Our principal risks and associated opportunities

Vodacom has a mature risk management framework that aligns with the ISO 31000 International Risk Management Standard and the requirements of South Africa's King IV Governance Code.

We identify the critical risks through our Principal Risks Framework, which provides the Executive Committee and Board with a robust assessment of the principal risks facing the Group. An embedded enterprise risk management process supports the identification of these principal risks. The risk appetite for each principal risk is reviewed and approved by the Board to enable informed risk-based decision-making.

The Group's risk heat map (Figure 1) sets out the top 10 principal risks as identified through the risk management process. The heat map depicts residual risk after taking into account mitigating risk factors. This is supported by the risk and speed of impact report (Figure 2), reflecting the rate at which the Group will experience adverse impacts if the risk materialised.

Following the outbreak of the COVID-19 pandemic in early 2020, we have also subsequently undertaken a detailed assessment of the associated risks (separately presented).

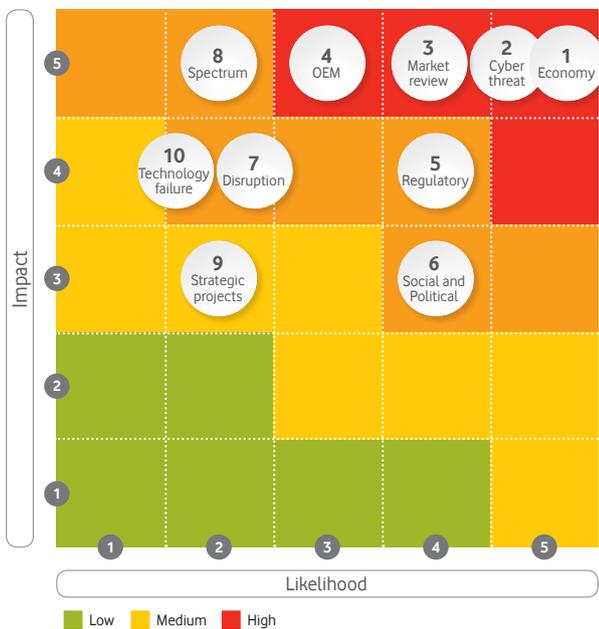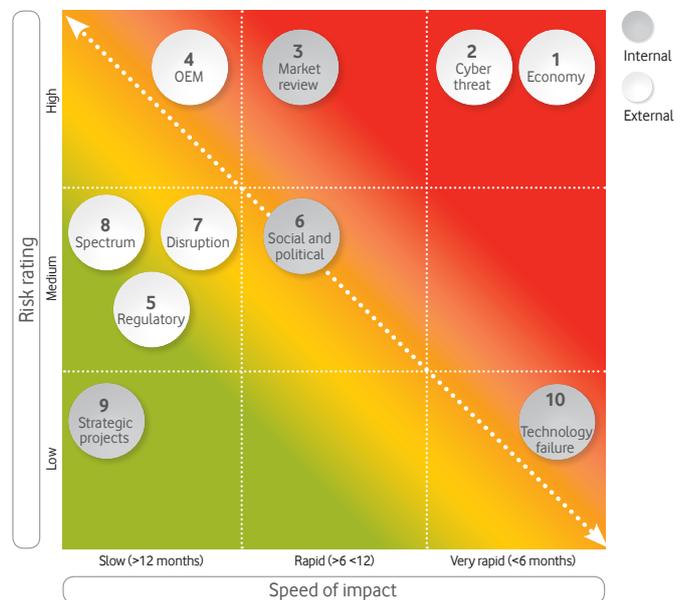**Figure 1:** Vodacom Group top risk rating (impact vs likelihood)

Figure 2: Vodacom Group Top 10 rating (speed of impact)

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1 Unstable economic conditions and pandemic

Speed of impact: Very rapid

Rating: 1 (2019: 2)

Opportunity
To ensure we have segmented offerings targeted at consumers at the bottom of the pyramid with hourly, daily and weekly offers and personalised offers giving customers more value.

Context
The mobile communications industry is often subject to unpredictable and higher direct and indirect taxes in countries of operation. Volatile macroeconomic conditions may weaken consumer and enterprise spend, reducing revenue and impacting negatively on operating costs and capital expenditure.

COVID-19 exposure
COVID-19 and the financial downgrade of South Africa have weakened consumer and enterprise spending, negatively affecting demand. This has also increased operational costs and capital expenditure needed to implement controls to limit the spread of the virus.
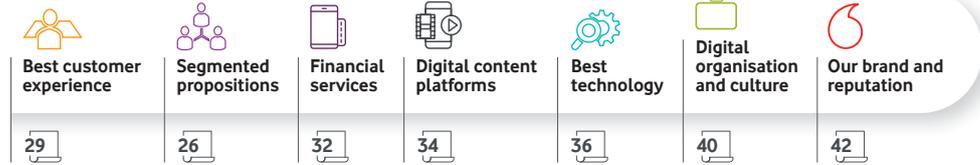
Mitigating actions
- Rely on an internal, specialised tax management capability;
- Implement Group Treasury policies;
- Implement a global cost-savings programme;
- Use foreign exchange instruments to mitigate foreign currency fluctuations;
- Operational plans and budgets are being adjusted for the pandemic using best and worst-case scenarios, powered by Big Data-fed forecasting models;
- Identifying opportunities to offset some of the impacts by ensuring we have relevant products for customers from bite-sized bundles allowing them to buy hourly, daily or weekly offerings, but also giving them compelling offers to increase active days; and
- Providing Enterprise customers with solutions to drive down costs, digitise their businesses and create more efficiencies by using services we provide such as IoT, cloud and hosting.

Strategy

Our strategies

Best customer experience	Segmented propositions	Financial services	Digital content platforms	Best technology	Digital organisation and culture	Our brand and reputation
29	26	32	34	36	40	42

2 Cyber threat

Speed of impact: Very rapid

Rating: 2 (2019: 1)

Opportunity
Protecting our customers' devices and personal data is crucial to being a trusted provider.

Context
An external cyber attack, insider threat or supplier breach – malicious or accidental – could result in service interruption or the breach of confidential data. This could negatively affect customers, revenue and reputation, and lead to costs associated with fraud or extortion.

COVID-19 exposure
Since the start of the pandemic, we have seen an increase in cyber threats targeting customers through phishing, social engineering, and malicious or insecure apps and services.
Remote working has also introduced a rise in cyber threats. Pressure on internal security network resources has intensified.

Mitigating actions
- Commission world-class security vendors to enhance sophisticated attacker detection;
- Undertake proactive assessment of security on all projects;
- Implement cyber incident response, containment and focus monitoring;
- Continuously implement security improvement programmes;
- Apply layers of security controls to protect our infrastructure;
- Apply Vodafone Security Risk, Control and Assurance Framework; and
- Bring in relevant skills to manage our IT security.

Strategy

3 Priority market review
(South Africa)

Speed of impact: Rapid

Rating: 3 (2019: 3)

Opportunity
Proactive pricing transformation and delivering on Social Contract.

Context
The priority market review on wholesale and retail could increase regulatory requirements.

Stringent regulatory requirements set by the regulator or legislation could have an impact on Vodacom's profitability, growth and services.

Mitigating actions
- Engage/participate with governments and regulatory and public bodies to communicate key messages and proposals on how policy/regulatory decisions positively and negatively impact the sector;
- Create specialist legal, regulatory and government relations teams, with external advisors and legal counsel as needed;
- Engage stakeholders and use targeted intelligence reports to understand material legislative changes;
- Implement proactive pricing transformation; and
- Establish a Social Contract with government and customers which provides for cheaper pricing and access to free services through our ConnectU platform.

Strategy

4 OEM (original equipment manufacturer) sovereign risk exposure

Speed of impact: Slow

Rating: 4 (2019: 4)

Opportunity
Diversification of vendors through a multi-vendor strategy and proactively engaging with governments on OEM sovereign risks.

Context
Geopolitical influences could impact on our IT and technology vendor strategy. Lack of supply by key suppliers may negatively impact on operational activities and delivery of quality service.

COVID-19 exposure
COVID-19 has increased the risk of supplier unreliability, potentially impacting our ability to source critical equipment, skills and resources. The pandemic has also resulted in growing geopolitical pressures influencing our IT and vendor strategies, and has placed increased pressure on operational costs.

Mitigating actions
- Reduce dependency on single suppliers by risk profiling to consider multi-vendor strategy in critical categories; and
- Engage proactively with governments, experts and suppliers.

Strategy

Our principal risks
continued

5 Adverse regulatory and political pressure

Speed of impact: Slow

Rating: 5 (2019: 6)

Opportunity
Being proactive in the changing regulatory context provides opportunities for being heard and influencing outcomes.

Context	COVID-19 exposure	Mitigating actions
Stringent regulatory requirements set by the regulator or legislation could adversely impact the company's profitability, growth and services. This exposes us to significant financial and reputational damage.	The government's response to COVID-19 could result in intensified regulatory and legislative requirements to provide free or discounted services.	• Engage/participate with governments, regulatory and public bodies to communicate key messages and proposals on how policy/regulatory decisions positively and negatively impact the sector; • Create specialist legal, regulatory and government relations teams and use targeted intelligence reports to understand material legislative changes; • Ensure that a regulatory compliance policy and a combined assurance programme are in place and all risks are documented; and • Proactive assistance to government through the COVID-19 crisis by providing discounted rates and free access to educational and health portals.

Strategy

6 Social and political pressures

Speed of impact: Rapid

Rating: 6 (2019: new)

Opportunity
Demonstrating authentic leadership in delivering on our purpose and Social Contract maintains trust and competitive differentiation.

Context	COVID-19 exposure	Mitigating actions
External factors, for example civil or social activism could directly influence our operations. Failing to act decisively or appropriately on important issues could cause reputational harm or damage to our brand.	Added economic pressure on consumers has prompted a demand for reduced prices as the need for connectivity increases. False news on 5G has also intensified, which could result in an upsurge of social pressure against 5G rollout.	• Regularly communicate Vodacom's purpose through media statements and campaigns; • Monitor social activism; • Create awareness campaigns to educate Vodacom's customers on 5G; • Align Vodacom's position with our purpose statement so that customers trust our brand; • Provide proactive assistance to employees, customers and suppliers through the COVID-19 crisis; and • Fulfil Social Contract with government and customers.

Strategy

7 Market disruption

Speed of impact: Slow

Rating: 7 (2019: 8)

Opportunity
Being agile and driving innovation in our products and services, partnerships and business model offer exciting opportunities for growth and diversification.

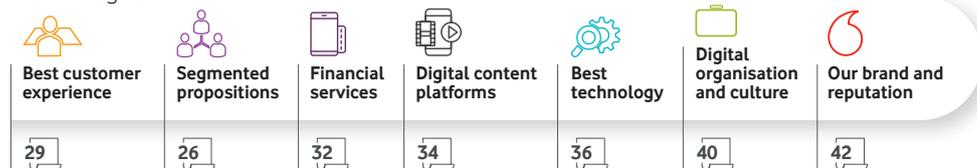| Context	COVID-19 exposure	Mitigating actions
We are experiencing intensified competition from a variety of new and existing technology providers, new market entrants and competitors.	COVID-19 has expanded demand for OTT platforms and alternative solutions in the context of the 'new ways of working'. It could also result in a reduced demand as customers face increased pressure.	• Enhance focus on growing technology skills and capabilities to compete with disruptive market players; • Monetise network and personal data assets by using Big Data and real-time analytics to personalise customer services; • Adopt pricing strategies to counter declining traditional voice revenues and substantially increase volumes of data; • Establish a team to analyse and understand customer behaviour to better position service offerings; • Entrench a superior customer service strategy; • Partner with OTTs for mutual benefit; • Provide financial and digital services; and • Use IoT products and services and other enterprise solutions to alleviate costs.

Strategy

Our strategies

Best customer experience	Segmented propositions	Financial services	Digital content platforms	Best technology	Digital organisation and culture	Our brand and reputation
29	26	32	34	36	40	42

8 Spectrum

Speed of impact: Slow

Rating: 8 (2019: 5)

Opportunity
Realising alternative opportunities for accessing spectrum, for example through partnerships, and extending activities in fixed and fibre to enable differentiation.

Context	COVID-19 exposure	Mitigating actions
Failure to secure additional spectrum due to policy changes relating to the issuing of spectrum licences, non-renewal of existing licences, and increased competition for access to spectrum would significantly impact on our ability to increase capacity and deliver future network capabilities.	The upsurge in people working from home has intensified the need for additional spectrum and heightened pressure on our current network resources.	• Engage government and regulatory bodies, highlighting efficient allocation and societal benefits of spectrum; • Actively participate in licence renewal and spectrum allocation processes; • Evaluate and implement re-farming and optimisation strategies; • Embrace a proactive spectrum strategy, including potential acquisitions and strategic partnerships under applicable regulations; and • Implement temporary spectrum allocation to cope with the effects of COVID-19.

Strategy

9 Execution of strategic projects for future growth

Speed of impact: Slow

Rating: 9 (2019: 9)

Opportunity
A strong focus on maintaining intellectual capital and execution ability remains a valuable source of market leadership.

Context	COVID-19 exposure	Mitigating actions
Growth opportunities may be missed if we fail to execute strategic projects. Vodacom's ability to remain competitive in the new and changing market may be negatively impacted if projects to roll out fibre, digital services, financial services and converged products are not successful or completed on a timely basis. Regional start-ups and smaller fixed ISPs offering no-frills access to the internet pose a risk.	Additional government controls, coupled with human resource constraints, limit our ability to execute key strategic projects, such as fibre rollout and converged services. Increased demand on our network, as well as constraints caused by supplier disruptions, may require the repurposing of our network resources, further delaying the roll out of key projects.	• Dedicate a pillar in our strategy, focusing on future growth areas; • Consult external experts on future thinking; • Create specialised divisions to deliver on our strategic offerings; • Review alternative options to assist in the growth of strategic offerings through build, buy or partnering; and • Review and monitor current revenue streams to proactively implement controls to prevent and manage potential substitution.

Strategy

10 Technology failures (service failures)

Speed of impact: Very rapid

Rating: 10 (2019: 7)

Opportunity
Our long-standing well-demonstrated leadership and continuous investment in technology have been at the heart of our customer value proposition.

Context	COVID-19 exposure	Mitigating actions
Our value proposition rests on the reliable availability of a high-quality network. A major failure in critical network or information technology assets and systems – for example, through natural disasters, insufficient preventative maintenance, or malicious attack – would have a profound impact on our customers, revenue and reputation.	COVID-19 has caused excessive strain on our network resources, increasing the risk of network failure.	• Invest in maintaining and upgrading our systems on an ongoing basis and focus on comprehensive business continuity and disaster recovery plans; • Invest to ensure adequate and feasible redundancy capabilities;. • Ensure that insurance policies are comprehensive; • Reduce reliance on external parties through self-provided transmission links on critical routes in our networks; • Ensure sufficient stock of spares; and • Upfront investment.

Strategy