Principal risk factors and uncertainties

1. Regulatory decisions and changes in the regulatory environment could adversely affect our business.

Risk: We have ventures in both emerging and mature markets, spanning a broad geographical area including Europe, Africa, Middle East, Asia Pacific and the United States. We need to comply with an extensive range of requirements that regulate and supervise the licensing, construction and operation of our telecommunications networks and services. Pressure on political and regulatory institutions both to deliver direct consumer benefit and protect consumers interests, particularly in recessionary periods, can lead to adverse impacts on our business. Financial pressures on smaller competitors can drive them to call for regulators to protect them. Increased financial pressures on governments may lead them to target foreign investors for further taxes or licence fees.

Mitigation: We monitor political developments in our existing and potential markets closely, identifying risks in our current and proposed commercial propositions. Regular reports are made to our Executive Committee on current political and regulatory risks. These risks are considered in our business planning process, including the importance of competitive commercial pricing and appropriate product strategies. Authoritative and timely intervention is made at both national and international level in respect of legislative, fiscal and regulatory proposals which we feel are not in the interests of the Group. We have regular dialogue with trade groups that represent network operators and other industry bodies to understand underlying political pressures.

2. We could suffer loss of consumer confidence and/or legal action due to a failure to protect our customer information.

Risk: Mobile networks carry and store large volumes of confidential personal and business voice traffic and data. We host increasing quantities and types of customer data in both enterprise and consumer segments. We need to ensure our service environments are sufficiently secure to protect us from loss or corruption of customer information. Failure to adequately protect customer information could have a material adverse effect on our reputation and may lead to legal action against the Group.

Mitigation: Both the hardware and software applications which hold or transmit confidential personal and business voice and data traffic include security features. Security related reviews are conducted according to our policies and security standards. Security governance and compliance is managed and monitored through software tools that are deployed to all local markets and selected partner markets. Our data centres are managed to international information security standards. Third party data security reviews are conducted jointly with our technology security and corporate security functions.

3. Our business could be adversely affected by a failure or significant interruption to telecommunications networks.

Risk: We are dependent on the continued operation of telecommunications networks. As the importance of mobile communication in everyday life, as well as during times of crisis, increases, organisations and individuals look to us to maintain service. Major failures in the network may result in service being interrupted resulting in serious damage to our reputation and consequential customer and revenue loss.

Mitigation: Specific back-up and resilience requirements are built into our networks. We monitor our ability to replace strategic equipment quickly in event of failure, and for high risk components, we maintain dedicated back-up equipment ready for use. Dedicated access network equipment is installed on trucks ready to be moved on site if required. Network contingency plans are linked with our overall business continuity and crisis management plans. A crisis management team and escalation processes are in place both nationally and internationally, and crisis simulations are conducted annually.

4. Technological advances in handsets and use of alternative communication services may result in less demand for our traditional service offerings.

Risk: Strategic handset and technology suppliers are developing mobile content and services. Advancements in smartphone branding and technology places more focus on devices rather than the underlying services provided by mobile operators. The development of applications which make use of the internet as a substitute for some of our more traditional services, such as messaging and voice, could erode revenue. Reduced demand for our core services of voice, messaging and data and the development of services by handset suppliers could significantly impact our future profitability.

Mitigation: We have developed strategies which strengthen our relationships with customers, including the development of our own branded products, offering a broad selection of handsets and devices from a variety of manufacturers and providing our own alternatives to our more traditional services. We have accelerated the introduction of integrated voice, messaging and data tariffs to minimise customers reducing their out-of-bundle usage through substitution.

5. Increased competition may reduce our market share and profitability.

Risk: We face intensifying competition; in particular competing with established competitors in mature markets and competing with new entrants in emerging markets, where all operators are looking to secure a share of the potential customer base. Competition could lead to a reduction in the rate at which we add new customers, a decrease in the size of our market share and a decline in our average revenue per customer, as customers may choose to receive telecommunications services or other competing services from alternate providers. Competition can also lead to an increase in customer acquisition and retention costs. The focus of competition in many of our markets has shifted from acquiring new customers to retaining existing customers, as the market for mobile telecommunications has become increasingly mature.

Mitigation: We will continue to promote our differentiated propositions by focusing on our points of strength such as network quality, capacity and coverage, quality of customer service and the value of our products and services. We are enhancing distribution channels to get closer to customers and using targeted promotions where appropriate to attract and retain specific customers. We closely monitor and model competitor behaviour, network builds and product offerings to understand future intentions to be able to react in a timely manner.

6. Our business may be impaired by actual or perceived health risks associated with the transmission of radio waves from mobile telephones, transmitters and associated equipment.

Risk: Concerns have been expressed that the electromagnetic signals emitted by mobile telephone handsets and base stations may pose health risks. We are not aware that such health risks have been substantiated, however, in the event of a major scientific finding supporting this view this might result in prohibitive legislation being introduced by governments (or the European Union), a major reduction in mobile phone usage (especially by children), a requirement to move base station sites, significant difficulty renewing or acquiring site leases and/or major litigation. An inadequate response to electromagnetic fields ('EMF') issues may result in loss of confidence in the industry and Vodafone.

Mitigation: We have a global health and safety policy that includes standards for radio frequency fields that are mandated in all our operating companies. We have a Group EMF board that manages potential risks through cross sector initiatives and who oversee a coordinated global programme to address and reduce public concern. We have close engagement with EU institutions, in coordination with an international policy team in Brussels, to ensure early warning and advocacy related to possible precautionary legislation. We are engaged with relevant bodies to ensure that the scientific research agenda set by the World Health Organization is fully funded and executed as fast as reasonably possible.

Principal risk factors and uncertainties (continued)

7. One or more countries may exit the eurozone.

Risk: In light of recent economic conditions in Europe, there is a possibility of one or more countries exiting the eurozone, causing currency devaluation in those countries and possibly leading to a reduction in our revenue and impairment of our financial and non-financial assets. This may also lead to adverse economic impacts elsewhere.

Mitigation: We are closely monitoring the eurozone situation. Executive Committee briefings have been provided with specific actions identified to reduce the impact of the risk. We have developed a detailed business continuity plan in the event of a country leaving the eurozone, which could lead to a banking system freeze and a need to transition to a "cash based" operating system for a number of months.

Given the significance of the Group's operations in Europe it was felt appropriate to outline in more detail the risks, and the action taken to reduce these risks, in the annual report, as set out on page 53.

8. We may be unable to obtain additional/renew sufficient spectrum with an adequate return.

Risk: The spectrum we use for the delivery of our services is regulated in each of our markets. The regulators supervise the allocation of frequency spectrum and monitor and enforce regulation and competition laws which apply to the mobile telecommunications industry. Decisions by regulators regarding the granting, amendment or renewal of licences, to us or to third parties, including the implementation of unsustainable cost and revenue models, could adversely affect our future operations in these geographic areas. Our mobile data strategy and roll out of 4G/LTE services is dependent upon us being able to renew and obtain additional spectrum licences.

Mitigation: Local executives and regulatory staff manage negotiations with local regulators on renewal of spectrum licences. In the event of a failure to renew, we could migrate traffic onto other frequencies. To date, all licences have been renewed but it is possible that political or competitor influences may create significant complications or uncertainty in some markets.

9. We may not satisfactorily resolve major tax disputes.

Risk: We operate in many jurisdictions around the world and from time to time have disputes on the amount of tax due. In particular, in spite of a recent positive India Supreme Court decision relating to an ongoing tax case in India, as set out on pages 138 and 139, the Indian government is proposing retroactive tax legislation which would in effect overturn the court's decision.

Such or similar types of action in other jurisdictions may expose us to significant additional tax liabilities which would affect the results of the business.

Mitigation: We maintain constructive but robust engagement with the tax authorities and relevant government representatives, as well as active engagement with a wide range of international companies and business organisations with similar issues. Where appropriate we engage advisors and legal counsel to obtain opinions on tax legislation and principles.

10. A malicious attack on our network may be successful and disrupt our services or compromise our data.

Risk: There is a risk that an attack by a malicious individual or group could be successful on our networks. This could lead to a loss of confidential customer data or availability of critical systems. Our network is also susceptible to interruption due to a physical attack and theft of our network components as the value and market for network components increases (for example copper, batteries, generators and fuel).

Mitigation: Our critical infrastructure has been designed to prevent unauthorised access and reduce the likelihood and impact of a successful attack. Business continuity and disaster recovery plans are in place to cover residual risk that cannot be mitigated. We also manage the risk using our global security operations centre that provides 24/7 monitoring of our network in many countries.

11. Changes in assumptions underlying the carrying value of certain Group assets could result in impairment.

Risk: Due to the substantial carrying value of goodwill under International Financial Reporting Standards ('IFRS'), revisions to the assumptions used in assessing its recoverability, including discount rates, estimated future cash flows or anticipated changes in operations, could lead to the impairment of certain Group assets. While impairment does not impact reported cash flows, it does result in a non-cash charge in the consolidated income statement and thus no assurance can be given that any future impairments would not affect our reported distributable reserves and, therefore, our ability to make dividend distributions to our shareholders or repurchase our shares.

Mitigation: We review the carrying value of the Group's goodwill at least annually, or more frequently where the circumstances require, to assess whether carrying values can be supported by the net present value of future cash flows derived from such assets. This review considers the continued appropriateness of the assumptions used in assessing for impairment, including an assessment of discount rates and long-term growth rates, future technological developments, and the timing and quantum of future capital expenditure. Other factors which may affect revenue and profitability (for example intensifying competition, pricing pressures, regulatory changes and the timing for introducing new products or services) are also considered. Discount rates are in part derived from yields on government bonds, the level of which may change substantially period to period and which may be affected by political, economic and legal developments which are beyond our control. Further details are provided in "Critical accounting estimates" on page 91.

Eurozone risk

Country and currency risk

Recent conditions in the eurozone have resulted in a higher risk of disruption and business risk from high currency volatility and/or the potential of an exit of one or more countries from the euro.

As part of our response to these conditions we have reviewed our existing processes and policies, and in places, evolved them with the aim of both minimising the Group's economic exposure and to preserve our ability to operate in a range of potential conditions that may exist in the event of one or more of these future events.

Our ability to manage these risks needs to take appropriate account of our needs to deliver a high quality service to our customers, meet licence obligations and the significant capital investments we may have made and may need to continue to make in the markets most impacted.

Currency related risks

While our share price is denominated in sterling, the majority of our financial results are generated in other currencies. As a result the Group's operating profit is sensitive to either a relative strengthening or weakening of the major currencies in which it transacts.

The "Operating results" section of the annual report on pages 40 to 49 sets out a discussion and analysis of the relative contributions of the Group's Europe and AMAP regions and the major geographical markets in each, to the Group's service revenue and EBITDA performance. Our markets in Italy, Ireland, Greece, Portugal and Spain have been most directly impacted by the current market conditions and in order of contribution, represent 17% (Italy), 8% (Spain), 3% (Portugal) and 3% (Ireland and Greece combined) of the Group's EBITDA. An average 3% decline in the sterling equivalent of these combined geographical markets due to currency revaluation would reduce Group EBITDA by £0.1 billion. The Group's foreign currency earnings are diversified through its 45% equity interest in Verizon Wireless, which operates in the United States and generates its earnings in US dollars. Verizon Wireless, which is equity accounted, contributed 42% of the Group's adjusted operating profit for the year ended 31 March 2012.

The Group employs a number of mechanisms to manage elements of exchange rate risk at a transaction, translation and economic level. At the transaction level our policies require foreign exchange risks on transactions denominated in other currencies above certain de minimis levels to be hedged. Further, since the Company's sterling share price represents the value of its future multi-currency cash flows, principally in euro, US dollars and sterling, we aim to align the currency of our debt and interest charges in proportion to our expected future principal multi-currency cash flows, thereby providing an economic hedge in terms of reduced volatility in the sterling equivalent value of the Group and a partial hedge against income statement translation exposure, as interest costs will be denominated in foreign currencies.

In the event of a country's exit from the eurozone, this may necessitate changes in one or more of our entities' functional currency and potentially higher volatility of those entities' trading results when translated into sterling, potentially adding further currency risk.

A summary of this sensitivity of our operating results and our foreign exchange risk management policies is set out within "Financial risk management – Market risk – Foreign exchange management" within note 21 to the consolidated financial statements.

Operational planning

We have worked to develop operational plans to use as a basis for continuity planning across the Group in the event of significant exchange rate volatility and/or the withdrawal of one, or a small number of countries, from the euro. We have categorised "at risk" countries into three categories based on risk profile and identified three broad areas of operational risks for the Group where work has been focused, being:

Financial/investment risk: Our activities are focused on counterparty risk management and in particular the protection and availability of cash deposits and investments. Exposures in relation to liquid Group investments have been reviewed and actions have been taken to reduce counterparty limits with certain financial institutions and to convert a significant proportion of euro denominated holdings and deposits into sterling and US dollar investments. Existing Group policy requires cash sweep arrangements, to ensure no operating company has more than €5 million on deposit on any one day. Further, the Group has had in place for a number of years collateral support agreements with a significant number of its counterparties to pass collateral to the Group under certain circumstances. The Group has a net £980 million of collateral assets in its statement of financial position at 31 March 2012. Further information is provided within "Financial risk management – Credit risk" within note 21 to the consolidated financial statements.

Trading risks: We have investigated the structure of existing procurement contracts and we have started the process of amending certain contractual clauses to place the Group in a better position in the event of the exit of a country from the eurozone.

Business continuity risks: We have identified a number of key business continuity priorities which are focused on planning to allow migration to a more cash-based business model in the event banking systems are frozen, developing dual currency capability in contract customer billing systems or ensuring the ability to move these contract customers to prepaid methods of billing, and the consequential impacts to tariff structures. We have also put in place contingency plans with key suppliers that would assist us to continue to support our network infrastructure, retail operations and employees.

The Group continues to maintain appropriate levels of cash and short-term investments in many currencies and, with a carefully controlled group of counterparties, to minimise the risks to the ongoing access to that liquidity and therefore to the ability of the Group to settle debts as they become due. Further information is provided within "Financial risk management – Liquidity risk" within note 21 to the consolidated financial statements.

Risk of change in carrying amount of assets and liabilities

The main potential short-term financial statement impact of the current economic uncertainties is the potential impairment of non-financial and financial assets.

The Group has significant amounts of goodwill, other intangible assets and plant, property and equipment allocated to, or held by, companies operating in the eurozone. We have performed impairment testing for each country in Europe as at 31 March 2012 and identified aggregate impairment charges of £4.0 billion in relation to Vodafone Italy, Spain, Greece and Portugal. Further detail on this exercise together with the sensitivity of the results of this assessment to reasonably possible adverse assumptions is set out in note 10 to the consolidated financial statements.

Our operating companies in Italy, Ireland, Greece, Portugal and Spain have billed and unbilled trade receivables totalling £2.0 billion. IFRS contains specific requirements for impairment assessments of financial assets. We have a range of credit exposures and provisions for doubtful debts that are generally made by reference to consistently applied methodologies overlaid with judgements determined on a case-by-case basis reflecting the specific facts and circumstances of the receivable. Detailed disclosures made in relation to provisions against loans and receivables as well as disclosures about any loans and receivables that are past due at the end of the period, concentrations of risk and credit risk more generally as set out in "Financial risk management – Credit risk" within note 21 to the consolidated financial statements.