Risk management report

“Balancing risk and reward is an everyday thing for you and I as individuals, exactly as it must be for well-managed companies that aim to survive and succeed no matter the challenges and changes in their environment.”

Johan van Graan
Chief Risk Officer

Risk and control procedures are enhanced on an ongoing basis. Directors consider our strategic risks when they formulate strategy, approve budgets and monitor progress against business plans.

Line management throughout the Group are responsible for managing risk. They are guided and assisted by the Risk Group, which reports to the Chief Risk Officer. The process is overseen by the Risk Management Committees in each operation, which were established in the 2011 financial year. The respective Managing Directors chair the local committees and include the Executive Committee members in each country.

The Group Risk Management Committee (‘GRMC’), chaired by the Chief Financial Officer, convenes four times a year. This committee was established nine years ago and membership comprises the Group Executive Committee members, the Chief Risk Officer and the Managing Directors of each operating company. The GRMC also acts as the Risk Management Committee for Vodacom South Africa.
The two main functions of the GRMC are:

- To filter and approve the list of strategic, high and critical risks presented yearly to the Board and Audit, Risk and Compliance Committee for the Group and local markets.
- To oversee and monitor the various projects and structures designed to manage specific identified risks such as, business continuity management.

Certain specialised risks, such as health and safety, technology security and electromagnetic frequency (‘EMF’), have separate structures that monitor and manage the processes and projects related to managing these risks. These structures are responsible for reporting to the GRMC.

An exercise was undertaken this year to review and update more than 4 000 operational, tactical and strategic risks. This was done through group sessions, one-on-one interviews and written requests with all executive management (heads of departments and higher). The risk management dashboards for companies were updated after the review.

The Group Board reviews the strategic and critical risks regularly and approves the Group’s risk tolerance yearly.

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The process we follow:

Our process of defining, assessing, classifying and monitoring risks is set out below.

1. **Defining the risks**
   Various levels of management in each operating company define risks at project, process, operational, tactical and strategic levels according to risk tolerance.

2. **Assessing the impact of the risks on the organisation should they happen**
   Risks are assessed based on their potential impact on the business (customers, business systems, employees), financial position and reputation. A level 1 risk is seen as insignificant and level 5 is catastrophic. For example, if more than half of our customers would be impacted by the risk, it would be classified as level 5.

3. **Assessing the likelihood of the risks happening**
   Risks are assessed based on the likelihood of them happening after taking into account controls in place to mitigate them. Again we use a scale from 1 to 5, where 1 is ‘never’ and 5 is ‘almost certain’. When we rate a risk ‘5’, it means the controls in place will not prevent the risk from happening due to factors outside our control.

4. **Classifying the risks**
   We classify risks as critical, high, medium and low based on their impact and likelihood of them occurring. So where a risk has a high likelihood of occurring and the impact on our business, financial position or reputation is high it would be considered critical.

5. **Monitoring and reporting the risks**
   We capture well over 4 000 operational, tactical and strategic risks across the Group in our risk system, Cura. We manage risks continually and review them quarterly. We also involve internal audit and report back to the Group’s Audit, Risk and Compliance Committee and the Board quarterly.
## Risk management report continued

### Risk

<table>
<thead>
<tr>
<th>Regulatory decisions and changes in regulation</th>
<th>Increased competition</th>
<th>Unpredictable political, economic and legal risks</th>
</tr>
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</table>

**Context**

- We comply with a wide range of requirements that regulate the licensing, construction and operation of our networks in the countries we operate in. In particular, the decisions of regulators on granting spectrum licences as well as wholesale and retail tariffs may affect us negatively.
- We are facing intense competition in all our markets. Our ability to compete effectively depends on network quality, capacity and coverage, pricing of services and devices, quality of customer services, developing new and improved products and services in response to customer demands, new technologies, reach and quality of sales and distribution channels, and capital resources. In particular, driving down prices to stay competitive, along with increased capital investment to support growth in traffic, may negatively impact our financial performance.
- Political, economic and legal risks in some of our markets may be less predictable than in countries with more developed institutional structures. The value of our investments in these markets may be negatively affected by political, economic, tax and legal developments beyond our control or due to public corruption. In particular, the mobile communications industry can often be subject to unpredictable, higher direct and indirect taxes in these countries.

**Mitigating factors**

- We have specialist regulatory and government relations teams.
- We participate actively through written submissions and formal hearings on legislative and regulatory changes.
- We have access to best practice and international debate through Vodafone.
- We conduct detailed scenario planning on an ongoing basis.
- We continue to invest in network coverage and quality.
- We continue to expand distribution.
- We’re focused on dramatically improving the customer experience across all customer touchpoints.
- We offer a wide range of devices at competitive prices.
- We continue to offer more value to customers through promotions and discounts.
- We have a comprehensive stakeholder relations strategy in place in all the countries we operate in.
- Vodacom has implemented an anti-corruption, anti-money laundering and anti-terrorist financing programme to prevent the giving and receiving of bribes and other corrupt acts.
- We have a specialised tax management capability and seek expert tax advice as needed.
- We will consider litigation to enforce compliance with legislation among competitors.
<table>
<thead>
<tr>
<th>Major network and billing infrastructure failures</th>
<th>Complying with competition legislation</th>
<th>Customer privacy</th>
<th>Consumer protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>We operate complex mobile networks that rely on third parties to provide power or transmission. In certain countries, like Mozambique, we have limited redundancy in our master switching centres. Network and billing infrastructure may also be damaged by natural disasters or terrorism. In particular, network outages may negatively impact customer usage, revenue and our reputation.</td>
<td>The South African competition authorities have been actively targeting different industry sectors, with the Competition Commission launching full-scale enquiries into non-competitive practices. We may face penalties, reputational damage, or lose stakeholder and shareholder confidence if we do not comply with the requirements of the South African Competition Act.</td>
<td>Our ability to protect sensitive customer information is material to building trust with our customers and to our reputation. The Protection of Personal Information Act, signed into law in South Africa in December 2013, provides for a one-year implementation period. The Act impacts almost all business areas and requires significant changes in the way in which electronic and paper records are collected and processed. We may be subject to regulatory intervention and reputational harm if we fail to comply with the Act within the stipulated timeframe.</td>
<td>The National Consumer Commission (‘NCC’) has focused on the interpretation of specific provisions of the Consumer Protection Act (‘CPA’), relating to prohibiting the forfeit of unused minutes and data, handset subsidies, international roaming costs and subscriber fixed-term contractual terms. Adverse interpretation of certain provisions and non-compliance with the CPA may result in regulatory intervention with associated financial losses and reputational harm.</td>
</tr>
</tbody>
</table>

- We have comprehensive business continuity and disaster recovery plans in place.
- We invest in maintaining and upgrading our networks on an ongoing basis.
- We are self-providing transmission links on critical routes in our networks to reduce reliance on external parties.
- We are making investments to ensure adequate redundancy capabilities where feasible.
- We have comprehensive insurance in place.
- We continue to consider dual generator and alternative energy supply solutions where feasible.
- All new products and services are reviewed for compliance with all applicable laws, including the Competition Act, before being approved for launch.
- Detailed evaluations of the impact of new products and services, promotions, campaigns and tariff enhancements are done in terms of the Electronic Communications Act.
- All distribution channel agreements have been updated to comply with legislative changes.
- We are responding to the requirements through an enterprise project across all areas of the business. Awareness and training form part of the project.
- Phase one of the project was to implement the adapted Vodafone Global framework and toolkit, which deals with privacy risk.
- Regulatory Affairs is engaging with key stakeholders. A project plan for implementation has been drawn up.
- We have made changes to our customer agreements to ensure they are compliant with the CPA.
- Engagement continues with the NCC on other provisions of the CPA that are unclear.
- We participate in industry bodies that aim to resolve such issues for the benefit of the industry.
Abridged corporate governance statement

The Board takes overall responsibility for Vodacom’s success. Its role is to exercise leadership and sound judgement in directing Vodacom to achieve sustainable growth and act in the best interests of all our stakeholders.”

Sandi Linford
Company Secretary

Statement of compliance

Vodacom is committed to the highest standards of business integrity, ethics and professionalism. The Board recognises the need to conduct the business in accordance with the principles of the King Code of Corporate Practices and Conduct (‘King III’). These principles include discipline, independence, responsibility, fairness, social responsibility, transparency and the accountability of directors to all stakeholders.

A number of these principles are entrenched in the Group’s internal controls and policy procedures governing corporate conduct.

The Board is satisfied that every effort has been made in the financial year to 31 March 2014 (‘the year’) to comply in all material aspects with King III. Where we do not comply, this is stated and explained.

Corporate governance structure

The following diagram shows the Group’s governance structures as at 31 March 2014:
Board leadership and committees

Board
Vodacom has a unitary Board of 12 directors. Five directors, including the Chairman, are independent non-executive directors. Five are non-executive directors and two are executive directors. Although the majority are non-executive directors, half of our non-executive directors are not independent as recommended by King III as they represent Vodafone. However, the Board is satisfied that the balance of power and objectivity on the Board is sufficient and does not require additional independent voices.

Accountability
The Board takes overall responsibility for Vodacom's success. Its role is to exercise leadership and sound judgement in directing Vodacom to achieve sustainable growth and act in the best interests of shareholders.

In line with best practice, the roles of Chairman and Chief Executive Officer are separate. The Chairman is responsible for leading the Board and the Chief Executive Officer for the operational management of the Group.

A Board charter has been adopted which details the responsibilities of the Board. These include:

- Oversight of the Group's strategic direction
- Approving major capital projects, acquisitions or divestments
- Exercising objective judgement on the Group's business affairs independent from management
- Ensuring that appropriate governance structures, policies and procedures are in place
- Ensuring the effectiveness of the Group's internal controls
- Reviewing and evaluating the Group's risks
- Approving the annual budget and operating plan
- Approving the annual and interim financial results and shareholder communications
- Approving the senior management structure, responsibilities and succession plans
- Technology governance

Directors
Vodacom's memorandum of incorporation specifies that non-executive directors have no fixed term of appointment. Executive directors are subject to standard terms and conditions of employment and a six-month notice period. Directors are subject to retirement by rotation and re-election by shareholders at least once every three years. Any director appointed to fill a temporary vacancy must retire at the first annual general meeting following their appointment.

Chairman
The memorandum of incorporation requires the Board to re-elect the Chairman yearly, in line with King III. Peter Moyo was re-elected on the anniversary of his appointment in May 2014.

Independent advice
The Board recognises that there may be occasions where directors consider it necessary to take independent professional advice. This is done at the Company's expense according to agreed procedure.
Board committees

The non-executive directors play a pivotal role on the Board’s committees. All committees operate under Board-approved terms of reference, which are updated from time to time to stay abreast of developments in corporate law and governance best practice.

Executive Committee

During the year, the Executive Committee included the Chief Executive Officer (Chairman), Chief Financial Officer, Chief Human Resources Officer, Chief Officer: Corporate Affairs, Chief Executive Officer: International Business, Chief Operating Officer: International Business, Chief Technology Officer, Chief Officer: Legal and Regulatory, Chief Officer: Strategy and New Business, Chief Officer: Consumer Business Unit, Chief Officer: Customer Operations and Chief Officer: Enterprise Business Unit.

The committee is responsible for managing the Group’s operations, developing strategy and policy proposals for the Board’s consideration and implementing the Board’s directives. It has a properly constituted mandate and terms of reference.

The committee’s other responsibilities include:
- leading executives, management and employees;
- developing the annual budget and business plans for the Board’s approval; and
- developing, implementing and monitoring policies and procedures, internal controls, governance, risk management, ethics and authority levels.

Audit, Risk and Compliance Committee

Current members: DH Brown (Chairman), YZ Cuba, PJ Moleketi.

Further details of the activities of the Audit, Risk and Compliance Committee can be found in its standalone report in the audited annual financial statements. Refer to the audited annual financial statements online.
Remuneration Committee

Current members: TM Mokgosi-Mwantembe (Chairman), DH Brown, RAW Schellekens, S Timuray.

Serpil Timuray was appointed to the Remuneration Committee following the resignation of Nick Read on 5 February 2014. The membership of the Remuneration Committee does not comply fully with King III or the JSE Listings Requirements, which advocate a majority of independent non-executive directors. Of the non-executive directors on the committee, only half are independent. Thoko Mokgosi-Mwantembe, the Chairman of the committee, and David Brown are independent non-executive directors. The Board is satisfied that Vodafone's representation on this committee is appropriate given the valuable contribution of the Vodafone directors. Serpil Timuray, who is the Vodafone Regional CEO for Africa, Middle East and Asia Pacific, has oversight over Vodacom, and Ronald Schellekens is the Vodafone Human Resources Director. To address non-compliance with the JSE Listings Requirements, it was agreed with the JSE that the Chairman of the committee would have a casting vote in the event of any deadlock or dispute that could arise. The mandate of the committee was revised accordingly.

The Remuneration Committee, in consultation with executive management, ensures that the Group’s directors and senior executives are fairly rewarded for their individual contributions to overall performance and in line with Vodacom’s remuneration policy.

In the year, the Remuneration Committee met four times with attendance as follows:

<table>
<thead>
<tr>
<th>Name of director</th>
<th>7 May 2013</th>
<th>14 Jun 2013</th>
<th>6 Nov 2013</th>
<th>26 Mar 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>TM Mokgosi-Mwantembe</td>
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<tr>
<td>NJ Read¹</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>–</td>
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<tr>
<td>RAW Schellekens</td>
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<tr>
<td>DH Brown</td>
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<td></td>
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<tr>
<td>S Timuray²</td>
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</table>

Notes:
1. NJ Read resigned 5 February 2014.
2. S Timuray appointed 5 February 2014.

More detail on the activities of the Remuneration Committee can be found in the remuneration report for the year.

Nomination Committee

Current members: MP Moyo (Chairman), TM Mokgosi-Mwantembe, RAW Schellekens, S Timuray.

Serpil Timuray was appointed to the Nomination Committee following the resignation of Nick Read on 5 February 2014. The membership of the Nomination Committee does not comply fully with King III or the JSE Listings Requirements, which advocate a majority of independent non-executive directors. Of the non-executive directors on the committee, only half are independent. Peter Moyo, the Chairman of the committee, and Thoko Mokgosi-Mwantembe are independent non-executive directors. The Board is satisfied that Vodafone’s representation on this committee is appropriate given the valuable contribution of the Vodafone directors. Serpil Timuray, who is the Vodafone Regional CEO for Africa, Middle East and Asia Pacific, has oversight over Vodacom, and Ronald Schellekens is the Vodafone Human Resources Director. To address non-compliance with the JSE Listings Requirements, it was agreed with the JSE that the Chairman of the committee would have a casting vote in the event of any deadlock or dispute that could arise. The mandate of the committee was revised accordingly.

The committee’s duties include:
• identifying and evaluating suitable potential candidates for appointment to the Board. The authority to appoint directors remains a function of the Board;
• identifying and evaluating candidates for the position of Chief Executive Officer and Chief Financial Officer;
• making recommendations on the composition of the Board in terms of the mix of skills, size of the Board and the number of committees required; and
• reviewing and approving executive succession.

In the year, the Nomination Committee met four times with attendance as follows:

<table>
<thead>
<tr>
<th>Name of director</th>
<th>7 May 2013</th>
<th>5 Sep 2013</th>
<th>6 Nov 2013</th>
<th>26 Mar 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>MP Moyo</td>
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<td></td>
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<tr>
<td>TM Mokgosi-Mwantembe</td>
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<tr>
<td>NJ Read¹</td>
<td>X</td>
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<tr>
<td>RAW Schellekens</td>
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<tr>
<td>S Timuray²</td>
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</tr>
</tbody>
</table>

Notes:
1. NJ Read resigned 5 February 2014.
2. S Timuray appointed 5 February 2014.
Abridged corporate governance statement continued

Social and Ethics Committee

Current members: PJ Moleketi (Chairman), MP Moyo, RAW Schellekens, MS Aziz Joosub.

There were no changes to the composition of the Social and Ethics Committee during the year. Key executives attend meetings by invitation but have no vote, including the Chief Risk Officer, Group Company Secretary (Ethics Officer), Chief Human Resources Officer, Chief Officer: Corporate Affairs, Chief Officer: Legal and Regulatory and Chief Officer: Consumer Business Unit.

As required by the Companies Act, No 71 of 2008 (as amended) and King III, this committee oversees and monitors Vodacom's activities in relation to:

- social and economic development, including the principles of the United Nations Global Compact, Broad-Based Black Economic Empowerment, Employment Equity and the Organisation for Economic Cooperation and Development's (OECD) recommendations on corruption;
- good corporate citizenship which includes promotion of equality, prevention of unfair discrimination, corporate social responsibility, ethical behaviour and managing environmental impacts;
- consumer relations;
- labour and employment, including skills development; and
- safety, health and environmental issues.

The Social and Ethics Committee met five times during the year with attendance as follows:

<table>
<thead>
<tr>
<th>Name of director</th>
<th>8 May 2013</th>
<th>15 Jul 2013</th>
<th>4 Sep 2013</th>
<th>6 Nov 2013</th>
<th>26 Mar 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>PJ Moleketi</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>MP Moyo</td>
<td>✓</td>
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<tr>
<td>RAW Schellekens</td>
<td>✓</td>
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<tr>
<td>MS Aziz-Joosub</td>
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<td>✓</td>
<td>✓</td>
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<td>✓</td>
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</table>

Board evaluation

A Board evaluation was conducted during the year, led by the Chairman and facilitated by an external service provider. Overall consensus was that the Board is working well, has a good mix of directors and that there is a high commitment to work in the best interest of Vodacom. The Board as a whole demonstrates uniform clarity over the purpose of Vodacom and the ability to be satisfied to the external environment. While the Board had better clarity of the strategic objectives, the Board was mindful that the strategy was yet to be tested. No significant weaknesses were identified, but areas for improvement such as reporting more regularly on progress against strategy were noted.

Company Secretary

All directors have access to the advice and services of the Group Company Secretary, Sandi Linford, who is responsible to the Board for ensuring compliance with procedures and applicable statutes and regulations. For the Board to function effectively, all directors have full and timely access to information that helps them do their duties properly. This includes corporate announcements, investor communications and information about developments that may affect Vodacom and its operations. Directors have full access to management as required.

The Group Company Secretary is responsible for director training. The Group Company Secretary and Chief Executive Officer induct new directors, which includes briefings on their fiduciary and statutory responsibilities as well as on the Group’s operations as required.
Shareholder relations

Vodacom maintains a proactive dialogue with shareholders to communicate our strategy and activities. This is done through a planned investor relations programme which includes:

- formal presentations of annual and interim results;
- briefing meetings with major institutional shareholders after the release of results; and
- hosting investor and analyst sessions.

Risk management

Management continuously develops and enhances its risk and control procedures to improve risk identification, assessment and monitoring. The directors consider business risks when setting strategies, approving budgets and monitoring progress against budgets.

A division reporting to the Chief Risk Officer assists in identifying, assessing and recording the strategic risks facing the Group and, where appropriate, monitors mitigating actions.

Internal control

Management adopts internal controls, including policies, procedures and processes to provide reasonable assurance in safeguarding assets, preventing and detecting errors, the accuracy and completeness of accounting records, and the reliability of financial statements. Internal audit provides independent, objective assurance of the system of internal controls within the Group.

Share dealings

Vodacom has a share dealing policy requiring all directors, senior executives and the Group Company Secretary to obtain prior written consent from either the Chairman or Chief Executive Officer to deal in Vodacom Group shares. The Chairman has to obtain prior written clearance from the Chairman of the Audit, Risk and Compliance Committee. Closed periods are implemented as per JSE Listings Requirements. During these periods, the Group's directors, executives and employees are not allowed to deal in Vodacom Group shares. Additional closed periods are enforced should Vodacom be subject to any corporate activity requiring a cautionary announcement.

Stakeholder engagement

The Board has delegated to management the responsibility to deal with stakeholder relationships in a proactive and constructive manner.

An approved stakeholder policy is in place and the initiatives and activities for the year are more fully reported in the Social and Ethics Committee report. Refer to our stakeholder report online.

Technology governance

As an ICT company, technology is core to our business. Technology governance is vital to striking the right balance between maintaining our technology lead and managing our costs. In line with King III, technology governance forms part of our governance structures, policies and procedures. It also forms part of the Group's strategic and business processes and is managed by the Chief Technology Officer.

A well-defined technology governance framework and charter has been adopted, which is clearly mapped to the IT governance principles of King III. Each framework element is supported by evidence, including aligning technology strategy and business needs, delivering value and managing performance, information security, information management, risk management, business continuity management and compliance. An area that requires further work is independent assurance of outsourced providers. On this basis, a baseline will be agreed and form part of the contract with outsourced providers. Finalisation is expected during the 2015 financial year.