ARI NETWORK SERVICES INC /WI
Form 10-K
October 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended July 31, 2010

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________________ to _________________

Commission file number 000-19608

ARI Network Services, Inc.

(Name of small business issuer in its charter)

WISCONSIN	39- 1388360
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

10850 West Park Place, Suite 1200, Milwaukee, Wisconsin 53224
(Address of principal executive office)

Issuer's telephone number (414) 973-4300

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.001 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.
Yes o No þ

Indicate by check mark whether the registrant (1) 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 period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

Indicate by check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (S229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company þ
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

As of January 31, 2010, the aggregate market value of the Common Stock held by non-affiliates (based on the closing price on the NASDAQ OTC bulletin board) was approximately $4.8 million.

As of October 15, 2010, there were 7,785,585 shares of the registrant's shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement, to be filed with the Securities and Exchange Commission no later than 120 days after July 31, 2010, for the 2010 Annual Meeting of Shareholders are incorporated by reference in Part III hereof.

ARI Network Services, Inc.

FORM 10-K
FOR THE FISCAL YEAR ENDED JULY 31, 2010
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This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements regarding future events and our future results that are subject to the safe harbors created under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934 (the "Exchange Act"). All statements other than statements of historical facts are statements that could be deemed to be forward-looking statements. These statements are based on current expectations, estimates, forecasts, and projections about the markets in which we operate and the beliefs and assumptions of our management. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," "endeavor variations of such words, and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, estimate, or verify, including those identified below, under "Item 1A. Risk Factors," and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

PART I

Item 1. Description of the Business

Overview

ARI Network Services, Inc. ("ARI") provides technology-enabled services that help dealers, distributors and manufacturers worldwide enhance revenue and reduce costs. We deliver our services to companies of all sizes across a dozen vertical markets, with a core emphasis on the outdoor power, power sports, marine, RV, and appliance sectors. Approximately 18,000 equipment dealers, 125 manufacturers, and 150 distributors worldwide leverage our technology to drive revenue, gain efficiencies and increase customer satisfaction. We also develop and offer electronic catalog content for approximately 125 leading equipment manufacturers.

We were incorporated in Wisconsin in 1981, founded on the concept of delivering electronic catalog services to the agriculture industry. In 1996, we evolved our business to focus on delivering electronic parts and service catalogs to a broader range of vertical markets. Since then, we have expanded our service offerings to achieve our mission of being recognized as the leader in creating, marketing and supporting the best solutions that enhance revenue or reduce costs for our customers. Since 2005, we have steadily developed and acquired new technologies to build a core competency around delivering technology-enabled marketing and web-based solutions. Today, we offer a full suite of products, including lead generation and lead management services, website services, and electronic catalogs.

Our principal executive office and headquarters is located in Milwaukee, Wisconsin. The office address is 10850 West Park Place, Suite 1200, Milwaukee, WI 53224, and our telephone number at that location is (414) 973-4300. Our principal website address is www.arinet.com.

Our business segments are internally organized by geographic location of the operating facilities. We have segregated the Netherlands operation and the United States operations into separate reportable segments. Segment revenue for the Netherlands operation includes only revenue generated out of the Netherlands subsidiary and does not include rest of world revenue sold by the United States operation. We evaluate the performance of and allocate resources to each of the segments based on their operating results.

Our Solution

Our technology-enabled services allow customers in a service or distribution network to: (i) increase revenues by selling products online; (ii) efficiently market to their customers and prospects; (iii) manage and nurture customers and prospects; and (iv) conveniently reference parts, service bulletins and other technical information.

Our combined portfolio of services helps the full equipment distribution and service channel – manufacturers, distributors, and dealers – to realize increased revenue, improved efficiency and greater customer satisfaction. Manufacturers and distributors implement our technology-enabled services and leverage our approximately 18,000 dealer relationships to better communicate with and service their dealer networks. Dealers rely on our technology-enabled services and our extensive network of manufacturer and distributor connections to access parts, service and warranty data, as well as important marketing materials. Dealers also rely on our website, lead management and other technology-enabled services to connect with their current and prospective customers, thereby fostering sales.

Today, we realize revenue from three primary categories of technology-enabled services: (i) electronic catalogs for publishing, viewing and interacting with technical reference information about equipment; (ii) lead management services, designed to help dealers grow their businesses and increase profitability through efficient marketing of their products; and (iii) websites with eCommerce capabilities designed to generate sales through the sites and provide information to consumers in the dealers' local areas.

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Electronic Catalogs

Our electronic catalog services enable manufacturers to quickly and easily publish and update parts and technical reference information pertaining to their products. Distributors and dealers can in turn view and interact with this information to support the sales and service of equipment. As of July 31, 2010 our electronic catalog services portfolio encompassed three core services: PartSmart®, PartSmart Web™ and PartStream™. We derived 58.0% of our revenues from subscriptions to, and support for, our electronic catalog services in fiscal 2010.

PartSmart®, our CD-based electronic parts catalog, is used by approximately 18,000 dealers worldwide in the outdoor power, power sports, marine and agriculture industries to increase productivity by reducing parts lookup time by more than 50%. PartSmart® integrates with more than 85 of the leading dealer business management systems. We also provide a version of our PartSmart® product to the appliance industry, known as PartSmart® IPL.

PartSmart Web™ is used by distributors and manufacturers to provide their dealers with access to parts and pricing information via the Internet.

PartStream™ is a modular, consumer-focused illustrated parts lookup application that integrates with existing website platforms and shopping carts and allows consumers to quickly identify the desired part, add the part to their electronic shopping cart and check out. It leverages ARI's parts content, delivering it to PartStream users on demand from ARI servers.

Lead Management Services

Our award-winning lead management services are provided through Footsteps™. Footsteps™ helps dealers follow-up on incoming leads more quickly and professionally. The product is used as a complete database of customers and prospects, and manages the dealer to customer relationship from generating email campaigns and automated responses, to providing sales teams with a daily follow-up calendar and reminder notices. Footsteps™ accounted for approximately 4.5% of our revenues in fiscal 2010.

Website Solutions

Our website solutions include WebSiteSmart Pro®, eXceleratePro™ and eXceleratePro™ 2, and LeadStorm™, which are used by more than 1000 dealers in the outdoor power, power sports, marine and RV industries to connect with customers and increase revenues 24 hours a day, 7 days a week. eXceleratePro™ and eXceleratePro™ 2 provide dealers and manufacturers in the marine and RV industries with a compelling, informative website that is easy to maintain to engage prospects and generate leads and, ultimately, increase dealership traffic, sales and profits. eXceleratePro™ Mobile allows customers' websites to be fully functional on smart mobile phones. LeadStorm™ is used by marine and RV dealers to showcase their inventory 24 hours a day, 7 days a week with customizable website designs. Website services accounted for 24.7% of revenues in fiscal 2010.

Other Services

In addition to electronic catalog, lead management and website services, we also offer a suite of complementary technology-enabled services. These services include: SearchEngineSmart™, which provides dealer and distributor customers the opportunity for paid advertising on all major search engines so that potential consumers will be directed to the dealers' websites; professional services for the customization of software and website solutions; website hosting; and document transfer and communication services to customers in the manufactured equipment and agricultural inputs industries. On a combined basis, these other services accounted for 12.8% of fiscal 2010 revenues.

Our Strategy

Our mission is to be recognized in each market we serve as the leader in creating, marketing and supporting solutions that enhance revenue and reduce costs for our customers. To do this, our technology-enabled services create connections between manufacturers, distributors, dealers and their end-customers. Key elements of our strategy include:

Deepening relationships with our existing customer base to foster organic growth

We believe there is a significant opportunity to leverage our relationships with existing customers. We believe that our catalog services are highly penetrated in the outdoor power, power sports (including motorcycles), marine, and appliances vertical markets, both in terms of dealers and catalog titles. As dealers continue to realize the benefits of our services, and the ease of doing business with us, we believe we can leverage our presence and these relationships to sell additional services, including websites and lead management services, to these customers. We will also continually seek opportunities to develop and deploy new technology-enabled services that enable our customer to be more successful.

Continually enhancing our core services to foster new sales and subscription renewals

To maintain and enhance the current base of business and to continue to cross-sell and renew service subscriptions for our newer lead management, website, and other technology-enabled services, we target a renewal rate of approximately 90% on existing dealer electronic catalog subscriptions. To facilitate this renewal rate, we designed our services to easily accommodate new features and functions. While we historically have maintained high renewal rates, this fiscal year we saw increased turnover in our client base (commonly referred to as "churn"). We believe that this "churn" reflects poor overall economic conditions and specifically: i) attrition in the dealer body (dealers going out of business); and ii) customers electing to delay renewing or deciding to not renew their subscriptions in an effort to minimize their cost structure. While we cannot control the number of customers going out of business, we are focusing on giving customers even greater value for their money by including an even more robust set of functions and features in our products. As an example, this fiscal year we made a decision to subscribe to the methodologies prescribed by agile software development, and have realigned our internal teams accordingly to enable us to follow an iterative, quick (one to four week), product development process. With more frequent, market-driven, service upgrades, we believe that customers will continue to purchase additional subscriptions, renew their existing subscriptions and upgrades to new releases.

Refining our organization and processes to drive innovation and efficiency

It is critical that we achieve economies of scale and continue to refine our organization and processes to support not only efficiency, but innovation. Specific to this area, and in addition to the implementation of agile software development processes, we made significant upgrades to our publishing and implementation capabilities. Entering into fiscal 2011 we implemented a revised corporate incentive compensation structure, which aligns the compensation paid throughout the entire organization to the Company's strategic and financial objectives.

Sales, Marketing and Customer Support

We organize our sales and marketing programs by product and by geographic regions, including North America and Europe.

Direct Sales

We sell subscriptions to our services primarily through our direct sales force, which is composed of inside sales, consisting of personnel who sell to dealers primarily by phone, and field sales personnel, who focus their efforts on manufacturers and distributors. Our sales teams are supported by marketing personnel who help to identify leads and execute the organization's marketing strategy.

Marketing

Our marketing strategy is to continue to elevate and communicate our brand and service offerings, and generate demand. We use a variety of marketing programs to target and build relationships with our prospective and current customers and partners. Our primary marketing activities include:

- participation in dealer meetings, trade shows and industry events to create awareness, build our lead database and develop relationships;
- search engine marketing and online and print direct marketing to generate awareness and action;
- ongoing website development to educate prospects and provide product information, testimonials, live demonstrations and marketing collateral;
- email and phone campaigns used to capture leads;

- use of customer testimonials; and
- sales tool kits and field marketing training to enable our sales organization to more effectively develop leads and close transactions.

Customer Service and Support

Customer support is essential to retaining and growing our customer base. We maintain customer support operations in each of the Company's four locations. Our support representatives are available via telephone or email, and respond to general customer inquiries.

International Sales

We sell direct into international markets through our Netherlands-based European operation. We also generate international sales indirectly through sales of our services to North American customers with international operations. We expect international markets to provide increased opportunities for our services in the future. Our strategy is to adapt our success in the U.S. electronic catalog services market to our European-based customers through a combination of direct and indirect business relationships with dealers and manufacturers. We believe this will position us for growth, by leveraging what we do well while being responsive to the local operating requirements within the various European countries.

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Competition

The markets for our electronic catalog, lead management and website services are competitive, rapidly evolving, and subject to changing technology, shifting customer needs and frequent introduction of new products and services. While the competitive environment is formidable, we benefit from our focus on core vertical markets and our relationships within and expert knowledge of those markets.

Our principal competitive advantages include:

- our direct relationships with approximately 18,000 dealers, 125 manufacturers and 150 distributors;
- our company stability, offering more than 25 years of servicing the equipment industry;
- our core, established electronic catalog service line, which enables multi-line dealers to easily access catalogs from one single software platform;
- the breadth and depth of our published data;
- the eCommerce capabilities of our technology-enabled services; and
- our relationships with more than 85 dealer business management system providers.

We believe that our competitive advantages will enable us to compete effectively and sustainably in our core markets.

Competition for our products and services varies by product and by vertical market. No single competitor today competes with us on every product and service in each of our industry verticals. In electronic catalogs, we compete primarily with Snap-on Business Solutions (“Snap-on”). Snap-on designs and delivers electronic parts catalogs, accessory sales tools, and manufacturer network development services, primarily to the automotive, power sports, outdoor power, construction, agriculture and mining markets. In addition, there are a variety of smaller companies focused on one or two specific industries.

In lead management, websites and eCommerce, our two most direct competitors are PowerSports Network, owned by Dominion Enterprises, and 50 Below. Competition for our website development services also comes from in-house information technology groups that may prefer to build their own web-based proprietary systems, rather than use our common industry solutions. There are also large, general market eCommerce companies, such as IBM, which offer products and services that could address some of our customers’ needs. These general eCommerce companies do not typically compete with us directly, but they could decide to do so in the future.

Given the current pace of technological change, it is possible that unidentified competitors could emerge, existing competitors could merge and/or obtain additional capital, thereby making them more formidable, or new technologies could come on-stream and potentially threaten our position.

Intellectual Property

We rely on various intellectual property laws in the United States and other jurisdictions as well as confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We also enter into confidentiality and proprietary rights agreements with our employees, consultants and other third parties and control access to software, documentation and other proprietary information. We have two registered trademarks in the U.S. and elsewhere: PartSmart and WebsiteSmart Pro. We also use numerous unregistered trademarks.

Employees

As of July 31, 2010, we had approximately 147 employees. Of these, 54 are involved in customer operations and support, 41 are in sales and marketing, 28 are engaged in maintaining or developing software and providing software

customization services and 24 are involved in general and administration functions. None of these employees is represented by a union.

Fiscal Year

ARI's fiscal year ends on July 31st. Any references throughout this document to fiscal 2010 or fiscal 2009 refer to the fiscal years ended July 31, 2010 and 2009, respectively. Also note that the reference to the word "fiscal" has been removed from all tables throughout this document.

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Executive Officers of the Registrant

The table below sets forth the names of ARI's executive officers as of October 15, 2010. The officers serve at the discretion of the Board of Directors.

Name	Age	Capacity Served
Roy W. Olivier	51	President, Chief Executive Officer and Director
Brian E. Dearing	55	Chairman of the Board, Chief Corporate Development and Strategy Officer, Interim Chief Financial Officer, Treasurer and Secretary
Michael T. Tenpas	42	Vice President of Global Sales and Marketing

Roy W. Olivier

Mr. Olivier was appointed President and Chief Executive Officer of the Company in May 2008, after having served in the capacity of Vice President of Global Sales and Marketing of the Company since September 2006. Prior to joining ARI in 2006, Mr. Olivier was a consultant to start-up, small and medium-sized businesses. Until December 2001, he was Vice President, Sales & Marketing for ProQuest Media Solutions, a business he founded in 1993 and sold to ProQuest in 2000. Prior to that, Mr. Olivier held various sales and marketing executive and managerial positions with companies in the telecommunications and computer industries, including Multicom Publishing, Inc., BusinessLand and PacTel.

Brian E. Dearing

Mr. Dearing is the Chairman of the Board, Chief Corporate Development and Strategy Officer, Interim Chief Financial Officer, Treasurer and Corporate Secretary of the Company. He has been a director of ARI since 1995 and was elected Chairman of the Board of Directors in 1997. Mr. Dearing served as the Company's President and Chief Executive Officer from 1995 until May 2008. Prior to joining ARI in 1995, Mr. Dearing held a series of executive positions within the U.S. and Europe in the eCommerce business of Sterling Software, Inc. Prior to joining Sterling in 1990, Mr. Dearing held a number of marketing management positions in the EDI business of General Electric Information Services. Mr. Dearing holds a Masters Degree in Industrial Administration from Krannert School of Management at Purdue University and a Bachelor of Arts degree in Political Science from Union College.

Michael T. Tenpas

Mr. Tenpas joined ARI as Vice President of Global Sales and Marketing in July 2008. For the twelve years prior to joining ARI, Mr. Tenpas worked for Norlight Telecommunications, Inc. in Brookfield, Wisconsin, starting as a senior account executive in 1996, and then serving in a number of other sales roles, culminating in his promotion to Executive Vice President and General Manager of Norlight Data Centers, Inc. Mr. Tenpas earned a Bachelor of

Science degree in Business Management from the University of Phoenix.

Available Information

You can obtain copies of our 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the SEC, and all amendments to these filings, free of charge from our website at www.arinet.com as soon as reasonably practical following our filing of any of these reports with the SEC. You can also obtain copies free of charge by contacting us at our office address listed above.

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Item 1A. Risk Factors

The risks and uncertainties described below are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our results of operations and financial condition.

Continued unfavorable economic conditions or reduced investments in technology-enabled services spending may harm our business.

Our business depends on the overall demand for technology services spending, and on the economic health and general willingness of our current and prospective customers to make capital commitments. If the conditions in the U.S. and global economic environment remain uncertain or continue to be volatile, or if they deteriorate further, our business, operating results and financial condition may be adversely affected. Our customers sell capital goods, which is highly dependent on the disposable income of end consumers. Continued weak or volatile economic conditions, or a reduction in consumer spending may weaken our customers' demand for electronic catalogs, websites, lead management or other technology-enabled services, or general information technology spending, which would likely harm our business and operating results in a number of ways, including longer sales cycles, potential lower prices for our services, reduced sales, and reduced subscription renewal rates.

We may become liable to our customers and lose customers if we have defects or disruptions in our service or if we provide poor service.

Because we deliver some of our technology as a service, errors or defects in the software applications underlying our service, or a failure of our hosting infrastructure, may make our services, in particular our eCommerce services, unavailable to our customers. Since our customers use our eCommerce services to facilitate their sales, any errors, defects, disruptions in service or other performance problems with our services, whether in connection with the day-to-day operation of our services, upgrades or otherwise, could damage our customers' businesses.

Despite the implementation of security measures, the core of our network infrastructure is vulnerable to unauthorized access, computer viruses, equipment failure and other disruptive problems, including the following:

- we and our users may experience interruptions in service as a result of the accidental or intentional actions of Internet users, current and former employees or others;
- unauthorized access may jeopardize the security of confidential information stored in our computer systems and our customers' computer systems, which may result in liability to our customers and also may deter potential customers;
- we may face liability for transmitting viruses to third parties that damage or impair their access to computer networks, programs, data or information;
- there may be a systemic failure of Internet communications, leading to claims associated with the general unavailability of some of our products; or
- eliminating computer viruses and alleviating other security or technical problems may require interruptions, delays or cessation of service to our customers.

If we have any errors, defects, disruptions in service or other performance problems with our services, customers could elect not to renew, or delay or withhold payment to us, we could lose future sales or customers may make claims against us, which could result in an increase in our provision for doubtful accounts, an increase in collection cycles for accounts receivable or litigation costs.

Our core markets and verticals are competitive, and if we do not compete effectively, our operating results may be harmed.

The markets for electronic catalog, websites, lead management and other technology-enabled services targeted at the equipment industry are competitive, and the eCommerce area, specifically, is rapidly changing with relatively low barriers to entry. With the introduction of new technologies and market entrants, we expect competition to remain intense. In addition, increased competition generally could result in reduced sales, reduced margin or the failure of our services to achieve or maintain more widespread market acceptance. Competition in our market is based principally upon service breadth and functionality; service performance, security and reliability; ability to tailor and customize services for a specific company, vertical market or industry; ease of use of the service; speed and ease of deployment, integration and configuration; total cost of ownership, including price and implementation and support costs; professional services implementation; strength of customer relationships; and financial resources of the vendor. To compete effectively, we also must be able to more frequently update our services to meet market demand.

Our principal competitors include Snap-on Business Solutions, 50 Below and Powersports Network. Some of our actual and potential competitors enjoy competitive advantages over us, such as greater name recognition within our target vertical markets, larger marketing budgets, as well as substantially greater financial, technical and other resources. If we are not able to compete effectively, our operating results will be harmed.

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Our operating results may fluctuate from quarter to quarter.

Because we recognize subscription revenue over the term of the applicable agreement, the lack of subscription renewals or new service agreements may not be reflected immediately in our operating results. The majority of our revenue in any given period is attributable to service agreements entered into during previous periods. A decline in new or renewed service agreements in any one period will not be fully reflected in our revenue in that period but will harm our revenue in future periods. As a result, the effect of significant downturns in sales and market acceptance of our services in a particular period may not be fully reflected in our operating results until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, because revenue from new customers must be recognized over the applicable subscription term.

We expect that a portion of our revenue in the future will be derived from non-recurring fee income, which consists primarily of revenues from professional services such as software customization and training, software sales and one-time network installation fees. The timing of receipt of this revenue is dependent upon several factors that we cannot predict. These factors include:

- the time required to close large license fee and development agreements (these agreements can be delayed due to customer requirements and decision-making processes);
- the seasonality of certain sectors of the equipment industry in which we operate;
- delays in the introduction of new products or services and their acceptance by customers; and
- delays in delivering customized software to our customers.

Our costs are not entirely predictable and may vary from quarter-to-quarter due to acquisitions or non-recurring expenditures. Cash flows may also vary from quarter to quarter, depending on the timing of disbursements and customer payments, which exhibit considerable seasonality. We believe that period-to-period comparisons of our results of operations will not necessarily be meaningful and should not be relied upon as indicative of our future performance.

Changes in financial accounting standards or practices may cause adverse, unexpected financial reporting fluctuations and harm our operating results.

A change in accounting standards or practices could harm our operating results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may harm our operating results or the way we conduct our business and may increase our compliance costs.

Our business could suffer if we are unable to protect our intellectual property rights or are liable for infringing the intellectual property rights of others.

We regard our trademarks, proprietary technology and similar intellectual property as critical to our success, and we rely upon trademark law, trade secret protection, and confidentiality and license agreements with our employees, strategic partners, and others to protect our proprietary rights, which can have only limited effectiveness. The development of the Internet has also increased the ease with which third parties can distribute our intellectual property without our authorization.

We intend to pursue the registration of our material trademarks as necessary. We may not be entitled to the benefits of any such registration for an extended period due to the cost and delay in effecting such registration. In addition, effective protection may not be available in every country in which our products are available. Further, we may be

subject to claims in the ordinary course of our business, including claims of alleged infringement of the trademarks, copyrights and other intellectual property rights of third parties by us and our licensees.

Other parties may assert claims of infringement of intellectual property or other proprietary rights against us. These claims, even if without merit, could require us to expend significant financial and managerial resources. Furthermore, if claims like this were successful, we might be required to change our trademarks, alter our content or pay financial damages, any of which could substantially increase our operating expenses. We also may be required to obtain licenses from others to refine, develop, market and deliver new services. We may be unable to obtain any needed license on commercially reasonable terms or at all, and rights granted under any licenses may not be valid and enforceable. In the future we could be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of trademarks and other intellectual property rights of third parties by us and our licensees. Any such claims could have a material adverse effect on our business, financial condition and operating results.

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We are dependent on our management and employees.

We are dependent on the services of our executive officers and other key employees. There can be no assurance, however, that we can obtain executives of comparable expertise and commitment in the event of death or voluntary departure of one of our executive offers or other key employees, or that our business would not suffer material adverse effects as the result of the death or voluntary departure. Further, the loss of the services of any one or more of these employees could have an adverse effect on our business. In addition, we will also need to attract and retain other highly skilled technical and managerial personnel for whom competition is intense. If we are unable to do so, our business, results of operations and financial condition could be materially adversely affected.

Our common stock has a very limited trading market.

Our common stock is traded on the over-the-counter Bulletin Board LLC electronic quotation service, an inter-dealer quotation system that provides significantly less liquidity than the NASDAQ stock market or any other national securities exchange. In addition, trading in our common stock has historically been extremely limited. Because of the thinness of the market for our stock, the price of our common stock may be subject to manipulation. This limited trading may adversely affect the liquidity of our common stock, not only in terms of the number of shares that can be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of us. As a result, there could be a larger spread between the bid and the ask prices of our common stock and you may not be able to sell shares of our common stock when or at prices you desire.

Our shareholder rights plan may permit our board to block a takeover attempt and adversely affect the value of our common stock.

Our board of directors adopted a shareholder rights plan and declared a dividend of an associated right, which together are expected to have the effect of deterring any takeover of the Company that is not preceded by board approval of the proposed transaction. The existence of such shareholder rights plan may deter potential tender offers for our common stock or other acquisition offers and may have the effect of delaying or preventing a change of control.

We may not be able to identify, acquire and successfully integrate acquisitions.

A key component of our growth strategy has been and will continue to be acquisitions and other business development opportunities that solidify or accelerate our market position in our core offerings and vertical markets. The successful implementation of this strategy depends upon our ability to identify suitable acquisition candidates, acquire such businesses on acceptable terms, finance the acquisition and integrate their operations successfully into ARI. There can be no assurance that such candidates will be available or, if such candidates are available, that the price will be attractive or that we will be able to identify, acquire, finance or integrate such businesses successfully. In addition, in pursuing such acquisition opportunities, we may compete with other entities with similar growth strategies; these competitors may be larger and have greater financial and other resources than ARI. Competition for these acquisition targets could also result in increased prices of acquisition targets and/or a diminished pool of companies available for acquisition.

The successful integration of these acquisitions also may involve a number of additional risks, including: (i) the inability to retain the clients of the acquired business; (ii) the lingering effects of poor client relations or service performance by the acquired business, which also may taint our existing business; (iii) the inability to retain the desirable management, key personnel and other employees of the acquired business; (iv) the inability to fully realize the desired efficiencies and economies of scale; (v) the inability to establish, implement or police ARI's existing standards, controls, procedures and policies on the acquired business; (vi) diversion of management attention; and (vii) exposure to client, employee and other legal claims for activities of the acquired business prior to acquisition. In

addition, any acquired business could perform significantly worse than expected.

The inability to identify, acquire, finance and successfully integrate acquisitions could have a material adverse effect on ARI or its estimated or desired business, income, growth or other condition and results.

Future acquisitions may result in dilution to existing shareholders.

The timing, size and success of acquisition efforts and any associated capital commitments cannot be readily predicted. Future acquisitions may be financed by issuing shares of common stock, cash, or a combination thereof. To the extent our common stock is used for all or a portion of the consideration to be paid for future acquisitions, dilution may be experienced by existing stockholders.

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We face risks with our international strategy.

Our business strategy includes increasing our presence in the non-U.S. equipment markets. This strategy presents a number of special risks, including:

- managing more geographically diverse operations;
- dealing with currency fluctuations;
- the increased costs of operation;
- only having a small number of employees in these markets;
- our dependence on value-added resellers and contractors to sell and service our products;
- a much smaller and more concentrated current customer base; and
- the assumption that U.S. international policy will remain favorable towards the countries in which we sell our products and services.

Our historical losses have resulted in our weak balance sheet.

While we have been profitable in recent years, we have experienced net losses in numerous fiscal years since our organization in 1981, resulting in an accumulated deficit of $92.0 million at July 31, 2010. We may not be able to maintain profitability or increase profitability in the future. As a result of our historical losses, our financial position has been weakened, and our ability to finance our growth is constrained.

We will require a significant amount of cash to service our indebtedness. Our ability to generate cash depends on certain factors beyond our control.

Our ability to make principal and interest payments on our indebtedness and to fund planned capital expenditures and product development efforts will depend on our ability to generate cash in the future. Our future operating performance and financial results will be subject, in part, to factors beyond our control, including dealer bankruptcies in the vertical markets we serve, and general economic, financial and business conditions. We cannot assure that our business will generate sufficient cash flow from operations or that future financing facilities will be available to us in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs.

If we are unable to generate sufficient cash flow to service our debt, we may be required to:

- refinance all or a portion of our debt or obtain additional financing, neither of which can be assured;
- sell some of our assets or operations;
- reduce or delay capital expenditures, research and development efforts and acquisitions; or
- revise or delay our strategic plans.

If we are required to take any of these actions, it could have a material adverse effect on our business, financial condition and results of operations. In addition, we cannot assure that we would be able to take any of these actions, that these actions would enable us to continue to satisfy our capital requirements or that these actions would be permitted under the terms of the our various debt instruments.

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Item 2. Description of Properties

The table below summarizes ARI's current facilities. Management believes that the Company's current facilities are suitable and sufficient to support present operations.

Description of Use	Location	Square Footage	Lease Expiration	Operating Segment
Corporate headquarters	Milwaukee, WI	16,300	July 2021	North America
Product development and professional services team	Cypress, CA	6,000	August 2011	North America
Marine and RV sales and support	Virginia Beach, VA	9,800	April 2011	North America
Vacant space (1)	Colorado Springs, CO	5,200	March 2011	North America
European sales and support	Leiden, The Netherlands	200 m2	April 2015	Netherlands

(1) All future rents have been fully accrued as of July 31, 2010.

Item 3. Legal Proceedings

None.

Item 4. [Removed and Reserved for Future Use]

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

ARI's common stock is currently quoted on the NASDAQ over the counter bulletin board ("OTCBB") under the symbol ARIS. The following table sets forth the high and low sales price for the periods indicated. OTCBB quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily reflect actual transactions.

Fiscal Quarter Ended:	High	Low
10/31/2008	$ 1.42	$ 0.60
1/31/2009	$ 1.18	$ 0.60
4/30/2009	$ 1.01	$ 0.60
7/31/2009	$ 1.16	$ 0.62
10/31/2009	$ 1.07	$ 0.55
1/31/2010	$ 1.10	$ 0.63
4/30/2010	$ 1.00	$ 0.70
7/31/2010	$ 0.84	$ 0.61

As of October 15, 2010, there were approximately 897 holders of record of ARI common stock. We have not paid cash dividends to date and have no current intention to pay cash dividends.

During fiscal 2010, the Company did not repurchase any of its equity securities.

On April 27, 2009, the Company acquired substantially all of the assets of Channel Blade Technologies ("Channel Blade"). Pursuant to the terms of the Asset Purchase Agreement, the Company issued 615,385 shares of common stock as a portion of the consideration paid.

The Company believes that this transaction was exempt from registration requirements pursuant to Section 4(2) of the Securities Act, as amended. The recipient of the shares of our common stock in this transaction represented its intention to acquire the shares for investment purposes only and not with a view towards distribution, and appropriate legends were affixed to the share certificates.

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Item 6. Selected Financial Data

The following tables set forth certain financial information with respect to the Company for each of the previous five fiscal years, which includes information derived from ARI's audited financial statements and notes thereto for fiscal 2010 and fiscal 2009. The reports, thereon, of Wipfli LLP are included elsewhere in this report. The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and the aforementioned Financial Statements and Notes. All amounts are in thousands, except per share data.

Statement of Income Data

	2010	2009	2008	2007	2006
Net revenue	$ 21,484	$ 17,560	$ 16,917	$ 15,435	$ 14,002
Gross profit	17,131	14,160	14,046	12,716	12,001
Gross margin	79.7 %	80.6 %	83.0 %	82.4 %	85.7 %
Net operating expenses	16,626	13,051	13,225	12,551	9,932
Operating income	505	1,109	821	165	2,069
Other expense	(630)	(221)	(28)	(60)	(59)
Income (loss) from continuing operations before provision for income taxes	(125)	888	793	105	2,010
Income tax benefit (expense)	1,294	(123)	590	(4)	1,200
Income from continuing operations	1,169	765	1,383	101	3,210
Discontinued operations	(392)	(341)	-	-	-
Net income	$ 777	$ 424	$ 1,383	$ 101	$ 3,210
Earnings per share:					
Income from continuing operations:					
Basic	$ 0.15	$ 0.11	$ 0.21	$ 0.02	$ 0.52
Diluted	$ 0.15	$ 0.11	$ 0.20	$ 0.02	$ 0.49
Net income:					
Basic	$ 0.10	$ 0.06	$ 0.21	$ 0.02	$ 0.52
Diluted	$ 0.10	$ 0.06	$ 0.20	$ 0.02	$ 0.49

Other Financial Data

	2010	2009	2008	2007	2006
Amortization of capitalized software products	$ 1,054	$ 876	$ 764	$ 800	$ 648
Depreciation and amortization	1,640	1,054	727	631	382
Capital expenditures	541	636	119	639	669
Software development costs	1,340	759	524	358	630

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Balance Sheet Data

	As of July 31st: 2010	2009	2008	2007	2006
Cash and cash equivalents	$ 938	$ 650	$ 1,086	$ 1,050	$ 3,584
Working capital deficit	(3,692)	(4,246)	(5,475)	(5,221)	(3,357)
Net capitalized software product costs	2,395	2,397	1,596	1,606	1,468
Total assets	19,777	18,607	12,193	9,927	9,436
Current portion of debt and lease obligations	192	226	771	1,031	1,400
Long term debt and lease obligations	5,338	5,115	349	484	580
Total shareholders' equity (deficit)	5,219	4,187	2,896	718	(312)

Cash Flow Data

	2010	2009	2008	2007	2006
Net cash provided by (used for):					
Operating activities	$1,624	$2,745	$2,027	$1,144	$2,375
Investing activities	(1,891)	(2,219)	(1,651)	(2,174)	(1,299)
Financing activities	550	(968)	(353)	(1,491)	(1,143)

Pro Forma Operating Results

The following table compares fiscal 2010's summary results of operations to the fiscal 2009 unaudited pro forma results of operations, which assumes the Channel Blade acquisition occurred at the beginning of fiscal 2009. Refer to Note 5 of the consolidated financial statements for further discussion.

	2010	(Unaudited) Pro Forma 2009
Net revenues	$ 21,484	$ 20,998
Operating income	505	76
Loss from continuing operations before provision for income taxes	(125)	(670)

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion of our results of operations and financial condition should be read together with our audited consolidated financial statements for fiscal 2010 and fiscal 2009, including the notes thereto, which appear elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements, which as previously identified are subject to the safe harbors created under the Securities Act and Exchange Act.

Overview

ARI was presented with many challenges during the past year. Through addressing these challenges, management continued to develop a much deeper understanding of the key drivers within our markets as well as our customers' perceptions of value. Despite these challenges, we continued to grow revenues and remain profitable, and we believe we have implemented the right strategy for continued growth and improved profitability into the future. Throughout this analysis, we will discuss these challenges and their impact on fiscal 2010's results of operations, what we learned from these challenges, our plans to address each of them, and our future expectations resulting from our strategy.

One of the challenges over the past year was the integration of our April 2009 acquisition of Channel Blade. As we anticipated, a lot of time, energy, and management attention were given to the integration throughout the year, which reduced the amount of time available for other priorities. Although much of the integration efforts are behind us, our efforts related to the integration of the combined technology infrastructure, which includes the move to one common software platform, will continue into fiscal 2011 and will drive additional cost savings going forward.

During the latter half of fiscal 2010 we began to experience an increase in the rate of customer attrition (known throughout the industry as "churn"), which management attributes to several critical factors, both within and outside of our control. During the year we undertook a study to better understand the reasons for the churn and discovered that a significant portion of the churn was driven by dealer and manufacturer closures and bankruptcies, which are the combined result of the current state of the economy and the nature of the vertical markets we serve. Unfortunately, these factors are outside our span of control. We also discovered reasons ancillary to the current economic conditions that have caused our customers to delay or not renew their subscriptions. Management believes that we can control the amount of churn related to these factors by reinforcing our value proposition to our customers and by further increasing that value proposition through the release of product upgrades and new services. Management has made increasing this value proposition a high priority for fiscal 2011. In an effort to better help ARI focus on these issues, we undertook a workforce reduction and business improvement initiative in our fiscal fourth quarter, which will be discussed in further detail below.

ARI produced net income of $777,000 in fiscal 2010, compared to $424,000 in fiscal 2009. The increase in earnings was the result of income tax benefits recognized due to a change in estimate of our deferred tax asset valuation allowance. These tax benefits were offset by losses from ARI F&I Services LLC ("AFIS"), which was sold in July 2010 and has been classified as a discontinued operation, an increase in interest expense, as well as certain restructuring charges incurred in the fiscal fourth quarter. Each of these items will be discussed separately later in this section. We incurred a loss from continuing operations before tax of $125,000 in fiscal 2010, compared to fiscal 2009 income before tax of $888,000. This decline was driven by an increase in interest expense, an increase in depreciation and amortization, as well as the restructuring charges incurred in the fourth quarter.

When compared to fiscal 2009's pro forma results of operations, which assumes that the acquisition of Channel Blade occurred August 1, 2008, the Company's operating income increased from $76,000 in fiscal 2009 to $505,000 in fiscal 2010, and income from continuing operations before provision for income taxes improved from a loss of $670,000 in fiscal 2009 to a loss of $125,000 in fiscal 2010. Management attributes this improvement to the progress made integrating the acquisition. Further integration still remains, particularly with respect to the combined technology

infrastructure, and management expects further synergies to result from these efforts.

Net operating expenses increased to $16,626,000 in fiscal 2010 from $13,051,000 in fiscal 2009. This increase is due to the addition of Channel Blade's operations, including the amortization of intangible assets recorded as part of the accounting for the purchase, as well as restructuring costs of $437,000 incurred in the fiscal fourth quarter. When compared to fiscal 2009's pro forma results of operations, operating expenses declined by $212,000; excluding restructuring charges incurred in the fourth quarter, this decline would have been more significant. Cost control has been an area of increased focus for management over the past fiscal year in light of the challenges we have faced, including the increased in customer churn.

In July 2010 the Company undertook a workforce reduction and business improvement initiative, which included the divestiture of AFIS, the write off of certain assets related to non-core operations, and a headcount reduction. The Company incurred restructuring charges of $437,000 related to this initiative. The results of operations of AFIS were reclassified as a discontinued operation in the Company's consolidated financial statements. Also in July 2010, we recognized a significant tax benefit resulting from an increase in our estimate of the future realizability of net operating loss carryforwards. Refer to Note 11 of the consolidated financial statement for further discussion.

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At July 31, 2010, we had cash balances of $938,000, versus $650,000 at July 31, 2009. This increase in cash was primarily the result of additional borrowing on the Company's line of credit in order to help fund our investments in software development and publishing. Due to the nature of our business, the Company typically maintains a working capital deficit. A large percentage of our subscription based revenues is paid in advance, resulting in the recognition of a deferred revenue liability. The Company anticipates continued sufficient cash flow from operations to execute our plans.

Net Revenues and Gross Margins

The table below summarizes the Company's net revenues, gross profit and gross margin by major product category for fiscal 2010 and fiscal 2009.

	2010	2009	Percent Change
Catalog			
Revenue	$ 12,474	$ 11,953	4.4 %
Cost of revenue	1,621	1,746	-7.2 %
Gross profit	10,853	10,207	6.3 %
Gross margin percentage	87.0 %	85.4 %	
Website			
Revenue	5,305	3,156	68.1 %
Cost of revenue	1,012	704	43.8 %
Gross profit	4,293	2,452	75.1 %
Gross margin percentage	80.9 %	77.7 %	
Lead management			
Revenue	961	64	n/m
Cost of revenue	120	1	n/m
Gross profit	841	63	n/m
Gross margin percentage	87.5 %	98.4 %	
Other			
Revenue	2,744	2,387	15.0 %
Cost of revenue	1,600	949	68.6 %
Gross profit	1,144	1,438	-20.4 %
Gross margin percentage	41.7 %	60.2 %	
Total			
Revenue	21,484	17,560	22.3 %
Cost of revenue	4,353	3,400	28.0 %
Gross profit	$ 17,131	$ 14,160	21.0 %
Gross margin percentage	79.7 %	80.6 %	

Summary

We continued our trend of increasing revenues in fiscal 2010. Revenues for the year were $21,484,000, an increase of 22.3% over fiscal 2009 revenues of $17,560,000. Since 2006, the Company's revenues have grown at a compounded annual growth rate of 11.3%. The increase in fiscal 2010 revenues primarily resulted from two factors: (i) the realization of a full year of revenues from the April 2009 acquisition of Channel Blade; and (ii) revenues from our SearchEngineSmartTM ("SES") product, which was introduced in fiscal 2009.

When compared to fiscal 2009's pro forma results of operations, which for comparability purposes assumes the Channel Blade acquisition occurred at the beginning of fiscal 2009, revenues in fiscal 2010 grew approximately

$486,000, or 2.3%. Of this increase, $338,000 resulted from an increase in revenues recognized from the amortization of a deferred revenue liability recorded at the time of the acquisition. We recognized revenues of approximately $800,000 in fiscal 2010 from the amortization of the liability, versus $462,000 in fiscal 2009. As of July 31, 2010, substantially all of the deferred revenue liability has been amortized. With the exception of the amortization of the deferred revenue liability, pro forma revenues remained essentially flat year over year. It is important to note, however, that year over year organic growth for non-acquired products was 7.8%.

Despite the current economic conditions, we continued to experience strong new sales growth in fiscal 2010. Unfortunately, much of this growth was offset by the aforementioned customer churn. Management anticipates continued strong sales in fiscal 2011 and anticipates these sales will begin to generate recurring revenue growth as we address the issues impacting our customer churn.

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Catalog

Catalog revenues are generated from software license fees, license renewal fees, software maintenance and support fees, catalog subscription fees, and professional services related to data conversion. Catalog revenues increased 4.4% in fiscal 2010, resulting from increased sales of our web-based catalog products, a change in our dealer catalog pricing model, and internal efforts to realize and collect subscription revenues on out of compliance software licenses.

Although catalog subscription renewals remain strong, the Company has experienced several significant trends related to our catalog business. First, the availability of free content has been a source of customer attrition, especially in these tough economic times. Although the free content comes with degradation in content quality and lack of value-added features, many of our dealer customers have been forced to cut significant costs out of their operations to combat the reduction in sales the past several years. Another trend is the movement of our OEM customers from bulk content purchases to a “dealer direct” model. Under the dealer direct model, the OEM provides us with its catalog content for publishing. However, rather than paying ARI a lump sum subscription for all of its dealers, the OEM allows ARI to sell the content directly to its dealers. The full impact of this trend has not been ascertained; however, the dealer direct model can also lead to increased revenues, depending upon the number of dealers to which we are able to sell our catalog products.

Management expects catalog subscriptions to remain the most significant source of revenues to the Company and anticipates modest growth in this category in the foreseeable future.

Websites

Website revenues are generated from start-up and recurring subscription fees on our website products, as well as commissions from our customers’ online sales generated via the websites. Website revenues increased 68% in fiscal 2010. This increase was the combined result of the acquisition of Channel Blade in April 2009 as well as organic growth. We recognized twelve months of revenues on former Channel Blade products, or approximately $2,676,000, in fiscal 2010 versus three months, or $1,039,000, last year. Revenues from ARI’s website products increased nearly 25% in fiscal 2010, which was driven by continued strong sales.

Despite the strong sales and year over year revenue growth, we experienced increased customer churn on our website products in fiscal 2010. The reasons for this churn were previously discussed. Management has begun several key initiatives, including the development and launch of major website product upgrades, to counteract the customer attrition experienced over the recent past. Additionally, our sales and marketing group recently launched an internal customer retention initiative. This internal team will work with existing customers to help the customer better understand and take advantage of the value proposition of our products. Management expects website revenues to remain relatively flat in fiscal 2011, due to the loss of revenues associated with the amortization of the deferred revenue liability, which generated approximately $800,000 of revenues in fiscal 2010. However, we do expect continued sales growth from the website products and for these products to be a long-term source of growth for the Company.

Lead Management

Lead management revenues are generated from start-up and subscription fees for the use of the Company’s lead management product, Footstepsä, which was obtained with the acquisition of Channel Blade. Lead management revenues were just under $1,000,000 in fiscal 2010. The fiscal 2010 lead management revenue growth was the result of recognizing a full year’s worth of revenue, versus three months in fiscal 2009, as well as new sales of the product. Management anticipates continued significant growth in lead management revenues, stemming from both increased year over year sales as well as strong customer renewal rates. Footstepsä currently enjoys a dominant

position in the marine and RV verticals; however, management believes that the product has applicability in ARI's other key vertical markets as well and hopes to leverage this product in those vertical markets going forward.

Other Revenues

Other revenues are generated from the provision of internet marketing campaigns through our SES product, professional services related to software customization and website hosting fees, as well as other services. The growth in other revenues in fiscal 2010 was driven by the increased sales of the SES product, which was new in fiscal 2009. The growth in SES was partially offset by a significant decline in professional service revenues for custom software and website development. Management anticipates significant continued growth from the SES product, as well as a continued decline in professional services revenue from customization projects as we have been focusing our sales efforts on our subscription-based recurring revenue products.

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Cost of Revenues, Gross Profit and Gross Margin

We classify as cost of revenues those costs that are directly attributable to the provision of services to our customers. These costs can be generally classified as follows:

Software amortization, which represents the periodic amortization of costs for internally developed or purchased software sold to our customers;

Direct labor, used in the provision of catalog and marketing professional services; and

Other direct costs, which represent amounts paid to third party vendors directly attributable to the services we provide our customers.

The table below breaks out fiscal 2010 and fiscal 2009 cost of revenues into each of these three expense categories (in thousands):

	2010	%		2009	%	
Net revenues	$ 21,484			$ 17,560		
Cost of revenues:						
Amortization of capitalized software costs	1,054	4.9	%	876	5.0	%
Direct labor	1,395	6.5	%	1,586	9.0	%
Other direct costs	1,904	8.9	%	938	5.3	%
Total cost of revenues	4,353	20.3	%	3,400	19.4	%
Gross profit	$ 17,131	79.7	%	$ 14,160	80.6	%

Overall gross profit was $17,131,000 in fiscal 2010, versus $14,160,000 in fiscal 2009. The gross profit increase was solely the result of the increase in revenues over this same period, as gross margin fell slightly. Overall gross margin was 79.7% in fiscal 2010, which was approximately one percentage point lower than fiscal 2009. This decline resulted from the increase in SES revenues. Gross margin on this product is lower than on ARI's subscription-based business, due to a higher amount of third party vendor costs incurred relative to ARI's other products. Excluding SES, overall gross margin in fiscal 2010 was 82.9%, a 1.6 percentage point increase over fiscal 2009. A large portion of this increase was driven by the decline in direct labor costs. The amount of direct labor costs incurred in fiscal 2009 were atypical and resulted from a significant amount of non-billable work performed, which did not reoccur in fiscal 2010.

Operating Expenses

The table below summarizes the Company's operating expenses by expense category for fiscal 2010 and fiscal 2009 (in thousands).

	2010	% of Revenue		2009	% of Revenue		% Change	
Sales and marketing	$4,786	22.3	%	$3,419	19.5	%	40.0	%
Customer operations and support	3,469	16.1	%	2,785	15.9	%	24.6	%
Software development and technical support (1)	1,415	6.6	%	1,534	8.7	%	-7.8	%

General and administrative	4,879	22.7	%	4,212	24.0	%	15.8	%
Restructuring	437	2.0	%	-	0.0	%	n/a	
Depreciation and amortization (2)	1,640	7.6	%	1,101	6.3	%	49.0	%
Net operating expenses	$16,626	77.4	%	$13,051	74.3	%	27.4	%

(1) Net of capitalized software development costs of $1,328 and $815 in fiscal 2010 and fiscal 2009, respectively.

(2) Exclusive of amortization of software products of $1,054 and $876 in fiscal 2010 and fiscal 2009, respectively, which are included in cost of revenue.

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Summary

Overall operating expenses were $16,626,000 in fiscal 2010, an increase of $3,575,000, or 27.4%, over fiscal 2009. This increase, which was experienced in essentially every expense classification, was primarily the result of our acquisition of Channel Blade in April 2009. When compared to fiscal 2009's pro forma results of operations, operating expenses declined $212,000 year over year. Furthermore, excluding the restructuring charges incurred in the fourth quarter of fiscal 2010, the decline was $649,000. Management attributes this decline to several key factors. First, other than integration efforts related to the combined technology infrastructure, the integration of Channel Blade operations is essentially complete, and resulted in significant cost savings in fiscal 2010. The data center consolidation efforts, which have begun in fiscal 2011, will generate additional cost savings beginning in fiscal 2012.

Second, given the relatively flat organic growth in fiscal 2010 as well as the customer renewal trends previously discussed, management focused on tightly controlling operating costs throughout the year. We anticipate operating expenses to remain relatively flat going into fiscal 2011, as we will continue to seek opportunities for savings and efficiencies.

Sales and Marketing Expenses

Sales and marketing expenses consist primarily of personnel and related costs, including sales commissions, for our sales and marketing employees, and also include the cost of marketing programs and trade show attendance. Marketing programs consist of lead generation and direct marketing, advertising, events and meeting costs, public relations, brand building and product management activities. Sales and marketing expenses increased in fiscal 2010, primarily due to sales labor associated with the Channel Blade operations, but the increase also includes costs associated with a fiscal 2010 marketing and branding campaign. Sales and marketing will continue to be one of our largest expenses, as we intend to continue to invest in sales and marketing to pursue new customers and expand relationships with our existing customers. However, management expects sales and marketing costs to remain flat in fiscal 2011, and to gradually decline as a percentage of revenues over time.

Customer Operations and Support

Customer operations and support expenses are composed of server room operations, software maintenance agreements for our core network, and personnel and related costs for our customer support employees. Customer operations and support costs increased in fiscal 2010, due to the costs associated with the Channel Blade operations. Management expects customer operations and support costs to remain relatively flat in fiscal 2011, and to decline as a percentage of revenue in future years as we continue to consolidate our data centers into one centralized facility, while retaining the appropriate backup facilities.

Software Development and Technical Support

Software development and technical support expenses consist primarily of personnel and related costs for the design and development of our software products and for escalated technical support. Our development and technical support staff have three essential responsibilities, the accounting treatment of which varies dependent upon the work performed. Costs associated with internal software development efforts are typically capitalized as software product costs and amortized over the estimated useful life of the product; professional services performed for customers related to software customization projects are classified as cost of revenues; and all other activities are considered operating expenses and included within the software development and technical support expense category. The table below summarizes our software development and technical support costs in fiscal 2010 and fiscal 2009 (in thousands):

	2010	2009
Total software development and technical support costs	$ 4,138	$ 3,935
Less: amount capitalized as software development	(1,328)	(815)
Less: direct labor classified as cost of revenues	(1,395)	(1,586)
Net software development and technical support costs classified as operating expenses	$ 1,415	$ 1,534

We expect fluctuations in the amount of software development and technical support costs classified as operating expenses from period to period, as the mix of development and customization activities will change based on customer requirements, even if total software development and technical support departmental costs remain relatively constant.

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Although a large focus in fiscal 2010 was the integration of the Channel Blade acquisition, product enhancement and innovation remains a cornerstone of the Company's strategy. During fiscal 2010 we capitalized $1,328,000 of software development costs, versus $815,000 in fiscal 2009. As discussed earlier, we anticipate several significant product upgrades and enhancements in fiscal 2011, which we expect will generate additional future revenues for the Company. Management anticipates the level of spending on software development and technical support to remain relatively flat in fiscal 2011, and we will continue to strive to increase the amount of these costs spent on future product development.

General and Administrative

General and administrative expenses primarily consist of personnel and related costs for executive, finance, human resources and administrative personnel, legal and other professional fees and other corporate expenses and overhead. General and administrative costs increased from $4,212,000 in fiscal 2009 to $4,879,000 in fiscal 2010. The majority of this increase is due to the addition of Channel Blade operations; however, we also incurred consulting costs related to our Sarbanes Oxley related efforts during the year, elected to increase certain insurance coverages, and experienced increased bad debt expense due to the aforementioned bankruptcies, primarily in the marine industry.

As a percentage of revenues, general and administrative costs declined from 24.0% in fiscal 2009 to 22.7% in fiscal 2010. This decline is due to the cost savings achieved from the integration of Channel Blade into ARI's operations as well as a concerted effort by management throughout fiscal 2010 to manage spending tightly. Management expects general and administrative expenses to remain relatively flat in fiscal 2011 and to continue to decrease, as a percentage of revenues, in fiscal 2011 and beyond as the business continues to grow and the Company leverages its reduced cost structure.

Depreciation and Amortization

Depreciation and amortization expenses consist of depreciation on fixed assets, which are composed of leasehold improvements and information technology assets, and the amortization of acquisition-related intangible assets. Costs associated with the amortization of software assets are a component of cost of revenues. Depreciation and amortization expense increased nearly 50% in fiscal 2010, which was due to the additional depreciation expense recorded on fixed assets related to the Channel Blade operations, as well as the additional amortization expense from intangible assets recorded at the time of the Channel Blade acquisition.

Restructuring

As discussed previously, in July 2010 the Company undertook a workforce reduction and business improvement initiative, which included the divestiture of AFIS, the write off of certain assets related to non-core operations, and a headcount reduction. The Company incurred restructuring charges of $437,000 related to this initiative. The results of operations of AFIS were reclassified as a discontinued operation in the Company's consolidated financial statements. Details of the fiscal 2010 restructuring expense are below (in thousands):

Severance and related benefits	$147
Net future lease costs	101
Software and equipment dispositions	189
Total restructuring costs	$437

All remaining cash payments related to severance and net future lease costs will be expended in fiscal 2011.

Interest Expense

Interest expense was $649,000 in fiscal 2010, versus $214,000 last year. The increase is primarily the result of the interest incurred on the $5,000,000 note payable related to the acquisition of Channel Blade, but also stems from an increase in the outstanding line of credit balance.

Income Taxes

We have unused net operating loss carryforwards for federal income tax purposes of approximately $17,862,000 expiring through 2020 and as such generally only incur alternative minimum taxes. We performed an assessment of the likelihood that net deferred tax assets will be realized from future taxable income at the end of our fiscal year and, as a result of this assessment, we increased the amount of our deferred tax asset, which was the primary reason we realized a tax benefit in fiscal 2010 of $1,294,000. Refer to Note 11 of the consolidated financial statements for further discussion.

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Discontinued Operations

As part of our business improvement initiative at the end of fiscal 2010, AFIS, which offered dealer finance and insurance ("F&I") services, was sold to F&I Smart LLC. The divestiture resulted in a loss from discontinued operations of $1,000. The results of operations of AFIS have been reflected as a discontinued operation in our consolidated financial statements for all periods presented. The results of operations of AFIS were previously reported within the United States business segment. The Company will continue to look for opportunities to divest any operations that management deems as non-essential to the Company's core strategy. The table below summarizes the results of operations of AFIS, by quarter, since the inception of the business in April 2009 (in thousands).

	Quarter Ended:			Quarter Ended:				
	April 30, 2009	July 31, 2009	Fiscal 2009	October 31, 2009	January 31, 2010	April 30, 2010	July 31, 2010	Fiscal 2010
Revenues	$11	$66	$77	$33	$ 21	$26	$56	$136
Cost of sales	-	12	12	3	2	4	4	13
Operating expenses	24	382	406	193	182	151	250	776
Operating loss	(13)	(328)	(341)	(163)	(163)	(129)	(198)	(653)
Loss on sale	-	-	-	-	-	-	(1)	(1)
Income tax benefit	-	-	-	-	-	-	262	262
Net loss	$(13)	$(328)	$(341)	$(163)	$ (163)	$(129)	$63	$(392)

Liquidity and Capital Resources

The following table sets forth, for the periods indicated, certain cash flow information derived from the Company's financial statements (in thousands).

	2010	2009
Net cash provided by operating activities	$ 1,624	$ 2,745
Net cash used in investing activities	(1,891)	(2,219)
Net cash provided by (used in) financing activities	550	(968)
Effect of foreign currency exchange rate changes on cash	5	6
Net change in cash	$ 288	$ (436)
Cash at end of period	$ 938	$ 650

Cash

At July 31, 2010, the Company had a cash balance of $938,000, compared to $650,000 at July 31, 2009. Management believes that current cash balances, as well as the existing availability under the Company's line of credit with JPMorgan Chase, are sufficient to fund the Company's needs over the next twelve months.

Net cash provided by operations declined in fiscal 2010, compared to fiscal 2009, due to several factors. First, AFIS, which has subsequently been sold and classified as a discontinued operation, incurred an operating loss of approximately $653,000 in fiscal 2010. Second, we incurred costs related to the integration of Channel Blade. Although many of these costs were incurred in the first half of fiscal 2010, ongoing costs remain related to the consolidation of technology platforms. Although we expect costs related to the integration of Channel Blade to continue throughout the first half fiscal 2011, management believes these efforts will provide the platform for growth in the Company's core products, and will also provide our customers with a significant improvement in network performance and capacity.

Cash used for investing activities decreased in fiscal 2010, compared to fiscal 2009. In fiscal 2009, ARI completed the acquisition of Channel Blade and AFIS completed the acquisition of PSOG. There were no acquisitions in fiscal 2010. However, we did increase our investment in software development in fiscal 2010. Management expects cash used in investing activities to fluctuate from period to period based on the level of software development activities as well as the timing of acquisitions.

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The Company generated cash from financing activities of $550,000 in fiscal 2010, which resulted from additional borrowings on the line of credit as well as from proceeds from the lease financing for improvements made to our corporate office. In fiscal 2009, the Company used $968,000 for financing activities, as the Company paid down debt and a portion of the outstanding balance on the line of credit.

Debt

We issued a $5,000,000 secured promissory note in connection with the April 27, 2009 acquisition of Channel Blade. The annual interest rate on the note was 10% for the first year and 14% thereafter. If we had pre-paid a minimum principal amount of $3,000,000 on or before April 27, 2010, the interest rate would have remained at 10% for the remainder of the note's term. Accrued interest only is due quarterly commencing July 31, 2009 through April 30, 2011. Twenty equal quarterly payments, which will include principal and interest, will then be due, commencing August 1, 2011. Management anticipates that the Company will be able to make all payments due under the current provisions of the note.

We issued $700,000 of notes and $400,000 of future non-interest bearing contingent payments in connection with the January 26, 2007 acquisition of OC-Net, Inc. As of July 31, 2010, all outstanding amounts due on the note and all contingent payments have been made.

On July 9, 2004, ARI entered into a line of credit agreement with JPMorgan Chase, N.A. which, as amended, permits us to borrow an amount equal to 80% of the book value of all eligible accounts receivable plus 45% of the value of all eligible open renewal orders (provided the renewal rate is at least 85%) minus $75,000, up to $2,000,000. Eligible accounts include certain non-foreign accounts receivable which are outstanding for fewer than 90 days from the invoice date.

The note bears interest at 1% per annum above the prime rate (effective rate of 4.25% as of July 31, 2010) plus an additional 3%, at the bank's option, upon the occurrence of any default under the note. The interest rate is subject to a floor equal to the sum of (i) 2.5%; plus (ii) the quotient of: (a) the one month LIBOR rate divided by (b) one minus the maximum aggregate reserve requirement imposed under Regulation D of the Board of Governors of the Federal Reserve System (effective floor of 2.8% as of July 31, 2010). The agreement includes a non-usage fee of 0.25% per annum on any unused portion of the line of credit. The line of credit terminates June 30, 2012 and is secured by substantially all of the Company's assets. The line of credit limits repurchases of common stock, the payment of dividends, liens on assets and new indebtedness. It also contains a financial covenant requiring us to maintain a minimum debt service coverage ratio of 1.2 to 1.0, with which we were in compliance at July 31, 2010. There was $1,025,000 and $500,000 principal outstanding on the line of credit at July 31, 2010 and July 31, 2009, respectively. There was $975,000 remaining and eligible per the terms of the agreement on the line of credit at July 31, 2010.

Management believes that funds generated from operations will be adequate to fund the Company's operations, investments and debt payments for the foreseeable future, although additional financing may be necessary if the Company were to complete a material acquisition or to make a large investment in its business.

Acquisitions

Since 1995 the Company has had a formal corporate development program aimed at identifying, evaluating and closing acquisitions that augment and strengthen the Company's market position, product offerings, and personnel resources. Since the program's inception, nine business acquisitions and one software asset acquisition have been completed. All of these acquisitions have been fully integrated into the Company's operations, except Channel Blade, our most recent acquisition, whose operations remain subject to a data center consolidation.

On April 27, 2009, the Company acquired substantially all of the assets of Channel Blade, the leading provider of websites, lead management and marketing automation solutions in the marine and RV markets. Consideration for the acquisition included approximately $500,000 in cash, 615,385 shares of the Company's common stock at a market price of $0.75 per share, $765,000 of assumed liabilities and a $5,000,000 note payable. The Company included the results of operations of Channel Blade for fiscal 2010 and a portion of fiscal 2009, in its consolidated financial statements.

In connection with the acquisition, the Company entered into one year employment agreements with Jon M. Lintvet and Charles Lewis (the "Employment Agreements") to serve as Director of New Business Development and Director of Strategic Accounts- Marine and RV, respectively. These Employment Agreements have expired and both individuals remain employees of the Company.

On April 17, 2009, AFIS acquired the assets of PSOG, valued at approximately $85,000, in partial satisfaction of its debt to ARI of approximately $185,000, $149,000 of which we purchased from Keybank National Association on April 16, 2009. PSOG, located in Schenectady, NY and then led by Mark L. Taylor, had been offering outsourced F&I services to power sports, marine and RV customers in the Northeast United States since 1998. In connection with the acquisition, AFIS entered into a three year employment agreement with Mr. Taylor to serve as Director of F&I Business Development. Effective March 8, 2010, ARI and Mr. Taylor terminated the employment agreement and entered into an arrangement pursuant to which Mr. Taylor continued to provide any necessary transitional services to the Company for six months following the effective date. This agreement has expired.

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On July 27, 2010 ARI sold AFIS to F&I Smart LLC in a membership interest sale agreement (the "Subject Interests"). The sales price of the Subject Interests is a contingent amount based on dealer revenue beginning July 28, 2010 and ending on August 28, 2013. We have not accrued for any future contingent proceeds as we are not able to estimate the amounts at this time. The Company recognized a $1,000 loss on the sale of AFIS in the fourth quarter of fiscal 2010.

Critical Accounting Judgments

The Company's discussion and analysis of its financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of financial statements in conformance with GAAP requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of a company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified as the most critical accounting policies and judgments those addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, refer to Note 1 of the consolidated financial statements, which appear elsewhere within this report on Form 10-K. Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information currently available. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions.

Revenue Recognition

Arrangements that include professional services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. Types of services that are considered essential include customizing complex features and functionality in a product's base software code or developing complex interfaces within a customer's environment. When professional services are not considered essential, the revenue allocable to the professional services is recognized as the services are performed. When professional services are considered essential, revenue under the arrangement is recognized pursuant to contract accounting using the percentage-of-completion method with progress-to-completion measured based upon labor hours incurred. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made in the period the amount is determined.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company currently estimates a reserve for most amounts due over 90 days, unless there is reasonable assurance of collectability. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. In fiscal 2010 and fiscal 2009 the Company increased its allowance for doubtful accounts due to various factors, including general economic conditions.

Impairment of Long-Lived Assets

Equipment and leasehold improvements, capitalized software product costs and other identifiable assets are reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset

or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. During fiscal 2010 and fiscal 2009, the Company disposed of equipment and leasehold improvements with a cost basis of $1,220,000 and $5,309,000, respectively and recorded a loss on disposal of $10,000 and $47,000, respectively.

In fiscal 2010, the Company incurred an impairment charge of $48,000 on capitalized software, with a cost basis of $208,000, which was disposed of, and an additional impairment charge of $141,000 on assets that are still in use. These impairment charges are included in restructuring costs on the statement of operations. The Company did not incur any software impairment charges in fiscal 2009.

Deferred Income Taxes

The tax effect of the temporary differences between the book and tax basis of assets and liabilities and the estimated tax benefit from tax net operating losses is reported as deferred tax assets and liabilities in the balance sheet. An assessment of the likelihood that net deferred tax assets will be realized from future taxable income is performed. Because the ultimate realizability of deferred tax assets is highly subject to the outcome of future events, the amount established as a valuation allowance is considered to be a significant estimate that is subject to change in the near term. To the extent a valuation allowance is established or there is a change in the allowance during a period, the change is reflected with a corresponding increase or decrease in the tax provision in the statement of operations. We recognized a tax benefit of $1,294,000 from continuing operations in fiscal 2010, and a tax provision of $123,000 in fiscal 2009, both of which primarily resulted from a change in our estimated tax valuation allowance.

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Stock-Based Compensation

The Company uses the Black-Scholes model to value stock options granted. Expected volatility is based on historical volatility of the Company's stock. The expected life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the options is based on the U.S. Treasury yields in effect at the time of grant. As stock-based compensation expense recognized in our results of operations is based on awards ultimately expected to vest, the amount has been reduced for estimated forfeitures based on our historical experience. Management reviews the critical assumptions used in the Black-Scholes model each quarter and adjusts those assumptions when necessary.

Goodwill and Other Intangible Assets

We periodically review the carrying value of goodwill to determine whether impairment may exist. As fully described in Note 1 to the Consolidated Financial Statements, we test goodwill for impairment using a two-step process prescribed by GAAP. The first step of the test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. We determined that there is a single reporting unit for the purpose of goodwill impairment tests. We estimate the fair value of the reporting unit using various valuation techniques, with our primary techniques being a discounted cash flow valuation and control premium adjusted market capitalization. There are many estimates and assumptions involved in preparing a discounted cash flow analysis, including estimating future operating results, selecting a weighted average cost of capital to discount estimated future cash flows, anticipated long-term growth rates, and future profit margins.

Estimating the fair value of a reporting unit is an inherently subjective process. Changes in assumptions, estimates, and other inputs could result in the indication of potential impairment of a portion of the recorded goodwill. Management believes the assumptions, estimates, and other inputs used reflect their best efforts and are appropriate for valuing the reporting unit. Step 1 of the goodwill impairment test indicated that goodwill was not impaired in fiscal 2010 or fiscal 2009. As a result, step 2 of the test was not performed.

Impairment tests are also performed for those intangible assets with estimable useful lives if circumstances warrant a review. Due to the restructuring in the fourth quarter of fiscal 2010, the Company performed an impairment test on intangible assets with definite lives using estimated future cash flows from these assets for the remainder of their useful lives. There were no impairments to intangible assets with estimable useful lives in fiscal 2010 or fiscal 2009.

Quarterly Financial Data

The following table sets forth the unaudited results of operations for each of the eight quarterly periods ended July 31, 2010, prepared on a basis consistent with the audited financial statements, reflecting all normal recurring adjustments that are considered necessary. The quarterly information is as follows (in thousands, except per share data):

Quarterly Financial Data
(Unaudited - In thousands, except per share data)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2010	2009	2010	2009	2010	2009	2010	2009
Net revenues	$5,437	$4,169	$5,334	$3,955	$5,352	$4,155	$5,361	$5,281
Gross margin	4,486	3,440	4,361	3,223	4,233	3,387	4,052	4,110
Income from continuing operations	324	256	339	56	155	239	350	214
	(163)	-	(163)	-	(129)	(13)	63	(328)

Discontinued operations								
Net income (loss)	$162	$256	$176	$56	$26	$226	$413	$(114)
Basic and diluted income from continuing operations per common share:								
Basic	$0.04	$0.04	$0.04	$0.01	$0.02	$0.03	$0.05	$0.03
Diluted	$0.04	$0.04	$0.04	$0.01	$0.02	$0.03	$0.05	$0.03
Basic and diluted net income per common share:								
Basic	$0.02	$0.04	$0.02	$0.01	$0.00	$0.03	$0.05	$(0.02)
Diluted	$0.02	$0.04	$0.02	$0.01	$0.00	$0.03	$0.06	$(0.02)

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Off-Balance Sheet Arrangements

ARI has no significant off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on its financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 8. Financial Statements and Supplementary Data

Reference is made to the consolidated financial statements, the reports thereon and the notes thereto commencing after the signature page of this Report, which are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, as amended, is recorded, processed, summarized, and reported within the required time periods and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

As required by Rule 13a-15 under the Exchange Act, we have completed an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness and the design and operation of our disclosure controls and procedures as of July 31, 2010. Based upon this evaluation, our management, including the Chief Executive Officer and the Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of July 31, 2010.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control over Financial Reporting – Guidance for Smaller Public Companies issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of July 31, 2010.

This annual report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Internal control over financial reporting was not subject to attestation by our independent registered public accounting firm pursuant to the amendments to Rule 2-02(f) of Regulation S-X that exempts us from this attestation requirement based on our status as a non-accelerated filer. We are required to provide only management's report in this annual report on Form 10-K.

Changes in Internal Controls

There were no changes to the Company's internal control over financial reporting during the year ended July 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Limitations on Effectiveness of Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART III

Item 10. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Information required by Item 10 of Part III is included in our Proxy Statement relating to our 2010 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 11. Executive Compensation

Information required by Item 11 of Part III is included in our Proxy Statement relating to our 2010 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by Item 12 of Part III is included in our Proxy Statement relating to our 2010 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information required by Item 13 of Part III is included in our Proxy Statement relating to our 2010 Annual Meeting of Shareholders, and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information required by Item 14 of Part III is included in our Proxy Statement relating to our 2010 Annual Meeting of Shareholders, and is incorporated herein by reference.

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PART IV

Item 15. Exhibits

2.1	Stock Purchase Agreement dated January 26, 2007, by and among OC-Net, Inc., the stockholders of OC-Net, Inc. and the Company, incorporated by reference to the Company's Current Report on Form 8-K filed on January 29, 2007.
2.2	Asset Purchase Agreement dated April 27, 2009 by and among the Company, Channel Blade Technologies Corp., Charles Lewis and Michael Sifen, incorporated by reference to Exhibit 2.1 of the Company's Form 8-K filed May 1, 2009.
3.1	Articles of Incorporation of the Company, as amended, incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended April 30, 1999.
3.2	Articles of Amendment of the Company, incorporated herein by reference to Exhibit 3.2 of Form 8-K filed on August 18, 2003.
3.3	By-laws of the Company incorporated herein by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-l (Reg. No. 33-43148).
4.1	Non-Negotiable Secured Subordinated Promissory Note payable to Channel Blade Technologies Corp., incorporated by reference to the Company's Form 8-K filed May 1, 2009.
4.2	The Company agrees to furnish to the Commission upon request copies of any agreements with respect to long term debt not exceeding 10% of the Company's consolidated assets.
10.1*	1991 Stock Option Plan, as amended, incorporated herein by reference to Exhibit 10.2 of the Company's Form 10-Q for the quarter ended January 31, 1999.
10.2*	1993 Director Stock Option Plan, as amended, incorporated herein by reference to Exhibit 10.3 of the Company's Form 10-Q for the quarter ended January 31, 1999.
10.3	Rights Agreement dated as of August 7, 2003, between the Company and American Stock Transfer & Trust Company, as Rights Agent, incorporated herein by reference to Exhibit 10.1 of Form 8-K filed on August 18, 2003.
10.4*	Summary of Executive Bonus Arrangements (Fiscal 2007), incorporated herein by reference to Exhibit 10.8 of the Company's Form 10-KSB for the fiscal year ended July 31, 2006.
10.5 *	Summary of Executive Bonus Arrangements (Fiscal 2010).
10.6	Credit Agreement dated July 9, 2004 between the Company and Bank One, NA, incorporated by reference to exhibit 10.14 of the Company's Form 10-K for the year ended July 31, 2004.

10.7	Amendment to Credit Agreement dated February 15, 2005, between the Company and JPMorgan Chase Bank, NA, successor by merger to Bank One, NA., incorporated herein by reference to Exhibit 10.14 of the Company's Form 10-KSB for the fiscal year ended July 31, 2005.
10.8	Continuing Security Agreement dated July 9, 2004, between the Company and JPMorgan Chase Bank, NA, successor by merger to Bank One, NA., incorporated by reference to Exhibit 10.15 of the Company's Form 10-KSB for the year ended July 31, 2004.
10.9	Line of credit note dated July 9, 2004 by the Company for $500,000, incorporated by reference to exhibit 10.16 of the Company's Form 10-KSB for the year ended July 31, 2005.
10.10	Note Modification Agreement dated February 15, 2005 to the Line of Credit Note dated July 9, 2004 by the Company for $500,000, incorporated herein by reference to Exhibit 10.17 of the Company's Form 10-KSB for the fiscal year ended July 31, 2005.
10.11	Note Modification Agreement dated October 26, 2006, to the Line of Credit Note dated July 9, 2004 by the Company for $1,000,000, incorporated herein by reference to Exhibit 10.1 of the Company's Form 8-K filed on October 31, 2006.
10.12	Note Modification Agreement dated April 25, 2006 to the Line of Credit Note dated July 9, 2004 by the Company for $500,000, incorporated herein by reference to Exhibit 10.16 of the Company's Form 10-KSB for the fiscal year ended July 31, 2006.
10.13	First Amendment to Rights Agreement dated November 10, 2005, between the Company and American Stock Transfer & Trust Company, as Rights Agent, incorporated by reference to Exhibit 10.1 of Form 8-K filed on November 14, 2005.

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10.14	Amendment to Credit Agreement dated May 10, 2007, between the Company and JP Morgan Chase Bank, NA, successor by merger to Bank One, NA, incorporated by reference to the Company's Form 10-QSB for the quarter ended April 30, 2007.
10.15	Note Modification Agreement dated May 10, 2007, between the Company and JP Morgan Chase Bank, NA, successor by merger to Bank One, NA, incorporated by reference to the Company's Form 10-QSB for the quarter ended April 30, 2007.
10.16	Note Modification Agreement dated April 25, 2008, between the Company and JP Morgan Chase Bank, NA, successor by merger to Bank One, NA.
10.17	Credit Agreement Amendment dated April 6, 2009, incorporated by reference to Form 10-Q for the quarter ended April 30, 2009.
10.18	Credit Agreement Amendment dated April 8, 2010, between the Company and JP Morgan Chase Bank, NA, incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 18, 2010.
10.19*	Change of Control Agreement dated April 1, 2006 between the Company and Brian E. Dearing, incorporated by reference to Exhibit 10.1 of the Company's Form 10-QSB for the quarter ended October 31, 2007.
10.20*	Change of Control Agreement dated September 13, 2006 between the Company and Roy W. Olivier, incorporated by reference to Exhibit 10.3 of the Company's Form 10-QSB for the quarter ended October 31, 2007.
10.21*	Change of Control Agreement dated July 31, 2008 between the Company and Robert J. Hipp, incorporated by reference to Exhibit 10.24 of the Company's Form 10-K for the year ended July 31, 2008.
10.22*	Employment Agreement dated March 13, 2008 between the Company and Brian E. Dearing, incorporated by reference to Exhibit 10.1 of the Company's Form 10-QSB for the quarter ended January 31, 2008.
10.23*	Amendment to Employment Agreement between the Company and Brian E. Dearing dated May 5, 2010, incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended April 30, 2010.
10.24*	Employment Agreement dated May 1, 2008 between the Company and Roy W. Olivier, incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on May 2, 2008.
10.25*	2000 Stock Option Plan, as amended, incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q for the quarter ended April 30, 2008.
10.26*	Separation and Consulting Agreement dated June 16, 2009 between the Company and Kenneth S. Folberg, incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on June 17, 2009.

10.27*	Employment Agreement dated February 25, 2009 between the Company and Michael Tenpas, incorporated by reference to Exhibit 10.31 of the Company's Form 10-K for the year ended July 31, 2009.
10.28*	Change of Control Agreement dated July 31, 2008 between the Company and Michael Tenpas, incorporated by reference to Exhibit 10.31 of the Company's Form 10-K for the year ended July 31, 2009.
21.1	Subsidiaries of the Company.
23.1	Consent of Wipfli LLP.
24.1	Powers of Attorney appear on the signature page hereof.
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer.
32.1	Section 906 Certification of Chief Executive Officer.
32.2	Section 906 Certification of Chief Financial Officer.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 29th day of October 2010.

ARI NETWORK SERVICES, INC.

By: /s/ Roy W. Olivier
Roy W. Olivier
President and Chief Executive Officer

By: /s/
Brian E.
Dearing
Brian E.
Dearing
Chairman
of the
Board
and
Interim
Chief
Financial
Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Roy W. Olivier and Brian E. Dearing, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and his name, place and stead, in any and all capacities, to sign any and all amendments to this report and to file the same with all exhibits thereto, and other documents in connection therewith, with the Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each act and thing requisite and necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Brian E. Dearing Brian E. Dearing Chairman of the Board	October 29, 2010
/s/ Roy W. Olivier Roy W. Olivier Director	October 29, 2010
/s/ Gordon J. Bridge Gordon J. Bridge Director	October 29, 2010

/s/ Ted C. Feierstein Ted C. Feierstein Director	October 29, 2010
/s/ William C. Mortimore William C. Mortimore Director	October 29, 2010
/s/ P. Lee Poseidon P. Lee Poseidon Director	October 29, 2010

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Report of Wipfli LLP,
Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
ARI Network Services, Inc.

We have audited the accompanying consolidated balance sheets of ARI Network Services, Inc. and Subsidiaries (the Company) as of July 31, 2010 and 2009 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of July 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Wipfli LLP
Milwaukee, Wisconsin
October 29, 2010

Index

Consolidated Financial Statements

ARI Network Services, Inc.
Years ended July 31, 2010 and 2009

Index

ARI Network Services, Inc.

Consolidated Balance Sheet
(Dollars in Thousands, Except per Share Data)

	July 31 2010	July 31 2009
Current assets:		
Cash and cash equivalents	$938	$ 650
Trade receivables, less allowance for doubtful accounts of $565 and $410 at July 31, 2010 and 2009, respectively	1,359	1,352
Work in process	133	156
Prepaid expenses and other	481	321
Deferred income taxes	2,600	2,544
Total current assets	5,511	5,023
Equipment and leasehold improvements:		
Computer equipment	1,883	1,827
Leasehold improvements	506	463
Furniture and equipment	1,970	2,479
	4,359	4,769
Less accumulated depreciation and amortization	2,433	2,827
Net equipment and leasehold improvements	1,926	1,942
Capitalized software product costs:		
Amounts capitalized for software product costs	15,919	14,886
Less accumulated amortization	13,524	12,489
Net capitalized software product costs	2,395	2,397
Deferred income taxes	1,616	110
Other long term assets	63	59
Other intangible assets	2,827	3,637
Goodwill	5,439	5,439
Total assets	$19,777	$ 18,607

See accompanying notes

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ARI Network Services, Inc.
Consolidated Balance Sheet
(Dollars in Thousands, Except per Share Data)

	July 31 2010	July 31 2009
Current liabilities:		
Current borrowings on line of credit	$1,025	$500
Current portion of notes payable	-	117
Accounts payable	490	788
Deferred revenue	5,270	5,523
Accrued payroll and related liabilities	1,322	1,421
Accrued taxes	60	82
Other accrued liabilities	844	729
Current portion of capital lease obligations	192	109
Total current liabilities	9,203	9,269
Non-current liabilities:		
Notes payable	5,000	5,000
Long-term portion of accrued compensation	17	36
Capital lease obligations	338	115
Total non-current liabilities	5,355	5,151
Total liabilities	14,558	14,420
Shareholders' equity:		
Cumulative preferred stock, par value $.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding at July 31, 2010 and 2009, respectively	-	-
Junior preferred stock, par value $.001 per share, 100,000 shares authorized; 0 shares issued and outstanding at July 31, 2010 and 2009, respectively	-	-
Common stock, par value $.001 per share, 25,000,000 shares authorized; 7,768,921 and 7,693,510 shares issued and outstanding at July 31, 2010 and 2009, respectively	8	8
Common stock warrants and options	983	816
Additional paid-in-capital	95,748	95,681
Accumulated deficit	(91,507)	(92,284)
Other accumulated comprehensive loss	(13)	(34)
Total shareholders' equity	5,219	4,187
Total liabilities and shareholders' equity	$19,777	$18,607

See accompanying notes

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ARI Network Services, Inc.
Consolidated Statements of Income
(Dollars in Thousands, Except per Share Data)

	2010	2009
Net revenue	$21,484	$17,560
Cost of revenue	4,353	3,400
Gross profit	17,131	14,160
Operating expenses:		
Sales and marketing	4,786	3,419
Customer operations and support	3,469	2,785
Software development and technical support (net of capitalized software product costs)	1,415	1,534
General and administrative	4,879	4,212
Restructuring	437	-
Depreciation and amortization (exclusive of amortization of software product costs included in cost of revenue)	1,640	1,101
Net operating expenses	16,626	13,051
Operating income	505	1,109
Other income (expense):		
Interest expense	(649)	(214)
Other, net	19	(7)
Total other income (expense)	(630)	(221)
Income (loss) from continuing operations before provision for income tax	(125)	888
Income tax benefit (expense)	1,294	(123)
Income from continuing operations	1,169	765
Discontinued operations, net of tax	(392)	(341)
Net income	$777	$424
Income from continuing operations per common share:		
Basic	$0.15	$0.11
Diluted	$0.15	$0.11
Net income per common share:		
Basic	$0.10	$0.06
Diluted	$0.10	$0.06

See accompanying notes

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ARI Network Services, Inc.
Consolidated Statements of Shareholders' Equity
(Dollars in Thousands)

	Common Stock						
	Shares Issued and Outstanding	Par Value	Warrants & Options	Paid in Capital	Accumulated Deficit	Other Accumulated Comprehensive Loss	Total Shareholders' Equity
Balance July 31, 2008	6,971,927	$7	$501	$95,148	$ (92,708)	$ (52)	$ 2,896
Stock-based compensation	-	-	315	-	-	-	315
Issuance of common stock under company 401(k) plan	32,955	-	-	45	-	-	45
Issuance of common stock under executive bonus plan	8,642	-	-	8	-	-	8
Issuance of common stock from exercise of stock options	60,242	-	-	16	-	-	16
Issuance of common stock under stock purchase plan	4,359	-	-	4	-	-	4
Issuance of common stock related to acquisitions	615,385	1	-	460	-	-	461
Net Income	-	-	-	-	424	-	424
Foreign currency translation adjustments	-	-	-	-	-	18	18
Comprehensive income	-	-	-	-	424	18	442
Balance July 31, 2009	7,693,510	$8	$816	$95,681	$ (92,284)	$ (34)	$ 4,187
Stock-based compensation	-	-	167	-	-	-	167
Issuance of common stock under company 401(k) plan	58,332	-	-	52	-	-	52
	10,495	-	-	10	-	-	10

Issuance of common stock under executive bonus plan							
Issuance of common stock under stock purchase plan	6,584	-	-	5	-	-	5
Net Income	-	-	-	-	777	-	777
Foreign currency translation adjustments	-	-	-	-	-	21	21
Comprehensive income	-	-	-	-	777	21	798
Balance July 31, 2010	7,768,921	$ 8	$ 983	$ 95,748	$ (91,507)	$ (13)	$ 5,219

Shareholders' Equity Includes cumulative preferred stock, par value $.001 per share, 1,000,000 shares authorized; 0 shares issued and outstanding for all periods presented.

Shareholders' Equity includes junior preferred stock, par value $.001 per share, 100,000 shares authorized; 0 shares issued and outstanding for all periods presented.

See accompanying notes

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ARI Network Services, Inc.
Consolidated Statements of Cash Flows
(Dollars in Thousands)

	2010	2009
Operating activities		
Net income	$777	$424
Adjustments to reconcile net income to net cash provided by operating		
Amortization of software products	1,054	876
Impairment of software products	189	-
Amortization of deferred financing costs, debt discount and excess carrying value over face amount of notes payable	-	8
Depreciation and other amortization	1,640	1,054
Loss on disposal of equipment	10	47
Allowance for investment in Bank Note	-	127
Loss on disposal of discontinued operations	1	-
Provision for bad debt allowance	287	111
Deferred income taxes	(1,562)	88
Stock based compensation related to stock options	167	315
Stock issued as contribution to 401(k) plan	52	45
Net change in assets and liabilities:		
Trade receivables	(301)	124
Work in process	10	108
Prepaid expenses and other	(160)	89
Other long term assets	(4)	(5)
Accounts payable	(288)	137
Deferred revenue	(253)	(859)
Accrued payroll and related liabilities	(87)	352
Accrued taxes	(22)	2
Accrued vendor specific liabilities	-	-
Other accrued liabilities	114	(298)
Net cash provided by operating activities	1,624	2,745
Investing activities		
Purchase of equipment, software and leasehold improvements	(541)	(636)
Cash paid for goodwill and intangible assets related to acquisitions	-	(645)
Cash surrendered in disposal of discontinued operations	(10)	-
Cash paid for other net assets related to acquisitions	-	(123)
Software developed for internal use	(99)	(56)
Software development costs capitalized	(1,241)	(759)
Net cash used in investing activities	(1,891)	(2,219)
Financing activities		
Borrowings (repayments) under line of credit	525	(200)
Payments under notes payable	(117)	(684)
Proceeds from capital lease obligations incurred	300	-
Payments of capital lease obligations	(163)	(104)
Proceeds from issuance of common stock	5	20
Net cash provided by (used in) financing activities	550	(968)
Effect of foreign currency exchange rate changes on cash	5	6
Net change in cash and cash equivalents	288	(436)

Cash and cash equivalents at beginning of period	650	1,086
Cash and cash equivalents at end of period	$938	$650
Cash paid for interest	$474	$211
Cash paid for income taxes	$89	$28
Noncash investing and financing activities		
Capital lease obligations incurred for computer equipment	$170	$-
Accrued liabilities related to purchase of computer equipment	-	86
Issuance of common stock in connection with acquisitions	-	461
Debt issued in connection with acquisitions	-	5,000
Accrued liabilities assumed in connection with acquisitions	-	1,691
Net current assets and liabilities surrendered in sale of discontinued operations	9	-
Issuance of common stock related to payment of executive compensation	10	8

See accompanying notes

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ARI Network Services, Inc.

Notes to Consolidated Financial Statements

1. Description of the Business and Significant Accounting Policies

Description of the Business

ARI Network Services, Inc. ("ARI") provides technology-enabled services that help dealers, distributors and manufacturers worldwide enhance revenue and reduce costs. Our technology-enabled services allow customers in a service or distribution network to: (i) conveniently reference parts, service bulletins and other technical information; (ii) manage and nurture customers and prospects; (iii) efficiently market to their customers and prospects; and (iv) increase revenues by selling products online. We deliver our services to companies of all sizes across a dozen vertical markets, with a core emphasis on the outdoor power, power sports, marine, RV, and appliance sectors. Approximately 18,000 equipment dealers, 125 manufacturers, and 150 distributors worldwide leverage our technology to drive revenue, gain efficiencies and increase customer satisfaction. We also develop and offer electronic catalog content for approximately 125 leading equipment manufacturers.

Our principal executive office and headquarters is located in Milwaukee, Wisconsin. The office address is 10850 West Park Place, Suite 1200, Milwaukee, WI 53224, and our telephone number at that location is (414) 973-4300. Our principal website address is www.arinet.com.

Basis of Presentation

These consolidated financial statements include the financial statements of ARI and its wholly owned subsidiaries. We have eliminated all significant intercompany balances and transactions in consolidation. Certain reclassifications were made to amounts previously reported in our financial statements, including interim reports on Form 10-Q, in order to conform to the current presentation. These reclassifications include: (i) shifting the results of our discontinued operation out of income from continuing operations; (ii) reclassifying product management and design costs from sales and marketing to software development and technical support; and (iii) reclassifying certain components of deferred tax assets from long term to short term.

In fiscal 2009 ARI acquired Channel Blade Technologies, Inc. ("Channel Blade"). We have included the results of operations for Channel Blade in our consolidated results of operations from the date of acquisition. In fiscal 2009, ARI F&I Services, LLC ("AFIS"), a wholly-owned subsidiary of ARI, acquired Powersports Outsourcing Group ("PSOG"). AFIS was subsequently sold on July 27, 2010. The results of AFIS have been reported as a discontinued operation.

Fiscal Year

Our fiscal year ends on July 31. References to fiscal 2010, for example, refer to the fiscal year ending July 31, 2010, and references to fiscal 2009 refer to the fiscal year ending July 31, 2009.

Foreign Currency Translation

The functional currency of the Company's subsidiary in the Netherlands is the Euro; accordingly, monetary assets and liabilities are translated into U.S. dollars at the rate of exchange existing at the end of the period, and non-monetary assets and liabilities are translated into U.S. dollars at historical exchange rates. Income and expense amounts, except for those related to assets translated at historical rates, are translated at the weighted-average exchange rates during the

period. Adjustments resulting from the re-measurement of the financial statements into the functional currency are charged or credited to comprehensive income (loss).

Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the U.S. ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Company considers capitalization and amortization of software product costs, valuation of intangible assets, accruals for anticipated losses on projects, and the deferred tax valuation allowance to be significant estimates that are subject to change in the near term.

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Changes in Accounting Estimates

During fiscal 2010 and fiscal 2009, the Company had a change in its estimated valuation allowance related to deferred tax assets due to ongoing revisions and evaluations of the estimated future expected results of operations. The difference between the amounts previously recorded as a valuation allowance and the amount currently recorded was charged to income tax expense, as more fully discussed in Note 11. The amount of this change in accounting estimate was income of $1,402,000, or $0.18 per basic and diluted common share in fiscal 2010, and expense of approximately $88,000, or $0.01 per basic and diluted common share, in fiscal 2009.

Concentrations

We currently maintain cash deposits in bank accounts in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company had cash deposits in excess of the FDIC insurance coverage of $800,000 and $400,000 as of July 31, 2010 and 2009, respectively. These cash deposits are exposed to loss in the event of nonperformance by the financial institution.

No single customer accounted for 10% or more of ARI's revenue in fiscal 2010 or fiscal 2009.

Revenue Recognition

Revenue for use of the network and for information services is recognized on a straight-line basis over the period of the contract.

Revenue from annual or periodic maintenance fees is recognized ratably over the period the maintenance is provided. Revenue from catalog subscriptions is recognized on a straight-line basis over the subscription term.

Revenue from software licenses, which is included in multiple element arrangements, is recognized ratably over the contractual term of the arrangement. ARI considers all arrangements with payment terms extending beyond twelve months not to be fixed or determinable and evaluates other arrangements with payment terms longer than normal to determine whether the arrangement is fixed or determinable. If the fee is not fixed or determinable, revenue is recognized as payments become due from the customer. Arrangements that include acceptance terms beyond the standard terms are not recognized until acceptance has occurred. If collectability is not considered probable, revenue is recognized when the fee is collected.

Arrangements that include professional services are evaluated to determine whether those services are essential to the functionality of other elements of the arrangement. Types of services that are considered essential to software license arrangements include customizing complex features and functionality in a product's base software code or developing complex interfaces within a customer's environment. When professional services are considered essential to software license arrangements, revenue under the arrangement is recognized pursuant to contract accounting using the percentage-of-completion method with progress-to-completion measured based upon labor hours incurred. Professional services revenue for set-up and integration of hosted websites, or other services considered essential to the functionality of other elements of this type of arrangement, is amortized over the term of the contract. When professional services are not considered essential, the revenue allocable to the professional services is recognized as the services are performed. When the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is made in the period the amount is determined.

Revenue for variable transaction fees, primarily for use of the shopping cart feature of our websites, is recognized as it is earned.

Amounts invoiced to customers prior to recognition as revenue as discussed above are reflected in the accompanying balance sheets as deferred revenue.

In conjunction with our acquisition of Channel Blade, we incurred a deferred revenue liability of approximately $1,310,000 related to setup fees charged for hosted websites. The deferred revenue liability is being amortized over the terms of the customer contracts, of which approximately $48,000 is remaining as of July 31, 2010. Approximately $800,000 and $462,000 of the Channel Blade deferred revenue was recognized during fiscal 2010 and fiscal 2009, respectively.

Revenue received from shipping and handling fees is reflected in net revenue. Costs incurred for shipping and handling are reported in cost of revenue.

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Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Our investment policy, as approved by the Board of Directors, is designed to provide preservation of capital, adequate liquidity to meet projected cash requirements, optimum yields in relationship to risk, market conditions and tax considerations and minimum risk of principal loss through diversified short and medium term investments. Eligible investments include direct obligations of the U.S. Treasury, obligations issued or guaranteed by the U.S. government, certain time deposits, certificates of deposits issued by commercial banks, money market mutual funds, asset backed securities and municipal bonds. Our current investments include money market mutual funds with terms not exceeding ninety days.

Trade Receivables, Credit Policy and Allowance for Doubtful Accounts

Trade receivables are uncollateralized customer obligations due on normal trade terms, most of which require payment within 30 days from the invoice date. Payments of trade receivables are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of trade receivables is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all receivable balances that exceed 60 days from the invoice date and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. The allowance for potential credit losses is reflected as an offset to trade receivables in the accompanying balance sheets.

Work in Process

Work in process consists of billable professional services performed by the Company, for which revenue was recognized pursuant to contract accounting primarily using the percentage-of-completion method with progress-to-completion measured based upon labor hours incurred, which have not been invoiced as of the end of the reporting period.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at cost. Depreciation and amortization are computed under the straight-line method for financial reporting purposes and accelerated methods for income tax purposes. Depreciation and amortization have been provided over the estimated useful lives of the assets as follows:

Computer equipment	3 – 7 years
Leasehold improvements	2 – 7 years
Furniture and equipment	3 – 5 years

Leasehold improvements are amortized over the useful lives of the assets or the term of the related lease agreement, whichever is shorter. During fiscal 2010 and fiscal 2009, the Company disposed of equipment and leasehold improvements with a cost basis of $1,220,000 and $5,309,000, respectively and recorded a loss on disposal of $10,000 and $47,000, respectively.

Capitalized and Purchased Software Product Costs

Certain software development and acquisition costs are capitalized when incurred. Capitalization of these costs begins upon the establishment of technological feasibility. The establishment of technological feasibility and the on-going assessment of recoverability of software costs require considerable judgment by management with respect to certain external factors, including, but not limited to, the determination of technological feasibility, anticipated future gross revenues, estimated economic life and changes in software and hardware technologies.

The annual amortization of software products is the greater of the amount computed using: (a) the ratio that current gross revenues for the network or a software product bear to the total of current and anticipated future gross revenues for the network or a software product, or (b) the straight-line method over the estimated economic life of the product which currently runs from three to five years. Amortization starts when the product is available for general release to customers. All other software development and support expenditures are charged to expense in the period incurred.

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Capitalized Interest Costs

Capitalized interest costs were immaterial as a whole to the financial statements in fiscal 2010 and 2009.

Insurance Premiums Receivable

The Company is the beneficiary of the total premiums it paid on a split-dollar life insurance policy at the death of the policy holder. Insurance premiums receivable are recorded at present value based on the average life expectancy of the policy holder and are included in other long term assets. Insurance premiums receivable consisted of $63,000 and $59,000 at July 31, 2010 and 2009, respectively, which is the present value of future life insurance premiums receivable of approximately $237,000 discounted at an average rate of 9% and averaged over 14 to 17 years.

Impairment of Long-Lived Assets

In accordance with GAAP, capitalized software product costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and carrying value of the asset or group of assets. Such analyses necessarily involve judgment. We evaluated the ongoing value of our long-lived assets as of July 31, 2010 and 2009. In fiscal 2010 we incurred an impairment charge of $48,000 on capitalized software, with a cost basis of $208,000, which was disposed of, and an additional impairment charge of $141,000 on assets that are still in use. These impairment charges are included in restructuring costs on the statement of operations. We did not incur any software impairment charges in fiscal 2009.

Fair Value Measurements

GAAP has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions. The asset's or liability's fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

We have a limited number of financial instruments which are measured at fair value on a recurring basis. Unrealized gains and losses on items for which the fair value option has been elected are recognized in earnings. In fiscal 2009, we incurred a loss of $127,000 related to a note receivable as a result of a fair market valuation as follows (in thousands):

	2010	2009
Fair value measurements using:		
Level 1 inputs: quoted prices in active markets for identical assets	$ -	$ -
Level 2 inputs: significant other observable inputs	-	-
Level 3 inputs: significant unobservable	-	-

inputs		
Total fair value	$ -	$ -
Total loss recognized	$ -	$ 127

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ARI also measures non-financial instruments at fair value on a non-recurring basis as required by GAAP. Gains and losses on items which were measured at fair market value on a non-recurring basis were recognized in earnings. In fiscal 2010, we incurred a loss of $189,000 related to impairment of certain software products as follows (in thousands):

	2010	
Fair value measurements using:		
Level 1 inputs: quoted prices in active markets for identical assets	$	-
Level 2 inputs: significant other observable inputs		-
Level 3 inputs: significant unobservable inputs		2,395
Total fair value	$	2,395
Total loss recognized	$	189

Goodwill and Other Intangible Assets

GAAP requires that we assess goodwill for impairment annually, or more frequently if circumstances warrant a review. Certain triggering events that may warrant a more frequent impairment test include a significant change in the business climate, legal factors, a decline in operating performance, competition, sale or disposition of a significant portion of the business, or other factors. We tested for goodwill impairment at July 31, 2010 and 2009.

We test goodwill for impairment using a two-step process, as prescribed by GAAP. The first step of the test is used to identify potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

We determined that there is a single reporting unit for the purpose of goodwill impairment tests. We estimate the fair value of the reporting unit using various valuation techniques, with the primary technique being a discounted cash flow analysis. There are many estimates and assumptions involved in preparing a discounted cash flow analysis, including most significantly the weighted average cost of capital ("WACC") used to discount future cash flows, anticipated long-term growth rates, and future profit margins. Management uses its best efforts to reasonably estimate all of these and other inputs in the cash flow models utilized. We estimated future cash flows using two forecast scenarios and management used its best judgment to assign a weighting to each scenario. Step 1 of the goodwill impairment test indicated that goodwill was not impaired in fiscal 2010 or fiscal 2009. As a result, step 2 of the test was not performed.

Impairment tests are also performed for those intangible assets with estimable useful lives when circumstances warrant testing for impairment. Intangible assets with estimable useful lives consist primarily of customer relationships and trade names, which are amortized over their estimated useful lives of 4-8 years, and employee non-compete agreements, which are amortized over their estimated useful lives of two years. There were no impairments to intangible assets with estimable useful lives in fiscal 2010 or fiscal 2009.

Deferred Income Taxes

The tax effect of the temporary differences between the book and tax bases of assets and liabilities and the estimated tax benefit from tax net operating losses is reported as deferred tax assets and liabilities in the balance sheet. An assessment of the likelihood that net deferred tax assets will be realized from future taxable income is performed semi-annually or when events or changes in circumstances indicate that there may be a change in the valuation allowance. Because the ultimate realizability of deferred tax assets is highly subject to the outcome of future events, the amount established as valuation allowance is considered to be a significant estimate that is subject to change in the near term. To the extent a valuation allowance is established or there is a change in the allowance during a period, the change is reflected with a corresponding increase or decrease in the tax provision in the income statement.

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Stock-Based Compensation

ARI uses the Black-Scholes model to value stock options granted. Expected volatility is based on historical volatility of the Company's stock. The expected life of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual term of the options is based on the U.S. Treasury yields in effect at the time of grant. As stock-based compensation expense recognized in our results of operations is based on awards ultimately expected to vest, the amount has been reduced for estimated forfeitures, which were estimated based on our historical experience.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs were $132,000 and $74,000 in fiscal 2010 and fiscal 2009, respectively.

Comprehensive Income (Loss)

Comprehensive income is a more inclusive financial reporting method that includes disclosure of financial information that historically has not been recognized in the calculation of net income. We reported comprehensive income, which includes net income and foreign currency translation adjustments, in the Consolidated Statements of Shareholders' Equity for fiscal 2010 and fiscal 2009.

Legal Provisions

ARI is periodically involved in legal proceedings arising from contracts, patents or other matters in the normal course of business. We reserve for any material estimated losses if the outcome is probable, in accordance with GAAP. We had no legal provisions in fiscal 2010 or fiscal 2009.

Recently Adopted Accounting Standards

In February 2010 the Financial Accounting Standards Board ("FASB") amended ASC Topic 855, Subsequent Events. The amendment does not change the definition of a subsequent event (i.e. an event or transaction that occurs after the balance sheet date but before the financial statements are issued) but requires SEC filers to evaluate subsequent events through the date that its financial statements are issued. The new standard was effective immediately and we adopted these new requirements in fiscal 2010.

In December 2009 the FASB amended guidance related to fair value measurements and disclosures, which was effective beginning with the fiscal quarter ended April 30, 2010. These amendments prescribe new disclosures and clarify certain existing disclosure requirements related to fair value measurements. The objective of the amendments was to improve these disclosures and, thus, increase the transparency in financial reporting. The adoption of these amendments did not have a material impact on our consolidated financial statements.

In June 2009 the FASB issued ASC 105, Generally Accepted Accounting Principles, effective for interim and annual reporting periods ending after September 15, 2009. This statement established the Accounting Standards Codification (the "Codification") as the single official source of authoritative accounting principles used in the preparation of financial statements in conformity with GAAP. The Codification does not replace or affect guidance issued by the SEC or its staff. The Company adopted ASC 105 on beginning with its fiscal quarter ended October 31, 2009. Since ASC 105 does not change GAAP, adoption of ASC 105 did not impact the results of operations, financial position or cash flows of the Company. Rather, the references to authoritative accounting pronouncements included herein now refer to the Codification topic section rather than a specific accounting rule, as was past practice.

In December 2007, the FASB issued ASC 805, Business Combinations. This standard became effective for ARI business combinations on, or after, the beginning of the first annual reporting period beginning on August 1, 2009. This standard requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. This standard was adopted on August 1, 2009. The adoption did not have a material impact on our consolidated financial statements for fiscal 2010.

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New Accounting Pronouncements

In October 2009, the FASB amended guidance related to revenue recognition for software with multiple elements that will become effective for the Company beginning August 1, 2010. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB amended guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. We are evaluating the potential impact of adopting these standards on the consolidated financial statements for fiscal 2011 and beyond.

Other recently issued accounting pronouncements are not believed by management to have a material impact on our present or future financial statements.

2. Basic and Diluted Net Income per Common Share

Basic net income per common share is computed by dividing net income by the basic weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period and reflects the potential dilution that could occur if all of ARI's outstanding stock options and warrants that are in the money were exercised (calculated using the treasury stock method).

The following table is a reconciliation of basic and diluted net income per common share for fiscal 2010 and fiscal 2009 (in thousands, except per share data):

		2010		2009
Income from continuing operations	$	1,169	$	765
Loss from discontinued operations		(392)		(341)
Net income	$	777	$	424
Weighted-average common shares outstanding		7,751		7,203
Effect of dilutive stock options and warrants		15		25
Diluted weighted-average common shares outstanding		7,766		7,228
Earnings per share - basic:				
Income from continuing operations	$	0.15	$	0.11
Loss from discontinued operations		(0.05)		(0.05)
Net income	$	0.10	$	0.06
Earnings per share - diluted:				
Income from continuing operations	$	0.15	$	0.11
Loss from discontinued operations		(0.05)		(0.05)
Net income	$	0.10	$	0.06
		1,504		1,394

Options and warrants that could potentially dilute net income per share in the future that are not included in the computation of diluted net income per share, as their impact is anti-dilutive	

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3. Capitalized and Purchased Software Product Costs

The balance of capitalized and purchased software product costs consisted of the following (in thousands):

	Software Product Costs	Accumulated Amortization	Net Value
Balance 7/ 31/ 08	$ 13,209	$ (11,613)	$ 1,596
Capitalized costs	759		759
Acquisitions	918		918
Amortization expense		(876)	(876)
Balance 7/ 31/ 09	$ 14,886	$ (12,489)	$ 2,397
Capitalized costs	1,241		1,241
Disposals	(208)	208	-
Impairments		(189)	(189)
Amortization expense		(1,054)	(1,054)
Balance 7/31/10	$ 15,919	$ (13,524)	$ 2,395

The estimated aggregate amortization expense for each of the five succeeding fiscal years related to capitalized and purchased software product costs consist of the following at July 31, 2010 (in thousands):

2011	$ 961
2012	787
2013	513
2014	90
2015	44
	$ 2,395

4. Notes Payable

Notes payable consisted of the following at July 31, 2010 and 2009 (in thousands):

	2010	2009
Notes payable	$ 5,000	$ 5,117
Less current maturities	-	117
Notes payable - non-current	$ 5,000	$ 5,000

We issued a $5,000,000 secured promissory note in connection with the April 27, 2009 acquisition of Channel Blade. The annual interest rate on the note was 10% for the first year and 14% thereafter. If we had pre-paid a minimum principal amount of $3,000,000 on or before April 27, 2010, the interest rate would have remained at 10% for the remainder of the note's term. Accrued interest only is due quarterly commencing July 31, 2009 through April 30, 2011. Twenty equal quarterly payments, which will include principal and interest, will then be due, commencing August 1, 2011.

Principal payments due on the Channel Blade note payable are as follows (in thousands):

2011	$ -
2012	948
2013	885

2014	1,016
2015	1,165
2016	986
	$ 5,000

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We issued $700,000 of notes and $400,000 of future non-interest bearing contingent payments in connection with the January 26, 2007 acquisition of OC-Net, Inc. As of July 31, 2010, all outstanding amounts due on the note and all contingent payments have been made.

5. Acquisitions

On April 17, 2009, AFIS acquired the assets of PSOG, valued at approximately $85,000, in partial satisfaction of its debt to ARI of approximately $185,000. This debt consisted of a note with a face value of $149,000, which was purchased from Keybank National Association on April 16, 2009 for $125,000 and an additional loan from ARI of $36,000. PSOG, located in Schenectady, NY and then led by Mark L. Taylor, had been offering outsourced F&I services to power sports, marine and RV customers in the Northeast United States since 1998.

We allocated the acquisition of the PSOG assets as follows (in thousands):

Cash	$	37
Accounts receivable		37
Other assets		2
Notes receivable		127
Total assets		203
Accounts payable		39
Payroll related accruals		3
Total liabilities		42
Net assets acquired	$	161

Subsequent to April 16, 2009, we deemed the fair value of the PSOG note receivable to be $0 and recorded a valuation adjustment of approximately $127,000 in the fiscal 2009 results from operations.

On July 27, 2010 we sold AFIS to F&I Smart LLC in a membership interest sale agreement (the "Subject Interests"). The sales price of the Subject Interests is a contingent amount based on dealer revenue beginning July 28, 2010 and ending on August 28, 2013. We have not accrued for any future contingent proceeds as we are not able to estimate the amounts at this time. We recognized a $1,000 loss on the sale of AFIS in the fourth quarter of fiscal 2010. Refer to Note 14 for further discussion of our discontinued operation.

On April 27, 2009, we acquired substantially all of the assets of Channel Blade, the leading provider of websites, lead management and marketing automation solutions in the marine and RV markets. The acquisition makes ARI a marine industry leader with enhanced opportunities for growth. Consideration for the acquisition included approximately $500,000 in cash, 615,385 shares of common stock at a market price of $0.75 per share, $765,000 of assumed net liabilities and a $5,000,000 note payable.

The purchase price of this acquisition was allocated to the following specific assets and liabilities acquired based on the fair value of those identified tangible and intangible assets and liabilities as determined by an independent valuation (in thousands):

Accounts receivable	$	253
Prepaid taxes		17
Equipment		613
Software		918
Goodwill		3,243

Other intangible assets	2,712
Total assets	7,756
Accounts payable	242
Deferred revenue	1,311
Accrued payroll and related liabilities	95
Total liabilities	1,648
Net assets acquired	$ 6,108

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Other intangible assets include trade names, customer relationships and employee non-compete agreements, which are amortized over 5, 8 and 2 years, respectively. Capitalized software product costs are amortized over 4.1 years. The goodwill recognized as part of the accounting for the acquisition relates to Channel Blade's knowledge of and penetration into the marine and RV vertical markets.

In connection with the acquisition, we entered into one year employment agreements with Jon Lintvet and Charles Lewis to serve as Director of New Business Development and Director of Strategic Accounts - Marine and RV, respectively. The employment agreements expired and both Mr. Lintvet and Mr. Lewis remain employees of the Company.

The following table shows the unaudited pro forma results of operations for fiscal 2009, which assumes the Channel Blade acquisition occurred as of August 1, 2008 (in thousands, except per share data):

	Unaudited 2009
Revenues	$ 20,998
Cost of revenues	4,084
Gross profit	16,914
Net operating expenses	16,838
Operating income	76
Interest expense	(739)
Other expense, net	(7)
Loss from continuing operations before provision for income taxes	(670)
Income tax benefit (provision)	(123)
Loss from continuing operations	(793)
Discontinued operations	(341)
Net loss	$ (1,134)
Average common shares outstanding:	
Basic	7,780
Diluted	7,780
Loss from continuing operations per common share:	
Basic	$ (0.10)
Diluted	$ (0.10)
Net loss per share:	
Basic	$ (0.15)
Diluted	$ (0.15)

This pro forma information does not purport to be indicative of the results that actually would have been obtained if the combined operations had been conducted during the periods presented and is not intended to be a projection of future results. We have not disclosed separately Channel Blade's revenue and earnings included within the

consolidated financial statements. Disclosure of these amounts was deemed impractical as we have fully integrated into our operations the accounting for the revenues and earnings of Channel Blade.

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6. Other Intangible Assets

Amortizable intangible assets include customer relationships, trade names and employee non-compete agreements. Amortizable intangible assets are composed of the following at July 31, 2010 and 2009 (in thousands):

	Customer Relationships	Trade Names	Non-Compete Agreements	Total
Net value 7/31/08	$ 1,396	$ -	$ -	$ 1,396
Additions	2,274	252	186	2,712
Amortization	(435)	(13)	(23)	(471)
Net value 7/31/09	3,235	239	163	3,637
Additions	-	-	-	-
Amortization	(667)	(50)	(93)	(810)
Net value 7/31/10	$ 2,568	$ 189	$ 70	$ 2,827
Weighted average remaining useful life	5.48	3.75	0.75	5.25

The estimated amortization expense related to intangible assets for the years subsequent to July 31, 2010 is as follows (in thousands):

2011	$ 787
2012	602
2013	335
2014	322
2015	284
2016	284
2017	213
	$ 2,827

7. Capital and Operating Leases

The Company leases office space and certain office equipment under operating lease arrangements expiring through 2021. The Company is generally liable for its share of increases in the landlord’s direct operating expenses and real estate taxes related to these leases. Total rental expense for the operating leases was $738,000 in fiscal 2010 and $554,000 in fiscal 2009, respectively. An additional $131,000 of rent costs were incurred in fiscal 2009 but were accrued in fiscal 2008 related to our fiscal 2008 restructuring.

Where applicable, rent expense for leased offices is recognized on a straight-line basis over the lease terms, which differ from the pattern of payments required by the leases. Other accrued liabilities included $233,000 and $0 of deferred rent at July 31, 2010 and 2009, respectively. As more fully discussed in Note 13, we recorded a restructuring liability for estimated net future lease costs associated with closed offices. The remaining balance of this restructuring liability was $80,000 and $93,000 as of July 31, 2010 and 2009, respectively, which were included in the future minimum lease schedules.

ARI leases approximately 16,300 square feet of office space located at 10850 West Park Place, Milwaukee, Wisconsin 53224. Commencement of the lease occurred on July 17, 2009 and the lease expires July 17, 2021. Over the twelve year lease agreement, annual base rent of $149,000 increases approximately 2.9% per year. Rent abatement was negotiated for the first fifteen months, and saved us approximately $187,000. Annual projected operating costs and taxes, which are subject to change, are currently $8.52 per square foot.

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We have certain equipment and leasehold improvements with capital lease obligations of (in thousands):

Fiscal Year Ending July 31:	2010	2009
Equipment and leasehold improvements	$ 803	$ 335
Less: accumulated depreciation (1)	271	103
Total cost of equipment and leasehold improvements with outstanding capital lease obligations	$ 532	$ 232

(1) amortization of leased equipment and leasehold improvements is included in depreciation and amortization expense

Minimum lease payments under remaining capital and operating leases are as follows (in thousands):

Fiscal Year Ending July 31:	Capital Leases	Operating Leases
2011	$ 237	$ 666
2012	165	375
2013	161	361
2014	60	363
2015	-	353
Thereafter	-	1,982
Total minimum lease payments	623	4,100
Less amounts related to interest	93	-
Net minimum lease payments	$ 530	$ 4,100

8. Line of Credit

On July 9, 2004, we entered into a line of credit agreement with JPMorgan Chase, N.A. which, as amended, permits us to borrow an amount equal to 80% of the book value of all eligible accounts receivable plus 45% of the value of all eligible open renewal orders (provided the renewal rate is at least 85%) minus $75,000, up to $2,000,000. Eligible accounts include certain non-foreign accounts receivable which are outstanding for fewer than 90 days from the invoice date.

The agreement bears interest at 1% per annum above the prime rate (effective rate of 4.25% as of July 31, 2010) plus an additional 3%, at the bank's option, upon the occurrence of any default under the note. The interest rate is subject to

a floor equal to the sum of (i) 2.5%; plus (ii) the quotient of: (a) the one month LIBOR rate divided by (b) one minus the maximum aggregate reserve requirement imposed under Regulation D of the Board of Governors of the Federal Reserve System (effective floor of 2.8% as of July 31, 2010). The agreement includes a non-usage fee of 0.25% per annum on any unused portion of the line of credit. The line of credit terminates June 30, 2012 and is secured by substantially all of the Company's assets. The line of credit limits repurchases of common stock, the payment of dividends, liens on assets and new indebtedness. It also contains a financial covenant requiring us to maintain a minimum debt service coverage ratio of 1.2 to 1.0, with which we were in compliance at July 31, 2010. There was $1,025,000 and $500,000 principal outstanding on the line of credit at July 31, 2010 and July 31, 2009, respectively. There was $975,000 remaining and eligible per the terms of the agreement on the line of credit at July 31, 2010.

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9. Shareholder Rights Plan

On August 7, 2003, we adopted a Shareholder Rights Plan designed to protect the interests of common shareholders from an inadequate or unfair takeover, but not affect a takeover proposal which the Board of Directors believes is fair to all shareholders. Under the Shareholder Rights Plan adopted by the Board of Directors, all shareholders of record on August 18, 2003 received one Preferred Share Purchase Right for each share of common stock they owned. These Rights trade in tandem with the common stock until and unless they are triggered. Should a person or group acquire more than 10% of ARI's common stock (or if an existing holder of 10% or more of the common stock were to increase its position by more than 1%), the Rights would become exercisable for every shareholder except the acquirer that triggered the exercise. The Rights, if triggered, would give the rest of the shareholders the ability to purchase additional stock of ARI at a substantial discount. The rights will expire on August 18, 2013, and can be redeemed by the Company for $0.01 per Right at any time prior to a person or group becoming a 10% shareholder.

10. Stock-based Compensation Plans

Total stock compensation expense in fiscal 2010 and fiscal 2009 was approximately $167,000 and $315,000, respectively. As of July 31, 2010 and 2009, there was approximately $134,000 and $224,000, respectively, of total unrecognized compensation cost related to non-vested options granted under the plans.

The weighted average assumptions in the following table were used to estimate the fair value of options granted:

	2010	2009
Expected life (years)	10 years	10 years
Risk-free interest rate	3.6 %	3.5 %
Expected volatility	93.5 %	77.2 %
Expected forfeiture rate	16.0 %	13.2 %
Expected dividend yield	0.0 %	0.0 %

Employee Stock Purchase Plans

ARI's 2000 Employee Stock Purchase Plan has 175,000 shares of common stock reserved for issuance, and 165,265 of the shares have been issued as of July 31, 2010. All employees of the Company, other than executive officers, with nine months of service are eligible to participate. Shares may be purchased at the end of a specified period at the lower of 85% of the market value at the beginning or end of the specified period through accumulation of payroll deductions, not to exceed 5,000 shares per employee per year.

1991 Stock Option Plan

Our 1991 Stock Option Plan ("1991 Plan") was terminated on August 14, 2001, except as to outstanding options. Options granted under the 1991 Plan may be either: (a) options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the Code), or (b) nonqualified stock options. Any incentive stock option that was granted under the 1991 Plan could not be granted at a price less than the fair market value of the stock on the date of grant (or less than 110% of the fair market value in the case of holders of 10% or more of the voting stock of the Company). Nonqualified stock options were allowed to be granted at the exercise price

established by the Compensation Committee, which could be less than, equal to or greater than the fair market value of the stock on the date of grant.

Each option granted under the 1991 Plan is exercisable for a period of ten years from the date of grant (five years in the case of a holder of more than 10% of the voting stock of the Company) or such shorter period as determined by the Compensation Committee and shall lapse upon the expiration of said period, or earlier upon termination of the participant's employment with the Company.

At its discretion, the Compensation Committee may require a participant to be employed by ARI for a designated number of years prior to exercising any options. The Committee may also require a participant to meet certain performance criteria, or that the Company meets certain targets or goals, prior to exercising any options.

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Changes in option shares under the 1991 Plan are as follows:

	Number of Options	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Period (Years)	Aggregate Instrinsic Value
Outstanding and exercisable at 7/31/08	93,186	$ 2.27	1.23	$ -
Granted	-	n/a	n/a	n/a
Exercised	-	n/a	n/a	n/a
Forfeited	(57,686)	2.18	n/a	n/a
Outstanding and exercisable at 7/31/09	35,500	$ 2.43	$ 1.09	$ -
Outstanding and exercisable at 7/31/09	35,500	$ 2.43	1.09	$ -
Granted	-	n/a	n/a	n/a
Exercised	-	n/a	n/a	n/a
Forfeited	(500)	9.06	n/a	n/a
Outstanding and exercisable at 7/31/10	35,000	$ 2.33	0.10	$ -

The range of exercise prices for options outstanding at July 31, 2010 was $2.06 to $2.44 and at July 31, 2009 was $2.06 to $9.06.

1993 Director Stock Option Plan

ARI’s 1993 Director Stock Option Plan (“Director Plan”) has expired and is terminated except for outstanding options. The Director Plan originally had 150,000 shares of common stock reserved for issuance to non-employee directors. Options under the Director Plan were granted at the fair market value of the stock on the grant date. Each option granted under the Director Plan is exercisable one year after the date of grant and cannot be exercised later than ten years from the date of grant.

Changes in option shares under the Director Plan are as follows:

	Number of Options	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Period (Years)	Aggregate Instrinsic Value
Outstanding and exercisable at 7/31/08	1,313	$ 2.65	1.97	$ -
Granted	-	n/a	n/a	n/a
Exercised	-	n/a	n/a	n/a
Forfeited	-	n/a	n/a	n/a
Outstanding and exercisable at 7/31/09	1,313	$ 2.65	0.97	$ -
Outstanding and exercisable at 7/31/09	1,313	$ 2.65	0.97	$ -
Granted	-	n/a	n/a	n/a
Exercised	-	n/a	n/a	n/a
Forfeited	(563)	3.46	n/a	n/a
Outstanding and exercisable at 7/31/10	750	$ 2.05	0.08	$ -

The range of exercise prices for options outstanding was $2.00 to $2.13 at July 31, 2010 and $2.00 to $3.56 at July 31, 2009.

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2000 Stock Option Plan

Our 2000 Stock Option Plan ("2000 Plan") has 1,950,000 shares of common stock authorized for issuance. Options granted under the 2000 Plan may be either: (a) options intended to qualify as incentive stock options under Section 422 of the Code, or (b) nonqualified stock options.

Any incentive stock option that is granted under the 2000 Plan may not be granted at a price less than the fair market value of the stock on the date of the grant (or less than 110% of the fair market value in the case of a participant who is a 10% shareholder of the Company within the meaning of Section 422 of the Code). Nonqualified stock options may be granted at the exercise price established by the Compensation Committee.

Each incentive stock option granted under the 2000 Plan is exercisable for a period of not more than ten years from the date of grant (five years in the case of a participant who is 10% shareholder of the Company). Nonqualified stock options do not have this restriction.

Stock-based compensation expense is recognized in our results of operations over the vesting period, which is typically four years for nonqualified stock options.

Eligible participants include current and prospective employees, non-employee directors, consultants or other persons who provide services to the Company and whose performance, in the judgment of the Compensation Committee or management of the Company, can have a significant effect on the success of the Company. Changes in option shares under the 2000 Plan are as follows:

	Number of Options		Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Period (Years)		Aggregate Instrinsic Value
Outstanding at 7/ 31/ 08	1,380,538	$	1.51	7.36	$	150,967
Granted	150,250		1.06	n/a		n/a
Exercised	(60,242)		0.26	n/a		n/a
Forfeited	(257,144)		1.52	n/a		n/a
Outstanding at 7/31/09	1,213,402	$	1.51	7.08	$	21,337
Exercisable at 7/31/09	871,626	$	1.55	6.35	$	21,328
Outstanding at 7/ 31/ 09	1,213,402	$	1.51	7.08	$	21,337
Granted	210,250		0.82	n/a		n/a
Exercised	-		n/a	n/a		n/a
Forfeited	(153,671)		1.35	n/a		n/a
Outstanding at 7/31/10	1,269,981	$	1.41	6.48	$	13,319
Exercisable at 7/31/10	987,453	$	1.51	5.82	$	13,117

The range of exercise prices for options outstanding at July 31, 2010 and 2009 was $0.15 to $2.74

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Changes in non-vested option shares under the 2000 Plan are as follows:

	Number of Options	Wtd. Avg. Exercise Price
Non-vested at 7/31/08	443,335	$ 1.76
Granted	150,250	1.06
Vested	(195,622)	1.47
Forfeited	(56,187)	1.54
Non-vested at 7/31/09	341,776	$ 1.40
Non-vested at 7/31/09	341,776	$ 1.40
Granted	210,250	0.82
Vested	(196,812)	1.27
Forfeited	(72,686)	1.23
Non-vested at 7/31/10	282,528	$ 1.09

The weighted average remaining vesting period was 2.19 years at July 31, 2010

Stock Warrants

On April 24, 2003, in exchange for previously outstanding securities, we issued to a group of investors warrants for 250,000 common shares, exercisable at $1.00 per share that expire on December 21, 2010.

11. Income Taxes

The provision for income taxes is composed of the following (in thousands):

	2010	2009
Current:		
Federal	$ -	$ 6
State	6	29
Change in the beginning deferred tax asset valuation allowance	(1,402)	(502)
Deferred, net	102	590
Income tax (benefit) expense from continuing operations	$ (1,294)	$ 123
Income tax benefit from discontinued operations	$ (262)	$ -

Provision for income taxes is based on taxes payable under currently enacted tax laws and an analysis of temporary differences between the book and tax bases of our assets and liabilities, including various accruals, allowances, depreciation and amortization. The tax effect of these temporary differences and the estimated tax benefit from tax net operating losses are reported as deferred tax assets and liabilities in the balance sheet. An assessment of the likelihood that net deferred tax assets will be realized from future taxable income is performed. To the extent that management believes it is more likely than not that some portion, or all, of the deferred tax asset will not be realized, a valuation allowance is established. This assessment is based on all available evidence, both positive and negative, in evaluating the likelihood of realizability. Issues considered in the assessment include future reversals of existing taxable

temporary differences, estimates of future taxable income (exclusive of reversing temporary differences and carryforwards) and prudent tax planning strategies available in future periods. Because ultimately the realizability of deferred tax assets is highly subject to the outcome of future events, the amount established as valuation allowances is considered to be a significant estimate that is subject to change in the near term. To the extent a valuation allowance is established or there is a change in the allowance during a period, the change is reflected with a corresponding increase or decrease in the tax provision in the statement of operations.

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In fiscal 2010 we had a change in our estimated valuation allowance. This change resulted from an extension of the number of years used in the forecast to determine net operating loss utilization. Historically, in determining the amount of net operating loss carryforwards that would be utilized, we projected our taxable income for twelve quarters, with the assumption that any forecast beyond three years was not meaningful. In fiscal 2010 we determined that we were in a position to forecast taxable income for the remaining life of our current net operating loss carryforwards for the following reasons:

We have experienced six consecutive profitable years of operations, while at the same time integrating four acquisitions. Although we incurred a taxable loss in fiscal 2010, these losses were primarily due to the results of our discontinued operation as well as one-time restructuring costs that are not expected to continue.

We continued to grow both organically and through acquisitions and is now at a stage where our operating structure and costs are more sustainable.

We established a strategic plan to focus on our core offerings: electronic catalogs, websites and lead management services. This plan encompassed the discontinuation of several products and the sale of a non-strategic and underperforming subsidiary, thereby reducing our cost structure. This strategic plan is expected to provide more stability going forward.

The Company had a change in its estimated valuation allowance in fiscal 2009 primarily due to a change in its projections of taxable income for the next twelve quarters. We will continue to evaluate the realizability of deferred tax assets on a semi-annual basis.

Significant components of our deferred tax liabilities and assets as of July 31 were as follows (in thousands):

	2010	2009
Deferred tax assets:		
Net operating loss carryforwards	$ 6,808	$ 8,235
Alternative minimum tax credit carryforwards	85	96
Deferred revenue	1,918	2,032
Software product costs	214	378
Intangible assets	233	81
Other	1,074	837
Total deferred tax assets	10,332	11,659
Valuation allowance for deferred tax assets	(5,657)	(8,747)
Net deferred tax assets	4,675	2,912
Deferred tax liabilities:		
Software product costs and other	(297)	(208)
Goodwill	(162)	(50)
Net deferred taxes	$ 4,216	$ 2,654

As of July 31, 2010, we had unused net operating loss carryforwards for federal income tax purposes of $17,852,000 expiring in 2011 through 2030. Of these unused federal net operating loss carryforwards, $2,038,000 expire between 2012 and 2014 and are limited to $116,000 annually that can be utilized to offset taxable income. Use of these net operating loss carryforwards is restricted under Section 382 of the Code because of changes in ownership in 1997.

In addition, we have net operating loss carryforwards for state income tax purposes totaling approximately $12,310,000 expiring in 2011 through 2025.

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A reconciliation between income tax expense and income taxes computed by applying the statutory federal income tax rate of 34% and the state rate of approximately 6% to U.S. based income before income taxes is as follows (in thousands):

	2010	2009
Computed income taxes at 40%	$ 14	$ 395
Permanent items	91	93
Change in the beginning deferred tax asset valuation allowance	(1,402)	(502)
Effective rate adjustments and other	3	137
Income tax expense (benefit) from continuing operations	$ (1,294)	$ 123
Income tax benefit from discontinued operations	$ (262)	$ -

During fiscal 2010 and fiscal 2009, $4,231,000 and $6,047,000, respectively, of federal net operating loss carryforwards expired. These expired net operating loss carryforwards have been included in the calculation of the change in valuation allowance.

We perform an evaluation of uncertain tax positions as a component of income tax expense on an annual basis. We determined that ARI did not have any significant risk related to income tax expense and therefore no amounts were reserved for uncertain tax positions as of July 31, 2010 and 2009. We will accrue and recognize interest and penalties related to uncertain tax positions as a component of income tax expense if it becomes necessary. Fiscal years subsequent to 2006 remain open and subject to examination by state tax jurisdictions and the United States federal tax authorities.

12. Employee Benefit Plan

ARI has a qualified retirement savings plan (the "401(k) Plan") covering its employees. Each employee may elect to reduce his or her current compensation by up to 50%, up to a maximum of $16,500 ($22,000 over age 50) in calendar 2010 (subject to adjustment in future years) and have the amount of the reduction contributed to the 401(k) Plan. Company contributions to the 401(k) Plan are at the discretion of the Board of Directors. During fiscal 2010 and fiscal 2009, we issued 58,332 and 32,955 shares of common stock, respectively, as a discretionary contribution to the 401(k) Plan. The amounts charged to expense for the 401(k) contributions, net of forfeitures, were $62,000 during fiscal 2010 and $45,000 during fiscal 2009.

13. Restructuring

In July 2008 ARI announced a restructuring that consolidated our data conversion operations in Virginia into our Wisconsin location and consolidated our software development operations in Colorado into our California location. Adjustments were made to the restructuring reserve during fiscal 2010 to reflect changes to our assumptions regarding our ability to sublet the vacant office space in Colorado and the present value of the net future lease costs through March 2011. The following represents changes to the restructuring reserve, which is included in other accrued liabilities on the balance sheet (in thousands):

	Severance and related benefits	Net future lease costs	Software andequipment impairments	Total
Balance at 7/31/08	$ 292	$ 204	$ 33	$ 529
Payments	(292)	(111)	-	(403)
Disposals	-	-	(33)	(33)
Balance at 7/31/09	$ -	$ 93	$ -	$ 93
Payments	$ -	$ (114)	$ -	(114)
Adjustments to restructuring charges	-	101	-	101
Balance at 7/31/10	$ -	$ 80	$ -	$ 80

In July 2010, in an effort to focus on our core business, which includes electronic catalogs, websites, and lead management services, we undertook a workforce reduction and business improvement initiative, which included the divestiture of AFIS and the write off of certain components of capitalized software related to products no longer in use or with limited future cash flows that are no longer considered a part of our core operation.

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The following represents restructuring charges incurred in fiscal 2010 from continuing operations (in thousands):

Severance and related benefits	$147
Software impairments	189
Total restructuring costs	$336

The following represents the restructuring charges incurred in fiscal 2010 with respect to the AFIS divestiture, which were included in discontinued operations (in thousands):

Severance and related benefits	$ 27
Other accrued liabilities	83
Total restructuring costs	$ 110

The accrued severance and related restructuring reserve from continuing operations, which is included in accrued payroll and related liabilities on the balance sheet, is $147,000 as of July 31, 2010 and will be fully paid during fiscal 2011. The accrued restructuring from discontinued operations, which is included in other accrued liabilities on the balance sheet, is $110,000 as of July 31, 2010 and will have payments continuing through fiscal 2013.

14. Discontinued Operations

On July 27, 2010, we divested AFIS, which offered dealer F&I services. The divestiture resulted in a loss from discontinued operations of $1,000. The results of operations of AFIS have been reflected as a discontinued operation in our consolidated financial statements for all periods presented. The results of operations of AFIS were previously reported within the United States business segment.

	2010	2009
Revenues	$ 136	$ 77
Cost of sales	13	12
Operating expenses	776	406
Operating loss	(653)	(341)
Loss on sale	(1)	-
Income tax benefit (1)	262	-
Net loss	$ (392)	$ (341)

(1) Net of recorded deferred income tax asset valuation allowance

15. Business Segments

Our business segments are internally organized primarily by geographic location of the operating facilities. In accordance with GAAP regarding disclosures about business segments, we have segregated the Netherlands operation and the United States operations into separate reportable segments. Segment revenue for the Netherlands operation includes only revenue generated out of the Netherlands subsidiary and does not include rest of world revenue sold by the United States operation. We evaluate the performance of and allocate resources to each of the segments based on their operating results.

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Information concerning our operating business segments for fiscal 2010 and fiscal 2009 is as follows (in thousands):

	2010	2009
Revenue from continuing operations:		
Netherlands	$ 689	$ 652
United States	20,795	16,908
Consolidated	$ 21,484	$ 17,560

	2010	2009
Net income (loss) from continuing operations:		
Netherlands	$ (159)	$ (100)
United States	1,328	865
Consolidated	$ 1,169	$ 765

	July 31 2010	July 31 2009
Total Assets		
Netherlands	$ 328	$ 227
United States	19,449	18,380
Consolidated	$ 19,777	$ 18,607

16. Related Party

Briggs & Stratton Corporation ("Briggs") is one of our customers and owns approximately 11% of ARI stock. Briggs has entered into customer contracts with us and has provided vendor services to us in the ordinary course of business. Generally, the customer contracts are for one to three years and renew annually thereafter unless either party elects otherwise. We invoiced Briggs approximately $371,000 and $416,000 for products and services provided during fiscal 2010 and fiscal 2009, respectively. Briggs had unpaid net trade receivables of $15,000, or 1%, and $201,000, or 15%, of total trade receivables outstanding as of July 31, 2010 and 2009, respectively, $0 of which was over 90 days at July 31, 2010 or 2009.

The vendor services provided by Briggs are for printing of materials which are generally resold to customers and included in cost of sales. Briggs invoiced us approximately $55,000 and $105,000 for printing services during fiscal 2010 and fiscal 2009, respectively, $2,000 of which were unpaid as of July 31, 2010 and 2009.

Gordon J. Bridge serves on our board of directors. He was assigned by the board to be the lead Director for AFIS, for which he was paid $57,050 in fiscal 2010. We had accrued but unpaid expenses of $17,050 at July 31, 2009. There were no unpaid expenses at July 31, 2010.

17. Litigation

On June 23, 2008, Powersports Complete, LLC ("Powersports") filed a complaint in the U.S. District Court for the Eastern District of Wisconsin against ARI and its wholly-owned subsidiary, AFIS. The complaint claimed, among other things, that the Company and AFIS owe $56,960 to Powersports in connection with their business arrangements during 2007. The complaint also claimed that Powersports, among other remedies, is entitled to compensatory damages in the amount of $1,250,000 and punitive damages in the amount of $2,500,000. We, along with AFIS, filed our answer to the complaint on September 16, 2008. The answer denied that Powersports is entitled to the payments

described above, and asserted numerous counterclaims against Powersports. On February 4, 2009, the parties agreed to settle all outstanding claims between them. The settlement had no material effect on our financial statements.

18. Subsequent Events

We evaluated whether any events or transactions occurred after the balance sheet date that would require recognition or disclosure in our financial statements in accordance with GAAP, and determined that there were no events that occurred after July 31, 2010, but prior to October 29, 2010 that would affect the financial statements for the period ending July 31, 2010.

;(5,121)Additional paid-in capital21 **174,194 100,152** 100,081 Capital redemption reserve21 **223 128** Accumulated other recognised income and expense22 **7,114 4,090** 1,781 Retained losses23 **(117,152) (67,356)** (39,511)

Total equity shareholders funds148,580 85,425 113,800 **Minority interests (197) (113)** (152)

Total equity 148,383 85,312 113,648

Non-current liabilities Long-term borrowings24 **29,133 16,750** 13,190 Deferred tax liabilities6 **9,862 5,670** 4,849 Post employment benefits25 **209 120** 136 Provisions for liabilities and charges26 **461 265** 319 Trade and other payables27 **984 566** 438

40,649 **23,371** 18,932

Current liabilities Short-term borrowings: Third parties24 **5,340** **3,070** 861 Related parties24 **657** **378** 1,142 Current taxation liabilities **7,736** **4,448** 4,353 Trade and other payables27 **13,005** **7,477** 8,033 Provisions for liabilities and charges26 **242** **139** 228

26,980 **15,512** 14,617

Liabilities included in disposal group held for sale29 **4,423** **2,543**

Total equity and liabilities **220,435** **126,738** 147,197

The Consolidated Financial Statements were approved by the Board of directors on 30 May 2006 and were signed on its behalf by:

Arun Sarin	**Andy Halford**
Chief Executive	**Chief Financial Officer**

The accompanying notes are an integral part of these Consolidated Financial Statements. The unaudited US dollar amounts are prepared on the basis set out in note 1.

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Consolidated Cash Flow Statement for the years ended 31 March

	Note	**2006 $m**	**2006 £m**	2005 £m
Net cash flows from operating activities	29, 32	**20,595**	**11,841**	10,979
Cash flows from investing activities				
Purchase of interests in subsidiary undertakings and joint ventures, net of cash acquired		**(7,280)**	**(4,186)**	(2,461)
Disposal of interests in subsidiary undertakings, net of cash disposed		**1,042**	**599**	444
Purchase of intangible assets		**(1,200)**	**(690)**	(699)
Purchase of property, plant and equipment		**(7,794)**	**(4,481)**	(4,279)
Disposal of property, plant and equipment		**45**	**26**	68
Purchase of investments		**(99)**	**(57)**	(19)
Disposal of investments		**2**	**1**	22
Loans to businesses sold or acquired businesses held for sale				110
Dividends received from associated undertakings		**1,452**	**835**	1,896
Dividends received from investments		**71**	**41**	19
Interest received		**555**	**319**	339
Net cash flows from investing activities	29	**(13,206)**	**(7,593)**	(4,560)
Cash flows from financing activities				
Issue of ordinary share capital and reissue of treasury shares		**619**	**356**	115
Net movement in short-term borrowings		**1,231**	**708**	
Proceeds from the issue of long-term borrowings		**9,142**	**5,256**	
Repayment of borrowings		**(2,385)**	**(1,371)**	(1,824)
Loans repaid to associated undertakings		**(82)**	**(47)**	(2)
Purchase of treasury shares		**(11,230)**	**(6,457)**	(4,053)
Equity dividends paid		**(4,781)**	**(2,749)**	(1,991)
Dividends paid to minority shareholders in subsidiary undertakings		**(89)**	**(51)**	(32)
Interest paid		**(1,254)**	**(721)**	(744)
Net cash flows from financing activities	29	**(8,829)**	**(5,076)**	(8,531)
Net decrease in cash and cash equivalents		**(1,440)**	**(828)**	(2,112)
Cash and cash equivalents at beginning of the financial year	18	**6,481**	**3,726**	5,809
Exchange gains on cash and cash equivalents		**59**	**34**	29
Cash and cash equivalents at end of the financial year	18	**5,100**	**2,932**	3,726

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

The unaudited US dollar amounts are prepared on the basis set out in note 1.

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Notes to the Consolidated Financial Statements

1. Basis of preparation

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) (including International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Board (IASB) and its committees, and as interpreted by any regulatory bodies applicable to the Group as adopted for use in the European Union (EU), the Companies Act 1985 and Article 4 of the IAS Regulations. The Consolidated Financial Statements have been prepared in accordance with IFRS, which differs in certain material respects from US generally accepted accounting principles (US GAAP) see note 38.

The preparation of financial statements in conformity with IFRS 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 revenue and expenses during the reporting period. For a discussion on the Group s critical accounting estimates see Performance Critical Accounting Estimates elsewhere in this Annual Report. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Certain amounts in relation to the previous financial year have been reclassified to conform presentation with the requirements of IFRS.

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 financial year ended, 31 March 2006, 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 31 March 2006. This rate was $1.7393: £1. This translation should not be construed as a representation that the sterling amounts actually represented have been, or could be, converted into dollars at this or any other rate.

2. Significant accounting policies

The Group s significant accounting policies are described below.

Accounting convention

The Consolidated Financial Statements are prepared on a historical cost basis except for certain financial and equity instruments that have been measured at fair value.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and entities controlled, both unilaterally and jointly, by the Company.

Accounting for subsidiaries

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group s equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority s share of changes in equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree s identifiable assets and liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

The interest of minority shareholders in the acquiree is initially measured at the minority s proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Previously held identifiable assets, liabilities and contingent liabilities of the acquired entity are revalued to their fair value at the date of acquisition, being the date at which the Group achieves control of the acquiree. The movement in fair value is taken to the asset revaluation surplus.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

The Group reports its interests in jointly controlled entities using proportionate consolidation. The Group s share of the assets, liabilities, income, expenses and cash flows of jointly controlled entities are combined with the equivalent items in the results on a line-by-line basis.

Any goodwill arising on the acquisition of the Group s interest in a jointly controlled entity is accounted for in accordance with the Group s accounting policy for goodwill arising on the acquisition of a subsidiary.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the Consolidated Financial Statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group s share of the net assets of the associate, less any impairment in the value of the investment. Losses of an associate in excess of the Group s interest in that associate are not recognised. Additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment.

The licences of the Group s associated undertaking in the US, Verizon Wireless, are indefinite lived assets as they are subject to perfunctory renewal. Accordingly they are not subject to amortisation but are tested annually for impairment, or when indicators exist that the carrying value is not recoverable.

Intangible assets

Goodwill

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each balance sheet date.

Goodwill is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

Goodwill arising before the date of transition to IFRS, on 1 April 2004, has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

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Notes to the Consolidated Financial Statements
continued

2. Significant accounting policies continued

Licence and spectrum fees

Licence and spectrum fees are stated at cost less accumulated amortisation. The amortisation periods range from 3 to 25 years and are determined primarily by reference to the unexpired licence period, the conditions for licence renewal and whether licences are dependent on specific technologies. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives from the commencement of service of the network.

Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives, being 3 to 5 years.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and directly attributable overheads.

Software integral to a related item of hardware equipment is accounted for as property, plant and equipment.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group s development activity is recognised only if all of the following conditions are met:

an asset is created that can be separately identified;
it is probable that the asset created will generate future economic benefits; and
the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their estimated useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is charged to the income statement in the period in which it is incurred.

Other intangible assets

Other intangible assets with finite lives are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful lives are as follows:

Brands	1 - 10 years
Customer bases	3 - 8 years

Property, plant and equipment

Land and buildings held for use are stated in the balance sheet at their cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Assets in the course of construction are carried at cost, less any recognised impairment loss. Depreciation of these assets commences when the assets are ready for their intended use.

Equipment, fixtures and fittings are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, using the straight-line method, over their estimated useful lives as follows:

Freehold buildings	25 - 50 years
Leasehold premises	the term of the lease
Equipment, fixtures and fittings	3 - 10 years
Network infrastructure	3 - 25 years

Depreciation is not provided on freehold land.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment of assets

Indefinite lived assets

Goodwill and other assets that have an indefinite useful life are not subject to amortisation but are tested for impairment annually or whenever there is an indication that the asset may be impaired.

For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash-generating units. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Property, plant and equipment and finite lived intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and finite lived intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Disposal groups held for sale

Disposal groups held for sale are stated at the lower of carrying value and fair value less costs to sell.

Revenue

Group revenue comprises revenue of the Company and its subsidiary undertakings plus the Group s share of the revenue of its joint ventures and excludes sales taxes and discounts.

Revenue from mobile telecommunications comprises amounts charged to customers in respect of monthly access charges, airtime usage, messaging, the provision of other mobile telecommunications services, including data services and information provision, fees for connecting users of other fixed line and mobile networks to the Group s network, revenue from the sale of equipment, including handsets and revenue arising from Partner Market Agreements.

Access charges and airtime used by contract customers are invoiced and recorded as part of a periodic billing cycle and recognised as revenue over the related access period, with unbilled revenue resulting from services already provided from the billing cycle date to the end of each period accrued and unearned revenue from services provided in periods after each accounting period deferred. Revenue from the sale of prepaid credit is deferred until such time as the customer uses the airtime, or the credit expires.

Other revenue from mobile telecommunications primarily comprises equipment sales, which are recognised upon delivery to customers, and customer connection revenue. Customer connection revenue is recognised together with the related equipment revenue to the extent that the aggregate equipment and connection revenue does not exceed the fair value of the equipment delivered to the customer. Any customer connection revenue not recognised together with related equipment revenue is deferred and recognised over the period in which services are expected to be provided to the customer.

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Revenue from data services and information provision is recognised when the Group has performed the related service and, depending on the nature of the service, is recognised either at the gross amount billed to the customer or the amount receivable by the Group as commission for facilitating the service.

Incentives are provided to customers in various forms and are usually offered on signing a new contract or as part of a promotional offering.

Where one-off incentives are provided on connection of a new customer or the upgrade of an existing customer, revenue representing the fair value of the incentive, relative to other deliverables provided to the customer as part of the same arrangement, is deferred and recognised in line with the Group s performance of its obligations relating to the incentive.

For equipment sales made to intermediaries, revenue is recognised if the significant risks associated with the equipment are transferred to the intermediary and the intermediary has no general right of return. If the significant risks are not transferred, revenue recognition is deferred until sale of the handset to an end customer by the intermediary or the expiry of the right of return.

Intermediaries are incentivised by the Group to connect new customers and upgrade existing customers. Where such incentives are separable from the initial sale of equipment to an intermediary, the incentive is accounted for as an expense upon connection, or upgrade, of the customer.

Revenue from other businesses primarily comprises amounts charged to customers of the Group s fixed line businesses, mainly in respect of access charges and line usage, invoiced and recorded as part of a periodic billing cycle.

Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined on the basis of weighted average costs and comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

Foreign currencies

In preparing the financial statements of the individual entities, transactions in currencies other than the entity s functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rate prevailing on the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect

of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting Consolidated Financial Statements, the assets and liabilities of entities with a functional currency other than sterling are expressed in sterling using exchange rates prevailing on the balance sheet date. Income and expense items and cash flows are translated at the average exchange rates for the period and exchange differences arising are recognised directly in equity. Such translation

differences are recognised in the income statement in the period in which a foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated accordingly.

In respect of all foreign operations, any exchange differences that have arisen before 1 April 2004, the date of transition to IFRS, are deemed to be nil and will be excluded from the determination of any subsequent profit or loss on disposal.

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred.

Post employment benefits

For defined benefit retirement plans, the difference between the fair value of the plan assets and the present value of the plan liabilities is recognised as an asset or liability on the balance sheet. The Group has early adopted the amendment to IAS 19, Employee Benefits , issued by the IASB on 16 December 2004 and applied it from 1 April 2004. Accordingly, actuarial gains and losses are taken to the statement of recognised income and expense. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred.

Other movements in the net surplus or deficit are recognised in the income statement, including the current service cost, any past service cost and the effect of any curtailment or settlements. The interest cost less the expected return on assets is also charged to the income statement. The amount charged to the income statement in respect of these plans is included within operating costs or in the Group's share of the results of equity accounted operations as appropriate.

The values attributed to plan liabilities are assessed in accordance with the advice of independent qualified actuaries.

The Group's contributions to defined contribution pension plans are charged to the income statement as they fall due.

Cumulative actuarial gains and losses as at 1 April 2004, the date of transition to IFRS, have been recognised in the balance sheet.

Taxation

Income tax expense represents the sum of the current tax payable and deferred tax.

Current tax payable or recoverable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because some items of income or expense are taxable or deductible in different years or may never be taxable or deductible. The Group s liability for current tax is calculated using UK and foreign tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. It is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they either relate to income taxes

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Notes to the Consolidated Financial Statements
continued

2. Significant accounting policies continued
levied by the same taxation authority on either the same taxable entity or on different taxable entities which intend to settle the current tax assets and liabilities on a net basis.

Tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is also recognised directly in equity.

Financial instruments
Financial assets and financial liabilities, in respect of financial instruments, are recognised on the Group s balance sheet when the Group becomes a party to the contractual provisions of the instrument.

The Group has applied the requirements of IFRS to financial instruments for all periods presented and has not taken advantage of any exemptions available to first time adopters of IFRS in this respect. The Group has early adopted IFRS 7, Financial Instruments: Disclosures , amendments to IAS 39, Financial Instruments: Recognition and Measurement and IFRS 4, Insurance Contracts , regarding Financial Guarantee Contracts and amendments to IAS 39 regarding The Fair Value Option and Cash Flow Hedge Accounting of Forecast Intragroup Transactions and applied them from 1 April 2004.

Trade receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on the ageing of the receivable balances and historical experience. Individual trade receivables are written off when management deems them not to be collectible.

Investments
Investments are recognised and derecognised on a trade date where a purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at cost, including transaction costs.

Investments are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in net profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity, determined using the weighted average costs method, is included in the net profit or loss for the period.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and call deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

Financial liabilities and equity instruments
Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities and includes no obligation to deliver cash or other financial assets. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Capital market and bank borrowings
Interest bearing loans and overdrafts are initially measured at fair value (which is equal to cost at inception), and are subsequently measured at amortised cost, using the effective interest rate method, except where they are identified as a hedged item in a fair value hedge. Any difference between the proceeds net of transaction costs and the settlement or redemption of borrowings is

recognised over the term of the borrowing.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group s activities expose it to the financial risks of changes in foreign exchange rates and interest rates.

The use of financial derivatives is governed by the Group s policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group s risk management strategy. Changes in values of all derivatives of a financing nature are included within investment income and financing costs in the income statement. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are subsequently re-measured to fair value at each reporting date. The Group designates certain derivatives as either:

- hedges of the change of fair value of recognised assets and liabilities (fair value hedges); or

- hedges of net investments in foreign operations.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Fair value hedges

The Group s policy is to use derivative instruments (primarily interest rate swaps) to convert a proportion of its fixed rate debt to floating rates in order to hedge the interest rate risk arising, principally, from capital market borrowings. The Group designates these as fair value hedges of interest rate risk with changes in fair value of the hedging instrument recognised in the income statement for the period together with the changes in the fair value of the hedged item due to the hedged risk, to the extent the hedge is effective. The ineffective portion is recognised immediately in the income statement.

Net investment hedges

Exchange differences arising from the translation of the net investment in foreign operations are recognised directly in equity. Gains and losses on those hedging instruments designated as hedges of the net investments in foreign operations are recognised in equity to the extent that the hedging relationship is effective. These amounts are included in exchange differences on translation of foreign operations as stated in the statement of recognised income and expense. Any ineffectiveness is recognised immediately in the income statement for the period. Gains and losses accumulated in the translation reserve are included in the income statement when the foreign operation is disposed of. The Group has adopted the Amendments to IAS 21, The Effect of Changes in Foreign Exchange Rates , with effect from 1 April 2004, being the date of transition to IFRS for the Group.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group s estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using a binomial pricing model which is calibrated using a Black-Scholes framework. The expected life used in the model has been adjusted, based on management s best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Advertising costs

Expenditure on advertising is written off in the year in which it is incurred.

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3. Segmental analysis

The Group s business is principally the supply of mobile telecommunications services and products. Primary segmental information is provided on the basis of geographic regions, being the basis on which the Group manages its worldwide interests. Other operations primarily comprise fixed line telecommunications businesses. The segmental analysis is provided for the Group s continuing operations. Revenue is determined by location of assets, which is not materially different from revenue by location of customer. Inter-segment sales are charged at arms length prices.

	Mobile telecommunications								Other operations		Group
	Germany £m	Italy £m	Spain £m	UK £m	US £m	Other mobile £m	Common functions £m	Total £m	Germany £m	Other £m	£m
31 March 2006											
Service revenue	5,394	4,170	3,615	4,568		8,530		26,277	1,320	19	27,616
Equipment and other revenue	360	193	380	480		720		2,133			2,133
Segment revenue	5,754	4,363	3,995	5,048		9,250		28,410	1,320	19	29,749
Subsidiaries	5,754		3,995	5,048		7,812		22,609	1,320		23,929
Joint ventures		4,363				1,470		5,833		19	5,852
Less: intra-segment revenue						(32)		(32)			(32)
Common functions							145	145			145
Inter-segment revenue	(64)	(44)	(105)	(65)		(121)	(19)	(418)			(418)
Net revenue	5,690	4,319	3,890	4,983		9,129	126	28,137	1,320	19	29,476
Less: revenue between mobile and other operations	(91)					(1)		(92)	(34)		(126)
Group revenue	5,599	4,319	3,890	4,983		9,128	126	28,045	1,286	19	29,350
Segment result	(17,904)	(1,928)	968	698		1,296		(16,870)	139	4	(16,727)
Subsidiaries	(17,904)		968	698		933		(15,305)	139		(15,166)
Joint ventures		(1,928)				363		(1,565)		4	(1,561)
Common functions							215	215			215
Share of result in associated undertakings					1,732	712	8	2,452		(24)	2,428
Operating (loss)/profit	(17,904)	(1,928)	968	698	1,732	2,008	223	(14,203)	139	(20)	(14,084)
Non-operating income and expense											(2)
Investment income											353
Financing costs											(1,120)

Loss before taxation											(14,853)
Tax on loss											(2,380)
Loss for the year from continuing operations											(17,233)
Operating loss	(17,904)	(1,928)	968	698	1,732	2,008	223	(14,203)	139	(20)	(14,084)
Add back:											
Impairment losses	19,400	3,600				515		23,515			23,515
Non-recurring items related to acquisitions and disposals						(20)	(12)	(32)			(32)
Adjusted operating profit	1,496	1,672	968	698	1,732	2,503	211	9,280	139	(20)	9,399
Non-current assets(1)	24,360	19,422	12,596	8,743		17,200	1,907	84,228	754	64	85,046
Investment in associated undertakings					17,898	5,182	37	23,117		80	23,197
Current assets(1)	669	888	443	743		1,555	79	4,377	266	13	4,656
Total segment assets(1)	25,029	20,310	13,039	9,486	17,898	23,937	2,023	111,722	1,020	157	112,899
Unallocated non-current assets:											
Deferred tax assets											140
Trade and other receivables											231
Unallocated current assets:											
Cash and cash equivalents											2,789
Trade and other receivables											79
Taxation recoverable											8
Assets included in disposal group for resale(3)											10,592
Total assets											126,738

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3. Segmental analysis continued

	Mobile telecommunications								Other operations		Group
	Germany	Italy	Spain	UK	US	Other mobile	Common functions	Total	Germany	Other	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Segment liabilities[1]	**(753)**	**(1,370)**	**(914)**	**(827)**		**(2,638)**	**(1,458)**	**(7,960)**	**(362)**	**(26)**	**(8,348)**
Unallocated liabilities:											
Current taxation liabilities											**(4,448)**
Deferred tax liabilities											**(5,670)**
Trade and other payables											**(219)**
Short-term borrowings											**(3,448)**
Long-term borrowings											**(16,750)**
Liabilities included in disposal group for resale[3]											**(2,543)**
Total liabilities											**(41,426)**
Other segment items:											
Capitalised fixed asset additions[2]	**592**	**541**	**502**	**665**		**1,456**	**112**	**3,868**	**129**	**8**	**4,005**
Expenditure on other intangible assets		**1**		**11**		**4**		**16**			**16**
Non-cash items:											
Depreciation	**653**	**398**	**281**	**486**		**1,113**	**6**	**2,937**	**140**	**2**	**3,079**
Amortisation of intangible assets	**514**	**190**	**114**	**438**		**186**	**183**	**1,625**			**1,625**
Impairment of goodwill	**19,400**	**3,600**				**515**		**23,515**			**23,515**
Bad debt expense	**39**	**5**	**41**	**9**		**64**		**158**	**10**		**168**
Share-based payments	**6**	**7**	**5**	**18**		**17**	**54**	**107**	**2**		**109**

Notes:
(1) Excluding unallocated items.
(2) Includes additions to property, plant and equipment and computer software, included with intangible assets.
(3) See note 29 for information on discontinued operations.

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	Mobile telecommunications								Other operations		Continuing operations	Discontinued operations	Group
	Germany	Italy	Spain	UK	US	Other mobile	Common functions	Total	Germany	Other			
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
31 March 2005													
Service revenue	5,320	4,091	2,963	4,498		6,973		23,845	1,095		24,940	5,610	
Equipment and other revenue	364	182	298	567		664		2,075			2,075	1,786	
Segment revenue	5,684	4,273	3,261	5,065		7,637		25,920	1,095		27,015	7,396	
Subsidiaries	5,684		3,261	5,065		6,474		20,484	1,095		21,579	7,396	
Joint ventures		4,273				1,184		5,457			5,457		
Less: intra-segment revenue						(21)		(21)			(21)		
Common functions							123	123			123		
Inter-segment revenue	(51)	(36)	(80)	(47)		(84)	(5)	(303)			(303)	(1)	
Net revenue	5,633	4,237	3,181	5,018		7,553	118	25,740	1,095		26,835	7,395	
Less: revenue between mobile and other operations	(110)						(1)	(111)	(46)		(157)		
Group revenue	5,523	4,237	3,181	5,018		7,553	117	25,629	1,049		26,678	7,395	
Segment result	1,473	1,694	775	779		1,198		5,919	64		5,983	664	
Subsidiaries	1,473		775	779		893		3,920	64		3,984	664	
Joint ventures		1,694				305		1,999			1,999		
Common functions							(85)	(85)			(85)		
Share of result in associated undertakings					1,354	671		2,025		(45)	1,980		
Operating profit/(loss)	1,473	1,694	775	779	1,354	1,869	(85)	7,859	64	(45)	7,878	664	

Non-operating income and expense											(7)	13	
Investment income											294	9	
Financing costs											(880)	(20)	
Profit before taxation											7,285	666	
Tax on profit											(1,869)	436	
Profit for the financial year											5,416	1,102	6,518
Operating profit/(loss)	1,473	1,694	775	779	1,354	1,869	(85)	7,859	64	(45)	7,878	664	
Add back:													
Impairment losses						475		475			475		
Adjusted operating profit/(loss)	1,473	1,694	775	779	1,354	2,344	(85)	8,334	64	(45)	8,353	664	
Non-current assets[1]	44,101	22,768	12,288	9,014		12,443	884	101,498	752		102,250	13,754	116,004
Investment in associated undertakings					15,039	5,096	33	20,168		66	20,234		20,234
Current assets[1]	811	844	356	741		1,301	118	4,171	221		4,392	1,168	5,560
Total segment assets[1]	44,912	23,612	12,644	9,755	15,039	18,840	1,035	125,837	973	66	126,876	14,922	141,798
Unallocated non-current assets:													
Deferred tax assets													1,184
Trade and other receivables													364
Unallocated current assets:													
Cash and cash equivalents													3,769
Trade and other receivables													44
Taxation recoverable													38
Total assets													147,197

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3. Segmental analysis continued

	Mobile telecommunications								Other operations		Continuing operations	Discontinued operations	Group
	Germany	Italy	Spain	UK	US	Other mobile	Common functions	Total	Germany	Other			
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Segment liabilities[1]	(848)	(1,237)	(735)	(939)		(2,295)	(1,180)	(7,234)	(364)		(7,598)	(1,477)	(9,075)
Unallocated liabilities:													
Current taxation liabilities													(4,353)
Deferred tax liabilities													(4,849)
Short-term borrowings													(2,003)
Long-term borrowings													(13,190)
Trade and other payables													(79)
Total liabilities													(33,549)
Other segment items:													
Capitalised fixed asset additions[2]	827	538	490	789		1,333	136	4,113	112		4,225	885	
Expenditure on other intangible assets		8				118		126			126		
Non-cash items:													
Depreciation	640	403	253	464		961	11	2,732	153		2,885	1,114	
Amortisation of intangible assets	514	184	101	468		142	7	1,416			1,416	100	
Impairment of goodwill						475		475			475		
Bad debt expense	50	13	35	36		39		173	10		183	39	
Share-based payments	3	4	2	15		11	94	129	1		130	7	

Notes:
(1) Excluding unallocated items.
(2) Includes additions to property, plant and equipment and computer software, included with intangible assets.

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4. Operating (loss)/profit

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

	2006 £m	2005 £m
Net foreign exchange gains		(10)
Depreciation of property, plant and equipment:		
Owned assets	3,069	2,871
Leased assets	10	14
Amortisation of intangible assets	1,625	1,416
Impairment of goodwill	23,515	475
Research and development expenditure	206	198
Advertising costs	670	660
Staff costs (see note 34)	2,310	2,185
Operating lease rentals payable:		
Plant and machinery	35	37
Other assets including fixed line rentals	933	873
Loss on disposal of property, plant and equipment	69	68
Own costs capitalised attributable to the construction or acquisition of property, plant and equipment	(256)	(250)

The total remuneration of the Group s auditors, Deloitte & Touche LLP, and its affiliates for services provided to the Group s subsidiary undertakings is analysed below:

	2006 £m	2005 £m
Audit fees	4	4
Audit-related fees:		
Audit regulatory reporting	1	
Due diligence reviews	1	1
Tax fees	1	1
Other fees	1	1
	8	7

The total remuneration includes £1 million (2005: £1 million) in respect of the Group s discontinued operations in Japan.

In addition to the above, the Group s joint ventures and associated undertakings paid fees totalling £2 million (2005: £2 million) and £4 million (2005: £5 million), respectively, to Deloitte & Touche LLP and its affiliates during the year.

A description of the work performed by the Audit Committee in order to safeguard auditor independence when non audit services are provided is set out in the Corporate Governance section on page 57. In the year ended 31 March 2006, the Audit Committee pre-approved all services.

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5. Investment income and financing costs

	2006 £m	2005 £m
Investment income		
Available-for-sale investments:		
Dividends received	**41**	19
Loans and receivables	**153**	201
Fair value adjustments recognised in the income statement:		
Derivatives - foreign exchange contracts and interest rate futures	**159**	74
	353	294
Financing costs		
Items in hedge relationships:		
Other loans	**510**	472
Interest rate swaps	**(118)**	(198)
Dividends on redeemable preference shares	**48**	
Fair value hedging instrument	**213**	231
Fair value of hedged item	**(186)**	(213)
Other financial liabilities held at amortised cost:		
Bank loans and overdrafts	**126**	129
Other loans	**78**	68
Dividends on redeemable preference shares		46
Potential interest charge on settlement of tax issues	**329**	245
Fair value adjustments recognised in the income statement:		
Derivatives - forward starting swaps	**(48)**	25
Equity put rights and similar arrangements(1)	**161**	67
Finance leases	**7**	8
	1,120	880
Net financing costs	**767**	586

Note:
(1) The fair value adjustments for equity put rights and similar arrangements relates to the Group s arrangements with Telecom Egypt and it s minority partners in the Group s other operations in Germany. Further information is provided in Options agreements and similar arrangements on page 42.

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6. Taxation

(Loss)/profit before tax is split as follows:

	2006 £m	2005 £m
United Kingdom profit before tax	**491**	765
Overseas (loss)/profit before tax	**(15,344)**	6,520
Total (loss)/profit before tax	**(14,853)**	7,285

Income tax expense

Tax on (loss)/profit from continuing operations, as shown in the income statement, is as follows:

	2006 £m	2005 £m
United Kingdom corporation tax expense/(income) at 30%:		
Current year	**169**	339
Adjustments in respect of prior years	**(15)**	(79)
	154	260
Overseas current tax expense/(income):		
Current year	**2,077**	1,774
Adjustments in respect of prior years	**(418)**	(154)
	1,659	1,620
Total current tax expense	**1,813**	1,880
Deferred tax on origination and reversal of temporary differences:		
United Kingdom deferred tax	**444**	234
Overseas deferred tax	**123**	(245)
Total deferred tax expense/(income)	**567**	(11)
Total tax on (loss)/profit from continuing operations	**2,380**	1,869

Tax recognised directly in equity

	2006 £m	2005 £m
Current tax credit	**(6)**	(10)
Deferred tax credit	**(11)**	(35)

Total tax credited directly to equity	**(17)**	(45)

Factors affecting tax expense for the year

The table below explains the differences between the expected tax expense on continuing operations, at the UK statutory tax rate of 30% for 2006 and 2005, and the Group s total tax expense for each year. Further discussion of the current year tax expense can be found in the section titled Performance Operating Results Group Overview 2006 financial year compared to 2005 financial year Taxation.

	2006 £m	2005 £m
(Loss)/profit before tax on continuing operations as shown in the income statement	**(14,853)**	7,285
Expected tax (credit)/ charge on profit from continuing operations at UK statutory tax rate	**(4,456)**	2,186
Effect of taxation of associated undertakings, reported within operating profit	**133**	134
Non deductible impairment losses	**7,055**	143
Expected tax charge at UK statutory rate on profit from continuing operations, before impairment losses and taxation of associates	**2,732**	2,463
Effect of different statutory tax rates of overseas jurisdictions	**411**	433
Other expenses not deductible for tax purposes	**299**	367
Deferred tax on overseas earnings	**(78)**	(66)
Effect of previously unrecognised temporary differences	**(71)**	(463)
Prior period adjustments	**(470)**	(417)
Exclude taxation of associated undertakings	**(443)**	(448)
Total tax expense on (loss)/profit from continuing operations	**2,380**	1,869

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6. Taxation continued

Deferred tax

Analysis of movements in net deferred tax balance during the year:

	2006 £m
1 April 2005	**(3,665)**
Reclassification as held for sale	**(717)**
Exchange movements	**(217)**
Charged to the income statement	**(567)**
Credited to the statement of recognised income and expense	**8**
Acquisitions and disposals	**(372)**
31 March 2006	**(5,530)**

Deferred tax assets and liabilities in respect of continuing operations, before offset of balances within countries, are as follows:

	Gross deferred tax asset £m	Gross deferred tax liability £m	Less: amounts unrecognised £m	Net recognised deferred tax asset/ (liability) £m	Amount credited /(charged) in income statement £m
Accelerated tax depreciation	**155**	**(1,702)**	**(48)**	**(1,595)**	**(91)**
Accelerated tax depreciation	**155**	**(1,702)**	**(48)**	**(1,595)**	**(91)**
Tax losses	**9,565**		**(9,191)**	**374**	**(85)**
Deferred tax on overseas earnings		**(4,025)**		**(4,025)**	**(318)**
Other short term timing differences	**4,073**	**(1,418)**	**(2,939)**	**(284)**	**(73)**
31 March 2006	**13,793**	**(7,145)**	**(12,178)**	**(5,530)**	**(567)**

Analysed in the balance sheet, after offset of balances within countries, as:	£m
Deferred tax asset	**140**
Deferred tax liability	**(5,670)**
	(5,530)

	Gross deferred tax asset	Gross deferred tax liability	Less: amounts unrecognised	Net recognised deferred tax asset/ (liability)	Amount credited /(charged) in income statement

	£m	£m	£m	£m	£m
Accelerated tax depreciation	293	(1,604)	(20)	(1,331)	(175)
Tax losses	8,248		(7,370)	878	69
Deferred tax on overseas earnings		(3,427)		(3,427)	(245)
Other short term timing differences	5,017	(1,065)	(3,737)	215	362
31 March 2005	13,558	(6,096)	(11,127)	(3,665)	11

Analysed in the balance sheet, after offset of balances within countries, as:	£m
Deferred tax asset	1,184
Deferred tax liability	(4,849)
	(3,665)

Deferred tax balances at 31 March 2005 above are inclusive of discontinued operations. The amounts reported for the 2005 income statement are for continuing operations. Further deferred tax credits of £35 million for accelerated tax depreciation, £433 million tax losses and £103 million other short term timing differences are included within amounts related to discontinued operations in the 2005 income statement.

Factors affecting the tax charge in future years

Factors that may affect the Group s future tax charge include one-off restructuring benefits, the resolution of open issues, future planning opportunities, corporate acquisitions and disposals, changes in tax legislation and rates, and the use of brought forward tax losses.

In particular, the Group s subsidiary Vodafone 2 is responding to an enquiry by HM Revenue & Customs (HMRC) with regard to the UK tax treatment of one of its Luxembourg holding companies under the controlled foreign companies (CFC) rules. Further details in relation to this enquiry are included in note 31 Contingent Liabilities . At 31 March 2006, the Group holds provisions of £1,822 million tax and £276 million interest in respect of the potential UK tax liability that may arise from this enquiry (2005: £1,600 million tax and £157 million interest). Management considers these amounts are sufficient to settle any assessments that may result from the enquiry. However, the amount ultimately paid may differ materially from the amount accrued and, therefore, could affect the overall profitability of the Group in future periods. In the absence of any material unexpected developments, the provisions are likely to be reassessed when the views of the European Court of Justice become known.

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At 31 March 2006, the gross amount and expiry dates of losses available for carry forward are as follows:

	Expiring within 5 years £m	Unlimited £m	Total £m
Losses for which a deferred tax asset is recognised	**1**	**1,451**	**1,452**
Losses for which no deferred tax is recognised	**172**	**31,331**	**31,503**
	173	**32,782**	**32,955**

Included above are losses amounting to £1,939 million (2005: £1,870 million) in respect of UK subsidiaries which are only available for offset against future capital gains and since it is uncertain whether these losses will be utilised, no deferred tax asset has been recognised.

The losses above also include £27,545 million (2005 £20,898 million) that have arisen in overseas holding companies as a result of revaluations of those companies investments for local GAAP purposes. Since it is uncertain whether these losses will be utilised no deferred tax asset has been recognised.

In addition to the losses described above, the Group has potential tax losses of £35,250 million (2005: £34,674 million) in respect of a write down in the value of investments in Germany. These losses have to date been denied by the German tax authorities. Vodafone is in continuing discussions with them regarding the availability of the losses, however the outcome of these discussions and the timing of the resolution are not yet known. The Group has not recognised the availability of the losses, nor the income statement benefit arising from them, due to this uncertainty. If upon resolution a benefit is recognised, it may impact both the amount of current income taxes provided since the date of initial deduction and the amount of the benefit from tax losses the Group will recognise. The recognition of these benefits could affect the overall profitability of the Group in future periods.

The Group holds provisions in respect of deferred taxation that would arise if temporary differences on investments in subsidiaries, associates and interests in joint ventures were to be realised after the balance sheet date. No deferred tax liability has been recognised in respect of a further £23,038 million (2005: £15,060 million) of unremitted earnings of subsidiaries, associates and joint ventures because the Group is in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future.

7. Equity dividends

	2006 £m	2005 £m
Declared and paid during the financial year:		
Final dividend for the year ended 31 March 2005: 2.16 pence per share (2004: 1.078 pence per share)	**1,386**	728
Interim dividend for the year ended 31 March 2006: 2.20 pence per share (2005: 1.91 pence per share)	**1,367**	1,263
	2,753	1,991
Proposed or declared after the balance sheet date and not recognised as a liability:		

Final dividend for the year ended 31 March 2006: 3.87 pence per share (2005: 2.16 pence per share)	**2,327**	1,386

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8. (Loss)/earnings per share

	2006 Millions	2005 Millions
Weighted average number of shares for basic (loss)/earnings per share	**62,607**	66,196
Effect of dilutive potential shares: restricted shares and share options		231
Weighted average number of shares for diluted (loss)/earnings per share	**62,607**	66,427

	£m	£m
(Loss)/earnings for basic and diluted earnings per share		
Continuing operations	**(17,318)**	5,375
Discontinued operations	**(4,598)**	1,035
Total	**(21,916)**	6,410

	Pence per share	Pence per share
(Loss)/earnings per share from continuing operations:		
Basic (loss)/earnings per share	**(27.66)**	8.12
Diluted (loss)/earnings per share[2]	**(27.66)**	8.09
(Loss)/earnings per share from continuing and discontinued operations[1]:		
Basic (loss)/earnings per share	**(35.01)**	9.68
Diluted (loss)/earnings per share[2]	**(35.01)**	9.65

	£m	£m
Basic and diluted (loss)/earnings per share for continuing operations is stated inclusive of the following items:		
Impairment losses (note 10)	**(23,515)**	(475)
Other income and expense	**15**	
Share of associated undertakings non-operating income (note 14)	**17**	
Non-operating income and expense	**(2)**	(7)
Changes in fair value of equity put rights and similar arrangements (note 5)[3]	**(161)**	(67)
Tax on the above items		(3)

	Pence per share	Pence per share

Impairment losses	**(37.56)**	(0.72)
Other income and expense	**0.02**	
Share of associated undertakings non-operating income	**0.03**	
Non-operating income and expense		(0.01)
Changes in fair value of equity put rights and similar arrangements[3]	**(0.26)**	(0.10)
Tax on the above items		

Notes:

(1) See note 29 for further information on discontinued operations including the per share effect of discontinued operations.

(2) In the year ended 31 March 2006, 183 million shares have been excluded from the calculation of diluted loss per share as they are anti dilutive.

(3) Comprises the fair value movement in relation to the potential put rights held by Telecom Egypt over its 25.5% interest in Vodafone Egypt and the fair value of a financial liability in relation to the minority partners of Arcor, the Group s non-mobile operation in Germany.

Following the sale of 16.9% of Vodafone Egypt to Telecom Egypt, the Group signed a shareholder agreement with Telecom Egypt setting out the basis under which the Group and Telecom Egypt would each contribute a 25.5% interest in Vodafone Egypt to a newly formed company to be 50% owned by each party. Within this shareholder agreement, Telecom Egypt was granted a put option over its entire interest in Vodafone Egypt giving Telecom Egypt the right to put its shares back to the Group at deemed fair value. In the 2006 financial year, the shareholder agreement between Telecom Egypt and Vodafone expired and the associated rights and obligations contained in the shareholder agreement terminated, including the aforementioned put option. However, the original shareholders agreement contained an obligation on both parties to use reasonable efforts to renegotiate a revised shareholder agreement for their direct shareholding in Vodafone Egypt on substantially the same terms as the original agreement, which may or may not lead to a new agreement containing a put option under the terms described above. As of 31 March 2006, the parties have not agreed to abandon such efforts and as such the financial liability relating to the initial shareholder agreement has been retained in the Group s balance sheet as at 31 March 2006. Fair value movements are determined by the reference to the quoted share price of Vodafone Egypt. For the year ended 31 March 2006, a charge of £105 million was recognised.

The capital structure of Arcor provides all partners, including Vodafone, the right to withdraw capital from 31 December 2026 onwards and this right in relation to the minority partner has been recognised as a financial liability. Fair value movements are determined by reference to a calculation of enterprise value of the partnership. For the year ended 31 March 2006, a charge of £56 million was recognised.

The valuation of these financial liabilities is inherently unpredictable and changes in the fair value could have a material impact on the future results and financial position of Vodafone.

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9. Intangible assets

	Goodwill £m	Licences and spectrum fees £m	Computer software £m	Other £m	Total £m
Cost:					
1 April 2004	78,753	15,178	2,432		96,363
Exchange movements	1,519	254	39	(5)	1,807
Arising on acquisition	1,239	229		654	2,122
Additions		126	528		654
Disposals	(37)		(35)		(72)
31 March 2005	81,474	15,787	2,964	649	100,874
Reclassification as held for sale	(8,295)	(214)	(36)	(620)	(9,165)
	73,179	**15,573**	**2,928**	**29**	**91,709**
Exchange movements	**1,291**	**216**	**51**	**22**	**1,580**
Arising on acquisition	**2,802**	**1,196**	**20**	**699**	**4,717**
Additions		**6**	**616**	**10**	**632**
Disposals	**(1,142)**		**(43)**	**(5)**	**(1,190)**
31 March 2006	**76,130**	**16,991**	**3,572**	**755**	**97,448**
Accumulated impairment losses and amortisation:					
1 April 2004		361	1,378		1,739
Exchange movements		12	21	(2)	31
Amortisation charge for the year[(1)]		926	494	96	1,516
Impairment losses	475				475
Disposals			(35)		(35)
31 March 2005	475	1,299	1,858	94	3,726
Reclassification as held for sale		(8)	(7)	(90)	(105)
	475	**1,291**	**1,851**	**4**	**3,621**
Exchange movements	**513**	**38**	**33**	**4**	**588**
Amortisation charge for the year		**1,030**	**493**	**102**	**1,625**
Impairment losses	**23,515**				**23,515**
Disposals	**(979)**		**(38)**	**(2)**	**(1,019)**
31 March 2006	**23,524**	**2,359**	**2,339**	**108**	**28,330**

Net book value:					
31 March 2006	**52,606**	**14,632**	**1,233**	**647**	**69,118**
31 March 2005	80,999	14,488	1,106	555	97,148

Note:
(1) The amortisation charge for the year includes £100 million in relation to discontinued operations

The net book value at 31 March 2006 and expiry dates of the most significant purchased licences, are as follows:

	Expiry date	**2006 £m**
Germany	December 2020	**5,165**
UK	December 2021	**5,245**

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9. Intangible assets continued

Goodwill, analysed by reportable segment, is as follows:

	Germany £m	Italy £m	Japan £m	Spain £m	UK £m	Other mobile operations £m	Other operations Germany £m	Total £m
Cost:								
1 April 2004	34,824	19,291	7,523	10,125	713	6,237	40	78,753
Exchange movements	941	521	(428)	274		210	1	1,519
Arising on acquisition			1,200			39		1,239
Disposals						(37)		(37)
31 March 2005	35,765	19,812	8,295	10,399	713	6,449	41	81,474
Reclassification as held for sale			(8,295)					(8,295)
	35,765	**19,812**		**10,399**	**713**	**6,449**	**41**	**73,179**
Exchange movements	**595**	**330**		**172**		**192**	**2**	**1,291**
Arising on acquisition		**15**			**3**	**2,784**		**2,802**
Disposals						**(1,142)**		**(1,142)**
31 March 2006	**36,360**	**20,157**		**10,571**	**716**	**8,283**	**43**	**76,130**
Accumulated impairment losses:								
1 April 2004								
Impairment losses						475		475
31 March 2005						**475**		**475**
Exchange movements	**442**	**82**				**(11)**		**513**
Impairment losses	**19,400**	**3,600**				**515**		**23,515**
Disposals						**(979)**		**(979)**
31 March 2006	**19,842**	**3,682**						**23,524**
Net book value:								
31 March 2006	**16,518**	**16,475**		**10,571**	**716**	**8,283**	**43**	**52,606**
31 March 2005	35,765	19,812	8,295	10,399	713	5,974	41	80,999

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10. Impairment

The following cash-generating units, being the lowest level of asset for which there are separately identifiable cash flows, have carrying amounts of goodwill that are considered significant in comparison with the Group s total goodwill balance:

	2006 £m	2005 £m
Germany	**16,518**	35,765
Italy	**16,475**	19,812
Spain	**10,571**	10,399
Japan(1)		8,295
	43,564	74,271
Multiple units without significant goodwill	**9,042**	6,728
	52,606	80,999

Note:
(1) Goodwill of £8,295 million relating to the Group s mobile operations in Japan has been reclassified to assets included in the disposal group held for sale, following the Group s announcement of its intention to dispose of its operations in Japan on 17 March 2006.

In accordance with accounting standards, the Group undertakes an annual test for impairment of its cash generating units. The most recent test was undertaken at 31 January 2006. The tests in the years ended 31 March 2006 and 2005 were based on value in use calculations.

Impairment losses

The impairment losses recognised in the income statement, as a separate line item within operating profit, in respect of goodwill are as follows:

	2006 £m	2005 £m
Germany	**19,400**	
Italy	**3,600**	
Other Mobile Operations Sweden	**515**	475
	23,515	475

Germany and Italy

The carrying value of goodwill of the Group s mobile operations in Germany and Italy, with each representing a reportable segment, has been impaired due to Vodafone having revised its view of longer term trends for these businesses given certain developments in the current market environment.

The German market has seen recent intensification in price competition, principally from new market entrants, together with high levels of penetration and continued regulated reductions in incoming call rates.

In Italy, competitive pressures are increasing with the mobile network operators competing aggressively on subsidies and, increasingly, on price.

The impairment losses were determined as part of the annual test for impairment and were based on value in use calculations using the pre-tax risk adjusted discount rates disclosed on page 92.

Sweden

The impairment of the carrying value of goodwill of the Group s mobile operation in Sweden in the years ended 31 March 2006 and 2005 resulted from fierce competition in the Swedish market combined with onerous 3G licence obligations. Vodafone Sweden forms part of the Group s Other Mobile Operations, which is a reportable segment.

Prior to its disposal in the year in the year ended 31 March 2006, the carrying value of goodwill was tested for impairment at an interim date as increased competition provided an indicator that the goodwill may have been further impaired. The recoverable amount of the goodwill was determined as the fair value less costs to sell, reflecting the announcement on 31 October 2005 that the Group s 100% interest in Vodafone Sweden was to be sold for €953 million (£653 million). The sale completed on 5 January 2006.

In the year ended 31 March 2005, the impairment was determined as part of the annual test for impairment and was based on value in use calculations. A pre-tax risk adjusted discount rate of 9.7% was used in the value in use calculation.

Key assumptions used in the value in use calculations

The Group prepares and internally approves formal ten year plans for its businesses. For the year ended 31 March 2005, the Group used these plans for its value in use calculations. The plans included cash flow projections for the mobile businesses which were expected to have growth rates in excess of the long-term average growth rates, beyond an initial five year period, for the markets in which they operate.

In the year ended 31 March 2006, the most recent management plans have shown that the need to reflect a differing growth profile beyond an initial five year period has diminished in a number of the Group s key operating companies as the Group has revised its view of longer term trends. Accordingly, the directors believe it is now appropriate to use projections of five years for its value in use calculations, except in markets which are forecast to grow ahead of the long term growth rate for the market. At 31 March 2006, the value in use calculation for the Group s joint venture in India used a ten year plan reflecting the low penetration of mobile telecommunications in the country and the expectation of strong revenue growth throughout the ten year plan.

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10. Impairment continued

The key assumptions used in determining the value in use are:

Assumption	How determined
Budgeted EBITDA	Budgeted EBITDA, calculated as adjusted operating profit before depreciation and amortisation, has been based on past experience adjusted for the following: voice and messaging revenue is expected to benefit from increased usage from new customers, the introduction of new services and traffic moving from fixed networks to mobile networks, though these factors will be partially offset by increased competitor activity, which may result in price declines, and the trend of falling termination rates; non-messaging data revenue is expected to continue to grow strongly as the penetration of 3G enabled devices rises and new products and services are introduced; and margins are expected to be impacted by negative factors such as an increase in the cost of acquiring and retaining customers in increasingly competitive markets and the expectation of further termination rates cuts by regulators; and by positive factors such as the efficiencies expected from the implementation of One Vodafone initiatives.
Budgeted capital expenditure	The cash flow forecasts for capital expenditure is based on past experience and includes the ongoing capital expenditure required to provide enhanced voice and data products and services and to meet the population coverage requirements of certain of the Group s licences. Capital expenditure includes cash outflows for the purchase of property, plant and equipment and computer software.
Long term growth rate	For mobile businesses, a long term growth rate into perpetuity has been determined as the lower of: the nominal GDP rates for the country of operation; and the long term compound annual growth rate in EBITDA implied by the business plan. For non-mobile businesses, no growth is expected beyond management s plans for the initial five year period.
Pre-tax risk adjusted discount rate	The discount rate applied to the cash flows of each the Group s operations is based on the risk free rate for ten year bonds issued by the government in the respective market, adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of the specific Group operating company. In making this adjustment, inputs required are the equity market risk premium (that is the required increased return required over and above a risk free rate by an investor who is investing in the market as a whole) and the risk adjustment (beta) applied to reflect the risk of the specific Group operating company relative to the market as a whole. In determining the risk adjusted discount rate, management have applied an adjustment for the systematic risk to each of the Group s operations determined using an average of the beta s of comparable listed mobile telecommunications companies and, where available and appropriate, across a specific territory. Management have used a forward looking equity market risk premium that takes into consideration both studies by independent economists, the average equity market risk premium over the past ten years and the market risk premiums typically used by investment banks in evaluating acquisition proposals.

The following assumptions have been applied in the value in use calculations as follows:

	Pre-tax risk adjusted discount rate		Long term growth rate	
	2006	2005	**2006**	2005
	%	%	**%**	%
Germany	**10.1**	9.6	**1.1**	2.7
Italy	**10.1**	9.2	**1.5**	4.1
Spain	**9.0**	9.3	**3.3**	3.4

Impact of a reasonably possible change in a key assumption

For those cash generating units, or the aggregate of cash generating units which are not individually significant, where a reasonably possible change in a key assumption would lead to an impairment loss, the following provides additional information on the sensitivity of such a change on the recoverable amount.

	Germany	Italy
	£m	£m
Amount by which recoverable amount exceeded the carrying value at 31 January 2006		

	%	%
Key assumptions:		
Budgeted EBITDA[(1)]	**0.3**	**(1.8)**
Budgeted capital expenditure[(2)]	**9.3 to 9.0**	**13.4 to 8.5**

Notes:
(1) Compound annual growth rates in the initial five years of the Group s approved financial plans.
(2) Range of capital expenditure as a percentage of revenue in the initial five years of the Group s approved plans.

As noted above, there has been an impairment loss recognised in the year ended 31 March 2006 in respect of Germany and Italy, whose carrying values, therefore, equalled their respective recoverable amounts at 31 January 2006, the date of the Group s annual impairment test. As a result, any adverse change in key assumption would cause a further impairment loss to be recognised.

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11. Property, plant and equipment

	Land and buildings £m	Equipment, fixtures and fittings £m	Network infrastructure £m	Total £m
Cost:				
1 April 2004	1,193	3,893	22,759	27,845
Exchange movements	8	38	(54)	(8)
Additions	125	1,393	3,064	4,582
Disposals	(23)	(253)	(368)	(644)
31 March 2005	1,303	5,071	25,401	31,775
Reclassification as held for sale	(209)	(201)	(7,599)	(8,009)
	1,094	**4,870**	**17,802**	**23,766**
Exchange movements	**11**	**199**	**252**	**462**
Arising on acquisition	**3**	**404**	**492**	**899**
Additions	**55**	**984**	**2,350**	**3,389**
Disposal of businesses	**(6)**	**(111)**	**(820)**	**(937**
Disposals	**(67)**	**(257)**	**(412)**	**(736)**
Reclassifications	**22**	**306**	**(328)**	
31 March 2006	**1,112**	**6,395**	**19,336**	**26,843**
Accumulated depreciation and impairment:				
1 April 2004	280	2,060	8,393	10,733
Exchange movements	4	16	(6)	14
Charge for the year[(1)]	81	791	3,127	3,999
Disposals	(9)	(204)	(200)	(413)
31 March 2005	356	2,663	11,314	14,333
Reclassification as held for sale	(44)	(101)	(3,347)	(3,492)
	312	**2,562**	**7,967**	**10,841**
Exchange movements	**3**	**90**	**132**	**225**
Charge for the year	**62**	**905**	**2,112**	**3,079**
Disposal of businesses	**(1)**	**(75)**	**(281)**	**(357)**
Disposals	**(26)**	**(243)**	**(336)**	**(605)**
Reclassifications	**3**	**306**	**(309)**	
31 March 2006	**353**	**3,545**	**9,285**	**13,183**

Net book value:

31 March 2006	**759**	**2,850**	**10,051**	**13,660**
31 March 2005	947	2,408	14,087	17,442

Note:
(1) The depreciation charge for the year includes £1,114 million in relation to discontinued operations.

The net book value of equipment, fixtures and fittings and network infrastructure includes £2 million and £50 million, respectively (2005: £3 million and £118 million) in relation to assets held under finance leases (see note 24).

Included in the net book value of land and buildings, equipment, fixtures and fittings and network infrastructure are assets in the course of construction, which are not depreciated, with a cost of £30 million, £290 million and £677 million, respectively (2005: £15 million, £360 million and £837 million).

Borrowings of £426 million (2005: £327 million) have been secured against property, plant and equipment.

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12. Principal subsidiary undertakings

At 31 March 2006, the Company had the following subsidiary undertakings carrying on businesses which principally affect the profits and assets of the Group. They have the same year end date as the Company, unless otherwise stated, and have been included in the Consolidated Financial Statements.

Unless otherwise stated, the Company s principal subsidiary undertakings all have share capital consisting solely of ordinary shares and are indirectly held. The country of incorporation or registration of all subsidiary undertakings is also their principal place of operation.

Name	Principal activity	Country of incorporation or registration	Percentage[1] shareholdings
Arcor AG & Co. KG[2]	Fixed line operator	Germany	73.7
Vodafone Albania Sh.A.[3]	Mobile network operator	Albania	99.9
Vodafone Americas Inc.[4]	Holding company	USA	100.0
Vodafone Czech Republic a.s.[5]	Mobile network operator	Czech Republic	100.0
Vodafone D2 GmbH	Mobile network operator	Germany	100.0
Vodafone Egypt Telecommunications S.A.E.	Mobile network operator	Egypt	50.1
Vodafone Espana S.A.	Mobile network operator	Spain	100.0
Vodafone Europe B.V.	Holding company	Netherlands	100.0
Vodafone Group Services Limited[6]	Global products and services provider	England	100.0
Vodafone Holding GmbH[3]	Holding company	Germany	100.0
Vodafone Holdings Europe S.L.	Holding company	Spain	100.0
Vodafone Hungary Mobile Telecommunications Limited	Mobile network operator	Hungary	100.0
Vodafone International Holdings B.V.	Holding company	Netherlands	100.0
Vodafone Investments Luxembourg S.a.r.l.	Holding company	Luxembourg	100.0
Vodafone Ireland Limited	Mobile network operator	Ireland	100.0
Vodafone K.K.[7]	Mobile network operator	Japan	97.7
Vodafone Libertel N.V.	Mobile network operator	Netherlands	99.9
Vodafone Limited	Mobile network operator	England	100.0
Vodafone Malta Limited	Mobile network operator	Malta	100.0
Vodafone Marketing S.a.r.l.	Provider of Partner Network services	Luxembourg	100.0
Vodafone Network Pty Limited	Mobile network operator	Australia	100.0
Vodafone New Zealand Limited	Mobile network operator	New Zealand	100.0
Vodafone-Panafon Hellenic Telecommunications Company S.A.	Mobile network operator	Greece	99.8
Vodafone Portugal-Comunicações Pessoais, S.A.	Mobile network operator	Portugal	100.0
Vodafone Romania S.A.[3][8]	Mobile network operator	Romania	100.0

Notes:
(1) Rounded to nearest tenth of one percent.
(2) Arcor AG & Co. KG is a partnership and, accordingly, its share capital is comprised solely of partners capital rather than share capital.
(3) Vodafone Romania S.A., Vodafone Albania Sh.A. and Vodafone Holding GmbH have a 31 December year end. Accounts are drawn up to 31 March 2006 for inclusion in the Consolidated Financial Statements.
(4) Share capital consists of 597,379,729 ordinary shares and 1.65 million class D and E redeemable preference shares, of which 100% of the ordinary shares are held by the Group.
(5) On 1 February 2006, Oskar Mobil a.s. changed its name to Vodafone Czech Republic a.s.
(6) The entire issued share capital of Vodafone Group Services Limited is held directly by Vodafone Group Plc.
(7) On 27 April 2006, the Group disposed of its 97.7% interest in Vodafone K.K. to a wholly-owned subsidiary of SoftBank Corporation.
(8) On 18 April 2006, MobiFon S.A. changed its name to Vodafone Romania S.A.

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13. Investments in joint ventures

Principal joint ventures

Unless otherwise stated, the Company s principal joint ventures all have share capital consisting solely of ordinary shares, which are indirectly held, and the country of incorporation or registration is also their principal place of operation. The accounts of the joint ventures are drawn up to 31 March 2006 for inclusion in the Consolidated Financial Statements. Summarised financial information of joint ventures is disclosed in note 37.

Name	Principal activity	Country of incorporation or registration	Percentage[1] shareholdings
Bharti Airtel Limited[2]	Mobile network and fixed line operator	India	10.0[3]
Polkomtel S.A.[4]	Mobile network operator	Poland	19.6
Safaricom Limited[5]	Mobile network operator	Kenya	35.0[3]
Vodacom Group (Pty) Limited	Holding company	South Africa	50.0
Vodafone Fiji Limited	Mobile network operator	Fiji	49.0[3]
Vodafone Omnitel N.V.[6]	Mobile network operator	Netherlands	76.9[7]

Notes:
(1) Rounded to nearest tenth of one percent.
(2) On 28 April 2006, Bharti Tele-Ventures Limited changed its name to Bharti Airtel Limited.
(3) The Group holds substantive participating rights which provide it with a veto over the significant financial and operating policies of these entities and which ensure it is able to exercise joint control over these entities with the respective majority shareholder.
(4) Latest statutory financial statements were drawn up to 31 December 2005.
(5) The Group also holds two non-voting shares.
(6) The principal place of operation of Vodafone Omnitel N.V. is Italy.
(7) The Group considered the existence of substantive participating rights held by the minority shareholder which provide that shareholder with a veto right over the significant financial and operating policies of Vodafone Omnitel N.V. and determined that, as a result of these rights, the Group does not have control over the financial and operating policies of Vodafone Omnitel N.V., despite the Group s 76.9% ownership interest.

Effect of proportionate consolidation of joint ventures

The following presents, on a condensed basis, the effect of including joint ventures in the Consolidated Financial Statements using proportionate consolidation:

	2006 £m	2005 £m
Revenue	**5,756**	5,423
Cost of sales	**(2,832)**	(2,805)
Gross profit	**2,924**	2,618
Selling and distribution expenses	**(251)**	(230)
Administrative expenses	**(634)**	(389)
Impairment losses	**(3,600)**	
Operating (loss)/profit	**(1,561)**	1,999
Net financing costs	**27**	64
(Loss)/profit before tax	**(1,534)**	2,063
Tax on (loss)/profit	**(711)**	(782)
(Loss)/profit for the financial year	**(2,245)**	1,281

Intangible assets	**20,985**	21,925
Property, plant and equipment	**2,506**	1,951
Other non-current assets	**27**	470
Non-current assets	**23,518**	24,346
Cash and cash equivalents	**1,345**	3,931
Other current assets	**1,148**	1,013
Current assets	**2,493**	4,944
Total assets	**26,011**	29,290
Current liabilities	**2,059**	1,583
Other non-current liabilities	**535**	363
	2,594	1,946
Total equity shareholders funds	**23,402**	27,340
Minority interests	**15**	4
Total equity and liabilities	**26,011**	29,290

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14. Investments in associated undertakings

The Company s principal associated undertakings all have share capital consisting solely of ordinary shares, unless otherwise stated, and are all indirectly held. The country of incorporation or registration of all associated undertakings is also their principal place of operation. The accounts of the associated undertakings are drawn up to 31 March 2006 for inclusion in the Consolidated Financial Statements. The latest statutory financial statements of the associated undertakings were drawn up to 31 December 2005. Summarised financial information of associated undertakings is disclosed in note 37.

Name	Principal activity	Country of incorporation or registration	Percentage[(1)] shareholding/ partnership interest
Belgacom Mobile S.A.	Mobile network operator	Belgium	25.0
Cellco Partnership[(2)]	Mobile network operator	USA	45.0
Société Française du Radiotéléphone S.A.	Mobile network and fixed line operator	France	44.0
Swisscom Mobile A.G.	Mobile network operator	Switzerland	25.0

Notes:
(1) Rounded to nearest tenth of one percent.
(2) Cellco Partnership trades under the name Verizon Wireless. The registered or principal office of the partnership is 180 Washington Valley Road, Bedminster, New Jersey 07921, USA.

The Group s share of the aggregated financial information of equity accounted associated undertakings is set out below:

	2006 £m	2005 £m
Revenue	**12,480**	10,546
Operating profit	**3,133**	2,668
Non-operating income and expense	**17**	
Net interest	**(227)**	(197)
Tax on profit	**(443)**	(448)
Minority interest	**(52)**	(43)
Share of result in associated undertakings	**2,428**	1,980
Non-current assets	**29,055**	25,739
Current assets	**2,183**	2,331
Share of total assets	**31,238**	28,070
Non-current liabilities	**4,141**	2,476
Current liabilities	**3,468**	4,938
Minority interests	**432**	422
Share of total liabilities	**8,041**	7,836
Share of net assets in associated undertakings	**23,197**	20,234

15. Other investments

Other investments comprise the following, all of which are available-for-sale:

	2006 **£m**	2005 £m
Listed securities:		
Equity securities	**1,938**	1,117
Unlisted securities:		
Equity securities	**7**	16
Public debt and bonds	**20**	16
Cash held in restricted deposits	**154**	32
	2,119	1,181

The fair values of listed securities are based on quoted market prices, and include the Group s 3.3% investment in China Mobile (Hong Kong) Limited, which is listed on the Hong Kong and New York stock exchanges and incorporated under the laws of Hong Kong. China Mobile (Hong Kong) Limited is a mobile network operator and its principal place of operation is China.

Unlisted equity securities are recorded at cost, as their fair values cannot be reliably measured as there is no active market upon which they are traded.

For all other unlisted securities, the carrying amount approximates the fair value.

The total unrealised gain in respect of listed securities was £1,080 million (2005: £330 million).

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16. Inventory

	2006 £m	2005 £m
Goods held for resale	**297**	440

Inventory is reported net of allowances for obsolescence, an analysis of which is as follows:

	2006 £m	2005 £m
At 1 April	**121**	189
Transfer in respect of discontinued operations	**(40)**	
Exchange movements	**1**	(4)
Amounts charged/(credited) to the income statement	**15**	(64)
At 31 March	**97**	121

Cost of sales includes amounts related to inventory amounting to £3,662 million (2005: £3,205 million).

17. Trade and other receivables

	2006 £m	2005 £m
Included within non-current assets:		
Trade receivables	**37**	42
Other receivables	**28**	113
Prepayments and accrued income	**65**	66
Derivative financial instruments	**231**	364
	361	585
Included within current assets:		
Trade receivables	**2,462**	2,802
Amounts owed by associated undertakings	**12**	22
Other receivables	**399**	396
Prepayments and accrued income	**1,486**	1,900
Derivative financial instruments	**79**	44
	4,438	5,164

The Group s trade receivables are stated after allowances for bad and doubtful debts, an analysis of which is as follows:

	2006 £m	2005 £m
At 1 April	**474**	441
Transfer in respect of discontinued operations	**(41)**	
Exchange movements	**4**	5
Amounts charged to administrative expenses	**168**	222

Trade receivables written off	**(174)**	(194)
At 31 March	**431**	474

Concentrations of credit risk with respect to trade receivables are limited due to the Group s customer base being large and unrelated. Due to this, the directors believe there is no further credit risk provision required in excess of the allowance for bad and doubtful debts.

The carrying amounts of trade and other receivables approximate their fair value. Trade and other receivables are predominantly non-interest bearing.

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17. Trade and other receivables continued

Included within Derivative financial instruments is the following:

	2006 £m	2005 £m
Fair value through the income statement:		
Interest rate swaps	19	
Foreign exchange swaps	30	42
Option contracts	1	
Other derivatives		1
	50	43
Fair value hedges:		
Interest rate swaps	260	365
	310	408

The fair values of these financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

18. Cash and cash equivalents

	2006 £m	2005 £m
Cash at bank and in hand	948	343
Money market funds	1,841	2,708
Repurchase agreements		206
Commercial paper		512
Cash and cash equivalents as presented in the balance sheet	2,789	3,769
Bank overdrafts	(18)	(43)
Cash and cash equivalents of discontinued operations (note 29)	161	
Cash and cash equivalents as presented in the cash flow statement	2,932	3,726

Bank balances and money market funds comprise cash held by the Group on a short-term basis with original maturity of three months or less. The carrying amount of these assets approximates their fair value.

All commercial paper and repurchase agreements have a maturity of less than three months and the carrying value approximates the fair value.

All repurchase agreements represent fully collateralised bank deposits.

19. Called up share capital

	2006 Number	2006 £m	2005 Number	2005 £m
Authorised:				

Ordinary shares of US$0.10 each	**78,000,000,000**	**4,875**	78,000,000,000	4,875
Ordinary shares allotted, issued and fully paid:				
1 April	**68,380,866,539**	**4,286**	68,263,933,048	4,280
Allotted during the year	**120,466,245**	**7**	116,933,491	6
Cancelled during the year	**(2,250,000,000)**	**(128)**		
31 March	**66,251,332,784**	**4,165**	68,380,866,539	4,286

Note:
(1) At 31 March 2006, the Group held 6,132,757,329 (2005: 3,814,233,598) treasury shares with a nominal value if £353 million (2005: £205 million). The market value of shares held is £7,390 million (2005: £5,359 million).

Allotted during the year

	Number	Nominal value £m	Net proceeds £m
UK share awards and option scheme awards	85,744,935	5	122
US share awards and option scheme awards	34,721,310	2	37
Total for share option schemes and restricted stock awards	120,466,245	7	159

Cancelled during the year

During the year 2,250,000,000 (2005: nil) treasury shares were cancelled in order to comply with Companies Act 1985 requirements in relation to the amount of issued share capital that can be held in treasury.

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20. Share-based payments

The Company currently uses a number of equity settled share plans to grant options and shares to its directors and employees.

Share options

Vodafone Group savings related and Sharesave schemes

The Vodafone Group 1998 Sharesave Scheme (the Sharesave Scheme) enables UK staff to acquire shares in the Company through monthly savings of up to £250 a year over a three or five year period, at the end of which they also receive a tax free bonus. The savings and bonus may then be used to purchase shares at the option price, which is set at the beginning of the savings contract and usually at a discount of 20% to the then prevailing market price of the Company s shares. Invitations to participate in this scheme are usually made annually.

Vodafone Group executive schemes

The Company has a number of discretionary share option plans, under which awards are no longer made. The current share options plans in place are the Vodafone Group 1998 Company Share Option Scheme and Vodafone Group 1988 Executive Share Option Scheme (which are UK HM Revenue and Customs approved) and the Vodafone Group 1998 Executive Share Option Scheme and the Vodafone 1988 Share Option Scheme (which are unapproved). Options under discretionary schemes are subject to performance conditions. Options are normally exercisable between three and ten years from the date of grant.

Vodafone Group 1999 Long Term Stock Incentive Plan and ADSs

The Vodafone Group Plc 1999 Long Term Stock Incentive Plan is a discretionary plan under which both share option grants and share awards may be made. For grants made to US employees, prior to 7 July 2003 the options have phased vesting over a four year period and are exercisable in respect of ADSs. For grants made after 6 July 2003, options are normally exercisable between three and ten years from the date of grant, subject to the satisfaction of predetermined performance conditions and are exercisable in respect of ordinary shares listed on the London Stock Exchange, or ADSs for US employees.

Other share option schemes

Share option schemes are operated by certain of the Group s subsidiary and associated undertakings, under which options are only issued to key personnel.

Share plans

Share Incentive Plan

The Share Incentive Plan enables UK staff to acquire shares in the Company through monthly purchases of up to £125 per month or 5% of salary, whichever is lower. For each share purchased by the employee, the Company provides a free matching share.

In addition to the above, all permanent employees at 1 April 2005 received an award of 320 shares (2005: 350) (known as "All Shares") in Vodafone Group Plc on 1 July 2005 (5 July 2004), under the Vodafone Group Plc Global All Employee Share Plan. The awards vest after two years and are not subject to performance conditions other than continued employment.

Restricted share plans

Under the Vodafone Group Short Term Incentive Plan, introduced in 1998, shares are conditionally awarded to directors based on achievement of one year performance targets. Release of the shares is deferred for a further two years and is subject to continued employment. Additional shares are released at this time if a further performance condition has been satisfied over the two year period.

Under the Vodafone Group Long Term Incentive Plan and the Vodafone Group Plc 1999 Long Term Stock Incentive Plan referred to above, awards of performance shares are granted to directors and certain employees. The release of these shares is conditional upon achievement of performance targets measured over a three year period.

Under these restricted share plans, the maximum aggregate number of ordinary shares which may be issued in respect of options or awards will not (without shareholder approval) exceed:

a. 10% of the ordinary share capital of the Company in issue immediately prior to the date of grant, when aggregated with the total number of ordinary shares which have been allocated in the preceding ten year period under all plans; and

b. 5% of the ordinary share capital of the Company in issue immediately prior to the date of grant, when aggregated with the total number of ordinary shares which have been allocated in the preceding ten year period under all plans other than the Sharesave Scheme and the Vodafone Group Plc All Employee Share Plan.

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20. Share-based payments continued

Movements in ordinary share options and ADS options outstanding

	ADS		Ordinary	
	2006 Millions	2005 Millions	**2006 Millions**	2005 Millions
1 April	**11**	18	**1,123**	1,184
Granted during the year			**64**	60
Forfeited during the year		(2)	**(40)**	(61)
Exercised during the year	**(2)**	(5)	**(325)**	(60)
Expired during the year	**(1)**		**(35)**	
31 March	**8**	11	**787**	1,123
Weighted average exercise price:				
1 April	**$24.49**	$23.36	**£1.25**	£1.16
Granted during the year			**£1.35**	£1.17
Forfeited during the year		$28.52	**£1.46**	£1.43
Exercised during the year	**$15.08**	$16.75	**£0.93**	£0.94
Expired during the year	**$36.83**		**£1.83**	
31 March	**$26.53**	$24.49	**£1.32**	£1.25

Summary of options outstanding and exercisable at 31 March 2006

	Outstanding			Exercisable		
	Outstanding shares Millions	Weighted average exercise price	Weighted average remaining contractual life Months	Exercisable shares Millions	Weighted average exercise price	Weighted average remaining contractual life Months
Vodafone Group Savings Related and Sharesave Scheme:						
£0.01 £1.00	**21**	**£0.84**	**24**			
£1.01 £2.00	**12**	**£1.10**	**39**			
	33	**£0.93**	**30**			
Vodafone Group Executive Schemes:						
£1.01 £2.00	**17**	**£1.58**	**29**	**17**	**£1.58**	**29**
£2.01 £3.00	**33**	**£2.75**	**49**	**33**	**£2.75**	**49**
	50	**£2.34**	**42**	**50**	**£2.34**	**42**

Vodafone Group 1999 Long Term Stock Incentive Plan:						
£0.01 £1.00	**227**	**£0.91**	**75**	**227**	**£0.91**	**75**
£1.01 £2.00	**446**	**£1.39**	**78**	**213**	**£1.56**	**60**
£2.01 £3.00	**12**	**£2.92**	**16**	**12**	**£2.92**	**16**
	685	**£1.26**	**76**	**452**	**£1.27**	**66**
Other Share Option Plans:						
£0.01 £1.00	**2**	**£0.73**	**16**	**2**	**£0.73**	**15**
£1.01 £2.00	**14**	**£1.37**	**37**	**11**	**£1.47**	**36**
£2.01 £3.00	**3**	**£2.17**	**25**	**3**	**£2.17**	**25**
	19	**£1.45**	**33**	**16**	**£1.54**	**32**
Vodafone Group 1999 Long Term Stock Incentive Plan:						
$10.01 $20.00	**2**	**$13.96**	**76**			
$20.01 $30.00	**3**	**$21.60**	**53**	**1**	**$22.55**	**28**
Greater than $30.01	**3**	**$42.59**	**7**	**3**	**$42.59**	**7**
	8	**$26.49**	**44**	**4**	**$35.20**	**15**

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Movements in non-vested shares during the year ended 31 March 2006 is as follows:

	All Shares		Other		Total	
	Millions	Weighted average fair value at grant date	Millions	Weighted average fair value at grant date	Millions	Weighted average fair value at grant date
1 April 2005	**19**	**£1.11**	**103**	**£1.07**	**122**	**£1.08**
Granted	**19**	**£1.27**	**73**	**£1.22**	**92**	**£1.23**
Vested	**(1)**	**£1.12**	**(16)**	**£1.04**	**(17)**	**£1.04**
Forfeited	**(2)**	**£1.19**	**(19)**	**£1.02**	**(21)**	**£1.04**
31 March 2006	**35**	**£1.19**	**141**	**£1.16**	**176**	**£1.17**

Fair value

	ADS Options		Ordinary Share Options			
	Other		Board of directors and and Executive Committee		Other	
	2006	2005	**2006**	2005	**2006**	2005
Expected life of option (years)	**8 9**	6 7	**6 7**	5 6	**8 9**	6 7
Expected share price volatility	**17.9 18.9%**	25.6 26.6%	**17.6 18.6%**	24.3 25.3%	**17.9 18.9%**	25.6 26.6%
Dividend yield	**2.8 3.2%**	1.7 2.1%	**2.6 3%**	1.7 2.1 %	**2.8 3.2%**	1.7 2.1%
Risk free rates	**4.2%**	5.1%	**4.2%**	5.2%	**4.2%**	5.1%
Exercise price	**£1.36**	£1.40	**£1.45**	£1.40	**£1.36**	£1.40

The fair value of the options is estimated at the date of grant using a lattice-based option valuation model (i.e. binomial model) that uses the assumptions noted in the above table. Lattice-based option valuation models incorporate ranges of assumptions for inputs and those ranges are disclosed above. The executive options have a market based performance condition attached and hence the assumptions are disclosed separately.

The Group uses historical data to estimate option exercise and employee termination within the valuation model; seperate groups of employees that have similar historical exercise behaviour are considered separately for valuation purposes. The expected life of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding; the range given above results from certain groups of employees exhibiting different behaviour. Expected volatilities are based on implied volatilities as determined by a simple average of no less than three international banks excluding the highest and lowest numbers. The risk-free rates for periods within the contractual life of the option are based on the UK gilt yield curve in effect at the time of grant.

Shares used for the Group s employee incentive plans can be newly issued shares, shares held in treasury or market purchased shares either through the Company's employee benefit trust or direct from the market or a combination of sources. The source of the shares is determined by the Company having regard to what is considered the most efficient source at the relevant time.

Some share awards have an attached market condition, based on Total Shareholder Return (TSR), which is taken into account when calculating fair value of the share awards. The valuation methodology for the TSR was based on Vodafone s ranking within the same group of companies (where possible) over the past 10 years. The volatility of the ranking over a three year period was used to determine the probability weighted percentage number of shares that could be expected to vest and hence affect fair value.

Other information

The weighted average grant-date fair value of options granted during the year 2006 was £0.30 (2005: £0.34). The total intrinsic value of options exercised during the year ended 31 March 2006 was £164 million (2005: £28 million). The aggregate intrinsic value of fully vested share options outstanding at the year end was £68 million and the aggregate intrinsic value of fully vested share options exercisable at the year end was £58 million. Cash received from the exercise of options under share options schemes was £356 million and the tax benefit realised from options exercised during the annual period was £24 million.

The total fair value of shares vested during the year ended 31 March 2006 was £18 million (2005: £5 million).

The compensation cost that has been charged against income in respect of share options and share plans for continuing operations was £109 million (2005: £130 million), which is comprised entirely of equity-settled transactions. Including discontinued operations, the compensation cost charged against income in respect of share options and share plans in total was £114 million (2005: £137 million). The total income tax benefit recognised in the consolidated income statement was £50 million (2005: £17 million). Compensation costs capitalised during the years ended 31 March 2006 and 31 March 2005 were insignificant. As of 31 March 2006, there was £162 million of total compensation cost relating to non-vested awards not yet recognised, which is expected to be recognised over a weighted average period of two years.

No cash was used to settle equity instruments granted under share-based payment schemes.

The average share price for the financial year was 136 pence.

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21. Transactions with equity shareholders

	Share premium account £m	Capital redemption reserve £m	Own shares held £m	Additional paid in capital £m
1 April 2004	52,154		(1,136)	99,950
Issue of new shares	130			(28)
Purchase of own shares			(3,997)	
Own shares released on vesting of share awards			12	
Share-based payment charge, inclusive of tax credit of £22 million				159
31 March 2005	**52,284**		**(5,121)**	**100,081**
Issue of new shares	**152**			**(44)**
Purchase of own shares			**(6,500)**	
Own shares released on vesting of share awards	**8**		**370**	**(8)**
Cancellation of own shares held		**128**	**3,053**	
Share-based payment charge, inclusive of tax credit of £9 million				**123**
31 March 2006	**52,444**	**128**	**(8,198)**	**100,152**

22. Movements in accumulated other recognised income and expense

	Translation reserve £m	Pensions reserve £m	Available-for-sale investments reserve £m	Asset revaluation surplus £m	Total £m
1 April 2004			233		233
Gains/(losses) arising in the year	1,521	(102)	106		1,525
Tax effect		23			23
31 March 2005	**1,521**	**(79)**	**339**		**1,781**
Gains/(losses) arising in the year	**1,486**	**(43)**	**710**	**112**	**2,265**
Foreign exchange recycled on business disposal	**36**				**36**
Tax effect		**13**	**(5)**		**8**
31 March 2006	**3,043**	**(109)**	**1,044**	**112**	**4,090**

23. Movements in retained losses

	2006 £m	2005 £m
1 April	**(39,511)**	(43,930)
(Loss)/profit for the financial year	**(21,916)**	6,410
Dividends (note 7)	**(2,753)**	(1,991)

Loss on issue of treasury shares	**(123)**	
Cancellation of shares	**(3,053)**	
31 March	**(67,356)**	(39,511)

24. Borrowings

	2006			2005		
	Short-term borrowings £m	**Long-term borrowings £m**	**Total £m**	Short-term borrowings £m	Long-term borrowings £m	Total £m
Financial liabilities measured at amortised cost:						
Bank loans	**58**	**1,414**	**1,472**	27	1,214	1,241
Bank overdrafts	**18**		**18**	43		43
Redeemable preference shares		**902**	**902**		845	845
Finance lease obligations	**7**	**68**	**75**	11	130	141
Bonds		**3,928**	**3,928**		906	906
Other liabilities	**1,840**	**295**	**2,135**	1,640	202	1,842
Loans in fair value hedge relationships	**1,525**	**10,143**	**11,668**	282	9,893	10,175
	3,448	**16,750**	**20,198**	2,003	13,190	15,193

Maturity of borrowings

The maturity profile of the Group s non-derivative financial liabilities, using undiscounted cash flows and which, therefore, differs to both the carrying value and fair value, is as follows:

	Bank loans £m	Redeemable preference shares £m	Finance lease obligations £m	Bonds £m	Other liabilities £m	Loans in fair value hedge relationships £m	Total £m
Within one year	**58**	**49**	**12**	**167**	**1,858**	**2,164**	**4,308**
In one to two years	**36**	**49**	**11**	**2,044**	**295**	**1,521**	**3,956**
In two to three years	**36**	**49**	**11**	**936**		**1,187**	**2,219**
In three to four years	**39**	**49**	**11**	**55**		**5,548**	**5,702**
In four to five years	**1,290**	**49**	**10**	**55**		**267**	**1,671**
In more than five years	**13**	**1,387**	**42**	**1,375**		**7,428**	**10,245**
	1,472	**1,632**	**97**	**4,632**	**2,153**	**18,115**	**28,101**
Effect of discount/financing rates		**(730)**	**(22)**	**(704)**		**(6,447)**	**(7,903)**
31 March 2006	**1,472**	**902**	**75**	**3,928**	**2,153**	**11,668**	**20,198**
Within one year	27	45	21	43	1,683	590	2,409
In one to two years	1,176	45	21	43	192	2,143	3,620
In two to three years	4	45	20	43		1,488	1,600
In three to four years	5	45	18	43		1,056	1,167
In four to five years	8	45	17	43	10	5,619	5,742
In more than five years	21	1,323	76	1,196		4,806	7,422
	1,241	1,548	173	1,411	1,885	15,702	21,960
Effect of discount/financing rates		(703)	(32)	(505)		(5,527)	(6,767)
31 March 2005	1,241	845	141	906	1,885	10,175	15,193

The maturity profile of the Group s financial derivatives, using undiscounted cash flows, is as follows:

	2006		2005	
	Payable £m	**Receivable £m**	Payable £m	Receivable £m
Within one year	**14,012**	**14,009**	5,701	5,855
In one to two years	**609**	**600**	412	515
In two to three years	**545**	**556**	391	435
In three to four years	**456**	**523**	345	393
In four to five years	**332**	**315**	273	357
In more than five years	**2,839**	**2,851**	2,045	2,176

	18,793	**18,854**	9,167	9,731

The currency split of the Group s foreign exchange derivatives, all of which mature in less than one year, is as follows:

	2006		2005	
	Payable £m	**Receivable £m**	Payable £m	Receivable £m
Sterling		**2,971**	350	920
Euro	**6,387**	**157**	1,553	66
US dollar	**3,646**	**9,655**	1,258	3,961
Japanese yen	**2,017**	**190**	2,054	141
Other	**1,323**	**361**	91	247
	13,373	**13,334**	5,306	5,335

The £39 million net payable (2005: £29 million net receivable) foreign exchange financial instruments, in the table above, are split £69 million (2005: £13 million) within trade and other payables and £30 million (2005: £42 million) within trade and other receivables.

The present value of minimum lease payments under finance lease arrangements under which the Group has leased certain of its equipment is analysed as follows:

	2006 £m	2005 £m
Within one year	**7**	11
In two to five years	**31**	64
In more than five years	**37**	66

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24. Borrowings continued

The fair value and carrying value of the Group s financial liabilities, for short-term borrowings and long-term borrowings, is as follows:

	Fair value 2006 £m	Fair value 2005 £m	**Carrying value 2006 £m**	Carrying value 2005 £m
Financial liabilities measured at amortised cost:				
Bank loans	**58**	27	**58**	27
Bank overdrafts	**18**	43	**18**	43
Finance lease obligations	**7**	11	**7**	11
Other liabilities	**1,840**	1,640	**1,840**	1,640
Loans in fair value hedge relationships:				
1.27% Japanese yen 25bn bond due 2005		124		124
1.93% Japanese yen 25bn bond due 2005		124		124
6.35% US dollar 200m bond due 2005		34		34
0.83% Japanese yen bond due 2006	**15**		**15**	
5.4% euro400m bond due 2006	**281**		**293**	
5.75% euro1.5bn bond due 2006	**1,063**		**1,091**	
7.5% US dollar 400m bond due 2006	**126**		**126**	
Short-term borrowings	**3,408**	2,003	**3,448**	2,003
Financial liabilities measured at amortised cost:				
Bank loans	**1,414**	1,214	**1,414**	1,214
Redeemable preference shares	**902**	845	**902**	845
Finance lease obligations	**68**	130	**68**	130
Bonds:				
US dollar FRN due June 2007	**1,064**		**1,064**	
US dollar FRN due December 2007	**859**		**867**	
Euro FRN due July 2008	**873**		**875**	
US dollar FRN due June 2011	**201**		**202**	
5.125% euro 500m bond due 2015	**366**	375	**376**	371
5% euro 750m bond due 2018	**540**	554	**544**	535
Other liabilities	**295**	202	**295**	202
Loans in fair value hedge relationships:				
0.83% Japanese yen 3bn bond due 2006		15		15
1.78% Japanese yen 25bn bond due 2006		126		123
5.4% euro 400m bond due 2006		284		296
5.75% euro 1.5bn bond due 2006		1,080		1,102
7.5% US dollar 400m bond due 2006		120		115
4.161% US dollar 150m bond due 2007	**86**	79	**85**	79
2.575% Japanese yen 25bn bond due 2008		132		140
3.95% US dollar 500m bond due 2008	**281**	261	**281**	260
4.625% euro 250m bond due 2008	**178**	180	**172**	175

5.5% euro 400m bond due 2008	**34**	35	**34**	34
6.25% sterling 250m bond due 2008	**257**	258	**255**	255
6.25% sterling 150m bond due 2008	**154**	155	**145**	148
6.65% US dollar 500m bond due 2008	**147**	141	**140**	129
4.625% euro 500m bond due 2008	**316**	359	**355**	357
4.25% euro 1.4bn bond due 2009	**990**	1,000	**1,008**	1,017
4.25% euro 500m bond due 2009	**354**	357	**360**	364
4.75% euro 3bn bond due 2009	**624**	633	**593**	587
2.0% Japanese yen 25bn bond due 2010		131		121
2.28% Japanese yen 25bn bond due 2010		133		125
2.50% Japanese yen 25bn bond due 2010		135		121
7.75% US dollar 2.75bn bond due 2010	**1,702**	1,543	**1,693**	1,600
5.5% US dollar 750m bond due 2011	**428**		**430**	
3.625% euro 750m bond due 2012	**505**		**514**	
5.0% US dollar 1bn bond due 2013	**549**	513	**559**	528
4.625% sterling 350m bond due 2014	**333**		**349**	
5.375% US dollar 500m bond due 2015	**307**	260	**274**	260
5.375% US dollar 400m bond due 2015	**220**	208	**220**	208
5.0% US dollar 750m bond due 2015	**419**		**415**	
5.75% US dollar 750m bond due 2016	**423**		**427**	
4.625% US dollar 500m bond due 2018	**258**	245	**260**	245
5.625% sterling 250m bond due 2025	**254**	253	**271**	258
7.875% US dollar 750m bond due 2030	**499**	496	**542**	512
5.9% sterling 450m bond due 2032	**477**	468	**480**	454
6.25% US dollar 495m bond due 2032	**293**	268	**281**	265
Long-term borrowings	**16,670**	13,188	**16,750**	13,190

Fair values are calculated using discounted cash flows with a discount rate based upon forward interest rates available to the Group at the balance sheet date.

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Borrowing facilities

At 31 March 2006, the Group s most significant committed borrowing facilities comprised two bank facilities of $5,925 million (£3,407 million) and $5,025 million (£2,890 million) expiring between two and five years and in more than five years, respectively (2005: two bank facilities of $5,525 million (£2,926 million) and $4,853 million (£2,570 million)), and a ¥259 billion (£1,265 million, 2005: ¥225 billion (£1,112 million)) term credit facility, which expires between two and five years. The bank facilities remained undrawn throughout the year and the ¥259 billion term credit facility was fully drawn down on 21 December 2005.

Under the terms and conditions of the $5,925 million and $5,025 million bank facilities, lenders have the right, but not the obligation, to cancel their commitment 30 days from the date of notification of a change of control of the Company and have outstanding advances repaid on the last day of the current interest period. The facility agreement provides for certain structural changes that do not affect the obligations of the Company to be specifically excluded from the definition of a change of control. This is in addition to the rights of lenders to cancel their commitment if the Company has committed an event of default. Substantially the same terms and conditions apply in the case of Vodafone Finance K.K. s ¥259 billion term credit facility, although the change of control provision is applicable to any guarantor of borrowings under the term credit facility. As of 31 March 2006, the Company was the sole guarantor of the ¥259 billion term credit facility.

In addition to the above, certain of the Group s subsidiaries had committed facilities at 31 March 2006 of £271 million (2005: £168 million) in aggregate, of which £65 million (2005: £77 million) was undrawn. Of the total committed facilities, £121 million (2005: £28 million) expires in less than one year, £109 million (2005: £100 million) expires between two and five years, and £41 million (2005: £40) expires in more than five years.

Redeemable preference shares

Redeemable preference shares comprise class D and E preferred shares issued by Vodafone Americas, Inc. An annual dividend of $51.43 per class D and E preferred share is payable quarterly in arrears. The dividend for the year amounted to £48 million (2005: £46 million). The aggregate redemption value of the class D and E preferred shares is $1.65 billion. The holders of the preferred shares are entitled to vote on the election of directors and upon each other matter coming before any meeting of the shareholders on which the holders of ordinary shares are entitled to vote. Holders are entitled to vote on the basis of twelve votes for each share of class D or E preferred stock held. The maturity date of the 825,000 class D preferred shares is 6 April 2020. The 825,000 class E preferred shares have a maturity date of 1 April 2020. The class D and E preferred shares have a redemption price of $1,000 per share plus all accrued and unpaid dividends.

Interest rate and currency of borrowings

			Fixed rate borrowings		
Currency	Total borrowings £m	Floating rate borrowings £m	Fixed rate borrowings £m	Weighted average interest rate %	Weighted average time for which rate is fixed Years
Sterling	**1,511**	**1,511**			
Euro	**6,941**	**5,996**	**945**	**5.1**	**10.8**
US dollar	**8,905**	**8,905**			
Japanese yen	**1,296**	**1,296**			
Other	**1,545**	**1,545**			

31 March 2006	**20,198**	**19,253**	**945**	**5.1**	**10.8**
Sterling	1,123	1,123			
Euro	6,216	5,238	978	5.0	11.6
US dollar	5,107	5,107			
Japanese yen	2,061	2,061			
Other	686	686			
31 March 2005	15,193	14,215	978	5.0	11.6

Interest on floating rate borrowings is based on national LIBOR equivalents or government bond rates in the relevant currencies.

The figures shown in the tables above take into account interest rate swaps used to manage the interest rate profile of financial liabilities.

At 31 March 2006, the Group had entered into foreign exchange contracts to decrease its sterling and US dollar borrowings above by amounts equal to £2,971 million (2005: £570 million) and £6,009 million (2005: £2,703 million) respectively and to increase its euro, Japanese yen and other currency borrowings above by amounts equal to £6,230 million (2005: £1,487 million), £1,827 million (2005: £1,913 million) and £962 million (2005: £156 million decrease to other borrowings) respectively.

Further protection from euro and Japanese yen interest rate movements on debt is provided by interest rate swaps. At 31 March 2006 the Group had euro and Japanese yen denominated interest rate swaps for amounts equal to £1,536 million and £3,720 million respectively. The effective rates, which have been fixed, are 3.54% and 0.36% respectively. In addition the Group has entered into euro denominated forward starting interest rate swaps for amounts equal to £698 million, £2,793 million and £698 million, which cover the periods June 2007 to June 2008, June 2008 to June 2009 and September 2008 to September 2009 respectively. The effective rates, which have been fixed, range from 2.62% per annum to 3.02% per annum.

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24. Borrowings continued

Financial risk management

The Group s treasury function provides a centralised service to the Group for funding, foreign exchange, interest rate management and counterparty risk management. Treasury operations are conducted within a framework of policies and guidelines authorised and reviewed annually by the Company s Board of directors, most recently on 31 January 2006. A Treasury Risk Committee, comprising of the Group s Chief Financial Officer, Group General Counsel and Company Secretary, Group Treasurer and Director of Financial Reporting, meets quarterly to review treasury activities and management information relating to treasury activities. In accordance with the Group treasury policy, a quorum for meetings is four members and either the Chief Financial Officer or Group General Counsel and Company Secretary must be present at each meeting. The Group accounting function, which does not report to the Group Treasurer, provides regular update reports of treasury activity to the Board of directors. The Group uses a number of derivative instruments that are transacted, for risk management purposes only, by specialist treasury personnel. The Group s internal auditors review the internal control environment regularly. There has been no significant change during the financial year, or since the end of the year, to the types of financial risks faced by the Group or the Group s approach to the management of those risks.

The Group s policy is to borrow centrally, using a mixture of long term and short term capital market issues and borrowing facilities, to meet anticipated funding requirements. These borrowings, together with cash generated from operations, are on-lent or contributed as equity to certain subsidiaries. The Board of directors has approved three debt protection ratios, being: net interest to operating cash flow (plus dividends from associated undertakings); retained cash flow (operating cash flow plus dividends from associated undertakings less interest, tax, dividends to minorities and equity dividends) to net debt; and operating cash flow (plus dividends from associated undertakings) to net debt.

These internal ratios establish levels of debt that the Group should not exceed other than for relatively short periods of time and are shared with the Group s debt rating agencies, being Moody s, Fitch Ratings and Standard & Poor s.

Liquidity risk

As at 31 March 2006, the Group had $10.9 billion committed undrawn bank facilities and $15 billion and £5 billion commercial paper programmes, that are supported by the $10.9 billion committed bank facilities, available to manage its liquidity.

Market risk

Interest rate management

Under the Group s interest rate management policy, interest rates on monetary assets and liabilities are maintained on a floating rate basis, unless the forecast interest charge for the next eighteen months is material in relation to forecast results, in which case rates are fixed. In addition, fixing is undertaken for longer periods when interest rates are statistically low.

At 31 March 2006, 29% (2005: 31%) of the Group s gross borrowings were fixed for a period of at least one year. A one hundred basis point fall or rise in market interest rates for all currencies in which the Group had borrowings at 31 March 2006 would increase or reduce profit before tax by approximately £91 million, including mark-to-market revaluations of interest rate and other derivatives and the potential interest on outstanding tax issues.

Foreign exchange management

As Vodafone s primary listing is on the London Stock Exchange, its share price is quoted in sterling. Since the sterling share price represents the value of its future multi-currency cash flows, principally in euro, yen (until disposal of its Japan operation on 27 April 2006), sterling and US dollars, the Group has a policy to hedge external foreign exchange risks on transactions denominated in other currencies above certain de minimis levels.

The Group also maintains the currency of debt and interest charges in proportion with its expected future principal multi-currency cash flows. As such, at 31 March 2006,113% of net debt was denominated in currencies other than sterling (73% euro, 21% yen, 14% US dollar and 5% other), whilst 13% of net debt had been purchased forward in sterling in anticipation of sterling denominated shareholder returns via share purchases, dividends and B share distribution. This allows debt to be serviced in proportion to

expected future cash flows and, therefore, provides a partial hedge against income statement translation exposure, as interest costs will be denominated in foreign currencies. A relative weakening in the value of sterling against certain currencies in which the Group maintains debt has resulted in an increase in net debt of £182 million from currency translation differences.

When the Group s international net earnings for the year ended 31 March 2006 are retranslated assuming a 10% strengthening of sterling against all exchange rates, the operating profit for the year would have increased by £1,344 million (2005: reduced by

£645 million), and would have been reduced by £1,642 million (2005: increased by £789 million) if sterling weakened by 10%.

The change in equity due to a 10% fall or rise in sterling rates against all exchange rates for the translation of net investment hedging instruments would be a decrease of £1,669 million or an increase of £1,365 million. However, there would be no net impact on equity as there would be an offset in the currency translation of the foreign operation.

Credit risk

The Group considers its maximum exposure to credit risk to be as follows:

	2006 £m	2005 £m
Bank deposits	**948**	343
Money market fund investments	**1,841**	2,708
Commercial paper investments		512
Repurchase agreements		206
Derivative financial instruments	**310**	408
	3,099	4,177

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, management believes there is no further credit risk provision required in excess of the normal provision for bad and doubtful receivables (note 17).

The deposits shown in the table equate to the principal of the amount deposited. The foreign exchange transactions and interest rate swaps shown in the table have been marked-to-market.

For repurchase agreements, collateral equivalent to the investment value is satisfied by triple-A rated government and/or supranational instruments and collateral is replenished on a daily basis. In respect of financial instruments used by the Group s treasury function, the aggregate credit risk the Group may have with one counterparty is limited by reference to the long term credit ratings assigned for that counterparty by Moody s, Fitch Ratings and Standard & Poor s. While these counterparties may expose the Group to credit losses in the event of non-performance, it considers the possibility of material loss to be acceptable because of this policy.

Consistent with development of its strategy, the Group is now targeting low single A long term credit ratings from Moody s, Fitch Ratings and Standard & Poor s having previously managed the capital structure at single A credit ratings. Credit ratings are not a recommendation to purchase, hold or sell securities, in as much as ratings do not comment on market price or suitability for a particular investor, and are subject to revision or withdrawal at any time by the assigning rating organisation. Each rating should be evaluated independently.

25. Post employment benefits

Background

As at 31 March 2006, the Group operated a number of pension plans for the benefit of its employees throughout the world, which vary depending on the conditions and practices in the countries concerned. The Group's pension plans are provided through both defined benefit and defined contribution arrangements. Defined benefit schemes provide benefits based on the employees' length of pensionable service and their final pensionable salary or other criteria. Defined contribution schemes offer employees individual funds that are converted into benefits at the time of retirement.

The principal defined benefit pension schemes are in the United Kingdom and Germany. The Group also operated defined benefit schemes in Japan, its discontinued operation, and in Sweden until it was disposed of on 5 January 2006. In addition, the Group

operates defined benefit schemes in Greece, Ireland, Italy and the United States. Defined contribution pension schemes are provided in Australia, Belgium, Egypt, Germany, Greece, Hungary, Ireland, Italy, Malta, the Netherlands, New Zealand, Portugal, Spain, the United Kingdom and the United States. A defined contribution scheme is also operated in the Group s discontinued operation in Japan. There is a post retirement medical plan in the United States for a small closed group of participants.

The Group accounts for its pension schemes in accordance with IAS 19, Employee Benefits (IAS19). The Group has also early adopted the amendment to IAS 19 that was published in December 2004 regarding actuarial gains and losses, group plans and disclosures.

Scheme liabilities are assessed by independent actuaries using the projected unit funding method and applying the principal actuarial assumptions set out below. Assets are shown at market value.

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The measurement date for the Group s pension assets and obligations is 31 March. The measurement date for the Group s net periodic cost is 31 March of the previous year. Actuarial gains and losses are recognised in the period in which they arise. Payments to defined contribution schemes are charged as an expense as they fall due.

In the UK, the majority of the UK employees are members of the Vodafone Group Pension Scheme (the main scheme), which was closed to new entrants from 1 January 2006. This is a tax approved defined benefit scheme, the assets of which are held in an external trustee-administered fund. The investment policy and strategy of the scheme is the responsibility of the plan trustees, who are required to consult with the Company as well as taking independent advice on key investment issues. In setting the asset allocation, the Trustees take into consideration a number of criteria, including the key characteristics of the asset classes, expected risk and return, the structure and term of the member liabilities, diversification of assets, minimum funding and solvency requirements, as well as the Company s input on contribution requirements. The plan has a relatively low level of pensioner liabilities already in payment, meaning that the overall duration of plan liabilities is long term. A significant percentage of assets has currently been allocated to equities although this approach is reviewed regularly.

The main scheme is subject to quarterly funding updates by independent actuaries and to formal actuarial valuations at least every three years. The most recent formal triennial valuation of this scheme was carried out as at 31 March 2004.

As a result of the triennial actuarial valuation, the Group s UK subsidiaries agreed to make a special lump sum contribution of £30 million (2005: £100 million) during the financial year. The special contributions brought the funding position to 99% at 31 March 2006.

There are a number of separate pension and associated arrangements in Germany. There is no requirement to fund liabilities, however the Group funds pension obligations via a Contractual Trust Arrangement, in a separate legal agreement. The investment policy and strategy is controlled by Group appointed trustees. The investment approach followed is similar to that adopted by the Trustees of the UK plan although a higher proportion of assets are allocated to bond securities than to equities, reflecting the more mature nature and shorter duration of the liability commitments. The German schemes are subject to annual valuations, with the last formal valuations having been completed at 31 March 2006.

Income statement expense

	2006 **£m**	2005 £m
Defined contributions schemes	**28**	18
Defined benefit schemes	**52**	52
Total amount charged to the income statement (note 34)	**80**	70

Defined benefit schemes

The most recent full formal actuarial valuations for defined benefit schemes have been updated by qualified independent actuaries for the financial year ended 31 March 2006 to provide the IAS 19 disclosures below.

Major assumptions used

	Germany		UK		Other(1)	
	2006	2005	**2006**	2005	**2006**	2005

	%	%	%	%	%	%
Weighted average actuarial assumptions used to determine benefit obligations:						
Rate of inflation	**1.9**	1.9	**2.8**	2.8	**2.0**	2.0
Rate of increase in salaries	**2.9**	2.9	**4.8**	4.8	**3.0**	2.9
Rate of increase in pensions in payment and deferred pensions	**1.9**	1.9	**2.8**	2.8	**2.0**	2.0
Discount rate	**4.4**	4.5	**4.9**	5.4	**4.6**	4.3
Weighted average actuarial assumptions used to determine net periodic benefit cost:						
Rate of inflation	**1.9**	2.0	**2.8**	2.5	**2.0**	2.1
Rate of increase in salaries	**2.9**	3.0	**4.8**	4.5	**2.9**	3.0
Discount rate	**4.5**	5.3	**5.4**	5.5	**4.7**	4.4
Expected long term rate of return on plan assets during the year	**4.9**	5.3	**6.8**	6.9	**6.4**	6.4
Expected rates of return:						
Equities	**6.7**	6.6	**7.4**	7.7	**6.7**	6.6
Bonds	**4.0**	4.0	**4.4**	4.8	**4.0**	4.0
Other assets	**2.8**	2.1		4.9	**5.3**	2.8

Note:

(1) Figures shown for other schemes represent weighted average assumptions of individual schemes.

For the US post retirement medical plan, the immediate trend rate for valuing the dental benefits was 6.5 per cent, which is assumed to reduce gradually to 5.25 per cent in 2008. The immediate trend rate for medical benefits was 12.0 per cent, which is assumed to reduce gradually to 5.25 per cent in 2013.

The expected return on assets assumption is derived by considering the expected long term rates of return on plan investments. The overall rate of return is a weighted average of the expected returns of the individual investments made in the group plans. The long term rate of return on equities and property are derived from considering current risk free rates of return with the addition of an appropriate future risk premium from an analysis of historic returns in various countries. The long term rates of return on bonds and cash investments are set in line with market yields currently available at the balance sheet date.

Mortality and life expectancy assumptions used are consistent with those recommended by the individual scheme actuaries, and in accordance with statutory and local funding requirements. The mortality tables in Germany have been updated at 31 March 2006 in line with newly published tables.

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25. Post employment benefits continued

Charges made to the consolidated income statement and consolidated statement of recognised income and expense on the basis of the assumptions stated above:

	Germany		UK		Other		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Current service cost	**7**	6	**38**	37	**12**	10	**57**	53
Interest cost	**10**	9	**36**	26	**6**	6	**52**	41
Expected return on scheme assets	**(9)**	(8)	**(44)**	(31)	**(4)**	(3)	**(57)**	(42)
Total included within staff costs (note 34)	**8**	7	**30**	32	**14**	13	**52**	52
Consolidated statement of recognised income and expense:								
Total actuarial (gains)/losses recognised in consolidated statement of recognised income and expense	**(5)**	20	**56**	72	**(8)**	10	**43**	102

All actuarial gains and losses are recognised immediately.

Figures relating to the income statement are for continuing operations only.

The cumulative recognised actuarial losses for Germany, the UK and the other schemes was £15 million, £128 million and £2 million respectively.

Fair value of the assets and liabilities of the schemes

The amount included in the balance sheet arising from the Group s obligations in respect of its defined benefit retirement schemes is as follows:

	Germany		UK		Other		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Movement in assets:								
1 April	**181**	165	**628**	433	**65**	42	**874**	640
Reclassification as held for sale					**(3)**		**(3)**	
Expected return on scheme assets	**9**	8	**44**	31	**4**	3	**57**	42
Actuarial gains/(losses)	**10**	(1)	**99**	23	**12**	2	**121**	24
Employer cash contributions	**11**	14	**65**	137	**9**	16	**85**	167
Member cash contributions			**10**	11	**1**	1	**11**	12

Benefits paid	**(10)**		**(11)**	(7)	**(6)**		**(27)**	(7)
Other movements		(9)						(9)
Exchange rate movements	**4**	4			**1**	1	**5**	5
31 March	**205**	181	**835**	628	**83**	65	**1,123**	874
Movement in scheme liabilities:								
1 April	**213**	192	**619**	457	**166**	145	**998**	794
Reclassification as held for sale					**(31)**		**(31)**	
Service cost	**7**	6	**38**	37	**12**	15	**57**	58
Interest cost	**10**	9	**36**	26	**6**	7	**52**	42
Member cash contributions			**10**	11	**1**	1	**11**	12
Actuarial (gains)/losses	**5**	19	**155**	95	**4**	12	**164**	126
Benefits paid	**(10)**	(9)	**(11)**	(7)	**(6)**	(14)	**(27)**	(30)
Other movements		(9)			**(8)**		**(8)**	(9)
Exchange rate movements	**4**	5			**4**		**8**	5
31 March	**229**	213	**847**	619	**148**	166	**1,224**	998
Accumulated benefit obligation	**222**	208	**746**	545	**113**	151	**1,081**	904
Analysis of net assets/(deficits):								
Total fair value of scheme assets	**205**	181	**835**	628	**83**	65	**1,123**	874
Present value of funded scheme liabilities	**(207)**	(191)	**(847)**	(619)	**(74)**	(108)	(1,128)	(918)
Net assets/(deficits) for funded schemes	**(2)**	(10)	**(12)**	9	**9**	(43)	**(5)**	(44)
Present value of unfunded scheme liabilities	**(22)**	(22)			**(74)**	(58)	**(96)**	(80)
Net assets/(deficits)	**(24)**	(32)	**(12)**	9	**(65)**	(101)	**(101)**	(124)
Net assets/(deficits) are analysed as:								
Assets	**10**	3		9	**9**		**19**	12
Liabilities	**(34)**	(35)	**(12)**		**(74)**	(101)	**(120)**	(136)

The funding policy for the German and UK schemes is reviewed on a systematic basis in consultation with the independent scheme actuary in order to ensure that the funding contributions from sponsoring employers are appropriate to meet the liabilities of the schemes over the long term.

The deficit in respect of other schemes at 31 March 2006 primarily relates to internally funded schemes in Italy and the United States.

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Actual return on scheme assets

	Germany		UK		Other		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Actual return on scheme assets	**19**	7	**143**	54	**16**	5	**178**	66
Analysis of scheme assets at 31 March is as follows:	**%**	%	**%**	%	**%**	%		
Equities	**34.1**	29.8	**79.9**	66.6	**85.0**	81.0		
Bonds	**59.1**	63.6	**20.1**	16.7	**10.0**	9.7		
Property					**5.0**	4.7		
Other	**6.8**	6.6		16.7		4.6		
	100.0	100.0	**100.0**	100.0	**100.0**	100.0		

The scheme has no investments in the Group s equity securities or in property currently used by the Group.

History of experience adjustments

	Germany		UK		Other		Total	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Experience adjustments on scheme liabilities:								
Amount (£m)	**(3)**	(3)	**(1)**	(56)		(1)	**(4)**	(60)
Percentage of scheme liabilities (%)	**1%**	1%		9%		1%		6%
Experience adjustments on scheme assets:								
Amount (£m)	**10**	(1)	**99**	23	**12**	2	**121**	24
Percentage of scheme assets (%)	**5%**	1%	**12%**	4%	**14%**	3%	**11%**	3%

Expected contributions and benefit payments

	Germany	UK	Other	Total
	£m	£m	£m	£m
Expected employer s contributions in the year ending 31 March 2007	**16**	**36**	**9**	**61**

Expected benefit payments in the year ending 31 March:				
2007	**16**	**11**	**7**	**34**
2008	**15**	**11**	**7**	**33**
2009	**15**	**11**	**7**	**33**
2010	**15**	**12**	**7**	**34**
2011	**15**	**12**	**7**	**34**
2012-2017	**76**	**66**	**38**	**180**

26. Provisions for liabilities and charges

	Asset retirement obligations £m	Legal £m	Other provisions £m	Total £m
31 March 2005	160	188	199	547
Reclassification as held for sale	(25)			(25)
	135	**188**	**199**	**522**
Exchange movements	**4**	**3**	**3**	**10**
Amounts capitalised in the year	**14**			**14**
Amounts charged to the income statement		**1**	**38**	**39**
Utilised in the year - payments	**(3)**	**(74)**	**(77)**	**(154)**
Amounts released to the income statement	**(2)**	**(19)**	**(6)**	**(27)**
31 March 2006	**148**	**99**	**157**	**404**

Provisions have been analysed between current and non-current as follows:

	2006 £m	2005 £m
Current liabilities	**139**	228
Non-current liabilities	**265**	319
	404	547

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26. Provisions for liabilities and charges continued

Asset retirement obligations

In the course of the Group s activities, a number of sites and other assets are utilised which are expected to have costs associated with exiting and ceasing their use. The associated cash outflows are generally expected to occur at the dates of exit of the assets to which they relate, which are long term in nature.

Legal

The Group is involved in a number of legal and other disputes, including notification of possible claims. The directors of the Company, after taking legal advice, have established provisions after taking into account the facts of each case. The timing of cash outflows associated with legal claims cannot be reasonably determined. For a discussion of certain legal issues potentially affecting the Group, refer to note 31 Contingent liabilities .

Other provisions

Other provisions primarily comprise amounts provided for property and restructuring costs. The associated cash outflows for restructuring costs are substantially short term in nature. The timing of the cash flows associated with property is dependent upon the remaining term of the associated lease.

27. Trade and other payables

	2006 £m	2005 £m
Included within non-current liabilities:		
Other payables	**61**	14
Derivative financial instruments	**148**	48
Accruals and deferred income	**357**	376
	566	438
Included within current liabilities:		
Trade payables	**2,248**	3,013
Amounts owed to associated undertakings	**29**	8
Other taxes and social security payable	**412**	314
Derivative financial instruments	**71**	31
Other payables	**440**	470
Accruals and deferred income	**4,277**	4,197
	7,477	8,033

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing operating expenses.

The fair values of the derivative financial instruments are calculated by discounting the future cash flows to net present values using appropriate market interest and foreign currency rates prevailing at the year end.

Included within Derivative financial instruments is the following:

	2006 £m	2005 £m

Fair value hedges:		
Interest rate swaps	**148**	48
Fair value through the income statement:		
Interest rate swaps	**2**	18
Foreign exchange swaps	**69**	12
Foreign exchange forwards		1
	71	31
	219	79

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28. Acquisitions

The principal acquisitions made by the Group during the financial year are as follows:

Czech Republic and Romania ClearWave N.V.

On 31 May 2005, the Group acquired 99.99% of the issued share capital of ClearWave N.V. for cash consideration of £1,905 million. ClearWave N.V. is the parent company of a group of companies involved in the provision of mobile telecommunications in the Czech Republic and Romania. This transaction has been accounted for by the purchase method of accounting.

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired:			
Intangible assets	**87**	**770**	**857**[(1)]
Property, plant and equipment	**562**	**(23)**	**539**
Inventory	**7**		**7**
Trade and other receivables	**106**	**(12)**	**94**
Cash and cash equivalents	**65**		**65**
Deferred tax liabilities		**(129)**	**(129)**
Short and long-term borrowings	**(550)**	**(64)**	**(614)**
Current tax liabilities	**(11)**		**(11)**
Trade and other payables	**(153)**	**(3)**	**(156)**
	113	**539**	**652**
Minority interests			**(2)**
Asset revaluation surplus[(2)]			**(112)**
Goodwill			**1,367**
Total cash consideration (including £9 million of directly attributable costs)			**1,905**
Net cash outflow arising on acquisition:			
Cash consideration			**1,905**
Cash and cash equivalents acquired			**(65)**
			1,840

Notes:

(1) Intangible assets consist of licences and spectrum fees of £461 million and other intangibles of £396 million.

(2) The asset revaluation surplus relates to the recognition of the fair value of intangible assets on the Group s existing 20.1% stake in MobiFon S.A.

The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise within those businesses after the Group's acquisition of ClearWave N.V.

The acquired entities and percentage of voting rights acquired was as follows:

%

MobiFon S.A. (renamed Vodafone Romania S.A.)	78.99
Oskar Mobil a.s.	99.87
ClearWave N.V.	99.99
MobiFon Holdings B.V.	99.99
Oskar Holdings N.V. (renamed Vodafone Oskar Holdings N.V.)	99.99
Oskar Finance B.V. (renamed Vodafone Oskar Finance B.V.)	99.99
ClearWave Services (Mauritius) Ltd.	99.99

Results of the acquired entities have been consolidated in the income statement from the date of acquisition, 31 May 2005.

Subsequent to the completion of the acquisition on 31 May 2005, a further 0.9% of Vodafone Romania S.A. was acquired for consideration of £16 million.

From the dates of acquisition, these entities contributed a profit of £26 million to the net loss of the Group.

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28. Acquisitions continued

India Bharti Airtel Limited

On 18 November 2005, the Group acquired a 5.61% direct interest in Bharti Airtel Limited (previously Bharti Tele-Ventures Limited) from Warburg Pincus LLC, and on 22 December 2005 the Group acquired a further 4.39% indirect interest in Bharti Airtel Limited, bringing the Group s effective shareholding to 10.0%.

Total cash consideration was Rs.67 billion (£858 million).

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired:			
Intangible assets	**49**	**345**	**394**(1)
Property, plant and equipment	**142**	**(1)**	**141**
Inventory	**1**		**1**
Trade and other receivables	**30**		**30**
Cash and cash equivalents	**9**		**9**
Deferred tax liabilities	**(2)**	**(126)**	**(128)**
Short and long-term borrowings	**(56)**		**(56)**
Current tax liabilities		**(2)**	**(2)**
Trade and other payables	**(73)**	**(1)**	**(74)**
	100	**215**	**315**
Goodwill			**543**
Total cash consideration (including £1 million of directly attributable costs)			**858**
Net cash outflow arising on acquisition:			
Cash consideration			**858**
Cash and cash equivalents acquired			**(9)**
			849

Note:
(1) Intangible assets consist of licences and spectrum fees of £343 million and other intangibles of £51 million.

The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise within those businesses after the Group's acquisition of the shares in Bharti Airtel Limited.

Results of the acquired entity have been proportionately consolidated in the income statement from the dates of acquisition.

From the date of acquisition, the entity contributed a loss of £8 million to the net loss of the Group.

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South Africa VenFin Limited

On 26 January 2006, the Group announced that its offer to acquire a 100% interest in VenFin Limited (VenFin) had become wholly unconditional. VenFin s principal asset was a 15% stake in Vodacom Group (Pty) Limited (Vodacom). At 31 March 2006, the Group held an effective economic interest in VenFin of 98.7% and an effective voting interest of 99.3%.

The combined cash consideration for the Group s 98.7% economic interest in VenFin was ZAR15.8 billion (£1,458 million).

	Book value £m	Fair value adjustments £m	Fair value £m
Net assets acquired:			
Intangible assets	**24**	**600**	**624**(1)
Property, plant and equipment	**216**		**216**
Inventory	**8**		**8**
Trade and other receivables	**74**		**74**
Cash and cash equivalents	**14**		**14**
Deferred tax liabilities	**(1)**	**(180)**	**(181)**
Short and long-term borrowings	**(36)**		**(36)**
Current tax liabilities	**(20)**		**(20)**
Trade and other payables	**(110)**		**(110)**
	169	**420**	**589**
Minority interests			**(9)**
Goodwill			**878**
Total cash consideration (including £7 million of directly attributable costs)			**1,458**
Net cash outflow arising on acquisition:			
Cash consideration			**1,458**
Cash and cash equivalents acquired			**(14)**
			1,444

Note:
(1) Intangible assets consist of licences and spectrum fees of £391 million and other intangibles of £233 million.

The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise within that business after the Group's acquisition of VenFin.

Results of the acquired entities have been proportionately consolidated in the income statement from the date of acquisition.

From the date of acquisition, the acquired part of the entity contributed a loss of £30 million to the net loss of the Group.

On 20 April 2006, the Group completed the compulsory acquisition of the remaining minority shareholdings in VenFin, from which date the Group holds 100% of the issued share capital of VenFin. As a result, the Group holds 50% of the share capital of Vodacom.

Across the acquisitions mentioned above, the weighted average life of licences and spectrum fees is 10 years, the weighted average life of other intangible assets is five years and the weighted average of total intangibles is eight years.

Turkey Telsim Mobil Telekomunikasyon

On 24 May 2006, the Group completed the acquisition of substantially all the assets and business of Telsim Mobil Telekomunikasyon (Telsim) from the Turkish Savings Deposit and Investment Fund. The cash paid on this date was US$4.67 billion (£2.6 billion). It is impracticable to provide further information due to the proximity of the acquisition date to the date of approval of the Consolidated Financial Statements.

Pro forma full year information

The following unaudited pro forma summary presents the Group as if all of the businesses acquired in the year to 31 March 2006 had been acquired on 1 April 2005 or 1 April 2004, respectively. The pro forma amounts include the results of the acquired companies, amortisation of the acquired intangibles assets recognised on acquisition and the interest expense on debt incurred as a result of the acquisition. The pro forma amounts do not include any possible synergies from the acquisition. The pro forma information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

	2006 £m	2005 £m
Revenue	**29,924**	27,709
(Loss) /profit for the financial year	**(21,870)**	6,239
(Loss) /profit attributable to equity shareholders	**(21,966)**	6,131

	Pence per share	Pence per share
Basic (loss)/earnings per share from continuing and discontinued operations	**(35.09)**	9.26
Diluted (loss)/earnings per share from continuing and discontinued operations[1]	**(35.09)**	9.23

Note:
(1) In the year ended 31 March 2006, there are no dilutive ordinary shares as the Group recorded a loss for the financial year.

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29. Discontinued operations and disposals

Japan Vodafone K.K.

On 17 March 2006, the Group announced an agreement to sell its 97.7% holding in Vodafone K.K. to SoftBank. The transaction completed on 27 April 2006 with the Group receiving cash of approximately ¥1.42 trillion (£6.9 billion) including the repayment of intercompany debt of ¥0.16 trillion (£0.8 billion). In addition, the Group received non-cash consideration with a fair value of approximately ¥0.23 trillion (£1.1 billion), comprised of preferred equity and a subordinated loan. SoftBank also assumed debt of approximately ¥0.13 trillion (£0.6 billion). Vodafone K.K. represented a separate geographical area of operation. On this basis, Vodafone K.K. has been treated as a discontinued operation.

Income statement and segment analysis of discontinued operation

	2006 £m	2005 £m
Service revenue	**5,264**	5,610
Equipment and other revenue	**2,004**	1,786
Segment revenue	**7,268**	7,396
Inter-segment revenue	**(2)**	(1)
Net revenue	**7,266**	7,395
Operating expenses	**(5,667)**	(5,417)
Depreciation and amortisation(1)	**(1,144)**	(1,314)
Impairment loss	**(4,900)**	—
Operating (loss)/profit	**(4,445)**	664
Non operating income and expense	**—**	13
Net financing costs	**(3)**	(11)
(Loss)/profit before taxation	**(4,448)**	666
Taxation relating to performance of discontinued operations	**7**	436
Taxation relating to the classification of the discontinued operations	**(147)**	—
(Loss)/profit for the financial year from discontinued operations	**(4,588)**	1,102

(Loss)/earnings per share from discontinued operations

	2006 Pence per share	2005 Pence per share
Basic (loss)/earnings per share	**(7.35)**	1.56
Diluted (loss)/earnings per share	**(7.35)**	1.56

Note:
(1) including gains and losses on disposal of fixed assets

Assets and liabilities of disposal group at 31 March 2006

	2006 £m
Intangible assets	**3,957**
Property, plant and equipment	**4,546**

Other investments	**29**
Cash and cash equivalents	**161**
Inventory	**131**
Trade and other receivables	**1,113**
Deferred tax asset	**655**
Total assets	**10,592**
Current taxation liability	**(1)**
Short and long-term borrowings	**(677)**
Trade and other payables	**(1,579)**
Deferred tax liabilities	**(246)**
Other liabilities	**(40)**
Total liabilities	**(2,543)**

Cash flows from discontinued operations

	2006 £m	2005 £m
Net cash flows from operating activities	**1,651**	1,739
Net cash flows from investing activities	**(939)**	(448)
Net cash flows from financing activities	**(536)**	(1,289)
Net increase in cash and cash equivalents	**176**	2
Cash and cash equivalents at the beginning of the financial year	**4**	3
Exchange loss on cash and cash equivalents	**(19)**	(1)
Cash and cash equivalents at the end of the financial year	**161**	4

Sweden Europolitan Vodafone AB

On 5 January 2006, the Group completed the disposal of its 100% interest in Europolitan Vodafone AB to Telenor Mobile Holding AS. The assets and liabilities of Europolitan Vodafone AB at the date of disposal, and the cash effects of the transaction, were as follows:

	£m
Intangible assets	**171**
Property, plant and equipment	**581**
Inventory	**10**
Trade and other receivables	**155**
Cash and cash equivalents	**(5)**
Deferred tax liabilities	**(77)**
Short and long term borrowings	**(20)**
Trade and other payables	**(157)**
Net assets disposed of	**658**
Total cash consideration	**653**
Other effects[1]	**8**
Net gain on disposal	**3**
Net cash inflow arising on disposal:	
Cash consideration	**653**
Cash and cash equivalents disposed of	**5**
	658

Note:
(1) Other effects include the recycling of currency translation on disposal and professional fees related to the disposal.

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30. Commitments

Operating lease commitments

The Group has entered into commercial leases on certain properties, network infrastructure, motor vehicles and items of machinery. The leases have various terms, escalation clauses, purchase options and renewal rights.

Future minimum lease payments under non-cancellable operating leases comprise:

	2006 **£m**	2005 £m
Within one year	**654**	662
In more than one year but less than two years	**509**	456
In more than two years but less than three years	**447**	403
In more than three years but less than four years	**397**	351
In more than four years but less than five years	**345**	305
In more than five years	**1,292**	1,170
	3,644	3,347

In addition to the amounts disclosed above as at 31 March 2006, there were additional operating lease commitments of £120 million relating to the Group s discontinued operations in Japan, which were sold on 27 April 2006.

The total of future minimum sublease payments expected to be received under non-cancellable subleases is £60 million (2005: £51 million).

Capital and other financial commitments

	Group		Share of joint ventures	
	2006 **£m**	2005 £m	**2006** **£m**	2005 £m
Contracts placed for future capital expenditure not provided in the financial statements:[(1)(2)]	**651**	656	**162**	121
Purchase commitments[(2)]	**996**	1,201	**163**	80
Share purchase programme		565		
Purchase of MobiFon and Oskar		1,858		
Purchase of Telsim[(3)]	**2,600**			
	4,247	4,280	**325**	201

Notes:

(1) Commitment includes contracts placed for property, plant and equipment and intangible assets.

(2) In addition to the amounts disclosed above as at 31 March 2006, there were additional commitments of £90 million for future capital expenditure and £368 million other purchase commitments relating to the Group s discontinued operations in Japan, which were sold on 27 April 2006.

(3) In addition to the consideration price of $4.67 billion (approximately £2.6 billion), the Group will be required to pay approximately $0.4 billion of VAT which will be recoverable against Telsim's future VAT liabilities. The Group expects to recover this payment over the short to medium term.

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31. Contingent liabilities

	2006 £m	2005 £m
Performance bonds	**189**	382
Credit guarantees third party indebtedness	**64**	67
Other guarantees and contingent liabilities	**19**	18

Performance bonds

Performance bonds require the Group to make payments to third parties in the event that the Group does not perform what is expected of it under the terms of any related contracts.

Group performance bonds include £152 million (2005: £149 million) in respect of undertakings to roll out 3G networks in Spain and £nil (2005: £189 million) in respect of undertakings to roll out 2G and 3G networks in Germany.

Credit guarantees third party indebtedness

Credit guarantees comprise guarantees and indemnities of bank or other facilities including those in respect of the Group s associated undertakings and investments.

Other guarantees and contingent liabilities

Other guarantees principally comprise commitments to support disposed entities.

In addition to the amounts disclosed above, the Group has guaranteed financial indebtedness and issued performance bonds for £33 million (2005: £36 million) in respect of businesses which have been sold and for which counter indemnities have been received from the purchasers.

The Group also enters into lease arrangements in the normal course of business, which are principally in respect of land, buildings and equipment. Further details on the minimum lease payments due under non-cancellable operating lease arrangements can be found in note 30.

Legal proceedings

The Company and its subsidiaries are currently, and may be from time to time, involved in a number of legal proceedings, including inquiries from or discussions with governmental authorities, that are incidental to their operations. However, save as disclosed below, the Company and its subsidiaries are not involved currently in any legal or arbitration proceedings (including any governmental proceedings which are pending or known to be contemplated) which may have, or have had in the twelve months preceding the date of this report, a significant effect on the financial position or profitability of the Company and its subsidiaries.

The Company is a defendant in four actions in the United States alleging personal injury, including brain cancer, from mobile phone use. In each case, various other carriers and mobile phone manufacturers are also named as defendants. These actions are at an early stage and no accurate quantification of any losses which may arise out of the claims can therefore be made as at the date of this report. The Company is not aware that the health risks alleged in such personal injury claims have been substantiated and will be vigorously defending such claims.

In 2002, a class action lawsuit was brought in the United States District Court for the Southern District of New York against the Company and certain of its officers and directors under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder alleging principally that Vodafone had improperly delayed taking and disclosing goodwill impairment losses relating to certain fixed line and non-controlled mobile assets that Vodafone reported in the financial year ended 31 March 2002. Vodafone firmly denied any wrongdoing and believes the allegations are wholly without merit. On 4 March 2005, the parties entered into a definitive settlement agreement for a cash payment by Vodafone and its insurance carriers of $24.5 million, before fees and

expenses, which was approved by the Court on 15 July 2005. The settlement, which covers all current and former defendants, does not involve any admission or evidence of wrongdoing by any of them. The plaintiffs application for reimbursement of costs and an award of attorneys fees to be paid form the settlement fund remains pending.

A subsidiary of the Company, Vodafone 2, is responding to an enquiry (the Vodafone 2 enquiry) by the UK Inland Revenue (now called Her Majesty s Revenue and Customs and hereinafter referred to as HMRC) with regard to the UK tax treatment of its Luxembourg holding company, Vodafone Investments Luxembourg SARL (VIL), under the Controlled Foreign Companies section of the UK s Income and Corporation Taxes Act 1988 (the CFC Regime) relating to the tax treatment of profits earned by the holding company for the accounting period ended 31 March 2001. Vodafone 2 s position is that it is not liable to corporation tax in the UK under the CFC Regime in respect of VIL. Vodafone 2 asserts, inter alia, that the CFC Regime is contrary to EU law and has made an application to the Special Commissioners of HMRC for closure of the Vodafone 2 enquiry. On 3 May 2005, the Special Commissioners referred certain questions relating to the compatability of the CFC Regime with EU law to the European Court of Justice (the ECJ) for determination. Vodafone 2 s application for closure has been stayed pending delivery of the ECJ s judgment. In its judgement, the ECJ will only determine questions referred to it and does not have jurisdiction to determine the outcome of Vodafone 2 s application. Instead, the Special Commissioners will apply the ECJ s judgement to the particular facts of Vodafone 2 s application. Although it is not possible to address all possible outcomes, it should be noted that even if the CFC Regime is held by the ECJ to be entirely lawful, Vodafone 2 would continue to resist the imposition of corporation tax liability on other grounds. On 15 June 2005, HMRC appealed to the High Court challenging the Special Commissioners decision to refer questions to the ECJ. This appeal was dismissed and HMRC has since appealed this dismissal to the Court of Appeal. A decision in the latter appeal is expected to be rendered in the second half of 2006. In addition to the Vodafone 2 enquiry, on 31 October 2005, HMRC commenced an enquiry into the residence of VIL which is ongoing (the VIL enquiry). VIL s position is that it is resident for tax purposes solely in Luxembourg and therefore it is not liable for corporation tax in the UK. The Company has taken provisions, which at 31 March 2006 amounted to £2,098 million, for the potential UK corporation tax liability and related interest expense that may arise in connection with the Vodafone 2 and VIL enquiries, if the Company is not successful in its challenge of the CFC Regime. The provisions relate to the accounting period which is the subject of the proceedings described above as well as to accounting periods after 31 March 2001 to date.

The judgement of the ECJ is expected to be delivered at the beginning of 2007 at the earliest. In the absence of any material unexpected developments, the provisions are likely to be reassessed when the views of the ECJ become known.

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32. Reconciliation of net cash flows to operating activities

	2006 £m	2005 £m
(Loss)/profit for the financial year from continuing operations	**(17,233)**	5,416
(Loss)/profit for the financial year from discontinued operations	**(4,588)**	1,102
Adjustments for[1]:		
Tax on profit	**2,520**	1,433
Depreciation and amortisation	**5,834**	5,517
Loss on disposal of property, plant and equipment	**88**	162
Non operating income and expense	**2**	(6)
Other income and expense	**(15)**	
Investment income	**(353)**	(303)
Financing costs	**1,123**	900
Impairment losses	**28,415**	475
Share of result in associated undertakings	**(2,428)**	(1,980)
Operating cash flows before movements in working capital	**13,365**	12,716
Decrease in inventory	**23**	17
Decrease/(increase) in trade and other receivables	**54**	(321)
Increase in payables	**81**	145
Cash generated by operations	**13,523**	12,557
Tax paid	**(1,682)**	(1,578)
Net cash flows from operating activities	**11,841**	10,979

Note:
(1) Adjustments include amounts relating to continuing and discontinued operations.

33. Directors and key management compensation

Directors

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

	2006 £m	2005 £m
Salaries and fees	**6**	6
Incentive schemes	**5**	4
Benefits	**2**	1
	13	11

The aggregate gross pre-tax gain made on the exercise of share options in the year ended 31 March 2006 by directors who served during the year was less than £1 million (2005: £3 million).

Further details of directors emoluments can be found in Board s Report to Shareholders on Directors Remuneration Remuneration for the year to 31 March 2006 on pages 61 to 69.

Key management compensation

Aggregate compensation for key management, being the directors and members of the Group Executive Committee, were as

follows:

	2006	2005
	£m	£m
Short term employee benefits	**26**	18
Post-employment benefits:		
Defined benefit schemes	**2**	2
Defined contribution schemes	**2**	1
Share-based payments	**16**	22
	46	43

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34. Employees

An analysis of the average employee headcount by category of activity is shown below.

	2006 Number	2005 Number
By activity:		
Operations	**12,541**	11,923
Selling and distribution	**17,315**	16,410
Administration	**31,816**	29,426
	61,672	57,759
By segment:		
Mobile telecommunications:		
Germany	**10,124**	10,183
Italy	**7,123**	7,213
Spain	**4,052**	3,949
UK	**10,620**	11,260
Other Mobile Operations	**22,895**	18,858
Common functions	**2,628**	2,201
	57,442	53,664
Other operations:		
Germany	**4,086**	4,095
Other	**144**	
	4,230	4,095
Total continuing operations	**61,672**	57,759
Discontinued operations:		
Japan	**2,733**	3,033

The cost incurred in respect of these employees (including directors) was:(1)

	2006 £m	2005 £m
Continuing operations:		
Wages and salaries	**1,879**	1,752
Social security costs	**242**	233
Share based payments	**109**	130
Other pension costs (see note 25)	**80**	70

	2,310	2,185

Note:
(1) From continuing operations. The cost incurred in respect of employees (including directors) from discontinued operations was £155 million (2005: £191 million).

35. Subsequent events

On 17 March 2006, the Group announced an agreement to sell its 97.7% holding in Vodafone Japan to SoftBank. The transaction completed on 27 April 2006, with the Group receiving cash of approximately ¥1.42 trillion (£6.9 billion) including the repayment of intercompany debt of ¥0.16 trillion (£0.8 billion). In addition, the Group received non-cash consideration with a fair value of approximately ¥0.23 trillion (£1.1 billion), comprised of preferred equity and a subordinated loan. SoftBank also assumed debt of approximately ¥0.13 trillion (£0.6 billion).

On 13 December 2005, the Group announced it had agreed to acquire substantially all the assets and business of Telsim Mobil Telekomunikasyon (Telsim) from the Turkish Savings Deposit and Investment Fund. The acquisition completed on 24 May 2006. The cash paid on this date was US$4.67 billion (£2.6 billion).

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36. Related party transactions

Transactions with joint ventures and associated undertakings

Transactions between the Company and its subsidiaries, joint ventures and associates represent related party transactions. Transactions with subsidiaries have been eliminated on consolidation. Transactions between the Company and its joint ventures are not material to the extent that they have not been eliminated through proportionate consolidation. Except as disclosed below, no material related party transactions have been entered into, during the year, which might reasonably affect any decisions made by the users of these Consolidated Financial Statements.

	2006 £m	2005 £m
Transactions with associated undertakings:		
Sales of goods and services	**288**	194
Purchase of goods and services	**268**	243
Amounts owed to joint ventures included within short term borrowings[(1)]	**378**	1,142

Note:
(1) Loan arises through Vodafone Italy being part of a Group cash pooling arrangement. Interest is paid in line with short term market rates.

Amounts owed by and owed to associated undertakings are disclosed within notes 17 and 27.

Dividends received from associated undertakings are disclosed in the consolidated cash flow statement.

Group contributions to pension schemes are disclosed in note 25.

Compensation paid to the Company s Board of directors and members of the Executive Committee is disclosed in note 33.

Transactions with directors

During the year ended 31 March 2006, and as of 26 May 2006, neither any director nor any other executive officer, nor any associate of any director or any other executive officer, was indebted to the Company.

Since 1 April 2005, the Company has not been, and is not now, a party to any other material transaction, or proposed transactions, in which any member of the key management personnel (including directors, any other executive officer, senior manager, any spouse or relative of any of the foregoing, or any relative of such spouse), had or was to have a direct or indirect material interest.

37. Financial information of joint ventures and associated undertakings

Summary aggregated financial information of 50% or less owned entities accounted for using proportionate consolidation or under the equity method, extracted on a 100% basis from accounts prepared under IFRS at 31 March and for the years then ended, is set out below.

Entities classified as associated undertakings	**2006 £m**	2005 £m
Revenue	**30,204**	25,141
Gross profit	**12,506**	12,358
Profit for the financial year	**5,768**	4,883
Non-current assets	**42,776**	36,385
Current assets	**5,868**	5,763
Total assets	**48,644**	42,148

Current liabilities	**8,365**	11,475
Non-current liabilities	**9,367**	5,579
Total liabilities	**17,732**	17,054
Total equity shareholders funds	**29,951**	24,155
Minority interests	**961**	939
Total equity and liabilities	**48,644**	42,148

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Entities classified as joint ventures	**2006 £m**	2005 £m
Revenue	**4,919**	3,946
Gross profit	**2,071**	1,611
Profit for the financial year	**786**	658
Non-current assets	**7,631**	2,983
Current assets	**1,389**	1,056
Total assets	**9,020**	4,039
Current liabilities	**2,384**	1,458
Non-current liabilities	**1,164**	362
Total liabilities	**3,548**	1,820
Total equity shareholders funds	**5,432**	2,207
Minority interests	**40**	12
Total equity and liabilities	**9,020**	4,039

Summary aggregated financial information of Vodafone Omnitel N.V., extracted on a 100% basis from financial statements prepared under IFRS at 31 March and for the years then ended, is set out below.

	2006 £m	2005 £m
Revenue	**5,619**	5,518
Gross profit	**2,995**	2,779
(Loss)/profit for the financial year	**(2,134)**	1,507
Non-current assets	**20,280**	24,186
Current assets	**2,837**	6,117
Total assets	**23,117**	30,303
Current liabilities	**1,915**	1,719
Non-current liabilities	**78**	312
Total liabilities	**1,993**	2,031
Total equity shareholders funds	**21,124**	28,272
Total equity and liabilities	**23,117**	30,303

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38. US GAAP information

The following is a summary of the effects of the differences between US GAAP and IFRS. The unaudited translation of pounds sterling amounts into US dollars is provided solely for convenience based on the Noon Buying Rate on 31 March 2006 of $1.7393: £1. Amounts at 31 March 2005 and for the year then ended have been restated to give effect to the modified retrospective adoption of SFAS No. 123 (Revised 2004), discussed in (j) below.

Net loss for the years ended 31 March

	Reference	**2006** **$m**	**2006** **£m**	2005 Restated £m
Revenue (IFRS)		**51,048**	**29,350**	26,678
Items (decreasing)/increasing revenues:				
Discontinued operations		**(1,642)**	**(944)**	(1,108)
Basis of consolidation	a	**(10,011)**	**(5,756)**	(5,423)
Connection revenue	b	**1,924**	**1,106**	1,223
Revenue (US GAAP)		**41,319**	**23,756**	21,370
(Loss)/profit for the financial year (IFRS)		**(37,953)**	**(21,821)**	6,518
Items (increasing)/decreasing net loss:				
Investments accounted for under the equity method	c	**(2,139)**	**(1,230)**	(5,440)
Connection revenue and costs	b	**17**	**10**	16
Goodwill and other intangible assets	d	**(24,870)**	**(14,299)**	(15,534)
Impairment losses	e	**26,745**	**15,377**	475
Amortisation of capitalised interest	f	**(188)**	**(108)**	(105)
Interest capitalised during the year	f	**63**	**36**	19
Other	g	**(74)**	**(42)**	99
Income taxes	h	**15,483**	**8,902**	6,680
Minority interests	i	**(165)**	**(95)**	(108)
Cumulative effect of change in accounting principle: post employment benefits	j			(195)
Cumulative effect of change in accounting principle: intangible assets	j			(6,177)
Net loss (US GAAP)		**(23,081)**	**(13,270)**	(13,752)

Shareholders equity at 31 March

	Reference	**2006** **$m**	**2006** **£m**	2005 Restated £m
Total equity (IFRS)		**148,383**	**85,312**	113,648
Items (decreasing)/increasing shareholders funds:				
Investments accounted for under the equity method	c	**(3,978)**	**(2,287)**	(982)
Connection revenue and costs	b	**(9)**	**(5)**	(14)
Goodwill and other intangible assets	d	**56,618**	**32,552**	31,714
Capitalised interest	f	**2,510**	**1,443**	1,529
Other	g	**365**	**210**	104

Income taxes	h	**(52,795)**	**(30,354)**	(38,856)
Minority interests	i	**197**	**113**	152
Shareholders equity (US GAAP)		**151,291**	**86,984**	107,295

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US GAAP condensed consolidated statement of operations

	Reference	2006 $m	2006 £m	2005 Restated £m
Revenue		**41,319**	**23,756**	21,370
Cost of sales		**(48,920)**	**(28,126)**	(27,803)
Selling, general and administrative expense		**(7,552)**	**(4,342)**	(3,779)
Operating loss		**(15,153)**	**(8,712)**	(10,212)
Share of results in investments accounted for under the equity method		**(1,816)**	**(1,044)**	(2,179)
Non-operating income and expense		**(1,151)**	**(662)**	(465)
Loss before income taxes		**(18,120)**	**(10,418)**	(12,856)
Income tax benefit		**5,614**	**3,228**	4,994
Minority interests		**(170)**	**(98)**	(108)
Loss from continuing operations		**(12,676)**	**(7,288)**	(7,970)
Discontinued operations, net of taxes		**(10,405)**	**(5,982)**	590
Cumulative effect of changes in accounting principles, net of taxes				(6,372)
Net loss		**(23,081)**	**(13,270)**	(13,752)
Basic and diluted loss per share:		**Cents**	**Pence**	Pence
Loss from continuing operations		**(20.25)**	**(11.64)**	(12.03)
Discontinued operations		**(16.62)**	**(9.56)**	0.89
Cumulative effect of changes in accounting principles				(9.63)
Net loss	k	**(36.87)**	**(21.20)**	(20.77)

Discontinued operations

As discussed in note 29, the Group disposed of its interests in Vodafone Sweden during the year ended 31 March 2006. Vodafone Sweden has been classified as discontinued under US GAAP.

Summary of differences between IFRS and US GAAP

The Consolidated Financial Statements are prepared in accordance with IFRS, which differ in certain material respects from US GAAP. The differences that are material to the Group relate to the following:

a. Basis of consolidation

The basis of consolidation under IFRS differs from that under US GAAP. The Group has interests in several jointly controlled entities, the most significant being Vodafone Italy. Under IFRS, the Group reports its interests in jointly controlled entities using proportionate consolidation. The Group s share of the assets, liabilities, income, expenses and cash flows of jointly controlled entities are combined with the equivalent items in the Consolidated Financial Statements on a line-by-line basis. Under US GAAP, the results and assets and liabilities of jointly controlled entities are incorporated in the Consolidated Financial Statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated

balance sheet at cost as adjusted for post-acquisition changes in the Group s share of the net assets of the jointly controlled entity, less any impairment in the value of the investment. The Group s share of the assets, liabilities, income and expenses of jointly controlled entities which are included in the Consolidated Financial Statements are reported in note 13.

b. Connection revenues and costs

Under IFRS and, for transactions subsequent to 30 September 2003, under US GAAP, customer connection revenue is recognised together with the related equipment revenue to the extent that the aggregate equipment and connection revenue does not exceed the fair value of the equipment delivered to the customer. Any customer connection revenue not recognised together with related equipment revenue is deferred and recognised over the period in which services are expected to be provided to the customer.

For transactions prior to 1 October 2003, connection revenue under US GAAP is recognised over the period that a customer is expected to remain connected to a network. Connection costs directly attributable to the income deferred are recognised over the same period. Where connection costs exceed connection revenue, the excess costs were charged in the statement of operations immediately upon connection. The balances of deferred revenue and deferred charges as of 30 September 2003 continue to be recognised over the period that a customer is expected to remain connected to a network.

c. Investments accounted for under the equity method

This line item includes the net effect of IFRS to US GAAP adjustments affecting net loss and shareholders equity related to investments accounted for under the equity method, other than the cumulative effect of change in accounting principle related to intangible assets, which has been disclosed separately. The differences are:

Adjustment to the share of results in investments accounted for under the equity method

	2006 £m	2005 £m
Goodwill and other intangible assets associated with investments accounted for under the equity method	**(7,772)**	(8,864)
Impairment loss	**3,600**	
Income taxes	**2,863**	3,362
Other	**79**	62
Total	**(1,230)**	(5,440)

Adjustments to the carrying value of investments accounted for under the equity method

	2006 £m	2005 £m
Goodwill and other intangible assets associated with investments accounted for under the equity method	**9,539**	13,549
Income taxes	**(11,997)**	(14,615)
Other	**171**	84
Total	**(2,287)**	(982)

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Notes to the Consolidated Financial Statements
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38. US GAAP information continued

d. Goodwill and other intangible assets

The differences related to goodwill and other intangible assets included in the reconciliations of net loss and shareholders equity relate to acquisitions prior to the Group s adoption of SEC guidance issued on 29 September 2004. In determining the value of licences purchased in business combinations prior to 29 September 2004, the Group allocated the portion of the purchase price, in excess of the fair value attributed to the share of net assets acquired, to licences. The Group had previously concluded that the nature of the licences and the related goodwill acquired in business combinations was fundamentally indistinguishable.
Following the adoption of the SEC guidance issued on 29 September 2004, the Group s US GAAP accounting policy for initial and subsequent measurement of goodwill and other intangible assets, other than determination of impairment of goodwill and finite lived intangible assets, is substantially aligned to that of IFRS described in note 2. However, there are substantial adjustments arising prior to 29 September 2004 from different methods of transition to current IFRS and US GAAP as discussed below.

Goodwill arising before the date of transition to IFRS has been retained under IFRS at the previous UK GAAP amounts for acquisitions prior to 1 April 2004. The Group has assigned amounts to licences and customer bases under US GAAP as they meet the criteria for recognition separately from goodwill, while these had not been recognised separately from goodwill under UK GAAP because they did not meet the recognition criteria. Under US GAAP, goodwill and other intangible assets with indefinite lives are capitalised and not amortised, but tested for impairment at least annually. Intangible assets with finite lives are capitalised and amortised over their useful economic lives.

Under IFRS and US GAAP, the purchase price of a transaction accounted for as an acquisition is based on the fair value of the consideration. In the case of share consideration, under IFRS the fair value of such consideration is based on the share price on the date of exchange. Under US GAAP, the fair value of the share consideration is based on the average share price over a reasonable period of time before and after the proposed acquisition is agreed to and announced. This has resulted in a difference in the fair value of the consideration for certain acquisitions and consequently in the amount of goodwill capitalised under IFRS and US GAAP.

The Group s accounting policy for testing goodwill and finite lived intangible assets for impairment under IFRS is discussed in note 2. For the purpose of goodwill impairment testing under US GAAP, the fair value of a reporting unit including goodwill is compared to its carrying value. If the fair value of a reporting unit is lower than its carrying value, the fair value of the goodwill within that reporting unit is compared to its respective carrying value, with any excess carrying value written off as an impairment loss. The fair value of the goodwill is the difference between the fair value of the reporting unit and the fair value of the identifiable net assets of the reporting unit. Intangible assets with finite lives are subject to periodic impairment tests when circumstances indicate that an impairment loss may exist. Where an asset s (or asset group s) carrying amount exceeds its sum of undiscounted future cash flows, an impairment loss is recognised in an amount equal to the amount by which the asset s (or asset group s) carrying amount exceeds its fair value, which is generally based on discounted cash flows.

As a result of the above, there are significant amounts reported as goodwill and not amortised under IFRS which are reported as licences, customers and deferred tax liabilities under US GAAP.

During the year ended 31 March 2005, the Group undertook a number of transactions, including a stake increase in Vodafone Hungary. Under US GAAP, these transactions have resulted in the Group assigning £65 million to intangible assets, of which £21 million was assigned to cellular licences and £20 million to customer bases. A corresponding deferred tax liability of £8 million was recognised. All intangible assets acquired, other than goodwill, are deemed to be of finite life, with a weighted average amortisation period of 8 years, comprising licences of 10 years and customer bases of 5 years.

Finite-lived intangible assets

Licences	**2006** **£m**	2005 £m
Gross carrying value	**154,135**	152,831
Accumulated amortisation	**(75,170)**	(61,188)

	78,965	91,643
Customer bases		
Gross carrying value	**1,663**	5,952
Accumulated amortisation	**(1,071)**	(5,333)
	592	619

The total amortisation charge for the year ended 31 March 2006, under US GAAP, was £15,011 million (2005: £15,400 million). The estimated future amortisation charge on finite-lived intangible assets for each of the next five years is set out in the following table. The estimate is based on finite-lived intangible assets recognised at 31 March 2006 using foreign exchange rates on that date. It is likely that future amortisation charges will vary from the figures below, as the estimate does not include the impact of any future investments, disposals, capital expenditures or fluctuations in foreign exchange rates.

Year ending 31 March	£m
2007	**15,448**
2008	**15,362**
2009	**15,264**
2010	**12,367**
2011	**3,754**

e. Impairment losses

As discussed in note 10, during the year ended 31 March 2006, the Group recorded impairment losses of £23,000 million in relation to the goodwill of Vodafone Germany and Vodafone Italy under IFRS. Under US GAAP, the Group evaluated the recoverability of the long-lived assets, comprised primarily of licences, in Vodafone Germany and Vodafone Italy using undiscounted cash flows and determined that the carrying amount of these assets was recoverable. As a result, the IFRS impairment losses of £23,000 million related to Vodafone Germany and Vodafone Italy were not recognised under US GAAP.

During the year ended 31 March 2006, the Group also recorded an impairment loss under IFRS of £515 million and £4,900 million in relation to the goodwill of Vodafone Sweden and Vodafone Japan, respectively. Under US GAAP, the Group recognised impairment losses of licences of £883 million and £8,556 million in Vodafone Sweden and in Vodafone Japan. As a result of these impairment losses, the Group released related deferred tax liabilities of £247 million and £3,508 million, which have been included in the adjustment for income taxes. The impairment losses on Vodafone Sweden s and Vodafone Japan s licences have been included in discontinued operations under US GAAP.

Cumulative cumulative foreign currency gains and losses arising on the translation of the assets and liabilities into sterling have been included in the carrying value of a discontinued operation when assessing that carrying value for impairment.

f. Capitalised interest

Under IFRS, the Group has adopted the benchmark accounting treatment for borrowing costs and, as a result, the Group does not capitalise interest costs on borrowings in respect of the acquisition or construction of tangible and intangible fixed assets. Under US GAAP, the interest costs of financing the acquisition or construction of network assets and other fixed assets is capitalised during the period of construction until the date that the asset is placed in service. Interest costs of financing the acquisition of licences are also capitalised until the date that the related network service is launched. Capitalised interest costs are amortised over the estimated useful lives of the related assets.

g. Other

Financial instruments

Under IFRS, the equity put rights and similar arrangements are classified as financial liabilities. The liabilities are measured as the present value of the estimated exercise prices of the equity put rights and similar arrangements, which is the fair value of the underlying shares on the date of exercise, with any changes in this estimate recognised in the consolidated income statement each period. Under US GAAP, these equity put rights and similar arrangements are generally classified as derivative instruments. Consequently, this financial liability is eliminated for US GAAP purposes and the equity put rights and similar arrangements are accounted for at fair value.

Pensions

Under both IFRS and US GAAP, the Group recognises actuarial gains and losses as they are incurred. Under IFRS, these gains and losses are recognised directly in equity. These gains and losses are included in the determination of net loss under US GAAP.

Other recognised income and expense

Under both IFRS and US GAAP, the cumulative foreign currency gains and losses arising on the translation of the assets and liabilities of entities with a functional currency other than sterling are reclassified from accumulated other recognised income and expense and included in the determination of profit for the period or net loss on sale or liquidation of a foreign entity. Differences in the amount reclassified arise due to differences in the carrying values of the underlying net assets and because the Group deemed the cumulative translation differences at the date of transition to IFRS to be zero.

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During the year ended 31 March 2006, £9 million of foreign currency losses were reclassified from other recognised income and expense and included in the determination of US GAAP net loss as a result of the disposal of Vodafone Sweden. During the year ended 31 March 2005, £63 million of foreign currency losses were reclassified from other recognised income and expense and included in the determination of US GAAP net loss as a result of the partial disposal of Vodafone Egypt. Under IFRS, these gains amounted to £36 million for the year ended 31 March 2006.

h. Income taxes

The most significant component of the income tax adjustment is due to temporary differences between the book basis and tax basis of intangible assets other than goodwill acquired in business combinations prior to 29 September 2004, resulting in the recognition of deferred tax liabilities under US GAAP. This line item also includes the tax effects of the other pre-tax IFRS to US GAAP adjustments described above.

Under IFRS, the Group does not recognise a deferred tax liability on the outside basis differences in its investment in associates to the extent that the Group controls the timing of the reversal of the difference and it is probable the difference will not reverse in the foreseeable future. Under US GAAP, the Group recognises deferred tax liabilities on these differences.

i. Minority interests

Minority interests are reported as a component of total equity under IFRS and, accordingly, profit for the period does not include an adjustment for profit for the period attributable to minority interests. Under US GAAP, minority interests are reported outside of shareholders equity and the minority interest in the income of consolidated subsidiaries is an adjustment to US GAAP net income.

j. Changes in accounting principles

Post employment benefits

During the second half of the year ended 31 March 2005, the Group amended its policy for accounting for actuarial gains and losses arising from its pension obligations effective 1 April 2004. Until 31 March 2004, the Group used a corridor approach under SFAS No. 87, Employers Accounting for Pensions in which actuarial gains and losses were deferred and amortised over the expected remaining service period of the employees. The Group now recognises these gains and losses through the income statement in the period in which they arise as the new policy more faithfully represents the Group s financial position and more closely aligns the Group s US GAAP policy to its IFRS policy of immediate recognition of these items.

The cumulative effect on periods prior to adoption of £288 million has been shown, net of tax of £93 million, as a cumulative effect of a change in accounting principle in the reconciliation of net loss. The effect of the change in the year ended 31 March 2005 was to increase loss from continuing operations by £55 million (or 0.08 pence per share).

Intangible assets

On 29 September 2004, the SEC Staff issued new guidance on the interpretation of SFAS No. 142 in relation to the valuation of intangible assets in business combinations and impairment testing. This guidance has been codified as EITF Topic D-108. Historically, the Group assigned to mobile licences the residual purchase price in business combinations in excess of the fair values of all assets and liabilities acquired other than mobile licences and goodwill. This approach was on the basis that mobile licences were indistinguishable from goodwill. The new SEC guidance requires the Group to distinguish between mobile licences and goodwill. However, the new guidance does not permit the amount historically reported as mobile licences to be subsequently reallocated between mobile licences and goodwill.

The new guidance will affect the allocation of the purchase price in future business combinations involving entities with mobile licences. The Group has applied the guidance relating to the allocation of purchase price to all business combinations consummated subsequent to 29 September 2004. This has resulted in values being assigned to licences using a direct valuation method, with any remaining residual purchase price allocated to goodwill.

In impairment testing of mobile licences associated with the Verizon Wireless equity method investment accounted for under SFAS No. 142, the Group has used a similar residual approach to determine the fair value of the licences when testing the asset for recoverability. In their announcement, the SEC Staff stated that the residual method of accounting for intangible assets should no longer be used and that companies should perform an impairment test using a direct method on all assets which were previously

tested using a residual method. The Group s licences in other businesses are not tested for recoverability using a residual method and are, therefore, not affected by the new guidance.

The Group completed its transitional impairment test of Verizon Wireless mobile licences as of 1 January 2005. This resulted in a pre-tax charge of £11,416 million. This impairment loss is included, net of the related tax of £5,239 million, in the cumulative effect of change in accounting principle in the reconciliation of net loss. The tax effect comprises the release of £1,220 million representing the Group s share of Verizon Wireless deferred tax liabilities and £4,019 million deferred tax liabilities representing taxes recognised by the Group on its investment in Verizon Wireless. Fair value was determined as the present value of estimated future net cash flows allocable to the mobile licences. Verizon Wireless is included in the segment Mobile telecommunications US .

Share-based payments

The Group adopted SFAS No. 123 (Revised 2004), Share-based Payment , and related FASB staff positions on 1 October 2005. SFAS No. 123 (Revised 2004) eliminates the option to account for share-based payments to employees using the intrinsic value method and requires share-based payments to be recorded using the fair value method. Under the fair value method, the compensation cost for employees and directors is determined at the date awards are granted and recognised over the service period.

Concurrent with the adoption of SFAS No. 123 (Revised 2004), the Group adopted Staff Accounting Bulletin (SAB) 107. SAB 107 summarises the views of the SEC Staff regarding the interaction between SFAS No. 123 (Revised 2004) and certain SEC rules and regulations and provides the staff s views regarding the valuation of share-based payment arrangements for public companies.

The Group has adopted SFAS No. 123 (Revised 2004) using the modified retrospective method. Under this method, the Group has adjusted the financial statements for the periods between 1 April 1995 and 30 September 2005 to give effect to the fair value method of accounting for awards granted, modified or settled during those periods on a basis consistent with the pro forma amounts disclosed under the requirements of the original SFAS No. 123, Accounting for Stock-Based Compensation . The provisions of SFAS No. 123 (Revised 2004) will be applied to all awards granted, modified, or settled after 1 October 2005. The effect of applying the original provisions of SFAS No. 123 under the modified retrospective method of adoption on the year ended 31 March 2005 was to decrease loss before income taxes, loss from continuing operations and net loss by £66 million, £30 million and £30 million respectively (six months ended 30 September 2005: increases of £4 million, £8 million and £8 million respectively). The adjustment also had the effect of decreasing both basic and diluted loss per share from continuing operations and net loss by 0.05 pence (six months ended 30 September 2005: increase 0.01 pence). The adoption of SFAS No. 123 (Revised 2004) increased shareholders equity at 1 April 2004 by £112 million.

k. Loss per share

The share options and shares described in note 20 were excluded from the calculation of diluted loss per share as the effect of their inclusion in the calculation would be antidilutive due to the Group recognising a loss in all periods presented.

39. New accounting standards

The Group has not adopted the following standards, which have been issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC). The Group does not currently believe the adoption of these standards will have a material impact on the consolidated results or financial position of the Group.

IAS Amendment, Amendment to IAS 1, Presentation of Financial Statements Capital Disclosures (effective for annual periods beginning after 1 January 2007, with earlier application encouraged).

IFRIC 4, Determining whether an Arrangements contains a Lease (effective from 1 April 2006).

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 April 2006).

IFRIC 6, Liabilities arising from Participating in a Specific Market Waste Electrical and Electronic Equipment (effective from 1 April 2006).

IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 April 2006).

IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006, with early application encouraged). This interpretation has not yet been adopted for use in the EU.

IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006, with early application encouraged). This interpretation has not yet been adopted for use in the EU.

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Notes to the Consolidated Financial Statements
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40. Transition to IFRS on first-time adoption

Basis of preparation of IFRS financial information

The Group s Annual Report for the year ended 31 March 2006 is the first annual Consolidated Financial Statements that comply with IFRS. The Consolidated Financial Statements have been prepared in accordance with the significant accounting policies described in note 2. The Group has applied IFRS 1, First-time Adoption of International Financial Reporting Standards in preparing these statements.

IFRS 1 exemptions

IFRS 1 sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its Consolidated Financial Statements. The Group is required to establish its IFRS accounting policies as at 31 March 2006 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 April 2004. This standard provides a number of optional exemptions to this general principle. These are set out below, together with a description in each case of the exemption adopted by the Group.

Business combinations that occurred before the opening IFRS balance sheet date (IFRS 3, Business Combinations)

The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before the date of transition. As a result, in the opening balance sheet, goodwill arising from past business combinations remains as stated under UK GAAP at 31 March 2004.

If the Group had elected to apply IFRS 3 retrospectively, the purchase consideration would have been allocated to the following major categories of acquired intangible assets and liabilities based on their fair values: licence and spectrum fees, brands, customer bases, and deferred tax liabilities. Goodwill would have been recognised as the excess of the purchase consideration over the fair values of acquired assets and liabilities retrospective application may have resulted in an increase or decrease to goodwill. The fair values of the acquired intangible assets would have been amortised over their respective useful lives.

Employee benefits actuarial gains and losses (IAS 19, Employee Benefits)

The Group has elected to recognise all cumulative actuarial gains and losses in relation to employee benefit schemes at the date of transition.

Share-based payments (IFRS 2, Share-based Payment)

The Group has elected to apply IFRS 2 to all relevant share-based payment transactions granted but not fully vested at 1 April 2004.

Financial instruments (IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosures)

The Group has applied IAS 32 and IAS 39 for all periods presented and has therefore not taken advantage of the exemption in IFRS 1 that would enable the Group to only apply these standards from 1 April 2005.

Cumulative translation differences (IAS 21, The Effects of Changes in Foreign Exchange Rates)

The Group has deemed the cumulative translation differences at the date of transition to IFRS to be zero. As a result, the gain or loss of a subsequent disposal of any foreign operation will exclude the translation differences that arose before the date of transition to IFRS.

If the Group had not applied the exemption, the gain or loss on any disposals after the transition date would include additional cumulative transaction differences relating to the businesses disposed of.

Fair value or revaluation as deemed cost (IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets)

The Group has not elected to measure any item of property, plant and equipment or intangible asset at the date of transition to IFRS at its fair value.

Impact of transition to IFRS

The following is a summary of the effects of the differences between IFRS and UK GAAP on the Group s total equity shareholders funds and profit for the financial year for the years previously reported under UK GAAP following the date of transition to IFRS.

Total equity shareholders funds

	Note	1 April 2004 £m	31 March 2005 £m
Total equity shareholders funds (UK GAAP)		111,924	99,317
Measurement and recognition differences:			
Intangible assets	a	(164)	13,986
Proposed dividends	b	728	1,395
Financial instruments	c	385	350
Share-based payments	d	12	63
Defined benefit pension schemes	e	(257)	(361)
Deferred and current taxes	f	(1,011)	(774)
Other		(66)	(176)
Total equity shareholders funds (IFRS)		111,551	113,800

Profit for the year ended 31 March 2005

	Note	£m
Loss on ordinary activities after taxation (UK GAAP)		(6,938)
Measurement and recognition differences:		
Intangible assets	a	14,263
Financial instruments	c	(174)
Share-based payments	d	(91)
Defined benefit pension schemes	e	7
Deferred and current taxes	f	10
Other		(130)
Presentation differences:		
Presentation of equity accounted investments	g	(45)
Presentation of joint ventures	h	(384)
Profit for the financial year (IFRS)		6,518

There were no significant differences between IFRS and UK GAAP on the Group s cash flow statement for the year ended 31 March 2005.

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Principal differences between IFRS and UK GAAP

Measurement and recognition differences

a. Intangible assets

IAS 38, Intangible Assets requires that goodwill is not amortised. Instead it is subject to an annual impairment review. As the Group has elected not to apply IFRS 3 retrospectively to business combinations prior to the opening balance sheet date under IFRS, the UK GAAP goodwill balance, after adjusting for items including the impact of proportionate consolidation of joint ventures, at 31 March 2004 (£78,753 million) has been included in the opening IFRS consolidated balance sheet and is no longer amortised.

Under IAS 38, capitalised payments for licences and spectrum fees are amortised on a straight line basis over their useful economic life. Amortisation is charged from the commencement of service of the network. Under UK GAAP, the Group s policy was to amortise such costs in proportion to the capacity of the network during the start up period and then on a straight-line basis thereafter.

b. Proposed dividends

IAS 10, Events after the Balance Sheet Date requires that dividends declared after the balance sheet date should not be recognised as a liability at that balance sheet date as the liability does not represent a present obligation as defined by IAS 37, Provisions, Contingent Liabilities and Contingent Assets .

c. Financial instruments

IAS 32, Financial Instruments: Disclosure and Presentation and IAS 39, Financial Instruments: Recognition and Measurement address the accounting for, and reporting of, financial instruments. IAS 39 sets out detailed accounting requirements in relation to financial assets and liabilities.

All derivative financial instruments are accounted for at fair market value whilst other financial instruments are accounted for either at amortised cost or at fair value depending on their classification. Subject to certain criteria, financial assets and financial liabilities may be designated as forming hedge relationships as a result of which fair value changes are offset in the income statement or charged/credited to equity depending on the nature of the hedge relationship.

d. Share-based payments

IFRS 2, Share-based Payment requires that an expense for equity instruments granted be recognised in the financial statements based on their fair value at the date of grant. This expense, which is primarily in relation to employee option and performance share schemes, is recognised over the vesting period of the scheme.

While IFRS 2 allows the measurement of this expense to be calculated only on options granted after 7 November 2002, the Group has applied IFRS 2 to all instruments granted but not fully vested as at 1 April 2004. The Group has adopted the binomial model for the purposes of calculating fair value under IFRS, calibrated using a Black-Scholes framework.

e. Defined benefit pension schemes

The Group elected to adopt early the amendment to IAS 19, Employee Benefits issued by the IASB on 16 December 2004 which allows all actuarial gains and losses to be charged or credited to equity.

The Group s opening IFRS balance sheet at 1 April 2004 reflects the assets and liabilities of the Group s defined benefit schemes totalling a net liability of £154 million. The transitional adjustment of £257 million to opening reserves comprises the reversal of entries in relation to UK GAAP accounting under SSAP 24 less the recognition of the net liabilities of the Group s and associated undertakings defined benefit schemes.

f. Deferred and current taxes

The scope of IAS 12, Income Taxes is wider than the corresponding UK GAAP standards, and requires deferred tax to be provided on all temporary differences rather than just timing differences under UK GAAP.

As a result, taxes in the Group's IFRS opening balance sheet at 1 April 2004 were adjusted by £1.0 billion. This includes an additional deferred tax liability of £1.8 billion in respect of the differences between the carrying value and tax written down value of the Group's investments in associated undertakings and joint ventures. This comprises £1.3 billion in respect of differences that arose when US investments were acquired and £0.5 billion in respect of undistributed earnings of certain associated undertakings and joint ventures, principally Vodafone Italy. UK GAAP does not permit deferred tax to be provided on the undistributed earnings of the Group s associated undertakings and joint ventures until there is a binding obligation to distribute those earnings.

IAS 12 also requires deferred tax to be provided in respect of the Group s liabilities under its post employment benefit arrangements and on other employee benefits such as share and share option schemes.

Presentation differences

g. Presentation of equity accounted investments

Under IFRS, in accordance with IAS 1, Presentation of Financial Statements , Tax on profit on the face of the consolidated income statement comprises the tax charge of the Company, its subsidiaries and its share of the tax charge of joint ventures. The Group s share of its associated undertakings tax charges is shown as part of Share of result in associated undertakings rather than being disclosed as part of the tax charge under UK GAAP.

In respect of the Verizon Wireless partnership, the line Share of result in associated undertakings includes the Group s share of pre-tax partnership income and the Group s share of the post-tax income attributable to corporate entities (as determined for US corporate income tax purposes) held by the partnership. The tax attributable to the Group s share of allocable partnership income is included as part of Tax on profit in the consolidated income statement. This treatment reflects the fact that tax on allocable partnership income is, for US corporate income tax purposes, a liability of the partners and not the partnership. Under UK GAAP, the Group s share of minority interests in associated undertakings was reported in minority interests, under IFRS this is reported within investments in associated undertakings.

h. Presentation of joint ventures

IAS 31, Interests in Joint Ventures defines a jointly controlled entity as an entity where unanimous consent over the strategic financial and operating decisions is required between the parties sharing control. Control is defined as the power to govern the financial and operating decisions of an entity so as to obtain economic benefit from it.

The Group has reviewed the classification of its investments and concluded that the Group s 76.9% (31 March 2005: 76.8%) interest in Vodafone Italy, classified as a subsidiary undertaking under UK GAAP, should be accounted for as a joint venture under IFRS. In addition, the Group s interests in South Africa, Poland, Kenya and Fiji, which were classified as associated undertakings under UK GAAP, have been classified as joint ventures under IFRS as a result of the contractual rights held by the Group. The Group s interest in Romania was classified as a joint venture until the acquisition of the controlling stake from Telesystem International Wireless Inc. of Canada completed on 31 May 2005. The Group has adopted proportionate consolidation as the method of accounting for these six entities.

Under UK GAAP, the revenue, operating profit, net financing costs and taxation of Vodafone Italy were consolidated in full in the income statement with a corresponding allocation to minority interest. Under proportionate consolidation, the Group recognises its share of all income statement lines with no allocation to minority interest. There is no effect on the result for a financial period from this adjustment.

Under UK GAAP, the Group s interests in South Africa, Poland, Romania, Kenya and Fiji were accounted for under the equity method, with the Group s share of operating profit, interest and tax being recognised separately in the consolidated income statement. Under proportionate consolidation, the Group recognises its share of all income statement lines. There is no effect on the result for a financial period from this adjustment.

Under UK GAAP, the Group fully consolidated the cash flows of Vodafone Italy, but did not consolidate the cash flows of its associated undertakings. The IFRS consolidated cash flow statement reflects the Group s share of cash flows relating to its joint ventures on a line by line basis, with a corresponding recognition of the Group s share of net debt for each of the proportionately consolidated entities.

Other differences

i. Reclassification of non-equity minority interests to liabilities

The primary impact of the implementation of IAS 32 is the reclassification of the $1.65 billion preferred shares issued by the Group s subsidiary, Vodafone Americas Inc., from non-equity minority interests to liabilities. The reclassification at 1 April 2004 was £875 million. Dividend payments by this subsidiary, which were previously reported in the Group s income statement as non-equity minority interests, have been reclassified to financing costs.

j. Fair value of available-for-sale financial assets

The Group has classified certain of its cost-based investments as available-for-sale financial assets as defined in IAS 39. This classification does not reflect the intentions of management in relation to these investments. These assets are measured at fair value at each reporting date with movements in fair value taken to equity. At 1 April 2004, a cumulative increase of £233 million in the fair value over the carrying value of these investments was recognised.

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Notes to the Consolidated Financial Statements
continued

40. Transition to IFRS on first-time adoption continued

Reconciliation of the UK GAAP consolidated profit and loss account to the IFRS consolidated income statement

Year ended 31 March 2005

UK GAAP format	UK GAAP £m	Presentation differences £m	Measurement and recognition differences £m	Discontinued operations £m	IFRS £m	IFRS format
Turnover	34,133		(60)	(7,395)	26,678	Revenue
Cost of sales	(20,753)		(711)	5,664	(15,800)	Cost of sales
Gross profit	13,380		(771)	(1,731)	10,878	Gross profit
Selling and distribution costs	(2,031)		(15)	397	(1,649)	Selling and distribution expenses
Administrative expenses	(16,653)	315	12,812	670	(2,856)	Administrative expenses
		404	1,576		1,980	Share of result in associated undertakings
		(315)	(160)		(475)	Other income and expense
Operating loss	(5,304)	404	13,442	(664)	7,878	Operating profit
Share of result in associated undertakings	1,193	(1,193)				
Exceptional non-operating items	13	(13)				
		8	(2)	(13)	(7)	Non-operating income and expense
		324	(21)	(9)	294	Investment income
Net interest payable and similar items	(604)	(113)	(183)	20	(880)	Financing costs
Loss on ordinary activities before taxation	(4,702)	(583)	13,236	(666)	7,285	Profit before taxation
Tax on loss on ordinary activities	(2,236)	538	265	(436)	(1,869)	Tax on profit
Loss on ordinary activities after taxation	(6,938)	(45)	13,501	(1,102)	5,416	Profit on ordinary activities after taxation from continuing operations
				1,102	1,102	Profit on ordinary activites after taxation from discontinued operations
	(6,938)	(45)	13,501		6,518	Profit for the financial year
Minority interest	(602)	45	449		(108)	Profit for the financial year attributable to minority interests

Loss for the financial year	(7,540)	13,950	6,410	Profit for the financial year attributable to equity shareholders

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Reconciliation of the UK GAAP consolidated balance sheet to the IFRS consolidated balance sheet

1 April 2004

UK GAAP format	UK GAAP £m	Presentation differences £m	Measurement and recognition differences £m	IFRS £m	IFRS format
Fixed assets:					Non-current assets:
Intangible assets	93,622		1,002	94,624	Intangible assets
Tangible assets	18,083		(971)	17,112	Property, plant and equipment
Investments in associated undertakings	21,226		(800)	20,426	Investments in associated undertakings
Other investments	1,049		233	1,282	Other investments
		671	136	807	Deferred tax assets
		221	(9)	212	Trade and other receivables
	133,980	892	(409)	134,463	
Current assets:					Current assets:
Stocks	458		10	468	Inventory
Debtors	6,901	(6,901)			
		372	(103)	269	Taxation recoverable
		5,148	305	5,453	Trade and other receivables
Investments	4,381	(4,381)			
Cash at bank and in hand	1,409	4,381	61	5,851	Cash and cash equivalents
	13,149	(1,381)	273	12,041	
Total assets	147,129	(489)	(136)	146,504	Total assets
Capital and reserves:					Equity:
Called up share capital	4,280			4,280	Called up share capital
Share premium account	52,154			52,154	Share premium account
Own shares held	(1,136)			(1,136)	Own shares held
Other reserve	99,640		310	99,950	Additional paid-in capital
			233	233	Other reserves
Profit and loss account	(43,014)		(916)	(43,930)	Retained losses
Total equity shareholders funds	111,924		(373)	111,551	Total equity shareholders funds
Minority interests	3,007		(2,198)	809	Minority interests
	114,931		(2,571)	112,360	
Creditors amounts falling due after more than one year	12,975	(12,975)			Non-current liabilities:
		12,224	1,859	14,083	Long-term borrowings
		3,314	1,421	4,735	Deferred tax liabilities
		(73)	227	154	Post employment benefits
Provisions for liabilities and charges	4,197	(3,858)	5	344	

					Provisions for liabilities and charges
		751	(449)	302	Trade and other payables
	17,172	(617)	3,063	19,618	
Creditors amounts falling due within one year	15,026	(15,026)			Current liabilities:
		2,054	788	2,842	Short-term borrowings
		4,275	(356)	3,919	Current taxation liabilities
		8,643	(1,068)	7,575	Trade and other payables
		182	8	190	Provisions for liabilities and charges
	15,026	128	(628)	14,526	
	147,129	(489)	(136)	146,504	Total equity and liabilities

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Notes to the Consolidated Financial Statements
continued

40. Transition to IFRS on first-time adoption continued

31 March 2005

UK GAAP format	UK GAAP £m	Presentation differences £m	Measurement and recognition differences £m	IFRS £m	IFRS format
Fixed assets:					Non-current assets:
		68,673	12,326	80,999	Goodwill
Intangible assets	83,464	(68,673)	1,358	16,149	Other intangible assets
Tangible assets	18,398		(956)	17,442	Property, plant and equipment
Investments in associated undertakings	19,398		836	20,234	Investments in associated undertakings
Other investments	852		329	1,181	Other investments
		1,084	100	1,184	Deferred tax assets
		12		12	Post employment benefits
		613	(28)	585	Trade and other receivables
	122,112	1,709	13,965	137,786	
Current assets:					Current assets:
Stocks	430		10	440	Inventory
Debtors	7,698	(7,698)			
		268	(230)	38	Taxation recoverable
		5,049	115	5,164	Trade and other receivables
Investments	816	(816)			
Cash at bank and in hand	2,850	816	103	3,769	Cash and cash equivalents
	11,794	(2,381)	(2)	9,411	
Total assets	133,906	(672)	13,963	147,197	Total assets
Capital and reserves:					Equity:
Called up share capital	4,286			4,286	Called up share capital
Share premium account	52,284			52,284	Share premium account
Own shares held	(5,121)			(5,121)	Own shares held
Other reserve	99,556		525	100,081	Additional paid-in capital
			1,781	1,781	Accumulated other recognised income and expense
Profit and loss account	(51,688)		12,177	(39,511)	Retained losses
Total equity shareholders funds	99,317		14,483	113,800	Total equity shareholders funds
Minority interests	2,818		(2,970)	(152)	Minority Interests

	102,135		11,513	113,648	
Creditors amounts falling due after more than one year	12,382	(12,382)			Non-current liabilities:
		11,613	1,577	13,190	Long-term borrowings
		3,481	1,368	4,849	Deferred tax liabilities
		(171)	307	136	Post employment benefits
Provisions for liabilities and charges	4,552	(4,235)	2	319	Provisions for other liabilities and charges
		797	(359)	438	Trade and other payables
	16,934	(897)	2,895	18,932	
Creditors amounts falling due within one year	14,837	(14,837)			Current liabilities:
		392	1,611	2,003	Short-term borrowings
		4,759	(406)	4,353	Current taxation liabilities
		9,717	(1,684)	8,033	Trade and other payables
		194	34	228	Provisions for other liabilities and charges
	14,837	225	(445)	14,617	
	133,906	(672)	13,963	147,197	Total equity and liabilities

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Report of Independent Registered Public Accounting Firm to the Members of Vodafone Group Plc

We have audited the Consolidated Financial Statements of Vodafone Group Plc, which comprise the consolidated consolidated balance sheets at 31 March 2006 and 2005, the consolidated income statements, consolidated cash flow statements, the consolidated statements of recognised income and expenses for each of the two years in the period ended 31 March 2006 and the related notes numbered 1 to 40. These Consolidated Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors   remuneration report that is described as having been audited.

We have reported separately on the individual Company Financial Statements of Vodafone Group Plc for the year ended 31 March 2006.

Respective responsibilities of directors and auditors

The directors   responsibilities for preparing the annual report, the directors   remuneration report and the Consolidated Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the statement of directors   responsibilities.

Our responsibility is to audit the Consolidated Financial Statements and the part of the directors   remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Consolidated Financial Statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Consolidated Financial Statements and the part of the directors remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

We report to you if in our opinion the information given in the directors   report is not consistent with the Consolidated Financial Statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors   transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four directors   remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company s compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board s statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group s corporate governance procedures or its risk and control procedures.

We read the directors   report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors   remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Consolidated Financial Statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and with the standards of the Public Company Accounting Oversight Board (United States). The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Consolidated Financial Statements and the part of the directors   remuneration report described as having been audited. It also

includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Consolidated Financial Statements, and of whether the accounting policies are appropriate to the Group s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Consolidated Financial Statements and the part of the directors remuneration report described as having been audited are free

from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Consolidated Financial Statements and the part of the directors remuneration report described as having been audited.

Opinions

IFRS opinion

In our opinion:

the Consolidated Financial Statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group s affairs as at 31 March 2006 and of its loss for the year then ended;

the Consolidated Financial Statements and the part of the directors remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and

the information given in the directors report is consistent with the Consolidated Financial Statements.

As explained in note 1 of the Consolidated Financial Statements, the Group, in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Group s affairs as at 31 March 2006 and of its loss for the year then ended.

US opinion

In our opinion the Consolidated Financial Statements present fairly, in all material respects, the consolidated financial position of the Group at 31 March 2006 and 2005 and the consolidated results of its operations and cash flows for each of the two years in the period ended 31 March 2006 in conformity with IFRS as adopted for use in the European Union and as issued by the International Accounting Standards Board.

IFRS vary in significant respects from the accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in note 38 to the Consolidated Financial Statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
United Kingdom

30 May 2006

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Company Financial Statements of Vodafone Group Plc at 31 March

	Note	**2006 £m**	2005 (restated) £m
Fixed assets			
Other investments	3	**133**	
Shares in group undertakings	3	**67,395**	94,446
		67,528	94,446
Current assets			
Debtors: amounts falling due after more than one year	4	**236**	370
Debtors: amounts falling due within one year	4	**99,417**	77,466
Investments	5		28
		99,653	77,864
Creditors: amounts falling due within one year	6	**(76,591)**	(89,740)
Net current assets/(liabilities)		**23,062**	(11,876)
Total assets less current liabilities		**90,590**	82,570
Creditors: amounts falling due after more than one year	6	**(13,487)**	(9,380)
		77,103	73,190
Capital and reserves			
Called up share capital	7	**4,165**	4,286
Share premium account	8	**52,444**	52,284
Capital redemption reserve	8	**128**	
Capital reserve	8	**88**	88
Other reserves	8	**1,012**	1,048
Own shares held	8	**(8,186)**	(5,085)
Profit and loss account	8	**27,452**	20,569
Equity shareholders funds		**77,103**	73,190

The Financial Statements were approved by the Board of directors on 30 May 2006 and were signed on its behalf by:

Arun Sarin	**Andy Halford**
Chief Executive	**Chief Financial Officer**

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

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Notes to the Company Financial Statements

1. Basis of preparation

The separate financial statements of the Company are drawn up in accordance with the Companies Act 1985 and UK generally accepted accounting principles (UK GAAP).

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 revenue and expenses during the reporting period. Actual results could differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented in this Annual Report.

The Company has taken advantage of the exemption contained in FRS 1 Cash flow statements and has not produced a cash flow statement.

The Company has taken advantage of the exemption contained in FRS 8 Related party disclosures and has not reported transactions with fellow Group undertakings.

2. Significant accounting policies

The Company s significant accounting policies are described below.

Accounting convention

The Company Financial Statements are prepared under the historical cost convention and in accordance with applicable accounting standards of the UK Accounting Standards Board and pronouncements of the Urgent Issues Task Force.

New accounting standards

The Company has adjusted its accounting policies to adopt the following new standards: FRS 17 Retirement Benefits , FRS 20 Share-based Payments , FRS 21 Events after the Balance Sheet Date , FRS 22 Earnings per share , FRS 23 The Effects of Changes in Foreign Exchange Rates , FRS 26 Financial Instruments: Measurement and FRS 28 Corresponding Amounts . The Company has also early adopted FRS 29 Financial Instruments: Disclosures , which replaces the disclosure requirements of FRS 25 Financial Instruments: Disclosure and Presentation . Comparative figures have been restated accordingly for changes in accounting policy. Details of the effect of the prior year adjustment are set out below and the full impact on the Company s net asset position as at 1 April 2005 is analysed in note 8.

FRS 17 impacts the Company in its role as sponsoring employer of the Vodafone Group Pension Scheme, a defined benefit pension scheme. The adoption of FRS 17 had no effect on the Company s profit or net assets as the Company was unable to identify its share of the underlying assets and liabilities of the Vodafone Group Pension Scheme on a consistent and reasonable basis. Therefore the Company has applied the guidance within FRS 17 to account for defined benefit schemes as if they were defined contribution schemes and recognise only the contribution payable each year. The Company had no contributions payable for the years ended 31 March 2006 and 31 March 2005 as it has no employees.

FRS 20 requires that the fair value of options and shares awarded to employees is charged to the profit and loss account over the vesting period. The Company does not incur a charge under this standard. However, where the Company has granted rights over the Company s shares or share options to the employees of its subsidiary undertakings, an additional capital contribution has been

deemed to have been made by the Company to its subsidiary undertakings. This results in an additional investment in subsidiaries and a corresponding increase in shareholders equity. The additional capital contribution is based on the fair value of the grant issued allocated over the underlying grant s vesting period. As a result of adopting FRS 20, the Company s net assets at 31 March 2005 increased by £419 million.

FRS 21 requires that dividends declared after the balance sheet date should not be recognised as a liability at the balance sheet date as the liability does not represent a present obligation. Under FRS 21, interim dividends are recognised when they are paid, and final dividends are recognised when they are approved by shareholders. As a result of adopting FRS 21, the Company s net assets at 31 March 2005 increased by £1,395 million.

FRS 23 sets out additional guidance on the translation method for transactions in foreign currencies and on determining the functional and presentational currencies. The adoption of FRS 23 had no impact on the Company s profit or net assets.

The Company has adopted the presentation requirements of FRS 25. This deals with the classification of capital instruments issued between debt and equity and the implications of that classification for dividends and interest expense.

FRS 26 sets out the requirements for measurement, recognition and de-recognition of financial instruments. The main impact of this change in accounting policy is to recognise the fair value of foreign exchange contracts and interest rate swaps on the balance sheet with effect from the transitional date of 1 April 2004. The adoption of FRS 26 increased the Company s net assets at 31 March 2005 by £182 million.

FRS 28 gives the requirements for the disclosure of corresponding amounts for items shown in an entity s primary financial statements and the notes to the financial statements. The adoption of FRS 28 had no effect upon the Company s profit or net assets.

FRS 29 sets out the requirements for the disclosures relating to financial instruments. The Company has early adopted FRS 29 and applied its requirements from 1 April 2005. The Company is exempt from the requirements of the standard as full FRS 29 disclosures are available in the Vodafone Group Plc Annual Report 2006.

Investments

Shares in Group undertakings are stated at cost less any provision for permanent diminution in value.

The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. If any such indication of impairment exists, the Company makes an estimate of the recoverable amount. If the recoverable amount of the cash-generating unit is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity, determined using the weighted average costs method, is included in the net profit or loss for the period.

Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company s functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rate prevailing on the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit and loss account for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the profit and loss account for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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Notes to the Company Financial Statements
continued

2. Significant accounting policies continued

Borrowing costs

All borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences that exist at the balance sheet date and that result in an obligation to pay more tax, or a right to pay less tax in the future. The deferred tax is measured at the rate expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that are enacted or substantively enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding commitment to sell the asset. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Financial instruments

Financial assets and financial liabilities, in respect of financial instruments, are recognised on the balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Capital market and bank borrowings

Interest-bearing loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method, except where they are identified as a hedged item in a fair value hedge. Any difference between the proceeds net of transaction costs and the settlement or redemption of borrowings is recognised over the term of the borrowing.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Company s activities expose it to the financial risks of changes in foreign exchange rates and interest rates.

The use of financial derivatives is governed by the Group s policies approved by the board of directors, which provide written principles on the use of financial derivatives consistent with the Group s risk management strategy. The Company does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are subsequently re-measured to fair value at each reporting date. The Company designates certain derivatives as hedges of the change of fair value of recognised assets and liabilities (fair value hedges). Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Fair value hedges

The Company s policy is to use derivative instruments (primarily interest rate swaps) to convert a proportion of its fixed rate debt to floating rates in order to hedge the interest rate risk arising, principally, from capital market borrowings. The Company designates

these as fair value hedges of interest rate risk with changes in fair value of the hedging instrument recognised in the profit and loss account for the period together with the changes in the fair value of the hedged item due to the hedged risk, to the extent the hedge is effective. The ineffective portion is recognised immediately in the profit and loss account.

Share based payments

The Group operates a number of equity settled share based compensation plans for the employees of subsidiary undertakings, using the Company s equity instruments. The fair value of the compensation given in respect of these share based compensation plans is recognised as a capital contribution to the Company s subsidiary undertakings, over the vesting period. The capital contribution is reduced by any payments received from subsidiary undertakings in respect of these share based payments.

Dividends paid and received

Dividends paid and received are included in the financial statements in the period in which the related dividends are actually paid or received or, in respect of the Company s final dividend for the year, approved by shareholders.

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3. Fixed assets

Other investments

The Company s fixed asset investments comprises £133 million (2005: £nil) representing 30,252,460 ordinary shares in VenFin Limited (2005: £nil). The investment is held at fair value.

Shares in group undertakings

	£m
Cost:	
1 April 2005	98,789
Adjustment for adoption of FRS 20	419
1 April 2005, as restated	99,208
Additions	3,642
Capital contributions arising from share based payments	114
Contributions received in relation to share based payments	(150)
Disposals	(30,654)
31 March 2006	72,160
Amounts provided for:	
1 April 2005	4,762
Amounts provided for during the year	3
31 March 2006	4,765
Net book value:	
31 March 2006	67,395
31 March 2005, as restated	94,446

At 31 March 2006, the Company had the following principal subsidiary undertakings:

Name	Principal activity	Country of incorporation or registration	Percentage shareholding
Vodafone International Operations Limited	Holding company	England	100

4. Debtors

	2006 £m	2005 (restated) £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	99,174	77,246
Taxation recoverable	72	37
Group relief receivable		43
Other debtors	171	140

	99,417	77,466
Amounts falling due after more than one year:		
Deferred taxation	**5**	5
Other debtors	**231**	365
	236	370

5. Investments

	2006 £m	2005 £m
Liquid Investments		28

The Company s liquid investments at 31 March 2005 comprised of short term foreign exchange forward contracts.

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Notes to the Company Financial Statements
continued

6. Creditors

	2006 £m	2005 (restated) £m
Amounts falling due within one year:		
Bank loans and other loans	**2,143**	42
Amounts owed to subsidiary undertakings	**74,229**	89,652
Group relief payable	**89**	
Other creditors	**120**	34
Accruals and deferred income	**10**	12
	76,591	89,740
Amounts falling due after more than one year:		
Bank loans		16
Other loans	**13,321**	9,316
Other creditors	**166**	48
	13,487	9,380

Included in amounts falling due after more than one year are other loans of £5,942 million, which are due in more than five years from 1 April 2006 and are payable otherwise than by instalments. Interest payable on this debt ranges from 3.625% and 7.875%.

7. Share capital

	2006		2005	
	Number	**£m**	Number	£m
Authorised:				
Ordinary shares of US$0.10 each	**78,000,000,000**	**4,875**	78,000,000,000	4,875
Ordinary shares allotted, issued and fully paid:				
1 April	**68,380,866,539**	**4,286**	68,263,933,048	4,280
Allotted during the year	**120,466,245**	**7**	116,933,491	6
Cancelled during the year	**(2,250,000,000)**	**(128)**		
31 March	**66,251,332,784**	**4,165**	68,380,866,539	4,286

Notes:
(1) At 31 March 2006 the Company held 6,120,129,348 (2005: 3,785,000,000) treasury shares with a nominal value of £352 million (2005: £205 million).
(2) At 31 March 2006, 50,000 (2005: 50,000) 7% cumulative fixed rate shares of £1 each were authorised, allotted, issued and fully paid by the Company.

Allotted during the year

	Number	Nominal value £m	Proceeds £m

UK share awards and option scheme awards	**85,744,935**	**5**	**122**
US share awards and option scheme awards	**34,721,310**	**2**	**37**
Total for share option schemes and restricted stock awards	**120,466,245**	**7**	**159**

Cancelled during the year

During the year 2,250,000,000 (2005: nil) treasury shares were cancelled in order to comply with Companies Act requirements in relation to the amount of issued share capital that can be held in treasury.

Share-based payments

The Company currently uses a number of equity settled share plans to grant options and shares to the directors and employees of its subsidiary undertakings, as listed below.

Share option schemes

Vodafone Group savings related and sharesave schemes
Vodafone Group executive schemes
Vodafone Group 1999 Long Term Stock Incentive Plan and ADSs
Other share option plans

Share plans

Share Incentive plan
Restricted share plans

As at 31 March 2006, the Company had 786.9 million ordinary share options outstanding (2005: 1,122.6 million) and 7.7 million ADS options outstanding (2005: 11.2 million).

The Company has made a capital contribution to its subsidiary undertakings in relation to share based payments. At 1 April 2005, the capital contribution net of payments received from subsidiary undertakings was £419 million. During the year ended 31 March 2006, the capital contribution arising from share based payments was £114 million, with payments of £150 million received from subsidiary undertakings. The Company does not incur a profit and loss account charge in relation to share based payments.

Full details of share based payments, share option schemes and share plans are disclosed in note 20 to the Consolidated Financial Statements.

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8. Reserves and reconciliation of movements in equity shareholders funds

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Capital reserve £m	Other reserves £m	Own shares held £m	Profit and loss account £m	Total equity shareholders funds £m
1 April 2005 as previously reported	4,286	52,284		88	629	(5,085)	18,992	71,194
Prior year adjustment implementation of FRS 20					419			419
Prior year adjustment implementation of FRS 21							1,395	1,395
Prior year adjustment implementation of FRS 26							182	182
1 April 2005	**4,286**	**52,284**		**88**	**1,048**	**(5,085)**	**20,569**	**73,190**
Issue of new shares	**7**	**152**						**159**
Purchase of own shares						**(6,500)**		**(6,500)**
Own shares released on vesting of share awards		**8**				**346**		**354**
Cancellation of own shares held	**(128)**		**128**			**3,053**	**(3,053)**	
Profit for the financial year							**12,671**	**12,671**
Dividends							**(2,753)**	**(2,753)**
Capital contribution given relating to share based payments					**114**			**114**
Contribution received relating to share based payments					**(150)**			**(150)**
Other movements							**18**	**18**
31 March 2006	**4,165**	**52,444**	**128**	**88**	**1,012**	**(8,186)**	**27,452**	**77,103**

In accordance with the exemption allowed by section 230 in the Companies Act 1985, no profit and loss account has been presented by the Company. The profit for the financial year dealt with in the accounts of the Company is £12,671 million (2005 restated: £10,583 million). Under English law, the amount available for distribution to shareholders is based upon the profit and loss reserve of the Company and is reduced by the amount of own shares held and is limited by statutory or other restrictions.

The auditor remuneration for audit services to the Company was £0.6 million (2005: £0.5 million). The Company paid no audit fees in relation to non audit services to the Company for the years ended 31 March 2006 and 31 March 2005.

The directors are remunerated by Vodafone Group Plc for their services to the Group as a whole. No remuneration was paid to them specifically in respect of their services to Vodafone Group Plc for either year. Full details of the directors remuneration are disclosed in the Directors Remuneration Report in the Vodafone Group Plc Annual Report 2006.

There were no employees other than directors of the Company throughout the current or the preceding year.

9. Equity dividends

	2006 £m	2005 £m

Declared and paid during the financial year:		
Final dividend for the year ended 31 March 2005: 2.16 pence per share (2004: 1.078 pence per share)	**1,386**	728
Interim dividend for the year ended 31 March 2006: 2.20 pence per share (2005: 1.91 pence per share)	**1,367**	1,263
	2,753	1,991
Proposed or declared after the balance sheet date and not recognised as a liability:		
Final dividend for the year ended 31 March 2006: 3.87 pence per share (2005: 2.16 pence per share)	**2,327**	1,386

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Notes to the Company Financial Statements
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10. Contingent liabilities

	2006 £m	2005 £m
Performance bonds	**172**	176
Credit guarantees third party indebtedness	**1,570**	1,424
Other guarantees and contingent liabilities	**1**	1

Performance bonds

Performance bonds require the Company to make payments to third parties in the event that the Company or its subsidiary undertakings do not perform what is expected of it under the terms of any related contracts.

Company performance bonds include £152 million (2005: £149 million) in respect of undertakings to roll out third generation networks in Spain.

Credit guarantees third party indebtedness

Credit guarantees comprise guarantees and indemnities of bank or other facilities.

At 31 March 2006, the Company had guaranteed debt of Vodafone Finance K.K. amounting to £1,268 million (2005: £1,111 million) and issued guarantees in respect of notes issued by Vodafone Americas, Inc. amounting to £302 million (2005: £311 million). The Japanese facility expires by March 2011 and the majority of Vodafone Americas, Inc. bond guarantees by July 2008.

Other guarantees and contingent liabilities

Other guarantees principally comprise commitments to support disposed entities.

Legal proceedings

Details regarding certain legal actions which involve the Company are set out in note 31 to the Consolidated Financial Statements.

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Independent Auditor s Report to the Members of Vodafone Group Plc

We have audited the individual Company Financial Statements of Vodafone Group Plc for the year ended 31 March 2006 which comprise the balance sheet and the related notes 1 to 10. These individual Company Financial Statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the directors remuneration report are included in the Group annual report of Vodafone Group Plc for the year ended 31 March 2006. We have reported separately on the Consolidated Financial Statements of Vodafone Group Plc for the year ended 31 March 2006 and on the information in the directors remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors responsibilities for preparing the annual report and the individual Company Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors responsibilities.

Our responsibility is to audit the individual Company Financial Statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company Financial Statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual Company Financial Statements have been properly prepared in accordance with the Companies Act 1985. We report to you if in our opinion the information given in the directors report is not consistent with the individual Company Financial Statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors remuneration and other transactions is not disclosed.

We read the directors report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company Financial Statements.

Basis of audit opinion

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

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

Opinion

In our opinion:

the individual Company Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2006;

the individual Company Financial Statements have been properly prepared in accordance with the Companies Act 1985; and

the information given in the directors report is consistent with the Company Financial Statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London
United Kingdom

30 May 2006

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Investor information

Financial calendar for the 2007 financial year

Annual General Meeting (see below)	25 July 2006
Interim Results announcement	14 November 2006
Preliminary announcement of full year results	23 May 2007

Dividends

Full details on the dividend amount per share or ADS can be found on page 38. Set out below is information relevant to the final dividend for the year ended 31 March 2006.

Ex-dividend date	7 June 2006
Record date	9 June 2006
Dividend reinvestment plan election date	14 July 2006
Dividend payment date	4 August 2006 (1)

Note:
(1) Payment date for both ordinary shares and ADSs.

Dividend payment methods

Holders of ordinary shares can:

- have cash dividends paid direct to a bank or building society account; or
- have cash dividends paid in the form of a cheque; or
- elect to use the cash dividends to purchase more Vodafone shares under the Dividend Reinvestment Plan (see below).

If a holder of ordinary shares does decide to receive cash dividends, it is recommended that these are paid directly to the shareholder s bank or building society account via BACS or EFTS. This avoids the risk of cheques being lost in the post and means the dividend will be in the shareholder s account on the dividend payment date. The shareholder will be sent a tax voucher confirming the amount of dividend and the account into which it has been paid.

Please contact the Company s Registrars for further details.

Holders of ADSs can:

- have cash dividends paid direct to a bank account; or
- have cash dividends paid by cheque; or
- elect to have the dividends reinvested to purchase additional Vodafone ADSs (see below for contact details).

Dividend reinvestment

The Company offers a Dividend Reinvestment Plan which allows holders of ordinary shares who choose to participate to use their cash dividends to acquire additional shares in the Company. These are purchased on their behalf by the Plan Administrator through a low cost dealing arrangement. Further details can be obtained from the Plan Administrator on +44 (0) 870 702 0198.

For ADS holders, The Bank of New York maintains a Global BuyDIRECT Plan for the Company, which is a direct purchase and sale plan for depositary receipts, with a dividend reinvestment facility. For additional information, please call toll-free from within the US on +1 800 233 5601, or write to:

The Bank of New York
Shareholder Relations Department
Global BuyDIRECT
P.O. Box 1958
Newark
New Jersey 07101-1958
USA

For calls from outside the US, call +1 212 815 3700.
Please note that this number is not toll-free.

Telephone share dealing

A telephone share dealing service with the Company s Registrars is available for holders of ordinary shares. The service is available from 8.00 am to 4.30 pm, Monday to Friday, excluding bank holidays, on telephone number +44 (0) 870 703 0084.

Detailed terms and conditions are available on request by calling the above number.

Postal share dealing

A postal share dealing service is available for holders of ordinary shares with 1,000 shares or fewer who want to either increase their holding or sell their entire holding.

Further information about this service can be obtained from the Company s Registrars on +44 (0) 870 702 0198.

Registrars and transfer office

The Company s ordinary share register is maintained by:

Computershare Investor Services PLC
P.O. Box 82
The Pavilions, Bridgwater Road
Bristol BS99 7NH
England

Telephone: +44 (0) 870 702 0198 Fax: + 44 (0) 870 703 6101
Email: web.queries@computershare.co.uk

Holders of ordinary shares resident in Ireland should contact:

Computershare Investor Services (Ireland) Limited
P.O. Box 9742
Dublin 18
Ireland

Telephone: +353 (0) 818 300 999 or Fax: +353 (0) 1 216 3151
Email: web.queries@computershare.ie

Any queries about the administration of holdings of ordinary shares, such as change of address, change of ownership or dividend payments, should be directed to the Company s Registrars at the relevant address or telephone number immediately above. Holders of ordinary shares may also check details of their shareholding, subject to passing an identity check, on the Registrars website at www.computershare.com

The Depositary Bank for the Company s ADR programme is:

The Bank of New York
Investor Relations Dept, P.O. Box 11258
Church St. Station
New York, NY 10286-1258
USA

Telephone: +1 (800) 233 5601 (Toll free)

ADS holders should address any queries or instructions regarding their holdings to The Bank of New York at the above address or telephone number. ADS holders can also, subject to passing an identity check, view their account balances and transaction history, sell shares and request certificates from their Global BuyDIRECT Plan at www.stockbny.com.

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Online shareholder services

The Company provides a number of shareholder services online at www.vodafone.com/shareholder, where shareholders may:

- Register to receive electronic shareholder communications. Benefits to shareholders include faster receipt of communications such as annual reports, with cost and time savings for the Company. Electronic shareholder communications are also more environmentally friendly;
- View a live webcast of the AGM of the Company on 25 July 2006. A recording will be available to review after that date;
- View and/or download the Annual Report and the Annual Review & Summary Financial Statement 2006;
- Check the current share price;
- Calculate dividend payments; and
- Use interactive tools to calculate the value of shareholdings, look up the historic price on a particular date and chart Vodafone ordinary share price changes against indices.

Shareholders and other interested parties can also receive Company press releases, including London Stock Exchange announcements, by registering for Vodafone News via the Company s website at www.vodafone.com/news.

Registering for Vodafone News will enable users to:

- be alerted by free SMS as soon as news breaks;
- access the latest news from their mobile; and
- have news automatically e-mailed to them.

Annual General Meeting

The twenty-second AGM of the Company will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1 on 25 July 2006 at 11.00 a.m. or, if later, on conclusion of the Extraordinary General Meeting to be held immediately before it at 10.45 a.m.

The Notice of Meeting, together with details of the business to be conducted at the Meeting, is being circulated to shareholders with this Annual Report or the Annual Review & Summary Financial Statement and can be viewed at the Company s website www.vodafone.com/agm.

The AGM will be transmitted via a live webcast and can be viewed at the Company s website www.vodafone.com/agm on the day of the meeting and a recording will be available to review after that date.

To find out more about the AGM and how to view the webcast, visit www.vodafone.com/agm.

Corporate sponsored nominee service for shareholders

Subject to changes to the Company s Articles of Association being approved at the Annual General Meeting on 25 July 2006, the Company intends to establish a Corporate Nominee Service for Shareholders, which would be operated by the Company s Registrar. The service provides a facility for shareholders to remove their shares from the Vodafone Group Plc share register and hold them, together with other shareholders through a nominee. There would be no need for a share certificate and, in addition, shareholders details will not be held on the main register and so will remain confidential.

Details will be available frollowing the AGM on the Company s website at www.vodafone.com/shareholder.

ShareGift

The Company supports ShareGift, the charity share donation scheme (registered charity number 1052686). Through ShareGift, shareholders who have only a very small number of shares which might be considered uneconomic to sell are able to donate them to charity. Donated shares are aggregated and sold by ShareGift, the proceeds being passed on to a wide range of UK charities. Donating shares to charity gives rise neither to a gain nor a loss for UK Capital Gains purposes and UK taxpayers may also be able to claim income tax relief on the value of the donation.

ShareGift transfer forms specifically for the Company s shareholders are available from the Company s Registrars, Computershare Investor Services PLC and, even if the share certificate has been lost or destroyed, the gift can be completed. The service is generally free. However, there may be an indemnity charge for a lost or destroyed share certificate where the value of the shares exceeds £100. Further details about ShareGift can be obtained from its website at www.ShareGift.org or at 5 Lower Grosvenor Place, London SW1W 0EJ (telephone: +44 (0) 20 7828 1151).

The Unclaimed Assets Register

The Company participates in the Unclaimed Assets Register, which provides a search facility for financial assets which may have been forgotten and which donates a proportion of its public search fees to a group of three UK charities (Age Concern, NSPCC and Scope). For further information, contact The Unclaimed Assets Register, Garden Floor, Bain House, 16 Connaught Place, London W2 2ES (telephone: +44 (0) 870 241 1713), or visit its website at www.uar.co.uk.

Share price history

Upon flotation of the Company on 11 October 1988, the ordinary shares were valued at 170 pence each. On 16 September 1991, when the Company was finally demerged, for UK taxpayers the base cost of Racal Electronics Plc shares was apportioned between the Company and Racal Electronics Plc for Capital Gains Tax purposes in the ratio of 80.036% and 19.964% respectively. Opening share prices on 16 September 1991 were 332 pence for each Vodafone share and 223 pence for each Racal share.

On 21 July 1994, the Company effected a bonus issue of two new shares for every one then held and, on 30 September 1999, it effected a bonus issue of four new shares for every one held at that date. The flotation and demerger share prices, therefore, may be restated as 11.333 pence and 22.133 pence, respectively.

The share price at 31 March 2006 was 120.50 pence (31 March 2005: 140.50 pence). The share price on 26 May 2006 was 119.75 pence.

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

The Company s ordinary shares were traded on the Frankfurt Stock Exchange from 3 April 2000 until 23 March 2004 and, therefore, information has not been provided for periods outside these dates.

Five year data on an annual basis

	London Stock Exchange Pounds per ordinary share		Frankfurt Stock Exchange Euros per ordinary share		NYSE Dollars per ADS	
Financial Year	High	Low	High	Low	High	Low
2001/2002	2.29	1.24	3.70	2.00	33.26	17.88
2002/2003	1.31	0.81	2.15	1.26	20.30	12.76
2003/2004	1.50	1.12	2.22	1.59	27.88	18.10
2004/2005	1.49	1.14			28.54	20.83
2005/2006	1.55	1.09			28.04	19.32

Two year data on a quarterly basis

Financial Year	London Stock Exchange Pounds per ordinary share		NYSE Dollars per ADS	
	High	Low	High	Low
2004/2005				
First Quarter	1.44	1.21	25.90	21.87
Second Quarter	1.34	1.14	24.21	20.83
Third Quarter	1.49	1.32	28.54	24.06
Fourth Quarter	1.46	1.35	27.53	25.60
2005/2006				
First Quarter	1.47	1.34	26.87	24.32
Second Quarter	1.55	1.36	28.04	23.90
Third Quarter	1.52	1.23	26.65	21.29
Fourth Quarter	1.33	1.09	23.39	19.32
2006/2007				
First Quarter[1]	1.30	1.14	24.23	21.07

Note:
(1) Covering period up to 26 May 2006.

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Six month data on a monthly basis

	London Stock Exchange Pounds per ordinary share		NYSE Dollars per ADS	
Financial Year	High	Low	High	Low
November 2005	1.52	1.25	26.65	21.55
December 2005	1.29	1.23	22.66	21.29
January 2006	1.33	1.18	23.39	20.86
February 2006	1.25	1.09	21.81	19.32
March 2006	1.30	1.12	22.74	19.55
April 2006	1.30	1.21	23.70	21.07
May 2006[(1)]	1.30	1.14	24.23	21.53

Note:
(1) High and low share prices for May 2006 only reported until 26 May 2006.

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

Markets

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

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

ADS holders are not members of the Company but may instruct The Bank of New York on the exercise of voting rights relative to the number of ordinary shares represented by their ADSs. See Memorandum and Articles of Association and Applicable English Law Rights attaching to the Company s shares Voting rights below.

Shareholders at 31 March 2006

Number of ordinary shares held	Number of accounts	% of total issued shares
1 1,000	439,814	0.19
1,001 5,000	102,534	0.33
5,001 50,000	28,540	0.57
50,001 100,000	1,451	0.15
100,001 500,000	1,292	0.45
More than 500,000	1,937	98.31
	575,568	100.00

Geographical analysis of shareholders

At 31 March 2006, approximately 52.68% of the Company s shares were held in the UK, 32.04% in North America, 12.86% in Europe (excluding the UK) and 2.42% in the Rest of the World.

Major shareholders

The Bank of New York, as custodian of the Company s ADR programme, held approximately 12.8% of the Company s ordinary shares of $0.10 each at 26 May 2006 as nominee. The total number of ADRs outstanding at 26 May 2006 was 773,146,523. At this date, 1,147 holders of record of ordinary shares had registered addresses in the United States and in total held approximately 0.006% of the ordinary shares of the Company. As at 26 May 2006, the following percentage interests in the ordinary share capital of the Company, disclosable under Part VI of the Companies Act 1985, have been notified to the directors:

Shareholder	Shareholding
The Capital Group Companies, Inc.	5.56%
Barclays PLC	3.92%
Legal & General Investment Management	3.67%

The rights attaching to the ordinary shares of the Company held by these shareholders are identical in all respects to the rights attaching to all the ordinary shares of the Company. The directors are not aware, as at 26 May 2006, of any other interest of 3% or more in the ordinary share capital of the Company. The Company is not directly or indirectly owned or controlled by any foreign government or any other legal entity. There are no arrangements known to the Company that could result in a change of control of the Company.

Memorandum and Articles of Association and Applicable English law

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

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

English law specifies that any alteration to the Articles of Association must be approved by a special resolution of the shareholders.

The Company s Objects

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

Directors

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

Under the Company s Articles of Association, a director cannot vote in respect of any proposal in which the director, or any person connected with the director, has a material interest other than by virtue of the director s interest in the Company s shares or other securities. However, this restriction on voting does not apply to resolutions (a) giving the director or a third party any guarantee, security or indemnity in respect of obligations or liabilities incurred at the request of or for the benefit of the Company, (b) giving any guarantee, security or indemnity to the director or a third party in respect of obligations of the Company for which the director has assumed responsibility under an indemnity or guarantee, (c) relating to an offer of securities of the Company in which the director participates as a holder of shares or other securities or in the underwriting of such shares or securities, (d) concerning any other company in which the director (together with any connected person) is a shareholder or an officer or is otherwise interested,

provided that the director (together with any connected person) is not interested in 1% or more of any class of the company s equity share capital or the voting rights available to its shareholders, (e) relating to the arrangement of any employee benefit in which the director will share equally with other employees and (f) relating to any insurance that the Company purchases or renews for its directors or any group of people, including directors.

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

In accordance with the Company s Articles of Association, directors retiring at each AGM are those last elected or re-elected at or before the AGM held in the third calendar year before the current year. In 2005, the Company reviewed its policy regarding the retirement and re-election of directors and, although it is not intended to amend the Company s Articles in this regard, the Board has decided, in the interests of good corporate governance, that all the directors should offer themselves for re-election annually. Accordingly, all the directors will submit themselves for re-election at the 2006 AGM, except for Lord MacLaurin of Knebworth, Sir Julian Horn-Smith, Paul Hazen and Penny Hughes, who are retiring.

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

Directors are not required, under the Company s Articles, to hold any shares of the Company as a qualification to act as a director, although executive directors participating in long term incentive plans must comply with the Company s share ownership guidelines. In accordance with best practice in the UK for corporate governance, compensation awarded to executive directors is decided by a remuneration committee consisting exclusively of non-executive directors.

In addition, as required by The Directors Remuneration Report Regulations, the Board has, since 2003, prepared a report to shareholders on the directors remuneration which complies with the Regulations (see pages 61 to 69). The report is also subject to a shareholder vote.

Rights attaching to the Company s shares

Dividend rights

Holders of the Company s ordinary shares may by ordinary resolution declare dividends but may not declare dividends in excess of the amount recommended by the directors. The Board of directors may also pay interim dividends. No dividend may be paid other than out of profits available for distribution. Dividends on ordinary shares will be announced in pounds sterling. Holders of ordinary shares with a registered address in a euro-zone country (defined, for this purpose, as a country that has adopted the euro as its national currency) will receive their dividends in euro, exchanged from pounds sterling at a rate fixed by the Board of directors in accordance with the Articles of Association. Dividends for ADS holders represented by ordinary shares held by the Depositary will be paid to the Depositary in US dollars, exchanged from pounds sterling at a rate fixed by the directors in accordance with the Articles of Association, and the Depositary will distribute them to the ADS holders.

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

Voting rights

The Company s Articles of Association provide that voting on Substantive Resolutions (i.e. any resolution which is not a Procedural Resolution) at a general meeting shall be decided on a poll. On a poll, each shareholder who is entitled to vote and is present in person or by proxy has one vote for every share held. Procedural Resolutions (such as a resolution to adjourn a General Meeting or a resolution on the choice of Chairman of a General Meeting) shall be decided on a show of hands, where each shareholder who is present at the meeting has one vote regardless of the number of shares held, unless a poll is demanded. In addition, the Articles of Association allow persons appointed as proxies of shareholders entitled to vote at general meetings to vote on a show of hands, as well as to vote on a poll and attend and speak at general meetings. Holders of the Company s ordinary shares do not have cumulative voting rights.

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

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

Record holders of the Company s ADSs are entitled to attend, speak and vote on a poll or a show of hands at any general meeting of the Company s shareholders by the Depositary s appointment of them as corporate representatives with respect to the underlying ordinary shares represented by their ADSs. Alternatively, holders of ADSs are entitled to vote by supplying their voting instructions to the Depositary or its nominee, who will vote the ordinary shares underlying their ADSs in accordance with their instructions.

Employees are able to vote any shares held under the Vodafone Group Share Incentive Plan and My ShareBank (a vested share account) through the respective plan s trustees, Mourant ECS Trustees Limited.

Liquidation rights

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

together with certain dividend payments, in priority to holders of the Company s ordinary shares. The holders of the fixed rate shares do not have any other right to share in the Company s surplus assets.

Pre-emptive rights and new issues of shares

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

Disclosure of interests in the Company s shares

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

The basic disclosure requirement under Sections 198 to 211 of the Companies Act imposes upon a person interested in the shares of the Company a statutory obligation to provide written notification to the Company, including certain details as set out in the Companies Act, where:

(a) he acquires (or becomes aware that he has acquired) or ceases to have (or becomes aware that he has ceased to have) an interest in shares comprising any class of the Company s issued and voting share capital; and

(b) as a result, EITHER he obtains, or ceases to have:

(i) a material interest in 3%, or more; or

(ii) an aggregate interest (whether material or not) in 10%, or more of the Company s voting capital; or

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

A material interest means, broadly, any beneficial interest (including those of a spouse or a child or a step-child (under the age of 18), those of a company which is accustomed to act in accordance with the relevant person s instructions or in which one third or more of the votes are controlled by such person and certain other interests set out in the Companies Act) other than those of an investment manager or an operator of a unit trust/recognised scheme/collective investment scheme/open-ended investment company.

Sections 204 to 206 of the Companies Act set out particular rules of disclosure where two or more parties (each a concert party) have entered into an agreement to acquire interests in shares of a public company, and the agreement imposes obligations/restrictions on any concert party with respect to the use, retention or disposal of the shares in the company and an acquisition of shares by a concert party pursuant to the agreement has taken place.

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

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

There are additional disclosure obligations under Rule 3 of the Substantial Acquisitions Rules where a person acquires 15% or more of the voting rights of a listed company or when an acquisition increases his holding of shares or rights over shares so as to increase his voting rights beyond that level by a whole percentage point. Notification in this case should be to the Company, the Panel on Takeovers and Mergers and the UK Listing Authority through one of its approved regulatory information services no later than 12 noon on the business day following the date of the acquisition.

Investor information
continued

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

General meetings and notices

Annual general meetings are held at such times and place as determined by the directors of the Company. The directors may also, when they think fit, convene an extraordinary general meeting of the Company. Extraordinary general meetings may also be convened on requisition as provided by the Companies Act.

An annual general meeting and an extraordinary general meeting called for the passing of a special resolution need to be called by not less than twenty-one days notice in writing and all other extraordinary general meetings by not less than fourteen days notice in writing. The directors may determine that persons entitled to receive notices of meetings are those persons entered on the register at the close of business on a day determined by the directors but not later than twenty-one days before the date the relevant notice is sent. The notice may also specify the record date, which shall not be more than forty-eight hours before the time fixed for the meeting.

Shareholders must provide the Company with an address or (so far as the Companies Act allows) an electronic address or fax number in the United Kingdom in order to be entitled to receive notices of shareholders meetings and other notices and documents. In certain circumstances, the Company may give notices to shareholders by advertisement in newspapers in the United Kingdom. Holders of the Company s ADSs are entitled to receive notices under the terms of the Deposit Agreement relating to the ADSs.

Under Section 366 of the Companies Act 1985 and the Company s Articles of Association, the annual general meeting of shareholders must be held each calendar year with no more than fifteen months elapsing since the date of the preceding annual general meeting.

Variation of rights

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

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

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

Limitations on voting and shareholding

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

Documents on display

The Company is subject to the information requirements of the US Securities and Exchange Act of 1934 applicable to foreign private issuers. In accordance with these requirements, the Company files its Annual Report on Form 20-F and other related documents with the SEC. These documents may be inspected at the SEC s public reference rooms located at 450 Fifth Street, NW Washington, DC 20549. Information on the operation of the public reference room can be obtained in the US by calling the SEC on

+1-800-SEC-0330. In addition, some of the Company s SEC filings, including all those filed on or after 4 November 2002, are available on the SEC s website at www.sec.gov. Shareholders can also obtain copies of the Company s Memorandum and Articles of Association from the Vodafone website at www.vodafone.com or from the Company s registered office.

Material contracts

At the date of this Annual Report, the Group is not party to any contracts that are considered material to the Group s results or operations, except for its $10.9 billion credit facilities which are discussed under Financial Position and Resources Liquidity and Cash Resources .

Exchange controls

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

Taxation

As this is a complex area, investors should consult their own tax adviser regarding the US federal, state and local, the UK and other tax consequences of owning and disposing of shares and ADSs in their particular circumstances.

This section describes for a US holder (as defined below), in general terms, the principal US federal income tax and UK tax consequences of owning shares or ADSs in the Company as capital assets (for US and UK tax purposes). This section does not, however, cover the tax consequences for members of certain classes of holders subject to special rules and holders that, directly or indirectly, hold 10 per cent or more of the Company s voting stock.

A US holder is a beneficial owner of shares or ADSs that is for US federal income tax purposes:

(i) a citizen or resident of the United States;

(ii) a US domestic corporation;

(iii) an estate the income of which is subject to US federal income tax regardless of its source; or

(iv) a trust if a US court can exercise primary supervision over the trust s administration and one or more US persons are authorised to control all substantial decisions of the trust.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, and on the tax laws of the United Kingdom and the Double Taxation Convention between the United States and the United Kingdom (the Treaty), all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

This section is further based in part upon the representations of the Depositary and assumes that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

Based on this assumption, for purposes of the Treaty and the US-UK double taxation convention relating to estate and gift taxes (the Estate Tax Convention), and for US federal income tax and UK tax purposes, a holder of ADRs evidencing ADSs will be treated as the owner of the shares in the Company represented by those ADSs. Generally, exchanges of shares for ADRs, and ADRs for shares, will not be subject to US federal income tax or to UK tax, other than stamp duty or stamp duty reserve tax (see the section on these taxes below).

Taxation of dividends

UK taxation

Under current UK tax law, no withholding tax will be deducted from dividends paid by the Company.

A shareholder that is a company resident for UK tax purposes in the United Kingdom will not be taxable on a dividend it receives from the Company. A shareholder in the Company who is an individual resident for UK tax purposes in the United Kingdom is entitled, in calculating their liability to UK income tax, to a tax credit on cash dividends paid on shares in the Company or ADSs, and the tax credit is equal to one-ninth of the cash dividend.

US federal income taxation

A US holder is subject to US federal income taxation on the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for US federal income tax purposes). Dividends paid to a non-corporate US holder in tax years beginning before 1 January 2009 that constitute qualified dividend income will be taxable to the holder at a maximum tax rate of 15%, provided that the ordinary shares or ADSs are held for more than 60 days during the 121 day period beginning 60 days before the ex-dividend date and the holder meets other holding period requirements. Dividends paid by the Company with respect to the shares or ADSs will generally be qualified dividend income.

A US holder is not subject to a UK withholding tax. The US holder includes in gross income for US federal income tax purposes only the amount of the dividend actually received from the Company, and the receipt of a dividend does not entitle the US holder to a foreign tax credit.

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Dividends must be included in income when the US holder, in the case of shares, or the Depositary, in the case of ADSs, actually or constructively receives the dividend and will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations. Dividends will be income from sources outside the United States. Dividends paid in taxable years beginning before 1 January 2007 generally will be passive or financial services income, and dividends paid in taxable years beginning after 31 December 2006 generally will be passive or general income, which in either case is treated separately from other types of income for the purposes of computing any allowable foreign tax credit.

In the case of shares, the amount of the dividend distribution to be included in income will be the US dollar value of the pound sterling payments made, determined at the spot pound sterling/US dollar rate on the date of the dividend distribution, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is to be included in income to the date the payment is converted into US dollars will be treated as ordinary income or loss. Generally, the gain or loss will be income or loss from sources within the United States for foreign tax credit limitation purposes.

Taxation of capital gains

UK taxation

A US holder may be liable for both UK and US tax in respect of a gain on the disposal of the Company s shares or ADSs if the US holder is:

(i) a citizen of the United States resident or ordinarily resident for UK tax purposes in the United Kingdom;

(ii) a citizen of the United States who has been resident or ordinarily resident for UK tax purposes in the United Kingdom, ceased to be so resident or ordinarily resident for a period of less than 5 years of assessment and who disposed of the shares or ADSs during that period (a Temporary Non-Resident), unless the shares or ADSs were also acquired during that period, such liability arising on that individual s return to the UK;

(iii) a US domestic corporation resident in the United Kingdom by reason of being centrally managed and controlled in the United Kingdom; or

(iv) a citizen of the United States or a corporation that carries on a trade, profession or vocation in the United Kingdom through a branch or agency or, in respect of companies, through a permanent establishment and that has used the shares or ADSs for the purposes of such trade, profession or vocation or has used, held or acquired the shares or ADSs for the purposes of such branch or agency or permanent establishment.

Under the Treaty, capital gains on dispositions of the shares or ADSs are generally subject to tax only in the country of residence of the relevant holder as determined under both the laws of the United Kingdom and the United States and as required by the terms of the Treaty. However, individuals who are residents of either the United Kingdom or the United States and who have been residents of the other jurisdiction (the US or the UK, as the case may be) at any time during the six years immediately preceding the relevant disposal of shares or ADSs may be subject to tax with respect to capital gains arising from the dispositions of the shares or ADSs not only in the country of which the holder is a resident at the time of the disposition but also in that other country (although, in respect of UK taxation, generally only to the extent that such an individual comprises a Temporary Non-Resident).

US federal income taxation

A US holder that sells or otherwise disposes of the Company s shares or ADSs will recognise a capital gain or loss for US federal income tax purposes equal to the difference between the US dollar value of the amount realised and the holder s tax basis, determined in US dollars, in the shares or ADSs. Generally, a capital gain of a non-corporate US holder that is recognised before 1 January 2009 is taxed at a maximum rate of 15%, provided the holder has a holding period of more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. The deductibility of losses is subject to limitations.

Additional tax considerations

UK inheritance tax

An individual who is domiciled in the United States (for the purposes of the Estate Tax Convention) and is not a UK national will not be subject to UK inheritance tax in respect of the Company s shares or ADSs on the individual s death or on a transfer of the shares or ADSs during the individual s lifetime, provided that any applicable US federal gift or estate tax is paid, unless the shares or ADSs are part of the business property of a UK permanent establishment or pertain to a UK fixed base used for the performance of independent personal services. Where the shares or ADSs have been placed in trust by a settlor, they may be subject to UK inheritance tax unless, when the trust was created, the settlor was domiciled in the United States and was not a UK national. Where the shares or ADSs are subject to both UK inheritance tax and to US federal gift or estate tax, the Estate Tax Convention generally provides a credit against US federal tax liabilities for UK inheritance tax paid.

UK stamp duty and stamp duty reserve tax

Stamp duty will, subject to certain exceptions, be payable on any instrument transferring shares in the Company to the Custodian of the Depositary at the rate of 1.5% on the amount or value of the consideration if on sale or on the value of such shares if not on sale. Stamp duty reserve tax (SDRT), at the rate of 1.5% of the price or value of the shares, could also be payable in these circumstances, and on issue to such a person, but no SDRT will be payable if stamp duty equal to such SDRT liability is paid. In accordance with the terms of the Deposit Agreement, any tax or duty payable on deposits of shares by the Depositary or the Custodian of the Depositary will be charged to the party to whom ADSs are delivered against such deposits.

No stamp duty will be payable on any transfer of ADSs of the Company, provided that the ADSs and any separate instrument of transfer are executed and retained at all times outside the United Kingdom.

A transfer of shares in the Company in registered form will attract ad valorem stamp duty generally at the rate of 0.5% of the purchase price of the 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 shares on behalf of the transferee) under which no beneficial interest passes and which is neither a sale nor in contemplation of a sale, a fixed £5.00 stamp duty will be payable.

SDRT is generally payable on an unconditional agreement to transfer shares in the Company in registered form at 0.5% of the amount or value of the consideration for the transfer, but is repayable if, within six years of the date of the agreement, an instrument transferring the shares is executed or, if the SDRT has not been paid, the liability to pay the tax (but not necessarily interest and penalties) would be cancelled. However, an agreement to transfer the ADSs of the Company will not give rise to SDRT.

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Form 20-F Cross Reference Guide

Certain of the information in this document that is referenced in the following table is included in the Company s Annual Report on Form 20 F for 2006 filed with the SEC (the 2006 Form 20 F). No other information in this document is included in the 2006 Form 20 F or incorporated by reference into any filings by the Company under the US Securities Act of 1933, as amended. Please see Documents on display for information on how to access the 2006 Form 20 F as filed with the SEC. The 2006 Form 20 F has not been approved or disapproved by the SEC nor has the SEC passed judgement upon the adequacy or accuracy of the 2006 Form 20 F.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this transition report on its behalf.

VODAFONE GROUP PUBLIC LIMITED COMPANY
(Registrant)

/s/ Arun Sarin
Arun Sarin
Chief Executive

Dated: 14 June 2006

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Index to Exhibits to Form 20-F for year ended 31 March 2006

1. Memorandum, as adopted on June 13, 1984 and including all amendments made on July 28, 2000 and July 26, 2005, and Articles of Association, as adopted on June 30, 1999 and including all amendments made on July 25, 2001 and July 26, 2005, of the Company.

2. Indenture, dated as of February 10, 2000, between the Company and Citibank, N.A. as Trustee, including forms of debt securities (incorporated by reference to Exhibit 4(a) of Amendment No. 1 to the Company's Registration Statement on Form F-3, dated November 24, 2000). (File No. 333-10762)).

4.1. Agreement for US $5,525,000,000 5 year Revolving Credit Facility (subsequently increased by accession of further lenders to US$5,925,000,000), dated 24 June 2004, among, inter alia, the Company, ABN Amro Bank N.V.; Banco Bilbao Vizcaya Argentaria S.A. ; Bank of America, N.A.; Barclays Bank PLC; Bayerische Hypo-und Vereinsbank AG; BNP Paribas ; CALYON; Citibank, N.A.; Commerzbank Aktiengesellschaft, London Branch; Deutsche Bank AG; HSBC Bank plc; ING Bank, N.V.; JPMorgan Chase Bank; Lehman Brothers Bankhaus AG; Lloyds TSB Bank plc; Morgan Stanley Dean Witter Bank Limited and Morgan Stanley Bank; Mizuho Corporate Bank, Ltd.; National Australia Bank Limited ABN 12 004 044 937; Sumitomo Mitsui Banking Corporation Europe Limited; The Bank of Tokyo-Mitsubishi, Ltd.; The Royal Bank of Scotland Plc; UBS AG; WestLB AG; Banco Santander Central Hispano, S.A.; William Street Commitment Corporation; Banca Intesa SpA; KBC Bank NV; Standard Chartered Bank; TD Bank Europe Limited; and The Bank of New York with The Royal Bank of Scotland plc as Agent and US Swingline Agent**, as amended and restated on 24 June 2005 by Supplemental Agreement** among, inter alia,the Company, ABN AMRO Bank N.V.**;** Banc of America Securities Limited; Banco Bilbao Vizcaya Argentaria S.A.; Banco Santander Central Hispano, S.A. London Branch; Barclays Capital; Bayerische Hypo-und Vereinsbank AG; BNP Paribas; Calyon; Citigroup Global Markets Limited; Commerzbank Aktiengesellschaft, London Branch; Deutsche Bank AG London; HSBC Bank Plc; ING Bank N.V., London Branch; JPMorgan Chase Bank, N.A.; J.P. Morgan Plc; Lehman Commercial Paper Inc.; Llloyds TSB Bank Plc; Mizuho Corporate Bank, Ltd; Morgan Stanley Bank International Limited; National Australia Bank Limited ABN 12 004 044 937; Sumitomo Mitsui Banking Corporation Europe Limited; The Bank of Tokyo-Mitsubishi, Ltd.; The Royal Bank of Scotland Plc; UBS Limited; WestLB AG, London Branch; William Street Commitment Corporation; Banca Intesa SpA; KBC Bank NV; Standard Chartered Bank; TD Bank Europe Limited; The Bank of New York; ABN AMRO Bank N.V.; Banca Intesa SpA; Banco Bilbao Vizvcaya Argentaria S.A.; Banco Bilbao Vizvcaya Argentaria S.A. (New York Branch); Banco Santander Central Hispano, S.A. London Branch; Bank of America, N.A.; Barclays Bank Plc; Bayerische Hypo-und Vereinsbank AG; BNP Paribas (London Branch); BNP Paribas (acting through its New York Branch); Calyon; Citibank, N.A.; Commerzbank Aktiengesellschaft, London Branch; Commerzbank Aktiengesellschaft, New York Branch; Deutsche Bank AG London; Deutsche Bank AG New York; HSBC Bank Plc; ING Bank N.V., London Branch; JPMorgan Chase Bank, N.A.; KBC Bank NV; Lehman Commercial Paper Inc.; Lloyds TSB Bank Plc; Mizuho Corporate Bank, Ltd.; Morgan Stanley Bank; Morgan Stanley Bank International Limited; National Australia Bank Limited ABN 12 004 044 937; Standard Chartered Bank; Sumitomo Mitsui Banking Corporation Europe Limited; TD Bank Europe Limited; The Bank of New York; The Bank of Tokyo-Mitsubishi, Ltd.; The Royal Bank of Scotland Plc; The Royal Bank of Scotland Plc (New York Branch); UBS AG, London Branch; UBS AG, Stamford Branch; UBS Loan Finance LLC; WestLB AG, London Branch; WestLB AG, New York Branch; William Street Commitment Corporation; and The Royal Bank of Scotland Plc with The Royal Bank of Scotland Plc (New York Branch) as Agent and U.S. Swingline Agent.

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4.2. Agreement for US$4,675,000,000 7 year Revolving Credit Facility (subsequently increased by accession of further lenders to US$5,025,000,000), dated June 24, 2005, among, inter alia, the Company, Banc of America Securities Limited; Banca Intesa SpA; Banco Bilboa Vizcaya Argentaria S.A.; Banco Santander Central Hispano, S.A. London Branch; Barclays Capital; Bayerische Hypo-und Vereinsbank AG; BNP Paribas; Calyon; Citigroup Global Markets Limited; Deutsche Bank AG London; HSBC Bank Plc; ING Bank N.V., London Branch; J.P. Morgan Plc; Lehman Commercial Paper Inc., UK Branch; Lloyds TSB Bank Plc; Mizuho Corporate Bank, Ltd; Morgan Stanley Bank International Limited; National Australia Bank Limited ABN 12 004 044 937; The Bank of Tokyo-Mitsubishi, Ltd; The Royal Bank of Scotland Plc; UBS Limited; Unicredit Banca d'Impresa SpA; WestLB AG, London Branch; William Street Commitment Corporation; Commerzbank Aktiengesellschaft, Filiale Düsseldorf; KBC Bank NV; Standard Chartered Bank; TD Bank Europe Limited; The Bank of New York; Banca Intesa SpA; Banco Bilbao Vizcaya Argentaria S.A.; Banco Bilbao Vizcaya Argentaria S.A. (New York Branch); Banco Santander Central Hispano, S.A. London Branch; Bank of America, N.A., Barclays Bank Plc; Bayerische Hypo-und Vereinsbank AG; BNP Paribas (London Branch); BNP Paribas, New York Branch; Calyon; Citibank, N.A.; Commerzbank Aktiengesellschaft, Filiale Düsseldorf; Deustche Bank AG London; Deutsche Bank AG New York; HSBC Bank Plc; ING Bank N.V., London Branch; JPMorgan Chase Bank, N.A.; KBC Bank NV; Lehman Commercial Paper Inc., UK Branch; Lloyds TSB Bank Plc; Mizuho Corporate Bank, Ltd.; Morgan Stanley Senior Funding, Inc.; Morgan Stanley Bank International Limited; National Australia Bank Limited ABN 12 004 044 937; Standard Chartered Bank; TD Bank Europe Limited; The Bank of New York; The Bank of Tokyo-Mitsubishi, Ltd.; The Royal Bank of Scotland Plc; The Royal Bank of Scotland Plc (New York Branch); UBS AG, London Branch; UBS Loan Finance LLC; Unicredit Banca d'Impresa SpA; WestLB AG, London Branch; WestLB AG, New York Branch; William Street Commitment Corporation; and The Royal Bank of Scotland plc with The Royal Bank of Scotland Plc (New York Branch) as Agent and US Swingline Agent.

4.3. Vodafone Group Long Term Incentive Plan (incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2001).

4.4. Vodafone Group Short Term Incentive Plan (incorporated by reference to Exhibit 4.6 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2001).

4.5. Vodafone Group 1999 Long Term Stock Incentive Plan (incorporated by reference to Exhibit 4.7 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2001).

4.6. Vodafone Group 1998 Company Share Option Scheme (incorporated by reference to Exhibit 4.8 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2001).

4.7. Vodafone Group 1998 Executive Share Option Scheme (incorporated by reference to Exhibit 4.9 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2001).

4.8. Vodafone Group 2005 Global Incentive Plan.

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4.9. Agreement for Services with Lord MacLaurin of Knebworth (incorporated by reference to Exhibit 4.10 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2001).

4.10. Letter of Appointment of Paul Hazen (incorporated by reference to Exhibit 4.15 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2003).

4.11. Service Contract of Arun Sarin (incorporated by reference to Exhibit 4.20 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2003).

4.12. Service Contract of Julian Horn-Smith (incorporated by reference to Exhibit 4.10 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2001).

4.13. Service Contract of Peter Bamford (incorporated by reference to Exhibit 4.10 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2001).

4.14. Service Contract of Thomas Geitner (incorporated by reference to Exhibit 4.13 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2005).

4.15. Service Contract of Kenneth Hydon (included in and incorporated by reference to Exhibit 4.10 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2001).

4.16. Service Contract of Andrew Halford.

4.17. Letter of Appointment of Sir John Bond (incorporated by reference to Exhibit 4.15 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2005).

4.18. Letter of Appointment of Dr. Michael Boskin(incorporated by reference to Exhibit 4.9 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2003).

4.19. Letter of Appointment of Professor Sir Alec Broers, now Lord Broers, (incorporated by reference to Exhibit 4.10 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2003; at a meeting of the Directors of the Company held on September 16, 2003, the term of office of Professor Sir Alec Broers was extended until December 31, 2006).

4.20. Letter of Appointment of Dr. John Buchanan(incorporated by reference to Exhibit 4.11 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2003).

4.21. Letter of Appointment of Penelope Hughes(incorporated by reference to Exhibit 4.17 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2003; at a meeting of the Directors of the Company held on September 16, 2003, the term of office of Penelope Hughes was extended until August 31, 2007).

4.22. Letter of Appointment of Anne Lauvergeon.

4.23. Letter of Appointment of Sir David Scholey (incorporated by reference to Exhibit 4.21 to the Company's Annual Report on Form 20-F for the financial year ended March 31, 2003; at a meeting of the Directors of the Company held on September 16, 2003, the term of office of Sir David Scholey was extended until the Annual General Meeting of the Company in 2005).

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4.24. Letter of Appointment of Jurgen Schrempp (incorporated by reference to Exhibit 4.21 to the Company’s Annual Report on Form 20-F for the financial year ended March 31, 2004).

4.25. Letter of Appointment of Luc Vandevelde (incorporated by reference to Exhibit 4.22 to the Company’s Annual Report on Form 20-F for the financial year ended March 31, 2004).

4.26. Letter of Appointment of Anthony Watson.

4.27. Letter of Appointment of Philip Yea.

7.1 Computation of the ratio of earnings to fixed charges for the years ended 31 March 2006 and 2005.

7.2 Computation of the ratio of earnings to fixed charges for the years ended 31 March 2004, 2003 and 2002.

8. The list of the Company’s subsidiaries is incorporated by reference to note 12 to the Consolidated Financial Statements included in the Annual Report.

12. Rule 13a □ 14(a) Certifications.

13. Rule 13a □ 14(b) Certifications.

15. Consent of Deloitte & Touche LLP.