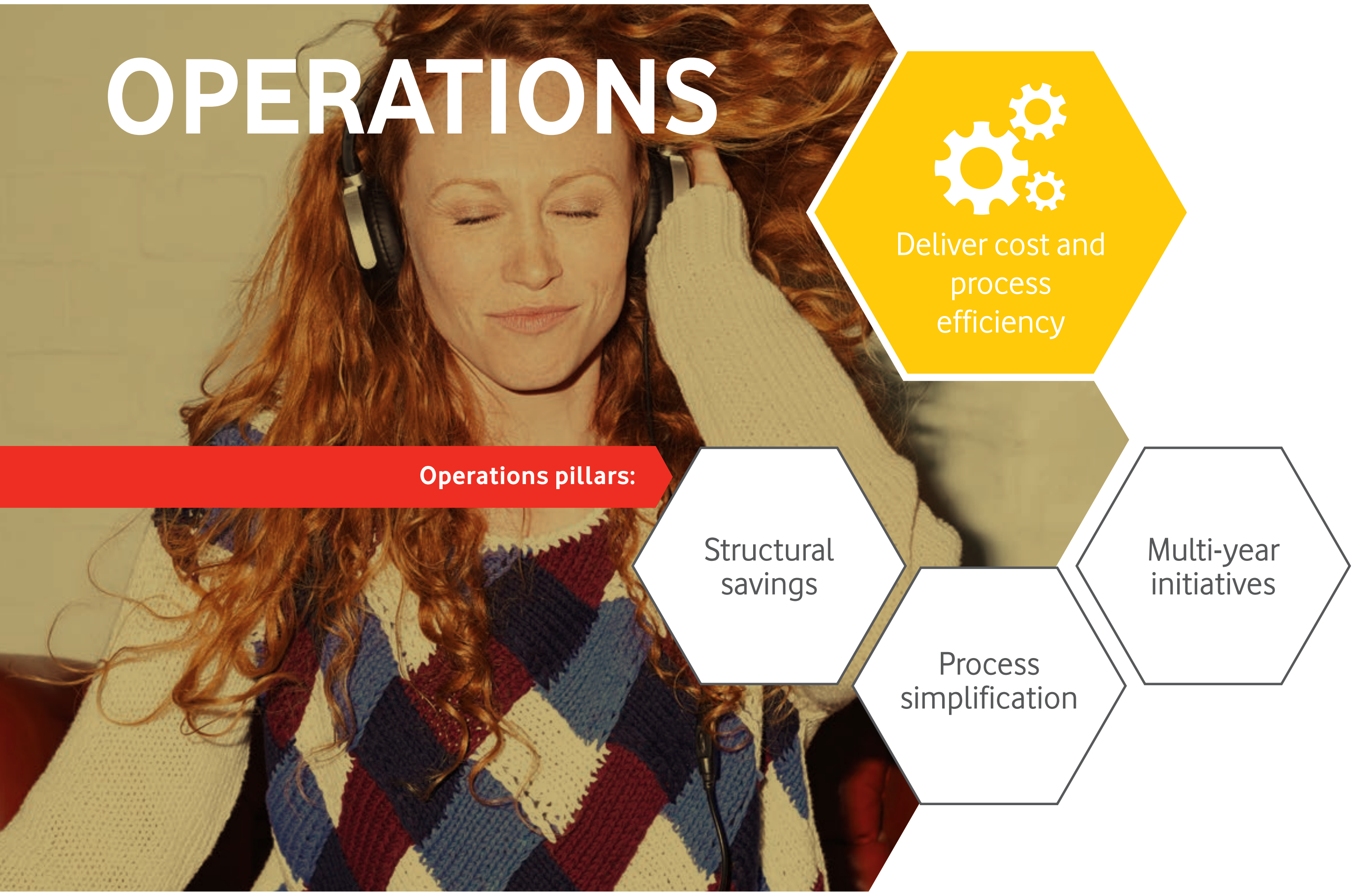
HOW WE'VE PERFORMED AGAINST OUR STRATEGIES
STRATEGY 3



The challenging economic, regulatory and competitive environment we faced this year placed pressure on our revenue growth. Inflationary pressure as well as the depreciation in the rand put upward pressure on our cost base. Our continued network expansion to support growing data and voice traffic means higher operating costs in the form of property rentals, electricity and maintenance agreements. Against this background, we must continue to find ways to improve operating efficiency and simplify and standardise processes for customers.

OPERATIONS: together driving operational excellence

What have we done well?

- Group opex to service revenue was stable at 25.7% (excluding MTR impact, One-Offs, foreign exchange and at a constant currency).
- Substantially reduced the volume of calls to our call centres by an additional 15%.
- Increased our procurement through the Vodafone Procurement Company to 37.3% up from 35.0% a year ago.
- Completed our single RAN swap in South Africa.
- Reduced transmission costs through self-providing with 81% of our sites in South Africa self-provided and 88.7% in our International markets.
- Rollout of ultra-low-cost base stations in the DRC at almost half the cost of a normal base station.

Operational excellence was delivered through focusing on:

REDUCED CALL VOLUMES BY
15%

1ST
79%
FIRST CALL RESOLUTION

1 Effective and efficient systems and processes

CARBON DISCLOSURE PROJECT:

96%
SCORE RATING
RETAINING LEAD IN TELECOMS SECTOR

2 Reducing environmental impact

GROUP

2015 25.7%[1]

2014 25.2%[1]

3 Managing opex as a % of service revenue

1. Excluding MTR impact, One-Offs foreign exchange and at a constant currency (using current year as base).

58%
AVERAGE OVER THE PAST FIVE YEARS

4 Return on capital employed

What have we done well? continued

- Reduced net acquisition and retention costs.
- Introduced initiatives such as "1000 small things" and "closed loop" to simplify our business processes and reduce costs.
- Rationalised our property portfolio in South Africa.
- Achieved a 96% score in the Carbon Disclosure Project, retaining our lead in the telecoms sector.
- Achieved best performer in the JSE's Socially Responsible Investment Index three times in four years.

What factors impacted our performance during the year?

- The rand devalued further against key currencies. This affected both the translation of our International operations and impacted the non-rand denominated expenses in South Africa.
- Network operating expenses increased after achieving flat opex over the past three years due to our accelerated capex programme.
- Wage inflation and a slight increase in staff headcount due to hiring into our business growth areas resulted in higher payroll expenses.

Where can we improve?

- Further drive self-care and online adoption in our customer base.
- Simplify more customer experience journeys.
- Simplification of our tariffs and improved end-to-end order processing times from the launch of Customer 3D, our new billing system.
- Increased savings from procurement through new closed-loop procurement focus.
- Further reduce non-customer facing costs through our "1000 small things" multi-year programme.
- Optimising distribution further and renegotiate distribution contracts to be performance-based.

STRATEGY 3: OPERATIONS continued

Simplifying processes

Simplifying our processes especially around customer interactions is important to achieve the best turnaround times and to make it easier to do business with us.

- We try to measure everything that really matters: how long it takes to answer a call, to repair a phone or deliver one. We set targets to improve in all these areas, knowing we can always do better. We continuously focus on how we can simplify and speed up the way we do things, as this will ultimately benefit our customers and reduce our costs.
- During the year, we managed to improve our first call resolution to 79% and reduce calls to the call centres by an additional 15%. This not only means happier customers but reduced overall costs as well.
- We've identified the online channel as a strategic opportunity to drive operational excellence both in improving our customers' interactions with us and fulfilling their needs. The number of unique visits to our website increased 20% to 2.7 million.

PG 36 for more information on how we have improved processes for our customers.

Systems and processes are an important tool in running our business and we are always looking for ways to streamline, simplify and integrate these.

Another huge benefit of being part of Vodafone is the access it gives us to their global procurement programme. Vodafone has strategic agreements with some of the world's leading companies to deliver innovative products and services. Handsets, network and IT equipment are for the most part negotiated and bought centrally through the Vodafone Procurement Company ('VPC'). We make use of these centralised benefits wherever we can but with due consideration of local procurement requirements and targets, such as those included under BBBEE in South Africa.

Besides the pricing benefits that come with Vodafone's scale, other benefits of VPC include:

- Access to world-class methods and standards that help us improve our processes;
- Less administration as some of our global suppliers are managed directly by VPC; and
- A stronger focus on working with our suppliers as strategic partners.

Since we started our supplier performance programme, we have seen real improvements in the service we've had from global suppliers managed by VPC. In South Africa, 44 of our key suppliers have migrated to VPC. We continue to consolidate and optimise our supplier base across the Vodacom companies in the markets in which we operate.

Enhancing structural efficiencies

Our network is the backbone to our business, allowing us to connect customers across the globe. As we accelerate our network investment to improve coverage in all our Operations, we need to find ways to do this smarter to ensure we retain our best network advantage.

Our substantial network investment not only brings greater benefits to our customers but it also focuses on applying new technology to improve efficiency. Although our total number of sites across our footprint increased by 13.4% to 16 242, we looked at ways to bring down average site costs.

- We have been at the forefront of single RAN technology that enables the combination of 2G, 3G and LTE/4G technologies into the same radio equipment. Our SA network is now 100% complete, and International is 89.4% complete. This has a number of cost benefits, including reduced floor space requirements on-site, which reduces our site rentals, and efficient power technology provides savings on our energy bill.
- We now have 81% of our sites in SA and 88.7% in International on our own transmission, which reduces our network running costs, allowing us to carry data at a far lower cost than leasing it, with the added benefit of being able to expand our data network for very little incremental cost.
- Where possible we passively share our network sites, or utilise the sites of other parties, to reduce operating expenses, to reduce the impact on the environment and to ease the pressure on planning authorities. Network sharing is pursued in all our markets. In South Africa, more than half of the sites occupied by Vodacom are shared sites. Furthermore, in South Africa and Tanzania, we participate in national roaming agreements.

We continue to invest in subsidising phones for our customers to allow them cheaper access to our network, as well as investing in our wide distribution.

During the year in South Africa, we spent some R7.5 billion or about 16.0% of our service revenue in acquiring and retaining our customers as well as remunerating our channels. But as our customers want more expensive high-tier devices, we have needed to maintain a discipline on the handset subsidies we pay as well as look to shift some of our commissions to better align to our value objectives. This year, we have improved our overall commercial efficiencies through various initiatives such as:

- Purchasing our customer base back from Nashua, allowing us to directly service our customers and reduced the ongoing commissions.
- Increased the selling price of prepaid SIM cards in the market and reducing the production cost of SIM cards.
- Renegotiating some of the channel incentives to better align to our targets.
- Improving our commercial investment returns on devices by steering subsidy to those with better ARPUs.

Multi-year initiatives

We continually look for opportunities to reduce non-customer facing costs through our initiatives like "1000 small things", a project that encourages employees to develop cost saving initiatives, identify wastage and use resources more efficiently.

During the year, publicity expenses decreased 4.2% through further optimisation of our sponsorship properties and retail publicity spend. We have realised some savings from the rationalisation of our corporate offices property portfolio and have also reduced the delivery cost per device through savings on packaging and enhanced logistics management.

We are working closely with our stakeholders to find ways to lessen our total carbon footprint, which often allows us to also operate more efficiently.

Managing our environmental impact

- We have installed a heating, ventilation and air conditioning ('HVAC') plant that is powered using excess energy from the photovoltaic array at our offices in Century City. This project aims to reduce electricity consumption by about 52 166 kWh per month with an annual cost saving of approximately R890 000.
- Our hybrid power systems, which combine diesel generators with batteries for greater fuel efficiency, use smart controls to cut diesel use by up to 70% at sites that depend on diesel generators for primary or back-up power in areas with limited access to reliable grid electricity.
- Our network team is planning to implement free cooling at approximately 1 000 sites, which substantially reduces the energy consumed by air conditioners.
- The number of solar sites in Lesotho stands at 53 – approximately 21% of the total network. These sites are in remote locations with no access to grid power.

SMALL THINGS

SIMPLE CHANGES FOR BETTER BUSINESS

LOOKING FORWARD

We aim to keep cost growth below revenue growth by continually looking for opportunities to simplify our process, partner with Vodafone and make structural changes to achieve savings across all expense lines, no matter how small.