## Drive efficiency and reduce costs

Lower MTRs in South Africa meant a loss of R519 million in EBITDA for the year. To some extent a lower licence fee offset the loss, although this benefit had already been accounted for last year. So we needed to save some R500 million in costs to ease the impact of the lost earnings.

**[ We launched a cost efficiency programme focused on our four key cost categories. We were pleased with the results and reached our target. ]**

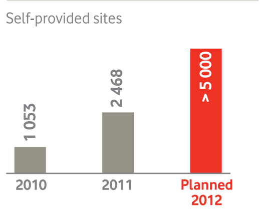
More than two-thirds of our total operating expenses of R40 638 million (excluding depreciation, amortisation and impairment losses) are direct expenses, so most of the savings we made were in this category.

The table below discusses our cost-efficiency actions in each of the four areas and plots our performance in each case.

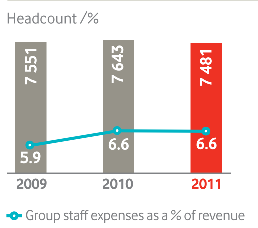
| | Background and objective | Delivery on objective |
|---|---|---|
| 1 | We aim to steadily improve our contribution margin. Our direct expenses are all variable such as customer acquisition and distribution expenses and regulatory fees. They also include interconnect expenses of R6 072 million (2010: R6 929 million). | Group direct expenses, excluding the impact of MTRs in South Africa, were up 6.7%. The Group contribution margin increased slightly to 54.9% while South Africa improved its contribution margin from 55.0% to 56.5% due to lower net contribution from interconnection and reduced customer and distribution expenses. |
| 2 | We aimed to contain other operating cost growth below revenue growth. Our other operating expenses are mainly the costs for running our network and buildings such as site rentals, maintenance, electricity and transmission. Although our total number of sites increased by 7.6%, we looked at ways to bring down average site costs. | Group other operating expenses went up 11.0%(*) to R6 928 million which was faster than revenue growth mainly due to Gateway. Cost savings came from ongoing plans to provide our own transmission, although not to the extent we'd hoped. Transmission expenses growth remained high because of the strong growth in data traffic. |
| 3 | We aimed to keep our headcount stable, except where we needed to invest in resourcing growth areas like Vodacom Business and Vodacom M-Pesa. | We brought down our headcount from 7 643 to 7 481. This was from natural attrition and outsourcing some activities, like network management in Tanzania. Group staff expenses remained stable at 6.6% of revenue. This was a good result given wage inflation. |
| 4 | We set a target of reducing our publicity expenses as a percentage of revenue. Our publicity expenses include sponsorships and advertising. We also aimed to rebalance our spending away from sponsorships to raising awareness of our different value promotions. | On the face of it, our publicity expenses as a percentage of revenue went up from 3.2% to 3.4%. But if the once-off brand refresh expenses are excluded we achieved our objective of slightly reducing publicity expenses as a percentage of revenue from 3.2% to 3.0%, mainly by reducing some sponsorship properties. |

1 **Improved contribution margin**


2 **Network savings delayed**




3 **Group headcount reduced**




4 **Reduced sponsorship exposure**