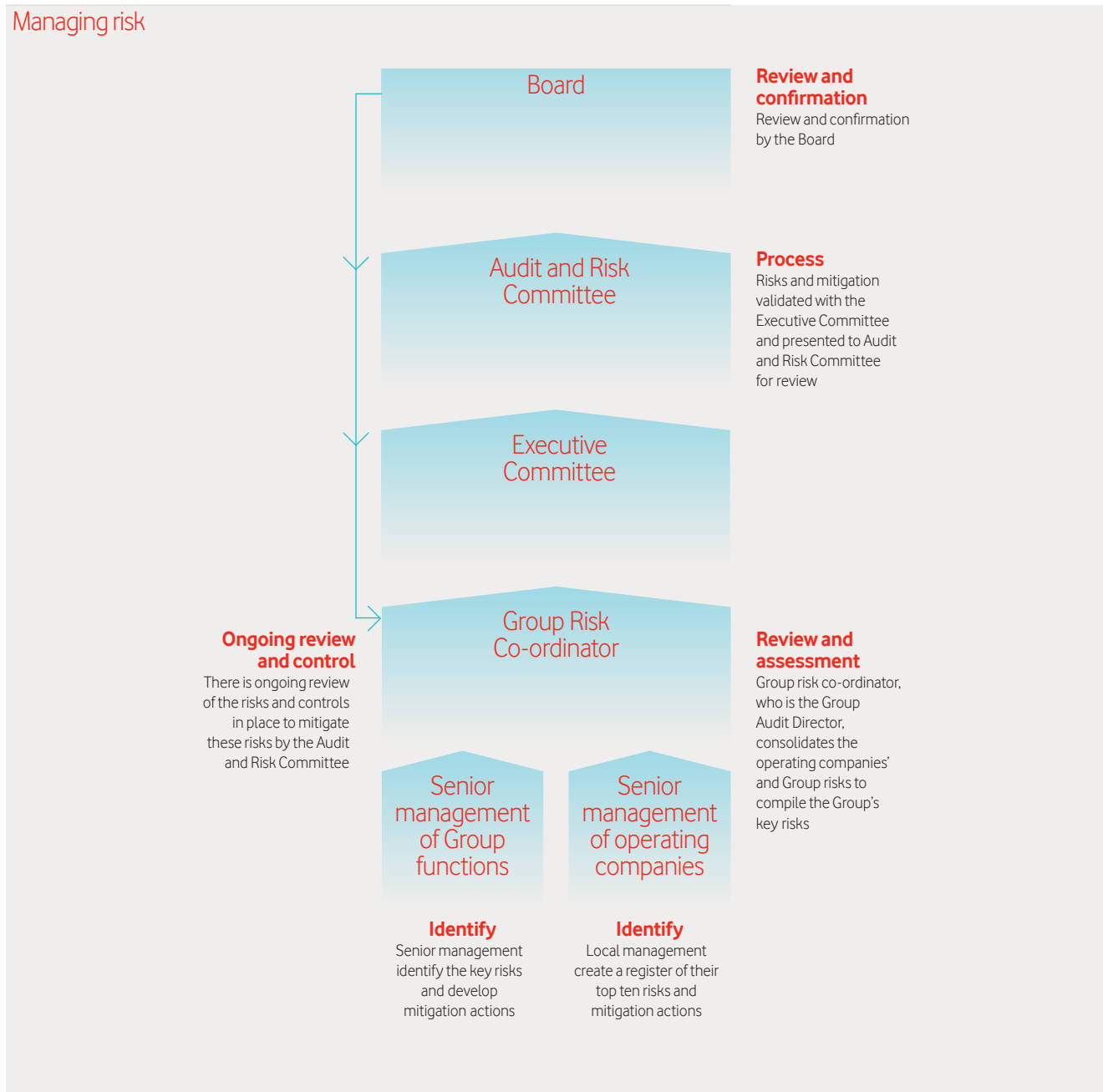


Principal risk factors and uncertainties

Identifying and managing our risks

We have a clear framework for identifying and managing risk, both at an operational and strategic level. Our risk identification and mitigation processes have been designed to be responsive to the ever changing environments in which we operate.



The Group's key risks are outlined below:

1. Our business could be adversely affected by a failure or significant interruption to our telecommunications networks or IT systems.

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

There is a risk that an attack on our infrastructure by a malicious individual or group could be successful and impact the 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: 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 network equipment is installed on trucks ready to be moved on site if required.

Our critical infrastructure has been enhanced to prevent unauthorised access and reduce the likelihood and impact of a successful attack. Network contingency plans are linked with our business continuity and disaster recovery plans which are in place to cover the residual risks that cannot be mitigated. A crisis management team and escalation processes are in place both nationally and internationally, and crisis simulations are conducted annually.

We also manage the risk of malicious attacks on our infrastructure using our global security operations centre that provides 24/7 monitoring of our network in many countries.

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 protect adequately 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. Increased competition may reduce our market share and profitability.

Risk: We face intensifying competition 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, if customers 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.

4. 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 US. 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.

5. Our existing service offerings could become disadvantaged as compared to those offered by converged competitors or other technology providers.

Risk: In a number of markets we face competition from providers who have the ability to sell converged services (combinations of fixed line, broadband, public Wi-Fi, TV and mobile) on their existing infrastructure which we cannot either replicate or provide at a similar price point. Additionally, the combination of services may allow competitors to subsidise the mobile component of their offering. This could lead to an erosion of our customer base and reduce the demand for our core services and impact our future profitability.

Advances in smartphone technology places more focus on applications, operating systems, and 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 application developers, operating system providers, and handset suppliers could significantly impact our future profitability.

Mitigation: In some markets we are already providing fixed-line telecommunication services (voice and broadband). In other existing markets we actively look for opportunities to provide services beyond mobile through acquisition, partnerships, or joint ventures.

We have also developed strategies which strengthen our relationships with customers by accelerating the introduction of integrated voice, messaging and data tariffs to avoid customers reducing their out-of-bundle usage through substitution.

Principal risk factors and uncertainties (continued)

6. Severely deteriorating economic conditions could impact one or more of our markets.

Risk: Economic conditions in many of the markets where we operate, especially in Europe, continue to deteriorate or stagnate. These conditions, combined with the impact of austerity measures, result in lower levels of disposable income and may result in significantly lower revenue as customers give up their mobile devices or move to cheaper tariffs.

There is also a possibility of one or more countries exiting the eurozone, causing currency devaluation in certain countries and possibly leading to a reduction in our revenue and impairment of our financial and non-financial assets. This may also lead to further 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.

See page 49 for further details on the potential impact for Vodafone of a market leaving the eurozone.

7. Our business may be impacted 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 which oversees a coordinated global programme to address and reduce public concern. We have close engagement with European Union 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.

8. Failure to deliver enterprise service offerings may adversely affect our business.

Risk: By expanding our enterprise service offerings through the growth of Vodafone Global Enterprise, the acquisitions of CWW and TelstraClear, and the establishment of cloud, hosting and international carrier services, the Group increasingly provides fixed and mobile communication services to organisations that may provide vital national services. These organisations rely on our networks and systems 24 hours a day, 365 days a year to deliver their products and services to their customers. A failure to build and maintain our infrastructure to the required levels of resilience for enterprise customers and to deliver to our contracted service level agreements may result in a costly business impact and cause serious damage to our reputation.

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. Network contingency plans are linked with our business continuity and disaster recovery plans which are in place to cover the residual risks that cannot be mitigated. A crisis management team and escalation processes are in place both

nationally and internationally, and crisis simulations are conducted annually. We also manage the risk of malicious attacks on our infrastructure using our global security operations centre that provides 24/7 monitoring of our network in many countries.

9. We depend on a number of key suppliers to operate our business.

Risk: We depend on a limited number of suppliers for strategically important network and IT infrastructure and associated support services to operate and upgrade our networks and provide key services to our customers. Our operations could be adversely impacted by the failure of a key supplier who could no longer support our existing infrastructure, by a key supplier commercially exploiting their position in a product area following the corporate failures of/the withdrawal from a specific market by competitors, or by major suppliers significantly increasing prices on long-term programmes where the cost or technical feasibility of switching supplier becomes a significant barrier.

Mitigation: We periodically review the performance of key suppliers, both operationally and financially, across individual markets and from a Group perspective. Other processes are in place to regularly identify and manage “suppliers at risk.” Most supplier categories have business continuity plans in place in the event of single supplier failure.

10. 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 the positive India Supreme Court decision relating to an ongoing tax case in India, the Indian government has introduced retrospective tax legislation which would in effect overturn the court’s decision and has raised challenges around the pricing of capital transactions. Such or similar types of action in other jurisdictions, including changes in local or international tax rules or new challenges by tax authorities, may expose us to significant additional tax liabilities which would affect the results of the business.

Mitigation: We maintain constructive 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.

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, 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 property, plant and equipment, goodwill and other intangible assets 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 amount 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 87.

Eurozone

The Group continues to face currency, operational and financial risks as a result from the challenging economic conditions in the eurozone and the potential exit of one or more countries from the euro. We continue to keep our policies and procedures under review to endeavour to minimise 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 we transact.

The "Operating results" section of the annual report on pages 40 to 44 sets out a discussion and analysis of the relative contributions from each of our three regions and the major geographical markets within each, to the Group's service revenue and EBITDA performance. Our markets in Greece, Ireland, Italy, Portugal and Spain continue to be the most directly impacted by the current market conditions and in order of contribution represent 14% (Italy), 7% (Spain), 3% (Portugal) and 3% (Ireland and Greece combined) of the Group's EBITDA for the year ended 31 March 2013. An average 3% decline in the sterling equivalent of these combined geographical markets due to currency revaluation would reduce the Group's EBITDA by approximately £0.1 billion. Our foreign currency earnings are diversified through our 45% equity interest in VZW, which operates in the US and generates its earnings in US dollars. VZW, which is equity accounted, contributed 54% of the Group's adjusted operating profit for the year ended 31 March 2013.

We employ 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 A6 to the consolidated financial statements.

Operational risk

The significant areas of operational risk for the Group are investment risk, particularly in relation to the management of the counterparties holding our cash and liquid investments; trading risks primarily in relation to procurement and related contractual matters; and business continuity risks focused on cash management in the event of disruption to banking systems.

Financial/investment risk: We remain focused on counterparty risk management and in particular the protection and availability of cash deposits and investments. We carefully manage counterparty limits with financial institutions holding the Group's liquid investments and maintain a significant proportion of liquid investments in sterling and US dollar denominated holdings. Our policies require cash sweep arrangements, to ensure no operating company has more than €5 million on deposit on any one day. Further, we have had collateral support agreements in place for a number of years, with a significant number of counterparties, to pass collateral to the Group under certain circumstances. We have a net £1,151 million of collateral assets in our statement of financial position at 31 March 2013. See "Financial risk management – Credit risk" in note A6 to the consolidated financial statements for further information.

Trading risks: We continue to monitor and assess the structure of certain procurement contracts to place the Group in a better position in the event of the exit of a country from the eurozone.

Business continuity risks: Key business continuity priorities are focused on planning to facilitate 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 also have in place contingency plans with key suppliers that would assist us to continue to support our network infrastructure, retail operations and employees.

We continue to maintain appropriate levels of cash and short-term investments in many currencies, with a carefully controlled group of counterparties, to minimise the risks to the ongoing access to that liquidity and therefore our ability to settle debts as they become due. See "Financial risk management – Liquidity risk" in note A6 to the consolidated financial statements for more information.

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.

We have 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 2013 and identified aggregate impairment charges of £7.7 billion in relation to Vodafone Italy and Spain. See note 12 to the consolidated financial statements for further detail on this exercise, together with the sensitivity of the results to reasonably possible adverse assumptions.

Our operating companies in Italy, Ireland, Greece, Portugal and Spain have billed and unbilled trade receivables totalling £1.9 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. See "Financial risk management – Credit risk" in note A6 to the consolidated financial statements for detailed disclosures on 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.