BLUE LABEL TELECOMS

CONTINUING THE JOURNEY

Integrated Annual Report **2011**

Contents

Approach to sustainable development

Blue Label's primary focus is on delivering goods and services to unbanked and underbanked persons in communities which have previously been ignored or underserviced. The company recognises that the well-being of these communities has an impact on the sustainability of the company, and therefore attempts to manage its business practices in a manner which positively impacts their economic, social and environmental lives.

The group's business model is sustained by extending its existing global footprint of touch points, both organically and acquisitively. The group continues to fulfil the significant demand for the delivery of prepaid products and services through multiple distribution bases utilising its proprietary AEON platform. Key to the sustainability, is the focus placed on governance, social, financial and environmental imperatives. Blue Label Telecoms is proud of its inclusion in the 2010 JSE's Socially Responsible Investment ("SRI") Index. The company has participated in the 2011 SRI Index review, the outcome of which is expected in due course.

The gap analysis of Blue Label's current sustainable development practices, taking into account the Global Reporting Initiative G3 Reporting Guidelines and the King III recommendations, was completed during the financial year under review. The findings provided a high level roadmap to assist in formulating and implementing a sustainable development strategy.

Blue Label has taken the principles of AA1000APS (2008), being inclusivity, materiality and responsiveness, into account in preparing this Integrated Annual Report.

While Blue Label has mapped its stakeholders and identified their issues in particular its relationship with its employees, customers, business partners and suppliers which are governed by more formal processes than some other stakeholder groupings and the level of inclusivity with these stakeholders is correspondingly more integrated into the group's strategic thinking (refer to the stakeholder table on page 66).

In order to determine what is material to Blue Label – both from a risk and opportunities perspective – the company has a formalised group-wide "top down" and "bottom up" risk

management process that involves operational, financial and strategic aspects. Although greater focus is needed in terms of our sustainability matters, we believe that we are currently addressing the most material issues (refer to the material impacts and risks on page 60).

Blue Label continues to develop its sustainable development policies and processes including stakeholder management to ensure our reporting matures and become more measurable and geographically inclusive over time.

Report scope and reporting standards

This integrated annual report contains a sustainability section, which should be read in conjunction with the integrated information throughout the report. This includes information on the group profile and global footprint, governance and risk management approaches, as well as the economic, social and environmental performance for the financial year ended 31 May 2011.

This document is aligned with the GRI guidelines on sustainability reporting, to an application level of C+ as assured by PricewaterhouseCoopers Inc. The GRI Index is available at www.bluelabeltelecoms.co.za or on request at info@blts.co.za.

This report covers information on the activities and initiatives of the South African operations of the group. There have been no restatements of sustainability information when compared to the 2010 annual report.

Corporate profile

Blue Label Telecoms enables unbanked and underbanked consumers in emerging and developing markets to access first-world products and services, conveniently and cost effectively.

The vast majority of the world's emerging market population are either unbanked or underbanked, yet a large number of products and services are only available to people with bank accounts, credit cards or debit cards. Even though consumers may be unbanked or underbanked, they have access to cash and are increasingly demanding equal access to first-world products and services. The key to enabling access to these products and services to the unbanked or underbanked is to make them available on a prepaid or pay-as-you-go basis. This method of distribution is growing rapidly in emerging and developing economies and is the cornerstone of Blue Label's business.

In 2001, when Blue Label commenced operations, "prepaid" was synonymous with airtime. The group recognised the opportunity to grow the prepaid product and service concept from airtime to other offerings, including but not limited to electricity, ticketing, insurance as well as other transactional services.

The group develops proprietary technology to support the rollout of its bouquet of products and services. The Blue Label network was built around the premise that any product or service that can be digitised, can be distributed and paid for through its footprint.

Blue Label has established a distribution network for processing transactions through various points-of-presence including individual merchants, single entity retail outlets, national chain stores and petroleum forecourts in South Africa and beyond.

Blue Label aims to extend its global footprint of touch points, both organically and acquisitively, by continuing to fulfil the significant demand for the delivery of a multiplicity of prepaid products and services through multiple distribution bases utilising its various proprietary delivery mechanisms.

Blue Label Telecoms is:

- **The owner of scalable and transferable proprietary technology**
- **An unaffiliated distributor of products and services in an open loop**
  - **Hardware agnostic**
  - **Product and services agnostic**
- **A payment facilitator**
- **A virtual mall prevents overstocking, pilferage and has no perishables**
- So long as you are able to pay, you are able to purchase: all payment options, including cash, debit card, credit card and EFT can be accommodated

For more information visit our website: **www.bluelabeltelecoms.com**

Blue Label is a South African-based lifestyle enabler. We provide consumers with additional choice of how to pay for goods and services – prepay or as it is sometimes described, pay-as-you-go. This enables unbanked or underbanked consumers to access goods and services by prepaying for them. Our growing distribution network in South Africa covers over 140 000 points of sale from major retail stores to registered individuals and we continue to expand our footprint across the emerging markets of India and Mexico.

Vision, mission and values

Vision statement

To become the leading global distributor of secure electronic tokens of value and other transactional services within emerging markets.

Mission statement

To provide world-class product and service offerings to consumers within the middle and lower tiers of the world's economic pyramid. We aim to achieve this through the development and acquisition of cutting-edge technologies, the expansion of our global footprint of touch points and adherence to our core values.

Our values

Enduring relationships

- Partnering with key stakeholders to ensure sustainability
- Skills retention through self-empowerment, incentivisation and creating a sense of ownership

Entrepreneurship

- Identifying new opportunities and converting them to profit centres
- Encouraging entrepreneurial thinking and rewarding innovation
- Encouraging a culture where excellence as opposed to position triumphs

Innovation

- Encouraging lateral thinking to achieve proprietary technology and commercialisation
- Not allowing comfort zones to hamper progress
- Not resting on laurels

Integrity

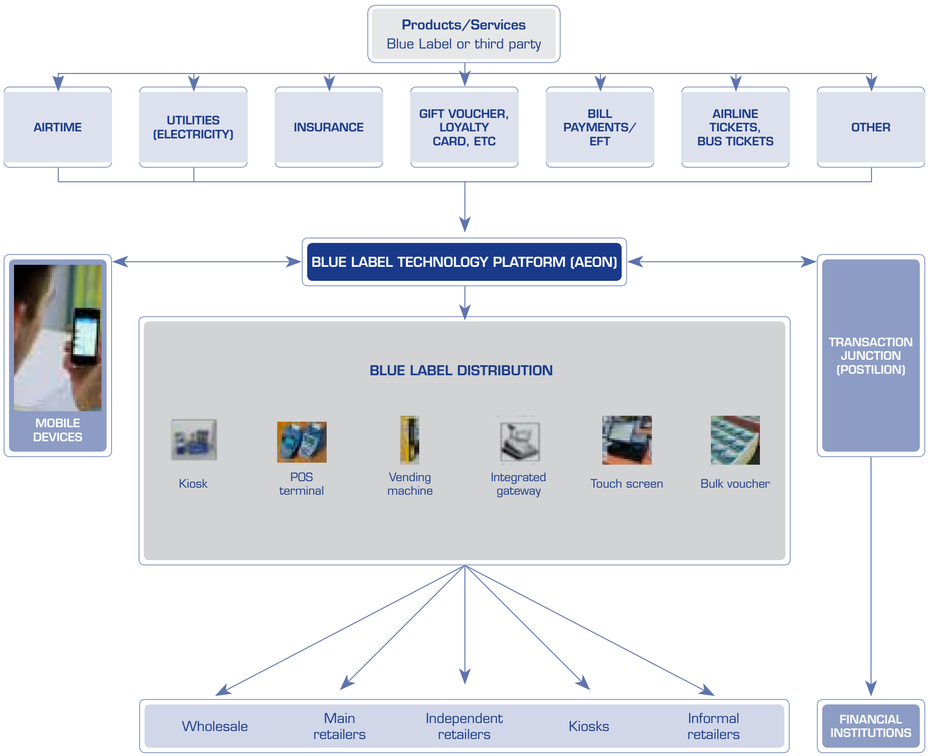
- Ethical business practices
- Sound governance
- Strict compliance with legal and regulatory obligations
- Respect for the interest of all stakeholders, including shareholders, customers, suppliers and employees
- Making a contribution to the betterment of society as a responsible corporate citizen, including commitment to transformation and socio-economic and environmental imperatives

Highlights, technical overview and strategy

Salient features for year ended 31 May 2011

- Revenue up **13% to R18 billion**
- South African Distribution revenue up **15%**
- Stand-out performance from **prepaid electricity up 79%**
- Rationalisation of operations in South Africa under Blue Label Distribution
- International strategy refocused:
  - Commitment to sell assets and liabilities in **Nigeria**,
  - Strategic partnership announced in **Mexico**, and
  - Shareholding increased in **India**, post year end
- Dividend of **14 cents per share** declared up 17%

A technical overview



Strategy to creating value

Opportunity

> Prepaid provides certainty
> Prepaid is an alternative payment method
> Airtime builds the highway
> Growing demand in SA: electricity, money transfers, data delivery
> Robust cash flows fund growth
> India and Mexico

Delivery

> Robust, scalable and proprietary technology
> Ensure right skills and talent
> Minimum capital expenditure
> Minimum cost to delivery
> Sustainable
> Unleveraged balance sheet
> Build network distribution and introduce products
> Grow product-lines and consumer-base

Value added

> Points of Presence: over 140 000 in South Africa
> Organic growth
> Mergers and acquisitions
> Dividend yielding
> Large, fast-growing markets with low penetration

Ethical business conduct supports our values

BLOW THE WHISTLE ON FRAUD, CORRUPTION AND UNETHICAL BEHAVIOUR!

Blue Label Telecoms have decided to introduce an independent hotline facility where employees can report any form of unethical practice, including sexual harassment and racial discrimination, in an anonymous and secure manner.

This hotline is run by the KPMG call centre that is completely confidential and anonymous. The number is 0800 22 10 20 and is toll free.

The call centre is manned on a 24-hour basis and calls are free. Employees who are afraid to be overheard using telephones in the office, can call from home after hours.

To contact KPMG Ethics Line, please follow the steps as set out below:

To contact KPMG Ethics Line, please follow the steps as set out below:

1. Dial 0800 22 10 20 toll free from any Telkom telephone
2. You may remain anonymous. Provide full detail in respect of the fraudulent, corrupt or unethical practice to the call operator. Such details may include:
   - Who is involved or doing what?
   - What has happened?
   - How is it done and how often is it done?
   - Where is it done – exact location or place?
   - When was the incident observed, dates and times
   - Value involved – estimated monetary value?
3. You will be given a reference number. Keep this confidential as you will need this number if you make a follow up call (call at a later date to add additional information to the original report) or feedback call (call at a later date to request feedback on the original call).

Blue Label Telecoms is appealing to you to utilise the toll-free number to report any incidents of fraud, corruption or unethical practices. Do not be a silent observer of practices that erode the very values we wish to uphold.

Blow the whistle on fraud, corruption and unethical behaviour Just call our confidential hotline 0800 22 10 20 toll-free

Alternatively you can:

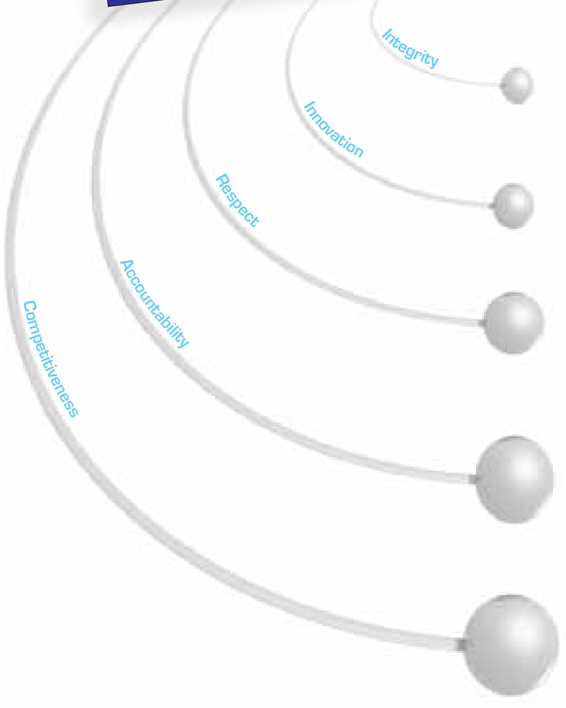
- Fax your information to 0800 200 796
- Post your information free-of-charge to KPMG Ethics Line at the following address:

  KPMG Hotpost, BNT371, P O Box 14671, Sinoville, 0129 or
- Send an e-mail to fraud@kpmg.co.za

BLUE LABEL TELECOMS

Ethical leadership and business conduct is more fully discussed in the corporate governance report on pages 39 to 40.

BLUE LABEL TELECOMS



Integrity

- We are honest and trustworthy in all our dealings with all of our employees, customers, business partners, suppliers, competitors, and other stakeholders.
- We adhere to business practices and all laws and regulations governing our business.

Innovation

- We work creatively to develop new ways to provide value to our customers.
- We drive our innovation by understanding our market's needs, and we are the first to deliver against those needs.
- We create new markets with unique technologies and solutions.

Respect

- We value people's differences.
- We value diverse opinions.
- We treat stakeholders fairly with respect and dignity.
- We do not discriminate on the basis of race, religion, gender or sexual orientation.

Accountability

- We admit mistakes, learn from them and ask for help.
- We take ownership and responsibility for our actions and performance.
- We take initiative to make a difference and to help.
- We focus on results.
- We recognise and celebrate our success.

Competitiveness

- We are determined in our pursuit of success.
- We strive to be leaders in the markets we serve.
- We are committed to ensuring that we have the best people, technology, quality, service and market knowledge.
- We act with a sense of urgency, and we strive for excellence in everything we do.

Operating structure

Blue Label South Africa
- Blue Label Distribution
- The Prepaid Company
  - Crown Cellular
  - Bela Phone Company (51%)
- Ventury
  - Cigi Cell
- The Post Paid Company (75%)

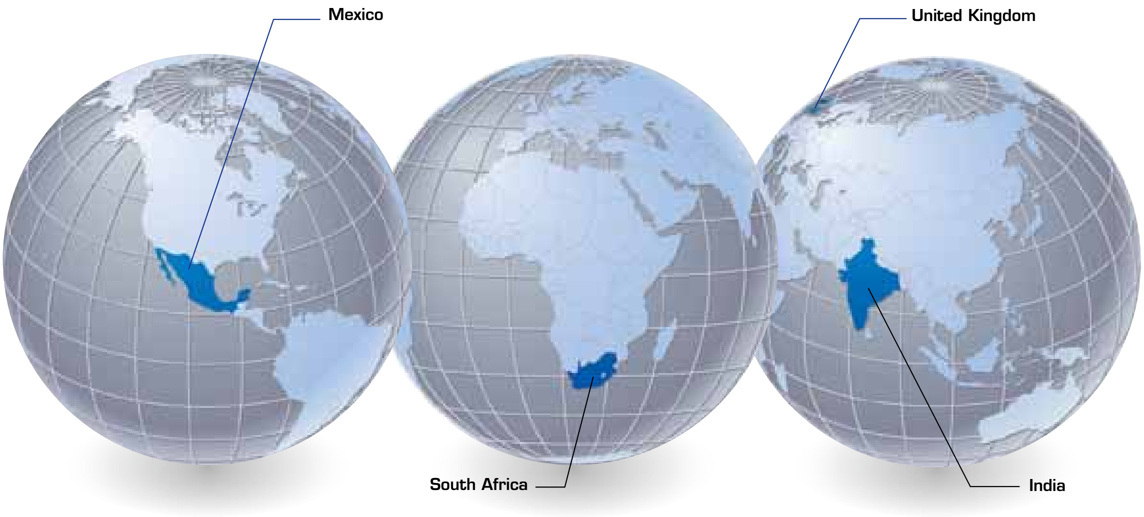
Blue Label International
- African Prepaid Services (72%)
  - APS Nigeria (51%)
- Gold Label Investments
  - Oxigen Services India (37.22%)
  - Ukash (15.75%)
- SharedPhone International (50.1%)
- Blue Label Mexico (40%)

Blue Label Mobile
- Cellfind
- Content Connect Africa
- Blue Label One

Blue Label Technology
- Activi Technology Services
  - Activi
  - Transaction Junction (60%)

Blue Label Solutions
- Datacel
  - Velociti
  - CNS Call Centre
  - Blue Label Data Solutions (81%)
    - Datacision (50%)

100% unless otherwise stated.
As at 31 May 2011



Milestones

2001 June

BLI founded by brothers Mark and Brett Levy after primary investment vehicle, TPC, acquires a national licence to distribute prepaid airtime for Telkom

TPC acquires a range of strategic businesses aligned to the telecommunications industry, resulting in growth of market share

2003 June

Acquires initial equity stake in Oxigen Services India

2003 August

Acquires equity stake in Cellfind

2004 October

Acquires interest in Ventury

Acquires stake in Kwikpay SA

2004 December

Acquires equity stake in Africa Prepaid Services

2005 February

Acquires indirect interest in Datacel

2005 May

Acquires equity stake in SharedPhone International

Nthwese Investment Holdings Consortium (Pty) Ltd, a BEE consortium, together with the Public Investment Corporation acquires 33.33% stake in BLI

2006 March

Acquires equity stake in Virtual Voucher

2006 May

Acquires interest in Matragon

2007 April

Acquires equity stake in Activi Technology Services

2007 November

Blue Label lists in the Telecommunications sector on the main board of the JSE Limited

2007 November

Prior to listing, Blue Label restructures, acquiring the majority of its minority shareholders' interests

Microsoft acquires 12% equity stake in Blue Label

2009 May

Commences operations in Nigeria

2008 January

Acquires Content Connect Africa

2008 March

Acquires Crown Cellular

2010 August

Maiden dividend of 12 cents per share approved

2011 June

Celebrates 10 years in business

Termination of business activities in Nigeria

Increases equity stake in Oxigen Services India

2008 April

Acquires remaining minority interest in Ventury

2008 June

Increases equity stake in Oxigen Services India

Establishes Blue Label Mexico

2011 August

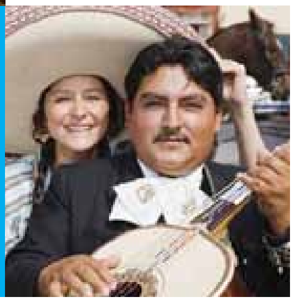
Dividend No. 2 of 14 cents per share approved

2008 September

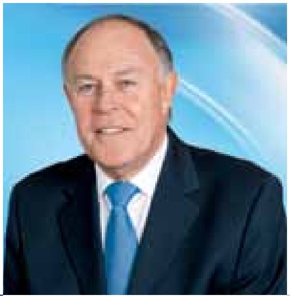
Acquires equity stake in Ukash

2011 February

Dilution of 30% in Blue Label Mexico to 40% shareholding



Board of directors



< Laurence Nestadt

Independent non-executive chairman

Brett Levy >

Joint chief executive officer

< Mark Levy

Joint chief executive officer

< Mark Pamensky

Chief operating officer

< David Rivkind

Financial director

Laurence (Larry) Nestadt

Independent non-executive chairman

Born: 1950

Larry has over 40 years experience in his long and successful corporate career, both in South Africa and internationally. Larry is a co-founder and former executive director of Investec Bank Limited. He assisted in the creation and strategic development of a number of listed companies such as Capital Alliance Holdings Limited, Super Group Limited, Hosken Consolidated Investments Limited, SIB Holdings Limited and Global Capital Limited. He is the past chairman on each of the boards of these companies.

Larry has also served on the board of directors of Softline Limited, JCI Limited and Abacus Technologies Holdings Limited. He was a former director of a number of non-listed companies, internationally and locally; viz, Stenham Limited (UK) and Prefsure Life Limited (Aus). Currently, Larry is the executive chairman of Global Capital (Proprietary) Limited as well as chairman of the Pro Shop Group, Melrose Nissan-Renault, SellDirect Marketing (Proprietary) Limited and Placo Holdings (Proprietary) Limited.

Larry is a respected senior member of the South African business community and his strategic vision, guidance and experience contribute significantly to the board and its deliberations.

Brett Levy

Joint chief executive officer

Born: 1975

Brett has an impressive entrepreneurial history having founded and operated a number of small businesses from the early 1990s. Brett has been involved in a wide range of industries, including the distribution of fast-moving consumer goods and insurance replacements for electronic goods. His business achievements have secured a number of prestigious nominations and awards, including the ABSA Bank Jewish Entrepreneur of the Year Award (2003) and the ABSA Jewish Business Achiever Non-Listed Company Award (2007), which he won jointly with his brother Mark. Brett was nominated as an Ernst & Young World Entrepreneur SA Finalist for 2007. In 2010 Brett received the Liberty Life Award for a Remarkable Success Story in the David Awards and was a finalist in the Top Young Entrepreneur category of the African Access National Business Awards. In these awards in 2011 he shared the Top Entrepreneur Award with his brother Mark.

BOARD COMMITTEE MEMBERSHIP:
Executive Committee: Member
Audit, Risk and Compliance Committee: Attendee
Investment Committee: Member
Transformation Committee: Member

Mark Levy

Joint chief executive officer

BCompt (UNISA)

Born: 1971

Mark graduated with a BCompt degree from UNISA in 1993. After a period as a commodity trader, Mark decided to pursue his goal of becoming an entrepreneur and has spent the past several years spearheading Blue Label's impressive growth and international expansion. Together with his brother Brett, Mark won the ABSA Jewish Business Achiever Non-Listed Company Award (2007). Mark was nominated as an Ernst & Young World Entrepreneur SA Finalist for 2007. In 2010 Mark was voted Top IT Personality of the year by ITWeb and was a finalist in the Top Young Entrepreneur category of the African Access National Business Awards. In these awards in 2011 he shared the Top Entrepreneur Award with his brother Brett.

BOARD COMMITTEE MEMBERSHIP:
Executive Committee: Member
Audit, Risk and Compliance Committee: Attendee
Investment Committee: Member

Mark Pamensky

Chief operating officer

BCom (Wits), BCompt (Hons) (UNISA), CA(SA)

Born: 1972

Mark completed his articles with PricewaterhouseCoopers Inc. before moving to the corporate finance department of Mercantile Bank. In 1999 he joined the boutique corporate advisory firm, Nucleus Corporate Finance, before joining Blue Label in 2001. Mark has played an integral role in the strategic and operational management of the group and much of its expanding telecommunications footprint can be attributed to his leadership. Mark is a member of the South African Institute of Chartered Accountants (SAICA) and the Young Presidents Organisation (YPO).

BOARD COMMITTEE MEMBERSHIP:
Executive Committee: Member
Investment Committee: Member

David Rivkind

Financial director

BAcc (UNISA), CA(SA)

Born: 1972

David completed articles at Papilsky Hurwitz and in 1999 joined Merrill Lynch International (UK) as financial controller. David was employed by Credit Suisse for a brief period before returning to South Africa in 2002 to take up the role of financial director at Integr8IT (Proprietary) Limited. Previously as chief financial officer and now financial director for Blue Label he contributes significantly to the governance and reporting systems supporting the group's growth. David is a member of SAICA.

BOARD COMMITTEE MEMBERSHIP:
Executive Committee: Member
Audit, Risk and Compliance Committee: Attendee
Investment Committee: Member
Transformation Committee: Alternate member to B Levy

Board of directors continued

Kevin Ellerine

Non-executive director

National diploma in Company Administration

Born: 1968

Kevin joined the family business, Ellerine Holdings, in January 1991 as merchandise manager. In 1993 he became property manager of Ellerine Bros. (Proprietary) Limited, and was appointed managing director of the property division in 2000, a position he still holds today. He sits on the boards of the property and private equity companies in which Ellerine Bros. is invested. Kevin's all-round business skill and acumen contribute to board and committee deliberations of the group.

BOARD COMMITTEE MEMBERSHIP:
Remuneration and Nomination Committee: Member
Transformation Committee: Member

Gary Harlow

Independent non-executive director

BBusSci (Hons) (UCT), FCMA, CA(SA)

Born: 1957

Gary graduated from the University of Cape Town in 1979, later qualifying as a Chartered Accountant (SA) in 1982, an Associate of the Chartered Institute of Management Accountants (UK) in 1983 and as a Fellow Chartered Management Accountant (UK) in 1996. He forged his early career in merchant banking and was also an adviser to the finance department of the African National Congress in the early 1990s regarding developing a BEE policy. In 1992, he played an instrumental role in the creation of Thebe Investment Corporation and also served as Joint Chief Executive Officer of Msele Corporate and Merchant Bank, South Africa's first black-controlled merchant bank.

Gary was appointed group chief executive officer of Unihold Limited in 1996, where he led its transformation from an engineering conglomerate to an international IT and telecommunications group, prior to its delisting through a management buy-out. He remains executive chairman today. Gary has served on numerous private and public company boards. He is presently an independent non-executive director of Mveloserve Limited, chairman of their audit and risk committee and member of their remuneration, investment and transformation committees.

BOARD COMMITTEE MEMBERSHIP:
Audit, Risk and Compliance Committee: Member
Remuneration and Nomination Committee: Member
Investment Committee: Chairman
Transformation Committee: Chairman

Joe Mthimunye

Independent non-executive director

BCompt Hons/CTA (UNISA), CA(SA)

Born: 1965

Joe Mthimunye qualified as a Chartered Accountant in 1993. In 1996, he co-founded Gobodo Incorporated, an accounting practice with eight other partners which in time became the biggest black accounting firm in South Africa. In 1999, he led a management buy-out of Gobodo Corporate Finance from the accounting firm and re-branded it as AloeCap (Proprietary) Limited. He is currently executive chairman of AloeCap. He also serves on the board of directors of Invicta Limited and all the non-listed companies in which AloeCap Private Equity is invested.

BOARD COMMITTEE MEMBERSHIP:
Audit, Risk and Compliance Committee: Chairman
Investment Committee: Member

Lucy Tyalimpi

Independent non-executive director

BCom (Hons) (UNISA), MBL (UNISA), Diploma in Investment and Portfolio Management

Resigned
30 August 2011

Neil Lazarus SC

Non-executive director

BA LLB (Wits)

Born: 1958

Neil graduated from the University of the Witwatersrand in 1981 with a BA LLB degree. After completing articles, he was admitted as an attorney in 1983. He was admitted as an advocate in 1984 and practised at the Johannesburg bar. He was appointed as senior counsel by President Mandela in 1998. He also served as an acting judge. As an advocate, Neil specialises in corporate restructures, mergers and acquisitions and has been involved in some major corporate reorganisations both locally and internationally. Upon leaving the profession in 2000 he became a director of Corpcapital Limited, establishing its corporate finance business. Neil discharges both corporate finance and legal mandates for a number of local and international companies.

BOARD COMMITTEE MEMBERSHIP:
Audit, Risk and Compliance Committee: Member
Remuneration and Nomination Committee: Chairman
Investment Committee: Member

Mteto Nyati

Non-executive director

BSc University of Natal

Resigned
5 October 2011

< **Kevin Ellerine**

Non-executive director

Gary Harlow >

Independent
non-executive director

Joe Mthimunye >

Independent
non-executive director

Lucy Tyalimpi >

Independent
non-executive director

< **Neil Lazarus SC**

Non-executive director

< **Mteto Nyati**

Non-executive director

Senior management

Angelo Roussos
Group chief information officer
BSc (Lab. Med.), MBBCh (Wits)

Bradley Turkington
Chief sales officer – South African Distribution
BSocSci (Finance Hons) (Natal)

David Fraser
Group chief technology officer
BSc (Eng), MSc (Eng), PhD (Natal), CEng (UK), MIET (UK), MIEEE (USA), MSAIEE (SA), MSPE

Dean Suntup
Financial director – The Prepaid Company
BCom (Wits) Hons (UNISA), CA(SA)

Jimmy van der Merwe
Financial director – Blue Label Distribution
BCom Hons (UP), CA(SA)

< Niel Barnard

Chief executive officer –
Blue Label Mobile

BSc (Information Technology), MSc (Programme Management), MCSE

Larry Pogir >

Executive chairman –
Blue Label Data Solutions

BCom

John Hawthorne >

Chief executive officer – Velociti

BA Communication

BA Liberal Arts (Both Virginia Polytechnic Institute and State University)

Tanya Grota >

Chief technical adviser –
Group Finance

BCom (Hons) Wits, CA(SA)

< Ingrid Hindley

Group head of human resources

BSocSci Honours (Industrial Psychology) Natal

< Werner Barnard

Chief operating officer –
Blue Label Distribution

*BCom (Hons) –
Port Elizabeth*

(Finance) – University of Natal

Chairman's report

Larry Nestadt, chairman

The group returned a credible financial performance for the year ended 31 May 2011. Revenue increased by 13% to R18 billion, contributing to an EBITDA increase of 5% to R598 million.

In February 2011, in a strategic initiative, 40% of Blue Label Mexico was acquired by Grupo Bimbo by way of a fresh issue of shares for $20 million equating to an enterprise value of $50 million. This had the effect of diluting Blue Label's shareholding from 70% to 40%, resulting in a fair value gain of R146 million. This gain was offset by impairments to assets totalling R64 million in Africa Prepaid Services Nigeria (APSN), Africa Prepaid Services SA, Sharedphone International, Blue Label Distribution, Content Connect Africa and Blue Label One. The resultant net extraneous income of R82 million contributed to growth in core earnings of 15%. However, on reversal of the extraneous contributions, headline earnings declined by 4%. The primary cause of the decline in headline earnings was directly attributable to the deterioration in the financial performance of APSN, due to the failure by Multi-Links to perform its obligations in terms of the distribution agreement and consequent cancellation thereof resulting from its repudiation of such obligations.

Blue Label's strategy of distributing electronic tokens of value in emerging markets, continues to deliver growth through bases, principally in South Africa, India, Mexico and the United Kingdom. In June 2011, Blue Label took the strategic decision to refocus its investments and resources in these four regions, capitalising on the opportunity to increase its effective shareholding in Oxigen Services India to over 50% subsequent to year end.

From modest beginnings just over 10 years ago as a physical voucher distribution Telco, the journey continues as the company evolves into a virtual distributor of goods and services, using telephony infrastructure as the enabler.

THE CONVERGENCE OF EMERGING WORLDS AND GENERATION C

Since mobile banking first appeared in the Philippines in 2001, mobile network operators across the world are increasingly becoming retail bankers to the emerging world#. Unbanked and underbanked populations now have access to basic banking services.

By contrast, we note the Rise of Generation C* – those born after 1990; they are connected, communicating, content-centric, computerised, community oriented and always clicking. By 2020 Generation C will comprise some 40% of the total population in the US, Europe and BRICS countries, constituting the single largest bloc of consumers. They are the first generation whose lives are defined and enabled by the Internet, mobile devices and social networking.

Blue Label converges these two worlds, the underbanked and Generation C, using its proprietary technology, the AEON distribution platform, and thereby becomes a 'lifestyle enabler'.

Generation C increasingly depends on information and communication. The intelligence needed to manage this information load is now moving into the online cloud, as Generation C converges its digital life using cloud storage systems. Blue Label's products and service offerings align well to these developments: an unaffiliated distributor of goods and services in an open loop.

GROUP PERFORMANCE

In assessing performance over the past year, it is pleasing that the group's strategy of diversification by product and geography, has contributed to its resilience. Core earnings of R456 million equated to 15% growth. Headline earnings per share, however, declined by 4% to 46.20 cents, after eliminating the extraneous profit relating to the fair value gain in Blue Label Mexico, offset by impairments to assets.

The group's strong cash-generating capability and healthy cash reserves encouraged management to negotiate early settlement discounts and bulk stock purchases in order to maximise returns on cash, given the present low interest rate environment. The group's Treasury management has been both disciplined and focused on optimising favourable market opportunities. Cash generated from operations was R566 million and cash resources totalled R2.2 billion at year end.

DIVIDEND

On 23 August 2011, the board approved dividend no. 2 of 14 cents per share in respect of the year ended 31 May 2011. Dividend policy is to consider paying an annual dividend after taking into account cash flow requirements for working capital, capital expenditure, share buy-backs and acquisitions, while maintaining a dividend cover of three to four times on headline earnings per share. This equates to a pay-out ratio of 25% to 33.3% of headline earnings.

 # from Mobile banking in the Emerging World – Kevin O'Brien
** from The Rise of Generation C – Friedrich, Petersen, Koster and Blum*

CORPORATE GOVERNANCE

The board has acknowledged that King III requires more onerous governance than its predecessor code and is committed to ensuring application, as appropriate, over time. Last year I referred to an assessment to be conducted on Blue Label's adherence and readiness to adopt King III. I can now report that the recommendations, including a corporate roadmap, have been accepted and implementation across the group is well underway.

FROM SUSTAINABILITY TO INTEGRATED REPORTING

This is our first Integrated Report based on the recommendations of King III. Blue Label welcomes the King III shift from financial and sustainability to integrated reporting and recognises that the journey may take a number of years, as we co-ordinate and implement operational, environmental, social and governance best practices across the group. Each is an evolving field. We welcome your feedback on this report – any comments can be e-mailed to Elizna Viljoen, Group Company Secretary, at investors@blts.co.za

As the new Companies Act provides for the distribution of a summarised report to shareholders, this is likely to be our last printed integrated annual report to be circulated. In line with the Act and the JSE Listings Requirements we are looking at more cost effective and environmentally friendly ways of producing future summarised reports.

In December 2010 Blue Label was admitted for the first time to the JSE's Socially Responsible Investment Index. We are justifiably proud of this achievement.

We continue to develop and progress transformation and broad-based black economic empowerment (B-BBEE) in respect of our South African businesses. The enterprise development programme, coupled with a corporate social investment initiative spearheaded by the Chairman's Fund, helps uplift the less fortunate in the areas in which Blue Label operates. In the year ended 31 May 2011, the Fund contributed R3.5 million mainly for youth and sport development as well as health awareness.

As a technology driven business, the development, retention and succession planning of skilled and talented people remains a priority. Given the high-tech nature of the business, enhanced attention is placed on IT governance, disaster recovery and business continuity, as IT failure poses a major risk in terms of sustainable development.

In financial sustainability terms, our investment proposition remains our mantra: growing our market share both organically and through acquisitions, diversifying our product and service offerings, maintaining our strong cash-generating capability and focusing on the growth of our footprint in the countries in which we operate. Given that airtime contributes the bulk of total group profit, the board has identified the numerous long-term contracts with the Telco networks and other service providers, as important to the business's sustainability and has ensured that these contracts are in place. Substantiating Blue Label's sustainability, is the fact that its business model has stood the test of time: it was just over ten years ago that the Levy brothers conceptualised and brought to market the distribution of electronic tokens of value – then called "virtual airtime".

DIRECTORATE

At the annual general meeting on 12 October 2010, Microsoft's nominee to the board, Peter Mansour withdrew his eligibility for re-election as a director and as a result Mteto Nyati was nominated by Microsoft and joined the board in his place. However, on 5 October 2011, he tendered his resignation.
On 30 August 2011, Ms Pani Tyalimpi tendered her resignation from the board.

PROSPECTS

The diversity of product and service offerings, combined with the group's ability to drive growth, both organically and through acquisitions, together with our significant distribution footprint, positions Blue Label well to deliver anticipated growth.

PROPOSED SHARE REPURCHASE

On 6 October 2011, we announced a proposed specific repurchase of Blue Label shares from Microsoft Corporation. For more details, please see the circular to shareholders accompanying this Integrated Annual Report.

APPRECIATION

My sincere thanks to my fellow directors for their diligent service over the past year and the value they continue to bring to us. On behalf of the board, I thank joint CEOs, Mark Levy and Brett Levy, their executive and each member of the Blue Label group for their commitment over the past year.

Larry Nestadt
Chairman

Joint chief executive officers' report

Mark and Brett Levy, joint CEOs

When we started this business 10 years ago, based on scratch cards for airtime top-up, we upheld the vision that the world was in need of more prepaid and virtual offerings of products and services.

This could only be achieved by building and rolling out a vast network of various types of points of presence, which would be hardware and product agnostic. Our offering to market provides first-world products to third-world consumers, and allows them to transact in the time and manner that suits them best. This past year, our neutral purse became a reality, offering financial inclusion to the country's millions of unbanked and underbanked consumers. The practical implementation of our 'virtual vision' is now part of everyday life.

GROUP PERFORMANCE

The growing diversity of the group's products and services in the South African distribution segment, combined with consolidating and increasing the rollout of the International distribution segment footprint in India and Mexico, remain key to growth. This year, revenue increased by 13% to reach R18 billion.

This was achieved through a strong revenue increase of 15% in the South African distribution segment, which included growth in electricity commissions received of 79%.

Core net profit for the group increased by 15% to R456 million, equating to core earnings per share of 60.34 cents. Although gross profit margins in the South Africa distribution segment declined from 5.58% to 5.19% on an annual comparative basis, the current melded margins have been consistent for the past 18 months.

It is pleasing to note that efficiencies and cost containment programmes, mostly in the restructured South African segment, reduced overhead costs year on year by 2%. The positive impact of these achievements is expected to be carried into the next financial year.

Aligned with the consolidation in the International distribution segment, redeployment of resources continues into our faster growing regions where value can be derived more rapidly. This is already evident in Mexico, where the recently announced issue of shares in Blue Label Mexico to Grupo Bimbo combined with a distribution agreement, should result in an acceleration of footprint in that region.

In South Africa, the Regulation of Interception of Communications and Provision of Communication-Related Information Act (RICA) required the registration of all new mobile phone starter pack activations and all existing active users, which would ultimately result in a decline in churn by subscribers. The implementation of RICA initially inhibited volume growth, but as a result of commissioning practical registration capabilities, activations of starter packs have returned to levels achieved prior to the implementation of RICA.

Positive cash flow generation from trading activities and the accumulation of cash resources to over R2.2 billion, positions the group well to continue capitalising on early settlement discount opportunities as well as pursuing possible acquisitions.

NEW PRODUCT DEVELOPMENT

Investment in research and development continues to be an essential tool for delivering the strategy of growing our suite of products and services through the group's established footprint. It is fundamental for perpetual innovation to be exploited.

A notable development this year was the introduction of mobile banking in South Africa, notwithstanding the highly regulated banking environment. Blue Label's strategy is to be the neutral aggregator or back office switch to any organisation, not only banks, requiring such a service offering. To this end, agreements were concluded, in support of which we established our in-house infrastructure with dedicated sales and operations teams. Mobile banking has a strong track record in emerging and frontier markets and is particularly efficient, and therefore popular, among migrant and contract workers for remitting money to their traditional homes.

INTEGRATED AND SUSTAINABILITY REPORTING

We run our business mindful of its impact on economic, social and environmental factors. We remain committed to open and transparent dialogue with stakeholders, as reported in the engagement matrix on page 66 of this report.

In our transition to integrated reporting we have commissioned PricewaterhouseCoopers Inc to provide assurance over certain aspects of our 2011 sustainability report. The assurance report, including the scope of assurance, and the Global Reporting Initiative assessment, to an application level of C+, is included on page 80 of this report.

One of the areas in our sector that is not well understood is the relationship and the revenue structures with the major networks. Aside from the contractual rights we have secured, we continue to believe networks would rather link into Blue Label's ever-expanding points of presence, which now exceed 140 000 across South Africa, some 80% of which are outside the traditional or formal retail channel. It is beneficial for the networks to utilise the Blue Label distribution channel, than to establish their own independent channel, so as to avoid costs such as capital expenditure, R&D, call centre infrastructure, field support, stock provisioning to customers, new product and services development and the like – and that would only be for airtime. Even though each of the main networks increased prices to us recently, and a further increase is expected later this calendar year, the price changes have, and will continue to be, passed down the distribution channel. In return, our customers are entitled to expect more 'bang for buck', which we provide with alternative payment options for cash, more value in our product and services offerings, call centre support,and the facilitation of loyalty, coupons and rewards programmes. These are all underpinned by our robust technology and user-friendly reporting platforms.

On the retail side, we have embedded our AEON distribution platform with the major outlets which serve some 20% of our market, by integrating with all network operators and several utility providers. As neutral aggregator, Blue Label, is thus well positioned as distributor of choice between the networks and the major retailers. By providing a single integration for multiple products and services, a retailer receives only one device from Blue Label, which offers all of the above mentioned services.

One of the challenges facing the ICT sector is a shortage of talent and skills. Blue Label is no exception. It is our imperative to identify, retain and attract those who have entrepreneurial and innovative flair, as well as impressive IT skills and experience. For these reasons, talent management and succession planning are taking on new and critical meanings at Blue Label.

We received the Shell Distributor of the Year award in the Value Added Services category, as well as three awards from MTN – for the best Informal Channel, Top Achiever, Airtime, and Distributor of the Year.

PROSPECTS

It is generally believed that the next 18-24 months will be challenging for the Telco industry in South Africa as it grapples with cost containment. This squeeze is ultimately good for the market as it pressurises under-performing and inefficient participants in the Telco chain. We expect to grow our market share and improve margins in the year ahead.

The South African distribution segment is likely to see airtime sales continue to exceed industry growth norms. The non-telephony contribution continues to grow at a fast rate as prepaid electricity meters are rolled out by major municipalities and as contracts are signed with additional electricity providers.

The International distribution segment suffered a serious setback with the disposal of the majority of the assets and liabilities in Nigeria. The refocused segment, principally comprising our equity-accounted interests in India and Mexico, remains core to the delivery of our International strategy to replicate our South African business model in other emerging markets. Blue Label Mexico, recently recapitalised with the entrance of a local strategic shareholder, Grupo Bimbo, is ramping-up its rollout rate of POS devices. Oxigen Services India, with our effective shareholding now increased to over 50% post year end, continues to benefit from its banking relationships, in particular with the State Bank of India, enabling us to accelerate kiosk or no-frills banking, money transfers and money remittances.

We remain well-positioned to consider value accretive strategic acquisitions and organic expansion opportunities aimed at extending our footprint and range of products and services.

APPRECIATION

Our thanks are due to all employees for their effort this year and to the executive team for their dedication, often beyond the call of duty. We are fortunate to have members of the board whose commitment, guidance and leadership have been invaluable to the executive team over the past year. Finally, we would have no business if it was not for our suppliers and customers, whom we once again thank for their loyalty and support.

Mark Levy **Brett Levy**
Joint chief executive officers

Segmental review

South African distribution segment

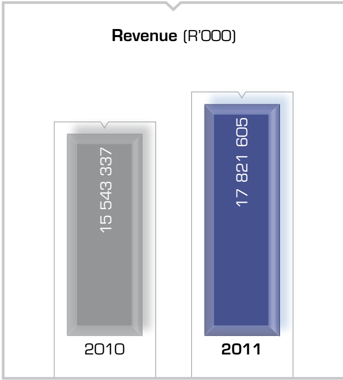
This segment distributes prepaid products and transactional services to the South African wholesale and retail consumer markets. Key products are prepaid airtime and prepaid electricity.

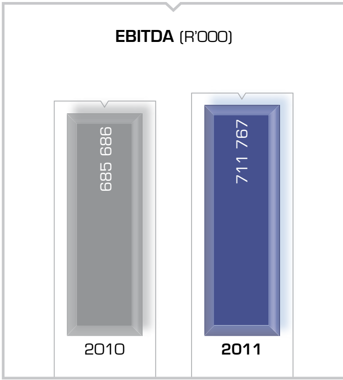
The priorities remain to expand footprint, driven through a co-ordinated approach across numerous subsidiaries and brand names, and to leverage intellectual property and technology platforms to support sustainable growth. The product development team continues to create proprietary e-tokens and distributes third-party tokens of value for the prepaid market.

This year, a greater emphasis was placed on providing more convenience to the customer. As an example, kiosk environments are expected to offer more facilities, with the unmanned self-service model gaining popularity as retailers aim to reduce queues. Touch screen solutions (at manned kiosks) are also in demand, given their greater flexibility over standard POS devices, as they can offer increased processing speed and a greater variety of products and services.

Each company in the segment is responsible for ensuring customer maintenance, site expansion and growth of new products and services. Once again, moving additional products through the retail environment has positively impacted sales. Blue Label is constantly engaged in increasing its channels to market through new retail and corporate relationships.

This year, new branding and a Blu Approved accreditation campaign commenced roll-out across the group. Blu Approved is a neutral aggregator of all Blue Label products and services. It is also the group's visual





representation of its footprint and points of presence. Blu Approved serves as a stamp of approval and authenticity, which acknowledges that Blue Label endorses the products and services offered as well as provides accreditation of the merchant. The brand encourages consumers to use an approved merchant where they can be sure of receiving a full bouquet of prepaid products and services. All Blu Approved merchants are equipped with in-store point-of-sale material and window decals to clearly identify them.

In order to accommodate these shifts in market dynamics, the South African distribution segment was restructured as of 1 June 2010 and now comprises:

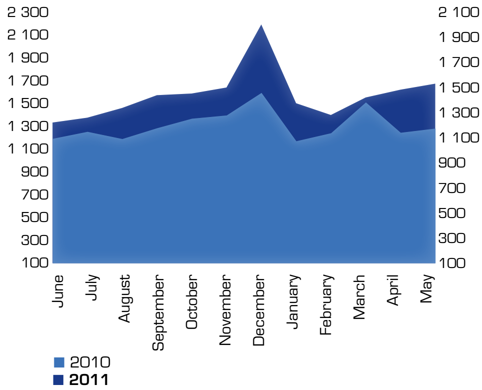
THE PREPAID COMPANY ("TPC")

Established in 2001, TPC was the original company spearheading the group's entry into the prepaid airtime industry. TPC wholesales virtual and physical vouchers to all major chain stores in South Africa. With the introduction of e-tokens, this base was extended to include cash and carry operators and independent retailers.

TPC is the leading distributor of prepaid products for all SA network operators. Distribution of all virtual products and starter packs is facilitated, managed and maintained by proven technology developed in-house, which ensures purchasing efficiency, distribution and inventory control. Relationships with each of the major network operators is key to the success of the business and this year renewed vigour was put into ensuring solid relations are backed up with sound service, including being the preferred technology partner, value added solution provider and product developer. TPC is the major contributor to group revenue and profitability, and undertakes:

> supplier agreements and purchases;
> all wholesale and community sales;
> all sales to Blue Label Distribution;
> all bulk printing sales;
> sales of starter packs, and
> group treasury.

Prepaid airtime – Revenue growth (R'millions)



Revenue comprises sales of physical and virtual prepaid airtime as well as compounded annuity generated from starter packs

THE POST PAID COMPANY ("TPPC")

TPPC was established in 2004 and is 75% owned by Blue Label. It markets Vodacom postpaid cellphone contracts (airtime and handsets) and various insurance related products to customers via outbound call centres, including group owned Velociti, as well as through its own 60 seat call centre in Johannesburg.

BLUE LABEL DISTRIBUTION ("BLD")

During the year BLD consolidated its different business units and customer bases and also built on its technical competencies to increase product offerings. This also created a platform on which to test new ideas and solutions.

In support of BLD's main activities – sales, operations, customer support and technology – independent customers are increasingly demanding additional and complementary services. These new products and services, and improved technology solutions, are significant contributors to current growth. The focus in the year ahead will be to upgrade business tools for improving customer tracking and tracing systems.

BLD accounts for:

- over 10 000 points of presence, comprising either POS terminals, vending machines, touch screens and RICA devices.
- nine sales branches nationally, comprising sales and customer service representatives,
- 24/7 customer call centre – for retailer and UniPIN support.
- field support based at all nine branches.
- airtime and electricity sales.
- expansion in value added services – bill payments, ticketing and payments of fines.

CIGI CELL

Cigi Cell, with its B-BBEE partner, distributes virtual prepaid airtime and electricity through a broad network of channels, primarily through retail outlets and forecourts of the major oil companies. Its market covers approximately 1 700 such outlets. Cigi Cell is the custodian of the group's contracts with various utility suppliers and in turn procures and supplies prepaid electricity on behalf of all companies within the group. Recent contract awards indicate that Cigi Cell is emerging as the market leader in the prepaid electricity field.

CROWN CELLULAR

Crown is a wholesale and retail distributor of physical and virtual prepaid airtime, starter packs and electricity sales in the informal market. It services independent retail stores and a number of stores within stores in the Metro group. These are duly branded "Blu Approved" in alignment with the new branding.

BELA PHONE COMPANY

Bela offers a competitively priced international calling card and is available at several national retailers and throughout most of the independent retail footprint. In May, a further "white labelled" solution was launched with Edcon through its 1 100 stores under their brand "Ring the World". A recent development with Neotel will provide their users with low cost local and international calling rates. This takes the form of a public international payphone as well as a consumer product.

PRODUCT OVERVIEW

Prepaid airtime

Prepaid airtime continues to generate the majority of this segment's profits. Growth in airtime sales were volume related and entirely organic. The business model is based on purchasing airtime with volume discounts from each of the network operators and on-selling at a margin. Long-term and renewable contracts underpin the relationship with each of the networks.

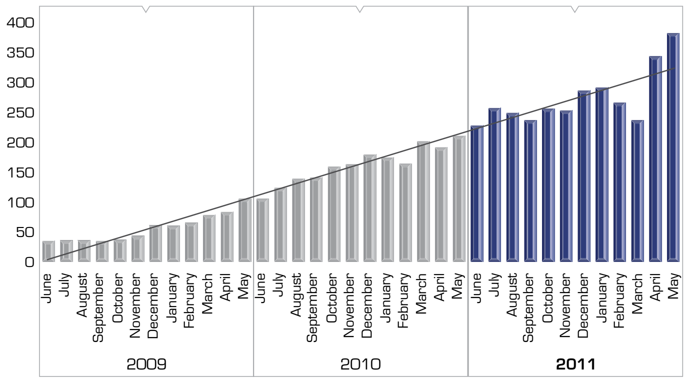
During the year, as was expected, the major networks increased prices, which were absorbed throughout the distribution channel. Customers are, however, expected to look for added value in respect of service, call centre support and facilitation of loyalty, couponing and rewards programmes, each underpinned by a single interface system, robust technology and user friendly reporting platforms. Also this year, agreements were reached with Neotel and 8ta to provide prepaid services on their behalf.

Prepaid electricity

Prepaid electricity commissions received increased by 79% to R61 million from R34 million. This equated to turnover generated on behalf of the utilities of R3.4 billion, up from R1.9 billion in the previous year.

Unlike prepaid airtime, the face value of electricity is not included in the revenue reported, but is confined to the commission earned thereon, which averages approximately 2% on such sales. The group's market share of third party electricity is expected to continue to grow as Eskom, the utility providers and municipalities roll-out increasing numbers of prepaid meters. Through agreements with Eskom and major municipalities, such as Ethekwini, Ekurhuleni, Cape Town and Tshwane, the single most comprehensive prepaid electricity supply pipeline has been created in South Africa, available both on- and off-line through our proprietary UniPIN voucher.

Prepaid electricity: Revenue growth (R'millions)



The group does not account for revenue on face value of electricity but only on commissions received

Segmental review continued

Lotto

A technical support arrangement with Gidani, the licensed operator, enabled integration of their products into on-line banking channels managed by FNB. Blue Label remains committed to growing access points for Lotto, in order to make it even more accessible to end-consumers.

Transport ticketing

Prepaid bus ticketing has been made available to commuters in the Eastern Cape. The model eliminates ticketing fraud and removes the cash receipt function from bus drivers, placing it with vending merchants. This has created a benchmark for discussions with other transport companies for a reload/prepaid ticketing system. The off-site Gautrain Gold Card, available via standard vending machines, continues to gain acceptance, as new sectors on the train's widening network are opened and as consumer up-take of the service grows.

Ukash voucher

This type of prepaid digitalised cash was introduced from the International segment to the South African market, where it sells mainly through Pick n Pay and Shoprite.

Bill payments

Agreement between Spar and third party bill payment facilitators (ie SAPO) allows the consumer to settle utility bills and the like at the retailer's till point. Additional bill payment points are being rolled out through kiosk type environments, as well as through check-out tills and independent retail environments.

NEW PRODUCTS AND SERVICES

Blue Label's entry into financial inclusion markets commenced this year. Following an agreement with Vodacom and Nedbank, outlets for the trade of m-pesa vouchers were established. Uptake has been slower than expected, as educating consumers on mobile banking principles has been a necessary forerunner to the process.

To date, over 300 outlets are active, which represents about 20% of applications received. With an overall market size for m-pesa outlets believed to be between 25 000 to 40 000, registrations are likely to accelerate once electronic record keeping to facilitate FICA requirements and integration to retailer systems are introduced.

Expressions of interest have come from several retailers and financial institutions this year, attracted by the group's ability to provide more than airtime and electricity offerings. Market requirements are now extending to products such as bill payments, event and transport ticketing, payments of fines, financial services including money transfers, integrated recharge (PINless recharge or direct top-up), Electronic Funds Transfers, mobile wallets, mobile couponing and facilitation of loyalty programmes, as well as web-based solutions.

Blue Label's ability to provide an array of products and services through many different customer facing devices, supported by a single integrated back-end, has proven to be a significant differentiator in the market. Over the past year this strength has been enhanced with the introduction of more mobile solutions – for retailers (mobile merchant) and for consumers (mobile wallets). This improving symbiotic working relationship between the SA distribution and Mobile segments has increased the group's overall offering and provided a more comprehensive business solution to retail partners.

International distribution

The strategy of the International distribution segment is to pursue growth opportunities across the group's global footprint by systematically rolling out multi-secure electronic tokens, in replication of the South African distribution segment model.

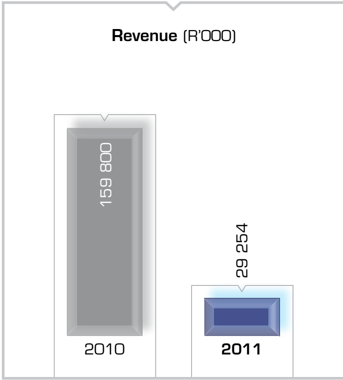
OXIGEN SERVICES INDIA

Oxigen is an electronic distributor of recharge vouchers and prepaid subscriptions for mobile and satellite TV. Other transactions facilitated include prepaid railway, airline and bus ticketing, cellphone vending, financial services through no-frills kiosk banking, as well as bill payments for mobile, landline and utilities. Oxigen is evolving to fulfil its vision of moving from a prepaid recharge platform to becoming a versatile payments' solutions provider, which besides its traditional businesses, will include mobile wallet, international remittances and cash cards.

The company was incorporated in August 2003. For the financial year, Blue Label and Microsoft each held 37.22%, with the remaining 25.56% owned by local management. In June 2011, Microsoft sold its investment in equal share to Blue Label and local management.

During the financial year, the deployment of POS devices and the expanding business correspondent initiatives continued to be the main drivers of the business. Sales revenues for the financial year increased 24% at static gross profit margins of 2.25%.

Currently there are approximately 450 000 POS devices deployed throughout India. Oxigen, with about 90 000 POS terminals, with another 30 000 being deployed, is in a strong position to facilitate the introduction of new products and services, as well as mobile and data processing.



Design and development of more efficient POS terminals has progressed and a new terminal prototype, called OxiSmart, was recently launched. The new ultra-low cost GPRS POS terminals and low cost GPRS Modem (USB Dongle) convert a phone line terminal to a GPRS enabled terminal. This will lead to an improvement in transaction reliability, scaling up and revival of under-performing retailers and accommodate low trading merchants. The new devices should pave the way for an expansion of footprint over the next few years, in support of which infrastructure has already been strengthened.

The company's efforts for continuous innovation in the banking channel culminated in September 2010 with the launch and activation of 150 (out of a planned 20 000) Customer Service Points (CSPs). These are our existing web-enabled Oxigen retailers, appointed as CSPs enabling them to carry out banking transactions on behalf of the State Bank of India (SBI). One of the immediate uptakes has been in domestic remittances. The company has already enrolled and enabled more than 900 CSPs.

A principal feature of the web-based, no-frill, kiosk banking system is that it reaches the unbanked population across India, helping them open accounts with minimal documentation, while biometric readers record the account holder's fingerprints in order to facilitate secure banking transactions. The company has opened kiosk banking at 500 outlets in rural areas. Primary services include cash deposits and withdrawals as well as money transfers to other SBI accounts. Clients can also access vehicle/home loans and loans against property and gold, obtain NSC/KVP certificates (Government Securities), invest in mutual funds and activate different current accounts, term deposits and recurring deposits at each location.

The market continues to expand, affording opportunities for Oxigen to remain one of the leaders in the industry. Over the next few years dependence on mobile recharge is expected to reduce in return for the rewards expected from the mobile payment's space,

where Oxigen is well placed with first mover advantage through its diversified solutions and hardware offerings.

The Reserve Bank of India renewed Oxigen's approval of the OxiCash Prepaid Card, thus providing another show of confidence in the prepaid payment and settlement system.

Product deployment now includes one-time purchase cards with multiple recharge options across bus and airline ticketing, direct TV top-ups, insurance, calling cards and car rentals, mobile services such as sms packs, phone back-ups and Nokia online music. In a recent development, Oxigen was appointed national service provider to Nokia Money, enabling a prepaid mobile wallet to be offered. Oxigen online services, like mobile recharge/TV recharges, are already integrated into the Nokia Money mobile wallet.

The business outlook continues to hold promise.

BLUE LABEL MEXICO

Blue Label Mexico commenced trading operations in August 2009. The current ownership structure is 40% Blue Label Telecoms Limited, 40% Grupo Bimbo SA de CV and 20% Nadhari SA de CV. The business model in Mexico is underpinned by a number of agreements with sales and distribution channels, independent sales organisations or ISOs, service providers and key mobile network operators. Products on offer include PINless recharge, direct top-up and payment of services.

Trading conditions were adversely impacted in the early part of the financial year by network downtime caused by severe flooding in Mexico and the unreliability of the Seacom underwater sea cable between Mexico and South Africa. As a result, platform infrastructure was established in Mexico, where it is now fully operational.

In February 2011, a strategic investor, Grupo Bimbo, purchased 40% of Blue Label Mexico by subscribing to a fresh issue of shares, resulting in Blue Label diluting its holding from 70% to 40% and local management's holding from 30% to 20%. Grupo Bimbo is the largest bakery business in the world and operates one of the most extensive physical distribution networks in Mexico. It also has a presence in 17 countries in North America, Latin America and Asia. In the framework of the new structure, terminals will be rolled out to Grupo Bimbo service locations to support their operations, as well as enhance competitiveness of their independent store clients.

At year end some 5 000 devices were active in the market and this is expected to grow in the year ahead. Mexico's geographic location makes it an important springboard for prepaid and remittance markets in the United States and Latin America. Blue Label Mexico has exclusive rights to use Blue Label Telecoms technology in these two geographies.

AFRICA PREPAID SERVICES NIGERIA ("APSN")

Blue Label has an effective ownership of 36.72% in APSN, through its 72% shareholding in Africa Prepaid Services. In 2008 APSN concluded a 10-year agreement with Multi-Links, a subsidiary of Telkom South Africa Limited, to service its entire distribution channel in Nigeria.

The performance of APSN was adversely impacted during the first six months of the year due to falling demand owing to ongoing negative commentary by Multi-Links over its uncertain future. In November 2010 Blue Label cancelled APSN's contract arising from Multi-Link's repudiation of its obligations under the contract and instituted arbitration action to recover losses suffered consequent to the cancellation of the contract. Arbitration proceedings are on-going. Taking cognisance of Blue Label's effective minority stake in APSN and after duly evaluating the investment, strategies and funding requirements, a commitment was made to sell the majority of the assets and liabilities prior to financial year end. The sale was concluded in June 2011. Core headline earnings for the year declined to a R18.3 million loss (previous year R49.1 million profit).

UKASH

The 15.75% strategic investment in Smart Voucher Limited, trading as Ukash, and based in the United Kingdom, was acquired in 2008. Ukash is an international developer of prepaid cash voucher technologies allowing it to supply end-users with prepaid (Ukash) vouchers, which effectively digitises cash. It is a global e-money network enabling consumers to turn their cash into an e-cash voucher so that they can pay, play and reload online. Ukash is patented, proven and fully scalable.

Ukash continued its expansion in new and existing markets this year, adding issuing sites in Argentina, Brazil, Mexico and New Zealand. Ukash is now available at 420 000 locations across 51 countries on six continents. Redemption values increased by 71% year on year on volume increases of 84%. Blue Label's share of historical losses of R8 million turned around to a share of profit of R9 million.

During the year, three new products were launched, Ukash Neo (prepaid virtual Mastercard), Ukash Air (mobile airtime top-up) and Ukash Payout. Management was also strengthened over this time. In April 2011, Ukash was the proud recipient of the 2011 Queen's Award for Enterprise in the International Trade Category. This prestigious award recognises UK businesses which have achieved substantial growth in overseas earnings and outstanding levels of commercial success.

SHAREDPHONE INTERNATIONAL

SharedPhone supplies SIM card mobile payphone software and hardware solutions, which is particularly practical in rural areas, as it allows vendors to provide public telephony services, as well as the ability to sell prepaid airtime from mobile phones through a mobile payphone reimbursement system. This facilitates the sale of prepaid products and services such as airtime, electricity and insurance.

Revenue declined from R39 million to R29 million, due to a lack of repeat international orders from the traditional payphone markets, as voucher denominations reduced and cheap entry level handsets became readily available, ultimately reducing the attractiveness of a payphone product. This necessitated an impairment to goodwill and intangible assets totalling R8.4 million.

Technology

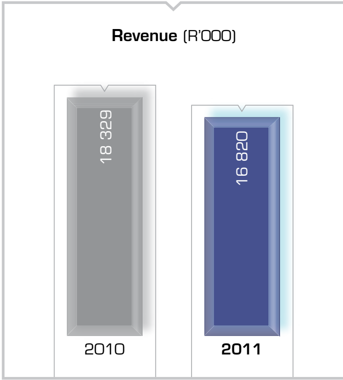
The Technology segment is responsible for the group's core technology systems. Its objective is to develop, deploy and support the technology platforms across the group and at a number of third-party partners. The group's infrastructure connects into some of South Africa's major banks, utility companies and telecommunication operators. This segment also switches both debit and credit card electronic funds transfer (EFT) transactions and e-token products for some of the country's leading retailers and petroleum companies.

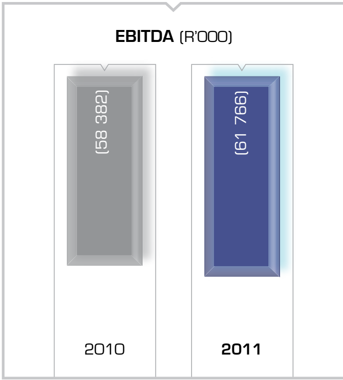
The core technology service offering includes:

- facilitating secure financial transactions;
- providing and enabling various types of secure e-tokens;
- operational support to these e-token and transactional systems;
- point of Sale device and customer field support;
- hosting and management of IT infrastructure; and
- sourcing and maintenance of devices in the field.

The strategy of the Technology segment is to:

- develop commercially viable and functionally rich transaction engines;
- provide stable and robust platforms;
- standardise deployments with templates and methodologies;
- optimise technology investment through the sharing of Blue Label's infrastructure;
- provide end-to-end support for technology and deployments; and
- retain and develop key IT skills.





THE KEY OPERATIONAL CAPABILITIES INCLUDE:

Distribution platforms for e-tokens of value (including AEON Online and AEON EVD (AMS)):

> Prepaid airtime: the platform enabling both local and international subsidiaries to vend airtime for all major telecommunication operators.
> E-token distribution: takes place via cellphones, kiosks, POS terminals, internet, bulk printing devices and self-service vending machines.
> Electronic Voucher Management System: supporting the electronic generation, issuing and redemption of paper vouchers and virtual PINs.
> Electronic Funds Transfer: switching credit, debit and fleet card transactions for leading South African retailers and petroleum companies, through Transaction Junction (TJ), a subsidiary of the group.
> Hosting services: hosts production servers and applications on behalf of the group's subsidiary companies as well as third-party clients. All services are backed by 24x7x365 monitoring, support, reporting and full disaster recovery.
> Device deployment services: full asset life cycle management and task tracking are provided. This service includes the sourcing, procurement and financing of POS terminals, kiosks and vending machines as well as the installation, training, task tracking and maintenance of these devices.

The group's technology operations, development and support were refocused during the year, following the restructuring of the South Africa distribution segment.

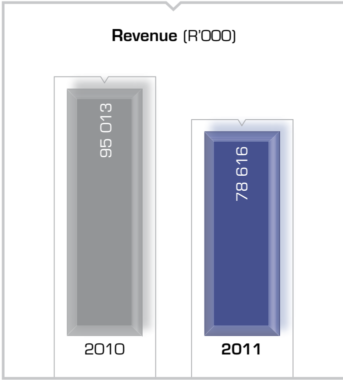
The migration of customers onto AEON continued, with further rollout of EFT services by TJ. Volumes throughout the entire environment continue to increase significantly – more than 10% growth through Postilion alone was recorded during the last quarter of the financial year. This dynamic environment requires that the core architectural framework is reviewed and updated regularly.

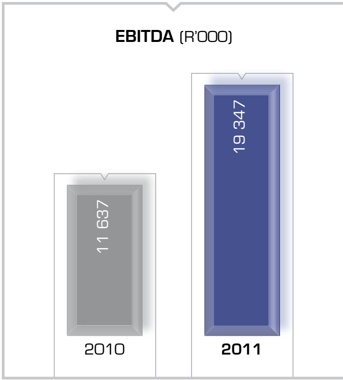
Over the last six months, an initiative has ensured that enterprise (i.e. non-production) systems are consolidated and optimised. As a result, network-device/element configuration management and control has been outsourced. Network and Security policies, as well as core network architecture and deployment guidelines, continue to be set by the CIO, but are actively implemented and managed through a co-source model i.e. high-level oversight and control exercised by Technology, with implementation, operational support and monitoring implemented by the outsource partner. This includes all network and intrusion – detection and prevention operational support. These changes comply with the group's Technology governance and risk management requirements.

In addition to these platform and systems enhancements, the group has actively engaged in deploying and managing infrastructure and services within cloud environments. This initiative is accelerating and anticipated to be production-ready with cloud infrastructure in place within Amazon EC2 during this calendar year, servicing Mexico's high availability requirements. As the roll-out of POS devices in Mexico continues to gain momentum, the migration of the infrastructure has been largely completed, with Technology providing operational and project support by redeploying key individuals to Mexico.

Blue Label Mobile

Blue Label Mobile provides a complete mobile transactional ecosystem and services-provisioning platform, delivering mobile-centric products and services through any mobile channel (eg smartphone, WAP, Java, SMS, USSD). Products include mobiWallet, mobiMerchant and mobiSecure, as well as mobile couponing, loyalty and Near Field Communication (NFC) solutions. Blue Label Mobile is also SA's leading location-based service provider, offering safety and security, tracking and informational products for individuals and companies. Additionally, it is a wireless application service provider (WASP) and top-5 aggregator. Blue Label Mobile is the provider of South African and African music and digital content to major mobile networks. Its services are provided directly to B2B customers as well as to the group for inclusion in their product/service bundling. On a core headline earnings basis, the Mobile segment made a R15.6 million profit, up from a R1.9 million loss in the prior year.





BLUE LABEL ONE TRADING AS MOBILE SERVICES COMPANY ("MSC")

MSC is Blue Label's mobile services business, aggregating transactional products and services (such as airtime, electricity and others) and those of third parties. The services are available through a number of channels, stand-alone Java applications, WAP, web and SMS. This reaches a wide range of customers including B2C, B2B and B2B2C using the same infrastructure and interfaces.

This has been a period of integration and stabilisation as the focus has shifted towards providing mobile solutions directly to Blue Label's channels and to various B2B2C opportunities. This year MSC launched a fully-featured mobile wallet – mobiWallet, which allows customers to make payments, deposit money, shop for goods and services, make withdrawals, participate in loyalty and reward schemes and perform person-to-person money transfers, all from their normal handsets. The mobile wallet architecture is more than a micro-transaction account, as it provides customers with a full set of tools for managing interactions by integrating various layers, such as rewards, pre-paid and banked transactions, together with fully secure and cost-effective messaging and alerting capabilities. It also provides secure and appropriate management of personal information, integration with location-enabled value-add services, and the ability to link all these elements together in a fully integrated way.

CELLFIND

As Blue Label's WASP and Location-Based Services (LBS) provider, Cellfind continues to derive annuity incomes through the Vodacom and MTN location services as well as WASP aggregation businesses.

Cellfind's investment in developing generic interfaces to its location services allows both easy and expanded consumption of services through its own products and those developed by partners using the same interfaces. Cellfind provides the billing and management processes to monetise these services.

Agreements were concluded with Nashua Mobile and Autopage Cellular to provide direct billing to certain contract customers. Cellfind developed and launched a generic panic (assist) button, which can be white-labeled or integrated into third-party systems, with full Call Centre and/or emergency assistance services if required. Customers include major companies in the health care, security and mining sectors.

Cellfind is focusing on lower risk models, such as corporate or B2C products, and seeking new revenue streams, while restructuring to improve efficiency, product mix and costs. The product range includes brands such as Look4Help, Look4Me, Look4Me for business, MTN WhereRU, MTN 2MyAid, miTraffic, 911 Alert, Look4Music, messaging and generic panic buttons, prepaid messaging web interface, LBS Accuracy, miPayslip, Willsure and Disaster Recovery.

CONTENT CONNECT AFRICA ("CCA")

CCA is the premium supplier of on-deck African music content to both Vodacom and MTN. During the year downloads fell significantly due to ongoing restructuring of the platforms at the major network operators. Efforts were directed to building-up the catalogue content base and securing additional digital distribution partners, and, in turn footprint, across numerous countries, in particular in Africa.

Segmental review continued

Blue Label Solutions

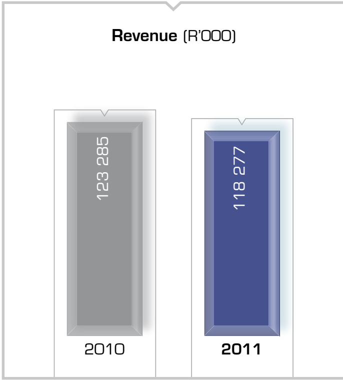
This segment specialises in marketing predominantly cellular products and services through outbound telemarketing, as well as providing inbound customer care, technical support and data and analytics services, particularly to group companies. The segment managed a remarkable turnaround this year, achieving R7 million in core headline earnings, compared to a loss of R7 million in the previous period. The following entities are housed in this segment:

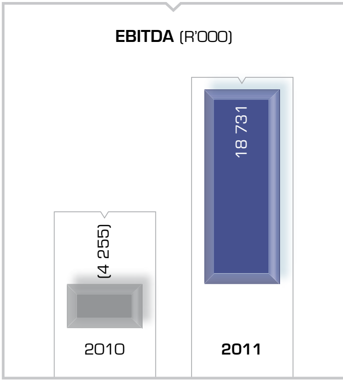
BLUE LABEL DATA SOLUTIONS ("BLDS")

The efforts over the past two years to build sustainable relationships with clients and entrench direct marketing strategies into their businesses culminated in a successful year, marked by revenue growth of 160%. BLDS consolidated operational processes during the year and maximised resources without increasing headcount. A number of high-profile opportunities have been entrenched in ongoing campaigns, positioning the company well for the future.

CNS AND VELOCITI

The CNS Call Centre has been scaled down to a call centre facility operation to third parties. The 700 seat Velociti Call Centre had another challenging year, characterised by fewer campaigns and shrinking margins, as seen throughout the industry. A number of recently launched campaigns are proving profitable, following management's innovative diversification of the business model.





Corporate governance

GOVERNANCE APPROACH

The board regards corporate governance as fundamentally essential to the success of the company's business and is unreservedly committed to applying the principles of good corporate governance in directing and managing the company. The board is the focal point for, and custodian of, the company's corporate governance system through its relationship with management, shareholders and other stakeholders of the company. The board remains ultimately accountable and responsible for the performance and affairs of the company.

The board is committed to sound and transparent business practices and senior management continues to develop its governance policies, practices and procedures in line with an integrated approach to governance, risk and compliance as recommended by King III. This approach ensures that the company balances its long-term social, environmental and economic interests with the primary requirement to maximise shareholder wealth.

The formal assessment of Blue Label's adherence to the principles and practices of best governance as contained in King III was completed towards the end of January 2011. Board and senior management have focused on the following key findings of the assessment, most of which will continue to be relevant for the ensuing financial year:

- IT Governance at a board, committee and management level to ensure the appropriate level of responsibility, reporting framework, information and assurance;
- increasing the understanding of integrated reporting as a continuous event throughout the year, culminating in an annual report and implementing required reporting structures;
- defining and calculating risk tolerance and appetite levels and ensuring that this is effectively communicated throughout the group as part of the risk management process;
- planning internal audit work to ensure that internal audit are positioned to provide a written assessment of the group's system of internal controls, internal financial controls and risk management; and
- development of a combined assurance model to ensure that management and the board obtain comfort on material issues across the group on inter alia, financial, technical, operational, social and regulatory compliance.

Each of the aspects above is highlighted in this integrated report in the section where it best applies.

ETHICAL LEADERSHIP AND BUSINESS CONDUCT

Good corporate governance is essentially about effective and responsible leadership. This is characterised by the ethical values of responsibility, accountability, fairness and transparency. The typical aspects of corporate governance, such as the role and responsibilities of the board and directors individually, internal audit, risk management and stakeholder engagement rest on a foundation of ethical values.

To this extent Blue Label's ethical standards are encapsulated in its ethics statement which provides a template for ethical reasoning as a guide to all employees in their dealings with both internal and external stakeholders. The ethics statement applies to employees across the group, as well as to customers, business partners, suppliers and other stakeholders. Each is requested to uphold the ethical reasoning of the statement, thereby enabling us to live our values.

The purpose of the ethics statement is to:

> emphasise the group's commitment to ethics and compliance with laws and regulations;
> set out basic standards of ethical and legal behaviour;
> provide reporting mechanisms for known or suspected ethical or legal violations;
> help prevent and detect wrongdoing.

From an ethical perspective Blue Label reiterates its stance on the following matters:

> Fraudulent, corrupt or illegal practices are not tolerated. Bribes or any other illicit payments including facilitations will neither be paid nor received.
> The group does not participate in any illegal anti-competitive activity. Employees cannot authorise or participate in any illegal conduct or action that purports to restrict competition.
> The group is non-political. It does not allow its assets and services to be used in any way which favours any particular political grouping.

The company's ethical business conduct is set out on page 6 of this report.

Employees are expected to demonstrate ethical business practices. All new staff members undergo an induction programme that includes training on the above "code of business conduct", including the function of the ethics hotline, such as what should be reported and how to report unethical behaviour via this channel. The ethics hotline is outsourced to KPMG Ethics Line, a division of KPMG, and has been certified by EthicsSA as fulfilling the External Whistle-blowing Hotline Service Provider Standard E01.1.1. This standard is a best-practice set of guidelines or norms for the professional and ethical conduct of external whistle-blowing hotline service providers operating their own centres or facilities.

The ethics hotline awareness campaign was rolled out to all group companies in July/August 2010. All incidents reported during the period under review were all human resource related matters which were resolved by the group human resources manager.

An overview of the group governance framework is provided below.

BOARD STRUCTURE AND DIRECTORS

Board composition and appointments

Blue Label's governance is underpinned by effective leadership exercised by the directors in their individual capacities and collectively as a board. The board comprised 11 directors: four executive directors, three non-executive directors and four independent non-executive directors. The chairman is an independent non-executive director.

The directors, with the support of the Remuneration and Nomination Committee in terms of its mandate, ensures that the board collectively possesses the skills, experience, diversity in demographics and mix of personalities appropriate for the strategic direction of the company and necessary to secure its sound performance. Directors are selected and appointed by the board based on the recommendation of the Remuneration and Nomination Committee. Changes in the board composition during the year under review included the resignation of Mr Mansour in October 2010, and following the recommendation of the Remuneration and Nomination Committee, the appointment of Mr Nyati (managing director of Microsoft South Africa). Post year end the following changes to the board composition were recorded:

- Ms Tyalimpi, independent non-executive director, resigned on 30 August 2011 to pursue other interests; and
- Mr Nyati, non-executive director, resigned on 5 October 2011 following the conclusion of the Share Buy-Back Agreement with Microsoft Corporation.

All directors are subject to retirement by rotation every three years in accordance with the company's memorandum of incorporation. In this regard Messrs Pamensky and Rivkind will be retiring at the forthcoming annual general meeting and being eligible, have made themselves available for re-election. The detailed categorisation of the directors as well as a brief curriculum vitae of each director appears on pages 10 to 13 of this report.

The Remuneration and Nomination Committee is actively canvassing to strengthen the board with individuals, particularly from historically disadvantaged groups, whom it believes can make an active and positive contribution to the continuing development and growth of the company.

INDEPENDENT NON-EXECUTIVE CHAIRMAN AND LEAD INDEPENDENT DIRECTOR

King III requires the board to be led by an independent non-executive chairman and makes a number of points pertinent to this matter:

- A chief executive officer should not also hold the role of chairman of the company.
- The chairman of the board should be independent and free of conflicts of interest on appointment, failing which the board should consider appointing a lead independent director.
- If the board appoints a chairman who is a non-executive director but is not independent, this should be disclosed in the integrated annual report, together with the reasons and justification of the decision.

Mr Nestadt is the independent non-executive chairman of Blue Label and has held this position since the company's listing in November 2007. For this reason the board has not appointed a lead independent director.

Board charter

The board has a formally approved charter which is reviewed annually to ensure its continuing compliance with local and international best practices and changes to the South African regulatory environment. The board charter provides, inter alia, an overview of the policies and practices of the board with regard to matters such as board composition, meeting procedures, board governance, dealings by directors in securities, disclosure and conflicts of interest and the nomination, appointment, induction, training and evaluation of directors and members of board committees.

The charter notes the following key board responsibilities in alignment with King III:

- ensuring that the company's ethics are managed effectively by, inter alia, building and sustaining an ethical corporate culture in Blue Label and ensuring that a code of conduct and ethics related policies are implemented;
- ensuring the integrity of the company's integrated annual report;
- responsibility for information technology (IT) governance, focusing on the governance of the information as well as the governance of technology, by establishing an IT governance framework that supports effective and efficient management and decision making around the utilisation of IT resources to facilitate the achievement of the company's objectives and the management of IT-related risks;
- reporting on the effectiveness of the company's system of internal controls;
- recognising that strategy, risk, performance and sustainability are inseparable and give effect to this by:
  - retaining full and effective control over the company by contributing to and approving the strategic direction of the company,
  - satisfying itself that the strategy and business plans proposed for the achievement of the group's objectives do not give rise to risks that have not been thoroughly assessed by management,
  - monitoring the implementation of the strategic plans and identifying key performance and risk areas,
  - ensuring that the strategy will result in sustainable outcomes taking into account financial, environmental and social objectives as approved by the board,
  - considering sustainability as a business opportunity that guides strategy formulation,
  - ensuring that Blue Label is and is seen to be a responsible corporate citizen with regard to not only the financial aspects of the business, but also the impact that the business has on the environment and the society in which it operates, thus ensuring that the company acts responsibly towards all its stakeholders, and
  - appreciating that stakeholders' perceptions affect a company's reputation and in this regard, identify, manage and monitor the gap between stakeholder perceptions and the performance of the company so as to enhance or protect Blue Label's reputation.

BOARD MEETINGS

A minimum of four board meetings are held during a financial year with additional board meetings convened as required. Where directors are unable to attend meetings personally, teleconferencing facilities are made available to enable their participation.

Attendance by directors of the meetings held during the year under review is detailed below:

DIRECTOR	Jun	Aug	Nov	Feb
LM Nestadt (Chairman)	✓	✓	✓	✓
BM Levy	✓	✓	✓	✓
MS Levy	✓	✓	✓	✓
KM Ellerine	A	✓	✓	✓
GD Harlow	✓	✓	✓	✓
NN Lazarus SC	✓	✓	✓	✓
P Mansour	A[1]	A[1]	R	–
JS Mthimunye	✓	✓	✓	✓
M Nyati[1]	–	-	A[1]	✓
MV Pamensky	✓	✓	✓	✓
DB Rivkind	✓	✓	✓	✓
LM Tyalimpi	✓	✓	✓	✓

Legend:

✓ *Attendance*
A *Apologies submitted and leave of absence granted*
A[1] *Apologies submitted and appointed an alternate who participated by way of teleconference*
R *Resignation by P Mansour on 12 October 2010*
[1] *Appointed on 12 October 2010*

NON-EXECUTIVE DIRECTORS

The non-executive directors bring leadership, judgement and insight to the board. They have access to management and may meet separately with management with or without the attendance of executive directors. A non-executive director has no fixed term of appointment and no service contract with the company. Fees are independent of the company's financial performance and they receive no bonus and do not participate in the company's Forfeitable Share Plan.

Both Messrs Harlow and Lazarus SC earn advisory fees for strategic input as well as corporate finance advice and, in the case of Mr Lazarus SC, legal consultancy services as well. Fees paid during the year under review in respect of consultancy services rendered by the said directors amounted to R1.3 million in respect of Mr Harlow (2010: R0.3 million) and R4.6 million in respect of Mr Lazarus SC (2010: R2.6 million). The majority of the fees paid to Mr Lazarus SC pertained to legal consultancy services in regard to litigation which the group is involved in together with commercial negotiations and contracts relating to the business of the group and certain corporate finance services in respect of acquisitions and disposals.

EXECUTIVE DIRECTORS

Executive directors are bound by a three-year employment contract, each of which commenced in November 2007. Contracts were renewed in November 2010 for a further three-year period. Details of the contract terms are set out in the Remuneration report on page 50.

PERFORMANCE ASSESSMENT

Performance assessment of the board collectively, directors individually and the various board committees is conducted annually in November, with the next evaluation due to be done in November 2011. The assessment is conducted internally and focuses on strategy and planning, board structure and role, meeting process, independence of the board and its committees, performance monitoring, board and director responsibilities, board culture and relationship. The process is managed by the chairman, whose own performance is assessed by the Remuneration and Nomination Committee. The Chairman presents his report on the assessment to the Remuneration and Nomination Committee for their appropriate recommendation to the board, which in turn, then considers the recommendations of the Remuneration and Nomination Committee.

BOARD COMMITTEES

Board committees play an active and pivotal role in assisting the board to discharge their duties and responsibilities. The responsibilities delegated to each board committee are formally documented in terms of reference duly approved by the board.

The membership and principal functions of the committees are set out below.

Audit, Risk and Compliance Committee ("ARCC")

The report from the ARCC is contained on page 54 of this report.

Remuneration and Nomination Committee ("RNC")

Members: NN Lazarus SC (Chairman), GD Harlow and KM Ellerine

Composition and meeting procedures: Messrs BM Levy, MS Levy and DB Rivkind attend meetings by invitation, but do not participate in discussions and decisions regarding their own remuneration and benefits. The chairman, at his discretion, may invite other executives or employees to participate in meetings of the committee. Meetings are held at least twice a year. The quorum for an RNC meeting is two members present throughout the meeting. During the year under review, the board discussed the composition and chairmanship of the committee in relation to the requirements of King III. The board confirmed the position of Mr Lazarus SC as chairman of the RNC and was satisfied that he was most suitably qualified to perform the role and acted with the required independence by expressing opinions, exercising judgement and making decisions impartially.

Role and functions: The RNC role and responsibilities are set out in its terms of reference, a summary of which are to:

- determine and agree with the board, the framework or broad policy for the remuneration of the executive directors, non-executive directors and any other members of executive management as it is designated to consider;
- review, for recommendation to the board, the design of, and targets for, the company's Forfeitable Share Plan;
- determine annually whether awards are to be made under the Forfeitable Share Plan. and, if so, the overall and individual amounts of such awards;
- recommend to the board the remuneration of non-executive directors for approval by the shareholders;

- identify and nominate candidates, for the approval of the board, to fill vacancies as and when they arise; and
- recommend the appointment of new executive and non-executive directors, including recommendations on the composition of the board and the balance between executive and non-executive directors and any adjustments that are deemed necessary.

Attendance at meetings:

Members (and invitees)	Jun	Aug
NN Lazarus SC (Chairman)	✓	✓
KM Ellerine	A	✓
GD Harlow	✓	✓
BM Levy^	✓	✓
MS Levy^	✓	✓
DB Rivkind^	✓	A

✓ Attendance
A Apologies submitted and leave of absence granted
^ Attends by invitation and is not a member of the committee

Investment Committee ("IC")

Members: GD Harlow (Chairman), NN Lazarus SC, JS Mthimunye, BM Levy, MS Levy, MV Pamensky, DB Rivkind, DA Suntup and DR Hilewitz (consultant)

Composition and meeting procedures: Meetings are held as the committee considers appropriate, but at least two meetings are held during a financial year. The quorum for an IC meeting is four members, of which two are executives and two non-executives, present throughout the meeting. Group Legal Counsel attends meetings by invitation only.

Role and functions: The responsibilities of the IC include:

- review acquisitions, investments and disposals made by the executive committee in accordance with the authority granted to it by the board;
- review, consider and approve proposed acquisitions, investments and disposals of the group recommended by the executive committee ranging between R40 million and R100 million;
- recommending to the board acquisitions and investments of the group above R100 million; and
- reviewing the performance of all investments and acquisitions made.

Attendance at meetings:

Members (and invitees)	Jul	Feb	Apr
GD Harlow (Chairman)	✓	✓	✓
S Gewer^	✓	✓	✓
DR Hilewitz	✓	✓	✓
NN Lazarus SC	✓	✓	✓
BM Levy	A	✓	✓
MS Levy	✓	✓	✓
JS Mthimunye	A	✓	✓
MV Pamensky	✓	✓	✓
DB Rivkind	A	✓	✓
DA Suntup	✓	✓	✓

√ Attendance
A Apologies submitted and leave of absence granted
^ Attends by invitation and is not a member of the committee. Mr Gewer resigned as Group Legal Counsel on 31 July 2011 and Mr de Villiers was appointed in his stead

Transformation Committee ("TC")

Members: GD Harlow (Chairman), KM Ellerine, LM Tyalimpi, BM Levy, DB Rivkind (alternate to BM Levy)

Composition and meeting procedure: Meetings are held at least twice per year and a quorum for a TC meeting is two members of the committee present throughout the meeting. The chairman, at his discretion, may invite other executives or employees to participate at meetings of the committee. Ms Hindley (group human resources and transformation manager) is a mandatory attendee of the TC meetings.

Role and functions: The responsibilities of the TC include:

> developing a transformation framework and policy;

> monitoring and overseeing the implementation of the transformation framework and policy; and

> overseeing the B-BBEE accreditation process of the group and monitoring the group's compliance with the DTI Codes of Good Practice.

Attendance at meetings:

Members (and invitees)	Oct	Feb
GD Harlow (Chairman)	✓	✓
KM Ellerine	✓	✓
BM Levy	✓	✓
LM Tyalimpi	✓	✓
IJ Hindley^	✓	✓

✓ *Attendance*
^ *Attends by invitation and is not a member of the committee*

Executive committee ("Exco") and the Strategy Implementation Committee

Members: MS Levy (Chairman), BM Levy, MV Pamensky, DB Rivkind

Composition and meeting procedures: Meetings of Exco take place weekly. Mr Suntup (financial director of The Prepaid Company (Pty) Ltd) and the group legal adviser attend Exco meetings by invitation.

Role and function: Exco is responsible for managing and monitoring the business affairs of the company in line with board-approved plans, budgets, delegations and limits of authority, prioritising the allocation of capital and other resources, reviewing and approving acquisitions, disposals and investments, and establishing best management and operating practices. Exco is also mandated, empowered and held accountable for implementing the strategies, business plans and policies determined by the board. The board at its meeting held on 21 February 2011 approved an increase in the limit of authority granted to the Exco in terms of acquisitions, disposals and general investments from R20 million to R40 million. The rationale for the increase was that the authority level was set more than three years ago, and that there were few meaningful investments that did not exceed the existing authority level.

The Strategic Implementation Committee, which operated throughout the previous year, was dismantled during the year under review in favour of a more decentralised and streamlined approach, with responsibility for implementation of strategy now vesting with subsidiary boards and their executive committees.

COMPANY SECRETARY

Ms E Viljoen is the group company secretary for Blue Label and administers and monitors the statutory and governance compliance of its subsidiary companies. It is the responsibility of the group company secretary to ensure that the company complies with the JSE Listings Requirements and statutory requirements, as well as the implementation of governance practices and procedures as applicable to the company. The group company secretary is also responsible for ensuring that the proceedings and affairs of the directorate, the company itself, and where appropriate, owners of securities in the company, are properly administered in accordance with relevant laws. It is her responsibility to provide the board as a whole, and directors individually, with guidance as to how their responsibilities should be properly discharged in the best interests of the company. She also fulfils the role of compliance officer in ensuring compliance with applicable statutes, regulations and internal policies and procedures. As compliance officer she reports directly to the Audit, Risk and Compliance Committee. All directors have access to the advice of the company secretary and may liaise with her on agenda items for board meetings.

GOVERNANCE OF RISK

The board accepts responsibility for risk governance and is committed to managing risks in order to achieve key objectives and protect the core values of the company. The ARCC has been mandated to assist the board in carrying out its risk responsibilities. Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of Blue Label. The Internal Risk and Compliance Committee (IRCC) supports the enterprise-wide risk approach by identifying, evaluating and measuring group-wide risks and compliance in all functional areas of the group and implementing and maintaining adequate internal controls. The IRCC reports to the ARCC on a quarterly basis.

Blue Label has adopted an enterprise-wide approach to risk management, which means that key risks in the group are identified, assessed and monitored in a structured and systematic process of risk review and management. The risk management plan forms part of the annual internal audit plan approved by the ARCC. The approved plan for the ensuing financial year comprise inherent and residual risk assessments on a quarterly basis as well as the compilation and review of a separate IT related risk register to ensure complete visibility of all IT risks in the group by segment.

Management conducts group-wide risk assessments on a quarterly basis. This entails the identification and prioritisation of risks in accordance with the impact and likelihood of these risks. In line with the group's risk framework, the potential impacts of the risks are quantified on a five-point scale comprising catastrophic, critical, serious, significant and minor/insignificant. Risks are then further quantified in terms of the probability of occurrence in accordance with probability factors viz almost certain, likely, possible, unlikely and rare. Internal controls to mitigate the identified risks are evaluated to establish the appropriateness and adequacy of the existing controls to ensure that they perform the required risk mitigation. Management decides on the acceptance of the identified risk or exposure and, if considered high, an action plan and timeframe are put in place to reduce the level of risk to a more acceptable level.

The group's material impacts and risks are listed on page 60 on this report.

INTERNAL AUDIT

The Blue Label internal audit function is outsourced to KPMG Services (Proprietary) Limited (KPMG). The ARCC is responsible for reviewing and approving the internal audit charter and internal audit plans. Internal audit plans are compiled with input from management and balance risk-based and compliance reviews so as to maximise audit coverage while addressing the requirements of management. To ensure independence, internal audit functionally reports to the ARCC. The ARCC is satisfied that the independence of the internal audit function has not been impaired in any way.

Internal audit activities are performed by teams of appropriate qualification and experience. Internal audit conducts its work in accordance with internal auditing standards set by the Institute of Internal Auditing (IIA). Progress against the internal audit plan and the results of reviews were presented at ARCC meetings throughout the year.

The board recognises the importance of a sound system of internal control that supports the achievement of the group's objectives. The board acknowledges its overall responsibility for Blue Label's system of internal control. As recommended by King III, internal audit provided a written assessment of the system of internal controls and risk management to the board and a written assessment of internal financial controls to the ARCC.

GOVERNANCE OF INFORMATION TECHNOLOGY

King III defines IT governance as "a framework that supports the effective and efficient management of IT resources to facilitate the achievement of strategic objectives". IT governance is the responsibility of the board and management is responsible for the implementation of all structures, processes and mechanisms to execute the IT governance framework.

Dr Roussos is the chief information officer of Blue Label and is head of the Technology segment of the group. The group's IT framework includes:

- aligning strategy and business needs;
- delivering value and managing performance;
- information security;
- information management; and
- business continuity management.

IT governance is a focus area for the company in the ensuing 12 months to align the group with the principles of King III.

COMPLIANCE

Blue Label is committed to maintaining high standards of integrity, professionalism and ethical behaviour in all its relationships. This commitment is supported by the company's code of conduct set out above. Besides complying with the law, it is essential that each employee is sensitive to any improper conduct. The way in which each employee conducts the company's business directly affects the public image and reputation of the group.

On the recommendation of the ARCC, the board approved a corporate compliance policy, the objective of which is to provide a framework within which the board and management can operate in order to reinforce a compliance culture throughout the group. The corporate compliance policy focuses on the fundamental principles of business conduct supporting group values, and details the roles, authority and responsibility of key players.

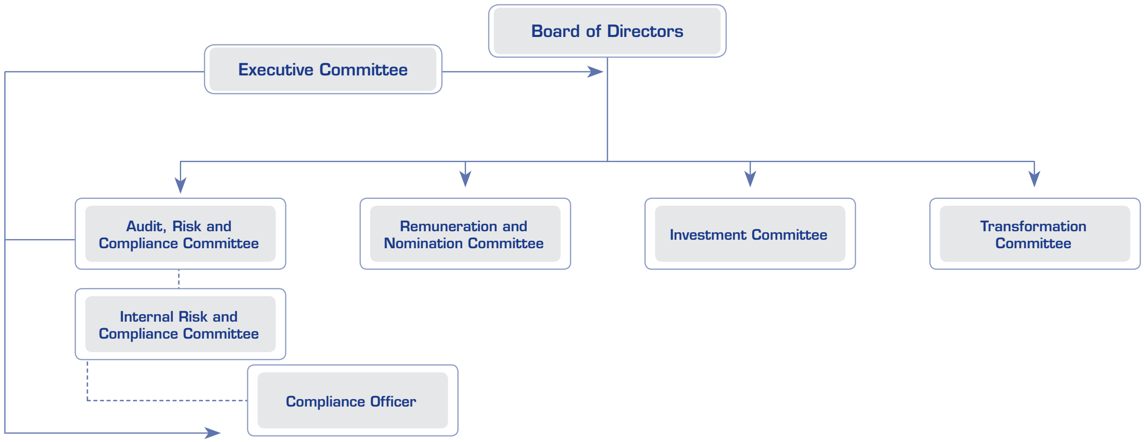
The governance structure and reporting lines supporting the compliance function is depicted below:

During the year Blue Label re-defined its regulatory universe and a focus area in the ensuing financial year will be on the implementation of a management tool to assist in evaluating the group's compliance with its regulatory universe, and the compilation of risk management plans to ensure that risks are mitigated effectively. The compliance process involves risk identification, risk assessment, compliance risk management and compliance risk monitoring.

No material judgements, damages, penalties or fines were recorded and/or levied against the group during the year under review for non-compliance with any legislation.

CONFLICTS OF INTERESTS

All group directors are required to disclose details of any external shareholdings, directorships and interests in material contracts involving group companies, so as to identify and manage conflict of interests. These declarations are assessed and tabled at the beginning of each quarterly board meeting. Board members are required to make appropriate disclosures when participating in deliberations or decision-making processes which could in any way be affected by vested interests and, if the circumstances require, must recuse themselves from participation.



Remuneration report

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration Committee has been delegated by the board with responsibility for determining the remuneration of the executive directors and senior managers, as well as for approving the allocation of shares under the company's forfeitable share plan. The Remuneration Committee also acts as the Nomination Committee. Governance principles applicable to the constitution, composition and function of the Remuneration and Nomination Committee are more fully set out on page 44 of this report.

The committee also makes recommendations in respect of the fee structure for non-executive directors and the fees for members of the board committees, for approval by the shareholders once approved by the board.

The committee consists of three non-executive directors, being NN Lazarus SC (chairperson), GD Harlow and KM Ellerine. The chief executive officers and the financial director attend certain meetings of the committee by invitation but do not vote on committee decisions.

Whilst the majority of the committee members are not categorised as independent, the board is satisfied that it is made up of the board members most suitably qualified to perform the role and that the committee members act impartially and fairly in that role.

The chairperson reports to the board on the committee's deliberations and decisions.

PHILOSOPHY

The committee aims to achieve a balance between shareholders' interests and attractive and appropriate executive and senior management remuneration packages. The remuneration policy is formulated to attract, retain and motivate top-quality people in the best interests of the group. Remuneration arrangements are designed to support Blue Label's business strategy, vision and to conform to best practices. Total rewards are set at levels that are competitive in the context of the relevant areas of responsibility and the industry in which the group operates. Total incentive-based rewards are earned through the attainment of demanding targets consistent with shareholder growth expectations.

POLICY

The remuneration of executive directors and senior management is determined on a total cost-to-company basis and has three components:

- fixed remuneration – fixed monthly salary and benefits;
- variable remuneration – a short-term performance related bonus scheme; and
- forfeitable Share Plan – a long-term performance related incentive scheme.

Fixed remuneration is reviewed annually to ensure that the executives and senior management who contribute to the success of the group remain remunerated at appropriate levels in accordance with the remuneration philosophy. The variable pay element provided by the short-term bonus scheme is intended to enhance total pay opportunities, should that be merited by corporate and individual performance. Long-term incentives, in the form of forfeitable shares awarded under the share plan, are based on a percentage of total annualised salary packages and are intended to reward sustained long-term performance and to align the interests of the executive and senior management with those of shareholders.

The purpose of the annual performance-related bonus scheme is to reward and motivate the achievement of group and subsidiary financial targets, as well as to motivate strategic and personal performance. The joint chief executive officers may earn an annual incentive bonus of up to 120% of fixed remuneration and other executive directors up to 70%. Senior management may earn up to 50% of their annualised salary package.

ADVISERS

In the course of its deliberations, the committee considered the view of the chief executives on the remuneration and performance of the other executive directors and members of senior management.

Independent advice on market information and remuneration trends is provided to the committee by external remuneration consultants from time to time. Blue Label's human resources department also assists the committee by providing supporting information and documentation relating to matters presented to the committee. The company bears all the expenses relating to the appointment of external remuneration consultants and other appropriate independent professional advisers.

FIXED REMUNERATION

Blue Label applies discretion in all remuneration reviews and there is no minimum across-the-board increase to all employees.

The inflation rate considered for salary increases was 4.2% based on CPI data for April 2011. Salary increases for the forthcoming financial year ranged from 0% to 4.2% in bands of 0%, 2% and 4.2%. Management of each operating company was given the discretion to apply the appropriate increase to each staff member falling under their control within the stipulated range.

The salaries of executive management for the forthcoming year will remain at current levels in accordance with the election by executive management not to take up an increase. Executive management made the election in support of the cost cutting initiatives implemented by the group.

Details of the directors' emoluments for the year ended 31 May 2011 appear on pages 182 to 183 of this report. King III recommends that the salaries of the top three executives, other than executive directors, should be disclosed. After due consideration of the provisions of King III, the company decided not to disclose the remuneration of these individuals due to their specialised skills, value to Blue Label and the competitive nature of these positions in the market.

It was also concluded that the disclosure in this Integrated Annual Report in respect of Prescribed Officers is adequate.

INCENTIVE BONUS PLAN

The executive directors and senior management participate in an annual incentive bonus plan, which is based on the achievement of short-term performance targets. These targets comprise financial and non-financial components. The financial performance component is based on growth in profits, as measured by headline earnings per share. The non-financial elements include the achievement of agreed transformation targets, progress in the company's growth strategy in the countries in which it operates, the rollout of the group's transactional footprint and the level of progress made in respect of organisational development issues and succession planning. Each of these elements carried an appropriate weighting.

For the year ended 31 May 2010 the joint chief executive officers and the chief operating officer elected not to take up their bonus allocations as they were not satisfied with the group's financial performance. In respect of the year ended 31 May 2011 they again elected not to take up their bonus allocations. They are to be commended for leading by example.

The aggregate sum of the bonuses allocated to senior members of staff and executives amounted to R9 million.

FORFEITABLE SHARE PLAN

Forfeitable shares awarded in September 2010 will vest over a period of three years commencing on 1 September 2010 and ending on 1 September 2013. The element of performance criteria will be based on group results and individual performance for the years ended May 2011 to May 2013.

The criteria for vesting comprises 25% retention, 25% non-financial indicators and group performance makes up 50% determined with reference to growth in CPI plus 15% over the three-year vesting period. Refer to note 32 of the group annual financial statements for details of performance conditions.

The forfeitable shares that were granted to executive directors during the year are as follows:

	Balance 1 June 2010	Issue date	Forfeitable shares awarded	Vesting date	Balance 31 May 2011
BM Levy	343 060	1 September 2010	450 486	1 September 2013	793 546
MS Levy	343 060	1 September 2010	450 486	1 September 2013	793 546
MV Pamensky	250 148	1 September 2010	379 787	1 September 2013	629 935
DB Rivkind	149 572	1 September 2010	196 409	1 September 2013	345 981

EXECUTIVE SERVICE CONTRACTS

The three-year service contracts of the executive directors were renewed in November 2010 for a further three-year period. These contracts include a restraint of trade provision applicable for a period of 12 months from the day that the executive leaves the employ of the company of his own accord. The restraint of trade is not enforceable in the event of the employment contract not being renewed by the company or if the executive's employment is terminated by the company.

NON-EXECUTIVE REMUNERATION

Non-executive directors receive fees for service on the board and board committees, dependent on attendance. Non-executive directors do not receive short-term incentives nor do they participate in the forfeitable share plan of the company. The fees payable to the chairman and non-executive directors are recommended by the Remuneration and Nomination Committee to the board, which in turn proposes the fees for approval by the shareholders at the annual general meeting.

Non-executive directors may be contracted to render services to the group in addition to the aforegoing services from time to time. The remuneration for such additional services is considered by executive management and approved by the chairman of the board and thereafter submitted to the board for its approval. Details of the fees paid to each of the non-executive directors during the year under review are reflected on pages 182 to 183 of this report.

The group intends to continue to use the services of GD Harlow and NN Lazarus SC during the forthcoming 2012 financial year for the provision of legal, corporate, financial and strategic advice, and they shall continue to render those services for market-related fees. The fees shall continue to be considered by executive management, approved by the chairman of the board, who will, in turn, submit the fees to the board from time to time for approval.

The board resolved at its meeting held on 6 July 2011 that non-executive directors' remuneration not be increased for the 2012 financial year in support of and in solidarity with the cost cutting initiatives implemented by the group. The proposed fees payable to non-executive directors are set out below:

	Fee per meeting*	Capped fee per annum**
Services as directors		
> chairman of the board	—	R750 000
> board members	R34 340	R171 700
Audit, Risk and Compliance Committee		
> chairman	R47 694	R190 776
> members	R28 617	R114 468
Remuneration and Nomination Committee		
> chairman	R38 155	R152 620
> members	R22 894	R91 576
Investment Committee		
> chairman	R28 617	R228 936
> members	R17 170	R137 360
Transformation Committee		
> chairman	R28 617	R114 468
> members	R17 170	R68 680
Ad Hoc Committee		
> chairman	R28 617	R114 468
> members	R17 170	R68 680

* *In the event that there are fewer meetings than envisaged, the member shall receive the fee in respect of the number of meetings attended*

** *In the event that there are more meetings per year than initially planned, directors' fees will be paid only up to the capped fee*

No increase has been applied to the above listed fees and the fees are as per the fees approved by shareholders for the previous year 1 June 2010 to 31 May 2011.

Report of the Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee ("ARCC" or "the committee") is pleased to present its report for the financial year ended 31 May 2011. This report is presented in accordance with the requirements of the Companies Act and the recommendations contained in King III.

MANDATE AND TERMS OF REFERENCE

The ARCC discharges its duties in accordance with a formal detailed terms of reference. During the year under review the terms of reference were updated and approved by the board. In terms of the revised terms of reference the ARCC is mandated to:

- examine and review the group's financial statements and reporting of interim and final results;
- review and consider, for recommendation to the board, the consolidated budget for the ensuing financial year;
- oversee integrated reporting;
- oversee the Internal Risk and Compliance Committee;
- oversee the functions of the Compliance Officer;
- ensure that Blue Label has implemented an effective policy and plan for risk management that will enhance the company's ability to achieve its strategic objectives;
- ensure that the disclosure regarding risk is comprehensive, timely and relevant;
- ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities;
- review and satisfy itself of the expertise, resources and experience of the Blue Label finance function;
- oversee the internal audit function and internal financial control process;
- recommend the appointment of the external auditor and overseeing the external audit process including external auditor's independence;
- establish, implement and maintain a compliance function with adequate policies and procedures to ensure compliance with rules, regulations, statutes and procedures applicable to Blue Label;
- report to the board and shareholders on how it has discharged its duties.

COMPOSITION AND PROCEDURES

The members of the ARCC are JS Mthimunye [chairman], GD Harlow, NN Lazarus SC and LM Tyalimpi. All of the members of the ARCC save for Mr Lazarus SC are independent non-executive directors. Mr Lazarus SC has specialist professional skill and experience and makes an important contribution to the work of the committee. Mandatory attendees of the ARCC include BM Levy, MS Levy, DB Rivkind, DA Suntup (financial director of TPC), the audit partner from PricewaterhouseCoopers Inc. and a partner from KPMG to whom Blue Label outsources its internal audit function.

The quorum for an ARCC meeting is three members present throughout the meeting. The ARCC meets quarterly and at every meeting the external and internal auditors have an opportunity to address the meeting. The external and internal auditors also have direct access to the ARCC to hold separate private discussions on matters they deem important.

Attendance at meetings:

Members (and invitees)	Jun	Aug	Nov	Feb
JS Mthimunye (Chairman)	✓	✓	✓	✓
GD Harlow	✓	✓	✓	✓
NN Lazarus SC	✓	✓	✓	✓
LM Tyalimpi	✓	✓	✓	✓
BM Levy^	✓	✓	✓	✓
MS Levy^	✓	✓	A	✓
DB Rivkind^	✓	✓	✓	✓
DA Suntup^	✓	✓	✓	✓

✓ *Attendance*
A *Apologies submitted and leave of absence granted*
^ *Attends by invitation and is not a member of the committee*

The internal auditors and external auditors attended and reported at each meeting of the ARCC.

DUTIES DISCHARGED

During the financial year ended 31 May 2011, the ARCC carried out its duties as set out in the terms of reference and in accordance with its annual plan. The committee's role and responsibilities included its statutory duties as per the previous Companies Act of 1973 (as amended), the Companies Act 71 of 2008 and the responsibilities assigned to it by the board. The committee performed the following duties:

> reviewed and commented on the annual financial statements and the accounting practices;
> reviewed interim reports and results announcements and recommended these to the board for approval;
> considered the committee's report describing how duties have been discharged;
> reviewed the external auditor's report to the committee and management's responses;
> nominated the re-appointment of PricewaterhouseCoopers Inc. with Eben Gerryts the audit partner, as the registered independent auditors;
> ensured that the appointment of the external auditor complies with the previous Companies Act of 1973 (as amended) and any other legislation relating to the appointment of the auditors;
> reviewed significant judgements and/or unadjusted differences resulting from the audit, as well as any reporting decisions made;
> monitored compliance with accounting standards and legal requirements;
> ensured that all regulatory compliance matters had been considered in the preparation of the financial statements;
> determined the fees to be paid to PricewaterhouseCoopers Inc. and approved the terms of engagement;
> maintained a non-audit services policy which determines the nature and extent of any non-audit services that PricewaterhouseCoopers Inc. may provide to the group;

- discharged those statutory obligations of an audit committee as prescribed by section 270A of the previous Companies Act of 1973 (as amended) and section 94 of the Companies Act 71 of 2008 acting in its capacity as the appointed audit committee of the subsidiary companies of Blue Label;
- reviewed the co-operation and co-ordination between the internal and external audit functions and co-ordinated the formal internal audit work plan with external auditors to avoid duplication of work;
- examined and reviewed the progress made by internal audit against the approved 2010/2011 audit plan and furthermore approved the internal audit plan for the 2011/2012 financial year;
- considered the effectiveness of internal audit;
- considered internal audit findings and corrective actions taken in response to findings;
- formed an integral component of the risk management process and, among others, monitored quarterly risk assessments and considered the adequacy of internal financial controls;
- considered and approved a Corporate Compliance Policy;
- reviewed developments in corporate governance and best practice and considered their impact and implications on the group in particular the principles of King III;
- satisfied itself that the financial director is suitable and appropriately qualified to fulfil his role and that the finance function of Blue Label is suitably resourced and skilled to carry out its obligations;
- reviewed and aligned the committee's terms of reference with the Companies Act 71 of 2008 and principles of King III;
- reviewed the text of various reports, including the corporate governance statement, the internal audit assurance statement, the sustainability report and the directors' report, for inclusion in the Blue Label's 2011 Integrated Annual Report.

EXTERNAL AUDITORS

The ARCC has satisfied itself as to the independence of the external auditor, PricewaterhouseCoopers Inc., as set out in section 270A of the previous Companies Act of 1973 (as amended) and section 94(7) of the Companies Act 71 of 2008, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by PricewaterhouseCoopers Inc. that internal governance processes within the firm support and demonstrate their claim to independence.

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2011 financial year.

Non-audit services to be provided by the external auditors are governed by a formal written policy which incorporates a monetary delegation of authority in terms of non-audit services to be provided. The committee has approved the terms of the written policy for the provision of non-audit services, and approved the nature and extent of non-audit services that may be provided by the external auditor.

The non-audit services rendered by the external auditors during the year ended 31 May 2011, comprised tax advisory services, tax compliance services and general advisory services. The fees applicable to the aforementioned services totalled R3.4 million (2010: R1.8 million).

The ARCC has nominated, for approval at the annual general meeting, the re-appointment of PricewaterhouseCoopers Inc. as registered auditors for the 2012 financial year and Mr Eben Gerryts, the audit partner, as the independent registered auditor of Blue Label Telecoms. The committee also satisfied itself that PricewaterhouseCoopers Inc. is accredited and appears on the JSE List of Accredited Auditors as contemplated in paragraph 3.86 of the JSE Listings Requirements.

INTERNAL AUDITORS

The internal auditors report administratively to the financial director and functionally to the ARCC and operate under an approved internal audit charter and audit plan. The internal audit partner is responsible for reporting the findings of the internal audit work against the agreed internal audit plan to the committee on a quarterly basis. The internal audit partner has direct access to the committee.

The ARCC has overseen a process by which internal audit performed a written assessment of the effectiveness of the group's system of internal control and risk management, including internal financial controls. This written assessment by internal audit formed the basis for the ARCC's recommendation in this regard to the board, in order for the board to report thereon. The board report on the effectiveness of the systems of internal controls is included on page 93 of this report. The ARCC supports the opinion of the board in this regard.

RISK MANAGEMENT

The committee is responsible for monitoring risk management in the group, whilst the board retains overall accountability for risk in general. The IRCC supports the ARCC by identifying, evaluating and measuring group-wide risks and compliance in all functional areas of the group. The ARCC reviews the minutes of the IRCC on a quarterly basis and clarifies any questions or concerns with the financial director who is chairman of the IRCC.

COMPLIANCE

A corporate compliance policy was approved by the ARCC. The compliance officer has obtained the necessary authority to implement a management tool to assist in evaluating the group's compliance with its regulatory universe and the compilation of risk management plans to ensure that risks are mitigated effectively. The committee will be provided with appropriate progress reports as the project progresses.

WHISTLE-BLOWING AND ETHICS HOTLINE

The committee is satisfied that instances of whistle-blowing were appropriately dealt with during the year under review.

Report of the Audit, Risk and Compliance Committee continued

EXPERTISE AND EXPERIENCE OF THE FINANCIAL DIRECTOR AND FINANCE FUNCTION

In accordance with the JSE Limited Listings Requirements and governance best practice, the committee considered the appropriateness of the expertise and experience of the financial director and finance function of the group. The ARCC is satisfied that Mr David Rivkind possesses the appropriate expertise and experience to discharge his responsibilities.

The ARCC has furthermore considered and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the finance function.

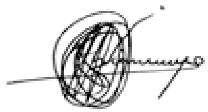
ANNUAL FINANCIAL STATEMENTS

The group annual financial statements and company annual financial statements have been prepared by senior management and supervised and reviewed by Mr Rivkind.

The committee has reviewed the annual financial statements of the company and the group and is satisfied that they comply with International Financial Reporting Standards and the Companies Act.

RECOMMENDATION OF THE INTEGRATED ANNUAL REPORT FOR APPROVAL BY THE BOARD

The ARCC has reviewed the report and recommended the report for approval by the board.



JS Mthimunye
Chairman
10 October 2011

Sustainability report

VALUE ADDED STATEMENT

The value added statement of the group shows how much economic value has been created by Blue Label through its utilisation of capital, capacity and other resources and how the economic value was distributed to stakeholders.

	2011 R'000	2011 %	2010 R'000	2010 %	2009 R'000	2009 %
Value added						
Value added by operating activities	1 008 910	95.2	989 172	92.2	847 005	84.2
Revenue	18 601 571		17 027 696		15 281 449	
Net operating expenses	(17 592 661)		(16 038 524)		(14 434 444)	
Value added by investing activities	50 645	4.8	84 127	7.8	158 539	15.8
Fair value movement on financial assets at fair value through profit or loss	—		—		32	
Interest income	50 645		84 127		158 507	
	1 059 555	100	1 073 299	100	1 005 544	100
Value distributed						
Distributed to employees	298 718	28.2	299 928	27.9	278 970	27.7
Salaries, wages, medical and other benefits	298 718		299 928		278 970	
Distributed to providers of finance	8 221	0.8	5 130	0.5	4 891	0.5
Finance costs	8 221		5 130		4 891	
Distributed to the state	171 620	16.2	183 773	17.2	190 144	18.9
Income tax	171 620		181 838		190 144	
Withholding tax	–		1 935		–	
Value reinvested	196 025	18.5	159 287	14.8	166 574	16.6
Depreciation, amortisation and impairment	193 132		119 785		93 220	
Net discounting finance cost	17 634		41 537		61 269	
Share of losses of associates	2 757		14 982		27 445	
Deferred taxation	(17 498)		(17 017)		(15 360)	
Value retained	384 971	36.3	425 181	39.6	364 965	36.3
Retained profit	431 448		365 022		390 547	
Minority shareholders' interest	(46 477)		60 159		(25 582)	
	1 059 555	100	1 073 299	100	1 005 544	100

MATERIAL IMPACTS AND RISKS

In determining the material impacts and risks of the group, a formalised group-wide "top down" and "bottom up" risk management process is applied. The following key impacts and risks to the group have been identified:

Category	Impact/risk	Comment
Economic	General economic conditions, including certain political, social and environmental conditions in South Africa	In an economic downturn consumers are forced to limit expenditure, particularly on non-essential needs. This could have an adverse effect on revenue and profitability. The depressed interest rate environment affects the revenue earned from treasury. While South Africa features a highly developed financial and legal infrastructure at the core of its economy, it has high levels of unemployment, poverty and crime. Particular considerations include how the Government addresses political tensions and social and economic problems, the extent to which its efforts will be successful, the political, social and economic consequences of such efforts, and the effect on businesses of the continuing integration of the local economy with the economies of the rest of the world, in particular Brazil, Russia, India, China and South Africa.
Financial	Margin compression	Network operators determine the margins to the prepaid airtime distribution channel. Blue Label may not always be able to pass on to the retailer or customer any margin compression enforced by the network operators.
Financial	Reduction of inter-connect fees	Parliamentary intervention has reduced cellular inter-connect fees, and is likely to promote further decreases in the immediate future. This, in turn, has led to some lowering of cellular airtime prices. It is expected that downward pressure on the networks' prices is likely to continue. Lower pricing may lead to both margin compression by the networks and decreased spend by consumers.

	Response
	It has been the group's experience over the last 10 years that the diversity of its mix of products and services and distribution channels has limited its exposure to economic downturns. The bulk of the product mix consists of goods, the demand for which thus far appears inelastic. Consumers appear to be unwilling to reduce spending on utilities, transport and even airtime. In this regard the group's products are bought rather than sold. The group has negotiated early settlement discounts and bulk purchase discounts with its suppliers to compensate, in part, for the loss of interest revenue from treasury activities. Blue Label believes that economic sentiment is positive in the areas in which it operates. In the past it has taken courageous decisions to terminate business activities in areas where returns have not delivered appropriately when compared to other competing opportunities. The group continues to consider expanding its operations beyond South Africa, India and Mexico with particular focus on other emerging markets, typified as large and fast growing with low penetration markets.
	Management is confident that based on the terms of the group's customer agreements and business model it should continue to be able to pass on any margin compression to the distribution channel. Any margin compression is also likely to force inefficient distributors out of the distribution chain, a trend welcomed by management.
	The group continues to monitor the situation, but believes that it should be able to pass margin compression onto the distribution channel. At this stage it would appear that networks are passing on the majority of the benefits of lower pricing to contract subscribers. The decreases in prepaid call rates that the networks have thus far implemented have not affected group turnover. It is management's view that prepaid customers currently consume less airtime than they require, but as much as they are able to afford. It would therefore appear likely that prepaid consumers' spend should remain the same, but consumers will receive more value for that spend.

Category	Impact/risk	Comment
Economic	Changes in regulatory environment	Consumer Protection Act (CPA) governs suppliers and consumers in relation to, inter alia, the supply of goods and services in the ordinary course of business for consideration; the promotion of goods and services and the promotion of the supply thereof in South Africa. This act impacts the majority of the group. Protection of Personal Information Bill restricts the ability to use personal information of individuals. If promulgated it could affect the outbound sales campaigns of the group's call centres and the revenues earned by Blue Label Data Solutions.
Social	Inability to attract and retain key and qualified employees in whom intellectual capital resides	The group's future performance will depend largely on the efforts and abilities of its key personnel and employees. The existing management at Blue Label pioneered the mass prepaid market and established the group's business model. Blue Label future success will depend, in part, upon its ability to continue to attract, retain, motivate and reward personnel, including executive officers and certain other key technical employees.
Financial	Non-exclusivity of various supply, distribution and WASP agreements	Certain of the group's supply, distribution and WASP agreements are non-exclusive and can be terminated at relatively short notice. This type of agreement is standard in the industry.

	Response
	The group has made a number of changes to its business practices to comply with the provisions of the CPA. The most significant changes pertained to the group's prepaid vouchers. In terms of the CPA these vouchers will not expire until the earlier of the date of redemption or three years after the date of issue. This requirement necessitated the upgrade of the group's technology to allow for vouchers to remain valid for a period of three years. Revenues earned from the Solutions segment are not significant to overall group income. Regulations under the bill are unclear and could exempt certain activities. The group's call centres and data aggregator have developed affinity campaigns in which permission is obtained to use personal information. The call centres continue to pursue inbound campaigns which will not be affected by the proposed legislation. The group's data aggregator has renewed its certification from the Direct Marketing Association that it adheres to best practice.
	The joint chief executive officers and co-founders, are both substantial shareholders and are passionate and dedicated to the sustainability and growth of the group. Key members of the management team are bound by service and restraint agreements and in many instances are shareholders of Blue Label. Executive management has implemented talent management and succession planning in key areas of the group. Appropriate skills transfer activities are ongoing through on the job and other training programmes. The Remuneration and Nomination Committee has approved remuneration policies which include long-term retention benefits and incentives. In addition, key components of the group's remuneration policy have been adjusted to focus on retention.
	Management is committed to growing the group's footprint by increasing its points-of-presence (touch points) and owning the entire technological value chain, which drives the group's products and services. Presently the group's points of presence number some 140 000 in South Africa alone and nearly 1 million across the world. This has placed the group in a strong position in the distribution chain. Relationships with and service to suppliers and customers are of paramount importance. The consolidation of the South African distribution segment allows for an increased focus on client relationships and management and specific CRM initiatives have been implemented.

Category	Impact/risk	Comment	
Financial	Elimination of the middle man	In most industries a wholesaler is at risk of being eliminated from the supply chain if the supplier elects to supply the customer directly.	
Financial	Disaster recovery and continuity of business	The group has developed proprietary technology supporting the rollout of its bouquet of products and services. The group's infrastructure connects into some of South Africa's major banks, utility companies and telecommunication operators and switches both debit and credit card electronic funds transfer transactions and e-token products for some of the country's leading retailers and petroleum companies. The effective continuous operation of this infrastructure is critical to the company's service delivery.	

	Response
	From inception, the objective of the Blue Label group was to become a one-stop destination for the supply and distribution of all of the networks' offerings. This would provide both convenience and efficiency to the retailer and customer. Furthermore the technology and footprint developed by the group allows retailers to earn additional revenue by the introduction of additional products. This would make it difficult to disintermediate the group. No single network can offer this complete solution. The introduction of the sale of prepaid electricity, and its phenomenal uptake in South Africa, would seem to be proof that it remains difficult to eliminate the middle man, who continues to rely on Blue Label as the neutral aggregator in both the prepaid airtime and electricity markets.
	Management recognises the importance assigned to IT in its corporate governance systems. The management team in the Technology segment is being strengthened. The group has compiled a formal Business Continuity and Disaster Recovery Plan which provides guidance for the restoration of Information Technology facilities. The plan describes the IT framework and procedures to be activated in the event of a disaster. The major goals of the plan are to: > minimise interruptions to the normal operations; > limit the extent of disruption and damage; > minimise the economic impact of the interruption; > establish alternative means of operation in advance; > train personnel with emergency procedures; and > provide for rapid restoration of service.

STAKEHOLDER ENGAGEMENT

The building of long-term and transparent relationships with the most significant stakeholders is one of Blue Label's core values. A broad range of internal and external stakeholders having a material interest in or who are affected by Blue Label have been identified. The group has a deliberate and measured approach to its interaction with stakeholders, taking into account the impact that each stakeholder may have on the business, while the frequency and form of that engagement is commensurate to its estimated impact.

Initiatives and methods used to engage with stakeholders comprise face-to-face formal or informal, individual or group meetings (including the annual general meeting); media and stock exchange announcements; presentations; road shows; conference calls; the Blue Label website (www.bluelabeltelecoms.co.za); an intranet site for employees; investor days and site visits; perception studies and reputation audits; whistle-blowing facilities and formal grievance mechanisms; financial and sustainability reports; newsletters, circulars and e-mail updates; regular customer, business partner and supplier meetings and formal consultation and audit processes. Dialogue and feedback is encouraged wherever possible which is presented to Exco for consideration and/or further action.

Blue Label's stakeholders consist of the following main groups:

Stakeholder group	Nature of engagement	Method of engagement	Frequency	Dialogue
Employees	Communication with employees involves matters of an operational nature such as health and safety initiatives, internal policies and practices such as the establishment of the ethics hotline, new products, competitions, business initiatives, charitable initiatives, human resource matters and regulatory and compliance matters.	Intranet, staff meetings, newsletters, electronic mail, staff notices	Ongoing	Staff performance is reviewed on an annual basis with the intention of measuring performance, however it also provides a forum at which staff may make recommendations and/or requests. Several recommendations have been received in this manner, such as the requirements for increased access to skills and development, and career development objectives. Blue Label Academy was established in August 2011, as an e-learning portal which is accessible to all staff. Blue Label purchased two licences per staff member, which entitled them to access and complete two business skills courses or one business skill and one technical course as appropriate.
	In addition to the ongoing communication Blue Label also holds an annual management conference attended by senior and middle management of the group. The purpose of the conference is to obtain input and feedback from the attendees on matters of a strategic nature specific to each business segment.	Annual management conference	Annually	

Stakeholder group	Nature of engagement	Method of engagement	Frequency	Dialogue
Providers of capital, including shareholders, investors and financial analysts	Engagement with this stakeholder group involves presentations and ad hoc meetings covering the financial performance of the group, an overview of the strategic direction, investment proposition, investor days and site visits. This also includes offering management access to financial analysts, institutional and retail investors. Names and contact details are registered on the Blue Label investor database.	Roadshows to institutional investors in South Africa, Europe, USA and United Kingdom Half-year results and year-end results presentations to shareholders Annual report and annual general meeting Press announcements of its interim and year end results SENS announcements via the JSE Face to face meetings, group meetings, conference and video conference calls Speaker at conferences and workshops Investor alerts via website registration	Ongoing Bi-annually Annually Bi-annually Ongoing Ongoing	This stakeholder group indicated that they would like a deeper exposure to the management team and increase their understanding of the business model. To address this request an Investor Day was held in October 2010 hosted by the Joint CEOs and management team. The event was attended by 50 interested and affected parties. The presentation is available on the company website. The company has furthermore established a demonstration room at which transactions are simulated on the various terminals.
Journalists, reporters and other members of the media	Announcements of activities and events in the group, including the release of financial information, are communicated timeously to the financial media, trade press and other interested media registered on the Blue label media database	News releases are distributed to media representatives Group briefings are held, followed by Q&A Interviews are conducted	Ongoing	This stakeholder group was included in the Investor Day.

Stakeholder group	Nature of engagement	Method of engagement	Frequency	Dialogue
Customers	The group's customer base comprises corporate clients, chainstores, large independent retail clients, wholesale/cash-and-carry stores, mom & pop stores and petroleum industry forecourts. Engagement with customers involves information on new products, market trends, business queries, device installations, marketing, Blu Approved branding, maintenance and support. Blue Label senior management liaises regularly with senior management of customers and suppliers, and in so doing, have built long-term relationships.	Face-to-face formal and informal meetings, formal consultation. The company has implemented a Client Relationship Management (CRM) system to enhance its customer engagement.	Ongoing	Frequently asked questions by customers centre around matters of a technical nature or account queries. If it is a technical issue a call out is logged and a technician will visit the store within 24 to 48 hours. Account queries that need to be escalated are dealt with by Customer Service Representatives ("CSR") who will visit the merchant to resolve the query. Our CSRs also provide point of sales material, check if the merchant requires an additional product and to a degree are also able to assist with minor repairs and rebrand machines. The Contact Centre will also regularly send merchants emails and sms's to keep them up to date. The Business Unit Managers have good relationships with merchants and also pay them courtesy visits to ensure open lines of communication.

Stakeholder group	Nature of engagement	Method of engagement	Frequency	Dialogue
Business partners and suppliers	The relationships that Blue Label has with its business partners such as Vodacom, MTN, Cell C, Telkom, municipalities and parastatals, service providers, among others, are managed in terms of distributor and/or dealer agreements. Relationship managers are appointed to each partner to provide a single and dedicated point of contact. Suppliers are subjected to a formal procurement process whereby issues such as quality of product, creditworthiness and B-BBEE status are confirmed prior to becoming suppliers. Suppliers of services are, if appropriate, initially engaged through a tender process and if successful, agreements are concluded. The majority of the group's goods and services are procured from locally based suppliers.	Distributor and/or dealer agreements Face-to-face formal and informal meetings	Ongoing Monthly	Matters raised pertain predominantly to technical and operational matters which are resolved timeously to ensure smooth service delivery.

Stakeholder group	Nature of engagement	Method of engagement	Frequency	Dialogue
Communities	The TPC Community Channel specialises in the development and empowerment of broad-based communities through the deployment of mobile technology and products. The community channel aims to not only distribute the group's products more widely but to create job opportunities for the members of the communities and to share a portion of the revenues earned with those communities. The company also engages with the business community on a regular basis. The joint chief executive officers are involved in collaborative projects with the Gordon Institute of Business Science (GIBS). The joint chief executive officers are regularly recognised for their contributions to the community eg Entrepreneur of the year finalist, IT personality of the year, as detailed in each person's biography on page 11 of this report.	Face-to-face formal and informal meetings and forums Training and workshops Presentation at conferences Participation in panel and round table discussions	Ongoing Informal weekly sessions and formal monthly sessions Ad hoc as requested.	The communities in which the TPC Community Channel operates are concerned about the upliftment of their community, the enhancement of skills and the provision of services to their rural areas. This concern is directly addressed by the objective of the Community Channel as it focuses on providing services to these communities as well as creating job opportunities and economic upliftment.
Government, regulatory bodies and the public sector	The group regularly engages government (at national and local level), parastatals and other public organisations through various tender processes. From a compliance point of view, the completion and rendition of statutory returns are undertaken diligently. Blue Label is not a member of any industry association and/or national/international advocacy organisation in which the company has positions in governance bodies, participates in projects or committees or provides substantive funding.	Formal meetings and tender processes	Regular and ongoing	During the year under review no prosecutions or fines were brought against the group for the contravention or non compliance of any laws or regulations.

SHAREHOLDER ANALYSIS

Below is a synopsis of Blue Label Telecoms Limited's shareholder spread as at 27 May 2011, showing the distribution of shareholders and beneficial shareholders holding 2% or more of the issued share capital of the company:

Shareholder spread	Number of shareholdings	%	Number of shares	%
1 – 1 000 shares	645	20.01	358 501	0.05
1 001 – 10 000 shares	1 717	53.27	6 925 546	0.73
10 001 – 100 000 shares	628	19.48	18 730 172	1.84
100 001 – 1 000 000 shares	162	5.03	58 940 628	4.33
1 000 001 shares and over	71	2.20	681 406 047	93.06
Totals	3 223	100.00	766 360 894	100.00
Distribution of shareholders				
Banks	31	0.96	109 832 854	14.33
Close Corporations	64	1.99	1 772 641	0.23
Empowerment	1	0.03	818 979	0.11
Endowment Funds	22	0.68	787 297	0.10
Individuals	2 427	75.30	189 168 175	24.68
Insurance Companies	19	0.59	12 480 835	1.63
Investment Companies	18	0.56	19 090 907	2.49
Medical Schemes	3	0.09	537 950	0.07
Mutual Funds	81	2.51	95 328 132	12.44
Nominees and Trusts	348	10.80	43 332 620	5.65
Other Corporations	46	1.43	604 856	0.08
Private Companies	99	3.07	148 292 935	19.35
Public Companies	7	0.22	94 763 578	12.37
Retirement Funds	55	1.71	39 296 240	5.13
Treasury Stock	2	0.06	10 252 895	1.34
Totals	3 223	100.00	766 360 894	100.00

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	20	0.62	401 250 133	52.36
Directors and associates	16	0.50	182 409 386	23.80
Strategic Holdings (10% or more)	2	0.06	208 587 852	27.22
Treasury stock	2	0.06	10 252 895	1.34
Public shareholders	3 203	99.38	365 110 761	47.64
Totals	3 223	100.00	766 360 894	100.00
Beneficial shareholders holding 4% or more				
Shotput Investments (Pty) Ltd			116 736 000	15.23
Microsoft Corporation			91 851 852	11.99
Levy, BM			82 613 331	10.78
Levy, MS			75 205 922	9.81
Fidelity			42 350 497	5.53
Investec			38 004 822	4.96
Totals			446 762 424	58.30

SOCIAL PRACTICES

Transformation and broad-based black economic empowerment (B-BBEE)

The group continues to develop and progress transformation and B-BBEE in respect of the South African businesses. During the year under review Nthwese Investment Holdings Consortium (Pty) Ltd, the company's empowerment partner, sold down its shareholding. The Transformation Committee continue discussions with various B-BBEE groupings with suitable skills and stability with a view to concluding an empowerment transaction.

The group's approach to B-BBEE verification is at subsidiary level rather than holding company level. The group subsidiaries will undergo respective renewal verifications later this calendar year.

Transformation and B-BBEE focus areas continue to include training initiatives, inclusive of learnerships, enterprise development initiatives and comprehensive socio-economic initiatives through the Chairman's Fund.

Socio-economic development (SED)

Blue Label contributed R3.5 million (2010: R3.1 million) to various projects via The Chairman's Fund. The thrust of these contributions remained on youth development, HIV and Aids, and sports development with continuous support given to the Protea Glen Legacy Park and Nomonde's Children's Home and the Netcare

Cranio Facial Programme in partnership with Vodacom.

Other charitable organisations supported, included Business Against Crime, Feed SA, Afrika Tikkun, Soweto Marimba Youth League and Malamulele Onwards.

Staff also actively participated in various charitable initiatives, collecting soup and blankets in winter, raising R18 000 in support of Madiba Day by selling home made products and including the children from the Soweto Mariba Youth League Band in the Family Day festivities.

Enterprise development

Blue Label, through its major subsidiary TPC continues to provide financial assistance on an interest free basis to ZOK Cellular (Pty) Limited (ZOK). In addition, Blue Label provides management and strategic support and other resources to ZOK. The ZOK strategy aims to empower budding entrepreneurs from South Africa's previously disadvantaged communities, by equipping them with a ready-made ZOK container equipped for a Fast Moving Consumer Goods retailing solution. The container is a licensed business unit designed as a self contained turnkey business with start-up stock for food retail, airtime starter packs and top-up airtime, public phones, fax facilities, internet services and ATM facilities. Placing ZOK containers in previously disadvantaged areas is intended to bridge the gap in telecommunications, ICT and banking services in such areas, as well as to uplift the communities in the areas served by the containers.

Preferential procurement

The group continues to support those organisations which are B-BBEE verified.

HUMAN CAPITAL

The group recognises that its employees are its most valuable asset. All new employees undergo an induction session during which they receive a staff manual comprising the group's vision, mission, values, ethics statement, conditions of employment, standard group practices, procedures and policies, as well as a health and safety booklet. The group human resources department oversees the group's skills development and training initiatives. Senior management in each of the subsidiaries is responsible for ensuring that group strategy and culture are implemented consistently.

All permanent employees are automatically included in various group-wide schemes, namely, the group life benefit and medical aid, as well as free access to group products and services such as miTRAFFIC, Look4help, Look4me, MTN WhereRU, MTN 2MyAid and more recently MiPayslip.

The group life benefit scheme is employer funded and includes death, disability, dreaded disease and funeral benefits. All existing employees have an option to join Discovery Health, while membership is compulsory for all new permanent employees. All changes to terms and conditions of employment, inclusive of changes to significant operational matters are dealt with on the basis of consultation with staff and mutual acceptance.

The company has a monthly internal newsletter detailing current affairs, various wellness issues, profiling employees and recognising those who have been nominated for making a positive contribution to their work place or community. Those employees are issued the "Super Hero of the Month " award.

Blue Label does not consider incidents of child labour, forced or compulsory labour to be a risk to any of its operations due to the protection provided by the Constitution of the Republic of South Africa, the Bill of Rights as well as the labour laws of the country.

EMPLOYMENT EQUITY

The group promotes equal opportunity and fair treatment in employment in accordance with its employment equity policy. The objective is to create an environment in which all employees are able to compete for job opportunities on the sole criterion of merit.

The individual subsidiary company employee statistics are monitored by the group human resources department. The group strives to ensure job descriptions and functionalities of top, senior and junior management are accurately reflected in the Employment Equity reports submitted annually, and to align the DTI Codes of Good Practice and the employment equity reports. Blue Label continues to be non-unionised.

The table below reflects the demographics of the employee base across the group, excluding international operations:

BLUE LABEL GROUP

Equity headcount by category summary 2010

	Male				Female				
Occupational level	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
Permanent									
Unskilled & defined decision makers	22	0	3	7	19	5	3	3	62
Semi-skilled & discretionary decision makers	142	60	106	23	279	114	126	69	919
Skilled technical & academically qualified workers, junior management, supervisors	47	25	12	95	43	15	7	56	300
Professionally qualified & experienced specialists & mid-management	8	3	7	47	3	2	3	15	88
Senior management	1	2	1	21	6	5	3	27	66
Top management	3	0	0	39	3	0	0	4	49
Total permanent	223	90	129	232	353	141	142	174	1 484
Non-permanent	114	6	0	7	2	4	0	3	136
Grand total	337	96	129	239	355	145	142	177	1 620

Equity headcount by category summary 2011

Occupational level	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Permanent									
Unskilled & defined decision makers	28	1	5	4	20	6	5	1	70
Semi-skilled & discretionary decision makers	46	29	13	27	60	29	16	68	286
Skilled technical & academically qualified workers, junior management, supervisors	44	18	21	78	13	10	8	28	220
Professionally qualified & experienced specialists & mid-management	3	1	3	52	2	2	0	26	89
Senior management	3	3	8	27	3	3	4	19	70
Top management (incl non-exec)	5	0	0	41	1	0	0	0	47
Total permanent	129	52	50	229	99	50	33	141	782
Non-permanent	86	34	88	10	177	43	131	6	575
	215	6	138	239	276	93	164	146	1 357

The decrease in the total number of employees compared to the previous reporting period is mainly attributable to the group's disinvestment in CNS Call Centre, normal attrition and various cost cutting initiatives.

TRAINING AND SKILLS DEVELOPMENT

The group has implemented new training and development initiatives during the year as follows:

Learnership initiatives

The group has continued to partner with Bytes People Solutions in implementing various learnership programmes within its various subsidiaries as detailed in the table below:

Subsidiary	Learnership programme	NQF level	Number of participants
Blue Label Distribution (Pty) Ltd	Contact Centre Support	2	6
	End User Computing	3	2
	Systems Support	5	4
Blue Label Data Solutions (Pty) Ltd	End User Computing	3	1
Cigicell (Pty) Ltd	Contact Centre Support	2	5
	End User Computing	3	1
Cellfind (Pty) Ltd	Contact Centre Support	2	1
	Systems Development	5	1
The Prepaid Company (Pty) Ltd	End User Computing	3	3
	Systems Support	5	1
	Technical Support	4	4
Transaction Junction (Pty) Ltd	Systems Support	5	1

A total of 30 learners (2010: 25 learners) within the various subsidiaries are mentored throughout the duration of the programme to ensure that they successfully complete their learnership qualification and integrate effectively into the Blue Label workforce.

The group has also engaged disabled learners and has a total of nine such learners (2010: seven learners) currently engaged in the learnership programmes.

During the previous financial year the group hosted 25 learners and employed 10 within its various subsidiaries.

The Leadership Journey

Velociti (Proprietary) Limited, the group's call centre business, implemented a leadership workshop aimed at developing its team leaders. The Leadership Journey is centred on Passionate, Assertive and Transformational leadership objectives. The workshop has been highly effective and looks at leadership and its relevance in order to transform both the individual and the business.

COMMUNITY CHANNELS ("CC")

Community channels continued its development and empowerment of communities through the deployment of mobile technology. This allows the group to support continuing economic growth within broad-based communities, by creating jobs, developing skills and empowering South Africans through technology.

During the year under review the CC division successfully trained 1 500 "foot soldiers" in 11 communities across South Africa. In addition 16 new traditional councils have been signed up thereby creating 2 000 temporary jobs. Training provided to the "foot soldiers" includes introduction to the specific channel starter pack, the importance of retaining and recharging the starter pack, problems they might encounter when downloading the free airtime included in the starter pack and how to solve problems, how they need to dress and behave, recommended selling price and targets, what is RICA and how to operate a RICA terminal. Many of these "foot soldiers" have used this opportunity to start their own businesses or to earn additional income from the sale of starter packs.

SAFETY AND HEALTH RESPONSIBILITY AND PRACTICES

The Occupational Health and Safety Act No 85 of 1993 ("OHSA") provides a legislative framework outlining an employer's legal duty to provide healthy and safe conditions in the workplace.

The group Health and Safety Policy ensures comprehensive practical implementation of Blue Label's responsibility and commitment to a healthy, safe and incident-free working environment.

Health and safety activities include:

- identification of all health and safety hazards in the workplace through formal hazard surveys and taking appropriate action to mitigate them;
- continual awareness and training of employees to ensure health and safety competence in the workplace and a general awareness of potential safety and health hazards implicit in their work environment;
- conducting business activities in a manner that ensures an acceptable degree of physical, mental and social wellbeing of all employees; and
- ensuring the group complies with all relevant safety and health legislation.

Awareness of the group's health and safety requirements is created for all new employees as part of their induction. Frequent information updates are circulated via e-mail and the internal newsletter to all existing employees.

The group's health and safety officer manages health and safety practices in the group. Representatives appointed at each of the subsidiary companies assist the group's health and safety officer. These health and safety representatives have been trained by qualified external service providers in accordance with the requirements of OHSA. Monthly health and safety meetings are held to discuss the outcome of inspections and precautions to be implemented to mitigate identified hazards. In addition to the health and safety representatives the group has also appointed first-aid practitioners and fire marshals. Training of these individuals is also provided by qualified external service providers.

Health and safety risks associated with the group's business include fire, electrical safety and slippery floors. The group reported no major health and safety incidents during the year under review.

	2011	2010
Disabling injury frequency rate		
South Africa	**0.625**	Not measured
International	**Not measured**	Not measured
Work related fatalities	**0**	0

The group's fire drills and evacuation procedures at its head office were evaluated by the Sandton Fire Department Disaster Management team (SFDDM) during the year and its recommendations were fully implemented.

The group's "Wellness for Life Programme" has been operational for a year. Corporate wellness is the ability to reduce and manage employees' stress and contributes to staff wellness, enabling them to re-focus and re-energise allowing them to perform at their peak. The Wellness for Life Programme has focused on a number of initiatives put in place to support, encourage and educate employees on the benefits of a healthy lifestyle. The human resource department co-ordinated wellness days throughout the year. These have included programmes on dental care, vision screening, substance abuse in the workplace and at home, debt counselling and trauma counselling. Information and support for chronic diseases such as HIV and Aids, tuberculosis, diabetes, cancer, heart problems and weight issues have continued to form topics of the wellness programme. Over

50 group employees participated in the JP Morgan Corporate Challenge in March 2011 and the company also sponsors employees participating in the 94.7 Cycle Challenge and Cape Argus Cycle Race.

Blue Label partners with the Bryanston Assessment Centre providing access for employees in matters of a psychological nature. In addition, all employees have access to disease management forums within Discovery Health, such as Oncology, Diabetes and HIV management. Health awareness programmes such as condom distribution, voluntary HIV testing, infection control, are ongoing.

ENVIRONMENTAL PRACTICES

Blue Label acknowledges that the responsible use and management of natural resources are integral elements of Blue Label's commitment to sustainable development. While the group's business activities are categorised as either low risk or very low risk from an environmental perspective, the group continues to develop processes and practices to improve the measurement and monitoring of its environmental impact including energy efficiency, carbon emissions and waste management.

OFFICE BUILDINGS

The group occupies leased properties comprising mainly administrative office, technical facilities and warehouse facilities none of which are situated in biodiversity-rich or ecologically significant habitats. The office space leased by the group is in excess of 10 000m^2.

ENERGY EFFICIENCY

The group's electricity usage for the year under review at its main office building situated at 75 Grayston Drive, Morningside, Sandton amounted to 2 449 827kWh. The majority of group subsidiaries are situated in Gauteng and occupy the head office building in Sandton.

CARBON EMISSIONS

Business activities resulting in carbon emissions include electricity usage, transportation and processes relating to an office environment. The Blue Label Distribution fleet used a total of 407 583 litres of fuel (petrol and diesel). The BLD fleet comprises approximately 90 vehicles used by field technicians, sales representatives, customer service representatives and company drivers.

During the year under review, no prosecutions or fines were brought against the group for the contravention of any environmental laws and regulations.

Independent Assurance Report to the Directors of Blue Label Telecoms Limited

INTRODUCTION

We have been engaged by the Directors of Blue Label Telecoms Limited ("Blue Label") to perform an independent assurance engagement in respect of selected Identified Sustainability Information included in Blue Label's Integrated Annual Report for the year ended 31 May 2011 ("the Report").

SCOPE AND SUBJECT MATTER

The following Identified Sustainability Information was selected for an expression of limited assurance:

a) Key Performance Indicator:
   - Value Added Statement (Page 59)

b) Blue Label's account of their application of the AA1000 AccountAbility Principles Standard's ("APS")(2008) principles of inclusivity, materiality and responsiveness in preparing the Report (Page 1)

c) Blue Label's self declaration that it has achieved a C+ GRI (Global Reporting Initiative) G3 application level (Page 1)

Our responsibilities do not extend to any other information.

RESPONSIBILITIES OF THE DIRECTORS

Blue Label's Directors are responsible for the preparation and presentation of the Identified Sustainability Information, as incorporated in the Report, in accordance with their internally defined procedures (available on request from Blue Label) and for maintaining adequate records and internal controls that are designed to support the reporting process.

RESPONSIBILITY OF PRICEWATERHOUSECOOPERS INC

Our responsibility is to express, to the Directors, an opinion on the Identified Sustainability Information contained in the Report, for the year ended 31 May 2011, based on our assurance engagement.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3 000, *Assurance engagements other than audits or reviews of historical financial information* issued by the International Auditing and Assurance Standards Board. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain assurance on the Identified Sustainability Information as per the terms of our engagement.

SUMMARY OF WORK PERFORMED

Our procedures included examination, on a test basis, of evidence relevant to the Identified Sustainability Information. The procedures selected depend on the assurance provider's judgement, including the assessment of the risks of material non-compliance of the Identified Sustainability Information with the criteria.

Our work consisted of:

- interviews with a selection of executives and senior management to discuss their approach to stakeholder

inclusivity, materiality and responsiveness;
- inspecting documentation to corroborate statements of management and senior executives in our interviews;
- review of selected documents to substantiate management's account of their application of the AA1000APS (2008) principles including:
  - selected minutes of Exco and Board meetings, outputs from the risk assessment process, selected media reports, selected policies and general industry benchmarks;
  - evaluating the data generation and reporting processes against the reporting criteria;
  - reviewing the GRI summary table (located on Blue Label's website) to consider management's declaration regarding the application of the GRI G3 guidelines;
  - reviewing the consistency between the Identified Sustainability Information and related statements in Blue Label's Integrated Annual Report for the year ended 31 May 2011.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion. Blue Label's internal corporate reporting criteria, the Global Reporting Initiative's (GRI) G3 guidelines and the AA1000APS (2008) principles standard were applied in evaluating the Identified Sustainability Information.

INHERENT LIMITATIONS

The accuracy and completeness of sustainability data is subject to inherent limitations given the nature and methods for determining, calculating and estimating such data. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements.

We have not carried out any work on data reported for prior reporting periods nor in respect of future projections and targets. We have not conducted any work outside of the agreed scope and therefore restrict our opinion to the Identified Sustainability Information.

CONCLUSION

Limited assurance

Based on our work performed, nothing has come to our attention causing us to believe that the Identified Sustainability Information for the year ended 31 May 2011 selected for limited assurance has not been prepared, in all material respects, in accordance with the defined reporting criteria.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: **Wessie van der Westhuizen**

Johannesburg
11 October 2011

Financial director's report

David Rivkind, financial director

Organic growth in revenues, a return to profitability in the call centre operations and a net reduction in the share of losses from associates and joint ventures were all positive contributing factors to the growth in group core earnings.

This growth was augmented by an extraneous profit resulting from the dilution of the group's equity holding in Blue Label Mexico. The sale of equity to Grupo Bimbo has created a strategic alliance between the two groups, with the objective of utilising Grupo Bimbo's logistic capabilities and footprint to accelerate the rollout of point-of-sale devices in Mexico. The synergy between the two companies was the driving force behind the above transaction.

Trading losses in Africa Prepaid Services Nigeria ("APSN") and the necessity for impairments of APSN following a commitment to dispose of the majority of assets and liabilities in May 2011, adversely impacted on profits. The decline in the financial performance of APSN was attributable to the failure by Multi-links to perform its obligations in terms of the distribution agreement and the consequent cancellation of that agreement arising from Multi-links' repudiation of its obligations.

Further impairments to goodwill and related intangibles in SharedPhone International and Content Connect Africa, as well as the write-off of internally generated intangible assets in Blue Label One and Blue Label Distribution, also inhibited the growth in core earnings.

The net positive growth in core earnings equated to 15%. Headline earnings, however, declined by 4% after the net deduction relating to the extraneous income and impairments. After the extraction of the total negative contribution of Nigeria as a discontinued operation, the balance of the group contributed positive growth in core headline earnings of 13%.

The combination of strong trading results and positive cash flow generation supported the board's approval of a dividend of 14 cents per share.

The underlying income statement has been divided into two parts, the first of which reflects the headline earnings of the continuing operations of the group, excluding the now discontinued Nigerian operation. By definition, these headline earnings also exclude extraneous income and expenditure.

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	18 064 572	15 939 764	2 124 808	13%
Gross profit	1 067 633	1 016 543	51 090	5%
GP margins	5.91%	6.38%	(0.47%)	
Other income	6 942	11 087	(4 145)	(37%)
Overheads	(476 758)	(489 438)	12 680	(3%)
EBITDA	597 817	538 192	59 625	11%
Depreciation and amortisation	(92 519)	(91 701)	(818)	1%
EBIT	505 298	446 491	58 807	13%
Net finance income	30 583	53 891	(23 308)	(43%)
Net profit before taxation	535 881	500 382	35 499	7%
Taxation	(157 243)	(163 917)	6 674	(4%)
Net profit after taxation	378 638	336 465	42 173	13%
Non-controlling interest	3 229	7 872	(4 643)	(59%)
Share of profit/(losses) from associates	4 817	(14 948)	19 765	132%
Share of losses from joint ventures	(18 896)	(12 699)	(6 197)	49%
Headline earnings from continuing operations	367 788	316 690	51 098	16%

REVENUE

Revenue comprised sales of physical and virtual prepaid airtime, commissions on the distribution of prepaid electricity and compounded annuity revenue generated from starter packs.

Group revenue increased by 13% to R18 billion mainly through continued growth in South African distribution. Group revenue excludes the turnover of Oxigen Services India, Blue Label Mexico and Ukash, which are equity accounted associate companies.

GROSS PROFIT

Gross profit margins declined from 6.38% to 5.91%, gross profit increased by R51 million (5%).

EBITDA

EBITDA increased by 11% as a product of the increase in gross profit and an overall expense decline of 3%. This was achieved in spite of a reduction in other income of R4 million.

Net profit after tax before non-controlling interests of R379 million equated to a growth of 13%.

Share of profits/(losses) from associates

The R20 million turnaround from historical share of losses of R15 million to a share of profit of R5 million was attributable to Ukash to the extent of R17 million, with Oxigen Services India making up the balance.

Share of losses from joint ventures

The share of losses from joint ventures pertains mainly to Blue Label Mexico, previously accounted for as a subsidiary.

HEADLINE EARNINGS

The growth in headline earnings of 16% from R317 million to R368 million reflects the financial performance of continuing operations excluding the trading performance of the discontinued Nigerian operation.

Computation of core earnings

	2011 R'000	2010 R'000	Growth R'000	Growth
Headline earnings from continuing operations	**367 788**	316 690	51 098	16%
Discontinued operation – APS Nigeria trading	**(18 341)**	49 119	(67 460)	(137%)
Headline earnings	**349 447**	365 809	(16 362)	(4%)
Gain on dilution	**145 905**	—	145 905	
Profit on disposal of subsidiary	**—**	18 566	(18 566)	
Impairments	**(63 904)**	(19 353)	(44 552)	
Net profit attributable to equity holders of parent	**431 448**	365 022	66 426	18%
Core intangible adjustment	**24 975**	31 623	(6 648)	(21%)
Core net profit	**456 423**	396 645	59 778	15%
Earnings per share (cents)	**57.04**	48.17		18%
Headline earnings per share (cents)	**46.20**	48.27		(4%)
– From continuing operations (cents)	**50.12**	43.46		15%
– From discontinued operations (cents)	**(3.92)**	(4.81)		19%
Core earnings per share (cents)	**60.34**	52.34		15%

DISCONTINUED OPERATION

This applies to Nigeria clearly showing an adverse turn-around from the group's share of profit of R49 million to an R18 million share of loss. This excludes the impairment of its assets. These losses had a negative impact on the growth in headline earnings from continuing operations of 16%, resulting in a net decline in group headline earnings of 4%.

GAIN ON DILUTION

In terms of IFRS, we were required to fair value our retained interest in Mexico. In February 2011, 40% of the share capital of Blue Label Mexico was issued to Grupo Bimbo for a capital injection of US$20 million, equating to an enterprise value of $50 million. BLT accordingly diluted its shareholding of 70% to 40% with management retaining the balance of 20%.

Our remaining 40% is valued at $20 million equating to a gain on dilution of R146 million.

PROFIT ON SALE OF SUBSIDIARY

In the comparative year, the profit on sale of subsidiary related to the disposal of Africa Prepaid Services Mozambique.

IMPAIRMENTS

The total impairments amounted to R64 million.

R15 million related to the available for sale financial asset in Africa Prepaid Services and R6 million to the write-off of Nigerian assets.

Other impairments to goodwill and intangibles in Nigeria, SharedPhone International, Content Connect Africa and Blue Label Distribution totalled R43 million.

NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT

The resultant attributable profit of R431 million, equated to basic earnings per share of 57.04 cents and an 18% growth.

CORE EARNINGS

After adding back the amortisation of intangible assets, the core earnings of R456 million equated to a growth of 15% and core earnings per share of 60.34 cents.

SEGMENTAL REPORT

South African distribution segment

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	17 821 605	15 543 337	2 278 268	15%
Gross profit	925 398	867 230	58 168	7%
EBITDA	711 767	685 686	26 081	4%
Core net profit	571 471	555 161	16 310	3%
Gross profit margin	5.19%	5.58%		
EBITDA margin	4.00%	4.41%		

REVENUE

South African Distribution remained the major contributor to group revenue (99%).

Whilst there were piecemeal price increases from the networks during the financial year, the bulk of the growth in revenue was volume related and entirely organic. Commissions on the sale of prepaid electricity increased by 79% from R34 million to R61 million, equating to turnover generated on behalf of the utilities of R3.4 billion.

The growth in airtime revenue exceeded industry norms, with gains mainly attributable to an increase in market share from competitors.

The distribution mix of prepaid airtime per network was:

- Vodacom 52%
- MTN 35%
- Cell C 10%
- Telkom 3%

GROSS PROFIT

Although gross profit margins declined from 5.58% to 5.19%, the current melded margins have been consistent for the past 18 months, albeit that electricity commissions do not attract a cost of sale and in turn account for 0.22% for the comparative period and 0.34% of the current year's gross profit margins.

Margins on prepaid airtime declined due to the negative impact on the implementation of RICA from the second half of the comparative period, the passing on of network price increases at cost price to the client base as well as the forfeiture of margins in return for higher revenue volumes.

EBITDA

The growth in EBITDA of 4% was achieved in spite of a decline in EBITDA margin from 4.41% to 4.00%. The decline in margin was due to the reduction in gross profit margins and an increase in certain group overheads.

INTERNATIONAL DISTRIBUTION SEGMENT

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	29 254	159 800	(130 546)	(82%)
Gross profit	8 052	30 339	(22 287)	(73%)
EBITDA	(8 683)	17 448	(26 131)	(150%)
Discontinued operations*	93 901	36 452	57 449	158%
Africa Prepaid Services Nigeria	(40 813)	49 105	(89 918)	(183%)
Blue Label Mexico	134 714	(12 653)	147 367	1 165%
Share of (losses)/profits from associates and joint ventures	(2 884)	(15 177)	12 293	81%
Ukash	8 782	(8 079)	16 861	209%
Oxigen Services India	(5 163)	(7 098)	1 935	27%
Blue Label Mexico	(6 503)	—	(6 503)	—
Core net profit	61 896	20 097	41 799	208%

**Represents net profit after taxation and non-controlling interests.*

In line with the commitment to dispose of the majority of assets and liabilities of Africa Prepaid Services Nigeria, IFRS requires its financial performance to be reflected as a discontinued operation. Consequently, revenue, gross profit and EBITDA exclude the Nigerian trading activities for both the current and comparative year.

The dilution from a 70% holding to a minority stake of 40% in Blue Label Mexico requires its trading performance for the period June 2010 to February 2011 to be reflected as a discontinued operation. Similarly, the results of Mexico are not reflected in revenue, gross profit and EBITDA, both in the current and comparative year.

As a result of the above, trading activities at EBITDA level only pertained to SharedPhone International, Africa Prepaid Services SA, Gold Label Investments, BLT USA and Blue Label Australasia.

REVENUE

Current revenue related only to SharedPhone International. Its revenue declined from R39 million to R29 million due to a fall in the competitive edge which payphones traditionally had over mobile phones. This has emanated from the mobile networks offering cheaper entry-level handsets and lower denomination airtime vouchers to consumers. The decline in revenue has warranted an impairment to goodwill and intangible assets relating to SharedPhone to the extent of R8.4 million.

The balance of the decline in revenue of R120 million related to the cessation of trading activities in the DRC, Mozambique and USA that existed in the comparative period.

GROSS PROFIT

Gross profit generated by SharedPhone declined from R10 million to R8 million, albeit at an increase in margin from 25.18% to 27.52%. The balance of the decline in gross profit of R20 million related to the above entities that ceased trading during the course of the prior year.

EBITDA

SharedPhone EBITDA declined from R3.9 million to R1.8 million. The balance of negative EBITDA of R10.4 million pertained to expenditure incurred by Africa Prepaid Services SA.

Discontinued operations

Discontinued operations include the financial results of APS Nigeria and Blue Label Mexico. Although the latter has not discontinued its operations per se, it is an IFRS requirement to categorise its results as a discontinued operation in line with the dilution to a minority stake.

– APS Nigeria

The cancellation of the distribution agreement with Multi-links impacted negatively on earnings culminating in a loss for the year of R41 million equating to a R90 million adverse movement on a comparative basis.

Impairments of assets and goodwill accounted for R23 million with the balance of R18 million attributable to trading losses. Arbitration proceedings have been instituted to claim compensation for losses suffered consequent upon cancellation of the distribution agreement.

– Blue Label Mexico
The comparative share of losses represented 70% ownership for the full year ended 31 May 2010. The current share of profits represents the gain of R150 million relating to the dilution of equity from 70% to 40%, less a non-distributable reserve release of R4 million and the group's share of trading losses of R11 million to the date of dilution.

Share of (losses)/profits from associates and joint ventures
– Ukash (15.75% holding)
Of the R17 million turnaround from a share of losses of R8 million to a share of profits of R9 million, a recognition of a deferred tax asset accounted for R6.5 million. The balance was directly attributable to volume growth, increased values in voucher redemption and the expansion of its footprint.

An increase in voucher redemption volumes by 84% resulted in a revenue increase of 71%. Gross profit margins remained static at 49% and overhead growth was limited to 1%, all reported in their local currency.

– Oxigen Services India (37.22% holding)
Revenue increased by 24% at static gross margins of 2.25%. A decline in overheads of 8% resulted in a positive EBITDA growth of 198%, all reported in their local currency.

– Blue Label Mexico (40% holding)
The share of losses of R6.5 million were from 23 February 2011 to 31 May 2011, the period in which Blue Label Mexico became a joint venture as a result of the dilution.

Revenues for the year ended 31 May 2011 increased by 232% reported in their local currency. In spite of this revenue increase, the company continued to incur losses due to an increase in overheads commensurate with the gearing up of infrastructure to accommodate the rollout of point-of-sale devices to the Grupo Bimbo channel of distribution as well as catering for organic growth.

CORE NET PROFIT
The increase in core net profit of R42 million was inclusive of the gain attributable to the dilution of equity in Blue Label Mexico. On eliminating this gain, core net profit would have declined by a net R104 million of which R90 million pertained to an adverse movement in APS Nigeria and R15 million to the impairment of an available-for-sale financial asset in APS SA.

MOBILE SEGMENT
In order to enhance the availability of management information on the group's performance from the distribution of mobile applications, Blue Label established the mobile segment on 1 June 2010. These mobile applications were previously housed in Value Added Services and Technology. A separate management and reporting structure has been established for Mobile, and the segmental analysis restated accordingly. The companies embodying this segment are Cellfind, Content Connect Africa and Blue Label One.

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	**78 616**	95 013	(16 397)	(17%)
Gross profit	**62 444**	66 119	(3 675)	(6%)
EBITDA	**19 347**	11 637	7 710	66%
Core net loss	**(756)**	(2 494)	1 738	70%

The bulk of the decline in revenue was due to a cut back in marketing spend by the networks on mobile content downloads, being the main source of revenue generated by Content Connect Africa.

The decline in gross profit was limited to 6% due to melded margins increasing from 69.59% to 79.43%. The margin increase was attributable to growth in revenue from media sales and location based services generated by Blue Label One and Cellfind respectively. A decline in overheads, however, resulted in a growth in EBITDA.

The consistent under-performance of Content Connect Africa, has necessitated the impairment of goodwill and intangibles by R11.2 million. A further impairment of R5.7 million was applied to Blue Label One's internally generated intangible assets, as its current revenues do not support the value of these assets.

Core net profit of R18 million contributed by Cellfind was largely offset by these impairments.

SOLUTIONS SEGMENT

The Value Added Services segment has been renamed Solutions, which houses the Datacel group. The only change to the reporting of this segment is the extraction of financial information relating to the newly formed Mobile segment. The comparatives have been adjusted to reflect the change in segmental reporting accordingly.

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	**118 277**	123 285	(5 008)	(4%)
Gross profit	**58 582**	50 348	8 234	16%
EBITDA	**18 731**	(4 255)	22 986	540%
Core net profit/(loss)	**7 061**	(21 564)	28 625	133%

The decline in revenue was due to the closure of the CNS call centre activities which was operational for part of the comparative period and subsequently confined to an outsourced facility on behalf of third parties. The restructured Datacel group contributed a positive turnaround of R29 million to core net profit through a combination of call centre rationalisation and sustainable outbound sales of mobile services and applications.

TECHNOLOGY SEGMENT

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	**16 820**	18 329	(1 509)	(8%)
Gross profit	**13 157**	2 507	10 650	425%
EBITDA	**(61 766)**	(58 382)	(3 384)	(6%)
Core net loss	**(84 932)**	(70 774)	(14 158)	(20%)

Technology losses and the escalation thereon represented the costs of development and support of the group's Information Technology infrastructure. Income generation was limited to services to third parties.

CORPORATE SEGMENT

	2011 R'000	2010 R'000	Growth R'000	Growth
EBITDA	**(81 664)**	(82 477)	813	1%
Core net loss	**(98 317)**	(83 781)	(14 536)	(17%)

Corporate expenditure was contained to neutral growth. STC of R9 million on the maiden dividend declared in August 2010 and additional depreciation on leasehold improvements, accounted for the increase in core net losses.

NET FINANCE INCOME

Finance costs

Finance costs totalled R116 million, of which R8 million related to interest paid on borrowed funds and R108 million to imputed IFRS interest adjustments relating to credit received from suppliers. On a comparative basis the imputed IFRS interest adjustment was R102 million. The increase of R6 million was directly IFRS related.

FINANCE INCOME

Interest received on cash resources declined by R33 million from R83 million to R50 million due to a continued reduction in interest rates and the preference of settlement discounts and bulk inventory procurements when the opportunities availed themselves.

The imputed IFRS interest adjustments increased by R19 million as a result of extended credit afforded to selected customers.

DEPRECIATION, AMORTISATION AND IMPAIRMENT

The increase of R31 million related to the increase in impairments with depreciation on property, plant and equipment remaining static.

Core headline earnings

The table below, which has been prepared on a core headline earnings basis, excludes the impairments to intangible assets and goodwill as well as the extraneous profit on the Mexico dilution.

Segments	2011 R'000	2010 R'000	Growth
South African distribution	**571 317**	554 172	3%
International distribution (excluding Nigeria)	**(21 827)**	(46 882)	53%
Mobile	**15 640**	(1 962)	897%
Solutions	**7 021**	(6 828)	203%
Total trading operations	**572 151**	498 500	15%
APS Nigeria	**(18 341)**	49 117	(137%)
Technology	**(81 281)**	(66 458)	(22%)
Corporate	**(98 107)**	(83 728)	(17%)
Core headline earnings	**374 422**	397 431	(6%)
Core headline earnings excluding Nigeria	**392 763**	348 314	13%

The decline in core headline earnings of 6% would have equated to an increase of 13%, on elimination of the discontinued Nigerian operation.

STATEMENT OF FINANCIAL POSITION

Total assets increased by R641 million to R5.1 billion.

Material increases related to the investment in joint ventures of R143 million, inventory by R452 million and cash resources by R171 million. The increase in investment in joint venture pertains to the fair value gain on the retained 40% shareholding in Blue Label Mexico.

The increase in inventory was mainly attributable to stockpiling shortly prior to year end in anticipation of price increases.

The group remained highly liquid, maintaining its current asset ratio at 2:1.

The stock turn averaged 12 days net of the advanced purchases of approximately R470 million in May 2011.

Debtors collection period averaged 17 days and creditors payment terms averaged 41 days.

STATEMENT OF CASH FLOWS

The increase of cash on hand by R170 million accumulated cash resources to R2.2 billion at year end.

The cash flow generated by operations of R566 million represented a decline of R57 million on the comparative year, congruent with the decline in operating profit.

The purchase of a starter pack base for R83 million accounted for the majority of the acquisition of intangible assets of R113 million, with the balance being attributable to development costs and software.

Capital expenditure was confined to R74 million, representing a decline of R31 million.

The dividend payment of R91 million related to the maiden dividend declared in August 2010.

DIVIDEND NUMBER 2

On 23 August 2011, the board approved a dividend of 14 cents per ordinary share. The dividend in respect of ordinary shares for the year ended 31 May 2011 of R107 092 578, (STC: R10 709 258) has not been recognised in the financial statements, as it was declared after this date.

APPRECIATION

I would like to acknowledge the professional input of the finance team in the preparation of the financial results.

David Rivkind
Financial director

Directors' responsibility

The directors are responsible for the maintenance of adequate accounting records and the preparation, integrity and fair presentation of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2008.

The directors consider that in preparing the financial statements they have selected the most appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all International financial Reporting Standards that they consider to be applicable have been followed.

The directors are satisfied that the information contained in the financial statements fairly presents the results of operations for the year and the financial position of the group at year end. The directors also prepared the other information included in the integrated report and are responsible for both its accuracy and its consistency with the financial statements.

In addition, the directors are responsible for the company's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements have been prepared on the going-concern basis, since the directors have every reason to believe that the company has adequate resources in place to continue in operation for the foreseeable future, based on forecasts and available cash resources. These financial statements support the viability of the company and the group.

The financial statements have been audited by the independent auditors, PwC, which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements which appear on pages 100 to 227 were produced and approved by the board of directors on 23 August 2011 and are signed on their behalf by:

LM Nestadt
Non-executive chairman

DB Rivkind
Financial director

BM Levy
Joint chief executive officer

MS Levy
Joint chief executive officer

Declaration of Company Secretary

In terms of section 268G(d) of the previous Companies Act, 1973, as amended, and section 88(2)(e) of the current Companies Act, 2008, I certify that Blue Label Telecoms Limited has lodged with the former Registrar of Companies and the Companies and Intellectual Property Commission respectively, all such returns as are required of a public company in terms of the aforesaid Acts and that such returns are true, correct and up to date.

E Viljoen
Company secretary

Sandton
23 August 2011

Independent auditors' report

FOR THE YEAR ENDED 31 MAY 2011

TO THE SHAREHOLDERS OF BLUE LABEL TELECOMS LIMITED

We have audited the consolidated annual financial statements and annual financial statements of Blue Label Telecoms Limited, which comprise the consolidated and separate statements of financial position as at 31 May 2011, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 96 to 227.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Blue Label Telecoms Limited as at 31 May 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: EJ Gerryts
Registered Auditor

Johannesburg
23 August 2011

Directors' report

The directors have pleasure in presenting the annual financial statements of Blue Label Telecoms Limited (Blue Label Telecoms or the company) and its subsidiary, associate and joint venture companies (the group) for the year ended 31 May 2011.

PRINCIPAL ACTIVITIES AND STRATEGY

Blue Label Telecoms is a leading distributor of prepaid secure electronic tokens of value and transactional services within emerging and developing economies across its global footprint of touch points. The group's stated strategy is to extend its local and international footprint of touch points, both organically and acquisitively, to meet the significant demand for the delivery of multiple prepaid products and services through a single distributor, across various delivery mechanisms and via numerous merchants or vendors.

FINANCIAL RESULTS

The financial statements have been prepared on the going concern basis, since the directors have every reason to believe that Blue Label Telecoms and the group have adequate resources in place to continue in operation for the foreseeable future. The annual financial statements for the year ended 31 May 2011 were approved by the board and signed on its behalf on 23 August 2011.

Full details of the financial position and results of the company, the group and its segments are set out in the annual financial statements, and group annual financial statements.

SUBSIDIARIES, ASSOCIATES AND OTHER INVESTMENTS

Particulars of the principal subsidiaries, joint ventures and associates of the Blue Label Telecoms group are provided in note 33 to the annual financial statements.

DISPOSALS

On 23 February 2011, a strategic alliance was entered into between Blue Label Mexico S.A de C.V. ('BLM') and Grupo Bimbo S.A.B de C.V. ('Bimbo'), a distributor of consumer goods. In terms of this arrangement Bimbo purchased 40% of BLM for US$20 million by subscribing to a fresh issue of shares. This dilution in interest resulted in a profit for the group of R146 million.

For further details of disposals during the year, refer to note 27 to the annual financial statements.

SHARE CAPITAL

Full details of the authorised, issued and unissued capital of the company at 31 May 2011 are contained in note 16 to the financial statements. There were no shares issued during the financial year ended 31 May 2011.

SUBSEQUENT EVENTS

In June 2011, Microsoft sold its 37.22% shareholding in Oxigen Services India to 2D Fine Investments Mauritius, a wholly owned subsidiary of 2D Fine Holdings Mauritius. The shareholding in the latter is a joint venture between Gold Label Investments, a wholly owned subsidiary of Blue Label Telecoms, and 2D Fine Holdings Limited. The latter is a company controlled by the management of Oxigen Services India. The effect of the above is that Blue Label Telecoms has increased its effective shareholding in Oxigen Services India above 50%, however, the group does not exercise control.

Dividends

On 23 August 2011, the board approved a dividend of 14 cents per ordinary share, equating to a cover of 3.3 times on HEPS. The dividend in respect of ordinary shares for the year ended 31 May 2011 of R107 092 578 (STC: R10 709 258) has not been recognised in the financial statements as it was declared after this date. The salient dates are as follows:

Last date to trade cum dividend	Friday, 9 September 2011
Shares commence trading ex dividend	Monday, 12 September 2011
Record date	Friday, 16 September 2011
Payment of dividend	Monday, 19 September 2011

Share certificates may not be dematerialised or rematerialised between Monday, 12 September and Friday, 16 September 2011, both days inclusive.

DIRECTORATE

The following were directors of the company for the year under review:

Name	Office	Appointment date	Date and nature of change
Larry M Nestadt	Independent non-executive chairman	5 October 2007	–
Brett M Levy	Joint chief executive officer	1 February 2007	–
Mark S Levy	Joint chief executive officer	1 February 2007	–
Kevin M Ellerine	Non-executive director	8 December 2009	–
Gary D Harlow	Independent non-executive director	5 October 2007	–
Neil N Lazarus SC	Non-executive director	5 October 2007	–
Peter Mansour	Non-executive director	21 May 2008	Resigned in October 2010
Joe S Mthimunye	Independent non-executive director	5 October 2007	–
Mteto Nyati	Non-executive director	12 October 2010	–
Mark V Pamensky	Chief operating officer	5 October 2007	–
David B Rivkind	Financial director	5 October 2007	–
Lucy (Pani) M Tyalimpi	Independent non-executive director	5 October 2007	–

DIRECTORS' INTERESTS

The individual interests declared by directors and officers in the company's share capital as at 31 May 2011, held directly or indirectly were as follows:

	Nature of interest			
	Direct beneficial		Indirect beneficial	
Director	2011	2010	2011	2010
BM Levy	74 340 553	74 340 553	8 272 778	8 272 778
MS Levy	66 933 145	66 933 145	8 272 777	8 272 777
KM Ellerine	—	—	296 297	296 297
JS Mthimunye	20 000	20 000	—	—
MV Pamensky	—	—	5 565 738	7 565 738
LM Nestadt	—	—	8 204 674	8 204 674
GD Harlow	—	—	2 000 000	3 000 000
NN Lazarus	4 803 424	4 803 424	—	—
DB Rivkind	—	—	3 700 000	3 431 669

The aggregate interest of the current directors in the capital of the company was as follows:

	Number of shares	
	2011	2010
Beneficial	182 409 386	185 141 055

The beneficial interest held by directors and officers of the company constitutes 24.12% of the issued share capital of the company.

RESOLUTIONS

The company passed and registered a special resolution in October 2010, approving the acquisition of the company's shares by the company or any of its subsidiaries.

Except for the aforementioned, no other special resolutions, the nature of which might be significant to shareholders in their appreciation of the state of affairs of the group, were passed by the company or its subsidiaries during the period covered by this annual report.

SECRETARY

The company secretary is E Viljoen. The business and postal address of the company secretary appear on the inside back cover.

AUDITORS

PwC will continue in office in accordance with section 90 (6) of the Companies Act.

Larry Nestadt
Chairman

Group statement of financial position

AS AT 31 MAY 2011

	Note	2011 R'000	2010 R'000
ASSETS			
Non-current assets		**851 665**	717 581
Property, plant and equipment	4	**139 747**	156 888
Intangible assets	5	**218 679**	194 262
Goodwill	5	**214 834**	242 562
Investments in associates and joint ventures	6	**239 997**	96 888
Available-for-sale financial asset	7	**—**	—
Starter pack assets	8	**20 361**	16 826
Deferred taxation assets	9	**18 047**	10 155
Current assets		**4 216 942**	3 730 721
Financial assets at fair value through profit and loss	10	**10**	150
Starter pack assets	8	**16 777**	77 467
Inventories	11	**1 012 594**	560 846
Loans receivable	12	**32 370**	43 617
Trade and other receivables	13	**914 164**	987 279
Current tax assets		**14 330**	4 285
Cash and cash equivalents	14	**2 226 697**	2 057 077
Assets of disposal group classified as held-for-sale	15	**20 481**	—
Total assets		**5 089 088**	4 448 302

	Note	2011 R'000	2010 R'000
EQUITY AND LIABILITIES			
Capital and reserves		**2 955 363**	2 655 436
Share capital	16	*	*
Share premium		**4 404 737**	4 404 737
Treasury shares		**(56 506)**	(52 120)
Restructuring reserve		**(1 843 912)**	(1 843 912)
Foreign currency translation reserve		**(23 751)**	(22 841)
Non-distributable reserve		**10 150**	10 150
Transaction with non-controlling interest reserve		**(909 006)**	(914 867)
Equity compensation benefit reserve		**17 807**	10 511
Share-based payment reserve		**1 292**	1 526
Retained earnings		**1 340 318**	1 000 327
		2 941 129	2 593 511
Non-controlling interest		**14 234**	61 925
Non-current liabilities		**38 093**	47 696
Deferred taxation	9	**22 196**	31 616
Interest-bearing borrowings	17	**15 897**	16 080
Current liabilities		**2 081 760**	1 745 170
Trade and other payables	18	**2 046 773**	1 718 907
Provision	19	**8 676**	—
Current tax liabilities		**22 326**	21 320
Bank overdraft	14	**527**	2 175
Current portion of interest-bearing borrowings	17	**3 458**	2 768
Liabilities of disposal group classified as held-for-sale	15	**13 872**	—
Total equity and liabilities		**5 089 088**	4 448 302

**Less than R1 000.*

Group statement of comprehensive income

FOR THE YEAR ENDED 31 MAY 2011

	Note	2011 R'000	2010 R'000
CONTINUING OPERATIONS			
Revenue		18 064 572	15 939 764
Other income		7 197	41 969
Changes in inventories of finished goods		(16 996 939)	(14 923 221)
Employee compensation and benefit expense	20	(263 360)	(272 134)
Depreciation, amortisation and impairment charges		(145 985)	(115 113)
Other expenses		(213 738)	(216 721)
Operating profit	21	451 747	454 544
Finance costs	22	(115 845)	(107 127)
Finance income	22	146 429	161 018
Share of losses from associates and joint ventures	6	(2 757)	(14 982)
Net profit before taxation		479 574	493 453
Taxation	23	(152 176)	(165 536)
Net profit for the year from continuing operations		327 398	327 917
DISCONTINUED OPERATIONS			
Net profit for the year from discontinued operations	15	57 573	97 264
Net profit for the year		384 971	425 181
Other comprehensive income:			
Exchange losses on translation of equity loans		(4 926)	(2 063)
Exchange losses on translation of foreign operations		(6 550)	(5 659)
Foreign currency translation reserve recycled to profit or loss		4 219	(1 328)
Other comprehensive loss for the year, net of tax		(7 257)	(9 050)
Total comprehensive income for the year		377 714	416 131

	Note	2011 R'000	2010 R'000
Net profit for the year attributable to:			
Equity holders of the parent		**431 448**	365 022
Non-controlling interest		**(46 477)**	60 159
Net profit for the year from continuing operations attributable to:			
Equity holders of the parent		**337 547**	328 570
Non-controlling interest		**(10 149)**	(653)
Net profit for the year from discontinued operations attributable to:			
Equity holders of the parent		**93 901**	36 452
Non-controlling interest		**(36 328)**	60 812
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**430 538**	355 580
Non-controlling interest		**(52 824)**	60 551
Earnings per share for profit attributable to:			
Equity holders (cents)			
– Basic	24	**57.04**	48.17
– From continuing operations		**44.63**	43.36
– From discontinued operations		**12.41**	4.81
– Diluted	24	**56.49**	47.96
– From continuing operations		**44.08**	43.15
– From discontinued operations		**12.41**	4.81

Group statement of changes in equity

FOR THE YEAR ENDED 31 MAY 2011

	Note	Share capital R'000	Share premium R'000	Treasury shares R'000	Retained earnings R'000
Balance as at 31 May 2009		*	4 404 737	(25 562)	635 305
Net profit for the year		—	—	—	365 022
Comprehensive loss		—	—	—	—
Total comprehensive income (loss)		—	—	—	365 022
Treasury shares purchased	16	—	—	(26 558)	—
Asset acquired for shares		—	—	—	—
Equity compensation benefit movement		—	—	—	—
Share of equity movement in associates		—	—	—	—
Dividends		—	—	—	—
Capital contribution by non-controlling interest		—	—	—	—
Non-controlling interest acquired/(disposed of) during the year		—	—	—	—
Balance as at 31 May 2010		*	**4 404 737**	**(52 120)**	**1 000 327**
Net profit for the year		—	—	—	**431 448**
Comprehensive loss		—	—	—	—
Total comprehensive income (loss)		—	—	—	**431 448**
Treasury shares purchased	16	—	—	**(8 935)**	—
Equity compensation benefit scheme shares vested			—	**4 549**	—
Equity compensation benefit movement		—	—	—	—
Share of equity movement in associates		—	—	—	—
Dividends		—	—	—	**(91 457)**
Share based payment movement		—	—	—	—
Non-controlling interest disposed of during the year	27	—	—	—	—
Balance as at 31 May 2011		*	**4 404 737**	**(56 506)**	**1 340 318**

* *Less than R1 000.*

1 *The restructuring reserve arose as a result of the restatement of group comparatives, as required in terms of the principles of predecessor accounting. This reserve represents the difference between the fair value of the entities under the group's control and their respective net asset values, as at the assumed restructure date of 1 June 2006.*

2 *This relates to the group's share of the movement in equity reserves in associate companies. (Refer to note 6.)*

3 *The transaction with non-controlling interest reserve relates to the excess payments over the carrying amounts arising on transactions with non-controlling shareholders as these are treated as equity participants. (Refer to note 27.)*

4 *This relates to the group's movement in equity compensation benefit (refer note 32) as well as the group's share of the movement in equity compensation benefit of associate companies (refer note 6).*

5 *The prior year movement in the share-based payment reserve relates to a BEE transaction concluded by Cigicell (Proprietary) Limited, a subsidiary of Blue Label Telecoms. In September 2009 Ventury (Proprietary) Limited sold 26% of its stake in Cigicell (Proprietary) Limited to Sangrilor (Proprietary) Limited. The group has not recognised this disposal and accounts for Cigicell (Proprietary) Limited as a wholly owned subsidiary until the purchase consideration has been settled by Sangrilor (Proprietary) Limited. The purchase consideration will be settled through the declaration of dividends by Cigicell (Proprietary) Limited. There are no specified dates for this.*

Restructuring reserve[1] R'000	Foreign currency translation reserve R'000	Non-distributable reserve[2] R'000	Transaction with non-controlling interest reserve[3] R'000	Employee compensation benefit reserve[4] R'000	Share-based payment reserve[5] R'000	Total ordinary shareholders' equity R'000	Non-controlling interest R'000	Total equity R'000
(1 843 912)	(13 399)	—	(914 399)	9 371	1 231	2 253 372	(9 252)	2 244 120
—	—	—	—	—	—	365 022	60 159	425 181
—	(9 442)	—	—	—	—	(9 442)	392	(9 050)
—	(9 442)	—	—	—	—	355 580	60 551	416 131
—	—	—	—	—	—	(26 558)	—	(26 558)
—	—	—	—	—	295	295	—	295
—	—	—	—	1 140	—	1 140	(30)	1 110
—	—	10 150	—	—	—	10 150	—	10 150
—	—	—	—	—	—	—	(2 912)	(2 912)
—	—	—	—	—	—	—	558	558
—	—	—	(468)	—	—	(468)	13 010	12 542
(1 843 912)	**(22 841)**	**10 150**	**(914 867)**	**10 511**	**1 526**	**2 593 511**	**61 925**	**2 655 436**
—	—	—	—	—	—	431 448	(46 477)	384 971
—	(910)	—	—	—	—	(910)	(6 347)	(7 257)
—	(910)	—	—	—	—	430 538	(52 824)	377 714
—	—	—	—	—	—	(8 935)	—	(8 935)
—	—	—	—	(4 549)	—	—	—	—
—	—	—	—	10 903	—	10 903	229	11 132
—	—	—	—	942	—	942	—	942
—	—	—	—	—	—	(91 457)	(950)	(92 407)
—	—	—	—	—	(234)	(234)	234	—
—	—	—	5 861	—	—	5 861	5 620	11 481
(1 843 912)	**(23 751)**	**10 150**	**(909 006)**	**17 807**	**1 292**	**2 941 129**	**14 234**	**2 955 363**

Group statement of cash flows

FOR THE YEAR ENDED 31 MAY 2011

	Note	2011 R'000	2010 R'000
Cash flows from operating activities			
Cash received from customers		18 674 256	16 938 988
Cash paid to suppliers and employees		(18 108 203)	(16 315 996)
Cash generated by operations	25	566 053	622 992
Interest received	22	50 645	84 130
Interest paid	22	(8 221)	(5 131)
Taxation paid	26	(180 814)	(186 081)
Net cash flows from operating activities		427 663	515 910
Cash flows from investing activities			
Proceeds on disposal of intangible assets		—	5 093
Acquisition of intangible assets		(112 661)	(91 444)
Acquisition of financial assets at fair value through profit or loss		—	(140)
Disposal of subsidiaries net of cash disposed	27	(1 274)	(2 244)
Loans (advanced to)/repaid by associates and joint ventures		(1 373)	1 456
Loans repaid/(advanced)		37 313	(5 668)
Dividends received from associates and joint ventures		1 416	—
Proceeds on disposal of property, plant and equipment		2 676	12 320
Acquisition of property, plant and equipment		(73 535)	(104 373)
Net cash flows from investing activities		(147 438)	(185 000)
Cash flows from financing activities			
Interest-bearing borrowings raised		1 193	2 155
Proceeds from issue of shares*		—	1 120
Acquisition of treasury shares		(8 790)	(26 558)
Dividends paid to non-controlling interest		(950)	(2 912)
Dividends paid		(91 457)	—
Net cash flows from financing activities		(100 004)	(26 195)
Increase in cash and cash equivalents		180 221	304 715
Cash and cash equivalents at the beginning of the year		2 054 902	1 756 806
Translation difference		(8 953)	(6 619)
Cash and cash equivalents at the end of the year	14	2 226 170	2 054 902

* *This relates to shares issued to non-controlling interests in a subsidiary company.*
During the prior year dividends paid to non-controlling interest were included in investing activities. These amounts have been reclassified to financing activities.

BLUE LABEL TELECOMS

Notes to the group annual financial statements

FOR THE YEAR ENDED 31 MAY 2011

Blue Label Telecoms Limited (the company) and its subsidiaries, joint ventures and associates (together referred to as the group) is involved in the procurement, selling and distribution of prepaid products for inter alia fixed and mobile networks and all business ancillary thereto.

The annual financial statements comprise the consolidated financial statements of the group and the stand-alone financial statements of the company and were authorised by the board of directors, as indicated on page 93.

1. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) and the Companies Act, No. 71 of 2008. These financial statements are prepared in accordance with IFRS, issued and effective as at 31 May 2011.

Basis of preparation

The annual financial statements and group financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments. The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Standards, interpretations and amendments effective in 2011

The following standards and amendments are effective for the first time for the year ended 31 May 2011 and have been applied when presenting the group's financial statements:

- IFRS 3: *Business Combinations – Revised*
- IAS 27: *Consolidated and Separate Financial Statements – Revised*
- Amendments to IFRS 2: *Group cash-settled share-based payment transactions*

The following standards, interpretations and amendments are effective for the first time for the year ended 31 May 2011 and have not had an impact on the group's financial statements:

- IFRS 1: *First time Adoption of International Financial Reporting Standards – Revised*
- Amendments to IAS 32 – *Classification of rights issues*
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement Eligible Hedged Items*
- IFRIC 17: *Distributions of Non-cash Assets to Owners*
- IFRIC 18: *Transfers of assets from customers*
- AC 504: IAS 19 (AC 116) – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction in the South African Pension Fund Environment

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for financial years commencing 1 June 2011, but which the group has not early adopted, are as follows:

Standards, amendments and interpretations not yet effective

The group has evaluated the effect of all new standards, amendments and interpretations that have been issued but which are not yet effective. Based on the evaluation, management does not expect these standards, amendments and interpretations to have a significant impact on the group's results and disclosures. The expected implications of applicable standards, amendments and interpretations are dealt with below.

IAS 1 Amendment – Presentation of items of other comprehensive income ("OCI")

This amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as revaluation gains on property, plant and equipment will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The amendment is effective for annual periods beginning on or after 1 July 2012. The group will evaluate the amended presentation and update disclosure accordingly from the effective date.

IAS 19 Amendment to IAS 19 – Employee benefits

This amendment makes significant changes to the recognition and measurement of the defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The amendment could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.

Amendment is effective for periods beginning on or after 1 January 2013. The group does not believe the statement will have a significant impact on the group as the group currently has no defined benefit pension plans and termination benefits. The group will evaluate and update disclosures for all employee benefits accordingly from the effective date.

IAS 24 Amendment to IAS 24 – Related party disclosures

This amendment provides partial relief from the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.

No entities within the group are government-related entities therefore this amendment will have no impact. The group will evaluate the amended definition of related parties and update disclosure accordingly from the effective date. This amendment is effective for the period commencing on 1 January 2011.

IFRS 9 Financial Instruments

This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

IFRS 9 Financial Instruments (continued)

This statement is effective on 1 January 2013. The group is currently considering the impact on the classification of financial assets, however do not believe the statement will have a significant impact, given the nature of the financial assets held by the group.

IFRS 9 Financial Instruments (2010)

The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.

This statement is effective on 1 January 2013. The group is currently considering the impact on the derecognition of financial liabilities, however do not believe the statement will have a significant impact, given the nature of the financial liabilities held by the group.

Amendment to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters

The amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is effective for annual periods beginning on or after 1 July 2010 with early adoption permitted.

This amendment is not applicable to the group as the group already applies IFRS.

Amendments to IFRS 1, 'First time adoption' on hyperinflation and fixed dates

The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRS', thus eliminating the need for companies adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation.

This amendment is not applicable to the group as the group already applies IFRS.

Amendment to IFRS 7 Disclosures – Transfer of financial assets

The amendments are intended to address concerns raised during the financial crisis by the G20, among others, that financial statements did not allow users to understand the ongoing risks the entity faced due to derecognised receivables and other financial assets.

This statement is effective on 1 July 2011. The group does not believe the statement will have a significant impact, given the nature of the financial assets held by the group.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Amendment to IAS 12,'Income taxes' on deferred tax

Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes – recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn.

This amendment is not applicable to the group as the group does not have investment properties.

IFRS 10 – Consolidated financial statements

This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries.

This statement is effective on 1 January 2013. The group is currently considering the impact on the consolidated financial statements, however do not believe the statement will have a significant impact.

IFRS 11 – Joint arrangements

This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportionate consolidation of joint ventures is no longer allowed.

This statement is effective on 1 January 2013. The group does not believe the statement will have a significant impact as the proportionate consolidation method of accounting for joint ventures is not applied by the group. The group is currently considering the impact on its contractual arrangements.

IFRS 12 – Disclosures of interests in other entities

This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

This statement is effective on 1 January 2013. The group is currently considering the impact on the consolidated financial statements, however do not believe the statement will have a significant impact as it merely provides for additional disclosures.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 13 – Fair value measurement

This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP.

This statement is effective on 1 January 2013. The group is currently considering the impact on the consolidated financial statements. however does not believe the statement will have a significant impact due to the nature of assets and liabilities carried at fair value.

IAS 27 (revised 2011) – *Separate financial statements*

This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

This statement is effective on 1 January 2013. The group is currently considering the impact however does not believe the statement will have a significant impact.

IAS 28 (revised 2011) – *Associates and joint ventures*

This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

This statement is effective on 1 January 2013. This statement will have no impact on the consolidated financial statements as joint ventures and associates are currently equity accounted.

IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.

This interpretation is not applicable to the group.

Amendments to IFRIC 14: Pre-payments of a Minimum Funding Requirement

This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

This interpretation is not applicable to the group.

Annual Improvements Project

The IASB decided to initiate an annual improvements project in 2007 as a method of making necessary, but non-urgent, amendments to IFRS that will not be included as part of another major project. The IASB's objective was to ease the burden for all concerned.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Annual Improvements Project (continued)

Improvements to IFRS (Issued April 2009 and May 2010) was issued by the IASB as part the "annual improvements process" resulting in the following amendments to standards issued, but not effective for 31 May 2011 year-ends:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards – Accounting policy changes in the year of adoption*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards – Revaluation basis as deemed cost*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards – Use of deemed cost for operations subject to rate regulation*
- IFRS 2 *Share-based Payment – Scope of IFRS 2 and revised IFRS 3*
- IFRS 3 *Business Combinations (effective for annual periods beginning on/after 1 July 2010) Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS*
- IFRS 3 *Business Combinations (effective for annual periods beginning on/after 1 July 2010) – Measurement of non-controlling interests*
- IFRS 3 *Business Combinations (effective for annual periods beginning on/after 1 July 2010) – Un-replaced and voluntarily replaced share-based payment awards*
- IFRS 5 *Non-current Assets Held for Sale – Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations*
- IFRS 7 *Financial Instruments: Disclosures – Clarification of disclosures*
- IFRS 8 *Operating Segments – Disclosure of information about segment assets*
- IAS 1 *Presentation of Financial Statements – Current/non-current classification of convertible instruments*
- IAS 1 *Presentation of Financial Statements – Clarification of statement of changes in equity*
- IAS 7 *Statement of Cash Flows – Classification of expenditures on unrecognised assets*
- IAS 17 *Leases – Classification of leases of land and buildings*
- IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
- IAS 27 *Consolidated and Separate Financial Statements (effective for annual periods beginning on/after 1 July 2010) – Transition requirements for amendments arising as a result of IAS 27 Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Reporting – Significant events and transactions*
- IAS 36 *Impairment of Assets – Unit of accounting for goodwill impairment test*
- IAS 38 *Intangible Assets – Additional consequential amendments arising from revised IFRS 3*
- IAS 38 *Intangible Assets – Measuring the fair value of an intangible asset acquired in a business combination*
- IAS 39 *Financial Instruments: Recognition and Measurement – Treating loan prepayment penalties as closely related embedded derivatives*
- IAS 39 *Financial Instruments: Recognition and Measurement – Scope exemption for business combination contracts*
- IAS 39 *Financial Instruments: Recognition and Measurement – Cash flow hedge accounting*
- IFRIC 9 *Reassessment of Embedded Derivatives – Scope of IFRIC 9 and revised IFRS 3*
- IFRIC 13 *Customer Loyalty Programmes – Fair value of award credits*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation – Amendment to the restriction on the entity that can hold hedging instruments*

Management are currently considering the effect of the changes.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) in which the group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the group and are no longer consolidated from the date that control ceases. The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Transactions in which combining entities are controlled by the same party or parties before and after the transaction, and that control is not transitory, are referred to as common control transactions. Where there are common control transactions in the group, predecessor accounting is applied.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless costs cannot be recovered. Non-controlling interest in the consolidated equity and results of the group are shown separately in the consolidated statement of financial position and statement of comprehensive income, respectively.

Non-controlling interest is stated at the non-controlling interest's proportion of the fair values of the identifiable assets and liabilities recognised. Non-controlling interests are treated as equity participants. Acquisitions of non-controlling interests or disposals by the group of its non-controlling interests in subsidiary companies where control is maintained subsequent to the disposal are accounted for as equity transactions with non-controlling interests. Consequently, the difference between the purchase price and the book value of a non-controlling interest purchased is recorded in equity. All profits and losses arising as a result of the disposal of interests in subsidiaries to non-controlling interests where control is maintained subsequent to the disposal, are also recorded in equity.

Where the losses attributable to the non-controlling interests in a consolidated subsidiary exceed their interest in that subsidiary, the total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

When necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group.

The company financial statements account for investment in subsidiaries at cost less any accumulated impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The group's share of post-acquisition movements in equity compensation benefit reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payment on behalf of the associate. Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associate. Unrealised losses are also eliminated to the extent of the group's interest in the associate unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

The company financial statements account for investment in associates at cost less any accumulated impairment.

Dilution gains and losses arising in investments in associates are recognised in the statement of comprehensive income.

A listing of the group's principal subsidiaries and associates is set out in note 33 to the financial statements. The financial effects of the acquisition and disposal of the subsidiaries and associates are disclosed separately in the notes to the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial operating decisions relating to the activity require the unanimous consent of the parties sharing control (venturers).

The group's interest in joint ventures is accounted for under the equity method of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the group's share of net assets of the joint venture. The statement of comprehensive income reflects the group's share of the results of operations of the joint venture.

The company financial statements account for investment in joint ventures at cost less any accumulated impairment.

Loans granted to associates and joint ventures are regarded as part of the investment.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in rand, which is the group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate as at statement of financial position date;

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Group companies (continued)

- income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets and liabilities and are translated at the closing rate.

Financial instruments

Financial instruments carried on the statement of financial position include:

Financial assets:

- financial assets at fair value through profit or loss;
- loans receivable;
- available-for-sale;
- trade and other receivables;
- cash and cash equivalents.

Financial liabilities:

- borrowings;
- trade and other payables; and
- bank overdraft.

The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Regular way purchases and sales of financial assets that require delivery are recognised on trade date, being the date on which the group commits to purchase or sell the asset.

The group recognises a financial asset or a financial liability on its statement of financial position when, and only when, the group becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Financial liabilities (or a part of a financial liability) are removed from its statement of financial position when, and only when, they are extinguished – ie when the obligation specified in the contract is discharged or cancelled or expires.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realised within 12 months of the statement of financial position date.

Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the statement of comprehensive income. These assets are subsequently measured at fair value. All related realised and unrealised gains and losses arising from changes in fair value are recognised in the statement of comprehensive income.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category does not include those loans and receivables that the group intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. These assets are included in current assets, except for maturities greater than 12 months after the statement of financial position date, which are classified as non-current assets.

Financial assets classified as loans and receivables are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest rate method, less any provision for impairment.

Loans and receivables comprise loans receivable and trade and other receivables (excluding prepayments and VAT).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

Financial assets classified as available-for-sale are initially recognised at fair value plus transaction costs. Subsequent to initial recognition, available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from the change in fair value are recognised directly in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of comprehensive income. Interest and dividend income received on available-for-sale financial assets are recognised in the statement of comprehensive income.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

(a) Loans and receivables

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A provision for impairment is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Objective evidence that receivables are impaired includes observable data that comes to the attention of the group about the following events:

- significant financial difficulty of the debtor;
- a breach of contract, such as default or delinquency in payments; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

The amount of the provision is the difference between the carrying amount and the recoverable amount of the assets being the present value of expected cash flows discounted at the original effective interest rate. The amount of the provision is recognised as a charge in the statement of comprehensive income.

When a receivable is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

(b) Available-for-sale financial assets

The group assesses whether there is objective evidence that a financial asset carried at fair value is impaired at each reporting date. If any objective evidence of impairment exists for available-for-sale financial assets (for example, a significant or prolonged decline in the fair value of a security below its cost), the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Financial liabilities and equity

Financial liability and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Refer to accounting policies on borrowings and trade and other payables for financial liabilities (which exclude employee-related liabilities and VAT), and share capital for equity instruments issued by the group.

Fair value estimation

The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets. Subsequent to initial recognition, the fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fair value estimation (continued)

These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Property, plant and equipment

Property, plant and equipment are initially recorded at cost, being the purchase cost plus any cost to prepare the assets for their intended use. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Property, plant and equipment are subsequently carried at cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over each asset's estimated useful life.

Depreciation is calculated on the straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives as follows:

Motor vehicles	20% – 25%
Furniture and fittings	16.67% – 25%
Office equipment	25%
Computer equipment	25% – 33.33%
Terminals and vending machines	16.67%
Media equipment	33.33%
Plant and machinery	20%
Buildings	8.33%

Major leasehold improvements are amortised over the shorter of their respective lease periods and estimated useful life.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. No such qualifying assets exist at year end.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at year end.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the carrying amount and the fair value of the sale proceeds, and are included in operating profit.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Intangible assets

(a) **Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software has a finite useful life and is subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the computer software over its estimated useful live (three years).

Costs associated with the maintenance of existing computer software programmes are expensed as incurred.

(b) **Trademarks and licences**

Trademarks and licences are shown at historical cost. Trademarks and licences have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (ten years).

(c) **Franchise fees**

Franchise fees are shown at historical cost. Franchise fees have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of franchise fees over their estimated useful lives (twenty years).

(d) **Databases, customer listings, distribution agreements and customer relationships**

Databases, customer listings, distribution agreements and customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3 – Business combinations, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of these assets over their estimated useful lives (three – ten years).

(e) **Research and development**

Costs incurred on development projects are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset and that it will be available for use or sale;
- management intend to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Research expenditure is recognised as an expense as incurred. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is available for use (ie when it is in the location and condition necessary for it to be capable of operating in the manner intended by management) on a straight-line basis over its useful life (five – ten years).

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Research and development (continued)

Direct costs include the product development employee costs and an appropriate portion of relevant overheads. Costs associated with the maintenance of existing products are expensed as incurred.

(f) Purchased starter pack bases

Purchased starter pack bases represent the right to earn future revenue from starter packs already distributed and are initially recognised at the cost to the group. Starter pack bases have a finite life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their estimated useful lives (five – seven years).

(g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is attributable to synergies that the group expects to derive from the transaction. If the cost of acquisition is less than the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Goodwill on the acquisition of subsidiaries is included in "goodwill" in the statement of financial position. Goodwill on acquisitions of associates and joint ventures is included in "investments in associates and joint ventures".

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment is recognised.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment of non-financial assets

The group evaluates the carrying value of assets with finite useful lives when events and circumstances indicate that the carrying value may not be recoverable. Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Intangible assets not yet available for use are tested annually for impairment.

An impairment loss is recognised in the statement of comprehensive income when the carrying amount of an asset exceeds its recoverable amount. An asset's recoverable amount is the higher of the fair value less cost to sell (the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable willing parties), or its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An impairment loss recognised for an asset, other than goodwill, in prior years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and the recoverable amount exceeds the new carrying amount. The reversal of the impairment is limited to the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior years. The reversal of such an impairment loss is recognised in the statement of comprehensive income in the same line item as the original impairment charge.

Leased assets

(a) Finance leases

Lease agreements that transfer substantially all the risks and rewards of ownership are classified as finance leases at inception of the lease. The asset is capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments at inception of the lease, with an equivalent amount being stated as a finance lease liability. Finance lease liabilities are classified as non-current or current liabilities, as appropriate. Each lease payment is allocated between the liability and finance charges using the effective interest rate. Finance costs are charged to the statement of comprehensive income over the lease period.

The capitalised asset is depreciated over the shorter of the useful life of the asset or the lease term to its residual value.

(b) Operating leases

Leases in which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments under operating leases, net of incentives, are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Starter pack assets

A starter pack is a tool which enables the connection of a mobile device to a mobile network operator, also known as a SIM (subscriber identity module) card.

The starter pack asset represents starter packs which have been distributed but not yet activated. On activation of the starter pack, the group has a right to receive cash. Starter packs are stated at cost less provision for impairment and are determined by means of the weighted average cost basis. Provision for impairments are made for starter packs distributed not expected to be activated.

Inventories

Inventories are stated at the lower of cost or estimated net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. The cost of the inventory is determined by means of the weighted average cost basis. Net realisable value is the estimate of the selling price in the ordinary course of business, less selling expenses. Provisions are made for obsolete, unusable and unsaleable inventory and for latent damage first revealed when inventory items are taken into use or offered for sale.

1. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in the normal operating cycle of the business, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Assets and liabilities of disposal group held for sale

Disposal groups are classified as assets and liabilities held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is highly probable. They are stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable.

Share capital

Ordinary shares are classified as equity and the shares are fully paid up.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are shown as a deduction from equity.

Shares acquired by Blue Label Telecoms for its own employees' equity compensation benefit scheme as well as the shares procured by the subsidiaries in terms of this scheme are accounted for as treasury shares in the group statement of financial position.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating expenses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred when the relevant contracts are entered into. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after year end.

Normal taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at year end in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Uncertain tax positions are considered by the group at the level of the individual uncertainty or group of related uncertainties.

Deferred taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by year end and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Secondary tax on companies (STC)

South African companies are subject to a dual corporate tax system, one part of the tax being levied on the taxable income and the other, a secondary tax (STC) on distributed income. STC is not a withholding tax on shareholders but a tax on companies.

The STC tax consequence of dividends is recognised when a liability to pay the dividend is recognised. The STC liability is reduced by dividends received during the dividend cycle, and where dividends received exceed dividends declared within a cycle, there is no liability to pay STC. The potential tax benefit related to excess dividends received is carried forward to the next dividend cycle. Deferred tax assets are recognised on unutilised STC credits to the extent that it is probable that the group will declare future dividends to utilise such STC credits.

Where dividends declared exceed the dividends received during a cycle, STC is payable at the current STC rate. STC is a charge against income, and is recognised in the taxation charge in the statement of comprehensive income in the same period as the related dividend is accrued as a liability.

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within the normal operating cycle of the business. If not, they are presented as non-current liabilities.

Trade payables are measured initially at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of indirect taxes, estimated returns, rebates and discounts and after eliminated sales within the group.

Revenue from the sale of goods and the rendering of services is recognised when it is probable that the economic benefits associated with a transaction will flow to the group and the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably.

The main categories of revenue and the bases of recognition are as follows:

(a) Sale of starter packs

Revenue is recognised when the significant risks and rewards of ownership are transferred to the customer, and when the entity no longer retains continuing managerial involvement to the degree usually associated with ownership.

Activation bonuses received from the networks are recognised when the SIM-card is activated on the relevant cellular phone network. Ongoing revenue and other incentives are recognised once certain criteria have been met. The point of activation is determined by the relevant cellular phone networks.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(b) Sales of prepaid airtime

Sales of prepaid airtime are recognised when the group sells the airtime to the customer. Sales are recorded based on the price specified in the sales contracts, net of discounts at the time of sale.

(c) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Electricity commission

Commissions on the sale of prepaid electricity are recognised when the group sells electricity to the customer on behalf of the utility suppliers. Commissions are recorded based on agreed rates per the contracts. For this category of revenue the group acts as an agent, for all other categories the group acts as a principal.

Employee benefits

(a) Equity compensation benefit

The group operates an equity-settled forfeitable share incentive plan, under which the entity receives services from employees as consideration for equity instruments of the group. The fair value of the services received in exchange for the grant of forfeitable shares is recognised as an expense. The total amount to be expensed is determined by the fair value of the forfeitable shares granted. The total amount expensed is recognised over the vesting period, which is the period over which all of the vesting conditions are to be satisfied. At each reporting date, the entity recognises the impact of any shares that have been forfeited prior to the end of the vesting period, if any, in the statement of comprehensive income with a corresponding adjustment to equity.

The subsidiaries procure the shares in order to settle the award but these are accounted for as a purchase of shares in the holding company and only once the shares vest as the performance conditions are met would the share be derecognised. When shares are derecognised the investment in shares in Blue Label Telecoms Limited will be credited and equity will be debited as a contribution to the shareholder.

(b) Bonus plans

The group recognises a liability and an expense for bonuses. A provision is recognised where the group is contractually obliged or where there is a past practice that has created a constructive obligation.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Leave pay accrual

The group recognises a liability and an expense for leave. The accrued liability is determined by valuing all future leave expected to be taken and payments expected to be made in respect of benefits.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which they are approved by the shareholders.

Core net profit

Core net profit is a non-IFRS measure used by the group in evaluating the group's performance. This supplements the IFRS measures. Core net profit is calculated by adjusting net profit for the year with the amortisation of intangible assets that arise as a consequence of the purchase price allocations completed in terms of IFRS 3: Business Combinations.

Reconciliations of core net profit to relevant IFRS measures are presented in note 24 (core HEPS) and note 31 (segmental summary).

2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Assessment of goodwill for impairment

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Refer to note 5 for details on these estimates.

(b) Classification of starter packs assets

The group assesses at year end the classification of starter packs assets between current and non-current. This assessment takes into consideration historical trends and an analysis of the expected period to receipt of the cash.

(c) Capitalisation of development cost

The group capitalises development costs relating to software development. Costs incurred on development projects of identifiable and unique products which are controlled by the group are recognised as intangible assets when it is probable that the project will be profitable considering its commercial and technical feasibility, and its costs can be measured reliably. Management makes some estimates on the technical feasibility of project and, based on the estimates and the recognition criteria, cost are capitalised. Refer to note 5 for details of amounts capitalised during the year.

(d) Equity compensation benefit

In determining the number of forfeitable shares that will vest due to performance conditions being met, management assesses the attrition rates of staff based on the grades of staff that have been granted awards as well as the historic staff turnover.

2. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

(e) Income taxes

As with any enterprise, the group faces uncertainties in the markets in which it operates over which it has little or no control. The group is subject to income tax in numerous jurisdictions and judgement is required in determining the provision for tax.

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Amounts accrued are based on management's interpretation of country-specific tax law and the likelihood of settlement. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in the future against which these can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest rates, inflation and competitive forces.

Changes in the estimates of the consideration could result in the recognition of material adjustments in future periods.

(f) Valuation of intangible assets acquired as part of a business combination

The fair values of all of the identifiable intangible assets acquired as part of a business combination are determined using recognised valuation techniques. Such techniques often rely on forecasts of future cash flows and the use of appropriate discount rates that reflect the risk factors associated with the cash flows.

These valuations are based on information at the time of the acquisition and the expectations and assumptions that have been deemed reasonable by the group's management. The risk exists that the underlying assumptions or events associated with such assets will not occur as projected. For these reasons, among others, the actual cash flows may vary from forecasts of future cash flows.

(g) Impairment on classification to non-current assets held-for-sale

The fair values of assets and liabilities classified as non-current assets held-for-sale are determined based on their indicative sales values.

3. FINANCIAL RISKS

In the course of its business, the group is exposed to a number of financial risks: credit risk, liquidity risk and market risk (including foreign currency, interest rate and other price risks). This note presents the group's objectives, policies and processes for managing its financial risk and capital.

Risk management is monitored and managed by key personnel of each entity on a daily basis based on their specific operational requirements.

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations to the group. The group is exposed to credit risk on financial assets mainly in respect of trade receivables, loans receivable and cash and cash equivalents.

Trade receivables consist primarily of invoiced amounts from normal trading activities. The group has a diversified customer base and policies are in place to ensure sales are made to customers with an appropriate credit history and payment history. Individual credit limits are set for each customer and the utilisation of these credit limits is monitored regularly. A customer cannot exceed their set credit limit,without specific senior management approval. Such approval is assessed and granted on a case-by-case basis. Where necessary, a provision for impairment is made. A portion of the group's customer base is made up of major retailers, with the balance of the customer base being widely dispersed.

Loans are only granted to holders with an appropriate credit history, taking into account the holder's financial position and past experience.

The group places cash and cash equivalents with major banking groups and quality institutions that have high credit ratings.

The group has significant concentrations of credit risk with Investec Bank Limited in line with its treasury function.

The group has a R750 million (2010: R650 million) facility with Investec Bank Limited. The facility can be utilised by the group as a guarantee facility or loan facility. A guarantee of R750 million (2010: R650 million) has been issued by Investec Bank Limited on behalf of the group. The facility bears certain debt covenants. As at 31 May 2011 the group has not been placed in breach in respect of these debt covenants. The group has pledged certain securities in respect of this facility. (Refer to notes 11 and 13.)

The group's maximum credit risk exposure is the carrying amount of all financial assets on the statement of financial position and sureties provided with the maximum amount the group could have to pay if the sureties are called on, amounting to R5.6 million (2010: R9.8 million).

3. FINANCIAL RISKS (continued)

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (where available) or to historical information about counterparty default rates:

	2011 R'000	2010 R'000
Loans receivable		
Group 1	2 399	5 550
Group 2	29 971	38 067
	32 370	43 617
Trade receivables		
Group 1	39 950	427
Group 2	829 250	825 405
Group 3	13 050	22 341
Total unimpaired trade receivables	882 250	848 173

The effect of discounting of the trade receivables is not taken into account in the above table.

The rating groups for counterparties are categorised as follows:

Group 1 – New customers/related parties (less than six months).

Group 2 – Existing customers/related parties (more than six months) with no defaults in the past.

Group 3 – Existing customers/related parties (more than six months) with some defaults in the past. All defaults were fully recovered or are in the process of being recovered.

	2011 R'000	2010 R'000
3. FINANCIAL RISKS (continued)		
Credit risk (continued)		
Cash at bank and short-term bank deposits		
Credit rating based on latest Fitch local currency long-term issuer default ratings		
AAA	30 945	5 832
A	62 944	35 820
A-	—	21 011
AA-	34 552	18 485
BBB+	2 038 696	444 977
BBB	5 789	1 475 813
BBB-	7 458	31 046
B+	42 793	4 010
Other	2 454	7 463
	2 225 631	2 044 457

3. FINANCIAL RISKS (continued)

Liquidity risk

Liquidity risk arises when a company encounters difficulties in meeting commitments associated with liabilities and other payment obligations. The group's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the group aims to maintain flexibility in funding by keeping committed credit lines available.

Cash flow forecasting is performed in the operating entities of the group to ensure sufficient cash to meet operational needs while maintaining sufficient headroom to ensure that borrowing limits (where applicable) are not breached.

Surplus cash held by the operating entities over and above the balance required for working capital management is transferred to the group treasury. Group treasury invests surplus cash in interest-bearing accounts, choosing instruments with sufficient liquidity to provide sufficient headroom as determined by the abovementioned forecasts.

The table below analyses the group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Maturity of financial liabilities

			Payable in:		
	Less than 1 month or on demand R'000	More than 1 month but not exceeding 1 year R'000	More than 1 year but not exceeding 2 years R'000	More than 2 years but not exceeding 5 years R'000	More than 5 years R'000
2011					
Interest-bearing borrowings	**15 897**	**3 458**	—	—	—
Trade and other payables*	**2 007 210**	**22 265**	—	—	—
Bank overdraft	**527**	—	—	—	—
Total	**2 023 634**	**25 723**	—	—	—
2010					
Interest-bearing borrowings	—	2 768	3 623	12 457	—
Trade and other payables*	568 936	1 084 106	—	—	—
Bank overdraft	2 175	—	—	—	—
Total	571 111	1 086 874	3 623	12 457	—

** Trade and other payables exclude non-financial instruments being VAT and certain amounts included within accruals and sundry creditors.*

3. FINANCIAL RISKS (continued)

Market risk

The group is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions. The group is not exposed to significant levels of price risk.

All financial assets at fair value through profit and loss are level 3 financial assets.

The available-for-sale financial assets are level 3 financial assets and have been disclosed in note 7.

Cash flow and fair value interest rate risk

The group's cash flow interest rate risk arises from loans receivable, cash and cash equivalents and borrowings carrying interest at variable rates. The group is not exposed to fair value interest rate risk as the group does not have any fixed interest-bearing instruments carried at fair value.

The group's exposure to interest rate risk is reflected under the respective borrowings and cash and cash equivalents notes (notes 17 and 14). As part of the process of managing the group's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Foreign currency risk

The group is exposed to foreign currency risk from transactions and translation. Transaction exposure arises because affiliated companies undertake transactions in currencies other than their functional currency.

The group manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments are used in certain instances to reduce risks arising from foreign currency fluctuations.

The group did not enter into any forward exchange contracts during the period under review.

3. FINANCIAL RISKS (continued)

IFRS 7 Sensitivity analysis

The group has used a sensitivity analysis technique that measures the estimated change to the statement of comprehensive income of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand against all other currencies, from the rates applicable at 31 May 2011, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

Interest rate risk

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.

Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2011 would increase or decrease profit tax by R22.1 million (2010: R20.7 million).

3. FINANCIAL RISKS (continued)

Foreign currency risk

Financial instruments by currency

	ZAR R'000	USD R'000	AUD R'000	EUR R'000	MxM R'000	NgN R'000	GBP R'000	Total R'000
2011								
Financial assets								
Cash and cash equivalents	2 108 330	65 438	—	24	—	52 905	—	2 226 697
Trade and other receivables*	879 595	745	—	—	—	5 746	—	886 086
Loans receivable	32 370	—	—	—	—	—	—	32 370
Financial assets at fair value through profit or loss	10	—	—	—	—	—	—	10
	3 020 305	66 183	—	24	—	58 651	—	3 145 163
Financial liabilities	—	—	—	—	—	—	—	—
Interest-bearing borrowings	19 355	—	—	—	—	—	—	19 355
Trade and other payables*	2 008 221	2 970	—	8	—	18 022	254	2 029 475
Bank overdraft	527	—	—	—	—	—	—	527
	2 028 103	2 970	—	8	—	18 022	254	2 049 357
Net financial position	992 202	63 213	—	16	—	40 629	(254)	1 095 806

* *Trade and other receivables, and trade and other payables exclude non-financial instruments.*

3. FINANCIAL RISKS (continued)

	ZAR R'000	USD R'000	AUD R'000	EUR R'000	MxM R'000	NgN R'000	GBP R'000	Total R'000
2010								
Financial assets								
Cash and cash equivalents	1 969 675	21 249	160	—	760	65 233	—	2 057 077
Trade and other receivables*	796 550	24 148	73	—	4 435	139 912	—	965 118
Loans receivable	24 974	18 643	—	—	—	—	—	43 617
Financial assets at fair value through profit or loss	150	—	—	—	—	—	—	150
	2 791 349	64 040	233	—	5 195	205 145	—	3 065 962
Financial liabilities								
Interest-bearing borrowings	18 848	—	—	—	—	—	—	18 848
Trade and other payables*	1 496 754	613	189	130	2 496	152 241	619	1 653 042
Bank overdraft	2 175	—	—	—	—	—	—	2 175
	1 517 777	613	189	130	2 496	152 241	619	1 674 065
Net financial position	1 273 572	63 427	44	(130)	2 699	52 904	(619)	1 391 897

** Trade and other receivables, and trade and other payables exclude non-financial instruments.*

3. FINANCIAL RISKS (continued)

Foreign currency risk (continued)

Financial instruments by currency (continued)

With a 10% strengthening or weakening in the rand against all other currencies, profit before tax would have increased or decreased by R10.4 million respectively.

In the prior year, with a 10% strengthening or weakening in the rand against all other currencies, profit before tax would have decreased or increased by R11.8 million.

Capital risk

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust this capital structure, the company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The group defines capital as capital and reserves and non-current borrowings.

The group is not subject to externally imposed capital requirements.

There were no changes to the group's approach to capital management during the year.

Fair value measurement

For all short-term financial assets and liabilities, the carrying amount is regarded as an approximation of the fair value.

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000
4. PROPERTY, PLANT AND EQUIPMENT			
Year ended 31 May 2011			
Opening carrying amount	**13 484**	**7 641**	**11 135**
Additions	**11 252**	**1 571**	**4 521**
Disposals	**(1 938)**	**(362)**	**(1 863)**
Depreciation charge	**(8 116)**	**(1 676)**	**(3 753)**
Impairment charges*	**(2 087)**	**(873)**	**(943)**
Translation differences	**(285)**	**(86)**	**(230)**
Transferred to disposal group classified as held-for-sale	**(994)**	**(419)**	**(452)**
Closing carrying amount	**11 316**	**5 796**	**8 415**
At 31 May 2011			
Cost	**36 495**	**11 167**	**15 807**
Accumulated depreciation	**(25 027)**	**(4 916)**	**(7 392)**
Accumulated impairments	**(152)**	**(455)**	**—**
Carrying amount	**11 316**	**5 796**	**8 415**
Year ended 31 May 2010			
Opening carrying amount	13 507	9 052	13 446
Additions	10 144	3 359	6 276
Disposals	(2 404)	(2 410)	(3 963)
Depreciation charge	(7 276)	(1 804)	(4 083)
Impairment charges	(152)	(455)	—
Translation differences	(335)	(101)	(541)
Closing carrying amount	13 484	7 641	11 135
At 31 May 2010			
Cost	34 387	12 384	17 033
Accumulated depreciation	(20 751)	(4 288)	(5 898)
Accumulated impairments	(152)	(455)	—
Carrying amount	13 484	7 641	11 135

** All impairment charges in the current year relate to Africa Prepaid Services Nigeria, the assets of which have been transferred to non-current assets held-for-sale. Refer to note 15.*

BLUE LABEL TELECOMS

Office equipment R'000	Leasehold improvements R'000	Terminals and vending machines R'000	Media equipment R'000	Plant and machinery R'000	Buildings R'000	Total R'000
3 027	**33 624**	**84 435**	**—**	**1 710**	**1 832**	**156 888**
2 097	**13 986**	**37 194**	**2 729**	**185**	**—**	**73 535**
(44)	**(494)**	**(8 084)**	**—**	**(210)**	**—**	**(12 995)**
(1 518)	**(8 249)**	**(22 418)**	**(1 056)**	**(485)**	**—**	**(47 271)**
(149)	**(90)**	**(11 001)**	**—**	**(380)**	**—**	**(15 523)**
(11)	**(57)**	**(731)**	**—**	**(81)**	**—**	**(1 481)**
(71)	**(43)**	**(11 245)**	**—**	**(182)**	**—**	**(13 406)**
3 331	**38 677**	**68 150**	**1 673**	**557**	**1 832**	**139 747**
7 238	**50 078**	**122 314**	**2 729**	**1 108**	**1 832**	**248 768**
(3 487)	**(11 401)**	**(54 164)**	**(1 056)**	**(551)**	**—**	**(107 994)**
(420)	**—**	**—**	**—**	**—**	**—**	**(1 027)**
3 331	**38 677**	**68 150**	**1 673**	**557**	**1 832**	**139 747**
3 697	9 274	49 400	4 093	710	1 832	105 011
1 490	27 317	54 106	—	1 681	—	104 373
(472)	(95)	(2 359)	(2 728)	(353)	—	(14 784)
(1 239)	(2 825)	(16 784)	(1 365)	(335)	—	(35 711)
(420)	—	—	—	—	—	(1 027)
(29)	(47)	72	—	7	—	(974)
3 027	33 624	84 435	—	1 710	1 832	156 888
6 001	38 274	123 122	—	2 060	1 832	235 093
(2 554)	(4 650)	(38 687)	—	(350)	—	(77 178)
(420)	—	—	—	—	—	(1 027)
3 027	33 624	84 435	—	1 710	1 832	156 888

BLUE LABEL TELECOMS

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment include the following amounts where the group is a lessee under a finance lease:

	2011 R'000	2010 R'000
Motor vehicles		
Cost	—	4 433
Accumulated depreciation	—	(1 171)
Carrying value at 31 May	—	3 262

These assets were pledged as surety against the liability.

5. INTANGIBLE ASSETS

	Goodwill R'000	Trademarks R'000	Customer listing R'000	Distribution agreement R'000
Year ended 31 May 2011				
Opening carrying amount	242 562	4 121	3 210	6 729
Additions	—	—	1 029	3 410
Disposals	—	—	—	—
Amortisation charge	—	(736)	(1 439)	(2 591)
Impairment charges	(27 985)	—	—	(1 878)
Translation differences	257	—	—	—
Closing carrying amount	214 834	3 385	2 800	5 670
At 31 May 2011				
Cost	256 648	7 167	32 817	16 716
Accumulated amortisation	—	(3 782)	(30 017)	(9 168)
Accumulated impairments	(41 814)	—	—	(1 878)
Carrying amount	214 834	3 385	2 800	5 670

* *Included in the amortisation charge is an amount of R7 million (2010: R4.9 million) in respect of the purchased starter pack bases, which is charged to the changes in inventories of finished goods line in the statement of comprehensive income.*

** *This represents independently distributed starter pack bases purchased during the current and prior year. The remaining amortisation periods are 84 months and 67 months respectively.*

	Computer software R'000	Internally generated software R'000	Franchise fees R'000	Customer relationships R'000	Purchased starter pack bases** R'000	Total R'000
	41 535	38 015	1 659	45 119	53 874	436 824
	15 419	9 296	700	—	82 807	112 661
	(386)	(169)	—	—	—	(555)
	(13 596)	(9 406)	(227)	(25 306)	(6 997)*	(60 298)
	(12 751)	(12 703)	—	—	—	(55 317)
	(56)	(3)	—	—	—	198
	30 165	25 030	2 132	19 813	129 684	433 513
	86 683	56 031	3 118	126 673	141 579	727 432
	(46 952)	(16 638)	(986)	(106 245)	(11 895)	(225 683)
	(9 566)	(14 363)	—	(615)	—	(68 236)
	30 165	25 030	2 132	19 813	129 684	433 513

5. INTANGIBLE ASSETS (continued)

The carrying amount of goodwill and intangible assets have been reduced to their recoverable amounts through recognition of an impairment loss.

Intangible asset impairments

A distribution agreement of R1.9 million in the Mobile segment has been fully impaired to nil due to the decline in revenue as a result of a cut back in network marketing spend for mobile content downloads.

Computer software of R9.5 million has been impaired due to the commitment to dispose of the Nigeria business. (Refer note 15.)

Computer software of R3 million relating to the International segment has been fully impaired to nil, as a result of the fall in the competitive edge that payphones traditionally had over mobile phones.

Internally generated software of R12.7 million has been impaired due to management's decision that the development of the software is no longer commercially viable.

The above factors have also been taken into account in the impairment charges of goodwill.

	Goodwill R'000	Trademarks R'000	Customer listing R'000	Distribution agreement R'000
Year ended 31 May 2010				
Opening carrying amount	257 495	4 821	18 979	7 440
Additions	—	65	—	1 500
Disposals	(1 127)	—	(13 859)	—
Amortisation charge	—	(765)	(1 926)	(2 211)
Impairment charges	(13 829)	—	—	—
Translation differences	23	—	16	—
Closing carrying amount	242 562	4 121	3 210	6 729
At 31 May 2010				
Cost	256 391	9 158	31 788	13 306
Accumulated amortisation	—	(5 037)	(28 578)	(6 577)
Accumulated impairments	(13 829)	—	—	—
Carrying amount	242 562	4 121	3 210	6 729

Computer software has been impaired due to the resale capabilities of this software not materialising as previously anticipated.

5. INTANGIBLE ASSETS (continued)

Change in accounting estimate

2010

No change in accounting estimate.

2011

The amortisation of the purchased starter pack base was changed during the year from five to seven years. The (decrease)/increase of this change on the amortisation is as follows:

	Gross R'000	**Tax** R'000	**Net** R'000
2011	(4 758)	1 332	(3 426)
2012	(3 358)	940	(2 418)
2013	(3 358)	940	(2 418)
2014	(3 358)	940	(2 418)
2015	1 539	(430)	1 109
Thereafter	13 293	(3 722)	9 571

Computer software R'000	Internally generated software R'000	Franchise fees R'000	Customer relationships R'000	Supplier relationships R'000	Purchased starter pack base R'000	Total R'000
53 572	22 076	1 780	93 852	310	—	460 325
8 729	22 228	—	150	—	58 772	91 444
(298)	(207)	—	(13 124)	—	—	(28 615)
(14 053)	(4 428)	(121)	(35 144)	(310)	(4 898)	(63 856)
(6 281)	(1 660)	—	(615)	—	—	(22 385)
(134)	6	—	—	—	—	(89)
41 535	38 015	1 659	45 119	—	53 874	436 824
83 907	47 823	2 418	126 673	—	58 772	630 236
(36 091)	(8 148)	(759)	(80 939)	—	(4 898)	(171 027)
(6 281)	(1 660)	—	(615)	—	—	(22 385)
41 535	38 015	1 659	45 119	—	53 874	436 824

5. INTANGIBLE ASSETS (continued)

The cash-generating units to which goodwill is allocated are presented below:

	2011 R'000	2010 R'000
Africa Prepaid Services Nigeria Limited[1]	—	13 296
Blue Label Distribution	36 364	36 364
Cellfind (Proprietary) Limited	21 406	21 406
Content Connect Africa (Proprietary) Limited[2]	9 429	18 738
Little River Trading 181 (Proprietary) Limited (trading as Crown Cellular)	62 113	62 113
SharedPhone International (Proprietary) Limited[2]	2 499	7 877
Datacel group	83 023	83 023
Translation differences	—	(255)
	214 834	242 562

1 The goodwill relating to Africa Prepaid Services Nigeria has been impaired in the current year due to the cancellation of the contract with Multi-Links. Refer to note 15.
2 The goodwill arising on the acquisition of SharedPhone International and Content Connect Africa has been partially impaired in the current year due to the fair value less cost to sell being less than the carrying value.

Goodwill is allocated to cash-generating units (CGUs) for the purpose of impairment testing. The recoverable amount, which is the higher of fair value less cost to sell and value in use of CGUs (excluding SharedPhone International and Content Connect Africa), has been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the board of directors for the forthcoming year and forecasts for up to five years which are based on assumptions of the business, industry and economic growth. Cash flows beyond this period are extrapolated using terminal growth rates, which do not exceed the expected long-term economic growth rate.

The average growth rates applied were between 1.5% and 4.5% (2010: 1.5% and 4.5%). The weighted average cost of capital used to discount these cash flows ranged between 15% and 22% (2010: 17% and 27%). The discount rates used are pre-tax and reflect specific risks relating to the relevant companies.

The recoverable amount of SharedPhone International and Content Connect Africa is based on fair value less cost to sell. The fair value is based on indicative sales values for the respective businesses.

The valuation of the goodwill balances resulted in goodwill impairment charges of R27 985 257 for the year (2010: R13 829 170).

If one or more of the inputs were changed to a reasonable possible alternative assumption, there would be no further significant impairments that would have to be recognised.

		2011 R'000	2010 R'000
6.	**INVESTMENTS IN ASSOCIATES AND JOINT VENTURES**		
	Cost and share of reserves at beginning of year	76 146	86 892
	Acquisition of associates and joint ventures	143 365	*
	Share of losses from associates and joint ventures	(2 757)	(14 982)
	Share of results after tax	(1 527)	(13 699)
	Amortisation of intangible assets	(1 607)	(1 959)
	Deferred tax on intangible assets amortisation	449	549
	(Loss)/profit on dilution	(72)	127
	Foreign currency translation reserve	1 747	(7 141)
	Equity compensation benefit	942	1 227
	Dividends received	(1 416)	—
	Other reserves	—	10 150
	Cost and share of reserves at end of year	218 027	76 146
	Loans at beginning of year	20 742	22 945
	Loans granted to associates and joint ventures	1 373	451
	Loans repaid by associates	—	(320)
	Movement in funding	(145)	(1 587)
	Unrealised foreign exchange loss on loans to associates	—	(747)
	Loans at end of year	21 970	20 742
	Closing net book value	239 997	96 888

The investments in joint ventures and associates have been split between the investments in shares and loans, with the comparative information updated accordingly.

The directors believe that the carrying value of the shares approximates their fair value.

The loans are neither past due nor impaired with a low risk of default.

Loans to/from associates and joint ventures have no fixed terms of repayment.

Investments in associates and joint ventures include goodwill to the value of R163 million (2010: R28 million).

** Less than R1 000.*

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Associates

The group's interest in its principal associates, which are unlisted, is as follows:

Name	Country of incorporation	Assets R'000	Liabilities R'000	Revenues R'000	Profit/(Loss) R'000	Effective percentage interest held	Net book value R'000
2011							
Oxigen Services India (Private) Limited	India	**115 472**	**70 501**	**1 742 446**	**(13 871)**	**37.22**	**59 992**
Smart Voucher Limited	United Kingdom	**246 198**	**213 074**	**141 544**	**22 114**	**15.75**	**37 546**
Dual Data (Proprietary) Limited	South Africa	**11**	**14**	**27**	*****	**50**	*****
BLK Risk Services (Proprietary) Limited	South Africa	**1 324**	**429**	**—**	**—**	**25**	**220**
2010							
Oxigen Services India (Private) Limited	India	123 070	67 153	1 450 276	(19 069)	37.22	63 117
Smart Voucher Limited	United Kingdom	137 234	127 838	87 439	(20 456)	15.79	27 648
Dual Data (Proprietary) Limited	South Africa	117	116	3 954	—	50	*
BLK Risk Services (Proprietary) Limited	South Africa	1 324	429	—	—	25	220

There are no contingent liabilities relating to the group's interest in associates. For details on related party transactions refer to note 29.

** Less than R1 000.*

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Joint ventures

See note 27 for details of the acquisition of 40% in Blue Label Mexico S.A de C.V. on 23 February 2011.

Shares in joint ventures acquired during the prior year:

	Date acquired	Effective percentage acquired
2010		
Datacision (Proprietary) Limited	1 December 2009	50
Bela Phone Company (Proprietary) Limited	26 November 2009	51

Set out below is the summarised financial information of joint ventures:

Name	Country of incorporation	Non-current assets R'000	Current assets R'000	Current liabilities R'000	Revenues R'000	Profit/ (Loss) R'000	Effective percentage interest held	Net book value R'000
2011								
Blue Label Mexico S.A de C.V	Mexico	19 904	97 424	9 230	26 856*	(15 501)*	40	193 950
Demtrade 11 (Proprietary) Limited	South Africa	—	2 513	1 483	10 536	84	46.25	4 730
Bela Phone Company (Proprietary) Limited	South Africa	—	2 521	5 330	1 139	(2 043)	51	408
Datacision (Proprietary) Limited	South Africa	—	915	62	4 856	2 396	50	428

In the current year, Demtrade 11 (Proprietary) Limited was diluted by 3.75%.
Premet Cellular (Proprietary) Limited was disposed of in the current year at par value.

** This relates to the results for the period 23 February 2011 to 31 May 2011.*

6. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Joint ventures (continued)

Name	Country of incorporation	Current assets R'000	Current liabilities R'000	Revenues R'000	Profit/(Loss) R'000	Effective percentage interest held	Net book value R'000
2010							
Premet Cellular (Proprietary) Limited	South Africa	1 026	6 998	—	—	40	*
Demtrade 11 (Proprietary) Limited	South Africa	7 923	6 040	10 780	715	50	5 514
Bela Phone Company (Proprietary) Limited	South Africa	1 162	1 928	336	(766)	51	159
Datacision (Proprietary) Limited	South Africa	561	104	859	457	50	229

There are no contingent liabilities relating to the group's interest in joint ventures.

**Less than R1 000.*

	2011 R'000	2010 R'000
7. AVAILABLE-FOR-SALE FINANCIAL ASSET		
Opening balance	—	—
Additions	20 911	—
Impairments	(20 911)	—
Closing balance	—	—

On 30 November 2009, Africa Prepaid Services (Proprietary) Limited ('APS'), a Blue Label Telecoms subsidiary, disposed of its 90% shareholding in Africa Prepaid Services Mozambique Limitada for US$3.95 million, to AP Capital Limitada ('AP') (the non-controlling interest in the company). The terms of this sale was a down payment of US$1 million, with the balance being deferred to 31 May 2010.

As at 11 February 2011, an amount of US$2.95 million was still outstanding from AP as AP was unable to expunge this debt in the required time frame. As settlement of the amount outstanding, AP transferred APS their 20% shareholding in Empresa Moçambicana de Telecommunicaçoes S.A.R.L. ('Emotel').

Management has designated this investment as an available-for-sale financial asset, as there is no board representation or any other factors which could lead to significant influence.

As a result of a decrease in the estimated future cash flows associated with this asset, an impairment of the full value has been recognised in the statement of comprehensive income.

	2011 R'000	2010 R'000
8. STARTER PACK ASSETS		
Balance at the beginning of the year	94 293	121 545
Additions	4 889	18 033
Impairments*	(8 485)	(23 080)
Disposals*	(53 559)	(21 757)
Translation differences	—	(448)
At the end of the year	37 138	94 293
Less: Current portion	(16 777)	(77 467)
	20 361	16 826

* *These impairments and disposals are charged to the statement of comprehensive income and are included in changes in inventories of finished goods. The impairments represent the value of starter packs that management considers the probability of activation to be low. The disposals represent starter packs that have activated during the current year.*

9. DEFERRED TAXATION

	Capital allow-ances R'000	Fair value gains R'000	Pro-visions R'000	Tax losses R'000	Pre-payments R'000	Other R'000	Total R'000
At 31 May 2009	2 863	40 467	(3 806)	(10 989)	1 389	12 255	42 179
Charge/(Credited) to statement of comprehensive income	2 505	(11 948)	1 852	(5 502)	(447)	(3 477)	(17 017)
Disposal of subsidiary (note 27)	—	—	—	—	—	(3 882)	(3 882)
Foreign currency translations	—	—	—	210	—	(29)	181
At 31 May 2010	5 368	28 519	(1 954)	(16 281)	942	4 867	21 461
Charge/(Credited) to statement of comprehensive income	(3 569)	(7 743)	(3 997)	(1 982)	1 592	(1 799)	(17 498)
Foreign currency translations	—	—	—	—	—	186	186
At 31 May 2011	1 799	20 776	(5 951)	(18 263)	2 534	3 254	4 149

	2011 R'000	2010 R'000
9. DEFERRED TAXATION (continued)		
Deferred tax asset comprises:		
Capital allowances	**(797)**	(2 075)
Fair value gains	**—**	265
Provisions	**(5 981)**	(2 461)
Tax losses	**(18 263)**	(5 472)
Prepayments	**—**	(449)
Other	**(725)**	37
Total deferred tax asset	**(25 766)**	(10 155)
Deferred tax liability comprises:		
Capital allowances	**2 596**	7 443
Fair value gains	**20 776**	28 254
Provisions	**30**	507
Tax losses	**—**	(10 809)
Prepayments	**2 534**	1 391
Other	**3 979**	4 830
Total deferred tax liability	**29 915**	31 616
Net deferred taxation	**4 149**	21 461

In the prior year, the group's subsidiary in Nigeria was granted a five-year company income tax holiday. Furthermore, capital allowances arising on capital expenditure incurred during this five-year period may be carried forward and claimed as deductions against taxable income from the sixth year of operations onwards. A deferred tax asset of R2 million, relating to these deductible temporary differences,was recognised for the year ended 31 May 2010.

Where deferred tax assets have been recognised in respect of entities which have incurred losses in the current or prior years, a formal process of assessment of the future profitability of the entity has been performed based on detailed budgets and cash flow forecasts. As a result, management believes that the current tax losses will be utilised within one to five years.

		2011 R'000	2010 R'000
9.	**DEFERRED TAXATION (continued)**		
	The analysis of deferred tax assets and deferred tax liabilities is as follows:		
	Deferred tax assets		
	Deferred tax assets to be recovered after more than 12 months	**(8 636)**	(17 872)
	Deferred tax assets to be recovered within 12 months	**(9 411)**	(8 781)
		(18 047)	(26 653)
	Deferred tax liabilities		
	Deferred tax liabilities to be recovered after more than 12 months	**656**	25 768
	Deferred tax liabilities to be recovered within 12 months	**21 540**	22 346
		22 196	48 114
	Net deferred tax liability	**4 149**	21 461

Deferred tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The group did not recognise deferred income tax assets of R19.6 million (2010: R28.2 million) in respect of losses amounting to R70 million (2010: R98.9 million) that can be carried forward against future taxable income.

		2011 R'000	2010 R'000
10.	**FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**		
	Balance at the beginning of the year	150	10
	Movements in financial assets at fair value through profit and loss	(140)	140
	At the end of the year	10	150
	Changes in the fair value of these assets are recorded in other income.		
	The fair value of financial assets is based on management's best estimate.		
11.	**INVENTORIES**		
	Airtime and related products	1 012 594	560 846
		1 012 594	560 846
	Inventory impairments of R12 million (2010: nil) have been charged to the statement of comprehensive income.		
	Inventories sold during the year have been charged to the statement of comprehensive income and are included in changes of inventories of finished goods.		
	A general notarial bond is held by Investec Bank Limited over airtime up to R750 million (2010: R650 million).		
12.	**LOANS RECEIVABLE**		
	Interest free loans receivable	32 370	43 617
		32 370	43 617
	Loans are unsecured and have no fixed terms of repayment. The loans receivable are neither past due nor impaired with a low risk of default.		
	Of this amount R30 million (2010: R38 million) relates to loans receivable from related parties (refer to note 29).		

	2011 R'000	2010 R'000
13. TRADE AND OTHER RECEIVABLES		
Trade receivables	877 316	848 943
Less: Provision for impairment	(14 064)	(1 857)
	863 252	847 086
Sundry debtors and prepayments	27 245	89 619
VAT	6 368	8 846
Rebates receivable	—	14 451
Proceeds due on disposal of subsidiaries*	—	22 615
Receivables from related parties (refer to note 29)	17 299	4 662
	914 164	987 279

The carrying value of trade and other receivables approximates their fair value.

* *This amount was secured by shares held in the purchaser's personal capacity.*

	Gross R'000	Impairment R'000
13. TRADE AND OTHER RECEIVABLES (continued)		
The ageing of trade receivables at the reporting date was:		
31 May 2011		
Fully performing	**844 185**	**317**
Past due by 1 to 30 days	**19 594**	**750**
Past due by 31 to 60 days	**9 269**	**869**
Past due by 61 to 90 days	**7 080**	**2 589**
Past due by more than 90 days	**16 186**	**9 539**
	896 314	**14 064**
31 May 2010		
Fully performing	805 817	25
Past due by 1 to 30 days	32 078	9
Past due by 31 to 60 days	3 351	—
Past due by 61 to 90 days	1 243	—
Past due by more than 90 days	7 541	1 823
	850 030	1 857

Receivables in respect of starter packs are included in fully performing debtors above.

The effect of discounting of the trade receivables balance of R1 699k (2010: (R3 575k)) is not taken into account in the above table.

The trade receivables that are neither past due nor impaired relate to a number of independent customers for whom there is no recent history of default.

	2011 R'000	2010 R'000
13. TRADE AND OTHER RECEIVABLES (continued)		
Provision for impairment of receivables		
At 1 June	**1 857**	3 192
Allowances made during the year	**12 977**	1 769
Disposal of subsidiaries	**(162)**	(319)
Amounts used and reversal of unused amounts	**(608)**	(2 785)
At 31 May	**14 064**	1 857

Impairment of receivables is determined after assessing the nature of the customer, their geographic location and specific circumstances.

The group believes that the above provision for impairment of receivables sufficiently covers the risk of default.

There is a cession of trade receivables of R829.4 million (2010: R794.9 million) in favour of Investec Bank Limited.

	2011 R'000	2010 R'000
14. CASH AND CASH EQUIVALENTS		
Cash at bank	**2 225 631**	2 046 632
Cash on hand	**1 066**	10 445
Favourable balances	**2 226 697**	2 057 077
Bank overdraft	**(527)**	(2 175)
	2 226 170	2 054 902

Guarantees to the value of R1.2 billion (2010: R1.4 billion) are held by Investec Bank Limited in favour of suppliers, on behalf of the group.

15. NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS

Dilution of majority stake in Blue Label Mexico S.A de C.V.

On 23 February 2011, a strategic alliance was entered into between Blue Label Mexico S.A de C.V. ('BLM') and Grupo Bimbo S.A.B de C.V. ('Bimbo'), a distributor of consumer goods to approximately 800 000 outlets in Mexico. In terms of this arrangement Bimbo purchased 40% of Blue Label Mexico for US$20 million by subscribing to a fresh issue of shares. The recoverable amount at the date of dilution exceeded the carrying amount of the related net assets and, accordingly, no impairment losses were recognised. Details of the assets and liabilities disposed of, and the calculation of the profit on dilution, are disclosed in note 27.

15. NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS (continued)

Plan to dispose of Africa Prepaid Services Nigeria Limited

Prior to year-end the board of directors committed to disposing of the majority of assets and liabilities of Africa Prepaid Services Nigeria Limited to a third party in Nigeria. The sale was concluded on 15 June 2011. The group has recognised the assets and liabilities of this disposal group at fair value less cost to sell. Fair value has been determined based on prices set as per the sales agreement. The impairment losses have been recorded in the statement of comprehensive income and have been disclosed in note 21.

Analysis of profit for the year from discontinued operations

The combined results of the discontinued operations of Blue Label Mexico and Africa Prepaid Services Nigeria which have been included in the consolidated statement of comprehensive income are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current year.

	2011 R'000	2010 R'000
Profit for the year from discontinued operations		
Revenue	536 999	1 087 932
Other income	147 589	—
Gain on remeasuring retained interest in Blue Label Mexico due to loss of control	143 365	—
Foreign currency translation reserve recycled	(4 234)	—
Profit on disposal of subsidiary	6 629	—
Sundry income	1 829	—
Changes in inventories of finished goods	(480 063)	(930 251)
Employee compensation and benefit expense	(35 358)	(27 794)
Depreciation, amortisation and impairment charges	(47 147)	(4 672)
Other expenses	(56 707)	(10 300)
Operating profit	65 313	114 915
Finance costs	(6 420)	(17 187)
Finance income	626	756
Net profit before taxation from discontinued operations	59 519	98 484
Taxation	(1 946)	(1 220)
Net profit for the year from discontinued operations	57 573	97 264
Other comprehensive income from discontinued operations:		
Foreign currency translation reserve recycled to profit or loss	4 234	—
Other comprehensive profit for the year, net of tax	4 234	—
Total comprehensive income for the year	61 807	97 264

	2011 R'000	2010 R'000
15. NON-CURRENT ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS (continued)		
Assets of disposal group classified as held-for-sale*		
Property, plant and equipment	13 406	—
Inventories	6 642	—
Trade and other receivables	433	—
	20 481	—
Liabilities of disposal group classified as held-for-sale*		
Trade and other payables	13 872	—
	13 872	—
Cash flows from discontinued operations		
Operating cash flows	41 753	109 491
Investing cash flows	(4 666)	(13 743)
Total cash flows	37 087	95 748

* *Relates solely to Africa Prepaid Services Nigeria Limited.*

	2011 Number of shares	2010 Number of shares	2011 R'000	2010 R'000
16. SHARE CAPITAL				
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	**1 000 000 000**	1 000 000 000	**1**	1
Issued				
Balance at the beginning of the year	**756 659 181**	761 159 181	*****	*
Shares acquired during the year	**(1 300 000)**	(4 500 000)	*****	*
Shares vested during the year	**909 823**	—	*****	*
Balance at the end of the year	**756 269 004**	756 659 181	*****	*

** Less than R1 000.*

The total number of shares in issue, including shares held as treasury shares as at 31 May 2011 is 766 360 894 (2010: 766 360 894).

The company acquired 1 300 000 (2010: 4 500 000) shares on the JSE in order to grant forfeitable shares to employees and directors.

The amount paid to acquire these shares was R8 789 983 (2010: R26 554 176). An amount of R8 934 993 (2010: R26 557 517) has been deducted from shareholders' equity. These shares are held as "treasury shares". (The difference relates to shares held by equity accounted group companies.) See note 32 for details on the forfeitable shares.

The directors of the company have unrestricted authority until the following annual general meeting to allot up to 3% of the number of ordinary shares issued in the company as at 31 May 2010, subject to the previous Companies Act of South Africa, and the JSE Listings Requirements.

		2011 R'000	2010 R'000
17.	**INTEREST-BEARING BORROWINGS**		
	Liabilities under non-cancellable finance leases	—	268
	Other borrowings	**19 355**	18 580
		19 355	18 848
	Less: Amounts included in current portion of borrowings	**(3 458)**	(2 768)
		15 897	16 080
	Finance lease liabilities – minimum lease payments due:		
	Not later than one year	—	120
	Later than one year and not later than five years	—	175
		—	295
	Future finance charges on finance leases	—	(27)
	Present value of finance lease liabilities	—	268

The group did not default on any loans or finance lease liabilities, or breach any terms of the underlying agreements during the period.

The carrying value of interest-bearing borrowings approximates their fair value.

Liabilities under non-cancellable finance leases

Liabilities under capitalised finance leases were payable over periods of one to five years at effective interest rates linked to the prime interest rate per annum. They were secured by the motor vehicles to which they related. These were settled in full during the year.

Other borrowings

Other borrowings are unsecured and have no fixed terms of repayment. These borrowings bear interest at prime linked rates.

Notes to the group annual financial statements continued

FOR THE YEAR ENDED 31 MAY 2011

	2011 R'000	2010 R'000
18. TRADE AND OTHER PAYABLES		
Trade payables	1 928 385	1 582 391
Accruals	68 077	74 341
Sundry creditors	17 930	31 638
VAT	26 162	16 528
Payables to related parties (refer to note 29)	6 219	14 009
	2 046 773	1 718 907

	2011 R'000	2010 R'000
19. PROVISION		
Opening balance	—	—
Additions	89 628	—
Used during the year	(80 952)	—
	8 676	—

The provision raised represents the value of electricity vouchers sold and unredeemed as at year end, payable by the group to the municipalities on redemption by the end customer.

Redemption is dependent on activation by customers. This is expected to occur within the first quarter of the following financial year.

	2011 R'000	2010 R'000
20. EMPLOYEE COMPENSATION AND BENEFIT EXPENSE		
Continuing operations		
Salaries and wages	236 390	240 525
Bonuses	14 514	30 048
Equity compensation benefit	11 132	(117)
Other	1 324	1 678
	263 360	272 134
Average number of employees for the year was 1 402 (2010: 1 795)		
Discontinued operations		
Salaries and wages	35 076	21 191
Bonuses	282	6 603
	35 358	27 794

Average number of employees for the year was 157 (2010: 100)

21. OPERATING PROFIT

The following items have been charged/(credited) in arriving at operating profit:

	2011 R'000	2010 R'000
Continuing operations		
Audit fees – services as auditors	11 528	12 975
Audit fees – other	1 484	1 798
Bank charges	11 740	11 765
Communication costs	8 867	13 209
Computer-related costs	7 990	7 135
Consulting fees	15 210	15 708
Courier and postage	4 623	5 722
Fair value movements on financial assets at fair value through profit or loss	140	—
Foreign exchange profit – realised	—	(1 265)
Foreign exchange profit – unrealised	(1 189)	(747)
Foreign exchange loss – realised	1 778	—
Foreign exchange loss – unrealised	1 808	1 360
Foreign currency translation reserve recycled	(15)	—
Impairment of available-for-sale financial asset	20 911	—
Impairment of loans	447	1 704
Impairment of trade receivables	13 990	9 083
Impairment of intangible assets	17 866	8 556
Impairment of goodwill	14 689	13 829
Impairment of inventory	12 047	—
Insurance	11 469	14 269
IT infrastructure costs	8 420	1619

	2011 R'000	2010 R'000
21. OPERATING PROFIT (continued)		
Continuing operations (continued)		
Legal fees	2 321	3 487
Local travel	5 000	5 490
Management fees paid	2 947	3 980
Management fees received	(1 146)	(6 487)
Motor vehicle expenses	7 984	6 619
Operating lease rentals – equipment	7 157	7 618
Operating lease rentals – premises	27 046	24 152
Overseas travel	4 650	6 537
Printing and stationery	2 209	2 725
Profit on disposal of property, plant and equipment	(151)	(571)
Profit on disposal of subsidiaries	(130)	(29 554)
Rent and security	4 329	3 159
Repairs and maintenance	2 327	3 416
Share-based payment expense	—	295
Discontinued operations		
Audit fees – services as auditors	2 082	1 087
Audit fees – other	193	—
Bank charges	1 357	2 740
Communication costs	961	735
Computer-related costs	2 646	815
Consulting fees	9 505	3 141
Courier and postage	1 135	1 264
Foreign exchange loss – realised	8 103	—
Foreign exchange loss – unrealised	—	3 822
Foreign currency translation reserve recycled	4 234	—
Gain on remeasuring existing interest in Blue Label Mexico due to loss of control	(143 365)	—

	2011 R'000	2010 R'000
21. OPERATING PROFIT (continued)		
Discontinued operations (continued)		
Impairment of intangible assets	9 466	—
Impairment of goodwill	13 296	—
Impairment of fixed assets	15 523	—
Insurance	417	347
IT infrastructure costs	499	386
Legal fees	2 041	547
Local travel	947	2 122
Motor vehicle expenses	318	178
Operating lease rentals – premises	8 716	4 203
Overseas travel	2 846	3 067
Printing and stationery	327	417
Profit on disposal of property, plant and equipment	—	(12)
Profit on disposal of subsidiary	(6 629)	—
Rent and security	803	425
Repairs and maintenance	422	273

	2011 R'000	2010 R'000
22. FINANCE (INCOME)/COSTS		
Interest paid		
Continuing operations		
– Bank	5 464	2 183
– Loans	2 081	1 974
– Finance leases	42	319
– Other	507	616
– Discounting of payables	107 751	102 035
	115 845	107 127
Discontinued operations		
– Bank	60	—
– Other	67	39
– Discounting of payables	6 293	17 148
	6 420	17 187

	2011 R'000	2010 R'000
22. FINANCE (INCOME)/COSTS (continued)		
Interest received		
Continuing operations		
– Bank	(49 795)	(82 389)
– Loans	(159)	(481)
– Other	(65)	(504)
– Discounting of receivables	(96 410)	(77 644)
	(146 429)	(161 018)
Discontinued operations		
– Bank	(536)	(684)
– Loans	—	—
– Other	(90)	(72)
– Discounting of receivables	—	—
	(626)	(756)
Net finance income – Continuing operations	(30 584)	(53 891)
Net finance cost – Discontinued operations	5 794	16 431

	2011 R'000	2010 R'000
23. TAXATION		
Current tax	**162 270**	181 997
Current year	**161 953**	181 981
Prior year adjustment	**317**	16
Deferred tax	**(19 335)**	(18 396)
Current year	**(19 335)**	(18 769)
Prior year adjustment	**—**	373
Withholding tax	**—**	1 935
STC	**9 241**	
	152 176	165 536
Profit before tax	**479 574**	493 453
Tax at 28%	**134 281**	138 167
Income not subject to tax	**(2 434)**	(9 383)
Expenses not deductible for tax purposes	**11 844**	8 078
Capital gains	**—**	3 928
Donations tax	**(205)**	205
STC	**9 241**	—
Utilisation of previously unrecognised tax losses	**(8 860)**	(109)
Tax effect of assessed losses not recognised	**9 686**	15 296
Share of losses from associates	**772**	4 195
Prior year adjustment	**317**	389
Effect of different tax dispensations	**(80)**	(347)
Withholding tax	**—**	1 935
Effect of discontinued operations	**(2 386)**	3 182
Tax charge	**152 176**	165 536

	2011	2010
24. EARNINGS PER SHARE		
a) Basic		
Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.		
Profit from continuing operations attributable to equity holders of the company (R'000)	337 547	328 570
Profit from discontinued operations attributable to equity holders of the company (R'000)	93 901	36 452
Profit attributable to equity holders of the company (R'000)	431 448	365 022
Weighted average number of ordinary shares in issue (thousands)	756 359	757 793
Basic earnings per share (cents per share)		
From continuing operations (cents per share)	44.63	43.36
From discontinued operations (cents per share)	12.41	4.81
	57.04	48.17

24. EARNINGS PER SHARE (continued)

b) Headline

Headline earnings are calculated applying the principles contained in SAICA circular 3/2009. The weighted average number of shares used, is the same as that used for the basic earnings per share.

	2011			
	Profit before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
Profit attributable to equity holders of the company	539 093	(154 122)	46 477	431 448
Profit on disposal of property, plant and equipment	(151)	42	—	(109)
Profit on disposal of subsidiaries	(6 759)	—	—	(6 759)
Gain on remeasuring existing interest in Blue Label Mexico due to loss of control	(143 365)	—	—	(143 365)
Impairment of property, plant and equipment on classification to held-for-sale	15 523	—	(9 823)	5 700
Impairment of intangible asset	17 867	(5 003)	(1 067)	11 797
Impairment of intangible asset on classification to held-for-sale	9 465	—	(5 990)	3 475
Impairment of goodwill	14 689	—	—	14 689
Impairment of goodwill on classification to held-for-sale	13 296	—	—	13 296
Impairment of available-for-sale financial asset	20 911	—	(5 855)	15 056
Foreign currency translation reserve recycled to profit or loss	4 219	—	—	4 219
Headline earnings				349 447
Weighted average number of ordinary shares in issue (thousands)				756 359
Headline earnings per share (cents per share)				46.20

24. EARNINGS PER SHARE (continued)

b) Headline (continued)

	2010			
	Profit before tax and non-controlling interest R'000	Tax R'000	Non-controlling interest R'000	Headline earnings R'000
Profit attributable to equity holders of the company	591 937	(166 756)	(60 159)	365 022
Profit on disposal of property, plant and equipment	(583)	163	—	(420)
Profit on disposal of subsidiaries	(29 554)	3 768	7 220	(18 566)
Impairment of property, plant and equipment	1 027	(288)	—	739
Impairment of intangible asset	8 556	(2 395)	—	6 161
Impairment of goodwill	13 829	—	—	13 829
Foreign currency translation reserve reclassified to profit or loss	(1 328)	—	372	(956)
Headline earnings				365 809
Weighted average number of ordinary shares in issue (thousands)				757 793
Headline earnings per share (cents per share)				48.27

24. EARNINGS PER SHARE (continued)

c) Diluted – basic and headline

Diluted earnings per share are calculated by adjusting the number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The only dilutive potential ordinary shares of the company are the forfeitable shares granted. For this calculation an adjustment is made for the number of shares that would be issued on vesting under the forfeitable share plan.

There are no potential dilutive instruments relating to the discontinued operations.

	2011	2010
Basic earnings (R'000)	**431 448**	365 022
Issued number of ordinary shares (thousands)	**756 359**	756 659
Adjusted for forfeitable shares (thousands)	**7 383**	4 500
Weighted average number of ordinary shares for dilutive earnings (thousands)	**763 742**	761 159
Dilutive basic earnings per share (cents per share)	**56.49**	47.96
Headline earnings (R'000)	**349 447**	365 809
Weighted average number of ordinary shares for dilutive headline earnings (thousands)	**763 742**	761 159
Dilutive headline earnings per share (cents)	**45.75**	48.06

d) Core

Core earnings per share is calculated after adding back the amortisation of intangible assets as a consequence of the purchase price allocations completed in terms of IFRS 3: *Business Combinations.*

Reconciliation between net profit for the period and core net profit for the period:

	2011	2010
Net profit for the period (R'000)	**431 448**	365 022
Amortisation on intangibles raised through business combinations net of tax and non-controlling interest (R'000)	**24 975**	31 623
Core net profit for the period (R'000)	**456 423**	396 645
Weighted average number of ordinary shares in issue (thousands)	**756 359**	757 793
Core earnings per share (cents per share)	**60.34**	52.34

		2011 R'000	2010 R'000
25.	**CASH GENERATED BY OPERATIONS**		
	Reconciliation of operating profit to cash generated by operating activities:		
	Operating profit including discontinued operations	**517 060**	569 459
	Adjustments for:		
	Depreciation of property, plant and equipment	**47 271**	35 711
	Amortisation of intangible assets	**60 298**	58 958
	Impairment of property, plant and equipment	**15 523**	1 027
	Impairment of intangible assets	**27 332**	8 556
	Impairment of goodwill	**27 985**	13 829
	Loss on derecognition of financial asset	**—**	645
	Discounting of receivables recognised in revenue	**96 410**	77 644
	Discounting of payables recognised in changes in inventories of finished goods	**(114 044)**	(119 183)
	Impairment of loan	**447**	1 704
	Impairment of available-for-sale financial asset	**20 911**	—
	Profit on disposal of property, plant and equipment	**(151)**	(583)
	Net profit on disposal of subsidiaries	**(6 759)**	(29 554)
	Gain on remeasuring existing interest in Blue Label Mexico due to loss of control	**(143 365)**	—
	Equity compensation benefit scheme expense	**11 132**	(117)
	Share-based payment	**—**	295
	Net unrealised forex loss	**4 838**	4 435
	Changes in working capital (excluding the effects of acquisitions and disposals):		
	Increase in inventories	**(467 986)**	(187 015)
	Decrease/(increase) in trade and other receivables	**20 008**	(180 112)
	Increase in trade and other payables	**383 868**	354 427
	Decrease/(increase) in loans receivable	**8 119**	(10 182)
	Decrease in starter pack assets	**57 156**	23 048
		566 053	622 992

	2011 R'000	2010 R'000
26. TAXATION PAID		
Balance outstanding at the beginning of the year	**17 035**	25 938
Translation differences	**—**	(285)
Taxation charge	**171 435**	183 773
Disposal of subsidiaries	**340**	(6 310)
Net payable outstanding at the end of the year	**(7 996)**	(17 035)
	180 814	186 081

27. DISPOSAL OF SUBSIDIARIES

31 May 2011

	Blue Label Mexico S.A de C.V* R'000	POS Control Services (Proprietary) Limited R'000	Blue Label Australasia (Proprietary) Limited R'000	Total R'000
Date disposed	23 February 2011	1 June 2010	29 December 2010	
% disposed	70	52	50.5	
The carrying/fair value of the net assets disposed of:				
Cash and cash equivalents	1 658	—	—	1 658
Property, plant and equipment	9 542	1 023	—	10 565
Intangible assets	550	—	—	550
Inventories	389	63	—	452
Receivables	16 950	319	4	17 273
Bank overdraft	—	(384)	—	(384)
Borrowings	(35 812)	(517)	—	(36 329)
Current tax assets	340	—	—	340
Payables	(11 696)	(669)	—	(12 365)
Carrying/fair value of subsidiaries disposed of	(18 079)	(165)	4	(18 240)
Non-controlling interests	5 589	33	(2)	5 620
Transaction with non-controlling interest reserve	5 861	—	—	5 861
Carrying/fair value of net assets disposed of	(6 629)	(132)	2	(6 759)
Profit on disposal of subsidiary	6 629	132	(2)	6 759
Gain on remeasuring retained interest in Blue Label Mexico due to loss of control	143 365	—	—	143 365
Foreign currency translation reserve recycled	(4 234)	—	15	(4 219)
Total gain on transaction	145 760	132	13	145 905
Total proceeds on disposal	—	—	—	—
Less: Cash and cash equivalents in subsidiary	(1 658)	384	—	(1 274)
Cash outflow on disposal	(1 658)	384	—	(1 274)

* *On 23 February 2011, Blue Label Mexico S.A de C.V. ('BLM') had a fresh issue of shares to Bimbo to the value of US$20 million. BLT therefore diluted its shareholding by 30 per cent in BLM, resulting in a profit on disposal for the group of R145.8 million. This profit on disposal has been recognised in the net profit for the year from discontinued operations in the group statement of comprehensive income. Consequently, BLM became a joint venture.*

The results of BLM have been consolidated into the group results until 23 February 2011 and are included in net profit for the year from discontinued operations, with a corresponding adjustment shown for the non-controlling interests' share of these results. Following the sale on 23 February 2011, BLM is treated as a joint venture and equity accounted in the group financial statements.

At 31 May 2011, the assets and liabilities of BLM have not been consolidated in the group statement of financial position but instead an investment in joint venture of R143 million representing the group's 40 per cent share of BLM's net assets at that date (note 6) has been included. The group has accounted for its equity share of the results of BLM for the period from 23 February 2011 to 31 May 2011.

27. DISPOSAL OF SUBSIDIARIES (continued)

31 May 2010

	Blue Label USA, LLC R'000	Africa Prepaid Services – RDC SPRL* R'000	Africa Prepaid Services (Mozambique) Limitada R'000	Total R'000
Date disposed	31 July 2009	30 September 2009	30 November 2009	
% disposed	50.01	80	90	
The fair value of the net assets disposed of:				
Cash and cash equivalents	43 880	331	2 329	46 540
Property, plant and equipment	6	1 130	2 126	3 262
Intangible assets	13 629	13 124	—	26 753
Inventories	620	699	3 014	4 333
Starter pack assets	—	2 018	1 738	3 756
Receivables	56 478	16 708	11 924	85 110
Loan receivable	456	—	—	456
Deferred tax	—	(3 931)	49	(3 882)
Borrowings	(21 624)	(492)	(1 151)	(23 267)
Current tax liabilities	—	(5 815)	(495)	(6 310)
Payables	(65 806)	(24 427)	(22 376)	(112 609)
Fair value of subsidiaries disposed of	27 639	(655)	(2 842)	24 142
Non-controlling interests	11 759	172	—	11 931
Goodwill	—	1 127	—	1 127
Transaction with non-controlling interest	130	—	—	130
Fair value of net assets disposed of	39 528	644	(2 842)	37 330
(Loss)/Profit on disposal of subsidiary	(215)	—	29 769	29 554
Transfer to available-for-sale investments	—	(644)	—	(644)
Total proceeds on disposal	39 313	—	26 927	66 240
To be settled**	—	—	(21 944)	(21 944)
Received in cash	39 313	—	4 983	44 296
Less: Cash and cash equivalents in subsidiary	(43 880)	(331)	(2 329)	(46 540)
Cash outflow on disposal	(4 567)	(331)	2 654	(2 244)

* *Africa Prepaid Services – RDC SPRL was transferred to available-for-sale investments on 30 September 2009 due to Africa Prepaid Services, a subsidiary of Blue Label Telecoms no longer exercising control over the entity's board. This asset was subsequently disposed of as at the end of December 2009.*

** *At exchange rates prevailing on the effective date of the disposal. In the current year this amount was settled by the transfer of a 20% shareholding in Emotel. Refer to note 7.*

	2011 R'000	2010 R'000
28. COMMITMENTS		
Future operating lease commitments:		
The group leases various offices under non-cancellable operating lease agreements. The lease terms are between one and five years, and the majority of lease agreements are renewable at the end of the lease period at market rates.		
The group also leases various plant and machinery under cancellable operating lease agreements. The group is required to give a six-months' notice for the termination of the majority of these agreements. The lease expenditure charged to the statement of comprehensive income during the year is disclosed in note 21.		
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:		
Premises		
Payable within one year	**25 007**	26 878
Payable in two to five years	**71 890**	67 903
Payable in greater than five years	**23 064**	60 939
Equipment		
Payable within one year	**3 952**	10 986
Payable in two to five years	**5 075**	15 455
Payable in greater than five years	**—**	15
	128 988	182 176

	2011 R'000	2010 R'000
29. RELATED PARTY TRANSACTIONS		
For details of subsidiaries, associates and joint ventures refer to note 33.		
For details of the company's directors, refer to the directors' report.		
ZOK Cellular (Proprietary) Limited, BSC Technologies (Proprietary) Limited,		
Black Ginger 59 (Proprietary) Limited, Moneyline 311 (Proprietary) Limited,		
PLL Investments (Proprietary) Limited, Friedshelf 669 (Proprietary) Limited,		
WBS Holdings (Proprietary) Limited, iBurst (Proprietary) Limited and Ellerine Bros. (Proprietary) Limited are related parties due to the companies having certain common directorships.		
For details of the shareholdings in the company, refer to the directors' report.		
The following transactions were carried out with related parties		
Directors' emoluments (refer to note 30)		
Sales to related parties		
BSC Technologies (Proprietary) Limited	398	—
Bela Phone Company (Proprietary) Limited	217	—
Blue Label Mexico S.A. de C.V.	1 414	—
Datacision (Proprietary) Limited	269	—
Dual Data (Proprietary) Limited	—	1 039
iBurst (Proprietary) Limited	26 298	—
Smart Voucher Limited	990	821
WBS Holdings (Proprietary) Limited	5 167	3 838
ZOK Cellular (Proprietary) Limited	10 679	4 769
Purchases from related parties		
Bela Phone Company (Proprietary) Limited	2 046	854
Black Ginger 59 (Proprietary) Limited	4 585	782
BSC Technologies (Proprietary) Limited	197	744
Datacision (Proprietary) Limited	2 259	—
Demtrade 11 (Proprietary) Limited	7 857	5 351
Dual Data (Proprietary) Limited	27	3 879
iBurst (Proprietary) Limited	15 779	—

		2011 R'000	2010 R'000
29.	**RELATED PARTY TRANSACTIONS (continued)**		
	Purchases from related parties (continued)		
	Moneyline 311 (Proprietary) Limited	—	3 302
	Smart Voucher Limited	30 056	12 635
	WBS Holdings (Proprietary) Limited	36	—
	ZOK Cellular (Proprietary) Limited	69 547	73 009
	Cost recoveries from related parties		
	Bela Phone Company (Proprietary) Limited	4	—
	BSC Technologies (Proprietary) Limited	—	7
	Datacision (Proprietary) Limited	8	—
	Demtrade 11 (Proprietary) Limited	—	112
	Smart Voucher Limited	139	—
	ZOK Cellular (Proprietary) Limited	19	15
	Interest paid to related parties		
	Demtrade 11 (Proprietary) Limited	43	246
	Smart Voucher Limited	143	—
	Interest received from related parties		
	Demtrade 11 (Proprietary) Limited	159	425

	2011 R'000	2010 R'000
29. RELATED PARTY TRANSACTIONS (continued)		
Management fees received from related parties		
Bela Phone Company (Proprietary) Limited	160	—
Blue Label Mexico S.A. de C.V.	102	—
Datacision (Proprietary) Limited	308	105
Demtrade 11 (Proprietary) Limited	270	189
Dual Data (Proprietary) Limited	—	798
Smart Voucher Limited	564	2 293
ZOK Cellular (Proprietary) Limited	—	3 208
Management fees paid to related parties		
Demtrade 11 (Proprietary) Limited	1 364	1 350
Rent paid to related parties		
Ellerine Bros. (Proprietary) Limited	4 611	2 520
Friedshelf 669 (Proprietary) Limited	216	216
Moneyline 311 (Proprietary) Limited	4 611	2 520
PLL Investments (Proprietary) Limited	—	2 453

	2011 R'000	2010 R'000
29. RELATED PARTY TRANSACTIONS (continued)		
Rent received from related parties		
Bela Phone Company (Proprietary) Limited	—	17
Demtrade 11 (Proprietary) Limited	—	10
Smart Voucher Limited	—	25
ZOK Cellular (Proprietary) Limited	—	16
Dividends received from related parties		
Demtrade 11 (Proprietary) Limited	416	—
Datacision (Proprietary) Limited	1 000	—
Loans to related parties		
Bela Phone Company (Proprietary) Limited	1 800	—
Demtrade 11 (Proprietary) Limited	1 162	4 402
Oxigen Services (India) Pvt Limited	18 643	18 643
ZOK Cellular (Proprietary) Limited	29 928	38 047
Loans from related parties		
Bela Phone Company (Proprietary) Limited	40	—
Blue Label Mexico S.A. de C.V.	257	—
Demtrade 11 (Proprietary) Limited	66	2 855

	2011 R'000	2010 R'000
29. RELATED PARTY TRANSACTIONS (continued)		
Amounts due from related parties (included in trade receivables)		
Bela Phone Company (Proprietary) Limited	188	19
Black Ginger 59 (Proprietary) Limited	3 640	—
Blue Label Mexico S.A. de C.V.	2 062	—
BSC Technologies (Proprietary) Limited	230	—
Demtrade 11 (Proprietary) Limited	—	98
Dual Data (Proprietary) Limited	—	90
iBurst (Proprietary) Limited	7 792	—
Moneyline 311 (Proprietary) Limited	472	951
Smart Voucher Limited	2 337	1 637
WBS Holdings (Proprietary) Limited	571	1 846
ZOK Cellular (Proprietary) Limited	7	21
	17 299	4 662

	2011 R'000	2010 R'000
29. RELATED PARTY TRANSACTIONS (continued)		
Amounts due to related parties (included in trade payables)		
Bela Phone Company (Proprietary) Limited	**2 167**	1 500
Black Ginger 59 (Proprietary) Limited	**896**	—
BSC Technologies (Proprietary) Limited	**375**	—
Datacision (Proprietary) Limited	**3**	—
Demtrade 11 (Proprietary) Limited	**378**	1 032
Dual Data (Proprietary) Limited	**—**	83
Moneyline 311 (Proprietary) Limited	**—**	1 431
NN Lazarus SC	**447**	—
Smart Voucher Limited	**1 829**	9 962
ZOK Cellular (Proprietary) Limited	**—**	1
Unihold (Proprietary) Limited	**124**	—
	6 219	14 009
Leasehold improvements recovered by related party		
Ellerine Bros. (Proprietary) Limited	**—**	11 500

Basis of transactions

All transactions with related parties are conducted on the same terms as other transactions of a similar nature.

30. DIRECTORS' EMOLUMENTS

	Services as directors of Blue Label Telecoms Limited R'000	Salary and allowances R'000	Bonuses and performance-related payments R'000	Other benefits R'000	Subtotal R'000
For the year ended 31 May 2011					
Executive directors					
Levy, BM	—	5 958	—	91	6 049
Levy, MS	—	5 965	—	84	6 049
Pamensky, MV	—	5 065	—	35	5 100
Rivkind, DB	—	2 602	—	35	2 637
	—	19 590	—	245	19 835
Non-executive directors					
Nestadt, LM	750	—	—	—	750
Ellerine, K	160	—	—	—	160
Harlow, GD	441	—	—	—	441
Lazarus, NN	397	—	—	—	397
Mthimunye, J	362	—	—	—	362
Nyati, M	34	—	—	—	34
Tyalimpi, LM	286	—	—	—	286
	2 430	—	—	—	2 430
	2 430	19 590	—	245	22 265

Services as directors of subsidiaries of Blue Label Telecoms Limited R'000	Salary and allowances from subsidiaries R'000	Bonuses and performance-related payments from subsidiaries R'000	Retirement and related benefits from subsidiaries R'000	Corporate finance and legal fees for services rendered to Blue Label Telecoms Limited R'000	Total R'000	Fair value of forfeitable shares R'000
—	—	—	—	—	6 049	4 365
—	—	—	—	—	6 049	4 365
—	—	—	—	—	5 100	3 465
—	—	—	—	—	2 637	1 903
—	—	—	—	—	19 835	14 098
—	—	—	—	—	750	—
—	—	—	—	—	160	—
50	—	—	—	1 302	1 793	—
—	—	—	—	4 576	4 973	—
—	—	—	—	—	362	—
—	—	—	—	—	34	—
—	—	—	—	—	286	—
50	—	—	—	5 878	8 358	—
50	—	—	—	5 878	28 193	14 098

	Services as directors of Blue Label Telecoms Limited R'000	Salary and allowances R'000	Bonuses and performance-related payments R'000	Other benefits R'000	Subtotal R'000
30. DIRECTORS' EMOLUMENTS (continued)					
For the year ended 31 May 2010					
Executive directors					
Levy, BM	—	5 650	—	84	5 734
Levy, MS	—	5 657	—	77	5 734
Pamensky, MV	—	4 149	—	33	4 182
Rivkind, DB	—	2 467	1 000	33	3 500
	—	17 923	1 000	227	19 150
Non-executive directors					
Nestadt, LM	700	—	—	—	700
Ellerine, S	92	—	—	—	92
Ellerine, K	65	—	—	—	65
Harlow, GD	442	—	—	—	442
Huntley, RJ	127	—	—	—	127
Lazarus, NN	333	—	—	—	333
Mansour, P	—	—	—	—	—
Mthimunye, J	265	—	—	—	265
Theledi, HC	64	—	—	—	64
Tyalimpi, LM	179	—	—	—	179
	2 267	—	—	—	2 267
	2 267	17 923	1 000	227	21 417

The fair value of forfeitable shares per director has been included.

The comparatives have been updated accordingly.

No director has a notice period of more than one year.

No director's service contract includes predetermined compensation as a result of termination that would exceed one year's salary and benefits.

Services as directors of subsidiaries of Blue Label Telecoms Limited R'000	Salary and allowances from subsidiaries R'000	Bonuses and performance-related payments from subsidiaries R'000	Retirement and related benefits from subsidiaries R'000	Corporate finance and legal fees for services rendered to Blue Label Telecoms Limited R'000	Total R'000	Fair value of forfeitable shares R'000
—	—	—	—	—	5 734	1 829
—	—	—	—	—	5 734	1 829
—	—	—	—	—	4 182	1 333
—	—	—	—	—	3 500	797
—	—	—	—	—	19 150	5 788
—	—	—	—	—	700	—
—	—	—	—	—	92	—
—	—	—	—	—	65	—
60	—	—	—	326	828	—
—	—	—	—	—	127	—
—	—	—	—	2 649	2 982	—
—	—	—	—	—	—	—
—	—	—	—	—	265	—
—	—	—	—	—	64	—
—	—	—	—	—	179	—
60	—	—	—	2 975	5 302	—
60	—	—	—	2 975	24 452	5 788

31. SEGMENTAL SUMMARY

The group's segment reporting follows the organisational structure as reflected in its internal management reporting systems, which are the basis for assessing the financial performance of the business segments and for allocating resources to these segments. Management's assessment of the group's organisational structure takes the geographical location of the segments into account. All reporting segments located outside of South Africa are included in the International distribution segment. Operations included in all other segments are located within South Africa.

Operating segments are reported internally to the chief operating decision-maker in a manner consistent with the financial statements. In addition, the chief operating decision-maker uses core net profit as a non-IFRS measure in evaluating the group's performance on a segmental level. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors, who are responsible for making strategic decisions on behalf of the Blue Label Telecoms group.

Transactions between reportable segments are conducted on the same terms as other transactions of a similar nature.

In order to enhance the availability of management information on the group's performance from the distribution of mobile applications, Blue Label has established a new segment, namely Mobile. These Mobile entities were previously housed in the Value Added Services and Technology segments. A separate management and reporting structure has been established for Mobile, and the segmental analysis has been amended and restated accordingly.

The Value Added Services segment has been renamed Solutions. The only change to the reporting of this segment is the extraction of financial information that relates to the newly formed Mobile segment. The comparatives have been adjusted to reflect the change in segment reporting.

31. SEGMENTAL SUMMARY (continued)

At 31 May 2011, the group is managed on the basis of six main business segments:

- South African distribution, which includes the distribution of physical and virtual prepaid airtime and electricity of the South African mobile/fixed-line network operators and utility suppliers, and the distribution of starter packs in South Africa.
- International distribution, which includes international distribution of physical and virtual prepaid airtime in India and Africa, and the distribution of starter packs in Africa.
- Technology, which includes technological innovation, development and support for the operations of the group.
- Mobile, which includes the provision of a complete mobile transactional ecosystem and services-provisioning platform delivering mobile-centric products and services through any mobile channel, including location-based and WASP services and music and digital content provision.
- Solutions, which includes marketing of cellular and financial products and services through outbound telemarketing and other channels, provides inbound customer care and technical support, and markets data and analytics services.
- Corporate, which performs the head office administration function.

31. SEGMENTAL SUMMARY (continued)

The segmental information in respect of the group's discontinued operations has been excluded from the segmental summary below. The discontinued operations were contained in the International segment.

	Total		South African distribution	
	2011 R'000	2010 R'000	2011 R'000	2010 R'000
The segment results for the year ended 31 May are as follows:				
Total segment revenue	30 224 202	27 182 511	29 954 525	26 661 350
Inter-segment revenue	(12 159 630)	(11 242 747)	(12 132 920)	(11 118 013)
Revenue	18 064 572	15 939 764	17 821 605	15 543 337
Segment result				
Operating profit before depreciation, amortisation and impairment charges	597 732	569 657	711 767	685 686
Depreciation and amortisation	(91 556)	(89 997)	(36 292)	(35 422)
Goodwill impairment	(14 689)	(13 829)	–	–
Impairment of property, plant and equipment	(516)	(1 027)	–	–
Impairment of intangible assets	(17 866)	(8 556)	–	(955)
Impairment of loans	(447)	(1 704)	–	(21)
Impairment of available-for-sale investment	(20 911)	–	–	–
Finance costs	(115 845)	(107 127)	(113 449)	(97 721)
Finance income	146 429	161 018	145 893	158 739
Share of (losses)/profits from associates	(2 757)	(14 982)	(1 041)	(391)
Taxation	(152 176)	(165 536)	(144 830)	(163 874)
Net profit for the year	327 398	327 917	562 048	546 041
Reconciliation of net profit for the year to core net profit for the year				
Net profit for the year	327 398	327 917	562 048	546 041
Amortisation of intangibles raised through business combinations net of tax	25 498	32 949	8 933	8 608
Core net profit for the year	352 896	360 866	570 981	554 649
Core net profit for the year attributable to:				
Equity holders of parent	362 522	360 193	571 471	555 161
Non-controlling interest	(9 626)	673	(490)	(512)

The company is domiciled in the Republic of South Africa. The result of its revenue from external customers in South Africa is R18.035 billion (2010: R15.780 billion), and the total of revenue from external customers from other countries is R29.3 million (2010: R160 million).

International distribution		Technology		Mobile		Solutions		Corporate	
2011 R'000	2010 R'000	2011 R'000	2010 R'000	2011 R'000	2010 R'000	2011 R'000	2010 R'000	2011 R'000	2010 R'000
30 252	159 530	22 902	121 439	94 121	105 196	122 402	134 996	—	—
(998)	270	(6 082)	(103 110)	(15 505)	(10 183)	(4 125)	(11 711)	—	—
29 254	159 800	16 820	18 329	78 616	95 013	118 277	123 285	—	—
(8 683)	17 448	(61 766)	(58 382)	19 347	11 637	18 731	(4 255)	(81 664)	(82 477)
(1 091)	(6 426)	(16 632)	(10 567)	(22 397)	(22 017)	(7 800)	(13 915)	(7 344)	(1 650)
(5 380)	(1 660)	—	—	(9 309)	—	—	(12 127)	—	(42)
—	—	(516)	—	—	—	—	(1 027)	—	—
(2 970)	—	(5 057)	(5 871)	(9 839)	(705)	—	(1 025)	—	—
—	(1 001)	—	—	—	—	—	(377)	(447)	(305)
(20 911)	—	—	—	—	—	—	—	—	—
(2 165)	(8 758)	(78)	(453)	(17)	(54)	(1)	(90)	(135)	(51)
73	1 426	87	147	113	119	184	310	79	277
(2 884)	(15 177)	—	—	—	—	1 168	586	—	—
368	(4 527)	(1 982)	1 391	9 475	(3 406)	(6 401)	4 413	(8 806)	467
(43 643)	(18 675)	(85 944)	(73 735)	(12 627)	(14 426)	5 881	(27 507)	(98 317)	(83 781)
(43 643)	(18 675)	(85 944)	(73 735)	(12 627)	(14 426)	5 881	(27 507)	(98 317)	(83 781)
2 034	4 707	632	994	11 871	11 932	2 028	6 708	—	—
(41 609)	(13 968)	(85 312)	(72 741)	(756)	(2 494)	7 909	(20 799)	(98 317)	(83 781)
(32 005)	(16 355)	(84 932)	(70 774)	(756)	(2 494)	7 061	(21 564)	(98 317)	(83 781)
(9 604)	2 387	(380)	(1 967)	—	—	848	765	—	—

31. SEGMENTAL SUMMARY (continued)

	Total		South African distribution	
	2011 R'000	2010 R'000	**2011 R'000**	2010 R'000
Non-cash items				
Net profit on sale of subsidiaries	**130**	29 554	**130**	—
Discounting of receivables	**96 410**	77 644	**96 410**	76 504
Discounting of payables	**(107 751)**	(119 183)	**(107 751)**	(95 386)
The segment assets and liabilities at 31 May are as follows:				
Assets excluding investments in associates and joint ventures	**4 828 610**	4 351 414	**4 361 707**	3 612 810
Investment in associates and joint ventures	**239 997**	96 888	**409**	160
Total assets	**5 068 607**	4 448 302	**4 362 116**	3 612 970
Additions to non-current assets				
Property, plant and equipment	**46 874**	104 373	**23 805**	50 701
Intangible assets	**101 510**	91 444	**88 987**	68 945
Investment in associates	**—**	*	**—**	—
Investment in joint ventures	**143 365**	*	**—**	*
Total liabilities	**(2 119 853)**	(1 792 866)	**(2 018 747)**	(1 513 523)

** Less than R1 000.*

The total of non-current assets other than financial instruments and deferred tax assets located in South Africa is R596.4 million (2010: R574.6 million), and the total of these non-current assets located in other countries is R237.3 million (2010: R132.8 million).

International distribution		Technology		Mobile		Solutions		Corporate	
2011 R'000	2010 R'000	2011 R'000	2010 R'000	2011 R'000	2010 R'000	2011 R'000	2010 R'000	2011 R'000	2010 R'000
—	29 554	—	—	—	—	—	—	—	—
—	1 140	—	—	—	—	—	—	—	—
—	(23 797)	—	—	—	—	—	—	—	—
152 350	426 635	89 876	67 930	80 899	104 223	132 610	133 466	11 168	6 350
234 211	90 765	—	—	—	—	5 793	5 963	(416)	—
386 561	517 400	89 876	67 930	80 899	104 223	138 403	139 429	10 752	6 350
4 084	15 996	344	6 318	492	573	3 122	4 447	15 027	26 338
410	887	6 586	12 711	3 625	6 723	1 095	2 132	807	46
—	—	—	—	—	—	—	*	—	—
143 365	—	—	—	—	—	—	—	—	—
(36 746)	(188 310)	(22 035)	(27 719)	(13 452)	(22 696)	(14 040)	(20 598)	(14 833)	(20 020)

32. EQUITY COMPENSATION BENEFIT

Forfeitable shares

During the year, 6 829 416 (2010: 4 567 247) forfeitable shares were granted to executive directors and qualifying employees ("participant"). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of an employer company before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the board. In the event that the participant is not in the employ of the group, or the performance conditions are not met, then the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the participating employer, or may be retained by the group for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. A dividend of 12 cents per ordinary share was declared on 23 August 2010.

The release of forfeitable shares will be subject to the achievement of a specified performance condition. The performance condition for the first award grant of forfeitable shares was:

- 30% of shares will vest when the group core HEPS at the end of the performance period, being May 2010, exceeds the core HEPS per ordinary share as at the beginning of the performance period, being May 2008, by the percentage change in the CPI index over the performance period, plus 20% (threshold performance criteria)
- 100% of shares will vest when the core HEPS at the end of the performance period, being May 2010, exceeds the core HEPS per ordinary shares at the beginning of the performance period, being May 2008, by the percentage change in the CPI index over the performance period, plus 30% (target performance criteria)
- Performance below the threshold performance criteria will result in the forfeitable award not vesting, unless otherwise determined by the board
- Linear vesting of the forfeitable award will occur between threshold performance and target performance stated above.

The performance conditions for the first scheme were not met and therefore all shares were forfeited in the prior year.

The performance conditions for the second award grant of forfeitable shares vesting on 1 September 2012 are as follows:

- 25% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting date (1 September 2012);
- 25% of the shares constituting the allocation will vest on the achievement by individual employees of their individual key performance indicators;
- 50% of shares constituting the allocation will vest if the group's core HEPS is equal to or exceeds the core HEPS per ordinary share at the beginning of the performance period (1 June 2009), by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

The performance condition for the third award grant of forfeitable shares vesting on 1 September 2013 are as follows:

- 25% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting date (1 September 2013);
- 25% of the shares constituting the allocation will vest on the achievement by individual employees of their individual key performance indicators;
- 50% of shares constituting the allocation will vest if the group's core HEPS is equal to or exceeds the core HEPS per ordinary share at the beginning of the performance period 1 June 2010, by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

The performance condition for the retention award grant vesting in three equal tranches on 30 September 2010, 30 April 2011 and 30 April 2012 are as follows:

- 100% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting dates.

32. EQUITY COMPENSATION BENEFIT (continued)

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 1 June 2009			5 151 814	25 759
Granted during the year			4 567 247	26 654
Second award	1 September 2009	1 September 2012	3 481 407	20 302
Second award	27 November 2009	1 September 2012	1 085 840	6 352
Shares forfeited during the year			(5 644 309)	(28 640)
First award			(5 151 814)	(25 759)
Second award			(492 495)	(2 881)
Shares vested during the year			—	—
At 31 May 2010			**4 074 752**	**23 773**
Second award			**4 074 752**	**23 773**
Granted during the year			**6 829 416**	**32 487**
Third award	**1 September 2010**	**1 September 2013**	**5 532 193**	**26 001**
Retention award	**1 September 2010**	**30 September 2010**	**466 864**	**2 334**
Retention award	**1 September 2010**	**30 April 2011**	**442 959**	**2 215**
Retention award	**1 September 2010**	**30 April 2012**	**387 400**	**1 937**
Shares forfeited during the year			**(1 316 366)**	**(6 801)**
Second award			**(534 193)**	**(3 125)**
Third award			**(782 173)**	**(3 676)**
Shares vested during the year			**(909 823)**	**(4 549)**
Retention award		**30 September 2010**	**(466 864)**	**(2 334)**
Retention award		**30 April 2011**	**(442 959)**	**(2 215)**
At 31 May 2011			**8 677 979**	**44 910**
Second award			**3 540 559**	**20 648**
Third award			**4 750 020**	**22 325**
Retention award			**387 400**	**1 937**

Refer to note 20 for the expense recognised in the statement of comprehensive income relating to the equity compensation benefits.

The fair value of the shares is based on the value paid for the shares on the open market at grant date.

The total number of forfeitable shares issued to executive directors during the period is 1 477 168 (2010: 1 085 840).

The share-based payment in relation to these executive directors is R2 million (2010: R1.6 million).

Refer to the Remuneration Report on page 52 for details per director.

		Country	Number of issued ordinary shares	Percentage held
33.	**INTEREST IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES**			
	2011			
	Subsidiaries			
	Directly held:			
	Subsidiaries of Blue Label Telecoms Limited			
	Activi Technology Services (Proprietary) Limited	RSA	300	100
	Africa Prepaid Services (Proprietary) Limited	RSA	150	72
	Blue Label One (Proprietary) Limited	RSA	300	100
	Blue Label Investments (Proprietary) Limited	RSA	1 200 000	100
	Blue Label Telecoms USA Incorporated	USA	100	100
	Budding Trade 1170 (Proprietary) Limited	RSA	100	100
	Celebia Holdings Limited	Cyprus	100	100
	Cellfind (Proprietary) Limited	RSA	1 000	100
	Content Connect Africa (Proprietary) Limited	RSA	100	100
	Datacel Direct (Proprietary) Limited	RSA	100	100
	Kwikpay SA (Proprietary) Limited	RSA	100	100
	Matragon (Proprietary) Limited	RSA	100	100
	Matrix Investments No 4 (Proprietary) Limited	RSA	100	100
	SharedPhone International (Proprietary) Limited	RSA	500 000	50.1
	The Prepaid Company (Proprietary) Limited	RSA	10 000	100
	The Post Paid Company (Proprietary) Limited	RSA	200	75
	Uninex (Proprietary) Limited	RSA	100	100
	Ventury Group (Proprietary) Limited	RSA	2 000	100
	Virtual Voucher (Proprietary) Limited	RSA	200	100

33. INTEREST IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)

2011 (continued)

Subsidiaries (continued)

Indirectly held:

	Country	Number of issued ordinary shares	Percentage held
Subsidiary of Blue Label Investments (Proprietary) Limited			
Gold Label Investments (Proprietary) Limited	RSA	1 000	100
Subsidiary of The Prepaid Company (Proprietary) Limited			
Little River Trading 181 (Proprietary) Limited (trading as Crown Cellular)	RSA	100	100
Subsidiary of Ventury Group (Proprietary) Limited			
Cigicell (Proprietary) Limited	RSA	100	100
Subsidiaries of Matragon (Proprietary) Limited			
Airtime Xpress (Proprietary) Limited	RSA	200	100
Blue Label Distribution (Proprietary) Limited (previously Comm Express Services SA (Proprietary) Limited)	RSA	100	100
Subsidiaries of Activi Technology Services (Proprietary) Limited			
Activi Deployment Services (Proprietary) Limited	RSA	100	100
Transaction Junction (Proprietary) Limited	RSA	120	60
Subsidiary of Africa Prepaid Services (Proprietary) Limited			
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	51
Subsidiaries of Datacel Direct (Proprietary) Limited			
Blue Label Call Centre (Proprietary) Limited	RSA	300	100
CNS Call Centre (Proprietary) Limited	RSA	1 000	100
Velociti (Proprietary) Limited	RSA	1 000	100
Blue Label Data Solutions (Proprietary) Limited	RSA	100	81
Subsidiary of 2DFine Holdings Mauritius			
2DFine Investments Mauritius	Mauritius	1	100

	Country	Number of issued ordinary shares	Percentage held
33. INTEREST IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)			
2011 (continued)			
Associates			
Indirectly held:			
Associates of Gold Label Investments (Proprietary) Limited			
Oxigen Services India (Private) Limited	India	14 244 294	37.22
Smart Voucher Limited (trading as Ukash)	United Kingdom	46 353 933	15.75*
Associates of Datacel Direct (Proprietary) Limited			
Dual Data (Proprietary) Limited	RSA	100	50*
BLK Risk Services (Proprietary) Limited	RSA	100	25
Associate of Demtrade 11 (Proprietary) Limited			
Phutuma Procurement (Proprietary) Limited	RSA	200	39
Joint ventures			
Joint ventures of Blue Label Telecoms Limited			
Blue Label Mexico S.A. de C.V.	Mexico	2 200	40**
Demtrade 11 (Proprietary) Limited	RSA	160	46.25
Joint venture of The Prepaid Company (Proprietary) Limited			
Bela Phone Company (Proprietary) Limited	RSA	100	51
Joint venture of Datacel Direct (Proprietary) Limited			
Datacision (Proprietary) Limited	RSA	100	50
Joint venture of Gold Label Investments (Proprietary) Limited			
2DFine Holdings Mauritius	Mauritius	2	50

** Significant influence is demonstrated by the company as a result of representation on the board of directors.*
*** Joint control is demonstrated by the composition of and decision making powers afforded to the board of directors.*

	Country	Number of issued ordinary shares	Percentage held
33. INTEREST IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)			
2010			
Subsidiaries			
Directly held:			
Subsidiaries of Blue Label Telecoms Limited			
Activi Technology Services (Proprietary) Limited	RSA	300	100
Africa Prepaid Services (Proprietary) Limited	RSA	150	72
Blue Label Australasia (Proprietary) Limited	Australia	201	50.5
Blue Label One (Proprietary) Limited	RSA	300	100
Blue Label Investments (Proprietary) Limited	RSA	1 200 000	100
Blue Label Mexico S.A. de C.V.	Mexico	1 100	70
Blue Label Telecoms USA Incorporated	USA	100	100
Budding Trade 1170 (Proprietary) Limited	RSA	100	100
Celebia Holdings Limited	Cyprus	100	100
Cellfind (Proprietary) Limited	RSA	1 000	100
Content Connect Africa (Proprietary) Limited	RSA	100	100
Datacel Direct (Proprietary) Limited	RSA	100	100
House of Business Solutions (Proprietary) Limited	RSA	1 000	100
Kwikpay SA (Proprietary) Limited	RSA	100	100
Matragon (Proprietary) Limited	RSA	100	100
Matrix Investments No 4 (Proprietary) Limited	RSA	100	100
SharedPhone International (Proprietary) Limited	RSA	500 000	50.1
The Prepaid Company (Proprietary) Limited	RSA	10 000	100
The Postpaid Company (Proprietary) Limited	RSA	200	75
Uninex (Proprietary) Limited	RSA	100	100
Ventury Group (Proprietary) Limited	RSA	2 000	100
Virtual Voucher (Proprietary) Limited	RSA	200	100

	Country	Number of issued ordinary shares	Percentage held
33. INTEREST IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)			
2010 (continued)			
Subsidiaries (continued)			
Indirectly held:			
Subsidiary of Blue Label Investments (Proprietary) Limited			
Gold Label Investments (Proprietary) Limited	RSA	1 000	100
Subsidiary of The Prepaid Company (Proprietary) Limited			
Little River Trading 181 (Proprietary) Limited (trading as Crown Cellular)	RSA	100	100
Subsidiary of Ventury Group (Proprietary) Limited			
Cigicell (Proprietary) Limited	RSA	100	100
Subsidiaries of Matragon (Proprietary) Limited			
Airtime Xpress (Proprietary) Limited	RSA	200	100
Comm Express Services SA (Proprietary) Limited	RSA	100	100
POS Control Services (Proprietary) Limited	RSA	100	52
Subsidiaries of Activi Technology Services (Proprietary) Limited			
Activi Deployment Services (Proprietary) Limited	RSA	100	100
Transaction Junction (Proprietary) Limited	RSA	120	60
Subsidiary of Africa Prepaid Services (Proprietary) Limited			
Africa Prepaid Services Nigeria Limited	Nigeria	10 000 000	51
Subsidiaries of Datacel Direct (Proprietary) Limited			
Blue Label Call Centre (Proprietary) Limited	RSA	300	100
CNS Call Centre (Proprietary) Limited	RSA	1 000	100
Velociti (Proprietary) Limited	RSA	1 000	100
Blue Label Data Solutions (Proprietary) Limited	RSA	100	81

	Country	Number of issued ordinary shares	Percentage held
33. INTEREST IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)			
2010 (continued)			
Associate			
Indirectly held:			
Associate of Gold Label (Proprietary) Limited			
Oxigen Services India (Private) Limited	India	14 244 294	37.22
Smart Voucher Limited (trading as Ukash)	United Kingdom	46 353 933	15.79*
Associates of Datacel Direct (Proprietary) Limited			
Dual Data (Proprietary) Limited	RSA	100	50*
BLK Risk Services (Proprietary) Limited	RSA	100	25
Associate of Demtrade 11 (Proprietary) Limited			
Phutuma Procurement (Proprietary) Limited	RSA	200	39
Joint ventures			
Joint venture of Blue Label Telecoms Limited			
Demtrade 11 (Proprietary) Limited	RSA	160	50
Joint venture of The Prepaid Company (Proprietary) Limited			
Premet Cellular (Proprietary) Limited	RSA	100	40
Bela Phone Company (Proprietary) Limited	RSA	100	51
Joint venture of Datacel Direct (Proprietary) Limited			
Datacision (Proprietary) Limited	RSA	100	50

** Significant influence is demonstrated by the company as a result of representation on the board of directors.*

Company statement of financial position

AS AT 31 MAY 2011

	Note	2011 R'000	2010 R'000
ASSETS			
Non-current assets		**3 050 150**	3 292 224
Property, plant and equipment	3	**36 254**	28 447
Intangible assets	4	**618**	537
Investment in subsidiaries	6.1	**2 985 893**	3 260 065
Investment in associate and joint venture	6.2	**27 385**	3 175
Current assets		**835 855**	962 089
Loans receivable	7	**10 615**	6 695
Loans to subsidiaries	6.1	**820 017**	949 063
Trade and other receivables	8	**3 412**	4 944
Current tax assets		**—**	654
Cash and cash equivalents	9	**1 811**	733
Total assets		**3 886 005**	4 254 313
EQUITY AND LIABILITIES			
Capital and reserves		**3 817 109**	4 185 358
Share capital	10	*****	*
Share premium		**4 404 737**	4 404 737
Treasury shares		**(29 682)**	(37 491)
		4 375 055	4 367 246
Equity compensation benefit reserve		**4 999**	2 250
Share-based payment reserve		**295**	295
Accumulated loss		**(563 240)**	(184 433)
Non-current liabilities		**2 427**	1 723
Deferred taxation liability	5	**2 427**	1 723
Current liabilities		**66 469**	67 232
Trade and other payables	12	**13 448**	17 442
Loans from subsidiaries	13	**49 226**	48 000
Current tax liabilities		**3 795**	—
Bank overdraft	9	**—**	1 790
Total equity and liabilities		**3 886 005**	4 254 313

**Less than R1 000.*

BLUE LABEL TELECOMS

Company statement of comprehensive income

FOR THE YEAR ENDED 31 MAY 2011

	Note	2011 R'000	2010 R'000
Other income		79 901	78 145
Employee compensation and benefit expense	14	(47 102)	(48 606)
Depreciation, amortisation and impairment charges		(279 922)	(182 207)
Other expenses		(35 614)	(35 973)
Operating loss	15	(282 737)	(188 641)
Finance costs	16	(121)	(50)
Finance income	16	9 116	7 503
Net loss before taxation		(273 742)	(181 188)
Taxation	17	(13 608)	753
Net loss for the year		(287 350)	(180 435)
Other comprehensive income for the year, net of tax		—	—
Total comprehensive loss for the year		(287 350)	(180 435)

Company statement of changes in equity

FOR THE YEAR ENDED 31 MAY 2011

	Share capital R'000	Share premium R'000	Treasury shares R'000	Equity-based compen-sation reserve R'000	Share-based payment reserve R'000	Accu-mulated loss R'000	Total equity R'000
Balance as at 31 May 2009	*	4 404 737	(9 567)	1 939	—	(3 998)	4 393 111
Net loss for the year	—	—	—	—	—	(180 435)	(180 435)
Comprehensive income	—	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	—	(180 435)	(180 435)
Shares purchased during the year	—	—	(27 924)	—		—	(27 924)
Asset acquired for shares	—	—	—	—	295	—	295
Equity-based compensation movements	—	—	—	311	—	—	311
Balance as at 31 May 2010	*****	**4 404 737**	**(37 491)**	**2 250**	**295**	**(184 433)**	**4 185 358**
Net loss for the year	—	—	—	—	—	(287 350)	(287 350)
Comprehensive income	—	—	—	—	—	—	—
Total comprehensive loss	—	—	—	—	—	(287 350)	(287 350)
Shares purchased during the year	—	—	(8 790)	—	—	—	(8 790)
Shares awarded to group companies as part of equity-based compensation scheme	—	—	15 331	—	—	—	15 331
Equity-based compensation scheme shares vested	—	—	1 268	—	—	—	1 268
Equity-based compensation movements	—	—	—	2 749	—	—	2 749
Dividends paid	—	—	—	—	—	(91 457)	(91 457)
Balance as at 31 May 2011	*****	**4 404 737**	**(29 682)**	**4 999**	**295**	**(563 240)**	**3 817 109**

**Less than R1 000.*

Company statement of cash flows

FOR THE YEAR ENDED 31 MAY 2011

	Note	2011 R'000	2010 R'000
Cash flows from operating activities	18	1 834	(7 113)
Finance income	16	9 116	7 503
Finance costs	16	(121)	(50)
Taxation paid	19	(8 455)	—
Dividends received		631	—
Net cash flows from operating activities		3 005	340
Cash flows from investing activities			
Acquisition of property, plant and equipment	3	(15 027)	(26 338)
Proceeds on sale of property, plant and equipment		310	157
Acquisition of intangible assets	4	(807)	(46)
Proceeds on sale of intangible assets		—	3 866
Loans repaid by subsidiaries*		139 081	74 067
Loans advanced by subsidiaries*		(23 334)	(24 888)
Acquisition of investment in joint venture		(1)	—
Loans repaid by associate and joint venture		(112)	4
Net cash flows from investing activities		100 110	26 822
Cash flows from financing activities			
Dividends paid		(91 457)	—
Treasury shares acquired		(8 790)	(27 924)
Net cash flows from financing activities		(100 247)	(27 924)
Decrease in cash and cash equivalents		2 868	(762)
Cash and cash equivalents at the beginning of the period		(1 057)	(295)
Cash and cash equivalents at the end of the period	9	1 811	(1 057)

** The cashflows in respect of the loans have been split to ensure gross presentation, with the comparative information updated accordingly.*

Notes to the company annual financial statements

FOR THE YEAR ENDED 31 MAY 2011

1. ACCOUNTING POLICIES

The accounting policies applied to the company annual financial statements are consistent with the group accounting policies as detailed on pages 107 to 127.

2. FINANCIAL RISKS

In the course of its business, the company is exposed to a number of financial risks: credit risk, liquidity risk and market risk (including foreign currency and other price risk). This note presents the company's objectives, policies and processes for managing its financial risk and capital.

Credit risk

Credit risk arises because a counterparty may fail to meet its obligations to the company. The company is exposed to credit risks on financial instruments such as receivables, loans receivable and cash.

Trade and other receivables consist primarily of invoiced amounts owing from related parties. The recoverability of these amounts are regularly monitored with reference to the counterparties' financial performance. Where necessary a provision for impairment is made.

The company places cash and cash equivalents with major banking companies and quality institutions that have high credit ratings.

Loans are only granted to holders with an appropriate credit history, taking into account the holder's financial position and past experience.

The company's maximum credit risk exposure is the carrying amount of all financial assets on the statement of financial position and sureties provided with the maximum amount the company could have to pay if the sureties are called on amounting to R753.6 million (2010: R654.4 million).

The credit quality of financial assets that are neither past due or impaired can be assessed by reference to external credit ratings (where available) or to historical information about counterparty default rates:

	2011 R'000	2010 R'000
Loans receivable		
Group 1	—	—
Group 2	800 529	955 758
Group 3	—	—
	800 529	955 758
Trade receivables		
Counterparties without external credit rating		
Group 1	—	—
Group 2	2 337	2 716
Group 3	—	—
Total unimpaired trade receivables	2 337	2 716

The rating groups for counterparties without external credit ratings are categorised as follows:

Group 1	New customers/related parties (less than six months).
Group 2	Existing customers/related parties (more than six months) with no defaults in the past.
Group 3	Existing customers/related parties (more than six months) with some defaults in the past. All defaults were fully recovered.

Cash at bank and short-term bank deposits

Credit rating based on latest Fitch local currency long-term issuer default ratings.

	2011 R'000	2010 R'000
BBB+	1 811	(1 790)
BBB	—	731
	1 811	(1 059)

2. FINANCIAL RISKS (continued)

Liquidity risk

Liquidity risk arises when a company encounters difficulties to meet commitments associated with liabilities and other payment obligations. The company's objective is to maintain prudent liquidity risk management by maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Company finance monitors rolling forecasts of the company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Due to the dynamic nature of the underlying businesses, the company aims to maintain flexibility in funding by keeping committed credit lines available.

Maturity of financial liabilities

Payable in:	Less than 1 month or on demand (R'000)	More than 1 month but not exceeding 1 year (R'000)	More than 1 year but not exceeding 2 years (R'000)	More than 2 years but not exceeding 5 years (R'000)	More than 5 years (R'000)
2011					
Loans from subsidiaries	**49 226**	—	—	—	—
Trade and other payables*	**6 632**	—	—	—	—
Bank overdraft	—	—	—	—	—
Total	**55 858**	—	—	—	—
2010					
Loans from subsidiaries	48 000	—	—	—	—
Trade and other payables*	—	8 426	—	—	—
Bank overdraft	1 790	—	—	—	—
Total	49 790	8 426	—	—	—

**Trade and other payables exclude non-financial instruments being VAT and certain amounts within accruals and sundry creditors.*

Market risk

The company is exposed to risks from movements in foreign exchange rates and interest rates that affect its assets, liabilities and anticipated future transactions.

Cash flow and fair value interest rate risk

The company's cash flow interest rate risk arises from loans receivable and cash and cash equivalents. The company is not exposed to fair value interest rate risk as the company does not have any fixed interest-bearing instruments carried at fair value nor any interest-bearing borrowings.

As part of the process of managing the company's exposure to interest rate risk, interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates.

Foreign currency risk

The company is exposed to foreign currency risk from transactions. Transaction exposure arises due to the company granting loans to affiliated companies in foreign currencies.

The company manages its exposure to foreign currency risk by ensuring that the net foreign currency exposure remains within acceptable levels. Hedging instruments are used in certain instances to reduce risks arising from foreign currency fluctuations. The company did not enter into any forward exchange contracts during the period under review.

IFRS 7 *Sensitivity analysis*

The company has used a sensitivity analysis technique that measures the estimated change to the income statement of either an instantaneous increase or decrease of 1% (100 basis points) in market interest rates or a 10% strengthening or weakening of the rand.

The sensitivity analysis is based on the following assumptions:

Interest rate risks

The interest rate sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect the interest income or expense of variable interest financial instruments.
- Changes in market interest rates only affect interest income or expense in relation to financial instruments with fixed interest rates if these are recognised at fair value.

Under these assumptions, a 1% increase or decrease in market interest rates at 31 May 2011 would increase or decrease profit before tax by R654 840 (2010: R636 281).

2. FINANCIAL RISKS (continued)

Foreign currency risk

Financial instruments by currency

	2011			2010		
	ZAR R'000	EUR R'000	Total R'000	ZAR R'000	EUR R'000	Total R'000
Financial assets						
Cash	1 811	—	1 811	733	—	733
Trade and other receivables*	2 354	—	2 354	2 728	—	2 728
Loans receivable	800 529	—	800 529	955 758	—	955 758
	804 694	—	804 694	959 219	—	959 219
Financial liabilities						
Non-interest-bearing borrowings	49 226	—	49 226	48 000	—	48 000
Trade and other payables*	6 632	—	6 632	8 426	—	8 426
Bank overdraft	—	—	—	1 790	—	1 790
	55 858	—	55 858	58 216	—	58 216
Net financial position	748 836	—	748 836	901 003	—	901 003

**Trade and other receivables and trade and other payables exclude non-financial instruments.*

With a 10% strengthening or weakening in the rand against all other currencies, profit before tax would not be affected (2010: Rnil).

Capital risk

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust this capital structure, the company may issue new shares, adjust the amount of dividends paid to shareholders, return capital to shareholders or sell assets to reduce debt.

The company defines capital as capital and reserves and non-current borrowings.

The company is not subject to externally imposed capital requirements.

There were no changes to the company's approach to capital management during the year.

Fair value measurement

For all short-term financial assets and liabilities, the carrying amount is regarded as an approximation of the fair value.

The fair value of all non-current loans receivable and borrowings are calculated using a discounted cash flow model based on prevailing market interest rates where applicable.

	Computer equipment R'000	Furniture and fittings R'000	Motor vehicles R'000	Office equipment R'000	Leasehold improvements R'000	Total R'000
3. PROPERTY, PLANT AND EQUIPMENT						
Year ended 31 May 2011						
Opening carrying amount	285	1 456	661	547	25 498	28 447
Additions	144	111	456	1 512	12 804	15 027
Disposals	—	—	(601)	—	—	(601)
Depreciation charge	(226)	(297)	(92)	(485)	(5 519)	(6 619)
Closing carrying amount	203	1 270	424	1 574	32 783	36 254
At 31 May 2011						
Cost	735	2 022	545	2 293	38 935	44 530
Accumulated depreciation	(532)	(752)	(121)	(719)	(6 152)	(8 276)
Carrying amount	203	1 270	424	1 574	32 783	36 254
Year ended 31 May 2010						
Opening carrying amount	324	783	803	385	769	3 064
Additions	131	862	155	290	24 900	26 338
Disposals	(2)	—	(168)	—	—	(170)
Depreciation charge	(168)	(189)	(129)	(128)	(171)	(785)
Closing carrying amount	285	1 456	661	547	25 498	28 447
At 31 May 2010						
Cost	591	1 911	850	781	26 131	30 264
Accumulated depreciation	(306)	(455)	(189)	(234)	(633)	(1 817)
Carrying amount	285	1 456	661	547	25 498	28 447

	Computer software R'000	Internally developed software R'000	Other R'000	Total R'000
4. INTANGIBLE ASSETS				
Year ended 31 May 2011				
Opening carrying amount	537	—	—	537
Additions	107	—	700	807
Disposals	—	—	—	—
Amortisation charge	(621)	—	(105)	(726)
Closing carrying amount	23	—	595	618
At 31 May 2011				
Cost	2 296	—	700	2 996
Accumulated amortisation	(2 273)	—	(105)	(2 378)
Carrying amount	23	—	595	618
Year ended 31 May 2010				
Opening carrying amount	1 643	3 579	—	5 222
Additions	46	—	—	46
Disposals	(287)	(3 579)	—	(3 866)
Amortisation charge	(865)	—	—	(865)
Closing carrying amount	537	—	—	537
At 31 May 2010				
Cost	2 189	—	—	2 189
Accumulated amortisation	(1 652)	—	—	(1 652)
Carrying amount	537	—	—	537

		2011 R'000	2010 R'000
5.	**DEFERRED TAXATION**		
	At 1 June	1 723	2 826
	Credited to income statement:		
	– Provisions	16	136
	– Capital allowances	(33)	(699)
	– Equity compensation benefit	1 103	(259)
	– Tax losses	—	493
	– Prepayments	—	(474)
	– Other	(382)	(300)
	At 31 May	2 427	1 723
	Deferred taxation comprises:		
	– Provisions	(118)	(134)
	– Capital allowances	283	316
	– Equity compensation benefit	2 993	1 890
	– Tax losses	—	—
	– Prepayments	—	—
	– Other	(731)	(349)
		2 427	1 723
	The analysis of deferred tax assets and deferred tax liabilities is as follows:		
	Deferred tax assets		
	Deferred tax assets to be recovered after more than 12 months	—	(207)
	Deferred tax assets to be recovered within 12 months	—	(276)
		—	(483)
	Deferred tax liabilities		
	Deferred tax liabilities to be recovered after more than 12 months	760	1 333
	Deferred tax liabilities to be recovered within 12 months	1 667	873
		2 427	2 206
	Net deferred tax liability	2 427	1 723
6.	**INVESTMENTS IN GROUP COMPANIES AND RELATED LOANS**		
6.1	**Investments in subsidiaries and related loans**		
	Shares at cost less amounts written off	2 985 893	3 260 065
	Loans owing by subsidiaries less amounts written off	820 017	949 063
		3 805 910	4 209 128

	Shares at cost R'000	Loans owing by sub-sidiaries R'000	Provision for impairment R'000
6. INVESTMENTS IN GROUP COMPANIES AND RELATED LOANS (continued)			
6.1 Investments in subsidiaries and related loans (continued)			
Details are reflected below:			
2011			
Activi Technology Services (Proprietary) Limited	5 000	—	—
Africa Prepaid Services (Proprietary) Limited[1]	61 520	72 562	(83 574)
Blue Label Australasia (Proprietary) Limited[3]	—	—	—
Blue Label Investments (Proprietary) Limited	108 416	—	—
Blue Label One (Proprietary) Limited	40 000	924	—
Blue Label Telecoms USA Incorporated	*	50 540	—
Budding Trade (Proprietary) Limited	6 000	—	—
Celebia Holdings Limited	—	—	—
Cellfind SA (Proprietary) Limited	290 000	2 580	(141 841)
Cigicell (Proprietary) Limited	295	2 094	—
Content Connect Africa (Proprietary) Limited	27 000	394	(12 000)
Datacel Direct (Proprietary) Limited[1]	150 000	14 951	(16 073)
Gold Label Investments (Proprietary) Limited	29 400	149 870	(175 075)
Kwikpay SA (Proprietary) Limited	22 500	—	—
Matragon (Proprietary) Limited	194 000**	—	—
Matrix Investments No 4 (Proprietary) Limited	4 160	—	—
SharedPhone International (Proprietary) Limited[1]	20 000	2 754	(16 089)
The Postpaid Company (Proprietary) Limited[1]	*	1 197	—
The Prepaid Company (Proprietary) Limited	2 150 214**	690 904	—
Uninex (Proprietary) Limited	*	976	—
Velociti (Proprietary) Limited	7 185	1 936	—
Ventury Group (Proprietary) Limited	98 406**	—	—
Virtual Voucher (Proprietary) Limited	44 784	—	—
	3 258 880	991 682	(444 652)

[3] *Blue Label Australasia was deregistered on 29 December 2010.*

6. INVESTMENTS IN GROUP COMPANIES AND RELATED LOANS (continued)

6.1 Investments in subsidiaries and related loans (continued)

	Shares at cost R'000	Loans owing by subsidiaries R'000	Provision for impairment R'000
2010			
Activi Technology Services (Proprietary) Limited	5 000	1 643	—
Africa Prepaid Services (Proprietary) Limited[1]	61 520	50 896	—
Blue Label Australasia (Proprietary) Limited[2]	1 926	3 502	(5 428)
Blue Label Investments (Proprietary) Limited	108 416	1 193	—
Blue Label Mexico S.A. de C.V.	26 650	545	—
Blue Label One (Proprietary) Limited	40 000	800	—
Blue Label Telecoms USA Incorporated	*	50 540	—
Budding Trade (Proprietary) Limited	6 000	—	—
Celebia Holdings Limited	—	—	—
Cellfind SA (Proprietary) Limited	290 000	1 131	—
Cigicell (Proprietary) Limited	295	723	—
Content Connect Africa (Proprietary) Limited	27 000	379	—
Datacel Direct (Proprietary) Limited[1]	150 000	12 933	—
Gold Label Investments (Proprietary) Limited	29 400	149 610	(175 075)
Kwikpay SA (Proprietary) Limited	22 500	746	—
Matragon (Proprietary) Limited	194 000**	30 377	—
Matrix Investments No 4 (Proprietary) Limited	4 160	—	—
SharedPhone International (Proprietary) Limited[1]	20 000	2 502	—
The Postpaid Company (Proprietary) Limited[1]	*	758	—
The Prepaid Company (Proprietary) Limited	2 150 214**	791 113	—
Uninex (Proprietary) Limited	*	976	—
Velociti (Proprietary) Limited	7 185	1 705	—
Ventury Group (Proprietary) Limited	98 406**	—	—
Virtual Voucher (Proprietary) Limited	44 784	103	—
	3 287 456	1 102 175	(180 503)

* *Less than R1 000.*
All subsidiaries are based in the Republic of South Africa. For details on percentage held and issued shares refer to note 33 in the group notes. Refer to note 15 and 21 for details on impairments. The carrying value of the loans approximates their fair values and these loans are repayable on demand.
[1] These loans bear interest at prime plus 2% and have no fixed terms of repayment.
[2] This loan bears interest at prime plus 3% and has no fixed terms of repayment.
All other loans are interest free.
** *These investments have been pledged as security to Investec Bank Limited in terms of the facility.*

	2011 R'000	2010 R'000
6. INVESTMENTS IN GROUP COMPANIES AND RELATED LOANS (continued)		
6.2 Investments in associate and joint venture and related loans		
Shares at cost	29 682	3 030
Provision for impairment	(2 554)	—
Loans owing by associate and joint venture	257	145
	27 385	3 175

		Date acquired	Country of incorporation	Percentage interest held
Demtrade 11 (Proprietary) Limited	Joint venture	1 June 08	South Africa	46.25
Blue Label Mexico S.A. de C.V.*	Associate	23 Feb 11	Mexico	40

** On 23 February 2011, a strategic alliance was entered into between Blue Label Mexico S.A de C.V. ('BLM') and Grupo Bimbo S.A.B de C.V. ('Bimbo'). In terms of this arrangement Bimbo purchased 40% of BLM for US$20 million by subscribing to a fresh issue of shares. The result of this transaction is that Blue Label Telecoms' shareholding was diluted from 70% to 40%. The investment is carried at the cost of the previous investment in subsidiary.*

	Assets R'000	Liabilities R'000	Revenues R'000	Profit/(Loss) R'000
2011				
Demtrade 11 (Proprietary) Limited	2 513	1 483	10 536	84
Blue Label Mexico S.A. de C.V.	117 329	9 230	26 856	(15 501)
2010				
Demtrade 11 (Proprietary) Limited	7 923	6 040	10 780	715

	2011 R'000	2010 R'000
7. LOANS RECEIVABLE		
Loans to related parties	10 615	6 695

Loans are unsecured, interest free and are repayable on demand.

	2011 R'000	2010 R'000
8. TRADE AND OTHER RECEIVABLES		
Trade receivables	—	36
Sundry debtors and prepayments	1 075	1 399
VAT	—	829
Amounts due from related parties (refer to note 21)	2 337	2 680
	3 412	4 944

	Gross R'000	Impairment R'000
The ageing of trade receivables, including amounts due from related parties, at the reporting date was:		
31 May 2011		
Fully performing	2 337	—
Past due by 1 to 30 days	—	—
Past due by 31 to 60 days	—	—
Past due by 61 to 90 days	—	—
Past due by more than 90 days	—	—
	2 337	—
31 May 2010		
Fully performing	2 709	—
Past due by 1 to 30 days	—	—
Past due by 31 to 60 days	—	—
Past due by 61 to 90 days	7	—
Past due by more than 90 days	—	—
	2 716	—

Based on the financial performance of the relevant debtors, management does not consider there to be any indications of potential default in respect of the fully performing book.

	2011 R'000	2010 R'000
9. CASH AND CASH EQUIVALENTS		
Cash at bank	**1 811**	731
Cash on hand	**—**	2
Favourable balances	**1 811**	733
Bank overdraft	**—**	(1 790)
	1 811	(1 057)

Cash and cash equivalents of R600 000 (2010: R600 000) are restricted.

	2011 Number of shares	2010 Number of shares	**2010 R'000**	2010 R'000
10. SHARE CAPITAL				
Authorised				
Total authorised share capital of ordinary shares (par value of R0.000001 each)	**1 000 000 000**	1 000 000 000	**1**	1
Issued				
Balance at the beginning of the year	**756 659 181**	761 159 181	*****	*
Shares acquired during the period	**(1 300 000)**	(4 500 000)	*****	*
Balance at the end of the year	**755 359 181**	756 659 181	*****	*

All issued shares are fully paid up.

The company acquired 1 300 000 (2010: 4 500 000) shares on the JSE in order to grant forfeitable shares to employees and directors of the group.

The cost to the company to acquire the shares held for the benefit of its direct employees of R8 789 983 (2010: R14 652 974) has been deducted from shareholders' equity. These shares are held as "treasury shares". See note 11 for details on the forfeitable shares.

**Less than R1 000.*

11. EQUITY COMPENSATION BENEFIT

Forfeitable shares

During the year, 2 436 492 (2010: 1 625 958) forfeitable shares were granted to executive directors and qualifying employees ('participant'). The participant will forfeit the forfeitable shares if he/she ceases to be an employee of Blue Label Telecoms before the vesting date or if the specified performance conditions have not been met, unless otherwise specified by the rules or determined by the board. In the event that the participant is not in the employ of the group, or the performance conditions are not met, then the shares allocated to the participant will be forfeited and will either be sold on the open market by the escrow agent and the proceeds will be returned to the company, or may be retained by the company for future awards.

Dividends declared in respect of these forfeitable shares are held in escrow until such time as the performance conditions are met and the shares have vested. Shares forfeited during the vesting period will forfeit any dividends pertaining to such shares. A dividend of 12 cents per ordinary share was declared on 23 August 2010.

The release of forfeitable shares will be subject to the achievement of a specified performance condition. The performance condition for the first award grant of forfeitable shares was:

- 30% of shares will vest when the group's core HEPS at the end of the performance period, being May 2010, exceeds the core HEPS per ordinary share as at the beginning of the performance period, being May 2008, by the percentage change in the CPI index over the performance period, plus 20% (threshold performance criteria).
- 100% of shares will vest when the core HEPS at the end of the performance period, being May 2010, exceeds the core HEPS per ordinary shares at the beginning of the performance period, being May 2008, by the percentage change in the CPI index over the performance period, plus 30% (target performance criteria).
- Performance below the threshold performance criteria will result in the forfeitable award not vesting, unless otherwise determined by the board.
- Linear vesting of the forfeitable award will occur between threshold performance and target performance stated above.

The performance conditions for the first scheme were not met and therefore all shares were forfeited in the prior year.

The performance conditions for the second award grant of forfeitable shares vesting on 1 September 2012 are as follows:

- 25% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting date (1 September 2012).
- 25% of the shares constituting the allocation will vest on the achievement by individual employees of their individual key performance indicators.
- 50% of shares constituting the allocation will vest if the group's core HEPS is equal to or exceeds the core HEPS per ordinary share at the beginning of the performance period (May 2009), by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

The performance condition for the third award grant of forfeitable shares vesting on 1 September 2013 are as follows:

- 25% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting date (1 September 2013).
- 25% of the shares constituting the allocation will vest on the achievement by individual employees of their individual key performance indicators.
- 50% of shares constituting the allocation will vest if the group's core HEPS is equal to or exceeds the core HEPS per ordinary share at the beginning of the performance period (1 June 2010), by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

The performance condition for the retention award grant vesting in three equal tranches on 30 September 2010, 30 April 2011 and 30 April 2012 are as follows:

- 100% of the shares constituting the allocation are awarded for retention purposes and shall vest if the employee is still employed in the group at the vesting dates.

11. EQUITY COMPENSATION BENEFIT (continued)

Forfeitable shares (continued)

Movements in the number of forfeitable shares outstanding during the year are as follows:

	Grant date	Vesting date	Number of shares	Fair value of grant R'000
At 1 June 2009			1 923 037	9 615
Granted during the year				
Second award	1 September 2009	1 September 2012	540 118	3 160
Second award	27 November 2009	1 September 2012	1 085 840	6 352
Shares forfeited during the year			(2 010 697)	(10 128)
First award			(1 923 037)	(9 615)
Second award			(87 660)	(513)
Shares vested during the year			—	—
At 31 May 2010			**1 538 298**	**8 999**
Second award			**1 538 298**	**8 999**
Granted during the year			**2 436 492**	**11 560**
Third award	1 September 2010	1 September 2013	**2 072 629**	**9 741**
Retention award	1 September 2010	30 September 2010	**129 410**	**647**
Retention award	1 September 2010	30 April 2011	**124 226**	**621**
Retention award	1 September 2010	30 April 2012	**110 227**	**551**
Shares forfeited during the year			**(191 186)**	**(975)**
Second award			**(66 092)**	**(387)**
Third award			**(125 094)**	**(588)**
Transfers within the group			**(28 397)**	**(166)**
Shares vested during the year			**(253 636)**	**(1 268)**
Retention award		30 September 2010	**(129 410)**	**(647)**
Retention award		30 April 2011	**(124 226)**	**(621)**
At 31 May 2011			**3 501 571**	**18 150**
Second award			**1 443 809**	**8 446**
Third award			**1 947 535**	**9 153**
Retention award			**110 227**	**551**

Refer to note 15 for the expense recognised in the statement of comprehensive income relating to the equity compensation benefits.

The fair value of the shares is based on the value paid for the shares on the open market at grant date.

The total number of forfeitable shares issued to executive directors during the period is 1 477 168 (2010: 1 085 840).

The share-based payment in relation to these directors is R2 million (2010: R1.6 million).

Refer to the remuneration report on page 52 for details per director.

BLUE LABEL TELECOMS

		2011 R'000	2010 R'000
12.	**TRADE AND OTHER PAYABLES**		
	Trade payables	2 372	3 032
	Accruals	7 398	11 613
	Sundry creditors	2 621	760
	VAT	705	—
	Amounts due to related parties (refer to note 21)	352	2 037
		13 448	17 442
13.	**LOANS FROM SUBSIDIARIES**		
	Ventury Group (Proprietary) Limited	48 000	48 000
	Blue Label Investments (Proprietary) Limited	1 226	—
		49 226	48 000
	Loans are unsecured, interest free and are repayable on demand.		
14.	**EMPLOYEE COMPENSATION AND BENEFIT EXPENSE**		
	Salaries and wages	42 183	41 810
	Bonuses	394	6 185
	Equity compensation benefit	4 017	311
	Other	508	300
		47 102	48 606
15.	**OPERATING LOSS**	—	
	The following items have been charged/(credited), in arriving at operating loss:		
	Management fees received	(78 884)	(77 898)
	Consulting fees	7 868	4 790
	Foreign exchange loss	1	516
	Impairment of loans and investments*	272 578	180 557
	Loss on disposal of property, plant and equipment	291	13
	Insurance	1 644	1 504
	Legal fees	710	483
	Operating lease rentals – premises	1 013	3 470
	Rental paid	12 358	4 481
	Rental recovery	(11 345)	(1 011)
	Overseas travel	3 534	3 919
	Security	658	85
	Repairs and maintenance	20	5
	Audit fees	4 227	6 469

* *An impairment loss of R272.6 million (2010: R180.6 million) was recognised in the current year relating to the impairment of related party investments and loans in line with our stated accounting policies (refer note 21). A weighted average cost of capital of 15% – 22% (2010: 18%) and a growth rate of 1.5% – 4.5% (2010: 5%) was used in determining the recoverable value where the valuation was based on future cash flows. In other instances, indicative sales values have been used to determine recoverable value.*

	2011 R'000	2010 R'000
16. FINANCE (INCOME)/COSTS		
Interest paid		
– Bank	45	50
– Other	76	—
	121	50
Interest received		
– Bank	(40)	(40)
– Loans	(9 038)	(7 227)
– Other	(38)	(236)
	(9 116)	(7 503)
Net finance income	(8 995)	(7 453)
17. TAXATION		
Current tax	3 758	350
Current year	3 795	350
Prior year	(37)	—
Deferred tax	704	(1 103)
Current year	704	(1 103)
STC	9 146	—
	13 608	(753)
Tax rate reconciliation		
Net loss before tax	(273 742)	(181 188)
Tax at 28%	(76 648)	(50 733)
Adjusted for:		
– Income not taxable	(867)	(1 002)
– Expenditure not deductible	76 594	50 982
– Prior year adjustment	(37)	—
– Permanent difference	5 420	—
– STC	9 146	—
	13 608	(753)

		2011 R'000	2010 R'000
18.	**CASH FLOWS FROM OPERATING ACTIVITIES**		
	Reconciliation of operating loss to cash flows from operating activities:		
	Operating loss	**(282 737)**	(188 641)
	Adjustments for:		
	Dividends received	**(631)**	—
	Depreciation of property, plant and equipment	**6 619**	785
	Amortisation on intangible assets	**726**	865
	Impairment of loans and investments	**272 578**	180 557
	Loss on disposal of property, plant and equipment	**291**	13
	Equity compensation benefit expense	**4 017**	311
	Changes in working capital		
	Decrease in trade and other receivables	**1 532**	1 983
	(Decrease)/Increase in trade and other payables	**(3 994)**	2 850
	Decrease/(increase) in loans receivable	**3 433**	(5 836)
		1 834	(7 113)
19.	**TAXATION PAID**		
	Balance outstanding at the beginning of the year	**(654)**	(800)
	Taxation charge	**12 904**	350
	Withholding tax credit	**—**	(204)
	Balance outstanding at the end of the year	**(3 795)**	654
		8 455	—
20.	**COMMITMENTS**		
	Future operating lease charges for:		
	Premises		
	Payable within one year	**10 191**	9 223
	Payable in two to five years	**52 650**	33 896
	Payable in more than five years	**12 270**	41 216
		75 111	84 335

	2011 R'000	2010 R'000
21. RELATED PARTY TRANSACTIONS		
Related party relationships		
For details of subsidiaries, associates and joint ventures refer to note 33 in the group notes.		
For details of the company's directors, refer to the directors' report.		
ZOK Cellular (Proprietary) Limited, Black Ginger 59 (Proprietary) Limited, Unihold Group Limited and Moneyline 311 (Proprietary) Limited are related parties due to the companies having common directorships.		
For details of the shareholdings in the company, refer to the directors' report.		
Directors' emoluments (refer to note 30 of the group annual financial statements and Remuneration Report).		
The following transactions were carried out with related parties:		
Purchases from related parties		
Black Ginger 59 (Proprietary) Limited	1 993	294
BSC Technologies (Proprietary) Limited	—	79
Blue Label Distribution (previously Comm Express Services SA (Proprietary) Limited)	1 332	—
Content Connect Africa (Proprietary) Limited	18	—
Demtrade 11 (Proprietary) Limited	947	1 762
Moneyline 311 (Proprietary) Limited	—	821
The Prepaid Company (Proprietary) Limited	5	147
Cost recoveries from related parties		
Blue Label Distribution (Proprietary) Limited (previously Comm Express Services SA (Proprietary) Limited)	176	—
Cellfind SA (Proprietary) Limited	9	—
Smart Voucher Limited	24	422
The Prepaid Company (Proprietary) Limited	—	79
Interest received from related parties		
Africa Prepaid Services (Proprietary) Limited	6 778	5 062
Blue Label Australasia (Proprietary) Limited	—	452
Content Connect Africa (Proprietary) Limited	101	83

	2011 R'000	2010 R'000
21. RELATED PARTY TRANSACTIONS (continued)		
Interest received from related parties (continued)		
Datacel Direct (Proprietary) Limited	1 804	1 272
SharedPhone International (Proprietary) Limited	278	281
The Postpaid Company (Proprietary) Limited	77	77
Management fees received from related parties		
Activi Technology Services (Proprietary) Limited	73	66
Africa Prepaid Services (Proprietary) Limited	2 940	2 520
Blue Label Australasia (Proprietary) Limited	—	459
Blue Label Distribution (Proprietary) Limited (previously Comm Express Services SA (Proprietary) Limited)	2 131	—
Blue Label Mexico S.A. de C.V.	770	466
Cellfind SA (Proprietary) Limited	2 614	2 376
Cigicell (Proprietary) Limited	2 251	2 046
Datacel Direct (Proprietary) Limited	363	330
Kwikpay SA (Proprietary) Limited	—	1 690
SharedPhone International (Proprietary) Limited	726	660
Smart Voucher Limited	564	2 293
The Prepaid Company (Proprietary) Limited	66 000	64 560
Transaction Junction (Proprietary) Limited	73	66
Virtual Voucher (Proprietary) Limited	327	594
ZOK Cellular (Proprietary) Limited	—	208
Management fees paid to related parties		
Demtrade 11 (Proprietary) Limited	1 210	1 320
Rent paid to related parties		
Ellerine Bros. (Proprietary) Limited	4 611	955
Moneyline 311 (Proprietary) Limited	4 611	2 500
Rent received from related parties		
Activi Deployment Services (Proprietary) Limited	—	27
Africa Prepaid Services (Proprietary) Limited	124	—
Blue Label Data Solutions (Proprietary) Limited	205	50

	2011 R'000	2010 R'000
21. RELATED PARTY TRANSACTIONS (continued)		
Blue Label One (Proprietary) Limited	295	93
Blue Label Distribution (Proprietary) Limited (previously Comm Express Services SA (Proprietary) Limited)	3 402	206
Demtrade 11 (Proprietary) Limited	95	10
Smart Voucher Limited	—	25
The Prepaid Company (Proprietary) Limited	2 780	230
ZOK Cellular (Proprietary) Limited	195	16
Impairment of related party investments		
Africa Prepaid Services (Proprietary) Limited	61 519	—
Blue Label Australasia (Proprietary) Limited	—	1 926
Celebia Holdings Limited	—	38
Cellfind SA (Proprietary) Limited	141 841	—
Content Connect Africa (Proprietary) Limited	12 000	—
Datacel Direct (Proprietary) Limited	16 073	—
Demtrade 11 (Proprietary) Limited	2 554	—
Gold Label Investments (Proprietary) Limited	—	25 465
SharedPhone International (Proprietary) Limited	16 089	—
Impairment of related party loans		
Africa Prepaid Services (Proprietary) Limited	22 055	—
Blue Label Australasia (Proprietary) Limited	447	3 502
Gold Label Investments (Proprietary) Limited	—	149 610
Dividends received from related parties		
Demtrade 11 (Proprietary) Limited	416	—
House of Business Solutions (Proprietary) Limited	215	—

	2011 R'000	2010 R'000
21. RELATED PARTY TRANSACTIONS (continued)		
Loans to related parties		
Activi Technology Services (Proprietary) Limited	—	1 643
Africa Prepaid Services (Proprietary) Limited	50 508	50 896
Blue Label Australasia (Proprietary) Limited	—	379
Blue Label Data Solutions (Proprietary) Limited	—	292
Blue Label Distribution (Proprietary) Limited (previously Comm Express Services SA (Proprietary) Limited)	8 478	5 990
Blue Label Investments (Proprietary) Limited	—	1 193
Blue Label Mexico S.A. de C.V.	257	545
Blue Label One (Proprietary) Limited	924	800
Blue Label Telecoms USA Incorporated	50 540	50 540
Cellfind SA (Proprietary) Limited	2 580	1 131
Cigicell (Proprietary) Limited	2 094	—
CNS Call Centre (Proprietary) Limited	15	—
Content Connect Africa (Proprietary) Limited	394	723
Datacel Direct (Proprietary) Limited	14 951	12 933
Demtrade 11 (Proprietary) Limited	—	145

	2011 R'000	2010 R'000
21. RELATED PARTY TRANSACTIONS (continued)		
Loans to related parties		
Gold Label Investments (Proprietary) Limited	260	—
Kwikpay SA (Proprietary) Limited	—	746
Matragon (Proprietary) Limited	—	30 377
SharedPhone International (Proprietary) Limited	2 754	758
The Postpaid Company (Proprietary) Limited	1 197	2 502
The Prepaid Company (Proprietary) Limited	690 904	791 113
Transaction Junction (Proprietary) Limited	1 178	414
Uninex (Proprietary) Limited	976	976
Velociti (Proprietary) Limited	1 936	1 705
Virtual Voucher (Proprietary) Limited	—	103
Loans from related parties		
Blue Label Investments (Proprietary) Limited	1 226	—
Ventury Group (Proprietary) Limited	48 000	48 000
Amounts due from related parties		
Black Ginger 59 (Proprietary) Limited	—	951
Blue Label Australasia (Proprietary) Limited	—	19
Comm Express Services SA (Proprietary) Limited	—	21
Datacel Direct (Proprietary) Limited	—	31
Smart Voucher Limited	2 337	1 637
ZOK Cellular (Proprietary) Limited	—	21
	2 337	2 680

BLUE LABEL TELECOMS

	2011 R'000	2010 R'000
21. RELATED PARTY TRANSACTIONS (continued)		
Amounts due to related parties		
Black Ginger 59 (Proprietary) Limited	37	335
Blue Label Distribution (Proprietary) Limited (previously Comm Express Services SA (Proprietary) Limited)	12	—
Blue Label Australasia (Proprietary) Limited	—	41
Blue Label Mexico S.A. de C.V.	—	203
Demtrade 11 (Proprietary) Limited	204	361
Moneyline 311 (Proprietary) Limited	(472)	1 096
Neil Lazarus	447	—
Unihold Group Limited	124	—
ZOK Cellular (Proprietary) Limited	—	1
	352	2 037
Disposal of intangible asset to related party		
Blue Label Distribution (Proprietary) Limited (previously Comm Express Services SA (Proprietary) Limited)	—	3 579
Leasehold improvements recovered by related party		
Ellerine Bros. (Proprietary) Limited	925	11 500

Basis of transactions

All transactions with related parties are conducted on the same terms as other transactions of a similar nature.

Glossary of terms

AEON	Blue Label's proprietary switch through which all transactional capability is accessed
AEON EVD	Is the Aeon Electronic Voucher Distribution platform, it is a central repository in which Electronic (or Virtual) Stock is housed. It gets referenced by other internal platforms like EVMS, AMS and AEON
AIDS	Acquired Immune Deficiency Syndrome
Amazon EC2	Amazon Elastic Compute Cloud (EC2) is a web service that provides resizable computing capacity in the cloud; allowing users to obtain and configure capacity with minimal effort
API	Application Programming Interface
APS	Africa Prepaid Services (Pty) Ltd
APSN	Africa Prepaid Services Nigeria Ltd
ARCC	Audit, Risk and Compliance Committee
ARPU	Average revenue per user
AoA	Articles of Association
BBBEE	Broad-based Black Economic Empowerment
BLD	Blue Label Distribution (Pty) Ltd
BLT	Blue Label Telecoms Limited
Blue Label	Blue Label Telecoms Limited
Blue Label Telecoms	Blue Label Telecoms Limited
BoBo	Bill on Behalf of
BPO	Business Process Outsourcing
Bulk printing	Ability to print bulk vouchers
BRICS	Emerging markets of Brazil, Russia, India, China and South Africa
CDMA	Code division multiple access network
CES	Comm Express Services (Pty) Ltd
Companies Act	Companies Act 71 of 2008
company	Blue Label Telecoms Limited
Content aggregator	An organisation that gathers web content and applications from different online sources for re-use and resale

CRM	Customer Relationship Management
CSI	Corporate Social Investment
CSP	Customer Service Points
CSR	Corporate Social Responsibility
Developing economies	A term generally used to describe a nation with a low level of material well-being (not to be confused with third-world countries). Since no single definition of the term developed country is recognised internationally, the levels of development may vary widely within so-called developing countries, with some developing countries having high average standards of living
Digital immigrant	A person who grow up without technology and adopted it later
Digital native	A person for whom digital technologies already existed when they were born, and hence has grown up with digital technology such as computers, the Internet, mobile phones and MP3s
Disintermediation	Margin squeeze
Distribution channels	For Blue Label, our distribution channels include retail and wholesale outlets, petroleum forecourts, informal retail outlets, individual merchants/entrepreneurs, corporates and independents (Mom and Pop Stores)
DTI	Department of Trade and Industry
DTI CoGP	Department of Trade and Industry's Code of Good Practice
EB	An Exabyte, equal to 1 billion Gigabytes or 1 000 000 000 000 000 000 bytes.
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EE	Employment equity
Emerging economies	Nations with social or business activity in the process of rapid growth and industrialisation
e-tokens	Electronic tokens – a form of electronic cash used for secure transactions
Exco	Executive Committee
FMCG	Fast-moving consumer goods
FQUN	Fully Qualified User Name
GPS	Global Positioning System
GRI	Global Reporting Initiative
group	Blue Label Telecoms Limited and its subsidiaries, associates and joint ventures

Glossary of terms continued

IARCS	Internal Audit, Risk and Control Services
IC	Investment Committee
ICT	Information, Communications and Technology
Intelligent transport	Toll roads, bus and train prepaid ticketing
Interconnect fees	Charges associated with collecting and delivering calls between two different operators (networks)
IP	Intellectual Property
IRCC	Internal Risk and Compliance Committee
ISO	Independent Sales Organisation
IT	Information Technology
JAVA	Java is a programming language and computing platform
JSE	JSE Limited, a public company duly registered and incorporated in South Africa and licensed as an exchange under the Securities Services Act 2004
King III	The King Report on Governance for South Africa 2009 including the King Code of Governance Principles for South Africa 2009
Kiosk	An area within a retail outlet which is allocated to transactions for Blue Label products and services
LBS	Location-based Services
LTE	Long-Term Evolution. A set of extensions to 3G mobile networks designed to replace core GPRS. These form a subset of the 4G specifications.
mCommerce	Mobile commerce
mms	Multimedia messaging service
Money remittances	The ability to transfer money to another individual without a bank account
MSC	Mobile Services Company
MoA	Memorandum of Association
NaaS	Network as a Service
Neo	Ukash voucher converted into a prepaid Mastercard®
NFC	Near Field Communications
OTA	Over The Air

Oxigen/Oxigen India	Oxigen Services India
PaaS	Platform as a Service
pCommerce	Prepaid Commerce
Physical prepaid airtime	Prepaid vouchers that are available as physical items
PIN	Personal identity number
Pin-less top-up	E-token recharge directly to mobile phone via a POS device
POS	Point-of-sale, usually a place or a device
PowerPin Voucher	Off-line prepaid electricity top-up, consolidates the purchase of prepaid electricity across national municipalities
Previous Act	Companies Act 61 of 1973 as amended
R&D	Research and Development
RICA	Regulation of Interception of Communications Act – requires the registration of personal details of all South African cellphone subscribers
RNC	Remuneration and Nomination Committee
RUIM (or R-UIM)	Re-usable Identification Module; removable ID chip for cellular phones extends the GSM SIM card to CDMA phones and networks
SaaS	Software as a Service
SAPO	South Africa Post Office
SBI	State Bank of India
SED	Socio-economic development
Shop-in-shop	An area within a retail outlet which is allocated to transactions for Blue Label products and services
SIC	Strategic Implementation Committee
SIM card	Subscriber Identification Module card
SMS	Short Message Service
SRI	Socially Responsible Investment (SRI) Index
SSETA	Services Sector Education and Training Authorities

Glossary of terms continued

TC	Transformation Committee
Telco	Telecommunications company
Ticketing	Bus, train and airline ticketing as well as entertainment
Touch points	Devices through which consumers are able to purchase Blue Label products and services
TPC	The Prepaid Company (Pty) Ltd
TPPC	The Postpaid Company (Pty) Ltd
Transactional services	Includes money transfers, payments of bills and the like
unbanked	People without bank accounts
underbanked	People with poor access to mainstream financial services, such as banks and therefore rely on alternative financial services OR alternatively people with bank accounts who do not make effective use of the broader services offered by the bank – they merely deposit and withdraw cash from their accounts
UNIPIN	Universal PIN for prepaid electricity
USSD	Unstructured supplementary service data
Value added	Measure of wealth the group has created in its operation by "adding value" to the cost of product and services
VAS	Value added services
Virtual distributor	Distribution of e-tokens of value in electronic format
Virtual prepaid airtime	Airtime top-up in an electronic format
WAP	Wireless Application Protocol
WASP	Wireless Application Service Provider
WASPA	Wireless Application Service Providers' Association
White label offerings	Non-affiliated products and services

Administration

REGISTERED ADDRESS

Blue Label Telecoms Ltd
75 Grayston Drive
Corner Benmore Road
Morningside Ext 5
Sandton
2196
(PO Box 652261, Benmore 2010)
Tel: +27 11 523 3000
Fax: +27 11 523 3001
www.bluelabeltelecoms.co.za

COMPANY SECRETARY

E Viljoen
info@blts.co.za

TRANSFER SECRETARIES

Computershare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg 2001
(PO Box 61051, Marshalltown 2107)
Tel: +27 11 370 5000
Fax: +27 11 688 5232

INVESTOR AND MEDIA RELATIONS

MJ Campbell
investors@blts.co.za

BASTION GRAPHICS

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The definitions and interpretations commencing on page 5 of this circular apply *mutatis mutandis* throughout this circular.

If you are in any doubt as to the action you should take, please consult your CSDP, broker, banker, accountant, legal adviser or other professional adviser immediately.

Action required

1. If you have disposed of all your Blue Label shares, then this circular should be forwarded to the purchaser to whom, or the broker, agent, CSDP or banker through whom you disposed of your shares.
2. Blue Label shareholders are referred to page 3 of this circular, where the actions required by them are set out.

BLUE LABEL
TELECOMS

Blue Label Telecoms Limited

(Incorporated in the Republic of South Africa) (Registration number 2006/022679/06)

Share code: BLU ISIN: ZAE000109088 ("Blue Label" or "the Company")

Circular to Blue Label shareholders:

regarding:

– the specific repurchase by Blue Label of 91,851,852 ordinary shares in its issued share capital from Microsoft Corporation, in terms of section 48 of the Companies Act, 71 of 2008, as amended; and

– the Annual General Meeting of Blue Label;

and incorporating:

– a notice convening the Annual General Meeting of Blue Label shareholders; and

– a form of proxy for use by certificated Blue Label shareholders and own name dematerialised shareholders only.

Investment bank

Investec
Bank Limited
Investec Bank Limited
(Registration number 1969/004763/06)

Sponsor to Blue Label

Investec
Bank Limited
Investec Bank Limited
(Registration number 1969/004763/06)

Attorneys

problemsolved
ens.co.za

Reporting accountants and auditors

pwc

Independent expert

ERNST & YOUNG
Quality In Everything We Do

Date of issue: 20 October 2011

This circular is available in English only. Additional copies of this circular, in its printed format, may be obtained from the Company at its address as set out on page 1 of this circular during normal business hours from Thursday, 20 October 2011 up to and including Tuesday, 22 November 2011. This circular will also be available on the Blue Label website (www.bluelabeltelecoms.co.za) from the commencement of normal business hours on Thursday, 20 October 2011.

The Annual General Meeting can be accessed by Blue Label shareholders via electronic participation in accordance with the notice of Annual General Meeting attached to this circular. In this regard Blue Label shareholders are referred to page 37 of this circular.

CORPORATE INFORMATION

Directors

LM Nestadt (Independent Non-Executive Chairman)#
BM Levy (Joint Chief Executive Officer)*
MS Levy (Joint Chief Executive Officer)*
MV Pamensky (Chief Operating Officer)*
DB Rivkind (Financial Director)*
KM Ellerine†
GD Harlow#
NN Lazarus SC†
JS Mthimunye#

**Executive*
†Non-Executive
#Independent Non-Executive

Company secretary and registered office	Transfer secretary
E Viljoen Blue Label Telecoms Limited 75 Grayston Drive, corner Benmore Road Morningside Extension 5 2196 (PO Box 652261, Benmore, 2010)	Computershare Investor Services (Proprietary) Limited (Registration Number: 2004/003647/07) 70 Marshall Street Johannesburg 2001 (PO Box 61051, Marshalltown, 2107)
Investment bank	**Attorneys**
Investec Corporate Finance (Registration Number: 1969/004763/06) 100 Grayston Drive Sandown Sandton 2196 (PO Box 785700, Sandton, 2146)	Edward Nathan Sonnenbergs Incorporated (Registration Number: 2006/018200/21) 150 West Street Sandton Johannesburg 2196 (PO Box 783347, Sandton, 2146)
Sponsor	**Reporting accountants and auditors**
Investec Bank Limited (Registration Number: 1969/004763/06) 100 Grayston Drive Sandown Sandton 2196 (PO Box 785700, Sandton, 2146)	PricewaterhouseCoopers Incorporated 2 Eglin Road Sunninghill 2157 (Private Bag X36, Sunninghill, 2157)
Independent expert	
Ernst & Young Advisory Services Limited Wanderers Office Park 52 Corlett Drive Illovo (Private Bag X14, Northlands, 2116)	

CONTENTS

ACTION REQUIRED

The definitions commencing on page 5 of this document apply throughout this document.

1. If you are in any doubt as to the action you should take, please consult your stockbroker, CSDP, banker, legal adviser, accountant or other professional adviser immediately.
2. If you have disposed of all your Blue Label shares, this document should be handed to the purchaser of such shares or the stockbroker, CSDP, banker or other agent through whom such disposal was effected.
3. If you are a certificated shareholder or own name dematerialised shareholder you may attend and vote at the Annual General Meeting in person. If you are unable to attend the Annual General Meeting and wish to be represented thereat, you must complete and return the attached form of proxy to the transfer secretaries (Computershare, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107)) to be received by no later than 10h00 on Friday, 18 November 2011.
4. If you are a dematerialised shareholder other than an own name dematerialised shareholder or if you hold Blue Label shares through a nominee, your nominee or CSDP or broker (as the case may be) should contact you in the manner stipulated in the agreement concluded between you and your nominee or CSDP or broker to ascertain how you wish to cast your vote at the Annual General Meeting. If you have not been contacted, it would be advisable for you to contact your nominee or CSDP or broker and furnish it with your voting instructions in order for your nominee or CSDP or broker to vote in accordance with those instructions at the Annual General Meeting. If you wish to attend the Annual General Meeting in person or if you wish to send a proxy to represent you at the Annual General Meeting, you should advise your nominee or CSDP or broker timeously of your intention to do so in order for you to be provided with the necessary letter of representation.
5. In terms of section 61(10) of the Companies Act, the holders of shares in a public company must have reasonable access within South Africa to electronic participation at every general meeting of such company in the manner contemplated in section 63(2) of the Companies Act. Details in this regard are included in the notice of the Annual General Meeting attached to this circular (see page 37 of this circular).

IMPORTANT DATES AND TIMES

The definitions commencing on page 5 of this document have been used in the following table of important dates and times:

	2011
Last day to trade in order to be eligible to vote at the Annual General Meeting on	Friday, 4 November
Record date in order to vote at the Annual General Meeting on	Friday, 11 November
Last day to lodge forms of proxy by 10:00 on	Friday, 18 November
Annual General Meeting to be held at 10:00 on	Tuesday, 22 November
Results of the Annual General Meeting published on SENS on	Tuesday, 22 November
Cancellation and delisting of the Microsoft shares on or about	Thursday, 1 December

Notes:

1. Shareholders will be notified of any amendments to the above dates or times on SENS and in the South African press.

2. All times indicated above are South African Standard Times.

DEFINITIONS

In this circular and the annexures hereto, unless otherwise indicated, reference to the singular shall include the plural and *vice versa*, words denoting one gender include others, expressions denoting natural persons include juristic persons and associations of persons, and the words in the first column have the meanings stated opposite them in the second column.

"Annual General Meeting"	the annual general meeting of Blue Label shareholders to be held at 10:00 on Tuesday, 22 November 2011 for the purposes of considering, and if deemed fit, passing the resolutions contained in the notice of Annual General Meeting, including the resolutions required to implement the specific repurchase;
"Annual Report"	the integrated annual report of Blue Label for the year ended 31 May 2011, which has been posted simultaneously with the posting of this circular;
"Blue Label shareholders" or "shareholders"	the registered holders of Blue Label shares;
"Blue Label shares" or "shares"	shares of 0.000001 Rand each in the issued share capital of Blue Label, all of which are listed on the JSE;
"Blue Label" or "the Company"	Blue Label Telecoms Limited (Registration Number: 2006/022679/06), a public company incorporated under the laws of South Africa the shares of which are listed on the JSE;
"broker"	any person registered as a "broking member (equities)" in terms of the rules of the JSE made in accordance with the provisions of the Securities Services Act, 2004 (Act 36 of 2004), as amended;
"business day"	any day other than a Saturday, Sunday or official public holiday in South Africa;
"cents"	South African cents in the official currency of South Africa;
"certificated shareholders"	holders of certificated shares;
"certificated shares"	Blue Label shares, other than dematerialised shares;
"CIPC"	the Companies and Intellectual Property Commission (CIPC) of the Companies Act, 2008 (Act 71 of 2008), as amended, the official custodian of the legal status of companies, close corporations, co-operatives and intellectual property rights and a member of the Department of Trade and Industry of South Africa;
"circular"	this circular to Blue Label shareholders dated 20 October 2011, regarding the specific repurchase and which has been posted simultaneously with the Annual Report;
"common monetary area"	South Africa, the Republic of Namibia and the Kingdoms of Lesotho and Swaziland;
"Companies Act"	the Companies Act, 2008 (Act 71 of 2008), as amended;
"CSDP"	a Central Securities Depository Participant, being a "participant" as defined in section 1 of the Securities Services Act, 2004 (Act 36 of 2004), as amended;
"dematerialised shareholders"	holders of dematerialised shares;
"dematerialised shares"	Blue Label shares that have been dematerialised in accordance with Strate and which shareholding is recorded electronically;
"directors" or "the board"	the board of directors of Blue Label;
"exchange control regulations"	the Exchange Control Regulations, 1961, as amended, promulgated in terms of section 9 of the Currency and Exchanges Act, 1933 (No. 9 of 1933), as amended;
"group"	Blue Label and its subsidiaries;

"Income Tax Act"	the Income Tax Act, 1962 (Act 58 of 1962), as amended;
"JSE"	the JSE Limited (Registration Number: 2005/022939/06), a public company duly registered and incorporated in South Africa and licensed as an exchange under the Securities Services Act, 2004 (Act 36 of 2004);
"last practicable date"	Tuesday, 11 October 2011, being the last practicable date prior to the finalisation of this document;
"Listings Requirements"	the Listings Requirements of the JSE, as amended from time to time;
"Microsoft"	means Microsoft Corporation, a company with limited liability duly incorporated in accordance with the laws of Washington State, United States of America, with its principal place of business at One Microsoft Way, Redmond, WA 98052, United States of America;
"Microsoft shares"	91,851,852 shares owned by Microsoft and which shall be repurchased by Blue Label in terms of the specific repurchase;
"own name dematerialised shareholders"	dematerialised shareholders who have instructed their CSDP to hold their dematerialised shares in their own name on the sub-register (the list of shareholders maintained by the CSDP and forming part of Blue Label's shareholder register);
"purchase consideration"	an amount of R390,370,371 which shall be paid by Blue Label to Microsoft in terms of the specific repurchase as the purchase consideration for the Microsoft shares;
"Rand"	South African Rand, being the official currency of South Africa;
"repurchase price"	the price of R4.25 per share payable by Blue Label to Microsoft for each Microsoft share purchased by Blue Label from Microsoft in terms of the specific repurchase;
"SENS"	the Securities Exchange News Service of the JSE;
"specific repurchase"	the proposed acquisition by Blue Label of the Microsoft shares from Microsoft as set out in this circular in terms of section 48, in particular section 48(2)(a) of the Companies Act and pursuant to the terms and conditions of the Share Buy-Back Agreement;
"Share Buy-Back Agreement"	the written share buy-back agreement entered into between the Company and Microsoft, dated 5 October 2011, dealing with the specific repurchase;
"South Africa"	the Republic of South Africa;
"Strate"	an electronic settlement environment for transactions to be settled and transfer of ownership to be recorded electronically, which is managed by Strate Limited (Registration Number: 1998/022242/06);
"subsidiary"	shall have the meaning ascribed thereto in the Companies Act;
"this document"	this bound document, dated 20 October 2011, which includes the circular, the annexures, the notice of Annual General Meeting and the form of proxy;
"transfer secretaries" or "Computershare"	Computershare Investor Services (Proprietary) Limited (Registration Number: 2004/003647/07), a private company incorporated under the laws of South Africa;
"STT"	Securities Transfer Tax in terms of the Securities Transfer Tax Act, 2007 (Act No. 25 of 2007); and
"VWAP"	volume weighted average price.

Blue Label Telecoms Limited

(Incorporated in the Republic of South Africa) (Registration number 2006/022679/06)
Share code: BLU ISIN: ZAE000109088 (“Blue Label” or “the Company”)

Directors

LM Nestadt (Independent Non-Executive Chairman)#
BM Levy (Joint Chief Executive Officer)*
MS Levy (Joint Chief Executive Officer)*
MV Pamensky (Chief Operating Officer)*
DB Rivkind (Financial Director)*
KM Ellerine†
GD Harlow#
NN Lazarus SC†
JS Mthimunye#

**Executive*
†Non-Executive
#Independent Non-Executive

CIRCULAR TO BLUE LABEL SHAREHOLDERS

1. INTRODUCTION

The purpose of this circular is to furnish to Blue Label shareholders information relating to the specific repurchase and the other matters to be dealt with at the Annual General Meeting as set out in the notice of Annual General Meeting attached to this circular at which shareholders can vote on the resolutions required to implement the specific repurchase and the other resolutions and matters to be dealt with at the Annual General Meeting.

On the listing of Blue Label in 2007, Microsoft subscribed for the Microsoft shares at a price of R6.75 per share. On 6 October 2011, Blue Label announced on SENS that it had entered into an agreement with Microsoft in terms of which Blue Label will acquire the Microsoft shares from Microsoft, subject to the terms and conditions of the Share Buy-Back Agreement, at the repurchase price.

It is intended that the specific repurchase will be funded out of existing cash resources of Blue Label.

2. RATIONALE FOR THE SPECIFIC REPURCHASE

The specific repurchase, at the repurchase price, is earnings accretive to shareholders and is an efficient use of Blue Label’s excess cash.

The specific repurchase also avoids a potential overhang of the Microsoft shares in the market.

Accordingly, in terms of the Share Buy-Back Agreement and section 48 of the Companies Act, the board has resolved that Blue Label will acquire the Microsoft shares from Microsoft in terms of the specific repurchase.

3. TERMS OF THE SPECIFIC REPURCHASE AND CONDITIONS PRECEDENT

The repurchase price has been agreed with Microsoft in terms of the Share Buy-Back Agreement. This represents a discount of:

- 15.0% to the closing price;
- 15.1% to the 30 day VWAP;
- 11.4% to the 60 day VWAP; and
- 15.4% to the 90 day VWAP

to 5 October 2011, being the business day immediately preceding the day on which the specific repurchase was announced on SENS.

In terms of the Listings Requirements, the specific repurchase is a related party transaction as Microsoft, by virtue of its 12% shareholding in Blue Label, is a material shareholder (as defined in the Listings Requirements) and is consequently a related party to Blue Label. Therefore, in terms of the Listings Requirements, in order to implement the specific repurchase, a special resolution of the Company must be passed by shareholders excluding Microsoft.

In terms of the Listings Requirements, the votes of Microsoft will be taken into account in determining whether a quorum of shareholders is present at the Annual General Meeting, but such votes will not be taken into account in determining the results of the voting at the Annual General Meeting on each of special resolution number 1 and ordinary resolution number 1 relating to the specific repurchase and contained in the notice of Annual General Meeting on pages 32 and 33 of this circular.

The Share Buy-Back Agreement is subject to the fulfilment of the following conditions precedent:

- at the Annual General Meeting the shareholders pass a special resolution in accordance with the Companies Act and the Listings Requirements, authorising Blue Label by way of a specific authority in accordance with the Companies Act and the Listings Requirements to buy-back the Microsoft shares from Microsoft, at the repurchase price, and such special resolution being lodged with the CIPC; and
- the grant by the Financial Surveillance Department of the South African Reserve Bank of any necessary approval for the entering into and implementation of the sale of the Microsoft shares to Blue Label as contemplated in the Share Buy-Back Agreement.

Attached as Annexure II to this circular is the independent expert's report prepared by Ernst & Young Advisory Services Limited relating to the specific repurchase, which is required in terms of section 48(8)(b) read with section 114 of the Companies Act.

4. ADEQUACY OF CAPITAL

4.1 The directors of Blue Label have considered the impact of the specific repurchase and are of the opinion that:

4.1.1 the provisions of section 4 and section 48 of the Companies Act have been complied with;

4.1.2 Blue Label and the group will be able in the ordinary course of business to pay its debts for a period of 12 months after the date of approval of this circular;

4.1.3 the assets of Blue Label and the group will be in excess of its liabilities for a period of 12 months after the date of approval of this circular, where for this purpose, the assets and liabilities are recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements of the group;

4.1.4 the share capital and reserves of Blue Label and the group will be adequate for ordinary business purposes for a period of 12 months after the date of approval of this circular; and

4.1.5 the working capital of Blue Label and the group will be adequate for ordinary business purposes for a period of 12 months after the date of approval of this circular.

4.2 Furthermore, it is stated as follows:

4.2.1 in terms of section 46(1)(a)(ii) of the Companies Act and the Listings Requirements, the board has authorised the specific repurchase by resolution;

4.2.2 in terms of section 46(1)(b) of the Companies Act, it reasonably appears that the Company will satisfy the solvency and liquidity test immediately after completing the specific repurchase; and

4.2.3 in terms of section 46(1)(c) of the Companies Act, the board has, by resolution, acknowledged that it has applied the solvency and liquidity test as set out in section 4 of the Companies Act, and reasonably concluded that the Company will satisfy the solvency and liquidity test immediately after completing the specific repurchase.

5. MAJOR BENEFICIAL SHAREHOLDERS

To the best of Blue Label's knowledge and belief, the following major beneficial shareholders were, as at the last practicable date, directly or indirectly, the beneficial owners of 5% or more of the issued share capital of Blue Label:

Shareholder	Number of shares held	Percentage of issued share capital
Shotput Investments (Proprietary) Limited	116,736,000	15.2%
Microsoft	91,851,852	12.0%
BM Levy	82,613,331	10.8%
Allan Gray Asset Management	78,774,149	10.3%
MS Levy	75,205,922	9.8%
FIL Investments International	50,423,644	6.6%
Total	**495,604,898**	**64.7%**

6. MATERIAL CHANGES

There have been no known material changes in the financial or trading position of the group since the end of the last financial period being 31 May 2011 up to and including the last practicable date.

7. DIRECTORS

7.1 DIRECTORS

Name	Business address	Designation
Laurence Nestadt (Born: 1950)	Global Capital 21 West Street Houghton	Independent Non-Executive Chairman
Brett Levy (Born: 1975)	Blue Label Telecoms Limited 75 Grayston Drive, corner Benmore Road Morningside Extension 5 2196 (PO Box 652261, Benmore, 2010)	Joint Chief Executive Officer
Mark Levy (Born: 1971) BCompt (UNISA)	Blue Label Telecoms Limited 75 Grayston Drive, corner Benmore Road Morningside Extension 5 2196 (PO Box 652261, Benmore, 2010)	Joint Chief Executive Officer
Mark Pamensky (Born: 1972) BCom (Wits), BCompt (Hons) (UNISA), CA(SA)	Blue Label Telecoms Limited 75 Grayston Drive, corner Benmore Road Morningside Extension 5 2196 (PO Box 652261, Benmore, 2010)	Chief Operating Officer
David Rivkind (Born: 1972) BAcc (UNISA), CA(SA)	Blue Label Telecoms Limited 75 Grayston Drive, corner Benmore Road Morningside Extension 5 2196 (PO Box 652261, Benmore, 2010)	Financial Director

Name	Business address	Designation
Kevin Ellerine (Born: 1969) National diploma in Company Administration	51 West Street Houghton 2014	Non-Executive Director
Gary Harlow (Born: 1957) BBusSci (Hons) (UCT), FCMA, CA(SA)	Blue Label Telecoms Limited 75 Grayston Drive, corner Benmore Road Morningside Extension 5 2196 (PO Box 652261, Benmore, 2010)	Independent Non-Executive Director
Joe Mthimunye (Born; 1965) BCom (Zululand), BCompt Hons/CTA (UNISA), CA(SA)	aloeCap Ground Floor Block A 21 Impala Road Chislehurston Sandton 2196	Independent Non-Executive Director
Neil Lazarus SC (Born: 1958) BA LLB (Wits)	Blue Label Telecoms Limited 75 Grayston Drive, corner Benmore Road Morningside Extension 5 2196 (PO Box 652261, Benmore, 2010)	Non-Executive Director

7.2 **DIRECTORS' INTERESTS**

The directors' interests in Blue Label shares, as at 31 May 2011, are as follows:

	Number of shares held as at 31 May 2011		
Blue Label directors	**Direct beneficial**	**Indirect beneficial**	**% of total issued share capital**
BM Levy	74,340,553	8,272,778	10.78%
MS Levy	66,933,145	8,272,777	9.81%
KM Ellerine	—	296,297	0.04%
JS Mthimunye	20,000	—	0.00%
MV Pamensky	—	5,565,738	0.73%
LM Nestadt	—	8,204,674	1.07%
GD Harlow	—	2,000,000	0.26%
NN Lazarus	4,803,424	—	0.63%
DB Rivkind	—	3,700,000	0.48%
Total	**146,097,122**	**36,312,264**	**23.80%**

There has been no change in the directors' interests in Blue Label shares during the period from 31 May 2011 up to and including the last practicable date.

8. SHARE CAPITAL

The table below sets out the authorised and issued share capital of Blue Label before and after the specific repurchase:

	(R)
Share capital as at 31 May 2011	
Authorised share capital 1,000,000,000 (31 May 2010: 1,000,000,000) ordinary shares of 0.000001 Rand each	1,000
Issued share capital 766,360,894 (31 May 2010: 766,360,894) ordinary shares of 0.000001 Rand each	766
Share premium	4,404,737,004
Treasury shares 10,091,890 (31 May 2010: 9,701,713)	(56,505,750)
Share capital after the specific repurchase	
Authorised share capital 1,000,000,000 (31 May 2010: 1,000,000,000) ordinary shares of 0.000001 Rand each	1,000
Issued share capital 674,509,042 (31 May 2010: 766,360,894) ordinary shares of 0.000001 Rand each	674
Share premium	4,012,516,725[1]
Treasury shares 10,091,890 (31 May 2010: 9,701,713)	(56,505,750)

[1]Once-off net transaction costs assumed in respect of the specific repurchase of approximately R1.85 million have been deducted off share premium. This comprises Securities Transfer Tax on the specific repurchase and additional anticipated transaction costs as outlined in paragraph 11 below.

9. FINANCIAL EFFECTS

The table below sets out the unaudited *pro forma* financial effects of the specific repurchase on the audited basic earnings, diluted basic earnings, headline earnings, diluted headline earnings and core earnings per Blue Label share for the year ended 31 May 2011 and the net asset value and tangible net asset value per Blue Label share at that date. The unaudited *pro forma* financial effects have been prepared in accordance with the Listings Requirements, the Guide on *Pro Forma* Financial Information issued by SAICA and the measurement and recognition requirements of International Financial Reporting Standards (IFRS). The accounting policies used to prepare the unaudited *pro forma* financial effects are consistent with those applied in the preparation of the financial statements for the year ended 31 May 2011.

The unaudited *pro forma* financial effects have been prepared for illustrative purposes only, in order to provide information on how the specific repurchase may have affected the financial results and position of a Blue Label shareholder and, because of their nature, may not give a true reflection of the actual financial effects of the specific repurchase. The unaudited *pro forma* financial effects are the responsibility of the directors.

Per Blue Label share	**Before the specific repurchase (cents)[1]**	**After the specific repurchase (cents)[2]**	**% Change**	**Notes**
Basic earnings	57.04	62.57	9.7%	3, 6, 7
Diluted basic earnings	56.49	61.88	9.5%	3, 6, 7
Headline earnings	46.20	50.23	8.7%	3, 6, 7
Diluted headline earnings	45.75	49.67	8.6%	3, 6, 7
Core earnings	60.34	66.32	9.9%	3, 6, 7
Net asset value	388.90	383.63	(1.4%)	4, 5, 6, 7
Tangible net asset value	331.58	318.38	(4.0%)	4, 5, 6, 7
Weighted average number of shares in issue ('000)	756,359	664,508		
Diluted weighted average number of shares in issue ('000)	763,742	671,891		
Number of shares in issue ('000)	756,269	664,417		

Notes to the unaudited *pro forma* financial effects

1. The "Before the specific repurchase" column reflects the basic earnings, diluted basic earnings, headline earnings, diluted headline earnings and core earnings per Blue Label share for the year ended 31 May 2011 and the net asset value and the tangible net asset value per Blue Label share as at 31 May 2011.
2. The "After the specific repurchase" column is based on the assumption that the Microsoft shares were repurchased for a total consideration of R390.4 million (excluding costs, as the costs are charged to equity) with effect from 1 June 2010 for earnings per share purposes and a total consideration of R392.22 million (including costs) from 31 May 2011 for net asset value and tangible net asset value per share purposes.
3. Earnings have been decreased by the finance income earned on the excess cash utilised to finance the specific repurchase. This amount has been calculated as R15.7 million which is based on the average interest rate realised for the year of 5.4% (3.9% after tax). This effect is expected to be of a continuing nature.
4. Once-off net transaction costs assumed in respect of the specific repurchase of approximately R1.85 million have been taken into account and charged to equity. This comprises Securities Transfer Tax on the repurchase of the Microsoft shares and additional anticipated transaction costs as outlined in paragraph 11 below.
5. Cash and cash equivalents have been decreased by an amount of R392.22 million to reflect the cash outflow required for the specific repurchase and the anticipated transaction costs. The specific repurchase is assumed to be funded from existing cash balances.
6. The weighted average number of shares, diluted weighted average number of shares and total number of shares in issue have been adjusted for the Microsoft shares repurchased, which are assumed to be cancelled after the specific repurchase.
7. In terms of the dividend definition in section 1 of the Income Tax Act an acquisition by a company of its own securities through a reduction of its contributed tax capital will not be regarded as a dividend and therefore no secondary tax on companies is payable in respect of the specific repurchase.

The directors are not aware of any subsequent events post 31 May 2011 that are likely to have a significant impact on the above financial effects.

The independent reporting accountants' assurance report on the unaudited *pro forma* financial effects is set out in Annexure I to this document.

10. LITIGATION STATEMENT

Africa Prepaid Services Nigeria Limited ("APSN") instituted arbitration proceedings in South Africa against Multi-Links Telecommunications Limited ("MLT") a company registered and incorporated in Nigeria ("the arbitration"). APSN is incorporated in Nigeria and has its principle place of business in Nigeria. Africa Prepaid Services (Proprietary) Limited ("APS") owns 51% of APSN. Blue Label owns 72% of APS. MLT is a wholly-owned subsidiary of Telkom International (Proprietary) Limited which in turn is a wholly-owned subsidiary of Telkom SA Limited. APSN claims that MLT wrongfully repudiated and purported to cancel a Super Dealer Agreement ("the Agreement") concluded between APSN and MLT, and consequently, APSN's claim is for damages suffered by APSN as a result thereof. MLT has instituted a counter claim against APSN based, *inter alia*, on APSN's alleged breach of its obligations under the Agreement. It is likely that the arbitration will proceed during 2012.

Other than disclosed above, there are no legal or arbitration proceedings, including proceedings that are pending or threatened, of which Blue Label is aware, that may have or have had, in the twelve month period preceding the date of this circular, a material effect on the financial position of the group.

11. COSTS OF THE SPECIFIC REPURCHASE

The costs (exclusive of Value-Added Tax) of the specific repurchase are anticipated to be:

Description	Name	R'000
Corporate Advisory and Sponsor fees	Investec Bank Limited	300
Legal fees	Edward Nathan Sonnenbergs Inc.	235
Independent expert's report	Ernst & Young Advisory Services Limited	125
Reporting accountants' report	PricewaterhouseCoopers Inc.	40
Printing, publication and distribution expenses	Bastion Graphics (Proprietary) Limited	100
Securities Transfer Tax		1,000
Documentation fee	JSE	20
Other fees		30
Total		**1,850**

12. DIRECTORS' RESPONSIBILITY STATEMENT

The directors, whose names are set out on page 7 of this circular, collectively and individually accept full responsibility for the accuracy of the information given in this circular in relation to Blue Label and certify that, to the best of their knowledge and belief, no material facts have been omitted which would make any statement in this circular false or misleading, that all reasonable enquiries to ascertain such facts have been made and that the circular contains all information required by law and the Listing Requirements.

13. EXCHANGE CONTROL REGULATIONS

As Microsoft is a non-resident of the common monetary area, Microsoft has never been a resident in the common monetary area, Microsoft has a registered address outside the common monetary area and the Microsoft shares are dematerialised shares, the purchase consideration will be credited to its share account/s at the CSDP controlling the Microsoft shares.

14. IRREVOCABLE UNDERTAKINGS

Save in respect of Allan Gray Asset Management which has recommended to its clients to vote in favour of the specific repurchase, irrevocable undertakings to vote in favour of the specific repurchase have been secured from Blue Label shareholders holding 61.9% of the shares, as listed below:

Shareholder	Number of shares	Percentage shareholding
Shotput Investments (Proprietary) Limited	116 736 000	15.2%
Brett Levy – direct and indirect	82 613 331	10.8%
Allan Gray Asset Management*	78 774 149	10.3%
Mark Levy – direct and indirect	75 205 922	9.8%
Guiness Mahon & Co Limited	28 390 183	3.7%
Vocall Cellular (Proprietary) Limited	25 168 800	3.3%
Investec Asset Management	17 646 543	2.3%
Selwyn Diamond – direct	8 747 681	1.1%
Larry Nestadt – indirect	8 204 674	1.1%
Mark Pamensky – indirect	5 565 738	0.7%
Neil Lazarus – direct	4 803 424	0.6%
Sean Kaplan – direct	4 565 738	0.6%
Rubin Pogir Family Trust	4 500 000	0.6%
David Rivkind – indirect	3 700 000	0.5%
Dean Suntup – indirect	3 700 000	0.5%
Lucystat Investments (Proprietary) Limited	2 222 222	0.3%
Gary Harlow – indirect	2 000 000	0.3%
Richmark Holdings (Proprietary) Limited	1 727 363	0.2%
Joe Mthimunye – direct	20 000	0.0%
Total	**474 291 768**	**61.9%**

**In terms of its mandates, Allan Gray Asset Management undertook to recommend to its clients to vote in favour of the resolutions necessary to implement the specific repurchase.*

All Blue Label directors and their associated entities that hold Blue Label shares have signed irrevocable undertakings to vote in favour of the specific repurchase.

15. CONSENTS

The attorneys, independent expert, investment bank, reporting accountants, sponsor and transfer secretaries have consented in writing to act in the capacities stated in this document and to their names being stated in this document, and in the case of the reporting accountants, reference to their report in the form and context in which it appears, and have not withdrawn their consent prior to the publication of this document.

16. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents, or copies thereof, will be available for inspection at the registered office of Blue Label during normal office hours from Thursday, 20 October 2011 to Tuesday, 22 November 2011:

16.1 the memoranda of incorporation of Blue Label and the group;
16.2 audited annual financial statements of Blue Label for each of the years ended 31 May 2008, 31 May 2009, 31 May 2010 and 31 May 2011;
16.3 the signed consent letters of the attorneys, independent expert, investment bank, reporting accountants, sponsor and transfer secretaries;
16.4 a signed copy of this circular;
16.5 the signed independent reporting accountants' assurance report on the unaudited *pro forma* financial effects;
16.6 the signed independent expert's report required in terms of the applicable provisions of section 114 of the Companies Act; and
16.7 a copy of the Share Buy-Back Agreement.

By order of the board

Blue Label Telecoms Limited

E Viljoen

Group company secretary

20 October 2011

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE UNAUDITED *PRO FORMA* FINANCIAL EFFECTS

The Directors
Blue Label Telecoms Limited
75 Grayston Drive, corner Benmore Road
Morningside Extension 5
2196

12 October 2011

Dear Sirs

INDEPENDENT REPORTING ACCOUNTANTS' LIMITED ASSURANCE REPORT ON THE UNAUDITED *PRO FORMA* FINANCIAL INFORMATION OF BLUE LABEL TELECOMS LIMITED ("BLUE LABEL")

Introduction

Blue Label is issuing a circular to its shareholders ("the circular") regarding the specific repurchase by Blue Label of 91,851,852 ordinary shares in the issued share capital of Blue Label from Microsoft Corporation ("Microsoft"), in terms of the Companies Act, 71 of 2008, as amended that is the subject of this circular ("the Specific Repurchase").

At your request and for the purposes of the circular to be dated on or about 20 October 2011, we present our limited assurance report on the unaudited *pro forma* financial information of Blue Label presented in paragraph 9 to the circular.

The unaudited *pro forma* financial information has been prepared in accordance with the JSE Limited ("JSE") Listings Requirements, for illustrative purposes only, to provide information about how the Specific Repurchase might have affected the reported historical financial information presented, had the Specific Repurchase been undertaken at the commencement of the period or date of the unaudited *pro forma* statement of financial position being reported on.

Directors' responsibility

The directors of Blue Label are responsible for the compilation, contents and presentation of the unaudited *pro forma* financial information contained in the circular and for the financial information from which it has been prepared.

Their responsibility includes determining that: the unaudited *pro forma* financial information contained in this circular has been properly compiled on the basis stated; the basis is consistent with the accounting policies of Blue Label; and the *pro forma* adjustments are appropriate for the purposes of the unaudited *pro forma* financial information disclosed in terms of the JSE Listings Requirements.

Reporting accountants' responsibility

Our responsibility is to express our limited assurance conclusion on the unaudited *pro forma* financial information included in the circular. We conducted our limited assurance engagement in accordance with ISAE 3000 (Revised): International Standard on Assurance Engagements applicable to Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and the *Guide on Pro forma Financial Information* issued by the South African Institute of Chartered Accountants. This standard requires us to obtain sufficient appropriate evidence on which to base our limited assurance conclusion.

We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited *pro forma* financial information, beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Sources of information and work performed

Our procedures consisted primarily of comparing the unadjusted audited historical financial information of Blue Label with the source documents, considering the *pro forma* adjustments in light of the accounting policies of Blue Label, considering the evidence supporting the unaudited *pro forma* adjustments and discussing the adjusted unaudited *pro forma* financial information with the directors of Blue Label in respect of the Specific Repurchase that is the subject of the circular.

In arriving at our limited assurance conclusion, we have relied upon financial information prepared by the directors of Blue Label and other information from various public, financial and industry sources.

While our work performed involved an analysis of the historical financial information and other information provided to us, our limited assurance engagement does not constitute either an audit or review of any of the underlying financial information concluded in accordance with the International Standards on Auditing or the International Standards on Review Engagements and, accordingly, we do not express an audit or review opinion.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement and therefore less assurance is obtained than in a reasonable assurance engagement. We believe our evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our examination of the evidence obtained, nothing has come to our attention that causes us to believe that:

- the unaudited *pro forma* financial information has not been properly compiled on the basis stated;
- such basis is inconsistent with the accounting policies of Blue Label; and
- the adjustments are not appropriate for the purposes of the unaudited *pro forma* financial information as disclosed pursuant to sections 8.17 and 8.30 of the JSE Listings Requirements.

Yours faithfully

PricewaterhouseCoopers Inc.
Per Eben Gerryts
Director
2 Eglin Road
Sunninghill
2157

INDEPENDENT EXPERT'S REPORT REQUIRED IN TERMS OF THE APPLICABLE PROVISIONS OF SECTION 114 OF THE COMPANIES ACT

The definitions and interpretations commencing on page 5 of this circular apply *mutatis mutandis* throughout this report.

The Directors
Blue Label Telecoms Limited
75 Grayston Drive, corner Benmore Road
Morningside Extension 5
2196
South Africa
(PO Box 652261, Benmore, 2010)

12 October 2011

Dear Sirs

Independent expert's report in terms of Section 114 of the Companies Act in respect of the specific repurchase by Blue Label of 91,851,852 ordinary shares in its issued share capital from Microsoft

Introduction

On the listing of Blue Label in 2007, Microsoft subscribed for shares at a price of R6.75 per share. On 6 October 2011, Blue Label announced on SENS that it had entered into an agreement with Microsoft in terms of which Blue Label will acquire the Microsoft shares from Microsoft, subject to the terms and conditions of the Share Buy-Back Agreement, at the repurchase price.

It is intended that the specific repurchase will be funded out of existing cash resources of Blue Label.

Scope

The purpose of our engagement was to perform the role of an Independent Expert ("IE") as envisaged by the applicable provisions of section 114 of the Companies Act in relation to the specific repurchase of the Microsoft shares. Our work did not entail an independent valuation of Blue Label, nor did it entail expressing any opinion on the fairness, reasonableness, or otherwise of the specific repurchase. We have compiled a report to the board (and for inclusion in this circular) detailing certain information, as contemplated by the applicable provisions of section 114(3) of the Companies Act.

Information utilised

In the course of our analysis, we relied upon financial and other information obtained from Blue Label management, together with information available in the public domain. Our findings are dependent on such information being complete and accurate in all material respects.

The principal sources of information used in performing our scope of work include:

- This circular and the reporting accountants' report in Annexure I;
- Draft annual report for the year ended 31 May 2011;
- McGregor BFA;
- Articles and Memorandum of Association of Blue Label;
- Share Buy-Back Agreement;
- Various analysts' reports; and
- Discussions with management of Blue Label.

Where practical, we have corroborated the reasonableness of the information provided to us for the purpose of our findings, whether in writing or obtained through discussions with the management of Blue Label.

Requirements of section 114 of the Companies Act and results of IE work performed:

As per section 114 (3): The person retained in terms of subsection (2) of the Companies Act must prepare a report to the board, and cause it to be distributed to all holders of the company's securities, concerning the proposed arrangement, which must, at a minimum:

(a) state all prescribed information relevant to the value of the securities affected by the proposed arrangement;

(b) identify every type and class of holders of the company's securities affected by the proposed arrangement;

(c) describe the material effects that the proposed arrangement will have on the rights and interests of the persons mentioned in paragraph (b);

(d) evaluate any material adverse effects of the proposed arrangement against –

(i) the compensation that any of those persons will receive in terms of that arrangement; and

(ii) any reasonably probable beneficial and significant effect of that arrangement on the business and prospects of the company;

(e) state any material interest of any director of the company or trustee for security holders; [Para. (e) substituted by s. 70 (c) of Act No. 3 of 2011.]

(f) state the effect of the proposed arrangement on the interest and person contemplated in paragraph (e); and

(g) include a copy of sections 115 and 164.

Findings:

(a) state all prescribed information relevant to the value of the securities affected by the proposed arrangement;

Trading price:

- The specific repurchase will take place at R4.25 per share.
- Refer to paragraph 3 of this circular regarding the repurchase price discount to the 30, 60 and 90 day VWAP as well as the spot price of Blue Label shares.
- The repurchase price compares favourably with the VWAPs and the spot price.
- The annualised share liquidity of Blue Label is shown in the table below:

Period	Volume traded	Total shares	Annualised liquidity
Past 30 days	21,838,262	766,360,894	34.7%
Past 60 days	45,928,293	766,360,894	36.5%
Past 90 days	59,679,992	766,360,894	31.6%
Past 6 months	152,120,608	766,360,894	39.7%
Past year	342,655,122	766,360,894	44.7%

Sourse: McGregor BFA & EY workings.

The shares show a reasonable level of liquidity. Blue Label's free float pre-specific repurchase amounts to approximately 42%.

Broker recommendations:

The views from analysts' reports indicate a hold or buy recommendation. The 12-month target prices are above the current spot share price at respective analyst report dates:

	Analyst A	**Analyst B**	**Analyst C**	**Analyst D**	**Analyst E**
Date of report	24-Aug-11	19-May-11	25-Aug-11	25-Aug-11	24-Aug-11
Price per share (R)	4.90	5.97	4.85	4.93	4.90
12-mth price target (R)	6.50	6.50	7.16	6.80	5.60
Recommendation	Outperform, trading at a discount	Hold recommendation	Reaffirming buy recommendation	Remains bullish, buy recommendation	Neutral

Source: Analyst report

(b) identify every type and class of holders of the company's securities affected by the proposed arrangement;

Particulars of ordinary shares:

In terms of the Memorandum of Association of Blue Label, the share capital of the Company consists of R1,000, divided into:

- 1,0 billion ordinary par value shares of R0.000001 each;
- Nil preference par value shares of Nil rand each; and
- Nil redeemable preference par value shares of Nil rand each.

There are approximately 10.1 million treasury shares held by Blue Label.

At the date of the Share Buy-Back Agreement entered into between Blue Label and Microsoft, Blue Label had an issued share capital of R766.00 divided into 766,360,894 shares of R0.000001 each.

The major beneficial shareholders of Blue Label are shown in paragraph 5 of this circular.

Due to the fact that Blue Label only has ordinary par value shares issued, the specific repurchase will only have an effect on the voting power of holders of ordinary par value shares as illustrated in part (c).

Forfeitable share plan:

Forfeitable shares awarded to directors are shown on page 29 of this circular.

(c) describe the material effects that the proposed arrangement will have on the rights and interests of the persons mentioned in paragraph (b);

The specific repurchase will not vary the rights of Blue Label shareholders, apart from a change in the number of voting rights as set out below.

Article 11 of the Memorandum of Association of Blue Label deals with votes of members. The relevant section of Article 11 is set out below:

"11. Votes of Members

11.1 Subject to any rights of restrictions attaching to any class or classes of share and to the provisions of Article 6.2, on show of hands a member of the company present in person or by proxy shall have only 1 (one) vote irrespective of the number of shares he holds or represents, provided that a proxy shall irrespective of the number of members he represents have only 1 (one) vote. On a poll a member who is present in person or represented by proxy shall . . . . if the share capital is divided into shares of no par value, shall be entitled to 1 (one) vote in respect of each share he holds."

After the specific repurchase, the voting power of each Blue Label shareholder will be as per Article 11 of the Memorandum of Association.

In view of the Memorandum of Association, the specific repurchase will have no material effect on the rights and interests of the shareholders.

The specific repurchase would not have an impact on the forfeitable share plan.

Financial effects of the transaction:

Please refer to paragraph 9, Financial Effects, of this circular. We note that Blue Label's financial position after the financial effects of the specific repurchase compare favourably to pre-transaction.

Other material impacts:

Subsequent to the specific repurchase the revised shareholdings are likely to be as follows:

Shareholder	No. of shares held after repurchase	% of shares in issue	% change
Shotput Investments (Proprietary) Limited	116,736,000	17.3%	13.6%
Microsoft	—	—%	(100.0%)
BM Levy	82,613,331	12.2%	13.6%
MS Levy	75,205,922	11.1%	13.6%
Allan Gray Asset Management	78,774,149	11.7%	13.6%
FIL Investments International	50,423,644	7.5%	13.6%
Total material shareholders	403,753,046	59.9%	(7.4%)
Other	270,755,996	40.1%	13.6%
Total shares in issue	**674,509,042**	**100.0%**	**—%**

Source: Draft circular (paragraph 5) & EY workings

We understand that all directors and their associated entities have voted in favour of the specific repurchase and that irrevocable undertakings have been obtained in this regard.

The free float would increase from 42% to 48% post the specific repurchase.

We are not aware of any other impacts on rights and interests of Blue Label shareholders (other than the amended shareholding structure noted above).

(d) evaluate any material adverse effects of the proposed arrangement against –

(i) the compensation that any of those persons will receive in terms of that arrangement; and

The Microsoft shares will be acquired at a price of R4.25 per share. This is a 15.4% discount to the 90 day VWAP to 05 October 2011.

Cash and cash equivalents per the draft 31 May 2011 Annual Report was approximately R2.2 bn. Considering the cash balance and the net working capital at the 2010 and 2011 financial year ends, it appears that Blue Label will have sufficient cash to fund any working capital requirements post the specific repurchase.

In addition, the directors of Blue Label have asserted through paragraph 4.1.5 of this circular that working capital will be adequate for ordinary business purposes for a period of 12 months after the date of approval of the circular, while paragraph 4.2.2 provides the directors' assurance in terms of the solvency and liquidity test.

(ii) any reasonably probable beneficial and significant effect of that arrangement on the business and prospects of the company;

Blue Label will acquire the Microsoft shares. It is understood that Blue Label is unlikely to be affected adversely as a result of Microsoft no longer being a shareholder of Blue Label.

(e) state any material interest of any director of the company or trustee for security holders; [Para. (e) substituted by s. 70 (c) of Act No. 3 of 2011.]

We refer to paragraph 7.2 of the circular regarding the directors' interests in Blue Label shares.

(f) state the effect of the proposed arrangement on the interest and person contemplated in paragraph (e);

The directors' shareholdings will increase by 13.6% (from 23.80% to 27.04%) as a result of the specific repurchase:

Director	No. of shares held before repurchase	%	No. of shares held after repurchase	%	% change
BM Levy – direct and indirect	82,613,331	10.78%	82,613,331	12.25%	13.62%
MS Levy – direct and indirect	75,205,922	9.81%	75,205,922	11.15%	13.62%
LM Nestadt – indirect	8,204,674	1.07%	8,204,674	1.22%	13.62%
MV Pamensky – indirect	5,565,738	0.73%	5,565,738	0.83%	13.62%
NN Lazarus – direct	4,803,424	0.63%	4,803,424	0.71%	13.62%
DB Rivkind – indirect	3,700,000	0.48%	3,700,000	0.55%	13.62%
GD Harlow – indirect	2,000,000	0.26%	2,000,000	0.30%	13.62%
KM Ellerine – indirect	296,297	0.04%	296,297	0.04%	13.62%
JS Mthimunye – direct	20,000	0.00%	20,000	0.00%	13.62%
Total shares held by directors	182,409,386	23.80%	182,409,386	27.04%	13.62%
Total shares in issue	766,360,894	100.00%	674,509,042	100.00%	n/a

Source: Draft circular (paragraphs 7.2, 14) & EY workings.

(g) include a copy of sections 115 and 164.

Section 115: Required approval for transactions contemplated in Part (Part A: Approval for certain fundamental transactions of Chapter 5: Fundamental Transactions, Takeovers and Offers)

1) Despite section 65, and any provision of a company's Memorandum of Incorporation, or any resolution adopted by its board or holders of its securities, to the contrary, a company may not dispose of, or give effect to an agreement or series of agreements to dispose of, all or the greater part of its assets or undertaking, implement an amalgamation or a merger, or implement a scheme of arrangement, unless –

   a) the disposal, amalgamation or merger, or scheme of arrangement –

      i) has been approved in terms of this section; or

      ii) is pursuant to or contemplated in an approved business rescue plan for that company, in terms of Chapter 6; and

   b) to the extent that Parts B and C of this Chapter and the Takeover Regulations apply to a company that proposes to –

      i) dispose of all or the greater part of its assets or undertaking;

      ii) amalgamate or merge with another company; or

      iii) implement a scheme of arrangement, the Panel has issued a compliance certificate in respect of the transaction, in terms of section 119(4)(b), or exempted the transaction in terms of section 119(6).

2) A proposed transaction contemplated in subsection (1) must be approved –

   a) by a special resolution adopted by persons entitled to exercise voting rights on such a matter, at a meeting called for that purpose and at which sufficient persons are present to exercise, in aggregate, at least 25% of all of the voting rights that are entitled to be exercised on that matter, or any higher percentage as may be required by the company's Memorandum of Incorporation, as contemplated in section 64(2);

   b) by a special resolution, also adopted in the manner required by paragraph (a), by the shareholders of the company's holding company if any, if –

      i) the holding company is a company or an external company;

      ii) the proposed transaction concerns a disposal of all or the greater part of the assets or undertaking of the subsidiary; and

      iii) having regard to the consolidated financial statements of the holding company, the disposal by the subsidiary constitutes a disposal of all or the greater part of the assets or undertaking of the holding company; and

c) by the court, to the extent required in the circumstances and manner contemplated in subsections (3) to (6).

3) Despite a resolution having been adopted as contemplated in subsections (2)(a) and (b), a company may not proceed to implement that resolution without the approval of a court if –

a) the resolution was opposed by at least 15% of the voting rights that were exercised on that resolution and, within five business days after the vote, any person who voted against the resolution requires the company to seek court approval; or

b) the court, on an application within 10 business days after the vote by any person who voted against the resolution, grants that person leave, in terms of subsection (6), to apply to a court for a review of the transaction in accordance with subsection (7).

4) For the purposes of subsections (2) and (3), any voting rights controlled by an acquiring party, a person related to an acquiring party, or a person acting in concert with either of them, must not be included in calculating the percentage of voting rights –

a) required to be present, or actually present, in determining whether the applicable quorum requirements are satisfied; or

b) required to be voted in support of a resolution, or actually voted in support of the resolution.

4A) In subsection (4), 'act in concert' has the meaning set out in section 117(1)(b).

5) If a resolution requires approval by a court as contemplated in terms of subsection (3)(a), the company must either –

a) within 10 business days after the vote, apply to the court for approval, and bear the costs of that application; or

b) treat the resolution as a nullity.

6) On an application contemplated in subsection (3)(b), the court may grant leave only if it is satisfied that the applicant –

a) is acting in good faith;

b) appears prepared and able to sustain the proceedings; and

c) has alleged facts which, if proved, would support an order in terms of subsection (7).

7) On reviewing a resolution that is the subject of an application in terms of subsection (5)(a), or after granting leave in terms of subsection (6), the court may set aside the resolution only if –

a) the resolution is manifestly unfair to any class of holders of the company's securities; or

b) the vote was materially tainted by conflict of interest, inadequate disclosure, failure to comply with the Act, the Memorandum of Incorporation or any applicable rules of the company, or other significant and material procedural irregularity.

8) The holder of any voting rights in a company is entitled to seek relief in terms of section 164 if that person –

a) notified the company in advance of the intention to oppose a special resolution contemplated in this section; and

b) was present at the meeting and voted against that special resolution.

9) If a transaction contemplated in this Part has been approved, any person to whom assets are, or an undertaking is, to be transferred, may apply to a court for an order to effect –

a) the transfer of the whole or any part of the undertaking, assets and liabilities of a company contemplated in that transaction;

b) the allotment and appropriation of any shares or similar interests to be allotted or appropriated as a consequence of the transaction;

c) the transfer of shares from one person to another;

d) the dissolution, without winding-up, of a company, as contemplated in the transaction;

e) incidental, consequential and supplemental matters that are necessary for the effectiveness and completion of the transaction; or

f) any other relief that may be necessary or appropriate to give effect to, and properly implement, the amalgamation or merger.

Section 164: Dissenting shareholders appraisal rights

1) This section does not apply in any circumstances relating to a transaction, agreement or offer pursuant to a business rescue plan that was approved by shareholders of a company, in terms of section 152.

2) If a company has given notice to shareholders of a meeting to consider adopting a resolution to –

   a) amend its Memorandum of Incorporation by altering the preferences, rights, limitations or other terms of any class of its shares in any manner materially adverse to the rights or interests of holders of that class of shares, as contemplated in section 37(8); or

   b) enter into a transaction contemplated in section 112, 113, or 114,

   that notice must include a statement informing shareholders of their rights under this section.

3) At any time before a resolution referred to in subsection (2) is to be voted on, a dissenting shareholder may give the company a written notice objecting to the resolution.

4) Within 10 business days after a company has adopted a resolution contemplated in this section, the company must send a notice that the resolution has been adopted to each shareholder who –

   a) gave the company a written notice of objection in terms of subsection (3); and

   b) has neither –

      i) withdrawn that notice; or

      ii) voted in support of the resolution.

5) A shareholder may demand that the company pay the shareholder the fair value for all of the shares of the company held by that person if –

   a) the shareholder –

      i) sent the company a notice of objection, subject to subsection (6); and (ii) in the case of an amendment to the company's Memorandum of Incorporation, holds shares of a class that is materially and adversely affected by the amendment;

      ii) the company has adopted the resolution contemplated in subsection (2); and

   b) the shareholder –

      i) voted against that resolution; and

      ii) has complied with all of the procedural requirements of this section.

6) The requirement of subsection (5)(a)(i) does not apply if the company failed to give notice of the meeting, or failed to include in that notice a statement of the shareholders rights under this section.

7) A shareholder who satisfies the requirements of subsection (5) may make a demand contemplated in that subsection by delivering a written notice to the company within –

   a) 20 business days after receiving a notice under subsection (4); or

   b) if the shareholder does not receive a notice under subsection (4), within 20 business days after learning that the resolution has been adopted.

8) A demand delivered in terms of subsections (5) to (7) must also be delivered to the Panel, and must state –

   a) the shareholder's name and address;

   b) the number and class of shares in respect of which the shareholder seeks payment; and

c) a demand for payment of the fair value of those shares.

9) A shareholder who has sent a demand in terms of subsections (5) to (8) has no further rights in respect of those shares, other than to be paid their fair value, unless –

a) the shareholder withdraws that demand before the company makes an offer under subsection (11), or allows an offer made by the company to lapse, as contemplated in subsection (12)(b);

b) the company fails to make an offer in accordance with subsection (11) and the shareholder withdraws the demand; or

c) the company, by a subsequent special resolution, revokes the adopted resolution that gave rise to the shareholder's rights under this section.

10) If any of the events contemplated in subsection (9) occur, all of the shareholder's rights in respect of the shares are reinstated without interruption.

11) Within five business days after the later of –

a) the day on which the action approved by the resolution is effective;

b) the last day for the receipt of demands in terms of subsection (7)(a); or

c) the day the company received a demand as contemplated in subsection (7)(b), if applicable, the company must send to each shareholder who has sent such a demand a written offer to pay an amount considered by the company's directors to be the fair value of the relevant shares, subject to subsection (16), accompanied by a statement showing how that value was determined.

12) Every offer made under subsection (11) –

a) in respect of shares of the same class or series must be on the same terms; and

b) lapses if it has not been accepted within 30 business days after it was made.

13) If a shareholder accepts an offer made under subsection (12) –

a) the shareholder must either in the case of –

i) shares evidenced by certificates, tender the relevant share certificates to the company or the company's transfer agent; or

ii) uncertificated shares, take the steps required in terms of section 53 to direct the transfer of those shares to the company or the company's transfer agent; and

b) the company must pay that shareholder the agreed amount within 10 business days after the shareholder accepted the offer and –

i) tendered the share certificates; or

il) directed the transfer to the company of uncertificated shares.

14) A shareholder who has made a demand in terms of subsections (5) to (8) may apply to a court to determine a fair value in respect of the shares that were the subject of that demand, and an order requiring the company to pay the shareholder the fair value so determined, if the company has –

a) failed to make an offer under subsection (11); or

b) made an offer that the shareholder considers to be inadequate, and that offer has not lapsed.

15) On an application to the court under subsection (14) –

a) all dissenting shareholders who have not accepted an offer from the company as at the date of the application must be joined as parties and are bound by the decision of the court;

b) the company must notify each affected dissenting shareholder of the date, place and consequences of the application and of their right to participate in the court proceedings; and

c) the court –

i) may determine whether any other person is a dissenting shareholder who should be joined as a party;

ii) must determine a fair value in respect of the shares of all dissenting shareholders, subject to subsection (16);

iii) in its discretion may –

aa) appoint one or more appraisers to assist it in determining the fair value in respect of the shares; or bb) allow a reasonable rate of interest on the amount payable to each dissenting shareholder from the date the action approved by the resolution is effective, until the date of payment;

iv) may make an appropriate order of costs, having regard to any offer made by the company, and the final determination of the fair value by the court; and

v) must make an order requiring –

aa) the dissenting shareholders to either withdraw their respective demands, or to comply with subsection (13)(a); and

bb) the company to pay the fair value in respect of their shares to each dissenting shareholder who complies with subsection (13)(a), subject to any conditions the court considers necessary to ensure that the company fulfils its obligations under this section.

15A) At any time before the court has made an order contemplated in subsection (15)(c)(v), a dissenting shareholder may accept the offer made by the company in terms of subsection (11), in which case –

a) that shareholder must comply with the requirements of subsection 13(a); and

b) the company must comply with the requirements of subsection 13(b);

16) The fair value in respect of any shares must be determined as at the date on which, and time immediately before, the company adopted the resolution that gave rise to a shareholder's rights under this section.

17) If there are reasonable grounds to believe that compliance by a company with subsection (13)(b), or with a court order in terms of subsection (15)(c)(v)(bb), would result in the company being unable to pays its debts as they fall due and payable for the ensuing 12 months –

a) the company may apply to a court for an order varying the company's obligations in terms of the relevant subsection; and

b) the court may make an order that –

i) is just and equitable, having regard to the financial circumstances of the company; and

ii) ensures that the person to whom the company owes money in terms of this section is paid at the earliest possible date compatible with the company satisfying its other financial obligations as they fall due and payable.

18) If the resolution that gave rise to a shareholder's rights under this section authorised the company to amalgamate or merge with one or more other companies, such that the company whose shares are the subject of a demand in terms of this section has ceased to exist, the obligations of that company under this section are obligations of the successor to that company resulting from the amalgamation or merger.

19) For greater certainty, the making of a demand, tendering of shares and payment by a company to a shareholder in terms of this section do not constitute a distribution by the company, or an acquisition of its shares by the company within the meaning of section 48, and therefore are not subject to –

a) the provisions of that section; or

b) the application by the company of the solvency and liquidity test set out in section 4.

20) Except to the extent –

a) expressly provided in this section; or

b) that the Panel rules otherwise in a particular case,

a payment by a company to a shareholder in terms of this section does not obligate any person to make a comparable offer under section 125 to any other person.

Limiting conditions

We have relied upon the accuracy of the information used by us in deriving our findings albeit that, where practicable, we have corroborated the reasonableness of such information through, amongst other things, reference to work performed by independent third party/ies, historic precedent or our own knowledge and understanding. While our work has involved an analysis of the annual financial statements and other information provided to us, our engagement does not constitute, nor does it include, an audit conducted in accordance with generally accepted auditing standards. Accordingly, we assume no responsibility and make no representations with respect to the accuracy of any information provided to us in respect of Blue Label.

The above findings are necessarily based upon the information available to us, the financial, regulatory, securities market and other conditions and circumstances existing and disclosed to us as at the date hereof. We have assumed that all conditions precedent in the transaction agreements, including any material regulatory and other approvals, will be properly fulfilled/obtained. Subsequent developments may affect our findings, however, we are under no obligation to update, revise or re-affirm such.

Independence and consent to publication

We have been retained by the board as an independent advisor to the board and the Blue Label shareholders in connection with the specific repurchase and we will receive a fixed fee for the services provided in connection herewith, which fee is payable upon delivery of this opinion. We confirm that, other than the aforementioned, we have no interest, direct or indirect, beneficial or non-beneficial, in Blue Label or in the success or failure of the specific repurchase which forms the subject matter hereof.

We hereby consent to this letter and the references thereto being made public to Blue Label shareholders in the form and context in which they are to be published in this circular to Blue Label shareholders on or about 20 October 2011. We confirm that we have given and have not withdrawn our consent prior to the issue of this circular to Blue Label shareholders.

Sincerely,

Anil Khimjee
Director
Ernst & Young Advisory Services Limited
Wanderers Office Park
52 Corlett Drive, Illovo
Private Bag X14
Northlands 2116

(A) BLUE LABEL REMUNERATION POLICY
(B) ABBREVIATED CURRICULUM VITAE OF DIRECTORS RETIRING BY ROTATION AND OFFERING THEMSELVES FOR RE-ELECTION
(C) ABBREVIATED CURRICULUM VITAE OF THE PROPOSED MEMBERS OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE OF BLUE LABEL
(D) FULL PARTICULARS OF ALL REMUNERATION PAID TO DIRECTORS FOR THEIR SERVICES AS DIRECTORS AS WELL AS REMUNERATION PAID FOR CONSULTING SERVICES

(A) BLUE LABEL REMUNERATION POLICY

Remuneration and Nomination Committee

The Remuneration and Nomination Committee of the Company has been delegated by the board with responsibility for determining the remuneration of the executive directors and senior managers, as well as for approving the allocation of shares under the Company's forfeitable share plan. The Remuneration Committee also acts as the Nomination Committee.

The committee also makes recommendations in respect of the fee structure for non-executive directors and the fees for members of the board committees, for approval by the shareholders once approved by the board.

The committee consists of three non-executive directors, being NN Lazarus SC (chairperson), GD Harlow and KM Ellerine. The Joint Chief Executive Officers and the Financial Director attend certain meetings of the committee by invitation but do not vote on committee decisions.

Whilst the majority of the committee members are categorised as not independent, the board is satisfied that it is made up of the board members most suitably qualified to perform the role and that the committee members act impartially and fairly in that role.

The chairperson reports to the board on the committee's deliberations and decisions.

Philosophy

The committee aims to achieve a balance between shareholders' interests and attractive and appropriate executive and senior management remuneration packages. The remuneration policy is formulated to attract, retain and motivate top-quality people in the best interests of the group. Remuneration arrangements are designed to support Blue Label's business strategy, vision and to conform to best practices. Total rewards are set at levels that are competitive in the context of the relevant areas of responsibility and the industry in which the group operates. Total incentive-based rewards are earned through the attainment of demanding targets consistent with shareholder growth expectations.

Policy

The remuneration of executive directors and senior management is determined on a total cost-to-company basis and has three components:

– Fixed remuneration: fixed monthly salary and benefits;
– Variable remuneration: a short-term performance-related bonus scheme; and
– Forfeitable Share Plan: a long-term performance-related incentive scheme.

Fixed remuneration is reviewed annually to ensure that the executives and senior management who contribute to the success of the group remain remunerated at appropriate levels in accordance with the remuneration philosophy. The variable pay element provided by the short-term bonus scheme is intended to enhance total pay opportunities, should that be merited by corporate and individual performance. Long-term incentives, in the form of forfeitable shares awarded under the share plan, are based on a percentage of total annualised salary packages and are intended to reward sustained long-term performance and to align the interests of the executive and senior management with those of shareholders.

The purpose of the annual performance-related bonus scheme is to reward and motivate the achievement of group and subsidiary financial targets, as well as to motivate strategic and personal performance. The Joint Chief Executive Officers may earn an annual incentive bonus of up to 120% of fixed remuneration and other executive directors up to 70%. Senior management may earn up to 50% of their annualised salary package.

Advisors

In the course of its deliberations, the committee considered the view of the Joint Chief Executive Officers on the remuneration and performance of the other executive directors and members of senior management.

Independent advice on market information and remuneration trends is provided to the committee by external remuneration consultants from time to time. Blue Label's human resources department also assists the committee by providing supporting information and documentation relating to matters presented to the committee. The Company bears all the expenses relating to the appointment of external remuneration consultants and other appropriate independent professional advisors.

Fixed Remuneration

Blue Label applies discretion in all remuneration reviews and there is no minimum across-the-board increase to all employees.

The inflation rate considered for salary increases was 4.2% based on CPI data for April 2011. Salary increases for the forthcoming financial year ranged from 0% to 4.2% in bands of 0%, 2% and 4.2%. Management of each operating company was given the discretion to apply the appropriate increase to each staff member falling under their control within the stipulated range.

The salaries of executive management for the forthcoming year will remain at current levels in accordance with the election by executive management not to take up an increase. Executive management made the election in support of the cost cutting initiatives implemented by the group.

Details of the directors' emoluments for the year ended 31 May 2011 appear on page 31 of this circular. The King Report on Corporate Governance for South Africa 2009 ("King III") recommends that the salaries of the top three executives, excluding executive directors, should be disclosed. After due consideration of the provisions of King III, the Company decided not to disclose the remuneration of these individuals due to their specialised skills, value to Blue Label and the competitive nature of these positions in the market. It was also concluded that the disclosure in the Annual Report in respect of Prescribed Officers is adequate.

Incentive Bonus Plan

The executive directors and senior management participate in an annual incentive bonus plan, which is based on the achievement of short-term performance targets. These targets comprise financial and non-financial components. The financial performance component is based on growth in profits, as measured by headline earnings per share. The non-financial elements include the achievement of agreed transformation targets, progress in the Company's growth strategy in the countries in which it operates, the rollout of the group's transactional footprint and the level of progress made in respect of organisational development issues and succession planning. Each of these elements carried an appropriate weighting.

For the year ended 31 May 2010, the Joint Chief Executive Officers and the Chief Operating Officer elected not to take up their bonus allocations as they were not satisfied with the group's financial performance. In respect of the year ended 31 May 2011, they again elected not to take up their bonus allocations. They are to be commended for leading by example.

The aggregate sum of the bonuses allocated to senior members of staff and executives amounted to R9 million.

Forfeitable Share Plan

Forfeitable shares awarded in September 2010 will vest over a period of three years commencing on 1 September 2010 and ending on 1 September 2013. The element of performance criteria will be based on group results and individual performance for the years ended 31 May 2011 to 31 May 2013.

The criteria for vesting comprises 25% retention, 25% non-financial indicators and group performance makes up 50% determined with reference to growth in CPI plus 15% over the three-year vesting period.

The forfeitable shares that were granted to executive directors during the year are as follows:

	Balance 1 June 2010	**Issue date**	**Forfeitable shares awarded**	**Vesting date**	**Balance 31 May 2011**
BM Levy	343,060	1 September 2010	450,486	1 September 2013	793,546
MS Levy	343,060	1 September 2010	450,486	1 September 2013	793,546
MV Pamensky	250,148	1 September 2010	379,787	1 September 2013	629,935
DB Rivkind	149,572	1 September 2010	196,409	1 September 2013	345,981

Executive Service Contracts

The three-year service contracts of the executive directors were renewed in November 2010 for a further three year period. These contracts include a restraint of trade provision applicable for a period of 12 months from the day that the executive leaves the employ of the Company of his own accord. The restraint of trade is not enforceable in the event of the employment contract not being renewed by the Company or if the executive's employment is terminated by the Company.

Non-Executive Remuneration

Non-executive directors receive fees for services on the board and board committees, dependent on attendance. Non-executive directors do not receive short-term incentives nor do they participate in the forfeitable share plan of the Company. The fees payable to the Chairman and non-executive directors are recommended by the Remuneration and Nomination Committee to the board, which in turn proposes the fees for approval by the shareholders at the Company's annual general meeting.

Non-executive directors may be contracted to render services to the group in addition to the aforegoing services from time to time. The remuneration for such additional services is considered by executive management and approved by the Chairman of the board on a monthly basis and is thereafter submitted to the board for its approval. Details of the fees paid to each of the non-executive directors during the period under review are reflected on page 31 of this circular.

The group intends to continue to use the services of GD Harlow and NN Lazarus SC during the forthcoming 2012 financial year for the provision of legal, corporate, financial and strategic advice, and they shall continue to render those services for market-related fees. The fees shall continue to be considered by executive management and approved by the chairman of the board on a monthly basis, who will, in turn, submit the fees to the board from time to time for approval.

The board resolved at its meeting held on 6 July 2011 that non-executive directors' remuneration not be increased for the 2012 financial year, in support of and in solidarity with the cost cutting initiatives implemented by the group. The proposed fees payable to non-executive directors are set out in the notice of Annual General Meeting attached to this circular.

No increase has been applied to the fees listed on page 34 of this circular and such fees are those fees approved by shareholders for the previous period 1 June 2010 to 31 May 2011.

(B) ABBREVIATED CURRICULUM VITAE OF DIRECTORS RETIRING BY ROTATION AND OFFERING THEMSELVES FOR RE-ELECTION

Mark Pamensky
Chief Operating Officer
(Born: 1972)
– BCom (Wits), BCompt (Hons) (UNISA), CA(SA)

Mark completed his articles with PricewaterhouseCoopers Inc. before moving to the corporate finance department of Mercantile Bank. In 1999 he joined the boutique corporate advisory firm, Nucleus Corporate Finance, before joining Blue Label in 2001. Mark has played an integral role in the strategic and operational management of the group and much of its expanding telecommunications footprint can be attributed to his leadership. Mark is a member of the South African Institute of Chartered Accountants (SAICA) and the Young Presidents Organisation (YPO).

Board Committee membership:
Executive Committee: Member
Investment Committee: Member

David Rivkind
Financial Director
(Born: 1972)
– BAcc (UNISA), CA(SA)

David completed articles at Papilsky Hurwitz and in 1999 joined Merrill Lynch International (UK) as financial controller. David was employed by Credit Suisse for a brief period before returning to South Africa in 2002 to take up the role of financial director at Integr8IT (Proprietary) Limited. Previously as Chief Financial Officer and now Finance Director for Blue Label he contributes significantly to the governance and reporting systems supporting the group's growth. David is a member of SAICA.

Board Committee membership:
Investment Committee: Member
Executive Committee: Member
Audit, Risk and Compliance Committee: Attendee
Transformation Committee: Alternate member to Brett Levy

(C) ABBREVIATED CURRICULAM VITAE OF THE PROPOSED MEMBERS OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE OF BLUE LABEL

Gary Harlow
Independent Non-Executive Director
(Born: 1957)
– BBusSci (Hons) (UCT), FCMA, CA(SA)

Gary graduated from the University of Cape Town in 1979, later qualifying as a Chartered Accountant (SA) in 1982, an Associate of the Chartered Institute of Management Accountants (UK) in 1983 and as a Fellow Chartered Management Accountant (UK) in 1996. He forged his early career in merchant banking and was also an advisor to the finance department of the African National Congress in the early 1990's regarding developing a BEE policy. In 1992, he played an instrumental role in the creation of Thebe Investment Corporation and also served as Joint Chief Executive Officer of Msele Corporate and Merchant Bank, South Africa's first black-controlled merchant bank.

Gary was appointed group Chief Executive Officer of Unihold Limited in 1996, where he led its transformation from an engineering conglomerate to an international IT and telecommunications group, prior to its delisting through a management buy-out. He remains Executive Chairman today. Gary has served on numerous private and public company boards. He is presently an independent Non-Executive Director of Mvelaserve Limited, Chairman of their Audit and Risk Committee and member of their Remuneration, Investment and Transformation Committees.

Board Committee membership:
Investment Committee: Chairman
Transformation Committee: Chairman
Audit, Risk and Compliance Committee: Member
Remuneration and Nomination Committee: Member

Joe Mthimunye
Independent Non-Executive Director
(Born: 1965)
– BCompt Hons/CTA (UNISA), CA(SA)

Joe Mthimunye qualified as a Chartered Accountant in 1993. In 1996, he co-founded Gobodo Incorporated, an accounting practice with eight other partners which in time became the biggest black accounting firm in South Africa. In 1999, he led a management buyout of Gobodo Corporate Finance from the accounting firm and rebranded it as aloeCap (Proprietary) Limited. He is currently Executive Chairman of aloeCap. He also serves on the board of directors of Invicta Limited and all the non-listed companies in which aloeCap Private Equity is invested.

Board Committee membership:
Audit, Risk and Compliance Committee: Chairman
Investment Committee: Member

Neil Lazarus SC
Non-Executive Director
(Born: 1958)
– BA LLB (Wits)

Neil graduated from the University of the Witwatersrand in 1981 with a BA LLB degree. After completing articles, he was admitted as an attorney in 1983. He was admitted as an advocate in 1984 and practised at the Johannesburg bar. He was appointed as Senior Counsel by President Mandela in 1998. He also served as an acting judge. As an advocate, Neil specialises in corporate restructures, mergers and acquisitions and has been involved in some major corporate reorganisations both locally and internationally. Upon leaving the profession in 2000 he became a director of Corpcapital Limited, establishing its corporate finance business. Neil discharges both corporate finance and legal mandates for a number of local and international companies.

Board Committee membership:
Remuneration and Nomination Committee: Chairman
Audit, Risk and Compliance Committee: Member
Investment Committee: Member

(D) FULL PARTICULARS OF ALL REMUNERATION PAID TO DIRECTORS FOR THEIR SERVICES AS DIRECTORS AS WELL AS REMUNERATION PAID FOR CONSULTING SERVICES

Directors emoluments

R'000	Services as directors of Blue Label Telecoms Limited	Salary and allowances	Bonuses and performance related payments	Other benefits	Sub total	Services as directors of subsidiaries of Blue Label Telecoms Limited	Salary and allowances from subsidiaries	Bonuses and performance related payments from subsidiaries	Retirement and related benefits from subsidiaries	Corporate finance and legal fees for services rendered to Blue Label Telecoms Limited	Total	Fair value of forfeitable shares
For the year ended 31 May 2011												
Executive directors												
Levy, BM		5 958	—	91	6 049	—	—	—	—	—	6 049	4 365
Levy, MS		5 965	—	84	6 049	—	—	—	—	—	6 049	4 365
Pamensky, MV		5 065	—	35	5 100	—	—	—	—	—	5 100	3 465
Rivkind, DB		2 602	—	35	2 637	—	—	—	—	—	2 637	1 903
		19 590	—	245	19 835	—	—	—	—	—	19 835	14 098
Non-executive directors												
Nestadt, LM	750	—	—	—	750	—	—	—	—	—	750	—
Ellerine, KM	160	—	—	—	160	—	—	—	—	—	160	—
Harlow, GD	441	—	—	—	441	50	—	—	—	1 302	1 793	—
Lazarus, NN	397	—	—	—	397	—	—	—	—	4 576	4 973	—
Mthimunye, JS	362	—	—	—	362	—	—	—	—	—	362	—
Nyati, M	34	—	—	—	34	—	—	—	—	—	34	—
Tyalimpi, LM	286	—	—	—	286	—	—	—	—	—	286	—
	2 430	—	—		2 430	50	—	—	—	5 878	8 358	—
	2 430	19 590	—	245	22 265	50	—	—	—	5 878	28 193	14 098

Blue Label Telecoms Limited

(Incorporated in the Republic of South Africa) (Registration number 2006/022679/06)

Share code: BLU ISIN: ZAE000109088 ("Blue Label" or "the Company")

NOTICE OF ANNUAL GENERAL MEETING OF BLUE LABEL SHAREHOLDERS

All terms defined in the circular, to which this notice of Annual General Meeting is attached, shall bear the same meanings when used in this notice of Annual General Meeting.

Notice is hereby given to Blue Label shareholders recorded in the Company's securities register on 30 September 2011, that the fourth Annual General Meeting of the shareholders of Blue Label will be held in the Boardroom, Blue Label Telecoms corporate offices, 75 Grayston Drive, Sandton, on Tuesday, 22 November 2011 at 10:00, to conduct such business as may lawfully be dealt with at the Annual General Meeting and to consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder (including the ordinary and special resolution in respect of the specific repurchase). The record date for determining which shareholders of the Company are entitled to participate in and vote at the Annual General Meeting is Friday, 11 November 2011. Accordingly, the last day to trade in order to be eligible to participate and vote at the Annual General Meeting will be Friday, 4 November 2011.

Please note that Blue Label intends to provide for participation by way of electronic communication to Blue Label shareholders to participate in the Annual General Meeting. In this regard, please read the notes at the end of this notice.

RESOLUTIONS RELATED TO THE SPECIFIC REPURCHASE

Special resolution number 1 – Specific authority, in terms of the Companies Act, for the repurchase by the Company of the Microsoft shares, namely 91,851,852 Blue Label shares

Resolved that, the Company be and is hereby authorised, by way of a specific authority, in terms of the Companies Act, the Listings Requirements and article 36 of the Company's memorandum of incorporation, to acquire 91,851,852 Blue Label shares at a price of R4.25 per Blue Label share, from Microsoft upon the terms and conditions of the Share Buy-Back Agreement.

In terms of sections 48(8)(b), 62(3)(c) and 65(9) of the Companies Act, article 36 of the Company's memorandum of incorporation and paragraph 5.69(b) of the Listings Requirements, the requisite percentage of voting rights for this resolution to be adopted is 75%.

Reason for and effect of special resolution number 1

The reason for special resolution number 1 is to specifically authorise the Company to acquire the Microsoft shares, namely 91,851,852 Blue Label shares in terms of the Companies Act, the Listings Requirements, the memorandum of incorporation of the Company, and the Share Buy-Back Agreement. In terms of the Listings Requirements, the votes of Microsoft will be taken into account in determining whether a quorum of shareholders is present at the Annual General Meeting, but such votes will not be taken into account in determining the results of the voting at the Annual General Meeting on each of special resolution number 1 and ordinary resolution number 1 relating to the specific repurchase.

The effect of special resolution number 1 is to enable the Company, by way of a specific authority, to acquire shares in the Company from Microsoft in terms of the Share Buy-Back Agreement.

In terms of the Listings Requirements, the specific repurchase is a related party transaction as Microsoft, by virtue of its 12% shareholding in Blue Label, is a material shareholder (as defined in the Listings Requirements) and is consequently a related party to Blue Label. Therefore, in terms of the Listings Requirements, in order to implement the specific repurchase, a special resolution of the Company must be passed by shareholders excluding Microsoft.

Statement by the directors of the Company

The directors of Blue Label have considered the impact of the specific repurchase and are of the opinion that:

– the provisions of section 4 and section 48 of the Companies Act have been complied with;

– Blue Label and the group will be able in the ordinary course of business to pay its debts for a period of 12 months after the date of approval of this circular;

– the assets of Blue Label and the group will be in excess of its liabilities for a period of 12 months after the date of approval of this circular, where for this purpose, the assets and liabilities are recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements of the group;

– the share capital and reserves of Blue Label and the group will be adequate for ordinary business purposes for a period of 12 months after the date of approval of this circular; and

– the working capital of Blue Label and the group will be adequate for ordinary business purposes for a period of 12 months after the date of approval of this circular.

Furthermore, it is stated as follows:

– in terms of section 46(1)(a)(ii) of the Companies Act and the Listings Requirements, the board has authorised the specific repurchase by resolution;

– in terms of section 46(1)(b) of the Companies Act, it reasonably appears that the Company will satisfy the solvency and liquidity test immediately after completing the specific repurchase; and

– in terms of section 46(1)(c) of the Companies Act, the board has, by resolution, acknowledged that it has applied the solvency and liquidity test as set out in section 4 of the Companies Act, and reasonably concluded that the Company will satisfy the solvency and liquidity test immediately after completing the specific repurchase.

Ordinary resolution number 1 – Directors' authority to take all such actions necessary to implement the specific repurchase

Resolved that, any director of the Company, be and is hereby authorised and empowered to do all such things, sign all such documents and take all such actions as may be necessary for or incidental to the implementation of special resolution number 1.

In terms of sections 62(3)(c) and 65(7) of the Companies Act, the requisite percentage of voting rights for this resolution to be adopted is 50.1%.

RESOLUTIONS RELATED TO THE REMAINING BUSINESS OF THE ANNUAL GENERAL MEETING

Special resolution number 2 – Non-executive directors' remuneration

Resolved that, following the election of non-executive directors not to be paid an increase in the fees payable to them for services as directors, the current remuneration structure of the Company depicted below be and is hereby approved for the period 1 June 2011 to 31 May 2012:

	Current fee per meeting*	Current capped fee per annum**
Services as directors		
• Chairman of the board	—	R750,000
• Board members	R34,340	R171,700
Audit, Risk and Compliance Committee		
• Chairman	R47,694	R190,776
• Members	R28,617	R114,468
Remuneration and Nomination Committee		
• Chairman	R38,155	R152,620
• Members	R22,894	R91,576
Investment Committee		
• Chairman	R28,617	R228,936
• Members	R17,170	R137,360
Transformation Committee		
• Chairman	R28,617	R114,468
• Members	R17,170	R68,680
Ad-Hoc Committee		
• Chairman	R28,617	R114,468
• Members	R17,170	R68,680

**In the event that there are fewer meetings as envisaged, the member shall receive the fee in respect of the number of meetings attended.*
***In the event that there are more meetings per year than initially planned, directors' fees will be paid only up to the cap.*

In terms of sections 62(3)(c) and 65(9) of the Companies Act, the requisite percentage of voting rights for this resolution to be adopted is 75%.

Reason for and effect of special resolution number 2

Section 66 of the Companies Act requires the approval by way of a special resolution of the remuneration payable to the directors in respect of their services as directors, which approval must be obtained within the previous 2 (two) years. Furthermore, specific remuneration payable to directors must be approved in advance in terms of the Listings Requirements and as recommended by King III. The effect of special resolution number 2 is that the fees payable to the directors are approved.

Special resolution number 3 – General authority to repurchase shares

Resolved that, the Company and any of its subsidiaries be and they are hereby authorised, by way of a general approval, to acquire ordinary shares issued by the Company, in accordance with the requirements of the Company's memorandum of incorporation, the Companies Act and Listings Requirements, provided that:

- any such acquisition of ordinary shares shall be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement with the counterparty;
- this general authority shall be valid until the Company's next annual general meeting, or for 15 (fifteen) months from the date of the passing of this special resolution number 3, whichever period is shorter;
- an announcement will be published as soon as the Company or any of its subsidiaries has cumulatively acquired ordinary shares constituting 3% of the initial number of ordinary shares in issue, and for each 3% in aggregate of the initial number of ordinary shares acquired thereafter, in compliance with paragraph 11.27 of the Listings Requirements;
- the acquisition of shares in aggregate in any one financial year may not exceed 20% of the Company's ordinary issued share capital;
- the ordinary shares may not be acquired at a price greater than 10% above the weighted average of the market value at which such ordinary shares are traded on the JSE as determined over the 5 (five) business days immediately preceding the date of the repurchase of such ordinary shares;

– the Company has been given authority by its memorandum of incorporation;
– at any point in time, the Company and/or its subsidiaries may only appoint one agent to effect any repurchase on behalf of the Company and/or its subsidiaries;
– the directors authorise the acquisition, the Company passes the solvency and liquidity test contemplated in section 4 of the Companies Act and that from the time that the test is done, there are no material changes to the financial position of the group;
– the Company and/or its subsidiaries undertake that they will not enter the market to repurchase the Company's shares until the Company's sponsor has provided written confirmation to the JSE regarding the adequacy of the Company's working capital in accordance with Schedule 25 of the Listings Requirements; and
– the Company and/or its subsidiaries shall not purchase any shares during a prohibited period, as defined in paragraph 3.67 of the Listings Requirements unless a repurchase programme is in place, where dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period.

In terms of sections 62(3)(c) and 65(9) of the Companies Act and paragraph 5.72(c) of the Listings Requirements, the requisite percentage of voting rights for this resolution to be adopted is 75%.

Reason for and effect of special resolution number 3

Section 48 of the Companies Act read with the Listings Requirements requires that shareholders approve a general repurchase of securities by way of a special resolution. The effect of this special resolution and its rationale is to grant the Company and any of its subsidiaries a general authority to facilitate the acquisition by the Company and/or any of its subsidiaries of the Company's shares, which general approval shall be valid for the period set out in the resolution above.

Special resolution number 4 – Financial assistance to directors, prescribed officers and related or inter-related companies

Resolved that, the board is authorised, as it in its discretion thinks fit, but subject to compliance with the requirements of the memorandum of incorporation of the Company and the Companies Act, in particular section 45 thereof, to provide direct or indirect financial assistance to a director or prescribed officer of the Company or of a related or inter-related company, or to a related or inter-related company or corporation, or to a member of a related or inter-related corporation, or to a person related to any such company, corporation, director, prescribed officer or member, on the basis that the board shall have the authority to determine at the relevant time whether to make such financial assistance available on an interest free or market-related basis, provided that no such financial assistance may be provided at any time in terms of this authority after the expiry of two years from the date of the adoption of this special resolution number 4.

The board will, before making any such financial assistance available, satisfy itself that:

– immediately after providing the financial assistance, the Company will satisfy the solvency and liquidity test in the Companies Act; and
– the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

Such authority shall endure for 2 (two) years following the date on which this special resolution number 4 is adopted.

In terms of sections 62(3)(c) and 65(9) of the Companies Act, the requisite percentage of voting rights for this resolution to be adopted is 75%.

Reason for and effect of special resolution number 4

This resolution is proposed in order to comply with the requirements of section 45 of the Companies Act as that section requires any financial assistance by the Company to, *inter alia,* its related and inter-related companies and corporations to first be approved by a special resolution of its shareholders. Section 45 of the Companies Act provides, *inter alia,* that financial assistance which is provided to, *inter alia,* a company that is related or inter-related to the Company must be approved by a special resolution of shareholders, adopted within the previous 2 (two) years.

Special resolution number 4 authorises the provision of financial assistance by the Company within the ambit of section 45 of the Companies Act.

Ordinary resolution number 2 – Presentation of annual financial statements

Resolved that, the annual financial statements of the Company and the consolidated annual financial statements of the group for the year ended 31 May 2011, be and are hereby received, considered and adopted, including the directors' report and auditor's report thereon posted together with the circular to which this notice of Annual General Meeting is attached.

Ordinary resolution number 3 – Re-election of directors

Resolved that, by way of a separate vote, each of the following directors retiring from the board by rotation, and who are eligible for re-election and have offered themselves for re-election to the board be and are hereby re-elected to the board:

3.1 Resolved that Mr Mark Pamensky retires as a director of the Company in accordance with article 15.1 of the Company's memorandum of incorporation and, being eligible for re-election as a director of the Company in terms of article 15.2 of the Company's memorandum of incorporation, offers himself for re-election by the shareholders, and be and is hereby re-elected as a director of the Company with immediate effect; and

3.2 Resolved that Mr David Rivkind retires as a director of the Company in accordance with article 15.1 of the Company's memorandum of incorporation and, being eligible for re-election as a director of the Company in terms of article 15.2 of the Company's memorandum of incorporation, offers himself for re-election by the shareholders, and be and is hereby re-elected as a director of the Company with immediate effect.

Brief biographies in respect of each director offering himself for re-election are contained on pages 29 and 30 of the circular.

In terms of sections 62(3)(c) and 65(7) of the Companies Act, the requisite percentage of voting rights for this resolution to be adopted is 50.1%.

Ordinary resolution number 4 – Re-appointment of external auditors

Resolved that, on the recommendation of the current Audit, Risk and Compliance Committee of the Company, PricewaterhouseCoopers Inc., be and is hereby re-appointed as independent registered auditors of the Company for the ensuing year until the conclusion of the next annual general meeting of the Company and Mr EJ Gerryts is re-appointed as the individual registered auditor for the ensuing year.

In terms of sections 62(3)(c) and 65(7) of the Companies Act, the requisite percentage of voting rights for this resolution to be adopted is 50.1%.

Ordinary resolution number 5 – Election of members of the Audit, Risk and Compliance Committee

Resolved that, by way of a separate vote, each of the following directors, be and are hereby elected as members of the Blue Label Audit, Risk and Compliance Committee, with effect from the date of this Annual General Meeting in terms of section 94(2) of the Companies Act:

5.1 Resolved that Mr JS Mthimunye, an independent non-executive director, be and is hereby elected as a member and the chairman of the committee;

5.2 Resolved that Mr GD Harlow, an independent non-executive director, be and is hereby elected as a member of the committee; and

5.3 Resolved that Mr NN Lazarus SC, a non-executive director, be and is hereby elected as a member of the committee.

Brief biographies of those directors offering themselves for election as members of the Audit, Risk and Compliance Committee are contained on pages 30 to 31 of this circular.

In terms of sections 62(3)(c) and 65(7) of the Companies Act, the requisite percentage of voting rights for this resolution to be adopted is 50.1%.

Ordinary resolution number 6 – Endorsement of the remuneration policy

Resolved that, through a non-binding advisory vote, the Company's remuneration policy (excluding the remuneration of non-executive directors and members of committees of the board for their services as directors and members of such committees) as set out on pages 27 to 29 of this circular, be and is hereby endorsed.

In terms of sections 62(3)(c) and 65(7) of the Companies Act, the requisite percentage of voting rights for this resolution to be adopted is 50.1%.

Ordinary resolution number 7 – General authority to directors to allot and issue authorised but unissued shares

Resolved that, as required by and subject to the memorandum of incorporation of the Company, the Companies Act and the Listings Requirements, the general authority granted to directors at the previous annual general meeting of the Company to allot and issue, as they in their discretion think fit, the unissued ordinary shares of the Company, be and is hereby renewed and such shares be and are hereby placed under the control of the directors of the Company as a general authority in terms of the Companies Act and Listings Requirements, and such directors are authorised to allot and issue same at their discretion until the next annual general meeting of the Company on the basis that such allotments and issues are subject to the provisions of the memorandum of incorporation of the Company, the Companies Act and the Listings Requirements.

In terms of sections 62(3)(c) and 65(7) of the Companies Act and the Listings Requirements, the requisite percentage of voting rights for this resolution to be adopted is 50.1%.

Ordinary resolution number 8 – General authority to issue shares for cash

Resolved that, subject to the renewal of the general authority proposed in terms of ordinary resolution number 7 above and in terms of the Listings Requirements, the directors be and are hereby granted a general authority to allot and issue ordinary shares in the capital of the Company for cash as and when suitable situations arise, subject to the following limitations:

- any issue of shares shall be to public shareholders as defined by the Listings Requirements;
- this authority shall be valid until the date of the next annual general meeting of the Company, provided it shall not extend beyond 15 (fifteen) months from the date of this Annual General Meeting;
- a paid press announcement giving details, including the impact of the issue on net asset value per share, net tangible asset value per share, earnings per share, headline earnings per share, and if applicable, diluted earnings and headline earnings per share, and the average discount to the weighted average traded price of the shares over the 30 business days prior to the date that the issue is agreed in writing between the Company and the party/ies subscribing for the shares, will be published at the time of any such allotment and issue of shares representing, on a cumulative basis within one year, 5% or more of the ordinary number of issued shares prior to any such issues;
- that issues in the aggregate in any one financial year shall not exceed 15% of the ordinary shares in the issued share capital of the Company from time to time, and in determining the aforesaid percentage, instruments which are compulsorily convertible shall be included, and paragraph 5.52 of the Listings Requirements shall be taken into account; and
- in determining the price at which an allotment and issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of the ordinary shares over the 30 days prior to the date that the price of issue is determined or agreed between the Company and the party/ies subscribing for the shares.

In terms of section 63(2) of the Companies Act and paragraph 5.50 of the Listings Requirements, the requisite percentage of voting rights for this resolution to be adopted is 75% (it being noted that in terms of this Listings Requirements this resolution is an ordinary resolution requiring the aforesaid 75% approval).

Entitlement to attend and vote at the Annual General Meeting

Blue Label shareholders who wish to participate in the Annual General Meeting should note that in terms of section 63 of the Companies Act, meeting participants are required to provide reasonable satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, driver's licenses and passports.

Certificated shareholders or own name dematerialised shareholders may attend and vote at the Annual General Meeting, or alternatively appoint a proxy to attend, speak and, in respect of the applicable resolution(s), vote in their stead by completing the attached form of proxy and returning it to the transfer secretaries at the address given in the circular by no later than 10:00 on Friday, 18 November 2011.

Dematerialised shareholders other than own name dematerialised shareholders, must contact their CSDP or broker, as the case may be, and obtain the relevant letter of representation from it if they wish to attend the Annual General Meeting. If shareholders are unable to attend the Annual General Meeting but wish to be represented thereat, they must furnish their CSDP or broker, as the case may be, with their instructions for voting at the Annual General Meeting.

Forms of proxy should be forwarded to reach the transfer secretaries at the address given in the circular by not later than 10:00 on Friday, 18 November 2011. The completion of a form of proxy will not preclude a shareholder from attending the Annual General Meeting.

Shareholders wishing to participate electronically in the Annual General Meeting are required to:

- deliver written notice to the Company at 75 Grayston Drive, corner Benmore Road, Morningside Extension 5, 2196 (marked for the attention of E Viljoen, Group company secretary) that they wish to participate via electronic communication at the Annual General Meeting; or
- register on the Company's website at www.bluelabeltelecoms.co.za where a link to the registration page will be placed,

by no later than 10:00 on Friday, 18 November 2011 (**"Electronic Notice"**).

In order for the Electronic Notice to be valid it must contain: (a) if the Blue Label shareholder is an individual, a certified copy of his/her identity document and/or passport; (b) if the Blue Label shareholder is not an individual, a certified copy of a resolution or letter of representation by the relevant entity and a certified copy of the identity documents and/or passports of the persons who passed the relevant resolution or signed the relevant letter of representation. The letter of representation or resolution must set out who from the relevant entity is authorised to represent the entity at the Annual General Meeting via electronic communication; (c) a valid e-mail address and/or facsimile number (**"Contact Address/Number"**); and (d) if the Blue Label shareholder wishes to vote via electronic communication, set out that the Blue Label shareholder wishes to vote via electronic communication. By no later than 24 (twenty four) hours before the Annual General Meeting the Company shall use its reasonable endeavours to notify a shareholder at its Contact Address/Number who has delivered a valid Electronic Notice of the relevant details through which the shareholder can participate via electronic communication.

Should you wish to participate in the Annual General Meeting by way of electronic communication as aforesaid, you, or your proxy, will be required to dial-in on the date of the Annual General Meeting. The dial-in facility will be linked to the venue at which the Annual General Meeting will take place on the date of, from the time of commencement of, and for the duration of, the Annual General Meeting. The dial-in facility will enable all persons to participate electronically in the Annual General Meeting in this manner (and as contemplated in section 63(2) of the Companies Act) and to communicate concurrently with each other without an intermediary, and to participate reasonably effectively in the Annual General Meeting. The costs borne by you or your proxy in relation to the dial-in facility will be for your own account.

SUPPLEMENTARY EXPLANATORY NOTES TO SPECIAL RESOLUTIONS 2 TO 4 (BOTH INCLUSIVE) AND ORDINARY RESOLUTIONS 2 TO 8 (BOTH INCLUSIVE) FOR CONSIDERATION AT THE ANNUAL GENERAL MEETING

Non-executive directors' remuneration for services as directors (special resolution number 2)

In terms of section 66(8) and (9) of the Companies Act, remuneration may only be paid to directors, for their services as directors, in accordance with a special resolution approved by the shareholders within the previous two years and if not prohibited in terms of a Company's memorandum of incorporation.

Special resolution number 2 requires shareholders to approve the fees payable to the Company's non-executive directors for the period 1 June 2011 to 31 May 2012. The board agreed not to increase the fees payable to both executives and non-executive directors of the Company in line with the group's cost containment initiatives which were implemented.

Full particulars of all remuneration paid to non-executive directors for their services as directors as well as remuneration paid for consulting services rendered are contained on pages 31 and 34 of this circular. Particulars of the process followed by the Remuneration and Nomination Committee are contained in the Remuneration Policy on pages 27 to 29 of this circular.

General authority to repurchase shares (special resolution number 3)

The effect of this special resolution and its rationale is to grant to the Company and any of its subsidiaries a general authority to facilitate the acquisition by the Company and any of its subsidiaries of the Company's shares, which general approval shall be valid for the period contemplated in the resolution.

Any decision by the directors to use the general authority to acquire shares of the Company will be taken having regard to prevailing market conditions, the share price, the cash needs of the Company together with various other factors and in compliance with the Companies Act, the Listings Requirements and the memorandum of incorporation of the Company.

The directors are of the opinion that the renewal of this general authority is in the best interests of the Company as it allows the Company and any of its subsidiaries to repurchase the securities issued by the Company through the order book of the JSE, should the market conditions and price justify such action.

The directors have no specific intention, at present, for the Company or its subsidiaries to repurchase any of the Company's shares (other than for the purposes of the employee share incentive scheme) but consider that such a general authority should be put in place should an opportunity present itself to do so during the ensuing year.

Financial assistance to directors, prescribed officers and related or inter-related companies (special resolution number 4)

Section 45 of the Companies Act provides, *inter alia,* that financial assistance contemplated in such section, to a related or inter-related company may only be provided pursuant to a special resolution of the shareholders, adopted within the previous two years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and provided further that the board is satisfied that:

- immediately after providing the financial assistance, the Company will satisfy the solvency and liquidity test; and
- the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

The Company previously had to provide loans to and guarantees for the obligations of certain of its subsidiaries and was not precluded from doing so in terms of its constitutional documents or in terms of the Companies Act, 61 of 1973, as amended. The Company, in the ordinary course of its business, might well need to provide financial assistance to certain of its subsidiaries in accordance with section 45 of the Companies Act. In the circumstances and in order, *inter alia,* to ensure that the Company's subsidiaries and other related and inter-related companies have access to financing and/or financial backing from the Company, it is necessary to obtain the approval of shareholders, as set out in special resolution number 4.

Adoption of the annual financial statements (ordinary resolution number 2)

The directors are required to present to shareholders at the Annual General Meeting the annual financial statements incorporating the directors' report and the report of the auditors, for the year ended 31 May 2011. These are contained within the annual financial statements.

Re-election of directors (ordinary resolution number 3)

In accordance with the Company's memorandum of incorporation, one third of the directors are required to retire at each annual general meeting and may offer themselves for re-election. Messrs MV Pamensky and DB Rivkind retire by rotation at the Annual General Meeting in accordance with article 15.1 of the Company's memorandum of incorporation, and have offered themselves for re-election. Abbreviated curriculum vitae in respect of directors offering themselves for re-election are contained on pages 29 to 30 of this circular.

The directors of the Company are satisfied that each of the directors standing for re-election, continue to make an effective and valuable contribution to the Company and to the board. The board recommends to shareholders that they should vote in favour of the re-election of the directors who retire by rotation.

Re-appointment of external auditors (ordinary resolution number 4)

PricewaterhouseCoopers Inc. has expressed its willingness to continue in office and ordinary resolution number 4 proposes the re-appointment of that firm as the Company's auditors until its next annual general meeting.

The Audit, Risk and Compliance Committee has satisfied itself that the proposed auditor, PricewaterhouseCoopers Inc., is independent of the Company as contemplated by the South African Independence laws and the applicable rules of the International Federation of Accountants. The committee nominated the re-appointment of PricewaterhouseCoopers Inc. as independent registered auditor of Blue Label for the 2012 financial year.

Election of Audit, Risk and Compliance ("ARC") Committee members (ordinary resolution number 5)

In terms of section 94(2) of the Companies Act, audit committee members must be elected by shareholders at each annual general meeting. King III likewise requires the shareholders of a public company to elect the members of an audit committee at each annual general meeting.

In terms of the Regulation 42 of the Companies Regulations, 2011 relating to the Companies Act, at least one-third of the members of the Company's ARC Committee at any particular time must have academic qualifications, or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management. The proposed members have experience in audit, accounting, commerce, economics, law, corporate governance and general industry as is evident from the curriculum vitae of each of the members contained on pages 30 to 31 of this circular.

Blue Label Remuneration Policy (ordinary resolution number 6)

Chapter 2 of King III, dealing with boards and directors, requires companies to table their remuneration policy to shareholders for a non-binding advisory vote at the Annual General Meeting. This vote enables shareholders to express their views on the remuneration policies adopted for the remuneration of executive directors and on their implementation. The Blue Label Remuneration Philosophy is contained in pages 27 to 29 of this circular.

Ordinary resolution number 6 is of a non-binding advisory nature only and failure to pass this resolution will therefore not have any legal consequences relating to existing arrangements. However, the board will take the outcome of the vote into consideration when considering the Company's remuneration policy and the remuneration of executive directors.

Control of authorised but unissued shares and general authority to issue shares for cash (ordinary resolution numbers 7 and 8)

The existing authorities granted by the Blue Label shareholders at the previous annual general meeting held on 12 October 2010, will expire at the Annual General Meeting unless renewed. The authorities granted under these resolutions are subject to the Companies Act, the Listings Requirements and the memorandum of incorporation of the Company.

The directors are of the opinion that the granting of this general authority is in the best interests of the Company as it allows the Company to take advantage of business opportunities that may arise in the future.

By order of the board

BLUE LABEL TELECOMS LIMITED
E Viljoen
Group company secretary

20 October 2011

Registered office:
75 Grayston Drive, corner Benmore Road
Morningside Extension 5
2196
(PO Box 652261, Benmore, 2010)

Blue Label Telecoms Limited

(Incorporated in the Republic of South Africa) (Registration number 2006/022679/06)

Share code: BLU ISIN: ZAE000109088 ("Blue Label" or "the Company")

FORM OF PROXY – ANNUAL GENERAL MEETING

All terms defined in the circular, to which this form of proxy is attached, shall bear the same meanings when used in this form of proxy.

For use by certificated shareholders or own name dematerialised shareholders at the Annual General Meeting of the Company to be held at 10:00 on Tuesday, 22 November 2011 at the registered office of Blue Label, 75 Grayston Drive, corner Benmore Road, Morningside Extension 5, Johannesburg.

If dematerialised shareholders, other than own name dematerialised shareholders have not been contacted by their CSDP or broker with regard to how they wish to cast their vote, they should contact their CSDP or broker and instruct their CSDP or broker as to how they wish to cast their vote at the Annual General Meeting in order for their CSDP or broker to vote in accordance with such instructions. If dematerialised shareholders, other than own name dematerialised shareholders, have not been contacted by their CSDP or broker it would be advisable for them to contact their CSDP or broker, as the case may be, and furnish them with their instructions. Dematerialised shareholders who are not own name dematerialised shareholders and who wish to attend the Annual General Meeting must obtain their necessary letter of representation from their CSDP or broker, as the case may be and submit same to the transfer secretaries, at the address given on page 1 of the circular to which this form of proxy is attached, to be received by no later than 10:00, on Friday, 18 November 2011. This must be done in terms of the agreement entered into between the dematerialised shareholder and their CSDP or broker. If the CSDP or broker, as the case may be, does not obtain instructions from such dematerialised shareholders, it will be obliged to act in terms of the mandate furnished to it, or if the mandate is silent in this regard, to abstain from voting. **Such dematerialised shareholders, other than own name dematerialised shareholders, must not complete this form of proxy and should read note 11 of the overleaf.**

Full name: I/We (BLOCK LETTERS)

Of (address)

Telephone: (Work) (area code:) Telephone: (Home) (area code:)

Fax: (area code:) Cell number:

being the holder(s) of ____________ Blue Label shares

hereby appoint:

1. or failing him/her,

2. or failing him/her,

3. the chairman of the Annual General Meeting,

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of Blue Label shareholders to be held at 10:00 on Tuesday, 22 November 2011 or any adjournment thereof as follows:

Resolution	For	Against	Abstain
RESOLUTIONS RELATED TO THE SPECIFIC REPURCHASE			
Special resolution number 1 – Specific authority, in terms of the Companies Act, for the repurchase by the Company of the Microsoft shares, namely 91,851,852 Blue Label shares in terms of the specific repurchase			
Ordinary resolution number 1 – Directors' authority to take all such actions necessary to implement the specific repurchase			
RESOLUTIONS RELATED TO THE REMAINING BUSINESS OF THE ANNUAL GENERAL MEETING			
Special resolution number 2 – Non-executive directors' remuneration			
Special resolution number 3 – General authority to repurchase shares			
Special resolution number 4 – Financial assistance to directors, prescribed officers and related or inter-related companies			
Ordinary resolution number 2 – Presentation of annual financial statements			
Ordinary resolution number 3 – Re-election of directors:			
Mr Mark Pamensky			
Mr David Rivkind			
Ordinary resolution number 4 – Re-appointment of external auditors			
Ordinary resolution number 5 – Election of members of the Audit, Risk and Compliance Committee:			
JS Mthimunye			
GD Harlow			
NN Lazarus SC			
Ordinary resolution number 6 – Endorsement of the Blue Label Remuneration Policy (non-binding advisory vote)			
Ordinary resolution number 7 – General authority to directors to allot and issue authorised but unissued shares			
Ordinary resolution number 8 – General authority to issue shares for cash			

Signed at this day of 2011

Signature

Assisted by me (if applicable)

Please read the notes on the reverse side hereof.

A shareholder entitled to attend and vote at the Annual General Meeting may appoint one or more persons as his/her proxy to attend, speak or vote in his/her stead at the Annual General Meeting. A proxy need not be a shareholder of the Company.

On a show of hands, every Blue Label shareholder shall have one vote (irrespective of the number of Blue Label shares held). On a poll, every Blue Label shareholder shall have, for each share held by him/her/it that proportion of the total votes in the Company which the aggregate amount of the nominal value of that share held by him bears to the aggregate amount of the nominal value of all the shares issued by the Company.

Notes:

1. A Blue Label shareholder may insert the name of a proxy or the names of two alternative proxies of his/her choice in the spaces provided with or without deleting "the chairman of the Annual General Meeting", but any such deletion must be initialled by the Blue Label shareholder. The person whose name appears first on the form of proxy and who is present at the Annual General Meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. Please insert the number of shares in the relevant spaces according to how you wish your votes to be cast. If you wish to cast your votes in respect of a lesser number of Blue Label shares exercisable by you, insert the number of Blue Label shares held in respect of which you wish to vote. Failure to comply with the above will be deemed to authorise and compel the chairman, if the chairman is an authorised proxy, to vote in favour of the resolutions, or to authorise any other proxy to vote for or against the resolutions or abstain from voting as he/she/it deems fit, in respect of all the Blue Label shareholder's votes exercisable thereat. A Blue Label shareholder or his/her/its proxy is not obliged to use all the votes exercisable by the Blue Label shareholder or its/his/her proxy, but the total of the votes cast and in respect whereof abstention is recorded may not exceed the total of the votes exercisable by the Blue Label shareholder or his/her/its proxy.
3. Forms of proxy must be lodged with the transfer secretaries, at 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received by no later than 10:00 on Friday, 18 November 2011.
4. Any alteration or correction made to this form of proxy must be initialled by the signatory(ies).
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity must be attached to this form of proxy unless previously recorded by the transfer secretaries or waived by the chairman of the Annual General Meeting.
6. The completion and lodging of this form of proxy will not preclude the relevant Blue Label shareholder from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such Blue Label shareholder wish to do so.
7. The chairman of the Annual General Meeting may accept or reject any form of proxy which is completed and/or received other than in accordance with these notes and instructions, provided that the chairman is satisfied as to the manner in which the Blue Label shareholder wishes to vote.
8. This form of proxy shall not be valid after the expiration of six months from the date when it was signed.
9. Joint holders – any such persons may vote at the Annual General Meeting in respect of such joint shares as if he/she/it were solely entitled thereto, but if more than one of such joint holders are present or represented at the Annual General Meeting, that one of the said persons whose name stands first in the register in respect of such shares or his/her/its proxy, as the case may be, is alone entitled to vote in respect thereof.
10. Own name dematerialised shareholders will be entitled to attend the Annual General Meeting in person or, if they are unable to attend and wish to be represented thereat, must complete and return the attached form of proxy to the transfer secretaries in accordance with the time specified on the form of proxy.
11. Blue Label shareholders who hold shares in Blue Label through a nominee should advise their nominee or, if applicable, their CSDP or broker timeously of their intention to attend and vote at the Annual General Meeting or to be represented by proxy thereat in order for their nominee or, if applicable, their CSDP or broker to provide them with the necessary letter of representation to do so or should provide their nominee or, if applicable, their CSDP or broker timeously with their voting instruction should they not wish to attend the Annual General Meeting in person, in order for their nominee to vote in accordance with their instruction at the Annual General Meeting.

Summary of the rights established in terms of section 58 of the Companies Act, 71 of 2008 ("Act"):

For purposes of this summary, "shareholder" shall have the meaning ascribed thereto in the Act.

1. At any time, a shareholder of a company is entitled to appoint an individual, including an individual who is not a shareholder of that company, as a proxy, to participate in, and speak and vote at, a shareholders' meeting on behalf of the shareholder, or give or withhold written consent on behalf of such shareholder in relation to a decision contemplated in section 60 of the Act.
2. A proxy appointment must be in writing, dated and signed by the relevant shareholder, and such proxy appointment remains valid for one year after the date upon which the proxy was signed, or any longer or shorter period expressly set out in the appointment, unless it is revoked in a manner contemplated in section 58(4)(c) of the Act or expires earlier as contemplated in section 58(8)(d) of the Act.
3. Except to the extent that the Memorandum of Incorporation of a company provides otherwise –

   3.1 a shareholder of the relevant company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by such shareholder;

   3.2 a proxy may delegate his authority to act on behalf of a shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and

   3.3 a copy of the instrument appointing a proxy must be delivered to the relevant company, or to any other person on behalf of the relevant company, before the proxy exercises any rights of the shareholder at a shareholders' meeting.
4. Irrespective of the form of instrument used to appoint a proxy, the appointment of the proxy is suspended at any time and to the extent that the shareholder who appointed that proxy chooses to act directly and in person in the exercise of any rights as a shareholder of the relevant company.
5. Unless the proxy appointment expressly states otherwise, the appointment of a proxy is revocable. If the appointment of a proxy is revocable, a shareholder may revoke the proxy appointment by cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and the company.
6. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the relevant shareholder as of the later of the date: (a) stated in the revocation instrument, if any; or (b) upon which the revocation instrument is delivered to the proxy and the relevant company as required in section 58(4)(c)(ii) of the Act.
7. If the instrument appointing a proxy or proxies has been delivered to the relevant company, as long as that appointment remains in effect, any notice that is required by the Act or the relevant company's Memorandum of Incorporation to be delivered by such company to the shareholder, must be delivered by such company to the shareholder, or to the proxy or proxies, if the shareholder has directed the relevant company to do so in writing and paid any reasonable fee charged by the company for doing so.
8. A proxy is entitled to exercise, or abstain from exercising, any voting right of the relevant shareholder without direction, except to the extent that the Memorandum of Incorporation, or the instrument appointing the proxy provide otherwise.
9. If a company issues an invitation to shareholders to appoint one or more persons named by such company as a proxy, or supplies a form of instrument for appointing a proxy:

   9.1 such invitation must be sent to every shareholder who is entitled to notice of the meeting at which the proxy is intended to be exercised;

   9.2 the invitation, or form of instrument supplied by the relevant company, must: (a) bear a reasonably prominent summary of the rights established in section 58 of the Act; (b) contain adequate blank space, immediately preceding the name or names of any person or persons named in it, to enable a shareholder to write in the name and, if so desired, an alternative name of a proxy chosen by such shareholder; and (c) provide adequate space for the shareholder to indicate whether the appointed proxy is to vote in favour or against the applicable resolution/s to be put at the relevant meeting, or is to abstain from voting;

   9.3 the company must not require that the proxy appointment be made irrevocable; and

   9.4 the proxy appointment remains valid only until the end of the relevant meeting at which it was intended to be used, unless revoked as contemplated in section 58(5) of the Act.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