

Our principal risks and associated opportunities

Our Principal Risks Framework is aligned with the ISO 31000 International Risk Management Standards and King IV. This framework guides our risk identification process and provides Vodacom's Board and the Exco with a detailed assessment of all principal risks to our business.

Our embedded enterprise risk management process further enhances the rigour of this progress. Our Board reviews and approves the risk appetite for each principal risk identified, ensuring informed and risk-based decision-making.

Vodacom's principal risks heatmap (included as Figure 1 below) depicts our top 10 risks as identified through our risk management processes. The heatmap shows residual risk after taking into account mitigating actions. We also disclose our risk speed of impact report (included as Figure 2), reflecting the rate at which the Group would experience adverse impacts if the risk materialised. This enables the Group to develop effective risk mitigation plans, including how to optimally allocate resources to those risks that require immediate action.

Figure 1:

Vodacom Group top risk rating (impact vs likelihood)

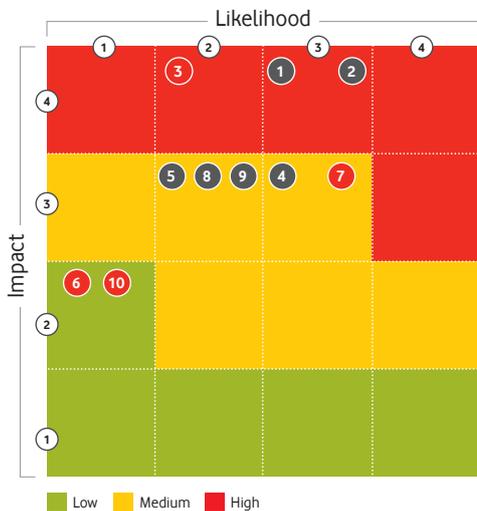
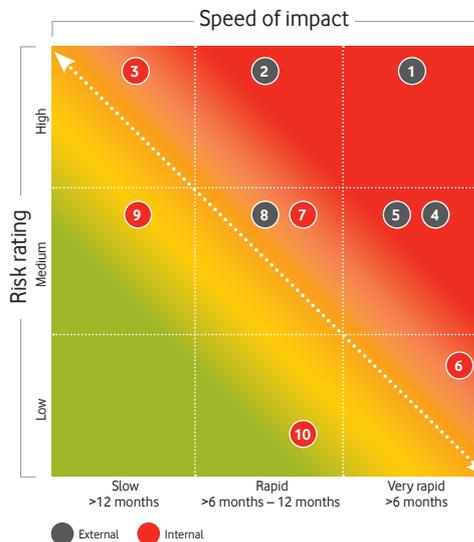


Figure 2:

Vodacom Group Top 10 rating (speed of impact)



Risk

- 1 Cyber threat
- 2 Unstable economic and market conditions (all markets)
- 3 Vendor strategy
- 4 Market disruptions
- 5 Taxation uncertainty, social and political pressure
- 6 Technology failures
- 7 Resilience of our mobile money platform
- 8 Adverse regulatory and compliance pressures
- 9 Spectrum
- 10 Execution of strategic projects for future growth

1 Cyber threat (2020: 2)

Opportunity

Providing world-class data security is one of our growing product offerings in the Enterprise (B2B) segment.

Strategy



Speed of impact

Very rapid

Six capitals



Context

A malicious or accidental cyber attack from outside our organisation, as well as insider threats or supplier breaches, could result in service interruptions and/or the infringement of personal and confidential data. This could significantly impact our customers, revenue and reputation, and lead to costs associated with fraud and/or extortion.

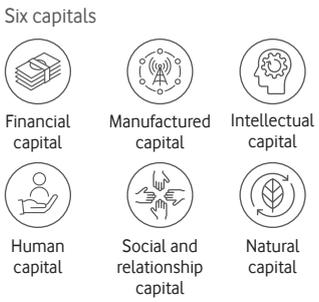
COVID-19 exposure

The outbreak of the COVID-19 pandemic led to a significant increase in cyber threats targeting our customers through phishing, social engineering and malicious or insecure apps and services. This is further exacerbated by the increased number of people working from home and who use different technological tools to stay connected. Pressure on internal security network resources has intensified.



Mitigating actions

- Commission world-class security vendors to enhance sophisticated attacker detection.
- Conduct proactive assessments of the security measures in place on our projects.
- Monitor the Group's cyber incident response and containment.
- Manage security risks by implementing continuous security improvement programmes.
- Develop assurance programmes that incorporate internal and external reviews of our data storage practices.
- Increase security controls to protect our infrastructure while storing and transmitting confidential information.
- Embed the Vodafone Security Risk, Control and Assurance Framework across our business.
- Ensure people with relevant skills are appointed to manage our IT security.
- Drive dynamic framework of minimum controls on cyber per market, a clear roadmap to track achievements and stretch targets.



2 Unstable economic and market conditions (2020: 1)

Opportunity
 We are capturing opportunities for innovation by addressing the macroeconomic challenges facing our customers. This includes our segmented propositions and digital offerings relating to education, health, agriculture and inclusive finance.

Strategy

Speed of impact
Rapid



Context
 Volatile macroeconomic conditions – such as fluctuating foreign exchange and inflation rates – may weaken consumer and enterprise spend and, consequently, reduce our revenue and negatively impact operating costs and capital expenditure, which could impact our profitability.

COVID-19 exposure
 South Africa's financial downgrade has decreased consumer and enterprise spending, negatively affecting demand. It also increased operational costs and the capital expenditure needed to implement measures to limit the spread of COVID-19.

- Mitigating actions**
- Continuously evaluate products and services to enhance our customer value proposition.
 - Create and implement a comprehensive stakeholder relations strategy.
 - Apply Group treasury policies in our markets.
 - Include contingencies in our business plans to provide for the negative operational impacts that could arise from lower economic growth and changes in interest, inflation and exchange rates.
 - Implement a global cost-savings programme to combat the effects of inflationary pressure on costs.
 - Use foreign exchange instruments to mitigate currency fluctuations.
 - Ensure the best rates, including a balance between fixed and variable rates, by carefully managing loans.
 - Adjust budgets by considering best and worst-case scenarios relating to the pandemic.

3 Vendor strategy (2020: 4)

Opportunity
 Vodafone Procurement Company provides us with opportunities to leverage the capabilities of original equipment manufacturers (OEMs).

Strategy

Speed of impact
Slow

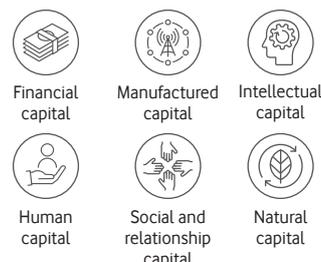


Context
 Geopolitical influences could potentially impact our IT and technology vendor strategy. Furthermore, the lack of supply by key suppliers may negatively impact operational activities and our ability to deliver quality service to our customers. Where applicable, the implementation of a multi-vendor strategy is crucial for the sustainability of our operations.

COVID-19 exposure
 The outbreak of COVID-19 impacted the supply chain efficiencies, which could affect our ability to source the critical equipment, skills and resources needed to operate our business. The pandemic also increased our IT and technology vendor strategies and has subsequently placed our operational costs under pressure.

- Mitigating actions**
- Reduce dependency on single suppliers through risk profiling.
 - Implement our multi-vendor strategy in critical categories.
 - Engage with governments, experts and suppliers.
 - Engage with governments to manage potential supplier restrictions.

Six capitals



4 Market disruption (2020: 7)

Opportunity
Proving our agility by driving innovation in our products, services, partnerships and business model.

Strategy



Speed of impact
Very rapid

Six capitals



Context

Mobile network operators continue to compete for market share amid reductions in disposable income, new entrants to the market and growth of OTT players. This could decrease Vodacom's market share, with price wars between competitors potentially reducing our revenue.

COVID-19 exposure

The effects of COVID-19 placed immense pressure on consumers' disposable income which, in turn, could impact volumes and pricing across the industry. The pandemic also increased demand for OTT players' platforms as we embrace new ways of working, which could place Vodacom's existing portfolio under pressure.



Mitigating actions

- Execute strategies to scale accelerator businesses, including Fixed, IoT, IT, digital lifestyle and financial services, IoT and cloud.
- Develop technology skills and capabilities to compete with disruptive market players.
- Utilise network and personal data assets by leveraging Big Data and real-time analytics to personalise customer services and offers.
- Adopt pricing strategies to counter declining traditional voice revenue and migrate voice to data.
- Align and position segmented customer offerings with an understanding of customer behaviour and expectations.
- Integrate a superior customer service strategy across the business.
- Partner with OTTs and global technology firms for mutual benefit.
- Offer integrated voice, SMS and data offerings personalised to customers.
- Manage the number of active days of a customers on the network to ensure personalised compelling offers to keep the customers on the network.

5 Taxation uncertainty, social and political pressure (2020: 5 and 6)

Opportunity
We contribute significantly to the income tax of governments in the countries where we operate. Our compliance responsibility enable governments to deliver their developmental agendas.

Strategy



Speed of impact
Very rapid

Six capitals



Context

The mobile communications industry is often subject to unpredictable taxes (both direct and indirect). This, combined with pressure to reduce prices from consumers, creates a challenging operating environment. External factors, such as activism from civil society, could also directly influence our operations. If we do not act decisively or respond appropriately to important issues, we run the risk of harming our reputation or damaging our brand.

COVID-19 exposure

Consumers have felt the added economic pressure from COVID-19, which has evoked a demand for reduced prices even as the need for connectivity increases. The prevalence of fake news surrounding 5G could also result in an upsurge of social pressure against the roll-out of this technology. Furthermore, governments' responses to COVID-19 could lead to more stringent regulatory or legislative requirements, affecting our ability to service our customers effectively. These changes could potentially require updates to our pricing, fees, bundle validity and limits.



Mitigating actions

- Improve our stakeholder engagement programme.
- Monitor changes to our political environments, including instances of social activism.
- Consult regularly with tax advisers to understand the impact of our current operating environment.
- Regularly communicate Vodacom's purpose through media statements and campaigns.
- Release media statements and participate in awareness campaigns to educate Vodacom's customers.
- Proactively understanding tax pressures in all jurisdictions and engaging with governments to minimise impacts on digital penetration, for example excessive smartphone duties.

Our strategic pillars



6 Technology failures (2020: 10)

Opportunity
Our customer value proposition has been built on our leadership position in the industry in which we operate. This demonstrated leadership is an important driver of the Group's future growth.

Strategy
○○○●●

Speed of impact
Very rapid

Six capitals

Context
Our customer value proposition is based on the reliability and availability of a high-quality network. A major failure affecting our network or IT assets and systems – brought on by, for example, natural disasters, failure to maintain infrastructure or cyber attacks – could profoundly impact our customers, revenue and reputation. While we rely on third parties and suppliers' systems in our markets, we should maintain the reliability and redundancy expected from our Group.

COVID-19 exposure
COVID-19 caused significant and excessive strain on our network resources, increasing the risk of network failure. This could further be exacerbated by the inability to source critical equipment, skills or resources needed to maintain services.

Mitigating actions

- Maintain and upgrade our systems continuously.
- Develop and implement comprehensive business continuity and disaster recovery plans as needed.
- Invest in adequate and feasible redundancy capabilities.
- Ensure comprehensive insurance policies are in place.
- Reduce reliance on external parties through self-provided transmission links on critical routes in our network.
- Try to eliminate single points of failure through failover, backups, transmission redundancies and power redundancies.

7 Resilience of our mobile money platform (2020: not ranked)

Opportunity
The continued reliability and resilience of our platform drive economic activity, support small businesses' growth and enhance financial inclusion for all citizens.

Strategy
○○●●○

Speed of impact
Rapid

Six capitals

Context
M-Pesa, our mobile money platform, is a crucial tool for socioeconomic growth and is a gateway to the digital economy. We have to ensure we offer reliable and dependable service to our mobile money customers, as any disruption to the platform could negatively affect our customers, revenue and reputation. A reliable platform will also ensure that we meet all regulatory requirements.

COVID-19 exposure
While the take-up of M-Pesa increased during COVID-19, it did place excessive strain on the mobile money platform, increasing the risk of platform failure and downtime.

Mitigating actions

- Invest in ongoing maintenance and upgrades to our systems.
- Focus on comprehensive business continuity and disaster recovery plans.
- Ensure adequate and feasible redundancy capabilities.
- Eradicate any single point of failure.
- Drive consistent policy and system implementation through the M-Pesa Africa joint venture.

Our principal risks and associated opportunities continued

Six capitals



Financial capital



Manufactured capital



Intellectual capital



Human capital



Social and relationship capital



Natural capital

8 Adverse regulatory and compliance pressures (2020: 5)

Opportunity

Being proactive in responding to the changing regulatory environment can provide first-mover advantage.

Strategy



Speed of impact

Rapid

Six capitals



Context

The introduction of stringent regulatory and compliance requirements will impact profitability, growth and delivery of services. This exposes us to significant financial and reputational damage.

COVID-19 exposure

Governments' responses to COVID-19 could lead to more stringent regulatory or legislative requirements, affecting our ability to service our customers effectively. These changes could potentially require updates to our pricing, fees, bundle validity and limits.



Mitigating actions

- Engage with governments, regulatory and public bodies.
- Convene specialist legal, regulatory and government relations teams at Group and operational levels, with external advisers and legal counsel as needed.
- Engage stakeholders and use targeted intelligence reports to understand material legislative changes.
- Engage in broader government objectives and public interest through national industry associations, the Global System for Mobile Communications Association (GSMA) and other influential organisations.
- Ensure that a regulatory compliance policy and a combined assurance programme are in place and all risks are documented.

9 Spectrum (2020: 8)

Opportunity

Realising alternative opportunities for accessing spectrum, such as through partnerships, and extending activities in fixed and fibre, will differentiate our business in the market.

Strategy



Speed of impact

Slow

Six capitals



Context

Failure to secure additional spectrum due to policy changes relating to the issuing of spectrum licences, non-renewal of existing licences, or increased competition for access to spectrum would significantly impact our ability to increase capacity and deliver future network capabilities.

COVID-19 exposure

The upsurge in people working from home has intensified the need for additional spectrum and increased pressure on current network resources.



Mitigating actions

- Engage government and regulatory bodies, highlighting efficient allocation and the societal benefits of spectrum.
- Actively participate in licence renewal and spectrum allocation processes.
- Continue to evaluate and implement re-farming and optimisation strategies.
- Embrace a proactive spectrum strategy, including potential acquisitions and strategic partnerships under applicable regulation.

Our strategic pillars



10 Execution of strategic projects for future growth (2020: 9)

Opportunity

Strengthening our position as a market leader by further developing our intellectual capital and execution ability.

Strategy



Speed of impact

Rapid

Six capitals



Context

Our multi-product strategy, called the system of advantage, will deliver diversified, differentiated offerings to our customers, further strengthening our relationships with customers.

Successful execution of our strategic projects is key to capturing growth opportunities. To remain competitive in an ever-changing market, projects relating to the roll-out of fibre, IoT, IT services, digital and financial services, as well as converged products, must be completed successfully and timeously.

Regional start-ups and smaller fixed internet services providers (ISPs) that offer easy access to the internet continue to pose a risk.

COVID-19 exposure



Human resource constraints due to illness and limited travel limits our ability to execute key strategic projects. The increased pressure on our network and constraints relating to supplier disruptions may lead to our network resources being repurposed, thereby further delaying the roll-out of key projects.

Mitigating actions

- Develop a robust programme to monitor the strategic execution of our projects, proactively identify risks and mitigating actions, and capture new opportunities.
- Establish strategic partnerships to enhance the value proposition and execution success of all key programmes within the system of advantage while retaining customer relationships and data.
- Explore opportunities to improve commercial agreements with partners and associates.
- Optimise costs and drive synergies to enhance our capabilities and services.
- Leverage Big Data and analytics to build a data driven techco organisation.
- Increase innovation and spend on research and development.
- Accelerate the build and acquisition of technology and digital skills.
- Continue building fibre to the home infrastructure.
- Accelerate mergers and acquisitions (M&A) and partnership opportunities.
- Review alternative options to grow our fibre offerings and digital services through build, buy or partnering.
- Ensure that the Board monitors that the correct steps and actions are taken.