

## Regulation

Our operating companies are generally subject to regulation governing the operation of their business activities. Such regulation typically takes the form of industry specific law and regulation covering telecommunications services and general competition (antitrust) law applicable to all activities.

The following section describes the regulatory frameworks and the key regulatory developments at the global and regional level and in selected countries in which we have significant interests. Many of the regulatory developments reported in the following section involve ongoing proceedings or consideration of potential proceedings that have not reached a conclusion. Accordingly, we are unable to attach a specific level of financial risk to our performance from such matters.

### European Union ('EU')

The European Commission (the 'Commission') is reviewing the future scope and nature of universal service provision in the EU. Current obligations generally involve the provision of a fixed connection allowing access to voice and simple data services. In some countries those operators responsible for providing universal services receive compensation from a fund to which we and others are required to make a financial contribution. The Commission has indicated that it would be reluctant to extend the scope of these funds to include very high speed broadband deployment and that additional financing for such projects should instead be sought from general taxation. The Commission has also published a broadband strategy which proposes that the European Investment Bank offer support for broadband infrastructure projects which fulfil certain criteria and proposes to use €9 billion (£7.5 billion) of the "Connecting Europe Facility" to fund broadband networks and digital services from 2014.

#### Roaming

The current roaming regulation (the 'roaming regulation') entered into force in July 2009 and requires mobile operators to supply voice and text roaming services under retail price caps. Wholesale price caps also apply to voice, text and data roaming services. In March 2012 the Commission, European Parliament and Council provisionally agreed a new roaming regulation which will replace the current roaming regulation upon its expiry in July 2012. Final adoption is expected by June 2012. The new roaming regulation proposes to retain retail price caps for voice and text roaming services and to introduce a new retail cap for data roaming services. These caps will be set at 29 eurocents per minute for retail outbound voice calls, 9 eurocents per retail text and 70 eurocents per megabyte for retail data from 1 July 2012. These will reduce annually until July 2014 when outbound retail voice calls will be set at 19 eurocents per minute, retail texts at 6 eurocents per text and retail data at 20 eurocents per megabyte. The caps will apply until at least 2016 but would be removed thereafter if competition were deemed by the Commission to be sufficiently effective. The Commission also proposes to retain wholesale price caps for voice, text and data roaming services which will reduce annually until July 2014, apply until at least 2018 and could be removed thereafter. The new roaming regulation will expire in 2022.

The Commission also proposed a number of measures which are intended to increase competition in the retail market for roaming (and thereby facilitate the withdrawal of price caps). These include a requirement that users be able, from July 2014, to purchase roaming services from a provider other than their current domestic provider and to retain the same phone number when roaming.

#### Call termination

National regulators are required to take utmost account of the Commission's existing recommendation on the regulation of fixed and mobile termination rates published in 2009. This recommendation requires mobile termination rates ('MTRs') to be set using a long run incremental cost methodology by December 2012.

At 31 March 2012 the MTRs effective for our subsidiaries within the EU, which differs from those in our Europe region, ranged from 2.70 eurocents per minute (2.25 pence) to 5.30 eurocents per minute (4.42 pence), at the relevant 31 March 2012 foreign exchange rates.

#### Fixed network regulation

In October 2011 the Commission consulted on proposals for guidelines to national regulators on the setting of access prices for fixed networks, recognising that prices for copper services will influence incentives for investment in, and demand for, fibre based networks. Further details are expected during 2012.

#### Spectrum

In February 2012 the Commission adopted its radio spectrum policy programme ('RSPP'), following agreement with the European Parliament and Council. The decision, which came into force in March 2012, requires Member States to make 800 MHz ('digital dividend') spectrum available for mobile use by 1 January 2013 and the Commission to report, by January 2015, on the need for further spectrum for mobile use.

In February 2012 the World Radiocommunications Conference agreed to consider the allocation of additional frequency bands for future mobile use at the next conference in 2015 and in particular the 694–790 MHz band in Europe and Africa.

#### Net neutrality

In December 2011 national regulators sent questionnaires to European operators seeking details of traffic management practices, including blocking of services or throttling of bandwidth. Our companies responded in January 2012 and the results are expected to inform a review of network management activities by the Commission during 2012.

### Europe region

#### Germany

Our current MTR was reduced in December 2010 to 3.36 eurocents per minute, effective until 30 November 2012.

In December 2011 the national regulator enquired about the demand for 900/1800 MHz spectrum beyond 2016 when current licences expire. It is expected that the national regulator will ask for formal applications later in 2012.

In February 2012 the German Parliament adopted a new telecommunications law to implement amendments to the European regulatory framework, including certain new measures to protect consumers.

#### Italy

In September 2011 we acquired 2x10 MHz of 800 MHz spectrum, 2x5 MHz of 1800 MHz spectrum and 2x15 MHz of 2.6 GHz spectrum for a cost of €1.26 billion (£1.1 billion). The licences are valid until 2030.

In November 2011 the national regulator adopted a decision to cut our MTRs to 0.98 eurocents by July 2013, which we are appealing.

In January 2012 the national regulator issued the final decision concerning obligations to be imposed on Telecom Italia in relation to its fibre network, placing an obligation on Telecom Italia to give unbundled access, where technically feasible, and "end to end" access services.

In February 2012 the national regulator issued a questionnaire to operators on the SMS termination market.

#### Spain

In February 2012 the national regulator published proposals to reduce our MTRs to 1.09 eurocents per minute by January 2014. The Commission expressed serious doubts about the proposals and on 30 March 2012 the national regulator withdrew its proposals and instead confirmed that MTRs will reduce to 1.09 eurocents by 1 July 2013.

The national regulator has determined that our contributions to universal service costs should be €17 million (£14.2 million) and €47 million (£39.2 million) for 2008 and 2009 respectively. We are appealing both decisions.

In July 2011 we acquired 2x10 MHz of 800 MHz spectrum and 2x20 MHz of 2.6 GHz spectrum for a cost of €517 million (£431 million).

The licences will expire in 2030. Our 900 MHz licence has been modified to allow refarming and we have the option to extend it until 2030. The licence currently expires in 2020. In November 2011 we acquired 2x10 MHz of 2.6 GHz TDD spectrum at a cost of €10.4 million (£8.7 million).

In December 2011 the National Competition Authority issued a draft decision which proposes that Vodafone, Telefonica and Orange have abused a collective dominant position in the provision of wholesale origination of SMS and MMS and abused an individual dominant position in the provision of SMS and MMS termination services in setting excessive prices. The Council of the National Competition Authority must now take the final decision and consider the imposition of fines.

In January 2012 the National Competition Authority informed Vodafone, Orange and Telefonica that they were investigating claims from BT Spain that the operators had engaged in an unlawful price squeeze in the market for fixed and mobile services for business users. We have since received a questionnaire, to which we have responded.

In February 2012 the government announced its intention to merge the national telecommunications regulator into a new regulatory body called the National Markets and Competition Commission.

### United Kingdom

Our regulated average MTR at 31 March 2012 was 3.02 pence per minute. The national regulator proposed a glidepath with annual adjustments that would see a reduction to 0.69 pence per minute (plus inflation adjustment) by 1 April 2014. Following appeals of this decision, the rate of 0.69 pence per minute (plus inflation adjustment) will have to be reached one year earlier (by 1 April 2013). All 2G licences have been modified to allow refarming to 3G. All 3G licences will also be made indefinite rather than expiring in 2021.

The national regulator has consulted on the release of 800 MHz and 2.6 GHz spectrum, including proposals for the auction design. The auction is expected to take place in the first quarter of 2013.

### Other Europe

#### Albania

AMC (Deutsche Telekom) launched its 3G services in the market in January 2012. The national regulator launched a public tender in February 2012 to award the third 3G licence in the market but the minimum bid price set by the Telecoms Minister was not met and the tender failed.

#### Czech Republic

In March 2012 the government released a consultation on the auction of 800 MHz, 1800 MHz, and 2.6 GHz spectrum, which is expected to take place in November 2012. The government proposes to reserve a portion of 1800 MHz spectrum for a new entrant and to require licensees to provide access for MVNOs.

The national regulator is currently reviewing the market for mobile origination and access to determine whether mobile operators should be obliged to provide regulated access to MVNOs.

#### Greece

In November 2011 we acquired 2x15 MHz of 900 MHz spectrum and 2x10 MHz of 1800 MHz spectrum for a cost of €169 million (£142 million). The licences are valid until 2026.

#### Hungary

In October 2010 the Hungarian Parliament adopted a law which imposes a significant additional tax burden on the telecommunications, retail and energy sectors. The law came into force in December 2010 and will apply until at least January 2013. We paid HUF 7,119,714,000 (£23 million) in relation to the 2011 financial year. In March 2012 the Commission announced that it would commence infringement proceedings in the European Court of Justice on the basis that the tax is unlawful.

We acquired an additional 2x2 MHz of 900 MHz for HUF 15.7 billion (£44 million) spectrum through an auction in January 2012. We and other operators are, however, challenging the award of certain spectrum to a new entrant during that procedure.

At the end of April 2012 the government proposed the introduction of a new end-user tax on both mobile and fixed phone traffic of HUF 2.0 per minute and per SMS/MMS. The new tax would generate tax revenue of HUF 52 billion (£147.3 million) a year, which is close to 10% of the relevant service revenue of the whole market, and would be in force from 1 July 2012.

#### Ireland

The national regulator is planning to auction all spectrum in the 900/1800 MHz spectrum bands at the same time as the 800 MHz band in mid 2012, with the 800 MHz spectrum awarded under the auction available in 2013. In the meantime, Vodafone's and O2's 900 MHz licences will be renewed until the commencement of the new licences in 2013.

#### Netherlands

Our MTR reduced to 4.20 eurocents per minute in January 2011 following a proposal by the national regulator to reduce it to 1.2 eurocents per minute by September 2012. Following an appeal, the court directed that the MTR should instead reduce to 2.4 eurocents by September 2012. The Commission has suggested that it may challenge this decision, but we do not believe it has the legal grounds to do so.

The government has announced plans to auction 800 MHz, 900 MHz, 1800 MHz, 2.1 GHz and 2.6 GHz spectrum in October 2012. The government will reserve 2x5 MHz in the 900 MHz band for new entrants, in addition to 2x10 MHz in the 800 MHz band.

In May 2012 the Dutch Parliament adopted amendments to the Telecommunications Act which are intended to limit the circumstances in which operators are able to engage in network management and to prevent operators from varying the charges to end users by reference to the type of internet service or application they wish to use. The cumulative effect of these measures is to prevent operators from blocking or otherwise charging specifically for voice over internet protocol ('VOIP') and other internet services. These measures are expected to apply from January 2013.

#### Portugal

The national regulator will reduce MTRs to 1.27 eurocents per minute as from 31 December 2012.

In November 2011 we acquired 2x10 MHz of 800 MHz spectrum, 2x5 MHz of 900 MHz spectrum, 2x14 MHz of 1800 MHz spectrum and 2x20 MHz of 2.6 GHz spectrum for a cost of €146 million (£123 million). The licences are valid until 2026.

#### Romania

The government agreed to renew our 900/1800 MHz licences for a further period of one year (until December 2012) for a fee of €6.4 million (£5.4 million). In the meantime, the government plans to offer the licences for a further 15 year term during an auction in mid-2012 which will also include the 800 MHz and 2.6 GHz bands.

In February 2011 Vodafone was fined €28 million (£23.3 million) by the competition authority in relation to an alleged refusal to interconnect with another party in 2006. We appealed this decision in April 2011. Other enquiries remain ongoing. In April 2011 we were advised that a new proceeding in relation to MTRs and on-net pricing has commenced and have since received a questionnaire, to which we intend to respond. A competition investigation regarding prepaid distribution is in the final stage of being closed without any fine.

## Regulation (continued)

### Turkey

Our MTRs are currently 0.0323 Lira per minute.

In July 2011 the government announced that rural villages with populations of less than 500 which do not have GSM coverage will be provided with mobile services funded by the universal service fund. Following an agreement with the Ministry of Transport, Maritime Affairs and Communications in January 2012, 687 such villages are to be covered by Vodafone Turkey.

In August 2011 the national regulator indicated that rates for the termination of calls originated from abroad will no longer be subject to regulation.

In September 2011 the national regulator proposed enabling refarming in the 900 MHz and 1800 MHz bands and assigning additional 900MHz spectrum to Avea and 1800 MHz spectrum to Vodafone and Turkcell. Further details are expected shortly.

In October 2011 the Council of Ministers increased the taxes on handsets from 20% to 25%.

### Africa, Middle East and Asia Pacific region

#### India

Litigation remains pending in the Telecommunications Dispute Settlement Appellate Tribunal ('TDSAT') and Supreme Court in relation to a number of significant regulatory issues including MTRs, spectrum usage charges, and 3G intra-circle roaming ('ICR').

In February 2012 the Union Minister of Communications and IT announced some aspects of the spectrum management and licensing framework, including a reduction of licence fees to a uniform fee of 8%, but deferred other aspects including possible one-off fees for spectrum above 6.2 MHz.

The Supreme Court of India issued a decision on 2 February 2012 cancelling the 122 new licences issued in 2008 with effect from June 2012 and directing the government to re-allocate the spectrum by auction. None of Vodafone's licences were affected by this decision and Vodafone is in active dialogue with the government with a view to acquiring additional spectrum through auction. The implications of these developments will be considered alongside the issues announced in February 2012 by the Union Minister of Communications and IT, the national regulator's recommendations of May 2010 and April 2012, and the Cabinet before a decision is taken.

New regulations came into force during the 2012 financial year in relation to the activation of value added services, unsolicited commercial communications, and distribution of prepaid vouchers, requiring some changes to activation procedures, capping of high volume SMS users and content of vouchers.

The current MTR is maintained at INR 0.2.

#### South Africa

The Ministry of Communications and the national regulator have decided to postpone the process of licensing "high demand spectrum" (2.6 GHz and 800 MHz) while the Ministry reviews its long-term policy approach to the information and communications technology ('ICT') sector. The Minister initiated a policy review process in April 2012 at the National ICT Colloquium. This process is expected to be completed in 2014.

The National Consumer Commission ('NCC'), the regulatory authority tasked with enforcing the Consumer Protection Act ('CPA'), has instituted investigations into the communications sector including consumer complaints relating to quality of service, international roaming charges, airtime and data carry-over rules, and contract terms and conditions. The NCC issued a compliance notice against Vodacom in August 2011 in relation to fixed-term consumer agreements which the NCC alleges do not comply with the CPA. Vodacom is challenging the legal validity of the compliance notice in South Africa's National Consumer Tribunal.

MTRs are currently ZAR 0.56 per minute (peak) and ZAR 0.52 (off peak) and, under a continuing glide path, are due to decrease to ZAR 0.40 (flat rate) in April 2013.

### Other Africa, Middle East and Asia Pacific

#### Australia

Vodafone Hutchison Australia has agreed to renew its spectrum licences in the 850 MHz and 1800 MHz bands, from their expiry in 2013, for an additional period of 15 years for a fee of approximately AUS\$590 million (£400 million). The government is now preparing to auction 700 MHz and 2.6 GHz spectrum in late 2012 or early 2013.

The national regulator cut MTRs to AUS\$0.06 (4.05 pence) on 1 January 2012. A glide path has been set with the MTR to fall to AUS\$0.036 (2.43 pence) by 1 January 2014.

#### Egypt

The national regulator set MTRs at 65% of each operator's average on-net retail revenue per minute in September 2008 and issued a similar decree in 2010. Mobinil obtained interim relief against this regulation and a final order is awaited. Vodafone Egypt has filed a similar case in the Administrative Court challenging the regulator's decisions regarding the applicable MTRs as well as the calculation formula. In December 2011 the Commissioner's Committee of the Administrative Court issued a non-binding opinion recommending the annulment of the regulator's decision. A final decision has not yet been made. A series of arbitrations concerning interconnection payments have been launched by Mobinil and Telecom Egypt, leading to a claim by Telecom Egypt against Vodafone Egypt relating to historic termination charges.

#### New Zealand

Vodafone and Telecom New Zealand have been selected to share a NZ\$285 million (£146 million) government grant to roll-out and operate an open access fibre and wireless network in rural areas.

The national regulator has adopted a regulation which reduces MTRs from around 18 cents to 7.5 cents in May 2011, with further reductions to 4.0 cents from April 2012. SMS termination rates are regulated at 0.06 cents per SMS.

The government is now preparing to auction 700 MHz spectrum in late 2012 or early 2013.

The governments of New Zealand and Australia have jointly appointed consultants to investigate the costs of providing trans-tasman international roaming services as part of an ongoing enquiry.

## Licences

The table below summarises the most significant mobile licences held by our operating subsidiaries and our joint venture in Italy at 31 March 2012. We present the licences by frequency band since in many markets, including the majority of Europe, they can be used for a variety of technologies including 2G, 3G and in the future LTE.

### Mobile licences

Country by region	800 MHz expiry date	900 MHz expiry date	1800 MHz expiry date	2.1 GHz expiry date	2.6 GHz expiry date
<b>Europe</b>					
Germany	December 2025	December 2016	December 2016	December 2020	December 2025
Italy	December 2029	February 2015	February 2015 <sup>1</sup>	December 2021	December 2029
Spain	December 2030	February 2020	December 2030	April 2020	December 2030
UK	n/a	See note <sup>2</sup>	See note <sup>2</sup>	December 2021	n/a
Albania	n/a	June 2016	June 2016	December 2025	n/a
Czech Republic	n/a	January 2021	January 2021	February 2025	n/a
Greece	n/a	September 2027 <sup>3</sup>	December 2026 <sup>3</sup>	August 2021	n/a
Hungary	n/a	July 2014 <sup>4</sup>	July 2014 <sup>4</sup>	December 2019 <sup>4</sup>	n/a
Ireland	n/a	February 2013	December 2015	October 2022	n/a
Malta	n/a	August 2026	August 2026	August 2020	n/a
Netherlands	n/a	March 2013	March 2013	December 2016	May 2030
Portugal	March 2027	October 2021 <sup>5</sup>	October 2021 <sup>5</sup>	January 2016	March 2027
Romania	n/a	December 2011	December 2011	March 2020	n/a
Turkey	n/a	April 2023	–	April 2029	n/a
<b>Africa, Middle East and Asia Pacific</b>					
India <sup>6</sup>	n/a	November 2014 – December 2026	November 2014 – December 2026	September 2030	n/a
Vodacom: South Africa	n/a	See note <sup>7</sup>	See note <sup>7</sup>	See note <sup>7</sup>	n/a
Egypt	n/a	January 2022	January 2022	January 2022	n/a
Ghana	n/a	December 2019	December 2019	December 2023 <sup>8</sup>	n/a
New Zealand	n/a	November 2031	March 2021	March 2021	n/a
Qatar	n/a	June 2028	June 2028	June 2028	n/a

#### Notes:

- 1 2x5 MHz of 1800 MHz spectrum will expire in 2029.
- 2 Indefinite licence with a five year notice of revocation.
- 3 2x15 MHz of the 1800 MHz spectrum will expire in August 2016.
- 4 Options to extend these licences.
- 5 2x3 MHz of 900 MHz must be released by December 2015 and 2x14 MHz of 1800 MHz spectrum does not expire until March 2027.
- 6 India is comprised of 22 separate service area licences with a variety of expiry dates. Option to extend 900/1800 MHz licences by ten years.
- 7 Vodacom's South African spectrum licences are renewed annually. As part of the migration to a new licensing regime the NRA has issued Vodacom a service licence and a network licence which will permit Vodacom to offer mobile and fixed services. The service and network licences have 20 year duration and will expire in 2028. Vodacom also holds licences to provide 2G and/or 3G services in the Democratic Republic of Congo, Lesotho, Mozambique and Tanzania.
- 8 The NRA has issued provisional licences with the intention of converting these to full licences once the NRA board has been reconvened.