....                                       | <u>30</u>        | <u>7,541</u>  | <u>—</u>   | <u>22</u>   | <u>7,593</u>      |
| Cash at bank and in hand .....                                 | 159              | (98)          | —  | 7   | 68                |
| Bank overdrafts .....  | <u>(43)</u>      | <u>43</u>     | <u>—</u>   | <u>(5)</u>  | <u>(5)</u>        |
|  | <u>116</u>       | <u>(55)</u>   | <u>—</u>   | <u>2</u>  | <u>63</u>         |
| Debt due within one year (other than bank<br>overdrafts) ..... | (751)            | 4,765         | (7,167)  | (443)   | (3,596)           |
| Debt due after one year .....                                  | (6,038)          | 2,026         | (6,406)  | (212)   | (10,630)          |
| Finance leases .....   | <u>—</u>         | <u>9</u>      | <u>(153)</u>                                     | <u>(8)</u>  | <u>(152)</u>      |
|  | <u>(6,789)</u>   | <u>6,800</u>  | <u>(13,726)</u>                                  | <u>(663)</u>                                      | <u>(14,378)</u>   |
|  | <u>(6,643)</u>   | <u>14,286</u> | <u>(13,726)</u>                                  | <u>(639)</u>                                      | <u>(6,722)</u>    |

Cash flows in respect of the Commercial Paper program are shown net within cash outflows from debt financing.

## 30. Directors

Aggregate emoluments of the directors of the Company were as follows:

|                                       | <u>2001</u>   | <u>2000</u>  |
|---------------------------------------|---------------|--------------|
|                                       | £000          | £000         |
| Salaries and fees .....               | 4,332         | 3,422        |
| Bonuses .....                         | 11,000        | 695          |
| Incentive schemes .....               | 2,402         | 2,468        |
| Other benefits .....                  | 558           | 194          |
| Compensation for loss of office ..... | <u>10,272</u> | <u>—</u>     |
|                                       | <u>28,564</u> | <u>6,779</u> |

Aggregate gains on the exercise of share options in the year to March 31, 2001 by serving directors were £6,330,000 (2000 — £93,910,000) and by former directors were £1,999,000 (2000 — £Nil).

Following approval by the Board, on June 19, 2000 Vodafone Americas Asia Inc. (formerly AirTouch Communications, Inc.), a subsidiary undertaking of the Company, entered into an agreement for the sale of a Gulfstream III aircraft to Salt Aire Associates, LLC and Mill Creek Systems, LLC. The price agreed by the Board for the sale of the aircraft was \$10m based on three independent market valuations at the time of sale. The sole member of Salt Aire Associates, LLC is the Ginn 1985 Family Trust and Sam Ginn, who was Chairman of the Company until his resignation on May 23, 2000, is a trustee and beneficiary of the Trust. There were no other material transactions during the year involving directors or former directors of the Company.

### 31. Employees

The average number of persons employed by the Group during the year:

|                                    | <u>2001</u>   | <u>2000</u>   | <u>1999</u>   |
|------------------------------------|---------------|---------------|---------------|
|                                    | Number        | Number        | Number        |
| Operations . . . . .               | 13,963        | 9,058         | 3,675         |
| Selling and distribution . . . . . | 10,642        | 5,484         | 2,871         |
| Administration . . . . .           | 28,720        | 14,923        | 6,096         |
|                                    | <u>53,325</u> | <u>29,465</u> | <u>12,642</u> |

The cost incurred in respect of these employees (including directors) was:

|                                 | <u>2001</u>  | <u>2000</u> | <u>1999</u> |
|---------------------------------|--------------|-------------|-------------|
|                                 | £m           | £m          | £m          |
| Wages and salaries . . . . .    | 1,408        | 774         | 314         |
| Social security costs . . . . . | 113          | 65          | 20          |
| Other pension costs . . . . .   | 47           | 42          | 18          |
|                                 | <u>1,568</u> | <u>881</u>  | <u>352</u>  |

### 32. Pensions

The Group operates a number of pension plans for the benefit of its employees throughout the world, which vary with conditions and practices in the countries concerned. The pension plans are provided through defined benefit or defined contribution arrangements. Defined benefit schemes provide pensions based on the employees' length of pensionable service and their final pensionable salary. Defined contribution schemes offer employees individual funds that are converted into pension benefits at the time of retirement.

For non-UK employees the Group provides, in most cases, defined contribution schemes. For employees in the UK and certain businesses acquired as part of the Mannesmann acquisition, the Group generally provides defined benefit schemes.

#### Defined benefit schemes

##### *United Kingdom*

The UK scheme is a funded scheme subject to a triennial valuation by independent actuaries. The assets of the scheme are held in separate trustee administered funds. The last formal valuation was carried out as at April 1, 1998. The valuation used the projected unit funding method of valuation in which allowance is made for projected earnings growth. The triennial formal valuations are supplemented by annual reviews by independent actuaries.

At April 1, 1998, the market value of the three principal schemes was £98m and their actuarial value was sufficient to cover 87.6% of the benefits accrued to members calculated on an ongoing basis, and 99.4% of accrued benefits based on the Minimum Funding Requirement basis. The deficiency is dealt with by payment of contributions at the rate advised by the actuary.

The main assumptions used in the last valuations were that the average long term rate of return earned by the scheme assets would be 8.5% and that this will exceed the general rate of salary growth by between 0.5% and 1.5% per annum, and that equity dividend growth would be 4.5% per annum.

The three UK defined benefit pension schemes were merged on April 1, 1999 to form the Vodafone Group Pension Scheme. The Vodafone Group Pension Scheme will be subject to a full valuation at April 1, 2001, the results of which will be available to the Trustee later in the year. These results will be made available in next year's report.



### **32. Pensions (continued)**

The pension cost for this year amounted to £23m (2000 — £17m, 1999 — £13m). A net prepayment of £24m (2000 — £17m) is included in debtors due after more than one year and represents the excess of the amounts funded over accumulated pension costs.

#### *Germany*

The Group's pension obligations in relation to employees in Germany are not generally funded with any shortfall in external funding being accrued within provisions. At March 31, 2001, the scheme provided benefits for approximately 16,000 participants.

The last formal valuation of the German scheme was prepared at April 1, 2001 by independent actuaries using the projected unit funding method of valuation. The total pension liability was £140m and the market value of the scheme's assets amounted to £7m representing a percentage cover of accrued benefits for members of 5.3%.

The main assumptions used in the valuation were that salaries would increase at an average of 4% per annum, wages would increase at 2.5% per annum and pension payments would increase by 2% per annum. The discount rate used was 6.5%.

The pension cost for the year amounted to £14m. A provision of £136m is included in provisions for liabilities and charges.

#### **Defined contribution schemes**

The pension cost for the year was £10m (2000 — £25m, 1999 — £5m). The decrease this year is primarily in respect of contributions charged in the year ended March 31, 2000 in relation to the AirTouch defined contribution plan which was transferred to Verizon Wireless during the year.

### **33. Subsequent events**

On April 4, 2001, the Group completed its acquisition of a 34.5% stake in Grupo Iusacell, S.A. de C.V., for a cash consideration of \$973 million.

On April 12, 2001, following the second payment of Yen 125.1 billion (£0.7 billion), the acquisition of a 15% stake in Japan Telecom from West Japan Railway Company and Central Japan Railway Company was completed. The initial payment of Yen 124.6 billion (£0.7 billion) for 7.5% of the 15% interest being acquired was made on January 31, 2001. On April 26, 2001, the Group completed the acquisition of a further 10% stake in Japan Telecom from AT&T for a cash consideration of \$1.35 billion (£0.9 billion).

On May 2, 2001, the Company announced that it had agreed to acquire BT's ownership interests in Japan Telecom and the J-Phone Group for a cash consideration of £3.7 billion, assuming the exercise by BT of its option over shares in the operating subsidiaries of the J-Phone Group, and the acquisition of BT's 17.8% shareholding in Airtel Móvil S.A. for a cash consideration of £1.1 billion. The acquisition of BT's interests in Japan Telecom and J-Phone Communications completed on June 1, 2001. The acquisition of BT's interests in the operating companies of the J-Phone Group is expected to complete in July 2001, subject to the exercise of certain options by BT. The Airtel transaction completed on June 29, 2001 following the receipt of EU regulatory approval.

In an offering on May 2, 2001, the Company raised approximately £3.5 billion through the issue of 1.825 billion new Vodafone ordinary shares at 194p per share (equivalent to \$27.83 per ADS, representing ten Vodafone ordinary shares). The new Vodafone shares issued represented approximately 2.8% of Vodafone's issued ordinary share capital prior to the offering.

On May 8, 2001, the Company announced that agreement had been reached to sell its 100% equity stake in the Austrian telecommunications company, tele.ring Telekom Service GmbH. The transaction completed on June 29, 2001 following the receipt of regulatory approval.

### 33. Subsequent events (continued)

On December 21, 2000, *eircom* plc announced the proposed demerger of *eircom* plc's mobile communications business, Eircell, to a new company, called Eircell 2000, and Vodafone announced a separate offer for the entire share capital of Eircell 2000. Eircell is the leading provider of mobile communications in Ireland, with over 1.5 million customers at March 31, 2001. At the date it was launched, the offer valued Eircell at approximately €3.6 billion, including the assumption of €250 million of net debt. The offer was declared unconditional on May 14, 2001 following the receipt of valid acceptances representing approximately 79.6% of the total shareholding in Eircell. The offer remained open for acceptance until May 27, 2001 and, in accordance with the Articles of Association of Eircell, all shareholders were deemed to have accepted the offer at that date. Vodafone has issued approximately 1,046 million new ordinary shares to shareholders in consideration for their ownership interests.

On May 11, 2001, Panafon S.A., the Group's Greek subsidiary, increased its shareholding in Unifon S.A., a Greek service provider, from 19.6% to 100%. The acquisition was funded by the issue of new Panafon shares and resulted in a reduction in the Group's stake in Panafon from 55% to 52.8%.

On June 22, 2001, the Company announced that it had acquired an interest in 97.79% of the share capital of Mobile Communications Holdings Limited (MCH) in Australia. In accordance with the terms of the agreement the remaining MCH shares will be compulsorily acquired. MCH holds an interest of 4.5% in the Group's Australian subsidiary, Vodafone Pacific Limited. The Group's effective ownership interest in its Australian operations has increased from 91% to 95.5% following this transaction.

On July 2, 2001, the Company announced that it had granted Global Employee ("GEM") share options to more than 42,000 employees in twelve subsidiaries, under the terms of the Vodafone Group 1999 Long Term Stock Incentive Plan. The grant involved approximately 238 million ordinary shares, the exercise price of the options being determined by reference to the market value of ordinary shares at the time of grant, giving a provisional grant value of over £375 million. The share options can be exercised after three years and up to ten years after the grant date.

### 34. Principal subsidiary undertakings, joint ventures, associated undertakings and investments

#### Principal subsidiary undertakings

Vodafone Group Plc had at March 31, 2001 the following subsidiary undertakings carrying on businesses which principally affect the profits and assets of the Group. They all have the same year end date as the Company and have been included in the Group consolidation.

Unless otherwise stated Vodafone Group Plc's principal subsidiary undertakings all have share capital consisting solely of ordinary shares and are indirectly held. The country of incorporation or registration of all subsidiary undertakings is also their principal place of operation.

| <u>Name</u>                                      | <u>Activity</u>  | <u>Country of incorporation or registration</u> | <u>Percentage(1) shareholdings</u> |
|--|--|---|------------------------------------|
| Airtel Móvil S.A.                                | Cellular network operator                                | Spain   | 73.8                               |
| Europolitan Holdings AB                          | Holding company for cellular network operator            | Sweden  | 71.1                               |
| Libertel NV                                      | Cellular network operator and service provider           | Netherlands                                     | 70.0                               |
| Mannesmann AG                                    | Holding company  | Germany   | 98.8                               |
| Mannesmann Arcor AG & Co KG                      | Fixed line operator                                      | Germany   | 72.8                               |
| Mannesmann Mobilfunk GmbH                        | Cellular network operator                                | Germany   | 99.2                               |
| Misrfone Telecommunications Company SAE          | Cellular network operator                                | Egypt   | 60.0                               |
| Omnitel Pronto Italia S.p.A.                     | Cellular network operator                                | Italy   | 76.1                               |
| Panafon Hellenic Telecommunications Company S.A. | Cellular network operator and telecommunications company | Greece  | 55.0                               |
| Telecel Comunicacoes Pessoais S.A.               | Cellular network operator                                | Portugal  | 50.9                               |
| Vodafone Americas Asia Inc.(2)                   | Holding company  | USA   | 100.0                              |
| Vodafone Deutschland GmbH                        | Holding company  | Germany   | 100.0                              |
| Vodafone Europe B.V.                             | Holding company  | Netherlands                                     | 100.0                              |
| Vodafone Finance Limited(3)                      | Financial trading company                                | England   | 100.0                              |
| Vodafone International B.V.                      | Holding company  | Netherlands                                     | 100.0                              |
| Vodafone International Holdings B.V.             | Holding company  | Netherlands                                     | 100.0                              |
| Vodafone International Inc.                      | Holding company  | USA   | 100.0                              |
| Vodafone Limited                                 | Cellular network operator                                | England   | 100.0                              |
| Vodafone Malta Limited                           | Cellular network operator                                | Malta   | 80.0                               |
| Vodafone Network Pty Limited                     | Cellular network operator                                | Australia                                       | 91.0                               |
| Vodafone New Zealand Limited                     | Cellular network operator                                | New Zealand                                     | 100.0                              |
| Vodafone Pacific Limited(4)                      | License holder and holding company                       | Australia                                       | 91.0                               |
| Vodafone Telecommerce GmbH                       | Telecommunications company                               | Germany   | 98.8                               |
| Vodafone UK Limited(3)                           | Holding company  | England   | 100.0                              |
| VRAM Telecommunications Company Limited          | Cellular network operator                                | Hungary   | 50.1                               |

Notes:

- (1) To nearest tenth of one percent.
- (2) Share capital consists of 597,379,729 ordinary shares and 1.65 million Class D and E redeemable preference shares of which 100% of the ordinary shares were held by the Group.
- (3) Directly held.
- (4) Share capital consists of 1,309,252,000 ordinary shares and 24,798 redeemable preference shares of which 91% of both the ordinary shares and the redeemable preference shares were indirectly held by Vodafone Group Plc. The Company changed its name from Vodafone Pacific Pty Limited on May 12, 2000.

### 34. Principal subsidiary undertakings, joint ventures, associated undertakings and investments (continued)

Vodafone Group Plc had, at March 31, 2001, the following principal joint ventures, associated undertakings and investments.

#### Principal joint ventures

The country of incorporation or registration of the Group's joint venture is also its principal place of operation.

| <u>Name</u>               | <u>Activity</u>                   | <u>Percentage shareholding</u> | <u>Latest financial accounts</u> | <u>Country of incorporation or registration</u> |
|---------------------------|-----------------------------------|--------------------------------|----------------------------------|---|
| Vizzavi Limited . . . . . | Internet and mobile data provider | 50.0                           | 3.31.01                          | UK  |

The Group's investment is subject to an arrangement that confers joint control. The registered or principal office of the company is 80 Strand, London, WC2R 0RJ.

#### Principal associated undertakings

Vodafone Group Plc's principal associated undertakings all have share capital consisting solely of ordinary shares, unless otherwise stated, and are all indirectly held. The country of incorporation or registration of all associated undertakings is also their principal place of operation.

| <u>Name</u>  | <u>Activity</u>                        | <u>Percentage(1) shareholding/ partnership interest</u> | <u>Par value of issued equity</u> | <u>Latest financial accounts</u> | <u>Country of incorporation or registration</u> |
|--|--|---|-----------------------------------|----------------------------------|---|
| Belgacom Mobile S.A. . . . .                         | Cellular network operator              | 25.0  | BEF 2.82m                         | 12.31.00(6)                      | Belgium   |
| Cellco Partnership(2) . . . . .                      | Cellular network operator              | 45.0  | —                                 | 12.31.00(6)                      | USA   |
| Cegetel Groupe S.A. . . . .                          | Holding and telecommunications company | 15.0  | €1,432.867m                       | 12.31.00(6)                      | France  |
| J-Phone Communications Ltd(3) . .                    | Holding company                        | 26.0  | Yen 3,200m                        | 3.31.01                          | Japan   |
| J-Phone Central Co Limited(3), (4).                  | Cellular network operator              | 10.0  | Yen 16,150m                       | 3.31.01                          | Japan   |
| J-Phone East Co Limited(3), (4) . .                  | Cellular network operator              | 14.0  | Yen 21,176.5m                     | 3.31.01                          | Japan   |
| J-Phone West Co Limited(3), (4) . .                  | Cellular network operator              | 10.1  | Yen 18,876.5m                     | 3.31.01                          | Japan   |
| Mobifon S.A. . . . .                                 | Cellular network operator              | 20.1  | ROL 10,000                        | 12.31.00(6)                      | Romania   |
| Polkomtel S.A. . . . .                               | Cellular network operator              | 19.6  | PLN 1,500m                        | 12.31.00(6)                      | Poland  |
| RPG Cellular Services Limited. . . .                 | Cellular network operator              | 20.6  | 490m Rupees                       | 3.31.01                          | India   |
| Safaricom Limited. . . . .                           | Cellular network operator              | 40.0  | 1,000 Shs                         | 3.31.01                          | Kenya   |
| Société Française du Radiotéléphone S.A.(5). . . . . | Cellular network operator              | 20.0  | €964.25m                          | 12.31.00(6)                      | France  |
| Swisscom Mobile SA. . . . .                          | Cellular network operator              | 25.0  | CHF100m                           | —(7)                             | Switzerland                                     |
| Vodacom Group (Pty) Limited . . . .                  | Holding company                        | 31.5  | ZAR 100                           | 3.31.01                          | South Africa                                    |
| Vodafone Fiji Limited. . . . .                       | Cellular network operator              | 49.0  | F\$ 6m                            | 3.31.01                          | Fiji  |

Notes:

- (1) To nearest tenth of one percent.
- (2) Cellco Partnership trades under the name Verizon Wireless. The registered or principal office of the partnership is 180 Washington Valley Road, Bedminster, New Jersey 07921, USA.
- (3) The Group also holds an indirect interest in these companies through its investment in Japan Telecom Co., Ltd.
- (4) The Group holds a further indirect interest in these companies through its interest in J-Phone Communications Ltd.
- (5) The Group also holds an indirect interest in Société Française du Radiotéléphone S.A. through its interest in Cegetel Groupe S.A.
- (6) Accounts are drawn up to March 31, 2001 for consolidation in the Group's financial statements.
- (7) The first financial year of Swisscom Mobile SA is for the period to December 31, 2001.

### 34. Principal subsidiary undertakings, joint ventures, associated undertakings and investments (continued)

#### Principal investments

The shareholdings in investments consist solely of ordinary shares and are indirectly held. The principal country of operation is the same as the country of incorporation or registration.

| <u>Name</u>                           | <u>Activity</u>                        | <u>Percentage(1)<br/>shareholding</u> | <u>Country of<br/>incorporation<br/>or registration</u> |
|---------------------------------------|--|---------------------------------------|---|
| Atecs Mannesmann AG(2) . . . . .      | Engineering and automotive products    | 50.0                                  | Germany   |
| China Mobile (Hong Kong) Limited(3) . | Cellular network operator              | 2.2                                   | China   |
| Japan Telecom Co., Ltd(4) . . . . .   | Holding and telecommunications company | 7.5                                   | Japan   |
| Shinsegi Telecom, Inc . . . . .       | Cellular network operator              | 11.7                                  | Korea   |

#### Notes

- (1) To nearest tenth of one percent.
- (2) The Group has not consolidated or equity accounted for its ownership interest in Atecs Mannesmann AG during the year since the rights conferred by the Group's shareholding do not satisfy the definitions of a subsidiary or associated undertaking under UK GAAP.
- (3) China Mobile (Hong Kong) Limited is listed on the Hong Kong and New York stock exchanges and is incorporated under the laws of Hong Kong.
- (4) Japan Telecom Co., Ltd is listed on the Tokyo stock exchange.

Full details of all subsidiary undertakings, joint ventures, associated undertakings and investments will be attached to the Company's Annual Return, to be filed with the Registrar of Companies.

### 35. Supplementary information for United States investors

#### Reconciliation with United States accounting principles

The following is a summary of the effects of the differences between US Generally Accepted Accounting Principles ('US GAAP') and UK Generally Accepted Accounting Principles ('UK GAAP') that are significant to Vodafone. The principles are set out on pages F-51 to F-54. The translation of pounds sterling amounts into US dollars is provided based on the exchange rate at March 31, 2001 of £1 : \$1.419.

|   | Note | 2001<br>\$m(1)  | 2001<br>£m      | 2000<br>£m     | 1999<br>£m   |
|---|------|-----------------|-----------------|----------------|--------------|
| Revenues as reported in accordance with UK GAAP . . . . .                       |      | 21,291          | 15,004          | 7,873          | 3,360        |
| Items decreasing revenues:  |      |                 |                 |                |              |
| Non-consolidated subsidiaries . . . . .   | (a)  | (4,838)         | (3,409)         | —              | —            |
| Deferral of connection revenues . . . . .                                       | (b)  | (698)           | (492)           | —              | —            |
| Revenues in accordance with US GAAP . . . . .                                   |      | <u>15,755</u>   | <u>11,103</u>   | <u>7,873</u>   | <u>3,360</u> |
|   | Note | 2001<br>\$m(1)  | 2001<br>£m      | 2000<br>£m     | 1999<br>£m   |
| Net (loss)/income as reported in accordance with UK GAAP . . . . .              |      | (13,854)        | (9,763)         | 487            | 637          |
| Items (increasing)/decreasing net (loss)/income:                                |      |                 |                 |                |              |
| Goodwill and other intangibles amortization . . . . .                           | (c)  | (7,511)         | (5,293)         | (425)          | (99)         |
| Deferral of connection income . . . . .   | (b)  | (77)            | (54)            | —              | —            |
| Reorganization costs . . . . .  | (d)  | 119             | 84              | 25             | —            |
| Capitalized interest . . . . .  | (e)  | 518             | 365             | —              | —            |
| Income taxes . . . . .  | (f)  | 10,942          | 7,711           | 439            | (28)         |
| Minority interests . . . . .  | (g)  | (50)            | (35)            | 35             | —            |
| Other . . . . .   | (h)  | (121)           | (86)            | (8)            | —            |
| Net (loss)/income in accordance with US GAAP . . . . .                          |      | <u>(10,034)</u> | <u>(7,071)</u>  | <u>553</u>     | <u>510</u>   |
| Basic (loss)/earnings per ordinary share in accordance with US GAAP . . . . .   | (k)  | <u>(16.33)¢</u> | <u>(11.51)p</u> | <u>2.04p</u>   | <u>3.30p</u> |
| Diluted (loss)/earnings per ordinary share in accordance with US GAAP . . . . . | (k)  | <u>(16.34)¢</u> | <u>(11.52)p</u> | <u>2.02p</u>   | <u>3.29p</u> |
|   | Note | 2001<br>\$m(1)  | 2001<br>£m      | 2000<br>£m     |              |
| Shareholders' equity as reported in accordance with UK GAAP . . . . .           |      | 206,313         | 145,393         | 140,833        |              |
| Items increasing/(decreasing) shareholders' equity:                             |      |                 |                 |                |              |
| Goodwill and other intangibles — net of amortization . . . . .                  | (c)  | 93,749          | 66,067          | 10,283         |              |
| Fixed asset investments . . . . .   | (c)  | —               | —               | 9,054          |              |
| Deferral of connection income . . . . .   | (b)  | (121)           | (85)            | —              |              |
| Capitalized interest . . . . .  | (e)  | 518             | 365             | —              |              |
| Cumulative deferred income taxes . . . . .                                      | (f)  | (73,002)        | (51,446)        | (12,334)       |              |
| Minority interests . . . . .  | (g)  | (7,352)         | (5,181)         | (1,939)        |              |
| Proposed dividends . . . . .  | (i)  | 658             | 464             | 417            |              |
| Other . . . . .   | (h)  | (77)            | (55)            | 20             |              |
| Shareholders' equity in accordance with US GAAP . . . . .                       |      | <u>220,686</u>  | <u>155,522</u>  | <u>146,334</u> |              |

### 35. Supplementary information for United States investors (continued)

|  | Note | 2001<br>\$m(1) | 2001<br>£m     | 2000<br>£m     |
|--|------|----------------|----------------|----------------|
| Total assets as reported in accordance with UK GAAP .....  |      | 244,160        | 172,065        | 153,368        |
| Items (decreasing)/increasing total assets:                |      |                |                |                |
| Non-consolidated subsidiaries .....                        | (a)  | (4,231)        | (2,982)        | —              |
| Goodwill and other intangibles — net of amortization ..... | (c)  | 93,749         | 66,067         | 10,283         |
| Fixed asset investments .....                              | (c)  | —              | —              | 9,054          |
| Deferral of connection costs .....                         | (b)  | 1,941          | 1,368          | —              |
| Capitalized interest .....                                 | (e)  | 518            | 365            | —              |
| Deferred tax asset .....                                   | (f)  | 251            | 177            | 616            |
| Other .....  | (h)  | (132)          | (93)           | 26             |
| Total assets in accordance with US GAAP .....              |      | <u>336,256</u> | <u>236,967</u> | <u>173,347</u> |

#### Note

- (1) The convenience translation provided in Vodafone's UK Annual Report and Accounts was based on an exchange rate of £1:\$1.42.

### Comprehensive income

SFAS No. 130, "Reporting Comprehensive Income" requires that all items that are required to be recognized as components of comprehensive income be reported in a separate financial statement. There are no material differences between total recognized gains and losses for the financial year shown in the Statement of Total Recognized Gains and Losses presented under UK GAAP and US GAAP comprehensive income.

### Summary of differences between accounting principles generally accepted in the UK and the US

The consolidated financial statements are prepared in accordance with UK generally accepted accounting principles ("UK GAAP"), which differ in certain material respects from those generally accepted in the US ("US GAAP"). The differences that are material to the Group relate to the following items and the necessary adjustments are shown on pages F-50 and F-51.

#### (a) Non-consolidated subsidiaries

Under UK GAAP, the results and assets of Omnitel Pronto Italia S.p.A. and Airtel Móvil S.A. have been consolidated in the Group's financial statements from April 12, 2000 and December 29, 2000, respectively. Under US GAAP, as a result of significant participating rights held by minority shareholders, the Group's interests in Omnitel Pronto Italia S.p.A. and Airtel Móvil S.A. have been accounted for as associated undertakings under the equity method of accounting.

Equity accounting for Omnitel Pronto Italia S.p.A. and Airtel Móvil S.A. under US GAAP results in the operating loss, Group net interest payable, Group taxation payable and equity minority interests being less than the equivalent UK GAAP amount by £2,231m, £15m, £265m and £209m, respectively. The Group's share of the operating loss, interest payable and taxation payable of associated undertakings would be greater under US GAAP than UK GAAP by £2,508m, £11m and £201m, respectively. The adjustment to operating loss and the Group's share of the operating loss of associated undertakings includes an adjustment for the amortization of goodwill of £3,391m. The Group's investment in associated undertakings at March 31, 2001 would be £39,272m greater under US GAAP than UK GAAP, comprising share of net assets of £2,103m and attributed goodwill of £37,169m. There would be no adjustment in respect of prior year comparatives.

#### (b) Deferral of connection revenues and income

Under Vodafone's UK GAAP accounting policy, connection revenues and related costs are recognized upon activation of a mobile handset on a cellular network. Under US GAAP, connection revenues are recognized over the period that

### **35. Supplementary information for United States investors (continued)**

a customer is expected to remain connected to a network. Connection costs directly attributable to the income deferred are recognized over the same period. Where connection costs exceed connection revenues, the excess costs are charged in the profit and loss account immediately upon activation of the handset.

#### *(c) Goodwill and other intangibles*

Under UK GAAP, the policy followed prior to the introduction of FRS 10, "Goodwill and Intangible Assets" (which is effective for accounting periods ended on or after December 23, 1998 and was adopted on a prospective basis) was to write off goodwill against shareholders' equity in the year of acquisition. FRS 10 requires goodwill to be capitalized and amortized over its estimated useful economic life. Under US GAAP, intangibles arising on the acquisition of an equity stake would be capitalized and amortized over their useful lives.

Investments in associated undertakings, under US GAAP, can also include an element of goodwill in the amount of the excess investment over the acquirer's share in the fair value of the net assets at the date of the investment. Under UK GAAP, the treatment followed prior to the implementation of FRS 10 was to write off the excess of the purchase consideration over the fair value of the stake in the associated undertaking acquired against shareholders' equity in the year of purchase.

Under UK GAAP and US GAAP the purchase price of a transaction accounted for as an acquisition is based on the fair value of the consideration. In the case of share consideration, under UK GAAP the fair value of such consideration is based on the share price at completion of the acquisition or the date when the transaction becomes unconditional. Under US GAAP the fair value of the share consideration is based on the average share price over a reasonable period of time before and after the proposed acquisition is announced. This will result in a difference in the fair value of the consideration for the acquisition and consequently in the amount of goodwill capitalized and amortized.

The adjustment to net (loss)/income in respect of the amortization of goodwill and other intangibles comprises £4,662m (2000 — £170m, 1999 — £44m) in respect of subsidiary undertakings and £631m (2000 — £255m, 1999 — £55m) in respect of joint ventures and associated undertakings. The adjustment to shareholders' equity comprises £54,058m (2000 — £6,048m) in respect of subsidiary undertakings and £12,009m (2000 — £4,235m) in respect of joint ventures and associated undertakings.

Mannesmann was recorded as a fixed asset investment under both UK GAAP and US GAAP at March 31, 2000 since the Group did not have the right to control or the ability to exercise significant influence over Mannesmann prior to receiving European Commission approval for the acquisition on April 12, 2000. As a result of the difference in the determination of the purchase price between UK GAAP and US GAAP, the amount recorded at March 31, 2000 for the investment in Mannesmann was £9,054m greater under US GAAP than under UK GAAP.

#### *(d) Reorganization costs*

Under UK GAAP, costs incurred in reorganizing acquired businesses are charged to the profit and loss account as post-acquisition expenses. Under US GAAP, certain of such costs are considered in the allocation of purchase consideration and thereby the determination of goodwill arising on acquisition.

#### *(e) Capitalized interest*

Under UK GAAP, the Group's policy is not to capitalize interest costs on borrowings in respect of the acquisition of tangible and intangible fixed assets. Under US GAAP, the interest cost on borrowings used to finance the construction of network assets is capitalized during the period of construction until the date that the asset is placed in service. Interest costs on borrowings to finance the acquisition of licenses are also capitalized until the date that the related network service is launched. Capitalized interest costs are amortized over the estimated useful lives of the related assets.



### 35. Supplementary information for United States investors (continued)

#### (f) *Income taxes*

*Deferred taxation* — Under the UK GAAP partial provision method, deferred taxation is only provided where timing differences are expected to reverse in the foreseeable future. For US GAAP, under the liability method, deferred taxation is provided for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at enacted rates expected to be in effect when these amounts are realized or settled.

*Tax benefit on option exercises* — Under UK GAAP, the tax benefit received on the exercise of share options by employees, being the tax on the difference between the market value on the date of exercise and the exercise price, is shown as a component of the tax charge for the period. Under US GAAP, the tax benefit is shown as a component of paid-in capital on issue of shares.

#### (g) *Minority interests*

The adjustments in respect of minority interests primarily relate to intangibles and provisions for deferred tax which have been recognized for US GAAP purposes by a less than 100% owned subsidiary undertaking.

#### (h) *Other adjustments*

*License fee amortization* — Under UK GAAP, Vodafone has adopted a policy of amortizing license fees in proportion to the expected usage of the network during the start up period and then on a straight line basis. Under US GAAP, license fees are amortized on a straight line basis from the date that operations commence to the date the license expires.

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

*Defeasance of liabilities* — Under UK GAAP, liabilities which have been unconditionally satisfied by monetary assets placed in trust and other set off arrangements are considered to be extinguished. Under US GAAP, the offsetting of assets and liabilities is generally not allowed and the non-recognition of a liability is permissible only if the liability has been legally extinguished.

*Capitalization of computer software costs* — Under UK GAAP, costs that are directly attributable to the development of computer software for continuing use in the business, whether purchased from external sources or developed internally, are capitalized. Under US GAAP data conversion costs and costs incurred during the research stage of software projects are not capitalized.

*Investments in own shares* — Investment in the Company's own shares are included within other fixed asset investments under UK GAAP. US GAAP requires investments in own shares to be shown as a deduction from equity.

*Gain on disposal of fixed assets and fixed asset investments* — Under US GAAP, the net gain on disposal of fixed assets and fixed asset investments of £6m and £6m, respectively (2000 — £Nil and £954m) would be included within operating income.

#### (i) *Proposed dividends*

Under UK GAAP, final dividends are included in the financial statements when recommended by the Board of directors to the shareholders in respect of the results for a financial year. Under US GAAP, dividends are included in the financial statements when declared by the Board of directors.

### 35. Supplementary information for United States investors (continued)

#### (j) Equity accounting

UK GAAP requires the investor's share of operating profit or loss, exceptional items and interest income or expense of joint ventures and associated undertakings to be shown separately from those of the Group on the face of the profit and loss account. The charges for interest and taxation for joint ventures and associated undertakings may be aggregated within the Group interest and taxation amounts shown on the face of the profit and loss account, but must be disclosed in the notes to the accounts. The Group's share of the turnover of joint ventures and associated undertakings is also permitted to be disclosed on the face of the consolidated profit and loss account. In addition, the Group's share of gross assets and gross liabilities of joint ventures are shown on the face of the consolidated balance sheet. Under US GAAP, the after-tax profits or losses (i.e. operating results after exceptional items, interest and taxation) are included in the income statement as a single line item and the investments in joint ventures and associated undertakings are included in the consolidated balance sheet as a single line item. US GAAP does not permit the Group's share of turnover of joint ventures and associated undertakings to be disclosed on the face of the consolidated income statement, nor does it permit the Group's share of gross assets and gross liabilities to be shown on the face of the consolidated balance sheet.

#### (k) Earnings per ordinary share

Earnings per ordinary share information is calculated based on:

|  | <u>2001</u>                                      | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|--|--|-------------|-------------|-------------|
|  | \$   | £           | £           | £           |
|  | (in millions, except per ordinary share amounts) |             |             |             |
| Net (loss)/income in accordance with US GAAP . . . . .                   | (10,034)   | (7,071)     | 553         | 510         |
| Weighted average number of ordinary shares in issue (millions) . . . . . | 61,439   | 61,439      | 27,100      | 15,445      |
| Basic earnings per ordinary share . . . . .                              | (16.33)c   | (11.51)p    | 2.04p       | 3.30p       |
| Diluted weighted average number of ordinary shares (millions) . . . . .  | 61,398   | 61,398      | 27,360      | 15,510      |
| Diluted earnings per ordinary share . . . . .                            | (16.34)c   | (11.52)p    | 2.02p       | 3.29p       |

The presentation of adjusted basic earnings per share is not permitted under US GAAP.

#### Consolidated statements of cash flows

The consolidated statements of cash flows prepared under UK GAAP differ in certain presentational respects from the format required under SFAS No. 95 "Statement of Cash Flows". Under UK GAAP, a reconciliation of profit from operations to cash flows from operating activities is presented in a note, and cash paid for interest and income taxes are presented separately from cash flows from operating activities.

Under SFAS No. 95, cash flows from operating activities are based on net profit, including interest and income taxes, and are presented on the face of the statement.

Summary consolidated cash flow information as presented in accordance with US GAAP:

|  | <u>2001</u>  | <u>2000</u> | <u>1999</u> |
|--|--------------|-------------|-------------|
|  | £m           | £m          | £m          |
| Cash and cash equivalents was (used in)/provided by:           |              |             |             |
| Operating activities . . . . .                                 | (1,853)      | 1,965       | 628         |
| Investing activities . . . . .                                 | 11,995       | (5,276)     | (1,002)     |
| Financing activities . . . . .                                 | (2,699)      | 3,497       | 365         |
| Net increase/(decrease) in cash and cash equivalents . . . . . | 7,443        | 186         | (9)         |
| Exchange movement . . . . .                                    | 29           | (3)         | —           |
| Cash and cash equivalents at the beginning of year . . . . .   | 189          | 6           | 15          |
| Cash and cash equivalents at the end of year . . . . .         | <u>7,661</u> | <u>189</u>  | <u>6</u>    |

### 35. Supplementary information for United States investors (continued)

A reconciliation between the consolidated statements of cash flows presented in accordance with UK GAAP and US GAAP is set out below:

|  | <u>2001</u>    | <u>2000</u>    | <u>1999</u>    |
|--|----------------|----------------|----------------|
|  | £m             | £m             | £m             |
| Operating activities   |                |                |                |
| Net cash inflow from operating activities (UK GAAP) . . . . .  | 4,587          | 2,510          | 1,045          |
| Tax paid . . . . .   | (1,585)        | (325)          | (195)          |
| Net interest paid . . . . .  | (47)           | (406)          | (90)           |
| (Decrease)/increase in short term borrowings . . . . .   | (4,765)        | 149            | (130)          |
| (Decrease)/increase in bank overdrafts . . . . .   | (43)           | 37             | (2)            |
| Net cash (used in)/provided by operating activities (US GAAP) . . . . .  | <u>(1,853)</u> | <u>1,965</u>   | <u>628</u>     |
|  | <u>2001</u>    | <u>2000</u>    | <u>1999</u>    |
|  | £m             | £m             | £m             |
| Investing activities   |                |                |                |
| Net cash inflow/(outflow) from capital expenditure, financial investments and acquisitions and disposals (UK GAAP) . . . . . | 11,642         | (5,512)        | (1,005)        |
| Dividends received from joint ventures and associated undertakings . . . . .   | 353            | 236            | 3              |
| Net cash provided by/(used in) investing activities (US GAAP) . . . . .  | <u>11,995</u>  | <u>(5,276)</u> | <u>(1,002)</u> |
|  | <u>2001</u>    | <u>2000</u>    | <u>1999</u>    |
|  | £m             | £m             | £m             |
| Financing activities   |                |                |                |
| Net cash (outflow)/inflow from financing activities (UK GAAP) . . . . .  | (6,691)        | 3,867          | 353            |
| Decrease/(increase) in short term borrowings . . . . .   | 4,765          | (149)          | 130            |
| Dividends paid . . . . .   | (773)          | (221)          | (118)          |
| Net cash (used in)/provided by financing activities (US GAAP) . . . . .  | <u>(2,699)</u> | <u>3,497</u>   | <u>365</u>     |

#### Recently issued accounting standards

##### *SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"*

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments including requiring those instruments to be reported as either assets or liabilities on the balance sheet at fair value with changes in fair value being accounted for through either the profit and loss account or other comprehensive income, depending on the derivative's designation and effectiveness as a hedging instrument. SFAS No. 133, as amended by SFAS Nos. 137 and 138, is effective for fiscal years beginning after June 15, 2000, and accordingly becomes effective for Vodafone in the financial year beginning April 1, 2001.

All the Group's transactions in derivative financial instruments are undertaken for risk management purposes only and are accounted for as hedging transactions under UK GAAP. The Group does not intend to modify its risk management practices, however the Group has chosen to designate certain of its derivative instruments as hedges for US GAAP purposes. Under UK GAAP derivative financial instruments are recorded at appropriate historical amounts, with fair values shown by way of disclosure in the notes to the Consolidated Financial Statements.

The impact of SFAS No. 133 on the Group's financial position and results under US GAAP is not expected to be significant. On implementation at April 1, 2001, a cumulative transition adjustment increased US GAAP net income and other comprehensive income by £17m and £Nil, respectively.

### 35. Supplementary information for United States investors (continued)

#### *Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements"*

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements" which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. SAB 101 outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure of revenue recognition policies.

The principles of SAB 101 have been adopted by the Group in the reconciliation of financial information between UK GAAP and US GAAP for the year ended March 31, 2001 on pages F-50 and F-51. A description of the differences between Vodafone's UK GAAP accounting policy in respect of connection revenues and income and that required by US GAAP is provided on page F-51. If SAB 101 had been applied in prior years, the Group's revenues would have been less under US GAAP than under UK GAAP by £127m and £67m for the years ending March 31, 2000 and March 31, 1999, respectively, with net income lower by £31m and £Nil, respectively. Shareholders' equity would have been lower by £31m and £Nil for the years ending March 31, 2000 and March 31, 1999, respectively, with total assets higher by £319m and £182m, respectively.

#### *Business Combinations Statement*

The FASB issued an Exposure Draft on "Business Combinations and Intangible Assets — Accounting for Goodwill" on September 7, 1999. The Board has announced that it plans to issue, in July 2001, two new Statements regarding business combinations and goodwill and intangible assets. If issued as proposed, the statement on business combinations, which will be effective for any business combination completed after June 30, 2001, is not anticipated to have a significant impact on Vodafone's existing accounting policies under US GAAP. If issued as proposed, the principal changes arising from the statement on goodwill and intangible assets will be that goodwill is not amortized in the consolidated financial statements but will be reviewed annually, and on an interim basis if circumstances dictate, for impairment at the reporting unit level. This statement will be effective for fiscal years beginning after December 15, 2001, with early adoption permitted for companies with a fiscal year beginning after March 15, 2001 provided that the first quarter financial statements have not previously been issued. The Group is in the process of analyzing the impact of adopting these new requirements on its consolidated financial statements.

### Additional financial information

#### *Tax on profit on ordinary activities*

An analysis of the tax charge for the year ended March 31, 2001 of £1,290m (2000 — £685m, 1999 — £252m) is provided in note 7.

The differences between Vodafone's statutory UK corporation tax rate of 30% in 2001, 30% in 2000, and 31% in 1999, and Vodafone's effective tax rates for each of those years were as follows:

|   | <u>2001</u>  | <u>2000</u> | <u>1999</u> |
|---|--------------|-------------|-------------|
|   | £m           | £m          | £m          |
| Expected tax (credit)/charge at UK corporation tax rate . . . . .                   | (2,428)      | 405         | 290         |
| Amortization of goodwill . . . . .  | 3,565        | 514         | 3           |
| Exceptional non-operating items . . . . .   | (24)         | (286)       | (20)        |
| Permanent differences . . . . .   | (88)         | 18          | 12          |
| Deferred tax not equalized . . . . .  | (145)        | 8           | (63)        |
| Prior year adjustments . . . . .  | (58)         | (4)         | (2)         |
| Current year losses for which no credit taken . . . . .                             | 285          | 19          | 18          |
| Net (under)/over charge relating to international associated undertakings . . . . . | (57)         | 3           | (16)        |
| Non taxable profits/non deductible losses . . . . .                                 | (87)         | (32)        | (22)        |
| International corporate tax rate differentials and other . . . . .                  | 292          | 40          | 52          |
| Actual tax (excluding tax on exceptional non-operating items) . . . . .             | <u>1,255</u> | <u>685</u>  | <u>252</u>  |

### 35. Supplementary information for United States investors (continued)

The tax charge for the year ended March 31, 2001 of £1,290m includes £35m (2000 and 1999: £Nil) in respect of tax on exceptional non-operating items. Further details are provided in note 7.

|  | <u>2001</u> | <u>2000</u>  | <u>1999</u> |
|--|-------------|--------------|-------------|
|  | £m          | £m           | £m          |
| The analysis of the deferred tax charge/(credit) is as follows:            |             |              |             |
| Stock options .....  | 41          | —            | —           |
| Losses .....   | 25          | —            | —           |
| Deferred tax asset on sub-letting of certain US communication towers ..... | —           | (136)        | —           |
| Tax allowances exceeded by depreciation .....                              | 3           | 4            | —           |
| Other short term timing differences .....                                  | 176         | 9            | 5           |
|  | <u>245</u>  | <u>(123)</u> | <u>5</u>    |

At March 31, 2001 Vodafone had the following trading and non-trading losses available for carry forward. These losses are available for offset against future trading and non-trading profits of certain Group, joint venture and associated undertakings:

|  | <u>£m</u> |
|--|-----------|
| UK subsidiaries' trading and non-trading losses .....                                | 46        |
| International subsidiaries' trading and non-trading losses .....                     | 1,633     |
| Share of joint venture losses .....  | 10        |
| Share of international associated undertakings' trading and non-trading losses ..... | 173       |

#### *Financial instruments*

Vodafone uses financial instruments to manage exposure to market risks arising from changes in foreign exchange and interest rates.

##### *Interest rate risk management*

The Group enters into interest rate swap agreements, forward rate agreements and futures contracts to adjust both the proportion of debt subject to fixed or floating interest rates and the period of that interest. At March 31, 2001 the Group had outstanding interest rate swaps and futures contracts with a notional principal amount of £48m (2000 — £5,230m). The fair value of these agreements was £2m in excess of their carrying value at March 31, 2001 (2000 — £57m).

##### *Foreign exchange rate risk*

The Group enters into foreign currency forward purchase and sale transactions to hedge foreign currency cash flows in relation to the Group's investments and other payments and receipts to be made or received in foreign currencies.

At March 31, 2001 the Group had outstanding foreign exchange contracts and currency swaps with an aggregate amount of £43m (2000 — £3,379m). These contracts mature within 25 months (2000 — 37 months). The fair value of these contracts was £1m less than their carrying value at March 31, 2001 (2000 — £66m). Profits and losses arising from these instruments are recognized in the profit and loss account when the associated sale and purchase is recognized or when a hedged transaction is no longer expected to occur.

The fair value of both the interest rate and foreign exchange rate risk management instruments was estimated by discounting the future cash flows to net present values using appropriate market interest and foreign exchange rates prevailing at the year end. No instruments are held by the Group for trading purposes.

### **35. Supplementary information for United States investors (continued)**

#### *Stock based compensation*

The Company has four share option plans that it currently uses to grant options to its directors and employees. The maximum aggregate number of ordinary shares in respect of which options may be granted under these four plans will not (without shareholder approval) exceed 5% of the outstanding ordinary shares at the date of grant of any options when aggregated with options granted or shares issued to employees over a preceding period of five years for options granted under the Vodafone Group 1998 Sharesave Scheme (the "Sharesave Scheme") and ten years under the other option plans.

The Sharesave Scheme enables staff to acquire shares in the Company through monthly savings of up to £250 over a three or five year period, at the end of which they also receive a tax free bonus. The savings and bonus may then be used to purchase shares at the option price, which is set at the beginning of the savings contract and usually at a discount of 20% to the then prevailing market price of the Company's shares. Invitations to participate in this scheme are normally made annually. This scheme replaced the Vodafone Group Plc 1988 Savings Related Share Option Scheme in 1998, as that scheme had then operated for ten years.

The Company also has two discretionary share option schemes, the Vodafone Group 1998 Executive Share Option Schemes, one of which is Inland Revenue approved and the other unapproved. Both schemes were adopted by the Company in 1998 to replace two similar previous schemes that expired in that year. The directors used these schemes to award share options to all UK based staff on the Company's payroll on July 1, 2000. These "3G Options" were granted in July 2000 and are exercisable from July 2003. The directors also used these schemes and their predecessor schemes to award share options to all UK based staff on the Company's payroll on July 1, 1998. These special "Millenium Options" were granted in July 1998 and are exercisable from July 2001. The schemes are also used to grant annual awards of options to senior managers and directors.

Options under the discretionary schemes are subject to performance conditions, the aim of which is to link the exercise of options to sustained improvements in the underlying financial performance of the Company. The performance conditions are set by the Remuneration Committee of the Board. Options are normally exercisable between three and ten years after their grant.

The Vodafone Group 1999 Long Term Stock Incentive Plan was introduced in 1999 to provide share incentives for employees of AirTouch Communications, Inc and eligibility for participation in this plan was extended to non-US employees in July 2000. In July 1999 and July 2000, all employees of AirTouch were granted share options under the Long Term Stock Incentive Plan which vest over a four year period. Options granted to AirTouch employees are exercisable in respect of American Depository Shares. In July 2000, options were also granted under this plan to a small number of senior executives of the Company under the Company's global market-related remuneration (GMR) policy. The exercise of these options is subject to the satisfaction of demanding corporate performance targets. In July 2001, Global Employee ("GEM") share options were also granted under this plan to more than 42,000 employees in twelve subsidiaries of the Group.

Following the merger with AirTouch, some rights to acquire AirTouch Communications, Inc. 1993 Long Term Stock Incentive Plan options were converted into rights to acquire Vodafone Group Plc shares. No further awards will be granted under this scheme.

### 35. Supplementary information for United States investors (continued)

Movements in ordinary share options and ADS options outstanding during the years ended March 31, 2001, 2000 and 1999 are summarized as follows:

|                               | Number of ADS options |             | Number of ordinary share options |              |              |
|-------------------------------|-----------------------|-------------|----------------------------------|--------------|--------------|
|                               | 2001                  | 2000        | 2001                             | 2000         | 1999         |
|                               | (millions)            | (millions)  | (millions)                       | (millions)   | (millions)   |
| At April 1 .....              | 63.3                  | —           | 154.6                            | 160.8        | 107.2        |
| Granted .....                 | 2.0                   | 107.5       | 77.5                             | 21.8         | 88.2         |
| Exercised .....               | (6.1)                 | (41.0)      | (18.8)                           | (22.4)       | (29.0)       |
| Forfeited .....               | (4.1)                 | (3.2)       | (2.3)                            | (5.6)        | (5.6)        |
| At March 31 .....             | <u>55.1</u>           | <u>63.3</u> | <u>211.0</u>                     | <u>154.6</u> | <u>160.8</u> |
| Exercisable at March 31 ..... | <u>54.6</u>           | <u>31.2</u> | <u>32.2</u>                      | <u>15.7</u>  | <u>8.9</u>   |
| Weighted average price:       |                       |             |                                  |              |              |
| Granted during year .....     | \$44.66               | \$23.26     | £2.82                            | £2.46        | £1.54        |
| Exercised during year .....   | \$14.92               | \$13.65     | £0.54                            | £0.47        | £0.65        |
| Forfeited during year .....   | \$42.09               | \$38.91     | £2.62                            | £1.43        | £0.34        |
| Outstanding at March 31 ..... | \$29.82               | \$28.71     | £1.90                            | £1.29        | £1.03        |
| Exercisable at March 31 ..... | \$29.65               | \$14.78     | £0.68                            | £0.46        | £0.39        |

The number of options and weighted average prices in the above table have been restated, where applicable, in respect of the capitalization (bonus) issue on September 30, 1999.

Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock Based Compensation” establishes a fair value based method of accounting for stock based compensation plans and encourages the recognition of the compensation cost on this basis in the income statement. Where the cost is not recognized, the pro forma effect of the valuation method on net (loss)/income must be disclosed. Under UK GAAP the compensation element is not required to be recognized in net income. The disclosure only provisions of SFAS No. 123 have been adopted.

|                               | ADS options |           | Ordinary share options |           |           |
|-------------------------------|-------------|-----------|------------------------|-----------|-----------|
|                               | 2001        | 2000      | 2001                   | 2000      | 1999      |
| Weighted average fair value   | \$13.45     | \$11.57   | £0.95                  | £0.86     | £0.39     |
| Weighted average assumptions: |             |           |                        |           |           |
| Implied volatility .....      | 36.34%      | 26.0%     | 36.17%                 | 26.57%    | 47.02%    |
| Expected dividend yield ..... | 0.82%       | 0.50%     | 0.79%                  | 0.50%     | 1.18%     |
| Risk-free interest rate ..... | 4.58%       | 6.50%     | 4.92%                  | 6.55%     | 6.24%     |
| Expected option lives .....   | 3.5 years   | 3.5 years | 3.6 years              | 3.7 years | 3.6 years |

Had compensation cost been determined based upon the fair value of the share options and ADS options at grant date consistent with SFAS No. 123 the Group’s net (loss)/income and (loss)/earnings per ordinary share would have been restated to the pro forma amounts indicated below (in millions, except per share amounts):

|                                   | 2001     | 2000  | 1999  |
|-----------------------------------|----------|-------|-------|
|                                   | £m       | £m    | £m    |
| Net (loss)/income                 |          |       |       |
| As reported under US GAAP .....   | (7,071)  | 553   | 510   |
| Pro forma .....                   | (7,219)  | 401   | 492   |
| Basic (loss)/earnings per share   |          |       |       |
| As reported under US GAAP .....   | (11.51)p | 2.04p | 3.30p |
| Pro forma .....                   | (11.75)p | 1.48p | 3.19p |
| Diluted (loss)/earnings per share |          |       |       |
| As reported under US GAAP .....   | (11.52)p | 2.02p | 3.29p |
| Pro forma .....                   | (11.76)p | 1.47p | 3.17p |

### 35. Supplementary information for United States investors (continued)

#### *Unaudited pro forma summary financial information*

The following unaudited pro forma summary financial information presents the Group's consolidated results of operations for the year ended March 31, 2001 and the year ended March 31, 2000 as if the merger with AirTouch, the formation of Verizon Wireless, the acquisition of Mannesmann and the acquisition of Airtel all took place on April 1, 1999, the first day of the financial accounting periods presented. Pro forma financial information for the year ended March 31, 2000 is based on the Group's audited consolidated results for the year then ended, as adjusted for the businesses contributed to Verizon Wireless, the unaudited consolidated financial results of AirTouch for the three months ended June 30, 1999, the audited consolidated financial results of Mannesmann for the year ended December 31, 1999, Vodafone's equity interest in Verizon Wireless based on the financial results of Celco Partnership and Primeco for the year ended December 31, 1999 and the audited financial results of Airtel for the year ended December 31, 1999. Pro forma financial information for the year ended March 31, 2001 has been derived from the Group's consolidated financial results for the year then ended, the unaudited financial results of Mannesmann, excluding the results of businesses held for resale on acquisition, for the period from April 1, 2000 to April 12, 2000, and the audited results of Airtel for the year ended December 31, 2000. The financial statements of the acquired entities have been adjusted to conform materially to the Group's accounting policies under UK GAAP. The pro forma merger adjustments include assumptions that the Group's management believe to be reasonable. The pro forma results are not necessarily indicative of those that would have actually occurred had these transactions taken place at the beginning of the periods presented.

|                                     | <u>2001</u> | <u>2000</u> |
|-------------------------------------|-------------|-------------|
|                                     | £m          | £m          |
| Turnover .....                      | 16,385      | 12,380      |
| Net loss .....                      | (10,301)    | (8,196)     |
| Basic loss per ordinary share ..... | (15.91)p    | (12.77)p    |

#### *Pensions and other post retirement benefits*

The Group operates a number of pension plans for its employees throughout the world. For non-UK employees the Group provides, in most cases, defined contribution schemes. For employees in the UK and certain businesses acquired as part of the Mannesmann acquisition the Group generally provides defined benefit schemes. A description of the defined benefit schemes provided in the UK and Germany is given in note 32.

Following the merger with AirTouch on June 30, 1999, the Group assumed responsibility for certain defined benefit plans for individuals who were employees of AirTouch at December 31, 1986 and for transferees from Pacific Telesis Group into AirTouch. During the year ended March 31, 2001, the Group transferred responsibility for substantially all the defined benefit plans for employees in the US to Verizon Wireless. The provision of certain other post retirement benefits was also transferred to Verizon Wireless.

Analyses of the net pension cost, plan assets, obligations and funded status for the defined benefit plans in the UK, Germany and the US, prepared under US GAAP, are provided below.



### 35. Supplementary information for United States investors (continued)

#### UK defined benefit pension plan

The net pension cost, benefit obligations, plan assets and funded status under US GAAP comprised the following:

|  | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|--|-------------|-------------|-------------|
|  | £m          | £m          | £m          |
| Service costs-benefits earned during this year . . . . . | 24          | 19          | 10          |
| Interest costs on projected benefit obligation . . . . . | 11          | 8           | 6           |
| Actual loss/(return) on plan assets . . . . .            | 21          | (21)        | (6)         |
| Net deferred items . . . . .                             | (33)        | 15          | (1)         |
| Net periodic pension cost . . . . .                      | <u>23</u>   | <u>21</u>   | <u>9</u>    |
| Change in benefit obligation                             |             |             |             |
| Benefit obligation at April 1 . . . . .                  | 168         | 135         | 87          |
| Service cost . . . . .                                   | 24          | 19          | 10          |
| Interest cost . . . . .                                  | 11          | 8           | 6           |
| Members' contributions . . . . .                         | 8           | 6           | 5           |
| Amendments . . . . .                                     | —           | 1           | —           |
| Actuarial (gain)/loss . . . . .                          | (24)        | 1           | 30          |
| Benefits paid (estimated) . . . . .                      | (3)         | (2)         | (3)         |
| Benefit obligation at March 31 . . . . .                 | <u>184</u>  | <u>168</u>  | <u>135</u>  |
| Change in plans' assets                                  |             |             |             |
| Fair value of assets at April 1 . . . . .                | 167         | 120         | 97          |
| Actual (loss)/return on plans' assets . . . . .          | (21)        | 21          | 6           |
| Employer's contributions . . . . .                       | 27          | 22          | 15          |
| Members contributions . . . . .                          | 8           | 6           | 5           |
| Benefits paid (estimated) . . . . .                      | (3)         | (2)         | (3)         |
| Fair value of assets at March 31 . . . . .               | <u>178</u>  | <u>167</u>  | <u>120</u>  |
| Funded status  |             |             |             |
| Projected benefit obligation . . . . .                   | (184)       | (168)       | (135)       |
| Fair value of plan assets . . . . .                      | 178         | 167         | 120         |
| Unrecognized net loss . . . . .                          | 27          | 17          | 31          |
| Prior period service cost . . . . .                      | 2           | 2           | 1           |
| Prepaid pension cost . . . . .                           | <u>23</u>   | <u>18</u>   | <u>17</u>   |

For 2001, 2000 and 1999, respectively, the discount rates used to determine the actuarial present value of the projected benefit obligation were 5.9%, 5.75% and 5.5%, the expected long-term rates of return on assets were 6.5%, 6.5% and 6.25%, and the expected long term general salary growth was assumed to be 4.0%, 4.5% and 4.25%. Plan assets comprise principally investments in discretionary segregated managed funds.

### 35. Supplementary information for United States investors (continued)

#### *German defined benefit pension plan*

The net periodic pension cost, benefit obligations, plan assets and funded status under US GAAP, translated at the year-end exchange rate of €1.614 : £1, at March 31, 2001 comprised the following:

|   | <u>2001</u> |
|---|-------------|
|   | £m          |
| Service cost .....  | 2           |
| Interest cost .....   | <u>7</u>    |
| Net periodic cost .....   | <u>9</u>    |
| Change in benefit obligation                                    |             |
| Benefit obligation at April 12, 2000 .....                      | 126         |
| Service cost .....  | 2           |
| Interest cost .....   | 7           |
| Amendments .....  | (12)        |
| Benefits paid (estimated) .....                                 | <u>(9)</u>  |
| Benefit obligation at March 31, 2001 .....                      | <u>114</u>  |
| Change in plan assets   |             |
| Fair value of assets at April 12, 2000 and March 31, 2001 ..... | <u>2</u>    |
| Funded status   |             |
| Projected benefit obligation .....                              | (114)       |
| Fair value of plan assets .....                                 | 2           |
| Unrecognized net loss .....                                     | <u>26</u>   |
| Accrued pension cost .....                                      | <u>(86)</u> |
| Weighted-average actuarial assumptions                          |             |
| Discount rate:  |             |
| Net periodic cost .....   | 6.5%        |
| Benefit obligation .....  | 6.5%        |
| Rate of compensation increase .....                             | 2.5%        |
| Expected long-term return on plan assets .....                  | 6.5%        |

### 35. Supplementary information for United States investors (continued)

#### US defined benefit pension plan and other post retirement benefits

The net periodic pension cost, benefit obligations, plan assets and funded status under US GAAP, translated at the year-end exchange rate of \$1.419 : £1, at March 31, 2001 comprised the following:

|  | 2001                          |                                | 2000                          |                                |
|--|-------------------------------|--------------------------------|-------------------------------|--------------------------------|
|  | Defined benefit pension plans | Other post retirement benefits | Defined benefit pension plans | Other post retirement benefits |
|  | £m                            | £m                             | £m                            | £m                             |
| Service cost .....                                 | —                             | 2                              | —                             | 1                              |
| Interest cost .....                                | 4                             | 1                              | 3                             | 1                              |
| Expected return on plan assets .....               | (7)                           | —                              | (7)                           | —                              |
| Net deferred items .....                           | —                             | —                              | 1                             | —                              |
| Recognized settlement/curtailment loss/(gain) ...  | 34                            | (27)                           | —                             | —                              |
| Net periodic cost/(income) .....                   | <u>31</u>                     | <u>(24)</u>                    | <u>(3)</u>                    | <u>2</u>                       |
| Change in benefit obligation                       |                               |                                |                               |                                |
| Benefit obligation at acquisition or April 1       | 59                            | 26                             | 57                            | 18                             |
| Service cost .....                                 | —                             | 2                              | —                             | 1                              |
| Interest cost .....                                | 4                             | 1                              | 3                             | 1                              |
| Amendments .....                                   | —                             | —                              | 2                             | —                              |
| Actuarial loss .....                               | —                             | 2                              | 8                             | 6                              |
| Benefits paid (estimated) .....                    | (13)                          | —                              | (11)                          | —                              |
| Settlements/curtailments .....                     | (48)                          | (31)                           | —                             | —                              |
| Benefit obligation at March 31 .....               | <u>2</u>                      | <u>—</u>                       | <u>59</u>                     | <u>26</u>                      |
| Change in plans' assets                            |                               |                                |                               |                                |
| Fair value of assets at acquisition or April 1.... | 103                           | —                              | 102                           | —                              |
| Actual (loss)/return on plans' assets .....        | (4)                           | —                              | 9                             | —                              |
| Employer's contributions .....                     | 3                             | —                              | 3                             | —                              |
| Members' contributions .....                       | —                             | —                              | —                             | —                              |
| Benefits paid (estimated) .....                    | (13)                          | —                              | (11)                          | —                              |
| Settlements .....                                  | (89)                          | —                              | —                             | —                              |
| Fair value of assets at March 31 .....             | <u>—</u>                      | <u>—</u>                       | <u>103</u>                    | <u>—</u>                       |
| Funded status                                      |                               |                                |                               |                                |
| Projected benefit obligation .....                 | (2)                           | —                              | (59)                          | (26)                           |
| Fair value of plan assets .....                    | —                             | —                              | 103                           | —                              |
| Unrecognized net (gain)/loss .....                 | (1)                           | —                              | (21)                          | 1                              |
| Prior period service cost .....                    | —                             | —                              | 2                             | 1                              |
| (Accrued)/prepaid pension cost .....               | <u>(3)</u>                    | <u>—</u>                       | <u>25</u>                     | <u>(24)</u>                    |
| Weighted-average actuarial assumptions             |                               |                                |                               |                                |
| Discount rate:                                     |                               |                                |                               |                                |
| Net periodic cost .....                            | 8.0%                          | 8.0%                           | 7.5%                          | 7.5%                           |
| Benefit obligation .....                           | 7.75%                         | 7.75%                          | 8.0%                          | 8.0%                           |
| Rate of compensation increase .....                | 5.5%                          | 5.5%                           | 5.5%                          | 5.5%                           |
| Expected long-term return on plan assets .....     | 8.5%                          | 8.5%                           | 8.5%                          | 8.5%                           |

### 35. Supplementary information for United States investors (continued)

#### Joint ventures and associated undertakings

Summary aggregated financial information of the Group's joint ventures, extracted on a 100% basis from accounts prepared under UK GAAP to March 31, 2001, is set out below:

|   | <u>2001</u>  | <u>2000</u>  |
|---|--------------|--------------|
|   | £m           | £m           |
| Assets  |              |              |
| Current assets . . . . .  | 47           | 207          |
| Noncurrent assets. . . . .  | <u>105</u>   | <u>1,589</u> |
|   | <u>152</u>   | <u>1,796</u> |
| Liabilities and equity shareholders' funds                        |              |              |
| Current liabilities. . . . .                                      | 263          | 331          |
| Long-term liabilities . . . . .                                   | 4            | 155          |
| Total equity shareholders' funds . . . . .                        | <u>(115)</u> | <u>1,310</u> |
|   | <u>152</u>   | <u>1,796</u> |
| Turnover . . . . .  | <u>205</u>   | <u>746</u>   |
| Operating (loss)/profit, before amortization of goodwill. . . . . | <u>(81)</u>  | <u>31</u>    |

Summary aggregated financial information of the Group's associated undertakings, extracted on a 100% basis from accounts prepared under UK GAAP to March 31, 2001, is set out below:

|  | Equity-accounted<br>entities as<br>defined under UK GAAP<br>2001 | Non-consolidated<br>subsidiaries as<br>defined under US GAAP<br>2001 | Equity-accounted<br>entities as<br>defined under US GAAP<br>2001 | 2000          |
|--|--|--|--|---------------|
|  | £m   | £m   | £m   | £m            |
| Assets   |  |  |  |               |
| Current assets . . . . .                                       | 10,246   | 1,083  | 11,329   | 5,613         |
| Noncurrent assets. . . . .                                     | <u>20,904</u>  | <u>4,004</u>   | <u>24,908</u>  | <u>10,013</u> |
|  | <u>31,150</u>  | <u>5,087</u>   | <u>36,237</u>  | <u>15,626</u> |
| Liabilities and equity shareholders'<br>funds                  |  |  |  |               |
| Current liabilities. . . . .                                   | 17,353   | 2,323  | 19,676   | 6,754         |
| Long-term liabilities . . . . .                                | 11,334   | 8  | 11,342   | 4,478         |
| Total equity shareholders' funds. . . . .                      | <u>2,463</u>   | <u>2,756</u>   | <u>5,219</u>   | <u>4,394</u>  |
|  | <u>31,150</u>  | <u>5,087</u>   | <u>36,237</u>  | <u>15,626</u> |
| Turnover . . . . .   | <u>25,386</u>  | <u>3,409</u>   | <u>28,795</u>  | <u>12,973</u> |
| Operating profit, before amortization of<br>goodwill . . . . . | <u>4,645</u>   | <u>1,160</u>   | <u>5,805</u>   | <u>3,107</u>  |

Non-consolidated subsidiaries as defined under US GAAP comprise Omnitel Pronto Italia S.p.A. and Airtel Móvil S.A. – see “Summary of differences between accounting principles generally accepted in the UK and the US” on page F-51.

Included in current liabilities and long-term debt are amounts owed to the Group, other shareholders of the associated companies and third parties. The Group's share of all associated companies' debt amounted to £6,734m at March 31, 2001 (2000 — £1,352m), of which £1,308m (2000 — £978m) was guaranteed by the Group.

### 35. Supplementary information for United States investors (continued)

Summary financial information for Verizon Wireless for the period from April 3, 2000 to March 31, 2001 and summary financial information for Omnitel Pronto Italia S.p.A. for the years ended March 31, 2001 and 2000 is set out below. The financial information is extracted on a 100% basis from accounts prepared under UK GAAP. Verizon Wireless was formed on April 3, 2000 and hence prior year comparatives cannot be provided.

|  | Verizon Wireless | Omnitel Pronto<br>Italia S.p.A |              |
|--|------------------|--------------------------------|--------------|
|  | 2001             | 2001                           | 2000         |
|  | £m               | £m                             | £m           |
| Assets   |                  |                                |              |
| Current assets . . . . .                                   | 2,981            | 634                            | 1,137        |
| Noncurrent assets. . . . .                                 | 11,172           | 2,893                          | 1,084        |
|  | <u>14,153</u>    | <u>3,527</u>                   | <u>2,221</u> |
| Liabilities and equity shareholders' funds                 |                  |                                |              |
| Current liabilities. . . . .                               | 8,105            | 1,194                          | 1,384        |
| Long-term liabilities . . . . .                            | 5,330            | —                              | 67           |
| Total equity shareholders' funds. . . . .                  | 718              | 2,333                          | 770          |
|  | <u>14,153</u>    | <u>3,527</u>                   | <u>2,221</u> |
| Turnover. . . . .  | <u>10,266</u>    | <u>3,073</u>                   | <u>2,631</u> |
| Operating profit, before amortization of goodwill. . . . . | <u>2,451</u>     | <u>1,068</u>                   | <u>897</u>   |

#### *Assets held for resale*

Assets held for resale on the acquisition of Mannesmann AG primarily comprised the Group's interests in Atecs Mannesmann AG, Infostrada S.p.A., Orange plc and tele.ring Telekom Services GmbH.

Atecs Mannesmann AG comprises an engineering business, which is a supplier in the fields of hydraulics, materials handling and plastics technology, and an automotive business, which is a systems developer and partner to the automobile industry. On April 17, 2000, Vodafone announced that an agreement had been reached with Siemens AG and Robert Bosch GmbH for the sale of a controlling interest in Atecs Mannesmann AG. The sale of the 50% plus two shares stake completed on April 17, 2001 following approval from the relevant European Union and US regulatory authorities. Further proceeds may be realized upon the exercise of certain put options over the remaining stake between April 17, 2001 and December 31, 2003. Results of Atecs Mannesmann AG from the acquisition of Mannesmann on April 12, 2000 until the announcement of the sale of Atecs Mannesmann AG on April 17, 2000 are not presented.

Infostrada S.p.A. provides fixed line telecommunications network services in Italy and is the largest competitor in the Italian wireline market of the former state-owned telephone company in terms of voice and Internet services. On October 11, 2000, Mannesmann announced that it had reached an agreement for the sale of its interest in Infostrada S.p.A. to Enel S.p.A. In the period from April 12, 2000 to October 11, 2000, Infostrada S.p.A. recorded a net loss of £112m, which has been excluded from the Consolidated Financial Statements. Following the receipt of regulatory approvals, the sale of Infostrada S.p.A. to Enel S.p.A. completed under the terms of a revised agreement on March 29, 2001.

Orange plc is a wireless telecommunications provider operating primarily in the United Kingdom. Vodafone was required to dispose of Orange plc in accordance with an undertaking given to the European Commission as part of its approval of the Mannesmann acquisition, and to the Secretary of State for Trade and Industry in connection with its successful bid for a 3G license in the United Kingdom. The sale of Orange plc to France Telecom was announced on May 30, 2000 and completed following the receipt of conditional approval from the European Commission on August 22, 2000. Results of Orange plc from the acquisition of Mannesmann on April 12, 2000 until the

### 35. Supplementary information for United States investors (continued)

announcement of its disposal on May 30, 2000 are not presented, as regulatory requirements prohibited the Group from access to Orange plc's accounting records.

tele.ring Telekom Service GmbH is an Austrian wireline carrier that acquired a license for mobile telecommunications in May 1999. tele.ring launched service as Austria's fourth mobile network operator on June 1, 2000. On May 8, 2001, the Company announced that agreement had been reached to sell its 100% equity stake in tele.ring, and the transaction completed on June 29, 2001 following the receipt of regulatory approval. tele.ring recorded a net loss of £190m in the period from April 12, 2000 to March 31, 2001, which has been excluded from the Consolidated Financial Statements.

Other assets held for resale on acquisition include Mannesmann's tubes business, one of the world's largest producers of steel tubes and Les Manufactures Horlogères, a luxury watches business.

Assets held for resale on acquisition were recorded at the value of the expected net sale proceeds and no gain or loss on disposal has been recorded in the Consolidated Financial Statements. The movement in the assets held for resale balance in the year ended March 31, 2001 was as follows:

|   | <u>£m</u>      |
|---|----------------|
| April 1, 2000 .....                           | —              |
| Acquisition of Mannesmann AG .....            | 30,222         |
| Exchange movements .....                      | 624            |
| Net sales proceeds .....                      | (26,002)       |
| Reclassifications to net current assets ..... | <u>(4,844)</u> |
| March 31, 2001 .....                          | <u>—</u>       |

Reclassifications to net current assets primarily comprise the transfer to current asset investments of the Group's remaining interest in Atecs Mannesmann AG and a balancing payment receivable in March 2002 in relation to the exercise of an option over France Telecom shares acquired as a result of the disposal of Orange plc.

## FINANCIAL STATEMENT SCHEDULE II

### Valuation and qualifying accounts

|  | <u>Allowances<br/>for bad and<br/>doubtful<br/>accounts</u> | <u>Allowances<br/>for stock<br/>obsolescence</u> |
|--|---|--|
|  | £m  | £m   |
| 1998/99:                                   |   |  |
| March 31, 1998.....                        | 16  | 10   |
| Opening foreign currency revaluation ..... | 1   | —  |
| Additions — charged .....                  | 20  | 2  |
| Assets written-off .....                   | <u>(10)</u>   | <u>(5)</u>                                       |
| March 31, 1999.....                        | 27  | 7  |
| 1999/2000:                                 |   |  |
| Opening foreign currency revaluation ..... | (4)   | —  |
| Additions — charged .....                  | 71  | 4  |
| Acquisitions.....                          | 77  | —  |
| Assets written-off .....                   | <u>(39)</u>   | <u>(2)</u>                                       |
| March 31, 2000.....                        | 132   | 9  |
| 2000/2001:                                 |   |  |
| Opening foreign currency revaluation ..... | (20)  | —  |
| Additions — charged .....                  | 127   | 23   |
| Acquisitions.....                          | 172   | —  |
| Disposals .....                            | (71)  | —  |
| Assets written-off .....                   | <u>(47)</u>   | <u>—</u>   |
| March 31, 2001.....                        | <u>293</u>  | <u>32</u>  |

## Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

VODAFONE GROUP PUBLIC LIMITED COMPANY

/s/ SIR CHRISTOPHER GENT

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SIR CHRISTOPHER GENT  
CHIEF EXECUTIVE

Date: July 5, 2001



## ITEM 19 EXHIBITS

| <u>Exhibit Number</u> | <u>Description of Exhibits</u>  |
|-----------------------|---|
| 1.1                   | Amended Memorandum and Articles of Association of the Company (incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form F-3 (File No. 333-10762)).  |
| 2.1                   | Indenture, dated as of February 10, 2000, between the Company and Citibank, N.A., as Trustee, including forms of debt securities (incorporated by reference from Amendment No. 1 to the Company's Registration Statement on Form F-3. (File No. 333-10762))   |
| 2.2                   | Securities Depositary Agreement, dated as of February 10, 2000, by and among the Company, Citibank, as Book-Entry Depositary, and the owners of book-entry securities in debt securities (incorporated by reference to Amendment No. 1 to the Company's Registration Statement on Form F-3 (File No. 333-10762)).   |
| 4.1                   | Share Purchase Agreement among Mannesmann AG, the Company and France Telecom, dated May 29, 2000 (incorporated by reference to the Company's Registration Statement on Form F-4 (File No. 333-12826)).  |
| 4.2                   | Put Option Agreement among Mannesmann AG, the Company and France Telecom, dated May 29, 2000 (incorporated by reference to the Company's Registration Statement on Form F-4 (File No. 333-12826)).  |
| 4.3                   | Call Option Agreement among France Telecom, Mannesmann AG, and the Company, dated May 29, 2000 (incorporated by reference to the Company's Registration Statement on Form F-4 (File No 333-12826)).   |
| 4.4                   | Agreement for US. \$13,275,000,000 Revolving Credit Facility, dated June 27, 2001, among the Company, ABN AMRO Bank, N.V., Bank of America International Limited, Barclays Capital, BNP Paribas, Deutsche Bank AG London, HSBC Investment Bank plc, ING Bank N.V., London Branch, Lehman Brothers International (Europe), National Australia Bank Limited, Salomon Brothers International Limited, The Royal Bank of Scotland Plc, TD Bank Europe Limited, UBS Warburg Ltd and Westdeutsche Landesbank Girozentrale, with The Royal Bank of Scotland Plc as Agent and US Swingline Agent. |
| 4.5                   | Vodafone Group Long Term Incentive Plan.  |
| 4.6                   | Vodafone Group Short Term Incentive Plan.   |
| 4.7                   | Vodafone Group 1999 Long Term Stock Incentive Plan.   |
| 4.8                   | Vodafone Group 1998 Company Share Option Plan.  |
| 4.9                   | Vodafone Group 1998 Executive Share Option Plan.  |
| 4.10                  | Directors' Service Contracts.   |
| 8.1                   | The list of the Company's subsidiaries is incorporated by reference to Note 34 of the Notes to Consolidated Financial Statements included in the Annual Report.   |
| 10.1                  | Consent of Deloitte & Touche.   |