SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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, 1997

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

(Exact Name of Registrant as specified in its Charter)

England

(Jurisdiction of incorporation or organization)

The Courtyard, 2-4 London Road, Newbury, Berkshire RG14 lJX, England

(Address of Principal Executive Offices)

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

Title of each class	Name of each exchange on which registered
Ordinary Shares of 5p 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 5p each 3,066,158,194

Indicate by check mark whether the registrant (l) 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 X NO __

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

ITEM 17____ ITEM 18 X

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Definitions

"ADS"	American Depositary Share.
"ADR"	American Depositary Receipt.
"British Telecom"	British Telecommunications plc.
"Cellnet"	Telecom Securicor Cellular Radio Limited.
"Company"	Vodafone Group Plc.
"Director General"	the UK Director General of Telecommunications.
"Directors"	the Directors of Vodafone Group Plc.
"GSM"	Global System for Mobile Telecommunications.
"L M Ericsson"	Telefonaktiebolaget L M Ericsson.
"MCN"	Micro Cellular Network.
"Mercury"	Mercury Personal Communications Limited.
"MTX"	Computerized Mobile Telephone Exchange.
"NYSE"	The New York Stock Exchange Inc.
"Oftel"	the UK Office of Telecommunications.
"Orange"	Orange Personal Communications Limited.
"PCN"	Personal Communication Network.
"PTO"	Public Telecommunications Operator.
"Secretary of State"	the UK Secretary of State for Trade and Industry.
"UK"	the United Kingdom.
"Vodafone"	Vodafone Limited.
"Vodafone Group"	Vodafone Group Plc and its subsidiaries.

Introduction

Vodafone Group 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. Merely for convenience, this Annual Report contains translations of certain pound sterling amounts into US dollars at specified rates. These translations should not be construed as representations that the pound sterling 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 into US dollars have been made at $1.6448 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 (the "Noon Buying Rate") on March 31, 1997. The Noon Buying Rate on July 1, 1997 was $1.6574 per £1.00. See "Exchange Rates" in Item 8 – "Selected Financial Data" of this Annual Report for information regarding the Noon Buying Rate for the fiscal years ended March 31, 1993 through March 31, 1997.

This document contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, with respect to the financial condition, results of operations and business of the Vodafone Group and certain of the plans and objectives of the Vodafone Group with respect to these items. In particular, among other statements, certain statements in "Item 1 Description of Business" and in "Item 9 Management's Discussion and Analysis of Financial Condition and Results of Operations" including, without limitation, those concerning the Vodafone Group's expectations and plans, strategy, management's objectives, trends in market shares, market standing, overall market trends, risk management, exchange rates and revenues and general and administration expenses, contain forward-looking statements concerning the Vodafone Group's operations, performance and financial condition. Such statements may generally, but not always, be identified by their use of words such as "anticipates", "should", "expects" or "believes". By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, changes in demand for the Vodafone Group's products and services, the impact of competitive products and services, and pricing of the Company's and its competitors' products, the impact of regulation, future exchange and interest rates, changes in tax rates and future business combinations or dispositions.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Vodafone Group is a leading provider of international mobile telecommunications services and operates in thirteen countries through its equity interests. The number of subscribers connected to its cellular networks worldwide (proportionate to Vodafone Group's equity stakes) increased by almost one million for the second consecutive year, to over four million at March 31, 1997.

Its principal business is the operation of the analog and digital cellular radio networks of Vodafone in the UK. Vodafone is one of four UK cellular telephone operators. Service on the Vodafone analog network was introduced on January 1, 1985 and the number of Vodafone subscribers on both its analog and digital networks had grown to 2,867,000 subscribers at March 31, 1997.

Service on the Vodafone analog and digital networks is sold to subscribers by service providers or retailers who also sell or lease cellular telephone equipment. At March 31, 1997, there were in excess of 30 service providers connecting to the Vodafone networks. Three of these, Vodac Limited ("Vodac"), Vodacom Limited ("Vodacom"), Vodacall Limited ("Vodacall"), were wholly-owned by Vodafone Group throughout 1997. In addition, in the year ended March 31, 1997 the Vodafone Group purchased additional interests in UK service providers including the acquisition of two thirds of the issued share capital of General Mobile Corporation Limited, the parent company of Talkland International (UK) Limited ("Talkland"), which it did not own, and the remaining 80% of Astec Communications Limited ("Astec Communications"), together with the whole issued share capital of The Peoples Phone Company Plc, now Peoples Phone Limited, ("Peoples Phone"). Vodafone Group also has interests in other UK service providers, such that at March 31, 1997 the Group had a direct relationship with over 70% of the total Vodafone customer base.

Vodafone Group provides, through Vodata Limited ("Vodata"), messaging, third-party charging and data transmission facilities and access to information services, all of which are designed to increase the utility of the Vodafone analog and digital networks. Paknet Limited ("Paknet"), a wholly-owned subsidiary, operates a packet radio network (the radio equivalent of a public data network) in the UK. Through Vodapage Limited ("Vodapage"), and Air Call Communications Limited ("Air Call"), Vodafone Group operates the second largest radiopaging network in the UK. The Group's 50% interest in Orbitel Mobile Communications Limited, which was established to provide a manufacturing base in the UK for analog cellular infrastructure equipment and handsets, was sold during the year.

Vodafone Group has a number of subsidiaries worldwide. Vodafone Pty Limited ("Vodafone Pty"), a 90% subsidiary, operates a digital cellular network in Australia. Vodafone Group's interest in Vodafone Pty was reduced from 95% on April 1, 1996 to 90% following the exercise of an option pursuant to an agreement entered into when the license was granted in 1992. Digicall, Vodafone Pty's largest independent service provider went into receivership during the year and the Vodafone Group acquired the business from the receiver. This has now been renamed Vodacall Pty Limited. Vodac Pty Limited ("Vodac Pty") is a wholly-owned service provider selling service on the Vodafone Pty network. In February, Vodafone Group increased its interest in both Panafon SA, which operates one of two digital cellular networks in Greece, and Panavox SA which sells service on the Panafon SA network, from 45% at March 31, 1996 to 55% at March 31, 1997. In Malta, Vodafone Group has an 80% interest in Telecell Limited, which operates the analog cellular network in that country. Telecell Limited's GSM digital network opened for service in July 1997. In France, Vodafone SA, a wholly-owned subsidiary of Vodafone Group, is a service provider for the French digital cellular networks.

Vodafone Group also has a number of international investments. Vodafone Group has a 35% interest in Pacific Link Communications Limited, an operator of digital, telepoint and paging networks in Hong Kong. In South Africa, Vodafone Group has a 31.5% interest in Vodacom Group (Pty) Limited, the holding company of a digital network operation and service provision companies. Coverage on the Libertel network in the Netherlands, a 35% owned company, is now almost complete. Libertel had approximately 275,000 subscribers at March 31, 1997. In July 1996, the Vodafone Group exercised an option to acquire further equity of Société Française du Radiotéléphone SA ("SFR"), a network operator in France, increasing its holding to 16.1%.

Subscribers to the SFR network increased to over 1,130,000 at March 31, 1997 from 526,000 at March 31, 1996. The Vodafone Group has an option to increase its shareholding in SFR to 20% before the end of December 1997 at the same price per share. In Germany, Vodafone Group has an investment of 17.2% in E-Plus Mobilfunk GmbH ("E-Plus"). At March 31, 1997, E-Plus subscribers exceeded 546,000. In October 1996, the Group increased its interest in Europolitan Holdings AB, which is authorised to operate one of three GSM networks in Sweden, to 20%. Vodafone Group also has other interests in mobile communication networks in Fiji, Uganda and in Globalstar L.P., a US partnership developing satellite based digital communications systems.

Revenues and operating income

The following table shows total turnover and operating profit before associated undertakings for Vodafone Group for the three years ended March 31, 1997.

YEARS ENDED MARCH 31,					
TURNOVER			OPERATING PROFIT BEFORE ASSOCIATED UNDERTAKINGS		
1997	1996	1995	1997	1996	1995
£m	£m	£m	£m	£m	£m
1,749.0	1,402.2	1,152.6	495.3	449.0	360.6

See Note 3 of Notes to Consolidated Financial Statements for a brief discussion of business segment and major customer information.

Cellular telephone technology

Cellular telephony is a radio communications system which multiplies the number of users that can be served on a limited number of channels by re-using frequencies, thereby allowing the development of a high capacity, high quality, public mobile telephone service.

On analog cellular systems the radio signal uses frequency modulation where the radio frequency is varied proportionally to the audio sound entering the mobile telephone. On GSM digital cellular systems, the audio sound entering the telephone is digitally coded and used to modulate a series of impulses (bits). In both systems, the signal is transmitted from and to the mobile phone through radio base stations. For the analog network the radio base stations are connected to MTXs (mobile telephone exchanges) which are in turn connected to other exchanges in the network and to other telephone networks. Base stations on the digital network are connected to BSCs (base station controllers) and then to MSCs (mobile switching centres) which then link to other MSCs in the network and to other telephone networks.

The Vodafone analog network

Following the liberalization of the telecommunications industry in the UK and advances in cellular technology, the UK Government decided in 1982 to license two cellular telephone networks. One license was awarded to Cellnet, a company owned by British Telecom and Securicor Communications Limited, and tenders were invited for the second license. In 1983 this license was awarded to Vodafone and commercial service commenced on both networks in January 1985.

Both Vodafone and Cellnet were able to operate their networks using 300 channels each in the radio frequency band known as the TACS Band and a further 320 channels each in a different frequency known as the ETACS Band. However, due to the migration of subscribers from the analog network to the digital network and the consequent decline in analog traffic, some of the 300 TACS channels are being redeployed for use in the digital network. The Vodafone analog network currently transmits and receives calls on its voice channels by means of over 2,120 cells served by almost 1,100 base stations and the 13 MTXs currently in use. Connections between base stations and MTXs, and between MTXs, consist of landline or microwave links, the majority of which are leased from British Telecom or Mercury, the two national landline telephone network operators.

The Vodafone analog network is complete and it is not expected that any significant capital expenditure will take place in the future. Quality of service trials show the Vodafone analog network consistently maintaining a call success rate of around 91% for calls in declared coverage areas.

Vodafone network resilience is supported by a network of tandem switches to convey traffic between the mobile switches. In addition, subscriber data has been moved from switches to standard computers which act as home location registers. This has facilitated Vodafone's introduction of additional facilities to the system, such as fraud prevention measures.

Cloning fraud was approximately 0.3% of revenue during the year, which was a significant reduction on the previous year. This type of fraud consists of the electronic acquisition of an analog subscriber's mobile telephone number and the related electronic serial number and the programming of these numbers into another, usually stolen, analog handset which is then used to make a high volume of calls. In November 1995, Vodafone became the first network to introduce a full authentication system to protect its subscribers from cloning fraud for users with analog phones capable of such protection. All new analog phones have this capability and more than 70% of Vodafone's customers can now avail themselves of this protection. Additional measures have been introduced to protect customers on non-authenticating analog phones.

Vodafone has reached an agreement with the Department of Trade and Industry in the UK that Vodafone would close the analog network no later than the end of 2005. The Vodafone digital network already offers better coverage than the analog network in many parts of the UK and a significant number of analog subscribers have already migrated to the digital network. The current digital network investment program should ensure that Vodafone has an alternative for its analog subscribers by the end of 2005.

Tariffs and billing for the Vodafone analog network

Vodafone charges service providers for their customers' initial connection, monthly access to, and airtime on, the Vodafone network. Tariffs to service providers are calculated at a discount from the rates Vodafone recommends to be charged to subscribers. Each service provider sets its own tariffs and bills and bears the credit risk of collecting charges from its customers.

On April 1, 1996 Vodafone had four different analog tariffs which were available throughout the year, “BusinessCall“ and “CapitalCall“, both of which are business tariffs, “LowCall“ and “LowCall Extra”, alternative consumer tariffs for subscribers with lower airtime usage. Each tariff consists of three elements: an initial connection charge, a monthly access charge and a charge for airtime used. In addition, for the LowCall Extra tariff, which has a slightly higher monthly access charge than the LowCall tariff, a credit of up to £5.53 per month (excluding value added tax) is given against airtime charges incurred. Airtime charges for calls within the UK do not vary with distance or depend on whether the calls are to telephones on the analog network or to telephones on another network. Vodafone recommends a separate tariff with respect to calls made through private telephone exchanges connected directly to the Vodafone network.

Service providers are rewarded by a discount on the airtime rates for each tariff which increases depending on the number of subscribers the service provider has registered on the Vodafone network. This current scheme starts at a rate of 22.00% and reaches 27.50% when a service provider's base exceeds 200,000. A discount to service providers is allowed on connection charges at a standard rate of 25.00% and on access charges at a rate of 26.00% for the BusinessCall tariff, 30.00% for the CapitalCall tariff, 43.23% for the LowCall tariff and 40.97% for the LowCall Extra tariff.

Monthly access charges to service providers are generally invoiced by Vodafone in advance while airtime and connection charges and any other charges stated or referred to in Vodafone's published tariff, are generally invoiced by Vodafone monthly in arrears. In all cases payment is required by the end of the month following the month in which the service provider is invoiced.

In September 1996, Vodafone became the first UK network operator to offer a mobile phone service with no contract, Vodafone PrePay. This service provides customers with prepaid access and airtime and is attractive to those who do not want an airtime contract with the normal minimum one year commitment or who do not wish to undergo the associated credit checks. An access charge of £24.90 (including value added tax) enables a customer to make 25 minutes of outgoing national calls and to receive any number of incoming calls over a 60 day access period.

The Vodafone digital network

In 1985, representatives of state-owned telecommunication operators in France, Germany and Italy agreed to establish and promote a series of interlinked, compatible, digital, cellular telephone networks which could constitute a pan-European system and be used by subscribers throughout Europe. The UK Government, Vodafone and Cellnet became parties to this agreement in 1986. Vodafone's digital cellular network is designed to form part of the UK element of this pan-European system and follows the GSM specification.

The GSM standard has now been adopted by 110 countries worldwide in which there are more than 230 licensees. Vodafone currently has 90 network roaming agreements where service is in operation and is in negotiation for additional network roaming agreements with over 30 other GSM network operators. These roaming agreements enable Vodafone digital subscribers to make and receive calls when visiting countries in which a licensee has an agreement with Vodafone. Similarly, it allows visitors to use their mobile phone in the UK if their network provider has signed an agreement with Vodafone.

The Vodafone license permits it to operate digital as well as analog cellular telephone networks. Vodafone believes that such networks will have a significantly higher subscriber capacity than existing analog networks. In addition to the 300 TACS channels originally allocated to Vodafone for the analog network, a further 200 TACS channels were reserved for Vodafone's digital network. As traffic on the digital network grows, partly due to subscribers moving across from the analog network, some of the 300 TACS channels used for the analog network are being reallocated for use in the digital network. The digital network was introduced in Central London in December 1991 and by March 31, 1997 there were 24 switches and 2,813 digital base stations in service in the UK, giving declared coverage to over 95% of the population. The existing network of analog base station sites have been equipped with digital electronic equipment and in addition, a network of smaller digital only sites, has been constructed to increase both coverage and capacity. The increased roll-out of the digital network is reflected in Vodafone’s capital expenditure where, of a total spend of £179 million in the year ended March 31, 1997, £144 million was spent on the digital network infrastructure. When completed, the Vodafone digital network is expected to exceed 6,000 digital base stations and when all frequencies that can be moved have been migrated from analog to digital, system capacity is expected to be in the order of 14 million subscribers. Vodafone is committed to minimising the visual impact of installations on the environment. Quality of service trials, using a methodology developed with Oftel, show Vodafone consistently maintaining a call success rate of around 92% for calls in declared coverage areas.

Tariffs and billing for the Vodafone digital network

During the financial year, Vodafone continued to offer the “BusinessWorld” and “PersonalWorld” tariffs which were announced in December 1995 and targeted at business and corporate users and the lower-use consumer market respectively. These tariffs which were mainly introduced on April 1, 1996 incorporate per-second billing and options enabling subscribers to purchase by way of an additional monthly access supplement, “bundles“ of free minutes, as well as the ability to make local calls to the appropriate local dialling code on the fixed network and calls to other Vodafones, at the off-peak rate.

Vodafone charges service providers who connect subscribers to digital tariffs on the same basis as the analog system. Monthly access charges are generally invoiced by Vodafone in advance while airtime and connection charges are generally invoiced by Vodafone monthly in arrears at rates which Vodafone recommends to be charged to subscribers as follows:

	PersonalWorld	BusinessWorld
Initial Connection	£30.00	£30.00
Monthly Access	£15.00 / month	£25.00 / month
Call Charges – Peak	30p / min	20p / min
– Off Peak	10p / min	10p / min
Monthly Access Supplements		
Extra Option	£7.50 / month	£12.50 / month
Inclusive eligible calls	50mins / month	100mins / month
Local Option	£2.50 / month	£2.50 / month
Local call rate	10p / min	10p / min
Extra with Local Option	£10.00 / month	£15.00 / month

All charges exclude VAT. Calls are charged in 1 second units.

On the same basis as for analog tariffs, airtime discounts available to service providers range from 22.00% to 27.50% and discounts on connection fees are at a standard rate of 25.00%. Discounts on access charges are at the rate of 26.00% for the basic BusinessWorld tariff and 38.33% for the basic PersonalWorld tariff with additional discounts on the monthly access supplements for the Extra and Local options at 28.00% for BusinessWorld and 30.00% for PersonalWorld. The old MetroWorld tariff was modified from April 1, 1996 although few subscribers remain connected to this tariff.

On March 1, 1997 Vodafone introduced two new variations to the PersonalWorld tariff called “PersonalWorld 15” and “PersonalWorld 50”. For a monthly access charge of £14.89 (excluding VAT), subscribers to PersonalWorld 15 are allowed a bundle of 15 free minutes, with peak rate calls outside the bundle charged at 34p / min. The PersonalWorld 50 tariff, which is expected to replace PersonalWorld Extra for new connections, was charged at £21.28 (excluding VAT) per month, although in all other respects the tariff is the same as PersonalWorld Extra. Local call options on both tariffs were made available from April, 1, 1997 for an additional monthly charge of £2.13 (excluding VAT).

Market

The UK cellular telephone market, having grown rapidly since the commencement of commercial service in January 1985, has become much more competitive. Initially small businesses, entrepreneurs and professionals constituted a large proportion of Vodafone's subscribers, with large corporations subsequently becoming major users and contributing significantly to the overall growth in subscriber numbers. While business customers remain the major users of Vodafone's service, the introduction of competitive tariffs with lower monthly access charges and inclusive call minutes is attracting increasingly significant numbers of lower-use subscribers to all networks.

The Directors estimate that during the year ended March 31, 1997 the overall UK market increased by over 1,300,000 subscribers, or almost 23%, from 5,700,000 to over 7,000,000 subscribers. These figures rely upon industry and press estimates as the two PCN operators do not regularly publish subscriber statistics. In this much more competitive market, Vodafone enjoyed good growth in the year, connecting over 415,000 net new customers to its analog and digital networks, an increase of approximately 17% in the subscriber base. Based on industry estimates, Vodafone has approximately 40.5% of the total market which compares with Cellnet’s estimated 38.1%, and the two PCN operators together at approximately 21.4%.

For the UK digital market alone, Vodafone increased the number of subscribers on its network from 520,000 at March 31, 1996 to over 1,470,000 at March 31, 1997. This net growth of over 950,000 customers, which includes 317,000 subscribers who migrated from analog to digital, represented a growth rate of 183% and resulted in Vodafone’s digital market share increasing from 29% to 36%. At March 31, 1997 the total digital market was over 4,100,000 and Vodafone had extended its lead over Cellnet to approximately 350,000, over Orange to approximately 580,000 and over Mercury One-2-One to approximately 860,000.

For the market as a whole, the transition from analog domination to a digital majority has now taken place with digital increasing from a 31% share to 58% at March 31, 1997. This trend has been accelerated by Vodafone‘s migration policy and Vodafone now has more than 51% of its customers on its digital service compared to 21% a year ago.

Vodafone’s new digital tariffs, which became fully effective at the beginning of the financial year and which offered per second billing, bundles of free minutes and competitive call rates were a significant factor underlying the level of net growth in customers connected to the digital service. In the final quarter of the financial year 87% of customers connecting to the digital service opted for a bundled tariff.

During the year, the rate of customers leaving the Vodafone service, known as churn, increased to 27.4% from 25.6% in the previous year. Approximately 5% of this figure is attributable to customers moving from one service provider to another but staying on the Vodafone service. Churn has recently been high as a result of the effective reduction in the minimum contract period, which had the greatest effect on subscribers gained in the high connecting period of December 1995 and the first three months of 1996. It is expected to reduce after June of this year once the effect of this change has been absorbed.

During the year, the Vodafone Advantage loyalty program, by which long standing customers are rewarded with a 5% discount on call charges, rising to 10% if customers remain on the network for a further two years, grew in popularity, providing benefits to more than 1,500,000 customers, and was enhanced by an alliance with British Airways and Air Miles. This alliance, announced in September 1996, allowed Vodafone, through its service providers, to develop closer relationships with its customers, with the intention of reducing churn.

As part of an industry wide campaign, Vodafone co-sponsored the Federation of Communications Services “Initiative Against Crime“ which allows for the appointment of an Inspectorate to investigate cellular phone dealers who may be involved in cloning and recycling stolen phones. Vodafone welcomed the passage of the Telecommunications (Fraud) Act in February 1997 which provides the UK authorities with enhanced powers of investigation and greater penalties for those convicted of telecommunications crime.

Marketing

Vodafone engages in two forms of marketing : broad marketing designed to increase general public awareness of the Vodafone network and marketing specifically directed at service providers. Broad marketing efforts include advertising on radio and television, in general circulation newspapers, magazines and in specialised publications. To sustain its competitive position, Vodafone is increasing its efforts to promote its brand. 1997 was the third year of sponsorship of the Epsom Derby Meeting, and in addition to the substantial media coverage of the event, the occasion was also used as a focus for promotions and incentives. Vodafone selected a new advertising agency and developed a television campaign, which commenced in May 1996, to promote its brand, values and capabilities to reinforce Vodafone's leadership in mobile communications. In a further development, Vodafone announced an agreement with the England and Wales Cricket Board to sponsor the England men’s and women’s cricket teams for a five year period.

Marketing to 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 programmes with multiple retailers. In this regard High Street specialists and multiple retailers reinforced their position as the most effective route to market, with direct response also playing an important role.

Service providers vary considerably in terms of their strategy, size and funding ability. In selecting service providers Vodafone takes into account their familiarity with mobile communications and their ability to broaden Vodafone's market coverage. At March 31, 1997 fifteen of Vodafone's service providers each had over 50,000 subscribers connected to the Vodafone network. Eight of these service providers each had over 150,000 subscribers and accounted for approximately 75% of Vodafone's total subscribers. Vodac, Vodacom, Vodacall, Talkland, Peoples Phone and Astec Communications together accounted for almost 52% of Vodafone's total subscribers at the year end.

Service providers receive financial incentives from Vodafone related principally to their success in attracting new subscribers to the network. These comprise gross connection bonuses, airtime growth awards and other specific incentives. From April 1, 1996, a bonus was introduced for the migration of customers from the analog to the digital network.

Competition

Until 1993, Vodafone's only direct competitor was Cellnet. When Vodafone and Cellnet began commercial operation of their respective networks in January 1985, Cellnet benefited from its association with British Telecom, one of the UK's largest companies, and emerged as the early market leader with a market share which the Directors believe to have been approximately 60% of all UK cellular telephone subscribers at September 1985. Vodafone has since become market leader and the Directors believe, based on industry and press reports, that Vodafone's total market share at March 31, 1997 was approximately 40.5%. During 1996/97 the overall market for mobile communications expanded significantly with approximately 1,300,000 net new subscribers joining the networks. Net growth for Vodafone and Cellnet amounted to approximately 724,000 subscribers compared with 1,289,000 in the previous year thus reflecting the effect of the competition arising from the PCN operators (see below).

The UK Department of Trade and Industry licensed three other operators to set up and run new two-way mobile PCNs in the UK in high frequency, high capacity bands, intended to compete with the two existing cellular radio operators and to enter service not earlier than 1992. In 1992, two of the licensed PCN operators, Unitel and Mercury, merged. The merged company, Mercury One-2-One, opened service in September 1993 and the Directors believe, based on industry sources, that Mercury One-2-One had approximately 621,000 customers at March 31, 1997. Since March 31, 1994 a second PCN operator, under the brand name "Orange", has also opened service and, according to industry sources, had approximately 897,000 subscribers at March 31, 1997.

Vodafone and Cellnet compete for new subscribers on the basis of price, quality, reliability and range of services offered, focusing much of their competitive efforts on service providers. Orange and One-2-One market their services mainly direct or through multiple retailers and compete with Vodafone and Cellnet on price and increasingly quality of service rather than coverage.

Vodafone's quality of service continued to improve during the year and tests on the analog and digital networks indicated an average success rate of over 91% for calls in declared coverage areas.

Relationships with other UK Public Telecommunications Operators

Each UK PTO, including Vodafone, is obliged under its license to permit the connection of any other PTO to its network (see "Regulation"). Vodafone has interconnection agreements with nine UK network operators. Under these interconnection agreements, Vodafone delivers calls to the interconnect operator and pays them for delivering the calls to the called parties. The interconnect operators deliver calls to Vodafone and pay Vodafone to deliver the calls to Vodafone subscribers.

The interconnect agreements remain in force as long as the respective parties retain their Telecommunications Act 1984 licenses, subject to certain provisions for earlier termination which include insolvency or material breach. Matters covered by these agreements, including price, are subject to renegotiation from time to time. The agreements also provide that should the parties fail to reach agreement on any renegotiation, matters in dispute may be submitted to arbitration.

Vodafone and British Telecom have signed a new interconnect agreement which commenced April 1, 1996 and covers three main topics: Vodafone payments to British Telecom for terminating mobile calls on its network; British Telecom payments to Vodafone for terminating calls which start on their network; and the cost of the transmission both between the two networks and for links within the Vodafone system. During March 1997, Oftel issued a consultative document on calls to mobile telephones and proposed changes which may result in the reduction of Vodafone charges. Vodafone disagrees with a number of the cost assessments made by Oftel and has responded with a new set of commercial proposals. Oftel is currently considering these proposals.

The Vodafone charges to terminate calls from Mercury customers, which form part of the interconnection agreement between the two companies, were determined by Oftel in 1991, and are re-assessed annually.

Network equipment suppliers

The majority of capital expenditure in the year ended March 31, 1997 (approximately £144 million out of a total of £179 million) has been on the digital network infrastructure. The principal components of the network, cell site network equipment, base station controllers and mobile switching centre equipment are purchased by Vodafone for the digital network and are manufactured by Ericsson. In the year ended March 31, 1997 Vodafone purchased digital equipment costing £100 million from Ericsson. Other expenditure on the network principally relates to the construction and equipping of radio base station sites and switch centres, together with the establishment of links to carry telephone traffic between these sites and centres.

Service providers

Vodafone currently trades with over 30 service providers who sell services on networks to subscribers. These include Vodac, Vodacom, Vodacall, Talkland, Peoples Phone and Astec Communications, all of which are wholly owned by the Vodafone Group. A number of these wholly owned service providers act as a service provider on other UK networks. These service providers also sell or rent cellular telephone equipment and, in most cases, provide installation and maintenance services. The Directors believe that the use of service providers has helped to accelerate subscriber growth and that Vodafone generally enjoys good relations with its service providers.

Vodac

At March 31, 1997, Vodac had 329,000 subscribers accounting for approximately 11.5% of Vodafone's subscriber base at that date. Growth during the year to March 31, 1997 was 41,000 net connections.

Vodac supplies cellular telephones for connection to the analog and digital networks and related equipment both directly to customers and indirectly through a network of dealers. Vodac, headquartered in Newbury, has eight regional sales offices and an extensive network of independent dealers throughout the UK. In the financial year ended March 31, 1997, 49% of its gross connections were provided by the dealer network and 83% of its gross connections were on the digital network. Equipment was primarily supplied by Siemens and Nokia accounting for approximately 41% and 33% respectively of the equipment sold by Vodac.

During the year Vodac introduced a new customer administration and billing system in phases. As at March 31, 1997, approximately one third of Vodac's subscribers had been transferred to the new system, with the balance of the subscriber base being transferred at the end of April 1997. The new system has provided improved operational efficiency and customer account management.

Vodac competes with other service providers and retailers primarily on the basis of customer service, equipment price discounts, financial incentives and tariffs to its dealers.

Vodacall

At March 31, 1997, Vodacall had approximately 174,000 subscribers and accounted for approximately 6% of the combined analog and digital subscribers of Vodafone.

Vodacall supplies cellular telephones and related equipment both directly to customers and via independent and national high street retailers. Vodacall trades with more than fifteen independent retailers and three national chains and participates in several consumer promotions in association with carefully selected well known national businesses serving the consumer.

Vodacall implemented a new integrated customer management system covering customer service, billing and accounts receivable during the year designed to increase operational efficiency.

Vodacom

Vodacom increased its customer base in the year by 25% to almost 250,000 subscribers at March 31, 1997 accounting for approximately 9% of Vodafone's subscriber base at that date. During the year the London Car Telephones branded retail chain in London and the South East of England enjoyed growth through a combination of increased owned shops and an expanded network of independent dealers. Vodacom's presence in the retail market place was further enhanced by its 45% strategic investment in the Mobile Phone Centre business, an established brand throughout England, with over 50 trading outlets. Vodacom continued to grow in the corporate sector through its direct sales force and by forming alliances with major household names.

Peoples Phone

Peoples Phone was acquired in December 1996 . The principal activities are the supply of cellular communications equipment and the sale of airtime and ancillary services throughout its network of over 180 retail shops throughout Great Britain.

Peoples Phone had in excess of 400,000 subscribers at March 31,1997 accounting for approximately 14% of Vodafone's subscriber base at that date.

Talkland

On June 30, 1996, the Group acquired the remaining 66.67% of Talkland it did not own.

Talkland has increased its direct presence in the retail market during the year by acquiring new sites from its dealers and opening new sites. By the year end it had 62 shops, the majority of which were in prime retail sites. These shops are located throughout Great Britain and as well as selling cellular telephone equipment, carry a range of other telecommunications equipment. This includes data cards, fixed telephones and faxes, accessories for mobile phones and traffic information systems.

At March 31 1997, Talkland's customer base amounted to some 386,000 subscribers accounting for approximately 13% of Vodafone's subscriber base at that date.

In 1997, Talkland established a retail operation in Australia and it is anticipated that further outlets will be opened in most major shopping malls in Australia by March 31, 1998.

Astec Communications

In February 1997 Vodafone Group exercised its right to convert loans to Astec Communications Limited to equity and as a result, Astec Communications became a wholly owned subsidiary of the Vodafone Group. Prior to this conversion Vodafone Group held a 20% stake in the company.

Astec has a chain of 21 retail outlets. It also sells cellular telephone equipment and provides an installation and maintenance service to its subscribers.

At March 31, 1997, Astec had over 97,000 subscribers (unchanged from the number of subscribers on the date of conversion) accounting for approximately 3% of Vodafone's subscriber base at that date.

Other UK Service Providers

During the period under review Vodafone Group had strategic investments in Cellphones Direct (Holdings) Limited, Martin Dawes Telecommunications Limited and Mobile Telecom PLC. In April 1997, Vodafone Group disposed of its 16% interest in Cellphones Direct (Holdings) Limited to Martin Dawes Telecommunications Limited, an associated company.

The future structure of Vodafone Group's wholly owned UK service providers

On July 7, 1997 the Vodafone Group announced that it is to reorganise the activities of its six UK service providers Vodac, Talkland, Vodacom, Peoples Phone, Vodacall and Astec Communications into three new businesses, each concentrating on a distinct market sector: corporate customers, small businesses and the consumer.

The new businesses will be:

Vodafone Retail – focusing on individual consumers and small businesses and operating close to 300 Vodafone branded High Street stores. This will be the UK's largest chain of specialist mobile telephone retailers.

Vodafone Connect – also focusing on individual consumers and small businesses, but managing sales through third party retail channels ranging from specialist dealers to High Street multiples and affinity partners.

Vodafone Corporate – focusing on Vodafone's corporate accounts, backed up with a specialist customer service team.

The three new businesses, the wholly owned shops, and all of the Vodafone Group's UK companies will trade under a single brand name – Vodafone. The total cost of modifying premises, including all shops, marketing literature and vehicles to the new Vodafone identity will be approximately £15 million.

The total impact of these changes is estimated to be a £20 million reduction in profit in the current financial year.

The six businesses currently employ about 3,500 staff and around 300 current jobs will be phased out over the next eighteen months as a result of the rationalisation programme. It is expected that there will be fewer than 250 redundancies.

UK Data Group

Vodata

Vodata commenced commercial operations in May 1985. It supplies value added services to both mobile and fixed telephone customers. It automatically provides a call completion facility unless specifically requested otherwise by the subscriber, known as "Recall", primarily for subscribers to the Vodafone networks, which receives diverted unanswered calls, digitally records them and subsequently alerts the user with a voice or text announcement. Vodata provides a premium rate telephone service primarily to fixed telephone customers, which is typically used for voice or facsimile information purposes. Vodata also provides a number of other facilities to Vodafone customers either directly or on behalf of Vodafone, including third party charging services, mobile data conversion services and text messaging.

Vodata's marketing is directed mainly at Vodafone's service providers who can promote Vodata's services as part of a comprehensive package of cellular telecommunications services. Service providers retain a portion of the fees paid by their subscribers for Vodata's services and may also increase their revenues through increased usage of the Vodafone networks. Marketing for premium rate services is directed at third party information providers who provide information and promote the telephone numbers required for access, in return for a proportion of the call revenues or other fees.

Its range of voicemail services saw strong subscriber and usage growth, and the customer base exceeded one million for the first time in February 1997. During the year Vodata launched the Call-Me range of Personal Numbers which provide a single contact number for subscribers which can be routed to any fixed or mobile phone in the UK or overseas. The service was well received in the market place. These products are sold through specialised independent service providers.

Vodata faces competition from value added service providers as well as British Telecom and Mercury. Many of Vodata's services are principally used by Vodafone subscribers and growth opportunities for such services lie primarily in the growth in the number of Vodafone's subscribers.

Vodapage and Air Call

Vodapage commenced commercial operations in October 1987 and acquired Air Call in October 1993. The companies each operate a wide-area radiopaging service in the UK under 25 year licenses. A wide-area radiopaging service, by contrast to an in-house or local service, may be accessed by the public generally and permits subscribers to be contacted from the public switched telephone network. Both the Vodapage and Air Call networks are broadcast, rather than cellular, systems.

In September 1996, a nationwide calling party pays (CPP) paging service, "VodaZap", was launched. Customers purchase either a numeric or alphanumeric pager and use it free of rental or call costs. Calls to these pagers are charged at premium rates.

In March 1997 Air Call acquired the paging business of London Pager from Advanced Mobile Communications International Incorporated, a subsidiary of the Fidelity Group. London Pager provides paging services to customers within the London area and nationwide.

At March 31, 1997, Vodapage and Air Call together supplied service to more than 245,000 users (compared to approximately 207,000 at March 31, 1996) which the Directors believe represents approximately 22% of the total UK paging market. The Vodafone Group believes that the growth in the number of customers for the UK wide area paging market as a whole has been about 16%. The increase in the rate of growth is principally due to the development of the consumer paging market. Vodapage and Air Call's growth rate has been above that for the market as a whole due to the introduction of the CPP services and the acquisition of the London pager business.

Vodapage service is currently available in an area covering approximately 98% of the UK population and subscribers can select one or more of three paging regions. The Air Call network covers substantially the same area of the country as the Vodapage network, with the exception that Air Call coverage does not extend to Northern Ireland. Subscribers to the Air Call network can select one or more of ten paging regions. Both networks permit the use of tone pagers, numeric pagers and alphanumeric pagers.

Vodapage and Air Call's principal competitor is British Telecom, which, primarily due to its early entry into this market, had a dominant share of the UK wide-area paging market at March 31, 1997. Page One Communications Limited (formerly Mercury Paging Limited) and Hutchison Paging (UK) Limited also operate national wide-area radiopaging services in the UK.

On June 30, 1997, Air Call and Vodapage's businesses were combined and now operate as one under the name of Vodafone Paging Limited.

Paknet

Paknet commenced commercial operations in February 1990. It operates a public data network in the UK under a 24-year license issued on March 29, 1993. The Paknet network uses radio as the transmission path between the subscriber's terminal and a network base station and operates using the X.25 data standard. Applications include security, telemetry and credit or charge card transactions.

Paknet's principal competitors are the two other radio data networks in the UK, and the cellular networks with their data communication facilities. Paknet markets its services directly to end users primarily for static applications and consequently also faces competition from the fixed data network providers, including British Telecom and Mercury. Paknet had over 45,000 subscribers at March 31, 1997.

International

Vodafone Group's overseas interests continued to expand in the financial year ended March 31, 1997 and its share of subscribers connected on its overseas networks at the end of March 1996 was over 1,149,000, representing an increase of 564,000 during the financial year. Vodafone Group's overseas subscribers now represent over 28% of the Group's total, up from 20% a year earlier. This trend is expected to continue due to the relative under-penetration of cellular telephony in many overseas markets and the growth opportunities which this presents.

It is the Vodafone Group's objective, to increase, when appropriate, the level of its shareholdings in non-UK businesses, changing their status from investments to associates and then to subsidiaries.

Continental Europe

Société Française du Radiotéléphone SA (SFR) (France)

In July 1996, the Group exercised an option to increase its shareholding in Société Française du Radiotéléphone SA ("SFR") to 16.1%. The Group retains a further option to increase its shareholding to 20% by the end of 1997, at the same price per share.

SFR is one of two operators of both analog and GSM 900 MHz networks in France. A third digital network, operating DCS 1800 technology, opened commercial service in 1996. For many years, cellular penetration of the French market has lagged behind that of other major European countries, and remains relatively low, at under 5%. However, subscriber growth over the last year has escalated rapidly, with SFR taking an increasing market share. SFR once again reported a year of record growth; subscribers at March 1997 totalled over 1,130,000, an increase of 115% in the year.

Vodafone SA (France)

Vodafone SA is a wholly owned subsidiary of Vodafone Group and acts as a service provider to both the SFR and Itineris (France Télécom) analog and GSM networks.

At March 31, 1997, the digital subscriber base of Vodafone SA (including acquisitions) was over 166,000, an increase of approximately 101,000 in the year.

E-Plus Mobilfunk GmbH (E-Plus) (Germany)

The Group has a shareholding of 17.2% in E-Plus, the third cellular operator to be licensed in Germany.

E-Plus was granted a 20 year license in December 1992 to operate a cellular DCS 1800 network at 1.8 GHz using GSM technology throughout Germany. The E-Plus network opened for commercial service in May 1994.

Throughout the year, E-Plus made considerable progress in rolling out its network and currently offers service to approximately 90% of the German population. The German market grew strongly throughout the financial year. E-Plus's market share in the second half of the year was disappointing and steps are being taken to address this issue. E-Plus had over 546,000 subscribers at March 31, 1997, representing an increase of 117% in the year.

Panafon SA (Panafon) (Greece)

In February 1997, the Group increased its shareholding in Panafon to 55%, one of two GSM network operators in Greece. GSM commercial service commenced in July 1993 under a 20 year license granted in 1992 and network coverage is now substantially complete for commercial purposes; all major conurbations and interconnecting highways, together with the principal islands and tourist destinations have service. Future capital investment will be targeted principally at increasing capacity in urban areas where usage is particularly high.

Growth in the Greek market exceeded Company expectations in the last year, and Panafon maintained its market leadership position. Panafon more than doubled its subscriber base in the year, closing at over 366,000 at the end of March 1997, compared to 176,000 at March 31, 1996.

Panavox SA(Panavox) (Greece)

In February 1997, the Group increased its shareholding in Panavox, a service provider which retails airtime and services on the Panafon network, to 55%. Panavox had approximately 95,000 subscribers at March 31, 1997, compared to 50,000 at March 31, 1996.

Libertel BV (Libertel) (Netherlands)

In March 1995, the MT2 consortium, in which Vodafone Group had a 35% interest, was awarded a 20 year license to operate a second GSM digital network in the Netherlands. Following the license award, this consortium was converted into the operating company trading as Libertel BV in which the shareholdings remained unaltered.

Commercial service commenced in the Randstad area of the Netherlands in September 1995, thereby introducing competition to the Dutch cellular market. In 1996 and 1997, network roll out continued and coverage in the Netherlands is now almost complete. In a recent independent trial, Libertel was shown to be the best quality network in the Netherlands. Libertel had 275,000 subscribers at March 31, 1997, an increase of 220,000 in the year.

Liberfone BV (Liberfone) (Netherlands)

Vodafone Group has a 35% interest in Liberfone BV, a service provider to Libertel which retails airtime and services on the Libertel network. At March 31 1997, Liberfone had over 131,000 subscribers.

Europolitan Holdings AB (Europolitan) (Sweden)

In October 1996, the Group increased its shareholding in Europolitan Holdings AB (formerly NordicTel Holdings AB) to 20%.

Shares in Europolitan, which is authorised to operate one of three GSM networks in Sweden, are listed on the Stockholm Stock Exchange. At March 31, 1997, Europolitan had 293,000 subscribers, an increase of 58% in the year. In November 1996, Europolitan sold its 20% interest in Sonofon AB, a Danish GSM operator at a profit.

Telecell Limited (Telecell) (Malta)

Telecell, the sole cellular network operator in Malta, in which the Group has an 80% interest, increased its subscriber base from over 11,500 at March 31, 1996 to over 15,000 subscribers at the end of the financial year.

In addition to its existing analog network, Telecell opened service on its GSM network in June 1997.

Pacific Rim

Vodafone Pty Limited (Vodafone Pty) (Australia)

The authority to operate a network in Australia, the third digital mobile license issued by the Australian Government, was won in a competitive tender process and issued to Vodafone Pty at the end of December 1992. Vodafone Pty commenced building the network at the end of the first quarter 1993 and complied with license conditions to open service for three major cities at the start of October 1993 with one MTX located in Sydney. At the end of March 1994 service opened in all other major capital cities.

In the first quarter of 1995, the Australian Government allocated an additional 10MHz of spectrum for mobile digital telecommunications. Vodafone Pty acquired a third share of the additional spectrum for a cost exceeding $A36m which has been added to the original license cost of $A140m.

On April 1, 1996, AAP Information Services Pty Limited exercised an option to acquire 5% of Vodafone Pty in fulfilment of an agreement entered into when the license was granted in December 1992. From that date Vodafone Group had a 90% interest in Vodafone Pty.

In 1997, the emphasis was changed from building new base stations for coverage to expanding capacity. The analog network used by Vodafone Pty's competitors, to which approximately 2.5 million customers subscribe, is scheduled to be closed progressively between 1997 and 2000. Vodafone Pty intends to be positioned with a high quality, high capacity, GSM digital network to take its share of those subscribers forced to migrate to a digital network as a result of this closure. At March 31, 1997, Vodafone Pty had 87% coverage of the population, which was in excess of the license condition for 80% coverage.

At March 31, 1997, Vodafone Pty had more than 274,000 subscribers, an increase of 57% in the year.

Vodac Pty Limited (Vodac Pty) (Australia)

Vodac Pty Limited, a wholly owned Vodafone Group subsidiary, sells Vodafone Pty services throughout Australia and had 70,000 subscribers at the year end. Vodac Pty competes with independent service providers and with retailers of the other two networks. With offices in each of the major capital cities, distribution is via a multi-channel network (own sales force, dealer and retail). Vodac Pty accounts for more than 25% of Vodafone Pty's business.

Vodacall Pty Limited (Vodacall Pty) (Australia)

Digicall, Vodafone Pty's largest independent Service Provider, went into receivership during the year and the Group acquired the business from the receiver. Now renamed Vodacall Pty Limited, this company has been completely reorganised and growth has resumed. Approximately 93,000 active subscribers were acquired and these had grown to 99,000 by March 31, 1997.

Vodacall Pty obtains subscribers through its retail distribution channel, comprising 65 shops located throughout Australia. It also operates through independently owned licensees. Vodacall Pty accounts for approximately 40% of the subscriber base of Vodafone Pty.

Talkland (Australia)

In 1997, Talkland, the UK service provider, established a retail operation in Australia. It is anticipated that further outlets will be opened in most major shopping malls in Australia by March 31, 1998.

Pacific Link Communications Limited (Pacific Link) (Hong Kong)

The Vodafone Group has a 35% interest in Pacific Link whose principal business is the operation of a digital (D-AMPS) network in Hong Kong. In compliance with regulatory requirements, Pacific Link closed its analog network in July 1996, following a programme aimed at migrating analog subscribers to the digital network. Digital subscribers at March 31, 1997 totalled more than 225,000.

Following a competitive tender process, in September 1996, the Hong Kong Telecommunications Authority awarded six new PCS licenses, and Pacific Link was successful in winning one of these. Network construction is now well advanced and commercial service is planned to commence later this year.

Rest of the World

Vodacom Pty Limited (Vodacom Pty) (South Africa)

The Group has a 31.5% interest in Vodacom Pty, one of two GSM networks operating in the Republic of South Africa under a 15 year license granted in August 1993. Vodacom Pty also operates an analog NMT network, which was acquired from Telkom, the local PTO.

Subscribers at March 31, 1997, totalled 553,000, representing an increase of approximately 65% over the previous year.

Vodacom Pty introduced the 'VodaGo' prepaid service late in 1996. This, for the first time, offered cellular service to the large segment of potential customers who would otherwise have difficulty in satisfying credit scoring criteria.

The Vodafone Group increased its shareholding in Teljoy, an independent Service Provider, to 35% in the year. The vendor has an option to reacquire 10%, which if exercised, would reduce the Vodafone Group's shareholding to 25%. Teljoy specialises in the retail sector and, at March 31, 1997, had approximately 110,000 subscribers on the Vodacom network.

Vodac Pty Limited (Vodac Pty) (South Africa)

Vodac Pty is a wholly owned service provider which retails airtime and services on the Vodacom network and had over 179,000 subscribers at March 31, 1997.

Vodafone Fiji Limited (Fiji)

In July 1993, Vodafone Group signed a joint venture agreement with the Fijian PTO to install and operate the GSM digital cellular network in Fiji. Commercial service commenced in July 1994 and the company now has more than 3,700 subscribers, an increase of 47% in the year. Vodafone Group has a 49% interest in Vodafone Fiji Limited.

CelTel Limited (Celtel) (Uganda)

CelTel Limited, the sole GSM network operator in Uganda, in which the Vodafone Group has a 36.8% shareholding, continued to trade to expectations. The subscriber base almost doubled in the year, closing at over 3,500 subscribers.

Globalstar LP (Globalstar) (USA)

Vodafone Group is a member of the Globalstar partnership which is building and preparing to launch a constellation of low-earth orbit satellites to provide a worldwide digital telecommunications service.

Globalstar is planning to launch satellites starting in the second half of 1997 and to have the complete constellation of 48 satellites (plus eight in-orbit spare satellites) deployed by the end of 1998, in order to commence full commercial service early in 1999.

The Vodafone Group is planning to establish a number of earth stations connected to existing terrestrial cellular networks and discussions regarding potential joint venture agreements with local partners are in progress. Dual-mode handsets will provide direct access to these terrestrial networks and will automatically switch to the satellite based service when outside terrestrial coverage.

Employees

During the year ended March 31,1997, Vodafone Group had an average of 6,051 full time employees. See Note 22 of Notes to Consolidated Financial Statements for an analysis of employees by category of activity.

Vodafone Group considers its relations with its employees to be good.

Regulation

UK – General

The principal legislation governing the provision of telecommunications services in the UK is the Telecommunications Act 1984 (the "Telecommunications Act"). In order to operate a telecommunication system in the UK, a license must generally be obtained under the Telecommunications Act. The Secretary of State, after consultation with the Director General, may grant such licenses, which may be granted to all persons (a "general license"), to a class of persons (a "class license") or to a particular person (a "special license"). Telecommunications systems which involve the use of wireless telegraphy must also be licensed under the Wireless Telegraphy Act 1949 (the "Wireless Telegraphy Act"), pursuant to which the operator is allocated radio frequencies. The UK Government announced in May 1997 that it intends to amend The Wireless Telegraphy Act to permit fees for spectrum to be charged at market rates rather than on a cost recovery basis. It is anticipated that this will cause annual spectrum fees to increase from today's level of £1.5m to approximately £15m by 2002.

The Telecommunications Act requires the Secretary of State, and the Director General, to act in the manner best calculated to secure, so far as practicable, the provision throughout the UK of telecommunications services which satisfy all reasonable demands for them, including certain community services, and to ensure the ability of operators to finance those services. Subject to this duty, they must exercise their functions to achieve various other objectives, including the promotion of the interests of UK consumers in the price, quality and variety of services and apparatus, the maintenance and promotion of competition, the promotion of efficiency and economy, the promotion of research and development and the facilitation of the provision and supply of services and apparatus by UK companies on an international basis.

The Director General, who is supported by Oftel, is responsible for enforcing license conditions and may make orders, enforceable in the courts, to secure compliance. Contravention of an order can result in civil action and in a liability for damages to third parties. The Director General is also responsible for monitoring telecommunications activities, investigating complaints about services or apparatus and exercising certain functions under the Fair Trading Act 1973 and the Competition Act 1980 relating to monopolies, restrictive practices and anti-competitive behaviour.

The Director General may modify license conditions with the licensee's consent and must impose modifications if, following a reference by him to the Monopolies and Mergers Commission ("MMC"), the MMC considers any matter so referred to operate against the public interest and recommends a modification. In either case, the Telecommunications Act provides for prior notification to persons likely to be affected by any modification and for consideration by the Director General of any representations or objections made by such persons.

Under the Telecommunications Act, it is an offense, *inter alia*, to run an unauthorized system, to connect any unauthorized system or apparatus to an authorized system or to provide any unauthorized telecommunication services.

Vodafone Group companies may provide certain telecommunication services under various class licenses and, in addition, certain Vodafone Group companies have been granted special licenses under the Telecommunications Act.

Vodafone

Telecommunications Act License

By a license granted to Vodafone on December 9, 1993, Vodafone is licensed, subject to conditions, to run telecommunications systems of every description in the United Kingdom, which includes cellular telecommunications systems, personal communications networks and fixed telecommunication systems. The license does not specify the technology to be used and therefore permits Vodafone to run both analog and digital cellular networks. The license authorizes Vodafone to provide telecommunications services (including mobile and fixed telephone services) but excludes broadcasting services, certain international telecommunications services and certain telepoint services. International services can be authorized in certain cases by the Secretary of State on a country by country basis. A supplementary license was issued to Vodafone on December 20, 1996 which permits Vodafone to own and operate international network facilities.

Vodafone is required to provide a mobile radio telecommunications service in an area where 90% of the United Kingdom population live (which target has been achieved) and is also required to ensure that the reasonable demands for such a service in the area are capable of being satisfied. If the Director General determines that Vodafone has become a "well established operator" in the provision of any fixed telecommunication service of a particular description other than a mobile radio telecommunication service in the United Kingdom, or within any specific area or locality thereof, then in certain circumstances the Director General may direct Vodafone to provide such services within that part or locality of the United Kingdom to people who request such service. "Well established" means that Vodafone has, for that fixed service, achieved 25% or more of what is, in the opinion of the Director General, the relevant market.

Vodafone is obliged to provide emergency services, a directory information service and, in certain circumstances, public telephone call box services. The license also requires Vodafone to connect its systems to any other authorized telecommunication system run under certain special licenses, if so requested by the operator of any such system. If Vodafone and the operator of any such telecommunication system fail to reach agreement on the terms and conditions for connection, such arrangements will, on the application of either party, be determined by the Director General.

Vodafone is obliged to publish the terms and conditions under which it provides mobile radio telecommunications services or any other telecommunication service where the Director General has made a determination that Vodafone is a well established operator for that service according to the definition mentioned above. Vodafone is obliged not to show undue preference or exercise undue discrimination in connection with the provision of its mobile radio services or in relation to certain value added or data services. This obligation will apply to other telecommunications services if the Director General makes a determination that Vodafone is a well established operator (as defined above) for that service. The license contains provisions concerning the planning and allocation of telephone numbers and dealing with the approval of meters for measuring the use of telecommunications services and provisions which, under certain circumstances, Vodafone must make certain technical information on interfaces available to operators of other telecommunication systems.

The license contains conditions under which the licensee can be required in certain cases to take action regarding the volume of incoming and outgoing international resale calls. The license requires Vodafone to give notification to the Director General before it enters into arrangements with persons running telecommunications systems outside the United Kingdom for the provision of international connection services. Vodafone is required, not to enter into agreements, without the consent of the Director General, with persons running cellular systems outside the United Kingdom which unfairly preclude or restrict the provision of certain mobile radio telecommunication services by a public telecommunications operator of a cellular system. After consultation with Vodafone, the Director General can make a direction requiring Vodafone to introduce special billing facilities, warnings about large bills and call barring facilities.

The license contains certain restrictions on linked sales and certain exclusive dealing arrangements. The license enables the Director General, in certain instances, to require Vodafone to take steps to remedy unfair cross-subsidies between it and certain distinct parts of its business or other Vodafone Group companies and contains provisions on the way in which Vodafone maintains its accounting records. The Director General may in certain cases also require Vodafone to take reasonable steps to ensure that members of the Vodafone Group comply with prohibitions or requirements imposed on Vodafone. Vodafone is prevented from providing certain types of message services unless the Director General recognizes a code of practice governing the provision of these message services. The Director General is entitled to call for appropriate information from Vodafone about Vodafone's activities to enable the Director General to exercise certain functions under the Telecommunications Act. Vodafone is also obliged to give the Secretary of State information regarding certain changes in its shareholding.

Vodafone is entitled under the license to provide its mobile radio telecommunication services direct to members of the public but, if certain conditions are fulfilled, it is also obliged to provide its mobile radio telecommunication services to service providers. If Vodafone provides services directly, rather than through its service providers, it is required to carry on and account for such activities separately.

The license empowers Vodafone to carry out street works and to exercise certain powers to install apparatus on private land for the purpose of its system. These powers are subject to certain exceptions and conditions set out in the license.

The license granted on December 9, 1993 is for a minimum of 25 years from that date and is revocable by 10 years notice given after December 9, 2008. The license may be revoked at any time upon 30 days notice in any of the following circumstances: consent by Vodafone to the revocation, failure by Vodafone to pay license fees, failure to comply with an order of the Director General to comply with license conditions, a notifiable change in the control of the share capital of Vodafone which is not notified to the Secretary of State or which, if notified, is nevertheless considered by the Secretary of State to be against national security interests or foreign relations, or certain events relating to the insolvency of Vodafone.

Wireless Telegraphy Act license

Under the Wireless Telegraphy Act license, Vodafone operates its network in specified radio frequency bands. The license continues until July 2017, subject to earlier revocation or modification in any of the following circumstances: if there is no longer in force a Telecommunications Act license to run its network, consent by Vodafone to the revocation, failure by Vodafone to pay license fees, in the interests of national security or foreign relations or for any other reason but only after giving one year’s notice to Vodafone and after considering both representations made by Vodafone and the overall balance of national and commercial benefit.

Vodapage and Air Call

Telecommunications Act license

Under its Telecommunications Act license, Vodapage is permitted to run a national radiopaging system and was required to offer radiopaging services over an area in which 40% of the UK population lives by April 1990, and over an area in which 80% lives by October 1992. These targets have been met. Vodapage is also required to ensure that reasonable demands for such services in the covered area are capable of being met. Air Call has a similar license, under which it operates. The London Pager radiopaging system which Air Call purchased in 1996 is operated under the Air Call license.

Vodapage and Air Call are required to supply the Director General with such information about their activities as is necessary to enable the Director General to monitor compliance with the license and with the Telecommunications Act and to notify the Director General of certain changes in its shareholders. The licenses may be revoked at any time in any of the following circumstances: consent by the operator to the revocation, conviction of the operator for an offence under the Telecommunications Act of connecting any unauthorised system or apparatus or providing any unauthorised service, or the operator ceasing to hold its license under the Wireless Telegraphy Act. The license may also be revoked upon 30 days’ notice if the Secretary of State considers that a notifiable acquisition of shares of the operator is against national security interests or foreign relations, if the operator fails to comply with an order of the Director General, if certain events occur relating to the insolvency of the operator or for failing to pay its license fees.

Wireless Telegraphy Act license

Pursuant to their Wireless Telegraphy Act licenses, Vodapage and Air Call are allocated certain frequencies on which to operate radiopaging services. The Vodapage license was granted on October 1, 1987 and is renewable yearly on payment of a fee. Air Call’s license was granted on September 2, 1990. Either can be revoked or modified at any time upon notice to the operator.

Vodata

Vodata is authorised to run its telecommunications systems and to provide its telecommunications services under various class licenses each having a specified duration. Each of these class licenses may be revoked in a number of different circumstances including: failure of Vodata to comply with an order of the Director General or conviction of Vodata for an offence under the Telecommunications Act of connecting any unauthorised system or apparatus or providing any unauthorised service. In addition, some of the licenses can be revoked if certain events occur in relation to the insolvency of Vodata, if Vodata consents to the revocation or upon 30 days notice if the revocation is in respect of all licensees and not just Vodata.

Paknet

Telecommunications Act license

Paknet is permitted under its Telecommunications Act license to run a packet-radio system and to provide packet-radio services within the United Kingdom. Paknet is obliged to provide packet-radio services in an area in which at least 40% of the UK population lives by not later than 30 months from the date of the license and at least 80% not later than five years from the date of the license. This obligation has already been met.

The current license is for a period of 24 years from March 19, 1993 and may be revoked upon 30 days' notice in circumstances similar to those for revocation of Vodapage's Telecommunications Act license.

Wireless Telegraphy Act license

Paknet was granted a Wireless Telegraphy Act license on April 1, 1993.

Overseas regulation

In developing and operating its business internationally, the Group must take account of the regulatory regimes in the countries in which it operates. The Directors believe that the Group is in material compliance with all such regulatory regimes under which it conducts its operations. The regulation of Vodafone Pty, Vodafone Group's most significant overseas subsidiary, is set out below.

Australian Regulation

The Australian telecommunications market operates under the regime established by the 1991 Telecommunications Act ("the Act"). This established the Australian Telecommunications Authority ("Austel") as the regulator and enabled the granting of a third public mobile services license.

Vodafone Pty was granted a license as a public mobile carrier under the Act. This license was effective December 31, 1992 for a period of 25 years and established certain obligations which Vodafone Pty is obliged to meet and can be modified by the Minister of Communications. Vodafone Pty is granted rights to radio spectrum under the 1992 Radiocommunications Act.

Vodafone Pty is licensed to build and operate a GSM system. Subject to limited exceptions, it may not operate fixed services. It has an obligation to construct a network covering at least 80% of the population of Australia by December 31, 1996 and to exceed 60% of value on capital expenditure with Australian suppliers until June 30, 1997. Requirements to date have all been exceeded.

The Vodafone Pty license also contains an obligation that the proportion of the company's issued share capital held by foreign persons shall be reduced below 50% by July 2003.

A new regulatory regime commenced in Australia from July 1, 1997, having the following key features:

- no limit on the number of operators licensed to offer telecommunications services;
- a greater reliance on industry self regulation (Vodafone Pty is centrally involved in the establishment of the new industry bodies);
- the Australian Competition and Consumer Commission, ("ACCC"), to be responsible for regulating competitive behaviour and access to facilities and services;
- a new agency, the Australian Communications Authority, to be responsible for technical regulation (including all radiofrequency management matters) and the development of industry codes of conduct;
- all telecommunications licensees to have plans for the development of Australian industry, including a commitment to research and development; and
- confirmation of the closure of the analog AMPS system used by Vodafone Pty's competitors (with some possible exceptions in rural areas) by January 1, 2000.

Further to this, by July 1, 1998, the Australian Government currently plans to have auctioned additional radiocommunications spectrum at 800 MHz and 1.8 GHz for the delivery of mobile telecommunications services. The amount of spectrum to be made available, and the competition policy rules regulating its allocation, are still to be determined by the ACCC and announced by the Government.

Under the new regulatory regime, Vodafone Pty will not be limited to offering just public mobile telecommunications services as a new license will allow Vodafone Pty to offer an unrestricted range of telecommunications services. Vodafone Pty no longer has a network roll-out license condition as the network now covers more than 87% of the Australian population.

The Government has also indicated that it will consult further with Vodafone Pty on its majority Australian ownership license condition, taking into account changed carrier licensing arrangements and the new regulatory environment generally.

The Vodafone Group's Australian service providers will also be subject to more regulation which relates to the quality of service provided to customers and meeting industry codes of conduct.

ITEM 2. DESCRIPTION OF PROPERTY

The properties of the Vodafone Group comprise MTXs, operator centers and ancillary commercial centers suitable for the operation of its cellular networks and related businesses together with related accommodation including retail premises. The properties are principally in the UK and Australia and are either freehold or held under long-term or short-term leases. As at March 31, 1997, these properties were included in the Consolidated Balance Sheet at a net book value of £50.3m. Approximately 22% by value of the Group's properties were owned and approximately 63% were held under leases running for 50 years or longer.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which Vodafone Group is a party or to which any of its property is subject.

ITEM 4. CONTROL OF REGISTRANT

The following table sets forth certain information as of July 1, 1997, with respect to (i) any person who is known to the Company to be the owner of more than 10% of the Company's Ordinary Shares and (ii) the total amount of Ordinary Shares owned by the officers and Directors of the Company as a group (11 holders).

Title of Class	Identity of Person or Group	Shares Owned	Percentage of Class
Ordinary Shares	BNY (Nominees) Limited*..	623,951,725	20.34%
Ordinary Shares	Officers and Directors as a group	2,448,474	0.080%

*Acting as the nominee for the custodian of the Company's ADR program.

In addition, the officers and Directors of the Company as a group held, at July 1, 1997 options to purchase 3,435,000 Ordinary Shares, all of which were issued pursuant to the Company's Share Option Schemes (see Item 12 "Options to Purchase Securities from Registrant or Subsidiaries").

There is no person known to the Company who owns more than 10% of the Ordinary Shares of the Company other than as set forth above.

ITEM 5. NATURE OF TRADING MARKET

The principal trading market for the Ordinary Shares is the London Stock Exchange.

ADSs, each representing ten Ordinary Shares, are listed on the NYSE. The ADSs are evidenced by ADRs 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 and as further amended and restated as of September 16, 1991 among Vodafone Group Plc, the Depositary, and the holders from time to time of ADRs issued thereunder.

The following table sets forth, for the periods indicated, (i) the reported high and low middle market quotations and the quarterly trading volume for the Ordinary Shares based on the Turnover Report of the London Stock Exchange and (ii) the reported high and low sales prices and the quarterly trading volume of the ADSs on the NYSE as reported on the composite tape.

	London Stock Exchange			NYSE		
	Pounds Per Ordinary Share		Trading Volume	U.S. Dollars Per ADS		Trading Volume
	High	Low	(Millions)	High	Low	(Millions)
Fiscal Year						
1994 / 1995						
First Quarter	1.83	1.58	172.02	27.54	24.33	24.9
Second Quarter	2.10	1.66	398.50	29.67	28.00	16.6
Third Quarter	2.21	1.90	378.17	35.25	29.88	66.2
Fourth Quarter	2.09	1.81	530.19	34.13	27.25	32.9
1995 / 1996						
First Quarter	2.40	1.83	434.10	39.63	29.63	89.8
Second Quarter	2.80	2.31	407.90	45.00	37.38	21.6
Third Quarter	2.74	2.08	616.60	43.25	30.38	130.4
Fourth Quarter	2.52	2.12	535.40	38.50	32.60	25.0
1996 / 1997						
First Quarter	2.67	2.35	445.30	40.38	36.25	28.8
Second Quarter	2.50	2.19	420.80	38.88	34.00	19.7
Third Quarter	2.58	2.22	431.37	43.13	34.75	37.7
Fourth Quarter	2.99	2.47	485.63	48.25	42.10	14.2

At July 1, 1997, approximately 62 million ADSs (equivalent to approximately 620 million Ordinary Shares of the Company or approximately 20% of the total outstanding Ordinary Shares) were outstanding and held on record by 835 registered holders.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

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 Vodafone Group operations, except as otherwise set forth under Item 7, “Taxation“.

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.

ITEM 7. TAXATION

The following is a summary of the principal US federal and UK tax consequences to beneficial owners of ADSs who are residents of the United States (“US Holders“) of the purchase and ownership of ADSs and is not a complete analysis or listing of all of the possible tax consequences of such purchase or ownership. Prospective investors are advised to consult their tax advisors with respect to the tax consequences of the purchase and ownership of 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 as in force on the date of this Annual Report and take account of provisions enacted in the Finance Act 1997 which received Royal Assent on March 19, 1997.

In July 1997, the UK Government announced proposals for certain changes to the taxation regime within the United Kingdom. The principal features of the proposals, which will not be law until later in the year after they have been enacted by Parliament, are a reduction in the rate of UK corporation tax from 33% to 31% from April 1, 1997 and the abolition of refunds of tax credits on dividends to certain UK shareholders. It is expected that US shareholders will not be affected by the latter change until April 1999.

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 (the "Income Tax Convention") 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.

UK Taxation of dividends – refund of tax credits

A US Holder who is a resident of the United States for purposes of the Income Tax Convention will generally be entitled under the Income Tax Convention and United Kingdom law to receive, in addition to any dividend received from the Company, a payment from the UK Inland Revenue in respect of a UK tax credit equal, in relation to dividends paid in the year to April 5, 1997 to 25% of that dividend, but subject to a UK withholding of 15% of the sum of the dividend paid and such Tax Credit.

For example, a dividend of 80p to such a US Holder would give rise to a claim for an additional payment of 20p, making a total entitlement of £1.00 (before US taxes), but subject to a UK withholding of 15p. Thus a US Holder would receive a net amount of 85p.

A Corporate US Holder is treated in the same way as an individual shareholder unless the corporation controls, directly or indirectly, (either alone or with one or more associated corporations) 10% of the voting stock of the company, or is exempt from US tax, in which case different provisions will apply.

A US Holder will not be entitled to claim the tax credit noted above in the following circumstances:

Firstly where the holding of ADSs (a) is effectively connected with a permanent establishment situated in the United Kingdom through which the holder carries on business in the United Kingdom or (b) is effectively connected with a fixed base in the United Kingdom from which the holder performs independent personal services.

Secondly, where a US corporation (a) is also a resident of the United Kingdom or (b) is an investment or holding company at least 25% of the capital of which is owned, directly or indirectly, by one or more persons who are neither individual residents or nationals of the United States.

In addition, if the US Holder is a United States partnership, trust or estate, the tax credit described above will be available only to the extent that the income derived by such partnership, trust or estate is subject to US tax as the income of a resident either in its hands or in the hands of its partners or beneficiaries, as the case may be. However, if a United States trust or estate is also a resident of the United Kingdom for purposes of the Income Tax Convention, the tax credit described above may not be available.

Arrangements for payment of refunds

Arrangements have been made with the UK Inland Revenue under which a US Holder who is entitled to a tax credit being (a) a US corporation with no business managed and controlled in the United Kingdom, (b) an individual resident in the United States and not resident in the United Kingdom or (c) a trust or estate, all of the beneficiaries of which are resident in the United States will receive payment of the tax credit to which such holder is entitled, net of the applicable United Kingdom withholding, together with the payment of the associated cash dividend. Such a US Holder may complete the declaration on the reverse of the dividend check confirming entitlement to the tax credit and present the check for payment within three months of the date of its issue.

A US Holder who wishes to receive a refund but who does not satisfy the requirements described above must make a claim for the payment of such refund in the manner and at the times described in Revenue Procedure

80-18, 1980-1 C.B. 623, and Revenue Procedure 81-58, 1981-2 C.B. 678. Claims for such payment must be made within six years of the end of the United Kingdom year of assessment (generally the 12-month period ending April 5 in each year) in which the related dividend was payable. The first claim by a US Holder for a payment under these procedures is made by sending the appropriate UK form in duplicate to the Director of the Internal Revenue Service ("IRS") Center with which the holder's last US federal income tax return was filed. Forms may be obtained from the Internal Revenue Service, Assistant Commissioner (International), 950 L'Enfant Plaza South, S.W., Washington, D.C. 20024, Attention: Taxpayer Services Room 2223. Because a claim is not considered made until the UK tax authorities receive the appropriate form from the IRS, forms should be sent to the IRS well before the end of the applicable limitation period. Any claim after the first claim by a US Holder for a payment under these procedures should be filed directly with the UK Inspector of Foreign Dividends, Financial Intermediaries and Claims Office, FitzRoy House, PO Box 46, Nottingham NG2 1BD, England.

Dividends and amounts in respect of the UK tax credit (including any related withholding tax) paid to a US Holder generally will be ordinary income to the holder for US federal income tax purposes, but will not be eligible for the dividends received deduction allowed to corporations. Subject to certain limitations, the applicable UK withholding tax will be treated as a foreign income tax eligible for credit against such holder's US federal income tax liability. The amount of the dividend will be the dollar value, determined at the spot pound sterling / US dollar exchange rate, of the payment on the date thereof regardless of whether the payment is in fact converted into dollars. Pounds sterling received as dividends will have a tax basis equal to their dollar value at the time recognized as income. Gain or loss, if any, realized on a subsequent sale or other disposition of the pounds sterling will be ordinary income or loss.

Taxation of capital gains

A US Holder who is neither resident nor ordinarily resident for UK tax purposes in the United Kingdom will not be liable for UK tax on gains realized or accrued on the sale or other disposal of ADSs unless that holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency and the ADSs are or have been used, held or acquired for the purposes of such trade, branch or agency. A US Holder will be liable for US federal income tax on such gains to the same extent as on any other gains from sales of stock.

A US citizen who is resident or ordinarily resident in the United Kingdom or trading in the United Kingdom through a branch or agency and has held an ADS for the purposes of such trade, branch or agency, may be liable for both UK and US tax on a gain on the disposal of the ADS.

Similarly, a US corporation resident in the United Kingdom by reason of being managed and controlled in the United Kingdom or trading in the United Kingdom through a branch or agency may be liable for both UK and US tax on a gain on disposal of the ADS.

Such holders will generally be entitled, however, to a tax credit against any US federal tax liability for the amount of any UK tax (namely, capital gains tax in the case of an individual and corporation tax on chargeable gains in the case of a corporation) which is paid in respect of such gain.

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 ADSs on the individual's death or on a transfer of the ADS during the individual's lifetime, provided that any applicable US federal gift or estate tax is paid, unless the ADS is part of the business property of a UK permanent establishment of an enterprise or pertains to a UK fixed base of an individual used for the performance of independent personal services. Where the ADS has been placed in trust by a settlor, the 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 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 Depositary on the value of such Ordinary Shares. In accordance with the terms of the Deposit Agreement, any tax or duty payable by the Depositary or the Custodian of the Depositary on deposits of Ordinary Shares will be charged by the Depositary 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%. Any transfer (which will include a transfer from the Custodian of the Depositary or the Depositary to an ADR holder) of the underlying Ordinary Shares could result in a Stamp Duty liability at the 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 50p 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 depositary receipt facility (such as established under the Deposit Agreement) or to a nominee for a clearance service. Except as set forth above, Stamp Duty Reserve Tax or Stamp Duty will not be payable in connection with any transfer of or on any agreement to transfer ADRs or Ordinary Shares or any interest therein.

There are legislative provisions in place to abolish Stamp Duty and Stamp Duty Reserve Tax in the above circumstances at a date in the future which is to be determined.

Backup withholding

A US Holder may, under certain circumstances, be subject to United States “backup withholding” at a rate of 31% with respect to dividends paid on or the proceeds of a sale, exchange or redemption of ADSs, unless such holder (a) is a corporation or is otherwise exempt from backup withholding or (b) provides an accurate taxpayer identification number, certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules.

ITEM 8. SELECTED FINANCIAL DATA

The selected consolidated financial data set out on the following page should be read in conjunction with the Consolidated Financial Statements of Vodafone Group for the three years ended March 31, 1997, which appear elsewhere in this Annual Report. The UK statutory financial statements of Vodafone Group for the year ended March 31, 1997 will be delivered to the United Kingdom’s Registrar of Companies. The selected consolidated financial data for the five years ended March 31, 1997 are derived from the Consolidated Financial Statements of Vodafone Group.

Consolidated profit and loss accounts data:

	Year ended March 31,					
	1997	1997	1996	1995	1994	1993
	$m	£m	£m	£m	£m	£m
Amounts in accordance with UK GAAP (1)		(Except per Ordinary Share and per ADS data)				
Turnover	2,876.8	1,749.0	1,402.2	1,152.6	850.5	664.1
Cost of sales	1,507.5	916.5	722.4	588.2	380.9	266.4
Selling and distribution costs	203.3	123.6	71.1	71.4	51.9	35.2
Administrative expenses	351.3	213.6	159.7	132.4	77.3	52.3
Operating profit before associated undertakings	814.7	495.3	449.0	360.6	340.4	310.2
Share of profits/(losses) of associated undertakings	56.4	34.3	16.8	(7.2)	(2.8)	(2.8)
Disposal of fixed asset investments (2)	42.6	25.9	7.2	4.3	14.1	–
Profit on ordinary activities before interest	913.7	555.5	473.0	357.7	351.7	307.4
Net interest (payable)/receivable	(27.0)	(16.4)	2.1	13.4	11.6	15.0
Profit on ordinary activities before taxation	886.7	539.1	475.1	371.1	363.3	322.4
Tax on profit on ordinary activities	282.7	171.9	164.6	133.4	118.1	100.6
Profit on ordinary activities after taxation	604.0	367.2	310.5	237.7	245.2	221.8
Profit for the financial year	598.4	363.8	309.8	237.4	245.0	221.7
Earnings per Ordinary Share (3)	0.20	0.12	0.10	0.08	0.08	0.07
Earnings per ADS (3)	1.96	1.19	1.02	0.78	0.81	0.74
Cash dividends per Ordinary Share (4)	0.08	0.05	0.04	0.03	0.03	0.02
Cash dividends per ADS (4)	0.79	0.48	0.40	0.33	0.28	0.23
Approximate amounts in accordance with US GAAP (1)						
Operating profit before associated undertakings	783.3	476.2	436.0	344.7	329.2	304.4
Profit for the financial year	562.9	342.2	293.7	203.3	234.9	197.9
Earnings per Ordinary Share (3)	0.184	0.112	0.096	0.067	0.078	0.066
Earnings per ADS (3)	1.839	1.118	0.962	0.668	0.778	0.657

Consolidated balance sheet data:

	At March 31,					
	1997	1997	1996	1995	1994	1993
	$m	£m	£m	£m	£m	£m
Amounts in accordance with UK GAAP (1)						
Net current (liabilities)/assets	(852.0)	(518.0)	(242.0)	(134.5)	14.4	68.9
Tangible assets	2,072.9	1,260.3	857.1	645.8	533.2	449.6
Total assets	3,983.4	2,421.8	1,763.4	1,409.5	1,053.9	869.3
Long term debt	860.1	522.9	140.0	140.0	1.9	3.8
Shareholders' equity	1,266.5	770.0	1,022.1	817.3	697.8	596.2
Approximate amounts in accordance with US GAAP (1)						
Total assets	4,915.2	2,988.3	2,001.2	1,662.9	1,278.5	999.0
Shareholders' equity	2,198.9	1,336.9	1,241.3	1,037.8	889.9	685.4

(1) The consolidated financial statements of Vodafone Group are prepared in accordance with UK GAAP, which differ in certain significant respects from US GAAP. For further details, see Note 33 of Notes to Consolidated Financial Statements.

(2) The disposal of fixed asset investments in 1994 arises from the sale of Vodafone Group's entire investment in Communicaciones Celulares de Occidente, SA de CV, part of the Group's investment in NordicTel Holdings AB (now Europolitan Holdings AB) and the Group's entire holding in National Band Three Radio Limited. The disposal of fixed asset investments in 1995 arose from a further reduction in the Group's investment in NordicTel Holdings AB (now Europolitan Holdings AB). The 1996 disposal arose principally from the reduction in the Group's interest in its South African investment. The profit on disposal of fixed asset investments in 1997 arose from the disposal of the Group's 50% holding in Orbitel Mobile Communications Limited, the sale of 5% of the Group's investment in Vodafone Pty Limited and the sale by the Group's associate Europolitan Holdings AB of its 20% interest in Sonofon AB.

(3) Earnings per Ordinary Share is calculated under UK GAAP and under US GAAP by dividing net income in each case by 3,014,061,975, 3,020,692,956, 3,043,774,906, 3,052,281,614 and 3,060,400,713, the approximate weighted average number of Ordinary Shares outstanding at March 31, 1993, 1994, 1995, 1996 and 1997 respectively. See Note 9 of Notes to Consolidated Financial Statements. Earnings per ADS is calculated by multiplying earnings per Ordinary Share by 10, the number of Ordinary Shares per ADS.

(4) Cash dividends are set out below:

	Dividends	
Year	Interim £m	Final £m
1993	34.5	35.5
1994	41.5	42.9
1995	49.9	51.8
1996	60.2	62.4
1997	72.2	75.3

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 net of the associated ACT referred to in Item 7 of this Annual Report.

Years ended March 31	Pounds Per Ordinary Share			Translated into US dollars Per Ordinary Share		
	Interim	Final	Total	Interim	Final	Total
1993	0.011	0.012	0.023	0.016	0.018	0.034
1994	0.014	0.014	0.028	0.021	0.021	0.042
1995	0.016	0.017	0.033	0.026	0.028	0.054
1996	0.020	0.020	0.040	0.031	0.032	0.063
1997	0.024	0.024*	0.048	0.039	**	**

* Proposed dividend will be payable on August 15, 1997 to holders of record as of June 13, 1997 following approval at the Annual General Meeting.

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

The Directors expect, in respect of each fiscal year, to declare an interim dividend and recommend a final dividend payable to all shareholders. These will normally be payable in February and August, respectively.

Future dividends will be dependent upon Vodafone Group's cash flow, earnings, financial condition and capital expenditure requirements and such other factors as the Directors may consider relevant.

Taxation of dividends

Beneficial owners of ADSs who are residents of the United States may be entitled to receive payment of an amount equivalent to the associated United Kingdom tax credit with respect to dividends paid to them. For a beneficial owner who is entitled to such payment, the aggregate amount of such dividends and the associated United Kingdom tax credit is generally subject to United Kingdom withholding tax at a rate of 15%. Subject to certain limitations, this withholding tax will be eligible for credit against a beneficial owner's United States Federal income tax liability (see Item 7 "Taxation – Taxation of Dividends").

Exchange rates

Cash dividends, if any, will be paid by Vodafone Group in respect of the Ordinary Shares in pounds sterling, and exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs on conversion by the Depositary of all such cash dividends paid. Moreover, fluctuations in the exchange rate between the pound 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.

Years ended March 31	Period end	Average*	High	Low
1993	1.51	1.68	1.98	1.42
1994	1.49	1.50	1.59	1.46
1995	1.62	1.56	1.64	1.46
1996	1.53	1.56	1.62	1.50
1997	1.64	1.60	1.71	1.49

* The average of the Noon Buying Rates on the last day of each full month during the period.

ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 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 33 of Notes to Consolidated Financial Statements.

Three years ended March 31, 1997

Turnover

During the period under review, Vodafone Group's turnover has increased from £1,152.6 million in 1995, to £1,402.2 million in 1996 and to £1,749.0 million in 1997. In 1995 and 1996, most of the growth in turnover arose in the United Kingdom as a result of new subscribers joining Vodafone's networks. In 1997, the growth within the United Kingdom continued but was supplemented by growth in the Group's international business.

Vodafone's turnover, including sales to fellow subsidiaries, for the years ended March 31, 1995, 1996 and 1997 was £930.4 million, £1,089.8 million and £1,187.1 million respectively. During the period, Vodafone's turnover and subscribers have grown by 28% and 59% respectively. The lower increase in turnover growth than subscriber growth resulted primarily from an increase during the period in the proportion of consumer subscribers, who generate lower average revenue. Net subscriber growth is gross additions less subscribers who leave or are disconnected from the network. In the year ended March 31, 1996 Vodafone connected more than 630,000 net new subscribers compared with 640,000 in the previous year. In the year ended March 31, 1997 over 410,000 net new subscribers joined Vodafone's analog and digital networks. Approximately 950,000 net subscribers joined the digital network, including 317,000 subscribers who migrated from the analog network, while the number of subscribers on the analog network declined by 540,000 in the year. Average revenue per subscriber decreased for the two years ended March 31, 1997, due to the proportion of lower revenue generating subscribers. Turnover from Vodafone's digital networks has grown from approximately £71 million and £234 million in the years ended March 31, 1995 and 1996 respectively to approximately £559 million for the year ended March 31,1997.

During 1997, the Vodafone Group acquired majority interests in Panafon and Panavox, the remaining equity of Talkland and Astec Communications which it did not previously own and Peoples Phone. Excluding the turnover included as revenue within the accounts of Vodafone and, including turnover from other acquisitions in the year, acquisitions in total contributed turnover of £106.6 million in the year ended March 31, 1997. In addition, Vodafone Group's three wholly owned UK service provider subsidiaries, Vodac, Vodacom and Vodacall, that were also wholly owned in prior years increased their turnover from £368.8 million in 1995, to £369.6 million in 1996, and to £410.4 million in 1997. The principal reasons for the small increase in turnover in 1996 was the reduction in net connections from 157,600 in 1995 to 77,300 in 1996 and the selling prices of equipment. There is, however, no direct correlation between equipment selling revenue and connections as service providers do not necessarily sell every phone that they connect as some dealers purchase phones from other sources but still connect them through Vodafone Group's service providers.

Overseas turnover in 1995 was not significant. In 1996 it represented 11% of the Vodafone Group's total turnover, the largest company being Vodafone Pty in Australia with £69.1 million. In 1997, international turnover represented 15% of the Group's total turnover, reflecting increased turnover from Vodafone Pty in Australia and from Vodafone SA in France as well as turnover from Panafon and Panavox, majority interests in which were acquired in February 1997.

The only other UK Vodafone Group company to have significant turnover in the three years under review was Vodata. Vodata's turnover, including intercompany turnover, has increased from £43.7 million in 1995 to £51.5 million in 1996 and to £57.3 million in 1997 with the growth in voice messaging.

Cost of sales

During the period under review Vodafone Group's cost of sales has increased from £588.2 million in 1995, to £722.4 million in 1996 and £916.5 million in 1997 representing 51.0%, 51.5% and 52.4% of turnover, respectively.

Vodafone Group's cost of sales consists primarily of financial incentives to service providers and dealers, payments to British Telecom and Mercury for delivering calls outside the Vodafone networks and for providing landline or microwave links, depreciation of network infrastructure, costs of subscriber equipment sold by service providers, and network operating costs. Vodafone Group's cost of sales as a proportion of turnover in 1997, increased due principally to the costs of migrating subscribers from the analog to the digital network rising to £52 million offset by a fall in the level of payments of financial incentives to service providers in relation to turnover. Vodafone's cost of providing financial incentives to service providers for obtaining new subscribers amounted to £177.8 million, £193.0 million and £211.0 million in 1995, 1996 and 1997 respectively. In 1996, Vodafone Group's cost of sales as a proportion of turnover increased due principally to payments of financial incentives to service providers and dealers on growth of subscribers and overseas start up costs.

The level of churn experienced by Vodafone during the year ended March 31, 1997 as a percentage of average subscribers was 27.4%, as compared with approximately 25.6% for the year ended March 31, 1996 and 28.0% for the year ended March 31, 1995. The reduction in churn in 1996 related to improved contract fraud prevention and more stringent credit assessments for new subscribers. The main reason for the increased level of churn in 1997 is the comparatively high level of analog churn as a result of subscribers who did not wish to retain their telephone numbers, finding it cheaper to move to the digital service by churning rather than migrating. In addition the anniversary of the high level of connections at Christmas 1995, combined with the acceptance by the Vodafone Group of the Office of Fair Trading's decision to reduce service providers' contractual notice periods from three months to one, reducing the effective minimum contract period, caused a short term increase in disconnections in the final quarter.

At the year end the level of churn on the analog and digital networks were approximately 33% and 15% respectively.

Vodafone Group's research and development expenditure for 1995, 1996 and 1997, was £20.3 million, £27.1 million and £33.3 million respectively. These figures include costs relating to Vodafone Group engineers who work closely with equipment suppliers to assist those suppliers in developing systems and equipment to meet Vodafone Group's needs.

Selling and distribution costs

Selling and distribution costs were of £71.4 million, £71.1 million and £123.6 million in the years ended March 31, 1995, 1996 and 1997 representing 6.2%, 5.1% and 7.1% of turnover for the years respectively. In 1997, selling and distribution costs increased by 74% compared with 1996. This increase is attributable to the acquisitions of Talkland, Peoples Phone, Astec Communications and the acquisition of a majority interest in Panafon and Panavox made by the Vodafone Group in the year, increased expenditure on advertising and promotion and continuing growth in the Vodafone Group's businesses. Selling and distribution costs remained almost stable at £71.1 million in 1996 as compared with 1995 as any increase due to growth in turnover was offset by savings in Vodafone Group's service provider companies.

Administrative expenses

Administrative expenses were £132.4 million in 1995, £159.7 million in 1996 and £213.6 million in 1997 representing 11.5%, 11.4% and 12.2% of turnover respectively. Vodafone Group's administrative expenses increased by 21% in 1996 and 34% in 1997. The increase in 1997 reflects the impact of the acquisitions of Talkland, Peoples Phone, Astec Communications and the acquisition of a majority interest in Panafon and Panavox made in the year, together with increased costs of administration arising from the growth in the business. The increase in 1996 is partly subscriber related and also reflects increased costs of administering overseas operations.

Profit on ordinary activities before interest

Vodafone Group's profit on ordinary activities before interest has shown growth from £357.7 million in 1995 to £473.0m in 1996 and £555.5 million in 1997.

During 1996, Vodafone Group's profit on ordinary activities before interest increased by 32% over the prior year to £473.0 million and rose at a faster rate than turnover for the following reasons; the cost of providing financial incentives to service providers in network subsidiaries, which amounted to £223.0 million

(1995 – £187.0 million), grew at a slower rate than the increase in these subsidiaries' turnover; Vodafone Group's share of profits of associated undertakings increased by £24.0 million to £16.8 million (1995 – losses £7.2 million) as Pacific Link, Telecell and Panafon all increased their profits and Vodacom Pty became profitable after incurring losses in the prior financial year and Libertel, Fiji and Uganda continued their progress towards profitability. Cost of fraud and bad debt in the UK was reduced as contract fraud was virtually eliminated. The profit on disposal of fixed asset investments of £7.2 million arose from the reduction in the Vodafone Group's interest in its South African investment to 31.5% in accordance with an agreement entered into before the license was awarded.

During 1997, Vodafone Group's profit on ordinary activities before interest increased by 17.4% from £473.0 million to £555.5 million and rose at a rate slower than turnover for the following reasons; the cost of migrating subscribers to Vodafone's digital network grew to £52.0 million, expenditure on marketing increased and the results of acquired service providers, Talkland, Peoples Phone and Astec Communications were consolidated into the Group result. Vodafone Group's share of profits of associated undertakings increased by £17.5 million to £34.3 million as Panafon (in the period prior to it becoming a subsidiary) and Vodacom increased their profits. Vodafone's cost of fraud in the UK was significantly reduced to 0.3% of revenue in the year. The profit on disposal of fixed asset investments of £25.9 million in 1997, compared with £7.2 million in 1996, arose from the sale of the Group's 50% holding in Orbitel Mobile Communications Limited to LM Ericsson, the sale of 5% of the Group's investment in Vodafone Pty Limited to AAP Information Services Pty Ltd in fulfilment of an agreement entered into when its license was granted and the sale by the Group's associate Europolitan Holdings AB of its 20% interest in Sonofon AB, a Danish GSM operator.

As described in Item 1 – 'Description of Business', on July 7, 1997 the Vodafone Group announced a reorganisation of its six UK service providers. The cost of the changes is estimated to be a £20 million reduction in profit in 1998.

Net interest (payable)/receivable

Vodafone Group had net interest (payable) / receivable of £13.4 million, £2.1 million and £(16.4) million in 1995, 1996 and 1997, respectively.

Vodafone Group ended 1995 with £160.0 million of net borrowings which increased by £47.5 million in 1996 and a further £473.1 million in 1997 due to the significant levels of investment described in "Liquidity and Capital Resources" below.

Interest receivable of £18.7 million in 1996 was £2.4 million higher than in 1995, mainly due to interest earned on increased loans to associated undertakings and other investments. Interest payable increased by £13.7 million to £16.6 million as Vodafone Group had borrowings in place throughout the year to finance international expansion.

In 1997, interest payable increased by £20.0 million to £36.6 million from £16.6 million in 1996, as a result of the borrowings taken out to finance acquisitions and fund overseas associate undertakings.

Taxation

In 1995, 1996 and 1997 Vodafone Group provided for United Kingdom corporation tax at effective rates of approximately 35.9%, 34.7% and 31.9% respectively, compared with the United Kingdom statutory rate of 33%. The Group's tax rate reached a peak in 1995 which was principally due to the start up losses of overseas subsidiaries and associates which could not be relieved against United Kingdom taxation. The effective tax rate reduced in both 1996 and 1997 as overseas subsidiaries and associates moved into profit utilising tax losses generated during their start-up phase.

In July 1997, the UK Government announced proposals for certain changes to the taxation regime within the United Kingdom. The major impact of these changes will be a reduction in the UK corporation tax rate, as it applies to UK companies within the Vodafone Group, from 33% to 31%. Whilst the proposed changes have yet to be enacted by the UK Parliament, its is believed that the impact of these changes will be beneficial for the Vodafone Group.

Inflation

Inflation has not had a significant effect on Vodafone Group's results of operations and financial condition during the three years ended March 31, 1997.

Liquidity and Capital Resources

The major sources of Group liquidity over the two years ended March 31, 1997 have been cash generated from operations, cash received from the issue of debt in the capital markets and committed bank facilities.

Cash generated by operating activities was £644.3 million in 1997, £621.3 million in 1996 and £389.1 million in 1995. The increase from 1996 to 1997 was primarily due to an increase in operating profit partly offset by a movement in working capital. The increase from 1995 to 1996 was mainly due to an increase in operating profit and in addition, favourable working capital movements.

Net cash flow generated by operating activities was used mainly to fund capital expenditure, pay tax and finance dividend payments.

New investments in 1997, of £528.0 million (1996 – £113.0 million), which comprise equity and shareholder loans and the external debt of subsidiaries acquired, were financed principally by debt. The significant equity investments in the year were in SFR, £240.4 million, Panafon and Panavox, £96.7 million, Talkland £65.5 million and Peoples Phone, £55.0 million. These figures exclude consideration of £133.1 million payable after March 31, 1997.

At March 31, 1996, Vodafone Group's network infrastructure fixed assets totalled £733.8 million, and represented approximately 86% of Vodafone Group's tangible fixed assets, an increase from £561.1 million at March 31, 1995. The UK expenditure in 1995 and 1996 was primarily on the expansion of Vodafone's digital network. Overseas capital expenditure in the 1996 financial year amounted to £195.1 million (1995 – £64.7 million) and was attributable almost entirely to expenditure on Vodafone Pty's digital network.

In 1996, £59.6 million was spent on license fees and acquiring further frequencies in Australia.

By March 31, 1997, Vodafone Group's network infrastructure fixed assets totalled £1,039.4 million, and represented approximately 82% of Vodafone Group's tangible fixed assets, an increase from £733.8 million at March 31, 1996. In 1997, fixed assets, with a net book value of £173.8 million, were acquired by the acquisition of subsidiary undertakings. Additions to network infrastructures in the year totalled £316.5 million compared to £247.4 million in the year ended March 31, 1996. Overseas capital expenditure in the 1997 financial year amounted to £164.2 million (1996 – £195.1 million) and was attributable almost entirely to expenditure on Vodafone Pty's digital network in Australia.

From 1995 to 1996, net current liabilities excluding debtors due in more than one year, increased by £110.7 million. Trade creditors and accruals and deferred income increased by £20.6 million, and £38.8 million respectively due to increased turnover. Current taxation liabilities increased by £31.1 million with the increased tax charge on profits. The dividend payable increased by £10.6 million over the prior year. Net borrowings within working capital increased by £47.5 million due to continued investment in capital expenditure and United Kingdom and overseas operations. Debtors due within one year increased by £37.4 million due to increased turnover.

From 1996 to 1997, net current liabilities excluding debtors due in more than one year, increased by £277.3 million with trade creditors, other creditors and accruals and deferred income increasing by £95.3 million, £57.5 million and £125.3 million respectively due to both acquisitions in the period and increased turnover. Current taxation liabilities increased by £14.9 million with the increased tax charge on profits. The proposed dividend increased by £12.9 million over the prior year. Net borrowings within working capital, comprising short term bank, other loans and overdrafts, commercial paper, cash at bank and liquid investments, increased by £90.2 million due to continued investment in capital expenditure and overseas operations. Debtors due within one year increased by £111.9 million due to acquisitions made in the year and increased turnover.

At March 31, 1997 and 1996 Vodafone Group had net borrowings of £680.6 million and £207.5 million respectively.

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

Vodafone Group continually reviews potential opportunities, primarily in telecommunications businesses, to make acquisitions or enter into joint ventures, equity investments or other arrangements. Any necessary external financing for any such new businesses, acquisitions or other arrangements could be obtained through committed bank facilities, debt capital markets or the issuance of equity securities.

Vodafone Group has a strong financial position demonstrated by credit ratings of A-1/P-1 short term and A+/A2 long term from Standard and Poor's and Moody's respectively. Substantial committed bank facilities have been obtained which at the year end amounted to £839 million with an average expiry of approximately 3 years. During the year, Vodafone Group issued two £250 million sterling Eurobonds redeemable in November 2001 and March 2004 respectively. Vodafone Group also has an uncommitted £500 million Euro Commercial Paper programme which was activated in May 1996. Other uncommitted facilities are also available from banks. Any surplus funds are invested with counterparties who have high credit ratings.

Risk Management

Vodafone Group's funding, liquidity and exposure to interest rate and foreign exchange rate risks are managed by the Vodafone Group's treasury department. Treasury operations are conducted within a framework of policies and guidelines authorized by the Board of the Company, and are reported regularly to the Board. The Vodafone Group uses several conventional derivative instruments, which are transacted for risk management purposes only, by specialist treasury personnel. The internal control environment is reviewed regularly by the Vodafone Group's internal auditors.

The Vodafone Group's main interest rate exposure is to sterling interest rates. Interest rate risk is managed by adjusting the proportion of fixed to variable debt, within limits approved by the Board of the Company, utilizing interest rate swaps and interest rate futures. After taking account of interest rate swaps and interest rate futures, at March 31, 1997 approximately two-thirds of the Group's net borrowings bore fixed rate interest.

Borrowings are denominated principally in sterling as established UK businesses generate strong sterling cash flow which will be used to repay debt. In addition, the Vodafone Group does not hedge its overseas net assets with respect to foreign currency translation differences since net assets represent a small proportion of the market value of the Group. As foreign currency income streams increase, further borrowings may be made in currencies other than sterling.

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

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

No speculative transactions are undertaken, and there are no material cash requirements of derivative instruments. Counterparty risk on financial instruments is regularly monitored against prescribed limits set by the Directors. See note 32 for further financial instrument disclosure.

Exchange Rates

Due to the significance of the Group's UK operations in relation to the Vodafone Group as a whole and because of the wide diversity of foreign currency investments, movements in exchange rates have had no material impact on the Vodafone Group's profit and loss account in any of the three years ended March 31, 1997.

Accounting principles

The Consolidated Financial Statements in respect of the year ended March 31, 1997 comply with two new accounting standards issued by the Accounting Standards Board in the United Kingdom: Financial Reporting Standard 8 ("FRS 8") – 'Related party disclosure' and Financial Reporting Standard 1 (Revised) ("FRS 1 (Revised)") – 'Cash flow statements'. The purpose of FRS 8 is to ensure that the Consolidated Financial Statements contain the information necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them. FRS 1 (Revised) amends the disclosure requirements in respect of consolidated cash flow statements. The implementation of FRS 1 (Revised) has necessitated the restatement of comparative cash flow data.

US GAAP reconciliation

The principal differences between US GAAP and UK GAAP, as they relate to Vodafone Group, are the treatment of deferred taxation, the methods of accounting for goodwill, the methods of amortizing license fees, the methods of calculating pension costs, the treatment of interest expense on borrowings used to finance the construction of assets, the revaluation of marketable securities, the treatment of proposed dividends not yet declared by the Board of Directors, equity in losses of associated companies and compensation expense.

For a further explanation of the differences between UK GAAP and US GAAP, see Note 33 of Notes to Consolidated Financial Statements.

ITEM 10. DIRECTORS AND OFFICERS OF REGISTRANT

The business of the Company is managed by its Board of Directors. The Company's Articles of Association (the "Articles") provide that, until otherwise determined by ordinary resolution, the number of Directors will not be less than three. Currently, the Company's Board of Directors consists of ten Directors, five of whom are non-executive Directors. The present Directors of the Company and executive officer of Vodafone Group are as follows:

Directors

Sir Ernest Harrison, OBE, Non-executive Chairman, aged 71, was appointed to his present position in 1988. He was Chairman and Chief Executive of Racal from 1966 until 1992, having been appointed to the Board of Directors of Racal in 1958 after joining the Company in 1951. He is now Chairman of Racal Electronics Plc ("Racal"), and is a Director of Camelot Plc.

Mr C C Gent, Chief Executive, aged 49, was appointed to his present position on January 1, 1997. He was formerly Managing Director of Vodafone and prior to that was also Managing Director of Vodac and Vodata from 1985 to 1986. Immediately prior to joining the Company, he was a divisional Director of International Computers Limited ("ICL") and Managing Director of Baric Computing Services, a division of ICL.

Mr D Channing Williams, Managing Director of Vodafone, aged 49, was appointed to his present position on January 1 1997, having been appointed to the board in June 1996. Prior to that he was Chairman of the Vodafone Group companies responsible for value added services, paging and data networks. He joined Vodafone in 1985 as Marketing Director, having previously worked in managerial and executive positions in the telecommunications industry since 1979.

Mr J M Horn-Smith, Managing Director of Vodafone Group International, aged 48, was appointed to this position in 1993 and the Board in 1996. He is a director of many of the Group's overseas operating companies. He joined Vodafone in 1984 as Marketing Executive, was promoted to Marketing Director of Vodafone in 1987 and Managing Director of Vodapage in 1989.

Mr K J Hydon, Financial Director, aged 52, was appointed to his present position in 1985. He joined Racal in 1977 and was appointed Financial Director of Racal-SES Limited in 1979 and the Racal Defence Radar and Avionics Group in 1981. He is a director of several Vodafone Group companies including Vodafone Europe Holdings BV, and the pension trustee companies and he also deals with US investor relations.

Mr E J Peett, CBE, aged 61, has been a Director of the Company since 1985. He worked for Racal from 1976, and was Managing Director of Vodata from 1986 to 1987 and Vodapage from 1986 to 1989. He was appointed Chief Executive of Vodafone Australasia Pty Limited in 1996, having previously been responsible for regulatory affairs. He is also Chairman of The Personal Number Company Plc.

Sir Gerald Whent, CBE, aged 70, was Chief Executive of the Company until December 1996 and upon his retirement he became non-executive Deputy Chairman. He was Chairman and Managing Director of the Company from 1983 until the appointment of Sir Ernest Harrison to the position of Chairman in 1988. He is a non-executive director of Racal Electronics Plc and Mobile Systems International Holdings Limited.

Sir William Barlow, FEng, Non-executive Director, aged 72, was appointed to his present position in 1988. He is a former President of the Royal Academy of Engineering and is Chairman of Chemring Group Plc and a Director of Waste Management International Plc.

Sir Robert Clark, DSC, Non-executive Director, aged 73, was appointed to his present position in 1988. He is Chairman of Mirror Group Plc and a non-executive director of a number of UK companies, including Lowndes Lambert Group Holdings Plc.

Lord MacLaurin of Knebworth, Non-executive Director, aged 60, was appointed to the Board in January 1997. He has recently retired as Chairman and Chief Executive of Tesco Plc and is Chairman of the England and Wales Cricket Board.

G J Lomer retired from the Board and D J Henning left the Board on March 31, 1997 and June 30, 1996 respectively.

Executive Officer

Mr S R Scott, Company Secretary, aged 43, was appointed to his present position 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.

The Articles provide that at each annual general meeting of the Company one-third (or the nearest number to one-third) of the directors shall retire from office by rotation; however, no Director holding any office as an executive chairman or as Managing or joint Managing Director shall be subject to retirement by rotation or taken into account in determining the number of directors to retire. The directors to retire in every year shall include (so far as necessary to obtain the number required) any Director who is due to retire at the meeting by reason of age or who wishes to retire and not offer himself for re-election and otherwise shall be those who have been longest in office since their last election but as between persons who became directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director is eligible for re-election. At the Annual General Meeting of the Company to be held on July 24, 1997, and in accordance with the requirements of the Company's Articles of Association, C C Gent, K J Hydon and Sir William Barlow will retire by rotation at the Company's Annual General Meeting and, being eligible, will offer themselves for re-election. Sir Ernest Harrison, Sir Gerald Whent and Sir Robert Clark, all being aged over 70, will also retire at the Annual General Meeting and offer themselves for re-election, as will Lord MacLaurin who, having joined the Board since the date of the last Annual General Meeting, is required to offer himself for election by the shareholders.

The shareholders of Vodafone Group Plc in general meeting may from time to time by ordinary resolution appoint any person to be a Director and may also determine in what rotation such Director is to retire from office. 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 and any Director who so retires shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting. The Board may from time to time appoint one or more directors to be the 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 the Board terminates his appointment or in the case of certain directors appointed to hold an executive office when he ceases to be a Director of the Company.

ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS

The Remuneration Committee is responsible for the determination of remuneration policy as applied to the Group's executive directors. It is chaired by Sir Ernest Harrison and consists exclusively of non-executive directors of the Company. Sir William Barlow and Sir Robert Clark served on the Committee during the year. In June 1997, Lord MacLaurin joined the Remuneration Committee and will act as its Chairman in the future.

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

Salaries and benefits

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

All executive directors are contributing members of the Vodafone Group Directors Pension Scheme, which provides pensions and other benefits within limits prescribed by the Inland Revenue. Until his retirement on December 31, 1996, Sir Gerald Whent participated in a defined contribution funded unapproved retirement benefits scheme which was funded by a pension contribution equivalent to the Company contribution paid on behalf of the other executive directors. Details of the salaries and benefits of all the directors are set out in the table on page 36, together with details of the Company's contributions to pension schemes. A separate table on page 36 shows the pension benefits earned by the directors in the year.

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

Service contracts

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

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 on page 36. Except for Sir Gerald Whent in the period prior to his retirement as Chief Executive on December 31, 1996 and in respect of which residual benefits remain outstanding, the non-executive directors do not participate in any of the Company's share schemes or other employee benefit schemes, nor does the Company make any contribution to their pension arrangements. Sir Ernest Harrison is provided with a car.

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

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

The aggregate compensation paid by Vodafone Group to its Directors and officers as a group for services in all capacities is set out below. The aggregate number of directors and executive officers in the year ended March 31, 1997 was 13 (1996 – 12).

	1997	1996
	£000	£000
Salaries and fees	**2,546**	2,310
Benefits	**245**	219
Pension contributions	**601**	682
	3,392	3,211

The Board's remuneration for the year to March 31, 1997 was as follows:

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

Notes

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

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

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

Notes

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

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

The Directors at March 31, 1997 had a total beneficial interest in options over 3,751,428 ordinary shares of the company (1996 – 4,700,500) and beneficially owned 2,365,760 ordinary shares (1996 – 2,081,738).

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

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

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

Notes

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

These options by exercise price were:

Options price (p)	Options held at April 1, 1996	Options granted during the year	Options exercised during the year	**Options held at March 31 1997**
Executive scheme and unapproved scheme				
86.7	175,500	–	30,900	**144,600**
93.0	549,000	–	549,000	**–**
101.7	645,600	–	44,100	**601,500**
107.0	589,500	–	127,200	**462,300**
112.3	165,000	–	165,000	**–**
118.0	3,300	–	–	**3,300**
124.7	48,000	–	10,800	**37,200**
125.7	76,500	–	–	**76,500**
136.3	330,000	–	330,000	**–**
138.7	86,100	–	–	**86,100**
141.7	11,700	–	–	**11,700**
146.3	351,300	–	153,000	**198,300**
150.0	6,900	–	–	**6,900**
166.3	679,800	–	–	**679,800**
176.3	354,900	–	–	**354,900**
198.5	292,200	–	–	**292,200**
233.5	245,400	–	–	**245,400**
241.5	–	525,300	–	**525,300**
Savings related scheme				
74.7	20,088	–	20,088	**–**
94.7	51,483	–	50,217 (1)	**–**
142.0	14,571	–	–	**14,571**
186.0	3,708	–	–	**3,708**
193.0	–	7,149	–	**7,149**
	4,700,550	532,449	1,480,305	**3,751,428**

Notes

1. As noted above, Sir Gerald Whent was unable to exercise options in respect of 1,266 shares granted to him under the savings related scheme as his retirement date preceded the completion date of the relevant savings contract.

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

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

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

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

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

At July 1, 1997 the Directors and other executive officers of the Company held options, exercisable at the prices set forth below, for the following numbers of Ordinary Shares:

	Number of Ordinary Shares (Option Price)													
	126p	107p	102p	87p	139p	146p	125p	176p	150p	166p	142p	233p	198p	241p
Sir Gerald Whent	75,600	368,700	403,200	134,400	76,200	30,300	–	–	–	71,700	6,600	49,700	15,800	51,300
D Channing Williams	–	–	–	–	–	70,800	4,800	8,100	2,700	62,400	3,600	92,100	50,100	109,700
C C Gent	–	–	–	–	–	46,800	15,600	154,500	–	235,500	–	30,600	120,000	106,400
J M Horn-Smith	–	–	–	–	–	–	–	–	–	115,800	1,500	22,100	7,000	63,200
K J Hydon	–	–	–	–	–	28,800	9,600	137,400	–	33,000	–	24,700	–	86,500
E J Peett	–	–	–	–	–	–	–	–	–	161,400	–	26,200	99,300	108,200
Directors and the other executive officer as a group (11 persons)	75,600	368,700	403,200	134,400	76,200	176,700	30,000	300,000	2,700	691,500	15,600	268,200	299,800	592,400

Sir Ernest Harrison, Sir William Barlow, Sir Robert Clark and Lord MacLaurin held no options at July 1, 1997.

Directors' interests in the shares of Vodafone Group Plc

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

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

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

Certain information concerning options outstanding under the Company's share option plans at July 1, 1997 is set forth below:

	Number	Price £	Period during which exercisable
Savings Related Share Option Scheme	82,449	0.95	1 March 1997 to 30 August 1997
	286,593	1.14	1 March 1998 to 30 August 1998
	774,993	1.42	1 September 1999 to 29 February 2000
	1,000,928	1.86	1 September 2000 to 28 February 2001
	571,053	1.93	1 September 1999 to 29 February 2000
	988,853	1.93	1 September 2001 to 28 February 2002
	3,704,869		
Executive Share Option Scheme	36,000	0.68	19 January 1992 to 18 January 1999
	21,000	1.36	12 July 1992 to 11 July 1999
	21,000	1.19	19 January 1993 to 18 January 2000
	105,300	1.26	3 January 1995 to 2 January 2002
	477,000	1.07	3 January 1995 to 2 January 2002
	663,300	1.02	14 July 1995 to 13 July 2002
	225,600	0.87	14 July 1995 to 13 July 2002
	408,000	1.39	21 December 1995 to 20 December 2002
	80,400	1.18	21 December 1995 to 20 December 2002
	723,000	1.46	7 July 1996 to 6 July 2003
	192,900	1.25	7 July 1996 to 6 July 2003
	613,500	1.76	1 December 1996 to 30 November 2003
	66,600	1.50	1 December 1996 to 30 November 2003
	3,143,100	1.66	4 July 1997 to 3 July 2004
	404,400	1.42	4 July 1997 to 3 July 2004
	2,482,100	2.33	4 July 1998 to 3 July 2005
	1,401,500	1.98	4 July 1998 to 3 July 2005
	284,400	2.41	5 July 1999 to 4 July 2006
	4,889,500	2.41	5 July 1999 to 4 July 2003
	136,100	2.57	2 December 1999 to 1 December 2006
	213,300	2.57	2 December 1999 to 1 December 2003
	16,588,000		

See Note 18 of Notes to Consolidated Financial Statements for a brief description of the Company's share option plans.

ITEM 13. INTERESTS OF MANAGEMENT IN CERTAIN TRANSACTIONS

Except as set out in note 29 to the Consolidated Financial Statements, since April 1, 1995, the Company has not been, and is not now, a party to any material transactions, or proposed transactions, in which any Director, any other executive officer, 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, 1997, and as of July 1, 1997, neither any Director nor any other executive officer, nor any associate of any Director or any other executive officer, was indebted to Vodafone Group.

PART II

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

Not applicable

PART IV

ITEM 17. FINANCIAL STATEMENTS

Not applicable

ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this Annual Report.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

* 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.

Report of independent auditors

To the Directors of Vodafone Group Plc

We have audited the accompanying consolidated balance sheets of Vodafone Group Plc and subsidiaries as at March 31, 1997 and 1996, and the related consolidated profit and loss accounts, cash flows, and consolidated statements of total recognised gains and losses and movements in equity shareholders' funds for each of the three years in the period ended March 31, 1997 and the financial statement schedule listed in the Index at Item 19, all expressed in pounds sterling. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the related financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United Kingdom and United States of America. Those standards require that we plan and perform the audits 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vodafone Group Plc and subsidiaries as at March 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1997, in conformity with generally accepted accounting principles in the United Kingdom (which differ in certain material respects from generally accepted accounting principles in the United States of America – see Note 33). Also, in our opinion, the schedule referred to above, when read in conjunction with the related financial statements, presents fairly in all material respects the information shown 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 and Registered Auditors
Hill House
1 Little New Street
London EC4A 3TR
England

June 24, 1997
(July 24, 1997 as to Note 30)

Consolidated profit and loss accounts

For the years ended March 31

	Note	1997 $m	1997 £m	1996 £m	1995 £m
Turnover					
Continuing operations		2,701.4	1,642.4	1,402.2	1,152.6
Acquisitions		175.4	106.6	–	–
	3	2,876.8	1,749.0	1,402.2	1,152.6
Operating profit					
Continuing operations		857.4	521.3	465.8	353.4
Acquisitions		13.7	8.3	–	–
	4	871.1	529.6	465.8	353.4
Disposal of fixed asset investments	5	42.6	25.9	7.2	4.3
Profit on ordinary activities before interest		913.7	555.5	473.0	357.7
Net interest (payable)/receivable	6	(27.0)	(16.4)	2.1	13.4
Profit on ordinary activities before taxation		886.7	539.1	475.1	371.1
Tax on profit on ordinary activities	7	282.7	171.9	164.6	133.4
Profit on ordinary activities after taxation		604.0	367.2	310.5	237.7
Equity minority interests		5.6	3.4	0.7	0.3
Profit for the financial year		598.4	363.8	309.8	237.4
Equity dividends	8	242.6	147.5	122.6	101.7
Retained profit for the financial year		355.8	216.3	187.2	135.7
Earnings per share	9	19.56¢	11.89p	10.15p	7.80p

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated balance sheets

At March 31

	Note	1997 $m	1997 £m	1996 £m
Fixed assets				
Intangible assets	**10**	242.4	147.4	89.3
Tangible assets	**11**	2,072.9	1,260.3	857.1
Investments	**12**	853.6	518.9	475.7
		3,168.9	1,926.6	1,422.1
Current assets				
Stocks	**13**	32.4	19.7	8.2
Debtors	**14**	713.3	433.7	320.5
Liquid investments		17.4	10.6	3.6
Cash at bank and in hand		51.4	31.2	9.0
		814.5	495.2	341.3
Creditors: amounts falling due within one year	**15**	1,666.5	1,013.2	583.3
Net current liabilities		(852.0)	(518.0)	(242.0)
Total assets less current liabilities		2,316.9	1,408.6	1,180.1
Creditors: amounts falling due after more than one year	**16**	942.0	572.7	148.3
Provisions for liabilities and charges	**17**	12.0	7.3	8.3
		1,362.9	828.6	1,023.5
Capital and reserves				
Called up share capital	**18**	252.1	153.3	152.8
Share premium account	**19**	90.0	54.7	45.3
Capital reserve	**19**	6.7	4.1	4.1
Profit and loss account	**19**	917.7	557.9	819.9
Total equity shareholders' funds		1,266.5	770.0	1,022.1
Equity minority interests		56.3	34.2	1.4
Non-equity minority interests	**21**	40.1	24.4	–
		1,362.9	828.6	1,023.5

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated cash flows

For the years ended March 31

	Note	1997 $m	1997 £m	1996 Restated £m	1995 Restated £m
Net cash inflow from operating activities	**27**	1,059.7	644.3	621.3	389.1
Returns on investments and servicing of finance					
Interest received		30.3	18.4	18.5	15.7
Interest paid		(35.1)	(21.3)	(9.9)	(3.7)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(4.8)	(2.9)	8.6	12.0
Taxation		(246.9)	(150.1)	(127.1)	(105.0)
Capital expenditure and financial investment					
Purchase of intangible fixed assets		(1.3)	(0.8)	(59.6)	–
Purchase of tangible fixed assets		(576.3)	(350.4)	(295.8)	(187.2)
Purchase of trade investments		(395.4)	(240.4)	(27.8)	(171.5)
Disposal of trade investment		7.7	4.7	–	16.8
Disposal of tangible fixed assets		4.6	2.8	8.9	14.6
Loans to associated undertakings		(75.8)	(46.1)	(81.1)	(102.5)
Loans repaid by associated undertakings		6.9	4.2	–	–
Net cash outflow from capital expenditure and financial investment		(1,029.6)	(626.0)	(455.4)	(429.8)
Acquisitions and disposals					
Purchase of subsidiary undertakings		(201.7)	(122.6)	–	(1.1)
Net overdrafts acquired with subsidiary undertakings		(127.5)	(77.5)	–	–
Disposal of interest in subsidiary undertaking		37.3	22.7	–	–
Purchase of interest in associated undertakings		(18.3)	(11.1)	(4.1)	(33.8)
Purchase of subscriber bases		(49.8)	(30.3)	–	(0.8)
Disposal of interest in associated undertakings		44.2	26.8	6.6	–
Net cash (outflow)/inflow from acquisitions and disposals		(315.8)	(192.0)	2.5	(35.7)
Equity dividends paid		(213.8)	(130.0)	(106.6)	(87.7)
Cash outflow before use of liquid resources and financing		(751.2)	(456.7)	(56.7)	(257.1)

Consolidated cash flows

For the years ended March 31

	Note	1997 $m	1997 £m	1996 Restated £m	1995 Restated £m
Cash outflow before use of liquid resources and financing		(751.2)	(456.7)	(56.7)	(257.1)
Management of liquid resources					
Short term deposits		(11.5)	(7.0)	(3.6)	66.2
Net cash outflow from management of liquid resources		(11.5)	(7.0)	(3.6)	66.2
Financing					
Issue of ordinary share capital		16.3	9.9	7.3	3.2
Issue of shares to minorities		9.4	5.7	–	–
Debt due within a year:					
Increase in commercial paper programme		200.8	122.1	–	–
(Decrease)/increase in uncommitted bank facilities		(36.7)	(22.3)	44.2	21.6
Debt due beyond a year:					
(Decrease)/increase in bank loans		(197.5)	(120.1)	–	138.1
Issue of bond repayable in 2001		402.8	244.9	–	–
Issue of bond repayable in 2004		406.6	247.2	–	–
Net cash inflow from financing		801.7	487.4	51.5	162.9
Increase/(decrease) in cash in the year		39.0	23.7	(8.8)	(28.0)
Reconciliation of net cash flow to movement in net debt					
Increase/(decrease) in cash in the year		39.0	23.7	(8.8)	(28.0)
Cash inflow from increase in debt		(776.0)	(471.8)	(44.2)	(159.7)
Cash outflow from increase in liquid resources		11.5	7.0	3.6	(66.2)
Change in net debt resulting from cash flows		(725.5)	(441.1)	(49.4)	(253.9)
Bond issued on acquisition of trade investment		(21.2)	(12.9)	–	–
Loan notes issued on acquisition of subsidiary		(33.2)	(20.2)	–	–
Accrued interest on discounted financial instruments		(4.8)	(2.9)	–	–
Translation difference		6.5	4.0	1.9	–
Movement in net debt in the year		(778.2)	(473.1)	(47.5)	(253.9)
Opening net debt		(341.3)	(207.5)	(160.0)	93.9
Closing net debt	28	(1,119.5)	(680.6)	(207.5)	(160.0)

Consolidated statements of total recognized gains and losses

For the years ended March 31

	1997 $m	1997 £m	1996 £m	1995 £m
Profit for the financial year	598.4	363.8	309.8	237.4
Currency translation	(202.6)	(123.2)	19.7	9.2
Total recognized gains and losses relating to the year	395.8	240.6	329.5	246.6

Movements in equity shareholders' funds

For the years ended March 31

	1997 $m	1997 £m	1996 £m	1995 £m
Profit for the financial year	598.4	363.8	309.8	237.4
Equity dividends	(242.6)	(147.5)	(122.6)	(101.7)
	355.8	216.3	187.2	135.7
Currency translation	(202.6)	(123.2)	19.7	9.2
New share capital subscribed	16.3	9.9	7.3	3.3
Goodwill written-off	(592.2)	(360.0)	(14.6)	(32.4)
Scrip dividends	7.5	4.6	5.4	5.1
Other	0.5	0.3	(0.2)	(1.3)
Net movement in equity shareholders' funds	(414.7)	(252.1)	204.8	119.6
Opening equity shareholders' funds	1,681.2	1,022.1	817.3	697.7
Closing equity shareholders' funds	1,266.5	770.0	1,022.1	817.3

The accompanying notes are an integral part of these 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 33. 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, 1997, on which the auditors' report was unqualified, will be delivered to the Registrar of Companies.

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, 1997, 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 31, 1997. This rate was $1.6448 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 comply with two new accounting standards issued by the Accounting Standard Board: FRS1 (Revised) – 'Cash Flow Statements' and FRS8 – 'Related Party Disclosures'.
The implementation of FRS1 (Revised) has necessitated the restatement of comparative data.

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 Vodafone Group Plc ("Vodafone Group"), and its subsidiaries (the "Group") and the Group's share of results of associated undertakings, for financial statements made up to March 31, 1997.

Goodwill

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

Foreign currencies

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

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

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

Turnover

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

2. Accounting policies (continued)

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 costs and funding being treated as a provision or a prepayment.

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

Research and development

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

Scrip dividends

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

Intangible fixed assets

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

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 instalments over their expected useful lives as follows:

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

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

Investments

The Consolidated Financial Statements include investments in associated undertakings using the equity method of accounting. An associated undertaking is a company in which the Group owns a material share of the equity and, in the opinion of the directors, can exercise a significant influence in its management. The profit and loss accounts include the Group's share of profits or losses before taxation and attributable taxation of those companies. The balance sheets show the Group's proportionate share of the net assets, excluding goodwill, of those companies and loans advanced to those companies.

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

2. Accounting policies (continued)

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 reasonable probability that a liability or asset will crystallise in the foreseeable future.

No provision is made for any tax liability which may arise if undistributed profits of certain overseas subsidiary and associated undertakings are remitted to the 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 period 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 operates substantially in one class of business, the supply of mobile telecommunications services and products. An analysis of turnover, profit on ordinary activities before interest and net assets by geographical region is as follows:

	1997 Turnover £m	1997 Profit/(loss) on ordinary activities before interest £m	1996 Turnover £m	1996 Profit/(loss) on ordinary activities before interest £m	1995 Turnover £m	1995 Profit/(loss) on ordinary activities before interest £m
United Kingdom	1,478.9	529.3	1,242.9	492.8	1,080.6	399.5
Continental Europe	139.8	42.6	75.7	(1.4)	47.8	2.2
Pacific Rim	130.3	(36.1)	83.6	(35.7)	24.2	(31.2)
Rest of the world	–	19.7	–	17.3	–	(12.8)
	1,749.0	555.5	1,402.2	473.0	1,152.6	357.7

	March 31, 1997 Net Assets £m	March 31, 1996 Net Assets £m
United Kingdom	482.3	513.1
Continental Europe	501.9	322.3
Pacific Rim	442.5	320.7
Rest of the World	82.5	74.9
Net borrowings	(680.6)	(207.5)
	828.6	1,023.5

Turnover is by origin which is not materially different from turnover by destination. Sales to one customer as a percentage of total revenues, amounted to 12% in 1997 (1996 - 17%; 1995 - 18%).

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

4 Operating profit

	Continuing £m	Acquisitions £m	1997 £m	1996 £m	1995 £m
Turnover	1,642.4	106.6	1,749.0	1,402.2	1,152.6
Cost of sales	846.2	70.3	916.5	722.4	588.2
Gross profit	796.2	36.3	832.5	679.8	564.4
Selling and distribution costs	112.9	10.7	123.6	71.1	71.4
Administrative expenses	196.3	17.3	213.6	159.7	132.4
Total operating expenses	309.2	28.0	337.2	230.8	203.8
Operating profit before associated undertakings	487.0	8.3	495.3	449.0	360.6
Share of profits/(losses) of associated undertakings	34.3	–	34.3	16.8	(7.2)
	521.3	8.3	529.6	465.8	353.4

Acquisitions in the year include the Greek cellular network operator, Panafon SA, and its principal service provider, Panavox SA, and the UK Service Providers, Talkland International Limited, The Peoples Phone Company Plc and Astec Communications Limited. UK service provider turnover, which is included within acquisitions in the profit and loss account, is incremental as these companies' activities derive substantially from services provided by Vodafone Limited, a fellow Group subsidiary company.

Group turnover includes sales to associated undertakings of £208.9m and total operating costs include purchases from associated undertakings of £71.3m. Sales to associated undertakings primarily represent network airtime and access charges. Purchases from associated undertakings primarily represent roaming and service provider incentive payments.

Administrative expenses in the year ended March 31, 1995 include an exceptional cost of £16m due to abnormal costs associated with the unprecedented incidence of fraud and bad debt suffered by the industry.

4 Operating profit (continued)

Operating profit has been arrived at after charging:

	1997 £m	1996 £m	1995 £m
Depreciation of tangible fixed assets			
Owned assets	126.0	98.8	85.7
Leased assets	25.3	16.9	6.4
Amortisation of intangible fixed assets	3.0	1.2	0.2
Research and development	33.3	27.1	20.3
Bad debt expense	16.0	22.2	21.2
Payments under operating leases			
Plant and machinery	9.5	8.4	7.0
Other assets	89.4	81.8	65.6
Auditors' remuneration			
Audit work	0.8	0.6	0.5
Other fees			
United Kingdom	1.1	0.7	0.7
Overseas	0.3	0.2	0.4

5 Disposal of fixed asset investments

The profit on disposal of fixed asset investments arose from the sale of the Group's 50% holding in Orbitel Mobile Communications Limited to LM Ericsson, the sale of 5% of the Group's investment in Vodafone Pty Limited to AAP Information Services Pty Ltd in fulfilment of an agreement entered into when its license was granted and the sale by the Group's associate Europolitan Holdings AB of its 20% interest in Sonofon AB, a Danish GSM operator.

In 1996, the profit arose principally from the reduction in the Group's interest in Vodacom Group (Pty) Limited to 31.5% in accordance with an agreement entered into before the license was awarded.

6 Net interest (payable)/receivable

	1997 £m	1996 £m	1995 £m
Interest receivable and similar income	20.2	18.7	16.3
Interest payable and similar charges			
Bank loans and overdrafts	(5.9)	(13.8)	(2.9)
Other loans	(30.7)	(2.8)	–
	(16.4)	2.1	13.4

7 Tax on profit on ordinary activities

	1997 £m	1996 £m	1995 £m
United Kingdom			
Corporation tax charge at 33% (1996 – 33%, 1995 – 33%)	158.9	157.2	130.1
Transfer to deferred taxation	1.4	5.3	1.0
Associated undertakings	(0.1)	0.2	–
	160.2	162.7	131.1
Overseas			
Subsidiary undertakings	6.5	1.6	0.7
Transfer (from)/to deferred taxation	(0.1)	(0.1)	0.2
Associated undertakings	5.3	0.4	1.4
	11.7	1.9	2.3
	171.9	164.6	133.4

7 Tax on profit on ordinary activities (continued)

The difference between Vodafone Group's statutory UK corporation tax rate of 33% in 1997, 1996 and in 1995 and Vodafone Group's effective tax rates were as follows:

	1997 £m	1996 £m	1995 £m
Expected tax at UK corporation tax rate	177.9	156.8	122.5
Disallowable expenditure	12.7	9.3	3.8
Deferred tax not equalised	(13.8)	(10.4)	(12.5)
Prior year adjustments	(1.5)	(0.4)	(2.9)
Current year losses for which no credit taken	9.4	7.0	9.0
Net (under)/overcharge relating to overseas associated undertakings	(3.5)	(2.2)	7.0
Non taxable profits/non deductible losses	(8.4)	(2.1)	(0.4)
Other	(0.9)	6.6	6.9
Actual tax	171.9	164.6	133.4
The analysis of the deferred tax charge/(credit) is as follows:			
Tax allowances in excess of depreciation	0.7	0.8	(0.1)
Short term timing differences	0.6	4.4	1.3
	1.3	5.2	1.2

At March 31, 1997, Vodafone Group had the following trading and non trading losses available for carry forward and offset against the future trading or total profits of certain Group and associated companies:

	£m
UK subsidiaries trading losses	110.5
UK subsidiaries excess management expenses	26.0
Overseas subsidiaries' losses	78.6
Share of UK associated undertakings trading losses	1.8
Share of overseas associated companies trading losses	69.6

8 Equity dividends

	1997 £m	1996 £m	1995 £m
Interim dividend paid of 2.36p (1996 – 1.97p; 1995 – 1.64p) per ordinary share	72.2	60.2	49.9
Proposed final dividend of 2.45p (1996 – 2.04p; 1995 – 1.70p) per ordinary share	75.3	62.4	51.8
	147.5	122.6	101.7

9 Earnings per share

Earnings per share are based upon the weighted average of 3,060,400,713 (1996 – 3,052,281,614; 1995 – 3,043,774,906) ordinary shares in issue throughout the year and are calculated on the profit on ordinary activities after taxation and minority interests of £363.8m (1996 – £309.8m; 1995 – £237.4m).

There would be no material dilution of earnings per share if the outstanding share options were to be exercised.

10 Intangible fixed assets

	License fees £m
Cost	
April 1, 1996	90.6
Exchange movements	(7.4)
Acquisition of subsidiary undertakings	68.3
March 31, 1997	151.5
Amortization	
April 1, 1996	1.3
Exchange movements	(0.2)
Charge for the year	3.0
March 31, 1997	4.1
Net book value	
March 31, 1997	147.4
March 31, 1996	89.3

11 Tangible fixed assets

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Networks infrastructure £m	Total £m
Cost					
April 1, 1996	9.1	151.0	64.1	1,160.2	1,384.4
Exchange movement	(0.8)	(1.5)	(0.9)	(15.7)	(18.9)
Acquisition of subsidiary undertakings	38.3	14.9	9.4	111.2	173.8
Additions	8.4	59.6	14.6	316.5	399.1
Disposals	(0.5)	(4.5)	(2.9)	(0.3)	(8.2)
March 31, 1997	54.5	219.5	84.3	1,571.9	1,930.2
Accumulated depreciation					
April 1, 1996	2.4	74.4	24.1	426.4	527.3
Exchange movement	(0.4)	(0.6)	(0.4)	(1.9)	(3.3)
Charge for the year	2.5	31.4	9.3	108.1	151.3
Disposals	(0.3)	(3.0)	(2.0)	(0.1)	(5.4)
March 31, 1997	4.2	102.2	31.0	532.5	669.9
Net book value					
March 31, 1997	50.3	117.3	53.3	1,039.4	1,260.3
March 31, 1996	6.7	76.6	40.0	733.8	857.1

The net book value of land and buildings comprises freeholds of £11.1m (1996 – £3.4m), long leaseholds of £31.6m (1996 – £nil) and short leaseholds of £7.6m (1996 – £3.3m). Networks infrastructure comprises:

	Freehold premises £m	Short term leasehold premises £m	Plant and machinery £m	Total £m
March 31, 1997				
Cost	8.7	128.5	1,434.7	1,571.9
Accumulated depreciation	1.6	42.1	488.8	532.5
Net book value	7.1	86.4	945.9	1,039.4
March 31, 1996				
Net book value	6.8	75.3	651.7	733.8

12 Fixed asset investments

	Associated undertakings £m	Other investments £m	Total £m
April 1, 1996	207.2	268.5	475.7
Exchange movement	(17.7)	(83.0)	(100.7)
Equity and loan advances	55.0	295.7	350.7
Disposals	(18.6)	(10.4)	(29.0)
Share of retained results	23.9	–	23.9
Goodwill	(48.1)	–	(48.1)
Acquisition of subsidiary undertakings	(138.6)	(15.0)	(153.6)
Reclassification to associated undertakings	32.9	(32.9)	–
March 31, 1997	96.0	422.9	518.9

The Group's share of its associated undertakings' post acquisition accumulated profits at March 31, 1997 amounted to £7.2m (1996 – losses of £54.9m) and loans to associated undertakings at March 31, 1997 were £62.9m (1996 – £215.5m). The maximum aggregate loans to associates and former associates during the year which are not included within the period end balance were £155.2m. Fixed asset investments include the Group's interest of £8.1m (1996 – £51.0m) in Europolitan Holdings AB, a company listed on the Stockholm Stock Exchange. At March 31, 1997, the Group's interest had a market value of £102.9m (1996 – £58.9m). If this investment had been sold on March 31, 1997 at market value, a tax liability of £14.4m would have arisen.

The Group's associated undertakings and fixed asset investments are detailed on pages F-25 and F-26.

13 Stocks

	1997 £m	1996 £m
Finished goods	19.7	8.2

14 Debtors

	1997 £m	1996 £m
Due within one year:		
Trade debtors	250.1	172.9
Amounts owed by associated undertakings	2.1	4.2
Other debtors	29.4	13.6
Prepayments and accrued income	144.6	123.6
	426.2	314.3
Due after more than one year:		
Other debtors	0.2	1.3
Prepayments	7.3	4.9
	7.5	6.2
	433.7	320.5

15 **Creditors:** Amounts falling due within one year

	1997 £m	1996 £m
Bank loans, other loans and overdrafts	75.8	80.1
Commercial paper	123.7	–
Trade creditors	169.5	74.3
Taxation	176.2	161.3
Other taxes and social security costs	24.0	19.3
Other creditors	84.8	27.3
Proposed dividend	75.3	62.4
Accruals and deferred income	283.9	158.6
	1,013.2	583.3

The weighted average interest rate on short term borrowings at March 31, 1997 was 6.4% (1996 – 6.6%).

16 **Creditors:** Amounts falling due after more than one year

	1997 £m	1996 £m
Bank loans	18.7	140.0
Other loans	504.2	–
Other creditors	36.7	0.4
Accruals and deferred income	13.1	7.9
	572.7	148.3

The other loans include £247.2m and £245.7m of sterling bonds issued by Vodafone Group Plc in the year, with coupon rates of 7.5% and 7.875% respectively.

The bank loans bear floating rates of interest and are repayable between two and five years. These loans would have been repayable by May 1997 in the absence of committed facilities which expire between November 1999 and May 2000.

16 Creditors: Amounts falling due after more than one year (continued)

Total bank loans, other loans and overdrafts are repayable as follows:

	1997 £m
Within one year	199.5
Between one to two years	–
Between two to three years	17.8
Between three to four years	1.2
Between four to five years	256.7
Between six to seven years	247.2
	722.4

17 Provisions for liabilities and charges

Deferred taxation

	£m
April 1, 1996	8.3
Profit and loss account charge	1.3
Acquisition of subsidiary undertakings	(1.9)
Transfer to reserves	(0.4)
March 31, 1997	7.3

The amounts provided and unprovided for deferred taxation are:

	1997		1996	
	Amount provided £m	Amount unprovided £m	Amount provided £m	Amount unprovided £m
Accelerated capital allowances	2.3	85.7	1.6	75.1
Gains subject to rollover relief	–	15.8	–	15.8
Other timing differences	5.0	(21.9)	6.7	(4.6)
	7.3	79.6	8.3	86.3
United Kingdom subsidiary losses	–	(45.0)	–	(3.5)
Overseas subsidiary losses	–	(29.2)	–	(27.7)
	7.3	5.4	8.3	55.1

The unprovided deferred taxation benefit in respect of UK subsidiary tax losses carried forward at March 31, 1997 includes a potential benefit of £43.0m arising from losses carried forward in UK companies acquired during the year. These losses can only be carried forward for offset against future profits arising from the same trades within these companies.

18 Called up share capital

	1997 Number	1997 £m	1996 Number	1996 £m
Authorised				
Ordinary shares of 5p each	4,000,000,000	200.0	4,000,000,000	200.0
Allotted, issued and fully paid				
April 1	3,056,511,679	152.8	3,047,268,121	152.4
Allotted and issued during the year	9,646,515	0.5	9,243,558	0.4
March 31	3,066,158,194	153.3	3,056,511,679	152.8

Allotted during the year

	Number	Share premium £m	Proceeds £m
Savings related share option scheme	1,533,440	0.1	1.4
Executive share option schemes	6,238,800	0.3	8.5
	7,772,240	0.4	9.9
Scrip dividends	1,874,275	0.1	–
	9,646,515	0.5	9.9

Options for ordinary shares

The Company has three share option plans for its directors and employees. The maximum aggregate number of ordinary shares in respect of which options may be granted under these three plans will not (without shareholder approval) exceed 5% of the outstanding Ordinary Shares at the date of grant of any options, subject to an overall fixed limit of 100,000,000 Ordinary Shares.

The Vodafone Group Savings Related Share Option Scheme provides for the granting of share options at exercise prices which shall be determined by the Directors but which shall not be less than 80% of the average price of an ordinary share in the five days before the option was offered. Options will normally only be exercisable during a period of six months commencing on the third or fifth anniversary of the commencement of the related savings contract.

The Vodafone Group Executive Share Option Scheme and the Vodafone Group Share Option Scheme provide for the granting of share options at exercise prices which shall be determined by the Directors but which shall not be less than 85% of the fair market value of a share on the last dealing day before the option was offered. In the past options have been granted at a discount, but the Directors have resolved that no shares in future grants of options will be offered at a discount. Options will normally be exercisable between three and ten years after their date of grant, in the case of the Vodafone Group Executive Share Option Scheme, and between three and seven years after their date of grant, in the case of the Vodafone Group Share Option Scheme. In either case options will only be exercisable if the Directors are of the opinion that there has been real growth in the earnings per ordinary share of the Company over a three-year period following their date of grant and, in the case of any options granted at a discount to the fair market value, such growth exceeds the growth in the UK Index of Retail Prices by 2 per cent.

18 Called up share capital (continued)

The Company had outstanding at March 31, 1997 the following options to subscribe for ordinary shares:

	Number	Price £	Period during which exercisable
Savings related share option scheme	270,318	0.95	1 March 1997 to 30 August 1997
	287,859	1.14	1 March 1998 to 30 August 1998
	777,660	1.42	1 September 1999 to 29 February 2000
	1,024,290	1.86	1 September 2000 to 28 February 2001
	571,558	1.93	1 September 1999 to 29 February 2000
	988,853	1.93	1 September 2001 to 28 February 2002
	3,920,538		
Executive share option schemes	97,500	0.68	19 January 1992 to 18 January 1999
	36,000	1.36	12 July 1992 to 11 July 1999
	21,000	1.19	19 January 1993 to 18 January 2000
	75,000	0.93	22 January 1994 to 21 January 2001
	142,200	1.26	3 January 1995 to 2 January 2002
	639,000	1.07	3 January 1995 to 2 January 2002
	946,200	1.02	14 July 1995 to 13 July 2002
	264,000	0.87	14 July 1995 to 13 July 2002
	604,200	1.39	21 December 1995 to 20 December 2002
	107,700	1.18	21 December 1995 to 20 December 2002
	1,024,200	1.46	7 July 1996 to 6 July 2003
	270,600	1.25	7 July 1996 to 6 July 2003
	817,500	1.76	1 December 1996 to 30 November 2003
	91,500	1.50	1 December 1996 to 30 November 2003
	3,317,100	1.66	4 July 1997 to 3 July 2004
	428,100	1.42	4 July 1997 to 3 July 2004
	2,542,200	2.33	4 July 1998 to 3 July 2005
	1,472,900	1.98	4 July 1998 to 3 July 2005
	284,400	2.41	5 July 1999 to 4 July 2006
	4,900,800	2.41	5 July 1999 to 4 July 2003
	136,100	2.57	2 December 1999 to 1 December 2006
	213,300	2.57	2 December 1999 to 1 December 2003
	18,431,500		

Movements in share options outstanding during the years ended March 31, 1996 and 1997 are summarized as follows:

	Number of options 1997	1996
At April 1	23,775,930	25,323,296
Granted	7,223,688	5,503,201
Exercized	(7,772,240)	(6,874,393)
Forfeited	(875,340)	(176,174)
At March 31	22,352,038	23,775,930

The weighted average exercize price of shares granted and exercized in the year ended March 31,1997 was £2.31 and £1.26 respectively.

19 Reserves

	Share premium account £m	Capital reserve £m	Profit and loss account £m
April 1, 1996	45.3	4.1	819.9
Allotment of shares	9.5	–	–
Retained profit for the financial year	–	–	216.3
Goodwill written off (Note 20)	–	–	(360.0)
Currency translation	–	–	(123.2)
Scrip dividends	(0.1)	–	4.6
Other	–	–	0.3
March 31, 1997	54.7	4.1	557.9

The currency translation movement includes a gain of £4.0m in respect of foreign currency borrowings. At March 31, 1997 the cumulative direct charge against the profit and loss account in equity in respect of exchange adjustments was £88.4m (1996 – cumulative credit of £34.8m).

20 Goodwill written-off directly to reserves

The cumulative amount of goodwill written-off by the Group at March 31, 1997 was £587.9m (1996 – £227.9m).

Goodwill written-off in the year in respect of the acquisition of subsidiary undertakings comprises £103.2m upon the acquisition of The Peoples Phone Company Plc, £86.1m in respect of General Mobile Corporation Limited and other acquisitions of £88.0m.

In addition, the Group wrote off goodwill arising on the acquisition of associated undertakings and subscriber bases of £44.8m and £37.9m respectively.

Acquisition of subsidiary undertakings

The Peoples Phone Company Plc

	Balance sheet at acquisition £m	Adjustments (1) £m	Fair value balance sheet £m
Tangible fixed assets	17.0	(3.7)	13.3
Working capital	(29.2)	(12.1)	(41.3)
Net borrowings	3.0	–	3.0
	(9.2)	(15.8)	(25.0)
Goodwill			103.2
Purchase consideration			78.2
Adjustment for deferred consideration			(20.2)
Purchase consideration paid			58.0

General Mobile Corporation Limited

	Balance sheet at acquisition £m	Adjustments (1) £m	Fair value balance sheet £m
Tangible fixed assets	8.6	–	8.6
Working capital	(20.4)	(3.3)	(23.7)
Net borrowings	(2.5)	–	(2.5)
	(14.3)	(3.3)	(17.6)
Carrying value of associate			(5.5)
Goodwill			86.1
Purchase consideration paid			63.0

20 Goodwill written-off directly to reserves (continued)

Other subsidiary undertakings

	Balance sheets at acquisition £m	Accounting policy conformity (2) £m	Other adjustments (1) £m	Fair value balance sheets £m
Intangible fixed assets	59.5	8.8	–	68.3
Tangible fixed assets	152.9	–	(1.0)	151.9
Working capital	(103.2)	–	(3.0)	(106.2)
Net borrowings	(78.0)	–	–	(78.0)
	31.2	8.8	(4.0)	36.0
Minority interest				(33.9)
Carrying value of associate				(22.3)
Goodwill				88.0
Purchase consideration				67.8
Adjustment for deferred consideration				(66.2)
Purchase consideration paid				1.6

Details of the fair value adjustments are set out below:

(1) These adjustments primarily comprise provisions for the permanent dimunition in value of certain tangible fixed assets and accruals for unrecognized liabilities within the balance sheets on acquisition.

(2) Intangible fixed assets acquired represent the network license fees acquired as a result of the acquisition of Panafon SA. The value of this intangible asset has been adjusted by £8.8m to restate the carrying value calculated under Greek accounting practice to the accounting policy adopted by the Group.

Due to the proximity of certain of the subsidiary undertakings' acquisition dates to the year end, some of the fair value adjustments set out above are provisional in nature.

The deferred consideration represents cash payable after March 31, 1997.

Acquisition accounting has been utilised for all business combinations in the year.

The unaudited profit after taxation for The Peoples Phone Company Plc and Talkland International Limited, the holding company for General Mobile Corporation Limited's most significant trading companies, for the periods from the beginning of their respective financial years to the dates of their acquisitions on January 1, 1997 and June 30, 1996 is £4.1m and £0.1m respectively.

The Peoples Phone Company Plc and Talkland International Limited generated (losses)/profits after taxation of £(10.6)m and £0.3m for the financial years ended October 31, 1995 and December 31, 1995 respectively.

21 Non-equity minority interests

Non-equity minority interests of £24.4m comprise non-cumulative redeemable preference shares issued by Vodafone Pty Limited. The holders of these securities 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 share 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.

22 Employees

The average number of persons employed by the Group during the year:	1997 Number	1996 Number	1995 Number
Operations	1,851	1,647	1,499
Selling and distribution	1,157	791	918
Administration	3,043	2,290	1,947
	6,051	4,728	4,364

The cost incurred in respect of these employees (including directors):	1997 £m	1996 £m	1995 £m
Wages and salaries	150.3	112.1	95.8
Social security costs	13.7	9.3	8.0
Other pension costs	7.0	6.5	4.5
	171.0	127.9	108.3

23 Pensions

The Group operates a number of pension plans for the benefit of its employees throughout the world. For United Kingdom employees the plans are generally funded defined benefit schemes, the assets of which are held in separate trustee administered funds. For overseas employees the plans are generally defined contribution schemes.

Defined benefit schemes

The schemes are subject to triennial valuations by independent actuaries. The last formal valuations of the main schemes were carried out as at April 1,1995 using the projected unit credit method of valuation in which allowance is made for projected earnings growth.

At April 1, 1995, the market value of the three principal schemes was £38.1 million and their actuarial value was sufficient to cover 93.1% of the benefits accrued to members. The deficiency is being 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 9% and that this will exceed the general rate of salary growth by between 1% and 2% p.a. and that equity dividend growth would be 4.5% p.a.

The pension cost under UK GAAP for such schemes was £5.7m (1996 – £5.0m; 1995 – £3.5m).

A net prepayment under UK GAAP of £6.5m (1996 – £4.7m) is included in prepayments due after more than one year. This represents the excess of the amounts funded over the accumulated pension costs.

The pension funds are recharged with the cost of administration fees by the Group. The total amount recharged for the year to March 31, 1997 was £0.3m.

The net pension cost for the Group under US GAAP was comprised of the following:

	1997 £m	1996 £m	1995 £m
Service costs – benefits earned during this year	5.2	4.6	4.7
Interest costs on projected benefit obligation	4.4	3.5	2.9
Curtailment cost	0.2	–	–
Actual return on plan assets	(4.7)	(8.2)	0.5
Net deferred items	0.2	5.1	(3.0)
Net periodic pension cost	5.3	5.0	5.1

For 1997, 1996 and 1995, respectively, the discount rates used to determine the actuarial present value of the projected benefit obligation were 8.5%, 9% and 9%; the expected long-term rates of return on assets were 9%, 9% and 9%; and the expected long-term general salary growth was assumed to be 6.5%, 7% and 7% for the plans.

23 Pensions (continued)

The pension plans' funded status as calculated under US GAAP was as set forth below:

	1997 £m	1996 £m	1995 £m
Actuarial present value of benefit obligations:			
Vested benefit obligation	49.3	37.9	29.4
Non vested benefit obligation	1.0	0.8	0.6
Accumulated benefit obligation	50.3	38.7	30.0
Projected benefit obligation	59.4	48.6	36.5
Fair value of plan assets	65.8	49.7	33.2
Funded status	6.4	1.1	(3.3)
Unrecognized net (gain)/loss	(3.2)	0.2	3.0
Unrecognized net transition obligation	0.3	0.3	0.3
Prior period service cost	0.8	0.9	1.0
Prepaid pension cost	4.3	2.5	1.0

Plan assets comprise principally investments in discretionary segregated managed funds.

Defined contribution schemes

The pension cost for such schemes was £1.3m (1996 – £1.5m; 1995 – £1.0m).

24 Leased assets

Operating leases

Future minimum amounts payable under non-cancellable operating leases at March 31,1997 are as follows:

Years ending March 31	£m
1998	109.1
1999	100.7
2000	88.9
2001	81.2
2002	39.8
Thereafter	200.2
	619.9

Finance leases

Tangible fixed assets include the following amounts in respect of finance leases:

	Plant & machinery £m	Fixtures & fittings £m	Networks infrastructure £m	Total £m
March 31, 1997				
Cost	11.4	3.7	279.5	294.6
Depreciation	4.4	0.9	42.4	47.7
Net book value	7.0	2.8	237.1	246.9
March 31, 1996				
Net book value	4.8	2.4	136.1	143.3

Liabilities under the leases for the networks infrastructure assets have been unconditionally satisfied by call deposits and other assets, trust deed and set-off arrangements. Accordingly, neither the lease liabilities or corresponding financial assets are included in the Group's balance sheet.

25 Capital commitments

	1997 £m	1996 £m
Contracted for but not provided	246.8	201.0

26 Contingent liabilities

	1997 £m	1996 £m
Guarantees of bank or other facilities including those in respect of the Group's associated undertakings and investments	137.2	122.6

27 Net cash inflow from operating activities

	1997 £m	1996 £m	1995 £m
Operating profit	529.6	465.8	353.4
Depreciation and amortization	154.3	116.9	92.3
Share of (profits)/losses of associated undertakings	(23.9)	(6.2)	16.2
Dividends from associated undertakings	6.0	6.1	3.1
(Increase)/decrease in stocks	(0.6)	4.1	(0.4)
Increase in debtors	(13.2)	(35.1)	(88.2)
(Decrease)/increase in creditors	(7.9)	69.7	12.7
	644.3	621.3	389.1

28 Analysis of net debt

	April 1, 1996 £m	Cash flow £m	Other non cash changes £m	Exchange movement £m	March 31, 1997 £m
Liquid investments	3.6	7.0	–	–	10.6
Cash at bank and in hand	9.0	23.7	–	(1.5)	31.2
Debt due within one year	(80.1)	(99.8)	(21.8)	2.2	(199.5)
Debt due after one year	(140.0)	(372.0)	(14.2)	3.3	(522.9)
	(207.5)	(441.1)	(36.0)	4.0	(680.6)

29 Directors

Aggregate emoluments of the directors of the Company were as follows:

	1997 £000	1996 £000
Salaries and fees	2,430	1,863
Other benefits	226	160
	2,656	2,023
Pension contributions	563	537
	3,219	2,560

A former director, D J Henning, received £239,867 comprising cash payments of £231,903 plus benefits in kind with an estimated money value of £7,964 during 1997.

More detailed information concerning directors' emoluments, shareholdings and options is shown in Item 11 – 'Compensation of Directors and Officers' and Item 12 – 'Options to purchase Securities from Registrants or Subsidiaries'.

E J Peett is Chairman of The Personal Number Company Plc which trades with Vodata Limited, a subsidiary of Vodafone Group Plc.

During the year sales from Vodata Limited to The Personal Number Company Plc amounted to £0.9m and purchases £0.6m. At the year end, The Personal Number Company Plc owed Vodata Limited £0.1m. All transactions were conducted on commercial arms length terms.

30 Post balance sheet events

In April 1997, the Group disposed of its 16% interest in Cellphones Direct (Holdings) Limited to Martin Dawes Telecommunications Limited, an associated undertaking.

On July 7, 1997 Vodafone Group announced a reorganisation of its six UK service providers, Vodac, Talkland, Vodacom, Peoples Phone, Vodacall and Astec Communications, into three new businesses, Vodafone Retail, Vodafone Connect and Vodafone Corporate. More detailed information concerning this matter is shown in Item 1 – 'Description of Business' and Item 9 – 'Management's Discussion and Analysis of Financial Condition and Results of Operations'.

31 Principal subsidiaries, associated undertakings and investments

Vodafone Group Plc had at March 31, 1997 the following subsidiaries, associated undertakings and investments carrying on businesses which principally affect the profits and assets of the Group:

Principal subsidiaries

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

Name	Activity	Country of incorporation or registration	Percentage shareholdings
General Mobile Corporation Limited	Holding company	England	100
Talkland International Limited	Holding company	England	100
Talkland Retail Limited	Service provider	England	100
Talkland Communications Limited	Distributor of cellular telephone equipment	England	100
Talkland Telecommunications Limited	Retailer of mobile telephones	England	100
Peoples Phone Limited	Service provider	England	100
Vodac Limited[1]	Service provider	England	100
Vodac (Ulster) Limited	Service provider	Northern Ireland	51
Vodacall Limited	Service provider	England	100
Vodafone Europe Holdings BV[1]	Holding company	Netherlands	100
Telecell Limited	Cellular network operator	Malta	80
Vodafone Australasia Pty Limited[2]	Holding company	Australia	100
Vodafone Pty Limited[3]	Cellular network operator	Australia	90
Vodac Pty Limited[4]	Service provider	Australia	100
Vodacall Pty Limited[5]	Service provider	Australia	100
Vodafone SA	Service provider	France	100
Vodafone GmbH	Holding company	Germany	100
Vodafone Holdings (SA) (Pty) Limited	Holding company	South Africa[6]	100
Panafon SA	Cellular network operator	Greece	55
Panavox SA	Service provider	Greece	55
Vodafone Finance Limited	Financial trading company	England	100
Vodafone Group Services Limited	Provision of central services	England	100
Vodafone Investments Limited[7]	Holding company	England	100
Astec Communications Limited	Service provider	England	100
Vodacom Limited	Service provider	England	100
Emtel Europe Plc	Mobile telecommunications dealer	England	100
Vodafone Jersey Limited[8]	Holding company	Jersey	100
Vodafone Limited[1]	Cellular network operator	England	100
Vodapage Limited	Radiopaging network operator	England	100
Air Call Communications Limited	Radiopaging network operator	England	100
Vodastar Limited	Partner in consortium to operate global satellite telecommunications service	England	100
Vodata Limited	Supply of value added services	England	100
Paknet Limited	Packet radio network operator	England	100

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

31 Principal subsidiaries, associated undertakings and investments (continued)

Principal associated undertakings

Vodafone Group Plc's associated undertakings all have share capital consisting solely of ordinary shares. The country of incorporation or registration of all associated undertakings is also their principal place of operation. The operating subsidiaries of all associated undertakings are wholly owned and shown inset.

Vodafone Group Plc had at March 31,1997 the following principal associated undertakings and investments:

Name	Activity	Percentage[2] shareholding	Par value of issued equity	Latest financial accounts	Country of incorporation or registration
Cellphones Direct (Holdings) Limited[1]	Holding company	16	£2,083,333	31.3.97	England
Cellphones Direct Limited	Service provider				
Celtel Limited[1]	Cellular network operator	37	Shilling 6,000,800	31.3.97	Uganda
CV Gemeenschapplijk Bezit Libertel[1]	Holding partnership	35	–	31.12.96	Netherlands
Libertel Groep BV	Holding company				Netherlands
Libertel BV	Cellular network operator				Netherlands
Liberfone BV	Service provider				Netherlands
Europolitan Holdings AB[1]	Holding company for Swedish cellular network operator	20	Skr 102,166,750	31.12.96	England
Martin Dawes Telecommunications Limited	Service provider	20	£632,601	30.6.96	England
Mobile Telecom Group Limited[1]	Holding company	20	£7,000	31.3.97	England
Mobile Telecom PLC	Service provider				
Pacific Link Communications Limited[1]	Cellular network operator	35	HK$13,000	31.12.96	Hong Kong
Vodacom Group (Pty) Limited[1]	Holding company	32	Rand 100	31.3.97	South Africa
Vodacom Pty Limited	Cellular network operator				South Africa
Vodac Pty Limited	Service provider				South Africa
Vodafone Fiji Ltd[1]	Cellular network operator	49	F$ 6 million	31.12.96	Fiji

[1] Indirectly held

[2] To nearest whole percentage

Summary financial information of the associated companies (100% basis) is set out below:

	1997 £m	1996 £m
Assets		
Current assets	265.4	304.8
Investments and other assets	12.4	94.6
Property and equipment, net	796.9	546.6
	1,074.7	946.0
Liabilities and equity shareholders' funds		
Current liabilities	330.1	555.3
Long-term debt	214.1	268.3
Total equity shareholders' funds	530.5	122.4
	1,074.7	946.0
Turnover	936.0	1,019.0
Operating profit/(loss)	85.0	61.3
Loss on ordinary activities after taxation	47.5	(22.0)

Included in Current liabilities and Long-term debt are amounts owed to the Group, other shareholders of the associated companies and third parties. These providers of finance have also guaranteed certain borrowings of these associated companies. The Group's share of all associated companies' debt after deducting such amounts owed or guaranteed by the providers of finance amounted to £109.7m at March 31,1997 (1996 – £51.3m).

31 Principal subsidiaries, 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 for the investments is the same as the country of incorporation or registration.

Name	Activity	Percentage[2] shareholding	March 31, 1997 Carrying value £m	Country of incorporation or registration
E-Plus Mobilfunk GmbH	Cellular network operator	17	46.8	Germany
Globalstar L.P.[1]	Development of satellite telecommunications service	7	24.3	USA
Société Française du Radiotéléphone SA	Cellular network operator	16	349.3	France

[1] Partnership interest

[2] To nearest whole percentage

32 Financial instruments

US GAAP requires disclosure of an estimate of the fair values of certain financial instruments. The carrying amounts and estimated fair value of the Group's outstanding financial instruments, are set out below:

	1997 Net carrying amount £m	1997 Estimated fair value £m	1996 Net carrying amount £m	1996 Estimated fair value £m
Long term investments (excluding investments in associated companies)	422.9	422.9	268.5	276.4
Cash at bank and in hand and liquid investments	41.8	41.8	12.6	12.6
Borrowings:				
Short term	199.5	199.5	80.1	80.1
Long term	522.9	525.9	140.0	140.0

At March 31, 1997 the Group had outstanding foreign exchange contracts with an aggregate amount of £175.8m (1996 – £203.9m). These contracts mature within 73 months (1996 – 85 months).

There was no material difference between the carrying value and fair value of the Group's interest rate futures, foreign exchange contracts and interest rate swaps at March 31, 1997 or March 31, 1996.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement. Changes in assumptions could significantly affect the estimates.

A number of major international financial institutions are counterparties to the interest rate swaps, forward exchange contracts and term deposits, all of which comply with those ratings approved by the Board. The Group regularly monitors its positions and the credit ratings of its counterparties and, by policy, limits the amount of agreements or contracts it enters into with any one party. While the Group may be exposed to credit losses in the event of nonperformance by these counterparties, because of these control procedures it does not expect any losses. Market risk is the sensitivity of the value of financial instruments to changes in related currency and interest rates. Generally, the Group is not exposed to such market risk because gains and losses on derivative financial instruments are offset by gains and losses on the underlying assets and liabilities.

32 Financial instruments (continued)

The following methods and assumptions were used to estimate the fair values shown above:

Long term investments (excluding investments in associated companies) – The fair value of listed investments is based on year end quoted market prices. For other investments for which there are no quoted market prices, it is assumed that the carrying value is approximately equal to the fair value.

It is not practicable to estimate the fair value of long-term investments, which are shown in the balance sheet at original cost of £422.9m (1996 – £268.5m). These investments are primarily untraded equity investments in foreign companies which are operating or developing cellular communications services in their home countries. Based on the most recently available financial information, the Group's proportionate share in the net book value of these companies was £28.7m (1996 – £12.4m), and the Group's proportionate share in the deficit of these companies was £75.7m (1996 – £73.4m). Long-term Investments do not include any valuation in respect of existing subscriber bases.

Current assets and liabilities – Financial instruments included within current assets and liabilities (excluding cash and borrowings) are generally short term in nature and accordingly their fair values approximate to their book values.

Cash at bank and in hand and liquid investments – The carrying values of cash and short term borrowings, and liquid investments, approximate to their fair values because of the short term maturity of these instruments.

Borrowings (excluding foreign exchange contracts) – 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 prevailling at the year end.

All known future foreign currency exposures on firm commitments are hedged into sterling including those resulting from repatriation of overseas dividends and loans. The effects of foreign currency movements on the translation of the results and net assets of overseas operations are not hedged.

33 Summary of differences between Generally Accepted Accounting Principles in the United Kingdom and the United States

The Consolidated Financial Statements are prepared in accordance with Generally Accepted Accounting Principles in the United Kingdom ("UK GAAP"), which differ in certain material respects from those generally accepted in the United States ("US GAAP"). The differences that are material to Vodafone Group relate to the following items and the necessary adjustments are shown in the tables that follow.

Goodwill and equity in losses of associated companies

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

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

Marketable securities

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

License fee amortization

Under UK GAAP, license fees are amortized 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 of acquisition.

Deferred taxation

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

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

Capitalization of interest costs

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

Pension costs

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

Proposed dividends

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

33 Summary of differences between Generally Accepted Accounting Principles in the United Kingdom and the United States (continued)

Earnings per ordinary share

Earnings per ordinary share are calculated by dividing net income of £203.3m, £293.7m and £342.2m for the years ended March 31, 1995, 1996 and 1997 respectively, by 3,043,774,906, 3,052,281,614 and 3,060,400,713 which are the approximate weighted average number of ordinary shares outstanding for the years ended March 31, 1995, 1996 and 1997 respectively.

Fixed assets

The carrying value of long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Group estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized based on the asset's fair value.

Impact of recently issued accounting standards

SFAS 127, "Earnings per Share", is effective for financial statements issued for periods ending after December 15, 1997. This Statement establishes standards for computing and presenting earnings per share, simplifies the standards for computing earnings per share previously found in APB Opinion No. 15, "Earnings per Share", and makes them comparable to international standards. The impact of adopting this standard will not have a material impact on the company.

SFAS 129, "Disclosures of Information about Capital Structure", is effective for financial statements for periods ending after December 15, 1997. This Statement establishes standards for disclosing information about an entity's capital structure. The impact of adopting this standard cannot be reasonably estimated at this time.

Stock based compensation

SFAS 123, "Accounting for stock based compensation", is effective for fiscal years beginning after December 15, 1995. The standard 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 recognised, the proforma effect of the valuation method on net income must be disclosed.
Under UK GAAP the compensation element is not required to be recognised in net income.
The disclosure only provisions of SFAS 123 have been adopted. If compensation costs based on fair value at the grant dates had been recognised in the income statement, net income would not have been materially affected.

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 Statement of Cash Flows ("SFAS") 95. 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 95, cash flows from operating activities are based on net profit, include interest and income taxes, and are presented on the face of the statement.

Summary consolidated cash flow information as presented in accordance with SFAS 95:

	1997 £m	1996 £m	1995 £m
Cash was provided by (used in):			
Operating activities	585.1	540.9	331.4
Investing activities	(810.1)	(446.8)	(479.2)
Financing activities	257.6	(99.3)	53.6
Net increase/(decrease) in cash	32.6	(5.2)	(94.2)
Exchange movement	(1.5)	–	–
Cash at the beginning of year	10.7	15.9	110.1
Cash at the end of year	41.8	10.7	15.9

33 Summary of differences between Generally Accepted Accounting Principles in the United Kingdom and the United States (continued)

A reconciliation between the consolidated statements of cash flows presented in accordance with UK GAAP and US GAAP is set out below:

	1997 £m	1996 £m	1995 £m
Operating activities			
Net cash inflow from operating activities (UK GAAP)	644.3	621.3	389.1
Tax paid	(150.1)	(127.1)	(105.0)
Sale of investments	–	–	16.8
Net interest (paid)/received	(2.9)	8.6	12.0
Dividends from associated undertakings	(6.0)	(6.1)	(3.1)
Increase in short term borrowings	99.8	44.2	21.6
Net cash provided by operating activities (US GAAP)	585.1	540.9	331.4

	1997 £m	1996 £m	1995 £m
Investing activities			
Net cash outflow from capital expenditure, financial investments and acquisitions and disposals (UK GAAP)	(818.0)	(452.9)	(465.5)
Sale of short term investments	1.9	–	–
Sale of investments	–	–	(16.8)
Dividends from associated undertakings	6.0	6.1	3.1
Net cash used in investing activities (US GAAP)	(810.1)	(446.8)	(479.2)

	1997 £m	1996 £m	1995 £m
Financing activities			
Net cash inflow from financing activities (UK GAAP)	487.4	51.5	162.9
Increase in short term borrowings	(99.8)	(44.2)	(21.6)
Dividends paid	(130.0)	(106.6)	(87.7)
Net cash used by financing activities (US GAAP)	257.6	(99.3)	53.6

33 Summary of differences between Generally Accepted Accounting Principles in the United Kingdom and the United States (continued)

The approximate effects of the differences between UK GAAP and US GAAP on net income, shareholders' equity and total assets are as follows:

Net income	1997 £m	1996 £m	1995 £m
Net income as reported in accordance with UK GAAP	363.8	309.8	237.4
Items (decreasing)/increasing net income:			
Goodwill amortization	(17.6)	(9.1)	(8.7)
Equity in losses of associated companies	(5.4)	(6.8)	(6.1)
License fee amortization	(1.0)	(3.2)	(5.9)
Deferred income taxes	2.8	4.3	(8.8)
Pension cost	(0.1)	(0.3)	(1.9)
Other	(0.3)	(1.0)	(2.7)
Net income in accordance with US GAAP	342.2	293.7	203.3
Earnings per ordinary share in accordance with US GAAP	11.18p	9.62p	6.68p

Under US GAAP, the net gain on disposal of fund asset investments of £25.9m (1996 – £7.2m, 1995 – £4.3m) would be included within operating income.

Shareholders' equity	1997 £m	1996 £m
Shareholders' equity as reported in accordance with UK GAAP	770.0	1,022.1
Items increasing/(decreasing) shareholders' equity:		
Goodwill – net of amortization	582.5	245.0
License fee amortization	(13.9)	(13.6)
Revaluation of marketable securities	–	7.9
Cumulative deferred income taxes	(72.7)	(78.6)
Proposed dividends	75.3	62.4
Cumulative pension cost	(2.2)	(2.2)
Other	(2.1)	(1.7)
Shareholders' equity in accordance with US GAAP	1,336.9	1,241.3

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

Financial Statement Schedule II

Valuation and Qualifying Accounts

	Allowance for Bad and Doubtful Accounts £m	Allowances for Stock obsolescence £m
April 1, 1994	8.8	3.3
1994/95:		
Additions – charged	21.2	1.4
Assets written-off	(12.6)	(0.9)
March 31, 1995	17.4	3.8
1995/96:		
Opening foreign currency revaluation	0.2	–
Additions – charged	22.2	1.6
Assets written-off	(28.1)	(0.6)
March 31, 1996	11.7	4.8
1996/97:		
Opening foreign currency revaluation	(0.9)	–
Additions – charged	16.0	3.5
Assets written-off	(10.4)	(2.2)
March 31, 1997	16.4	6.1

Included in the 1994/95 charge is an exceptional cost of £16m due to abnormal costs associated with the unprecedented incidence of fraud and bad debt suffered by the industry.

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 / CC Gent

CC Gent
Chief Executive

Date: July 24, 1997