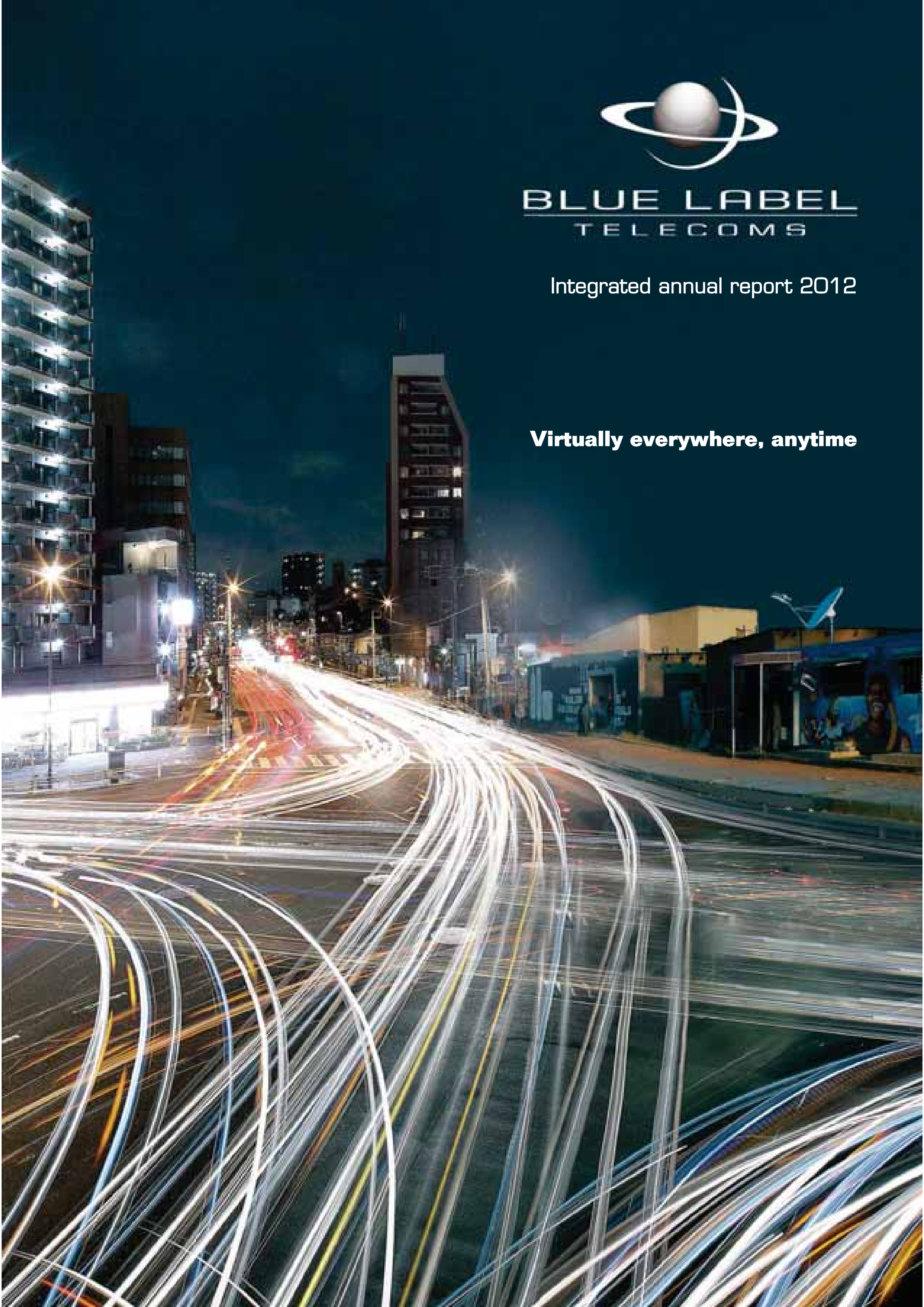
BLUE LABEL TELECOMS

# Integrated annual report 2012

**Virtually everywhere, anytime**



# Contents

# Approach and reporting structure

## Approach

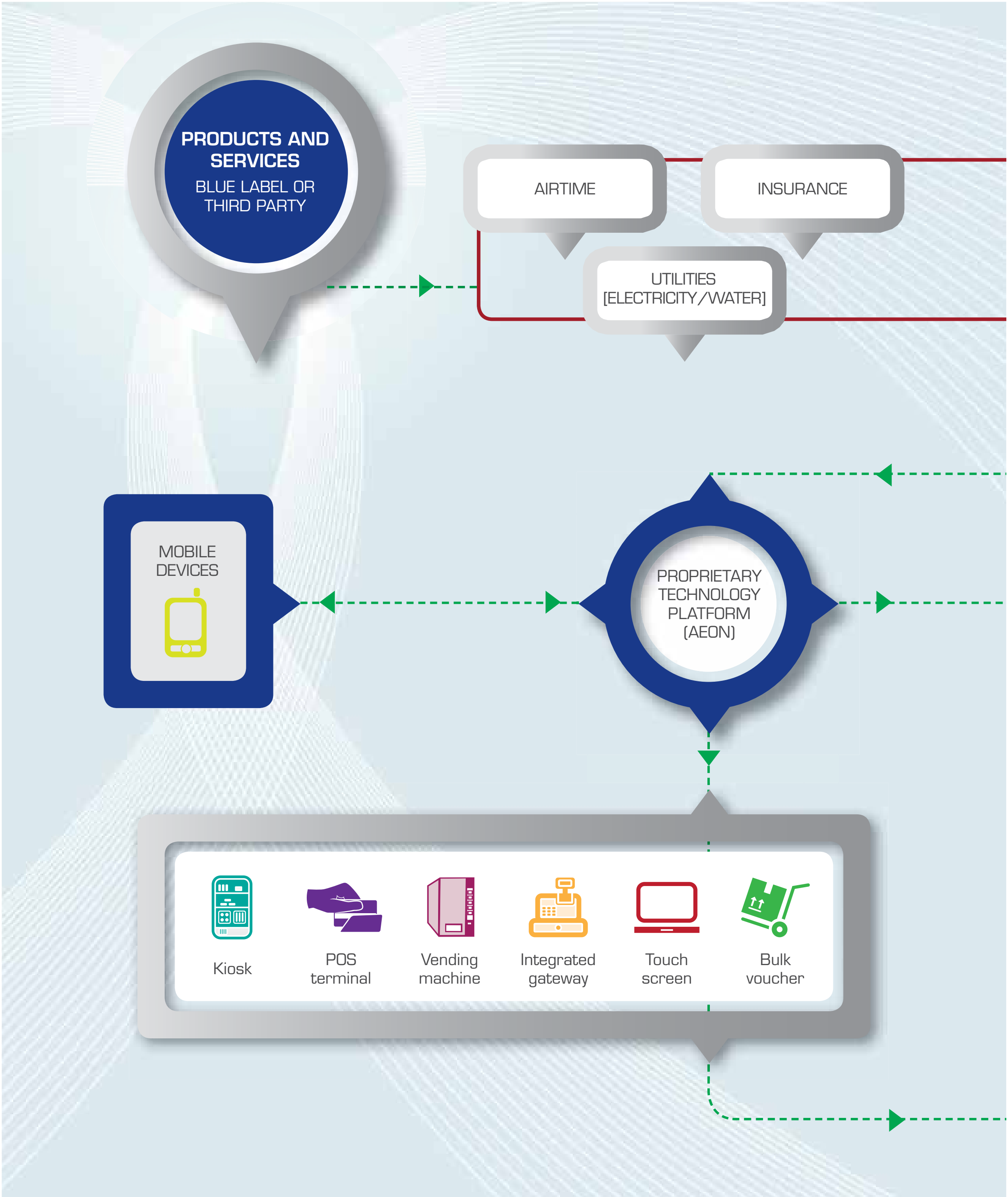
This is Blue Label's second integrated annual report in its integrated reporting journey. In following the recommendations of the King Code of Governance principles for South Africa and the structure set out in the Discussion Paper issued by the International Integrated Reporting Council (IIRC), Blue Label's process aims to link material company information with reference to strategy, governance, performance, remuneration and prospects in such a way that our stakeholders obtain a view of the commercial, social and environmental context within which the group operates. This report contains issues material to our strategy and of interest to our stakeholders. 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 pages 45 to 51).

This integrated annual report is the group's primary report. It covers Blue Label's business segments and their financial and operational performance for the financial year ended 31 May 2012. Non-financial and sustainability information is limited to the South African operations. The report aims to provide stakeholders with the means to assess the group's ability to create and sustain value over the short, medium and long term.

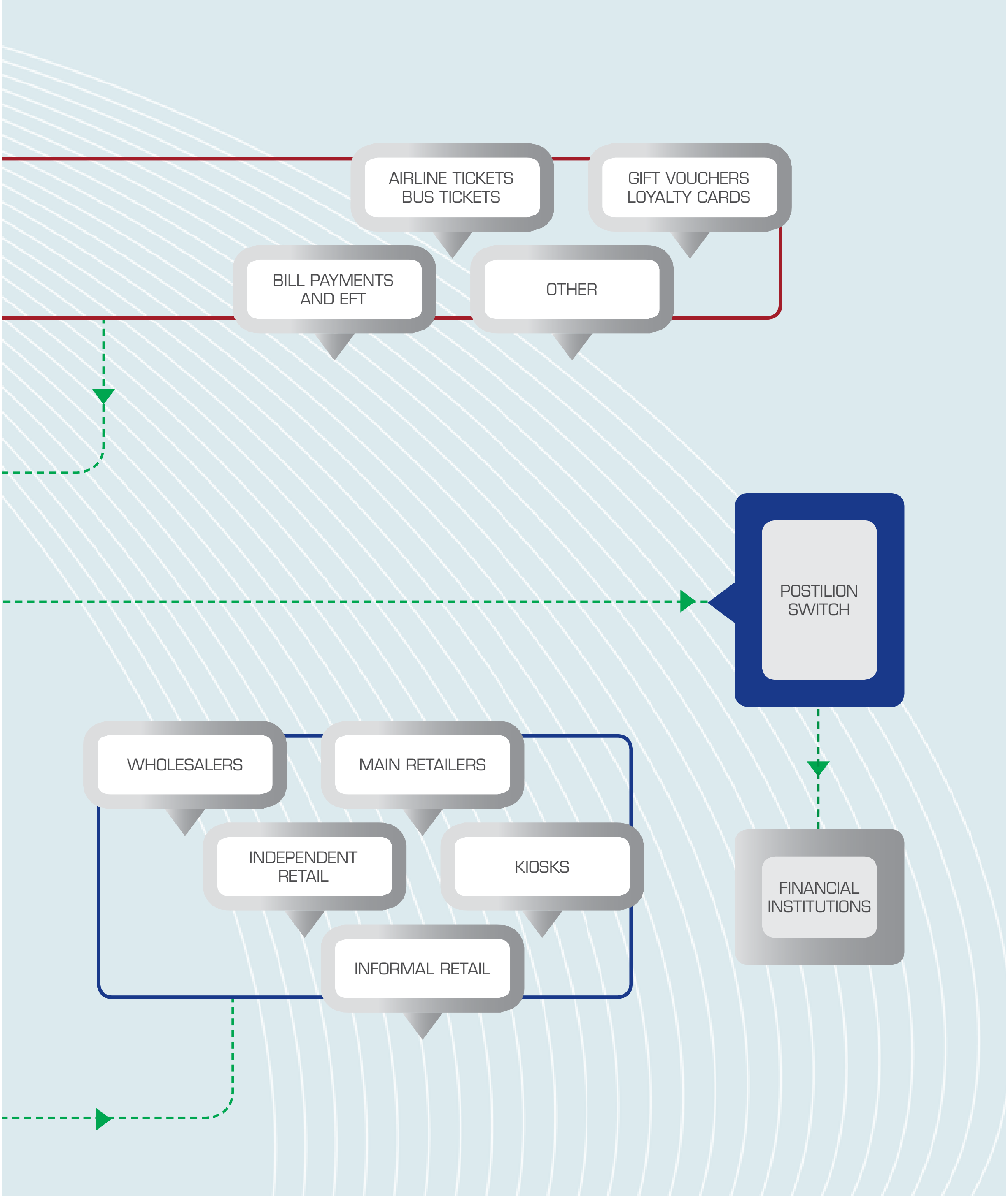
## Reporting framework

Blue Label continues to apply the Global Reporting Initiative (GRI) G3 guidelines in terms of its sustainable development reporting process and to facilitate comparability with the reports of other organisations. This report has been compiled with reference to both King III integrated reporting and the GRI G3 standards, and Blue Label has continued to use a risk-based model which identifies internal risks and stakeholder issues to determine the material content of the report 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.

# Business illustrated



# Business illustrated continued



# Nature of business

Blue Label's core business is the virtual distribution of secure electronic tokens of value (predominantly prepaid airtime at present) and transactional services across its global footprint of touch points.

The group's stated strategy is to extend its global footprint of touch points, both organically and acquisitively, to fulfil 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.

Why do consumers use prepaid products and services?

- Prepaid products and services are the ultimate budgeting tool, as consumers have absolute choice and control over what they spend;
- The majority of prepaid transactions are cash based and using prepaid as a payment mechanism eliminates the requirement for credit checks;
- Prepaid products and services can be conveniently topped up, either virtually or physically as and when required by consumers;
- Prepaid products and services are sold across a broad footprint of traditional and non-traditional outlets; and
- Prepaid products and services enable the world's unbanked consumers to transact efficiently.

## How does Blue Label Telecoms add value?

Within emerging and developing economies, the supply of products and services via prepaid channels is becoming an increasingly significant distribution model. This is because the distribution of physical product is often logistically difficult, a significant portion of the consumers within these markets are unbanked/badly banked and therefore transact in cash, and many do not qualify for credit. Although they are unbanked/badly banked and don't qualify for credit, these consumers have cash and are now demanding equal access to first world products and services, such as insurance.

The group's ability to develop and distribute innovative prepaid products and services through its global footprint of touch points has allowed it to "take" first world products and services to these consumers and bridge the "access" gap.

In essence, Blue Label is able to enhance the consumers' ability to transact conveniently, affordably and with greater accessibility and choice.

# Key facts

**Founded** 2001 and listed on JSE 2007

**2012 revenue:** R18.7 billion

**Employees:** 1 216

**Headquarters:** Johannesburg – offices throughout South Africa

**Operations:** South Africa, India, Mexico, U.K.

**Points of presence:** In excess of 150 000 in South Africa

**Transactions:** ±400 million separate monthly transactions

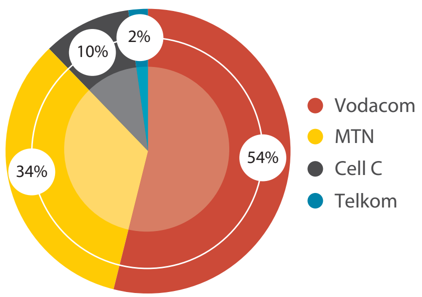
## Business model

→ The high volume distribution and sale of e-tokens of value and complementary services leveraging off a favourable working capital cycle.

## Target markets

→ Focused on serving the total domestic market, in particular unbanked or badly banked consumers, both locally and internationally.

## Revenue share




## Revenue streams from three income pillars

### Trading revenue from the sale of commodities

As a super distributor of virtual and physical prepaid airtime on behalf of the network operators, as well as electricity on behalf of the utilities.

Economic slowdowns have seen many postpaid consumers migrate toward prepaid in order to enhance their financial flexibility and control their airtime spend. In general, prepaid consumers are purchasing airtime in lower denominations while also benefiting from the variable call discounts recently introduced by the major mobile networks.

The group distributes and activates starter packs, earning a rebate (activation bonus) on each successful activation.

### Revenue from annuities

The group earns ongoing annuity revenue for the life of each starter pack and has successfully introduced loyalty programmes to decrease the churn on its starter pack base.

The group earns annuity revenue from its subscription-based businesses and customer retention remains a key focus.

Launching additional product and service offerings to new and existing subscriber bases enhances annuity revenue.

### Interest income

The group's high volumes coupled with its favourable trading terms, generate significant cash from operating activities.

# 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

### Customer service orientation

Our customers are our most important asset and it is therefore of vital importance to satisfy and meet their expectations on an ongoing basis

### Achievement and drive to succeed

We are a goal orientated organisation where the achievement of goals and targets are recognised and rewarded

### Honesty and integrity

We value relationships based on honesty and integrity. By conducting ourselves and the way in which we do business with honesty and integrity, we create trust which is a key driver to maintain stakeholder relationships

### Enjoyment

We believe in an enjoyable work environment that motivates and incentivises employees to be more productive and creative

### Collaboration

Working together as a team and towards a common goal will ensure that the group achieves its objectives and continues to create sustainable value for all its stakeholders

# Highlights for the group

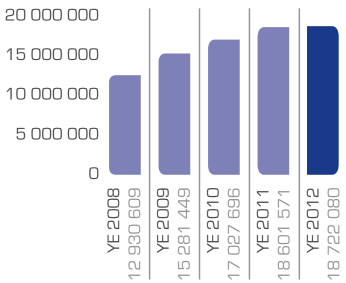
| | |
|---|---|
| Revenue increased to R18.7 billion | + 4% |
| Gross profit increased to R1.2 billion | + 13% |
| EBITDA up to R750 million* | + 26% |
| Headline earnings per share up to 64.65 cents* | + 40% |
| R528 million cash flows from operating activities | |
| Growth strategy delivered results:<br>→ South Africa: electricity commissions earned up 39%<br>→ India: delivers a profit<br>→ Mexico: accelerating POP rollout rate | |
| R392 million – 12% share buyback completed | |
| Dividend of 23 cents per share declared | + 64% |

*Includes a once-off income receipt of R79.4 million.

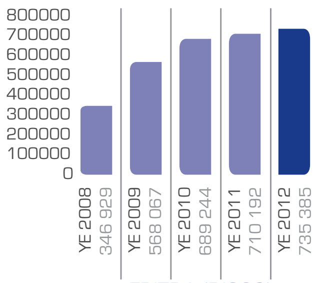
# Financial history

| | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|
| **All amounts include continued and discontinued operations** | | |
| Revenue | **18 722 080** | 18 601 571 |
| Gross profit | **1 208 077** | 1 124 569 |
| GP margin (%) | **6.45** | 6.05 |
| EBIT | **643 828** | 517 060 |
| EBITDA | **735 385** | 710 192 |
| Net profit for the year attributable to equity holders of the parent | **438 104** | 431 448 |
| Net cash flow from operating activities | **528 109** | 427 663 |
| Cash and cash equivalents | **1 975 242** | 2 226 170 |
| Capital expenditure | **164 485** | 186 196 |
| **Ratios** | **cents per share** | cents per share |
| – EPS | **61.87** | 57.04 |
| – HEPS | **64.65** | 46.20 |
| – Core HEPS | **64.37** | 60.34 |
| – NAV per share | **433.45** | 388.90 |
| – Dividend per share | **23.00*** | 14.00 |
| – Dividend cover | **2.95*** | 3.30 |
| Weighted average number of shares (thousands) | **708 060** | 756 359 |
| **Number of employees** | **1 216** | 1 357 |

* *Gross ordinary dividend.*
** *Figures relate to the pro forma unaudited information.*



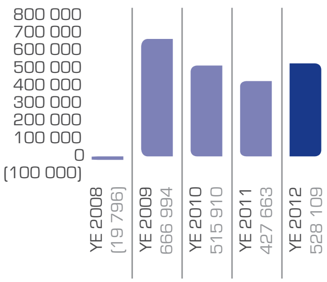
Revenue (R'000)



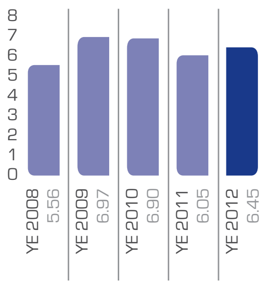
EBITDA (R'000)

# Financial history continued

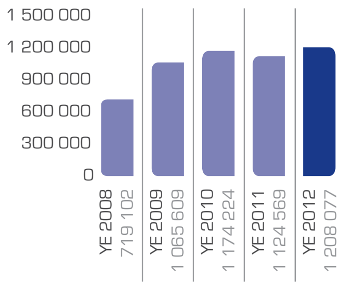
| 2010<br>R'000 | 2009<br>R'000 | 2008<br>R'000 |
|---:|---:|---:|
| 17 027 696 | 15 281 449 | 12 930 609** |
| 1 174 224 | 1 065 609 | 719 102** |
| 6.90 | 6.97 | 5.56** |
| 569 459 | 474 847 | 273 254** |
| 689 244 | 568 067 | 346 929** |
| | | |
| 365 022 | 390 547 | 269 423** |
| 515 910 | 666 994 | (19 796) |
| 2 054 902 | 1 756 806 | 1 328 294 |
| 195 817 | 103 496 | 70 136 |
| cents per share | cents per share | cents per share |
| 48.17 | 51.13 | 35.16** |
| 48.27 | 51.63 | 34.86** |
| 52.34 | 55.93 | 48.40** |
| 342.76 | 294.04 | 249.17 |
| 12.00 | – | – |
| 4.02 | – | – |
| 757 793 | 763 834 | 766 361 |
| 1 620 | 1 979 | 1 616 |



Net cash flow from operating activities (R'000)



Gross profit margin (%)



Gross profit (R'000)

# Operating structure as at 31 May 2012

BLUE LABEL TELECOMS

**Blue Label South Africa**

**Blue Label Distribution**

**The Prepaid Company**

Multiserv

Bela Phone Company (51%)

**Ventury**

Cigicell (74%)

**The Post Paid Company (75%)**

**Blue Label International**

**Africa Prepaid Services (72%)**

**Gold Label Investments**

Oxigen Services India (55.83%)

Ukash (17.25%)

**Blue Label Mexico (40%)**

*100% unless otherwise stated.*

# Operating structure as at 31 May 2012 continued

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

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

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

# 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

**August**
Acquires equity stake in Cellfind

## 2004
**October**
Acquires interest in Ventury

Acquires stake in Kwikpay SA

**December**
Acquires equity stake in Africa Prepaid Services

## 2007
**April**
Acquires equity stake in Activi Technology Services

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

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

Microsoft acquires 12% equity stake in Blue Label

## 2008
**January**
Acquires Content Connect Africa

**March**
Acquires Crown Cellular

**April**
Acquires remaining minority interest in Ventury

**June**
Increases equity stake in Oxigen Services India

Establishes Blue Label Mexico

**September**
Acquires equity stake in Smart Voucher Limited, trading as Ukash, based in U.K.

## 2011
**February**
Commenced strategic alliance with Grupo Bimbo taking stake in Blue Label Mexico

**June**
Celebrates 10 years in business

Termination of business activities in Nigeria

Increases equity stake in Oxigen Services India

**August**
Dividend No. 2 of 14 cents per share declared

Launch of Blue Label Academy, the internal skills development portal for all staff

**November**
Share buyback and subsequent cancellation of 91,8 million Blue Label shares from Microsoft

The launch of the first Parkrun SA Delta Park enterprise development initiative

**December**
Blue Label qualifies for inclusion in the MSCI Global Small Cap Index

# Milestones continued

## 2005
**February**
Acquires equity stake in SharedPhone International
**May**
Nthwese Investment Holdings Consortium, a BEE consortium, together with the Public Investment Corporation acquires 33.33% stake in BLI

## 2006
**March**
Acquires equity stake in Virtual Voucher
**May**
Acquires interest in Matragon

## 2009
**May**
Commences operations in Nigeria

## 2010
**August**
Maiden dividend of 12 cents per share declared
**December**
Admitted to the JSE SRI Index for the first time

## 2012
**January**
Sale of equity stake in SharedPhone International
Acquires 100% of equity in Multiserv
**August**
Dividend No. 3 of 23 cents per share declared

# Strategic objectives

# Material impacts and risks

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

| Risk | Context | Mitigating factors |
|---|---|---|
| **General economic conditions, including certain political, social and environmental conditions in South Africa** | The economic downturn is expected to persist for some time to come. This could have an adverse effect on revenue and profitability, in spite of the group's historical resilience to adverse economic conditions. | It has been the group's experience over the past 11 years that the diversity of its mix of products and services and distribution channels has limited its exposure to economic downturns. Consumers appear to be unwilling to reduce spending on utilities, transport and airtime. In this regard the group's products are bought rather than sold.<br><br>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, U.K., India and Mexico with particular focus on other emerging markets, typified as large and fast growing with low penetration markets. |
| **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. | Management is confident that based on historical trends, the group will be able to continue 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. In addition, the group is constantly looking to add product and service offerings comparable at higher margins than its traditional business, through the leverage of its significant distribution footprint and merchant relationships. |
| **Further declines in interest rates** | As the group is highly liquid, declines in interest rates have an effect on finance income. | Wherever possible, free cash flow is utilised for early settlements or bulk buying in order to obtain discounts in excess of interest rates. |
| **Non-compliance with legislation** | Non-compliance with legislation applicable to the group could lead to fines and negative reputational impact i.e. POPI, CPA, WASPA legislation, Companies Act, OHSA, Employment Equity Act and industry charters. | A road map is being compiled which will contain the elements of legislation that are applicable to the group and will be closely monitored in order to ensure compliance at all stages. |

# Material impacts and risks continued

| Risk | Context | Mitigating factors |
|---|---|---|
| **Ability to attract and retain skilled resources** | The group's future performance will depend largely on the efforts and abilities of its key personnel and employees. The existing executive management at Blue Label pioneered the mass prepaid market and established the group's business model. Blue Label's 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. | 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.<br><br>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.<br><br>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. |
| **Increasing exposure to issues such as data security, breaches in technology security or privacy** | As the bulk of the group's inventory is of a virtual nature, defence against cybercrime is a top priority as susceptibility to hacking and the penetration of firewalls are always matters of extreme concern. | The group is significantly dependent on the systems and platforms that it utilises to deliver its products and services, as well as to manage its merchant base. Over the past few years, group technology spend has been increasing in recognition of this key imperative, in order to support not only significant growth in the business (and the concomitant rise in the number and type of transactions processed), but also to improve system availability and robustness. This invariably includes a major focus on the security of all systems, both production and enterprise, in order to suitably detect and manage security threats, as well as the ability to recover from damage that may be caused as a result of security-related incidents. |

# Material impacts and risks continued

| Risk | Context | Mitigating factors |
|---|---|---|
| **Elimination of the middle man** | In most industries a wholesaler is at risk of being eliminated from the supply chain if the supplier has the infrastructure and capabilities to supply the customer directly. | 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.<br><br>No single network can offer this complete solution.<br><br>The introduction of the sale of prepaid electricity, and its phenomenal uptake in South Africa, strengthens Blue Label's foothold as a one-stop destination that is most convenient to the retailer. Blue Label's increasing bouquet of products and its aggregation thereof will continue to ensure that its middle man status as distributor is essential to the retailer. The group will continuously develop and upgrade new, innovative products to strengthen the foundation of the middle man. Many merchants have access to limited cash flow, and by utilising BLT's vending solution, this allows them to vend products and services which they previously could not afford to, due to various complexities, i.e. managing stock levels, obsolescence, pilferage at store level, inability to order small quantities, access to limited stock ranges, to name a few.<br><br>Also, the addition of such products and services, and a growing suite of products, necessitates that Blue Label not only excels in the sourcing, management and delivery of these products, and the management of its merchant base, but also that it delivers an excellent supporting back-office capability – including the ability to deliver and manage reconciliation and settlement on behalf of its customers, extensive and professional merchant support services, and deep technology support for online and integrated systems. These competencies make it even more difficult for Blue Label to be disintermediated, because of the significant value that it provides to merchants, not only in the products and services it delivers, but also in respect of the increasingly complex back-office support functionality that is required to deliver such services. |

# Material impacts and risks continued

| Risk | Context | Mitigating factors |
|---|---|---|
| **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. | Management recognises the importance assigned to IT in its corporate governance systems.<br><br>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:<br>→ minimise interruptions to the normal operations;<br>→ limit the extent of disruption and damage;<br>→ minimise the economic impact of the interruption;<br>→ establish alternative means of operation in advance;<br>→ train personnel on emergency procedures; and<br>→ provide for rapid restoration of service and, where possible/required, to ensure high availability/continuity of critical business operations. |

# Ethical business conduct

## 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; and
- 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.

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.

All incidents reported during the period under review were human resource-related matters which were resolved by the group human resources manager.

# Board of directors

**Larry 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

# Board of directors continued

**Kevin Ellerine**
Non-executive director

**Jerry Vilakazi**
Independent non-executive director

**Gary Harlow**
Independent non-executive director

**Neil Lazarus SC**
Non-executive director

**Joe Mthimunye**
Independent non-executive director

# Board of directors continued

## 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 – World of Golf Group, Melrose Nissan-Renault-Infiniti, 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 2011 he shared with his brother Mark the Top Entrepreneur accolade in the African Access National Business Awards.

### Board committee membership:

**Audit, Risk and Compliance Committee:** Attendee
**Executive Committee:** Member
**Investment Committee:** Member
**Remuneration and Nomination Committee:** Attendee
**Transformation, Social and Ethics Committee:** Member

# Board of directors continued

## 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 2011 he shared with his brother Brett the Top Entrepreneur accolade in the African Access National Business Awards.

**Board committee membership:**

**Audit, Risk and Compliance Committee:** Attendee

**Executive Committee:** Member

**Investment Committee:** Member

**Remuneration and Nomination Committee:** Attendee

## 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 2001 and in 2002 took up the role of financial director at Integr8IT Proprietary Limited. Previously as chief financial officer and now financial director of 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:**

**Audit, Risk and Compliance Committee:** Attendee

**Executive Committee:** Member

**Investment Committee:** Member

**Remuneration and Nomination Committee:** Attendee

**Transformation, Social and Ethics 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, Social and Ethics Committee:** Member

## Jerry Vilakazi

***Independent non-executive director***
*BA (Unisa), MA (Thames Valley), MA (London) and MBA (California Coast University)*
*Born: 1962,*

Jerry is the executive Chairman of the Palama Group of companies which he co-founded. He is also the Chairman of Netcare Limited, Mpumalanga Gambling Board, Trubok Proprietary Limited and ExecuPrime Training. He holds directorships in Pretoria Portland Cement Company Limited, Goliath Gold Limited, General Health Group (UK), Tower Group, Kazzi Retail and the Black Management Forum Investments Company. He was recently appointed by President Zuma to the National Planning Commission and the B-BBEE Advisory Council.

**Board committee membership:**
**Audit, Risk and Compliance Committee:** Member
**Transformation, Social and Ethics Committee:** Chairman

## Gary Harlow

***Independent non-executive director***
*BBusSci (Hons) (UCT), FCMA, CGMA, 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.

# Board of directors continued

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:

**Audit, Risk and Compliance Committee:** Member
**Investment Committee:** Chairman
**Remuneration and Nomination Committee:** Member
**Transformation, Social and Ethics Committee:** Member

## 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 specialised in corporate restructures, mergers and acquisitions and was 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 currently discharges both corporate finance and legal mandates for a number of local and international companies but spends most of his time doing advisory work for Blue Label.

### Board committee membership:

**Audit, Risk and Compliance Committee:** Member
**Investment Committee:** Member
**Remuneration and Nomination Committee:** Chairman
**Transformation, Social and Ethics Committee:** Member

## Joe Mthimunye

***Independent non-executive director***
*BCompt (Hons) CTA (Unisa), CA(SA)*
*Born: 1965*

Joe 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

# Senior management

**Larry Pogir**
Executive chairman – Blue Label Data Solutions
BCom

**Etienne de Villiers**
General counsel
BA (LLB)

**Tanya Grota**
Chief technical adviser – Group Finance
BCom (Hons) (Wits), CA(SA)

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

**John Hawthorne**
Chief executive officer – Velociti
BA Communication, BA Liberal Arts (Both Virginia Polytechnic Institute and State University)

**Ingrid Hindley**
Group head of human resources
BSocSci (Hons) (Industrial Psychology) Natal

**Dean Suntup**
Financial director – South African Distribution
BCom (Wits) Hons (Unisa), CA(SA)

# Senior management continued

**Michael Campbell**
Group head of investor and media relations
BProc, FCIS, AIAC, EMP (UCT)

**Niel Barnard**
Chief executive officer – Blue Label Mobile
BSc (Information Technology), MSc (Programme Management), MCSE

**Elizna Viljoen**
Group company secretary
BCom (University of Pretoria), ACIS

**Werner van Reenen**
Chief executive officer – Blue Label Distribution
Honours in Marketing

**Vivian Casaletti**
Group head of marketing
Honours in Marketing, CM(SA)

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

# Chairman's report

**"We continue to focus on diversifying the range of products and services which we offer and expanding our distribution footprint by growing our business organically and by making strategic acquisitions."**

**Larry Nestadt**, Chairman

## Dear Stakeholders

Blue Label continues to deliver on its strategic objective of the distribution of electronic tokens of value in emerging markets. The distribution of physical and virtual tokens is facilitated through the rollout of point of sale devices supported by sophisticated back-end technology.

It has been over 11 years since the Levy brothers commercialised their innovation, commencing with prepaid airtime. The group has since grown into a distributor of a diversified range of products and services. Just as goods are loaded onto railroad networks for delivery, the group continues to build virtual railroad systems for the delivery of goods and services.

I am pleased to report that the South African Distribution, Mobile and Solutions segments all reported growth in the 2012 financial year. On the international front, Oxigen Services India became profitable, while Blue Label Mexico continued to incur losses congruent with its aggressive point of presence rollout initiative. The group's core business in South Africa continues to benefit from the long-term distribution contracts with the major network operators. The international segment is reaping the rewards from strong partnerships forged, particularly in the financial services sector in India and in opening up distribution routes in Mexico.

In November 2011, shareholders approved the specific share buyback of Microsoft's 12% stake in the company, thereby enhancing earnings per share.

# Chairman's report continued

### Strong group performance

The group returned a strong financial performance for the year, which included a once off other income receipt of R79.4 million. Turnover reached R18.7 billion, an increase of 4% on the previous year. EBITDA increased by 26% to R750 million. Gross profit margin in South African Distribution grew by 0.5% from 5.19% to 5.69%. Headline earnings per share increased by 40% to 64.65 cents. The group continues to generate strong cash flows, accumulating into healthy cash balances.

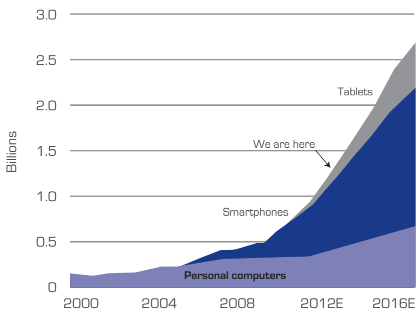
On 20 August 2012, the board approved a gross ordinary dividend, No. 3, of 23 cents per share for the year ended 31 May 2012. Our dividend policy is to pay an annual dividend after taking into account cash flow required for working capital, capital expenditure, share buybacks and acquisitions, while maintaining a dividend of approximately three to four times cover on headline earnings per share. This equates to a pay-out ratio range of 25% to 33.3% of headline earnings per share.

## Industry development

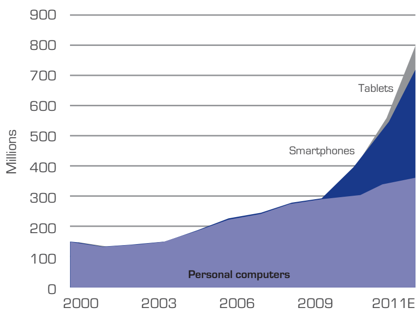
### Something profound has happened in the industry*

As the mobile phone revolution continues gathering momentum, an inflection point was reached late last year when the number of smartphones outsold PCs worldwide. Even though smartphone sales have a relatively low market penetration compared to sales of featurephones, the overall growth in the use of mobile devices indicates that most users will soon be connecting to the internet from a mobile phone, be it for an app use, web searches, viewing, shopping, listening to music, making payments, social networking or advertising.

**Source: The future of mobile by Alex Cocotas and Henry Blodget in Business Insider, 21 March 2012.*




In a few years, the number of devices will dwarf the number of PCs.




The number of smartphones sold exceeded the number of PCs sold.

# Chairman's report continued

### Meeting governance expectations while delivering value sustainably

Stewardship of the group's corporate governance and sustainability practices vests with the board, which in turn is committed to delivering long-term value through sustainable business practices – including the achievement of profits, meeting the needs of stakeholders and conserving the environment.

We run our business taking cognisance of the risks which confront us and the opportunities which are presented to us.

In compliance with the Companies Act and recommendations of King III, the mandate of the current Transformation Committee has been extended to include the functions of a social and ethics committee.

Highlights in our socio-economic development for staff have been the launching of an e-learning platform. In enterprise development, we partnered in setting up the first Parkrun South Africa initiative, focusing on facilitating grassroots running development under the guidance of Bruce Fordyce. During the year ended 31 May 2012, a total of R3.3 million was disbursed, mainly channelled towards youth groups, Aids and health awareness and sport development.

In December 2011, Blue Label qualified for inclusion in the acclaimed MSCI Global Small Cap Index.

### Prospects

We continue to focus on diversifying the range of products and services which we offer and expanding our distribution footprint by growing our business organically and through making strategic acquisitions.

The strong cash generative nature of the business presents an opportunity to utilise our cash effectively by enhancing the yields that the group earns from its cash resources. We will continue to look for appropriate strategic acquisitions, to invest money in growing our product range and footprint and to deploy our surplus cash resources to buy back our shares if the opportunity avails itself.

### Appreciation

As a consequence of the specific share buyback from Microsoft, its nominee to the board, Mr Mteto Nyati, resigned with effect from 5 October 2011. Our thanks to him for his tenure on the board. We also welcomed Mr Jerry Vilakazi as an independent non-executive director on 19 October 2011 and look forward to a long and valuable working relationship with him.

Lastly, I thank Blue Label's board, management team and employees for their contribution to the group's performance this year. On behalf of the board, I thank our joint CEOs Mark Levy and Brett Levy for their enthusiasm and commitment, which is core to the entrepreneurial spirit and culture of the Blue Label group.

**Larry Nestadt**
Chairman

# Interview with our joint CEOs

"If it can be digitised, it can be distributed by us, hence people call us the 'world's virtual railroad – everywhere, anytime'."

**Brett and Mark Levy**, joint CEOs

### Q. What does Blue Label do?

We consider ourselves a lifestyle enabler, as through the deployment and utilisation of a growing number of various types of distribution devices and technologies, we are able to deliver the products and services we sell in the most cost effective and efficient way. If it can be digitised, it can be distributed by us, hence people call us the 'world's virtual railroad', as we deliver various secure electronic tokens of value and services. After building the tracks (integrations and points of sale), we can put as much traffic onto them as the market requires, in that incremental traffic attracts limited additional cost, given the sunken expenditure already incurred on these tracks. In essence, we say that airtime has built the tracks for us, so the profits on any additional products or services, such as electricity, financial services etc, drop straight to the bottom line, with no major incremental costs.

We like to borrow a statement from Mark Zuckerberg of Facebook. "We don't build services to make money; we make money to build better services."

### Q. Please explain the virtual railroad construction analogy you sometimes use to describe the Blue Label business model?

As background, Warren Buffett, the long-term value investor, has for years been acquiring stakes in the US railroad systems, maintaining that railroads are a key economic indicator through the amount of merchandise that they haul. They are cost effective and environmentally friendly and will increasingly continue to be the mode of transportation of goods over the years to come. So too, do we think that railroads represent the future. They are best positioned to haul raw materials and goods for a growing economy, and whatever people bring to the trackside, trains can be readied to haul it. This is true whether you speak to a physical or a virtual world. In Blue Label, we capture this in our strategy: we roll out a myriad of different touch points, being the tracks, for the distribution of goods and services, with a focus on emerging markets. We believe that where we have already created the railroad, our products and services are in demand.

# Interview with our joint CEOs continued

### Q. In general, what makes a good business proposition?

It is relatively easy to start a small business, but it takes a lot more to make it a great business. We like the example of starting out with one product generating, say R6 million per year. Additional products attract no further sunken costs and therefore earnings filter straight to the bottom line. Increase this to ten products and you soon have a R60 million per year enterprise. In short, start small, think big, and do a managed and controlled scale-up over time!

Life is a bit like that as well. That extra mile you put in is usually filled with additional opportunity, especially if you're the only one in that space.

### Q. How do you make the joint CEO role work effectively?

Each of us has his own assigned areas of responsibility, and we have a lean and flat organisational structure, which delegates high levels of responsibility to our management team.

### Q. How did Blue Label perform in the year under review?

All segments put in a strong performance – as each is well managed. A solid foundation has been built, which rebases the platform for delivering another good performance next year. SA Distribution continued to grow, including a pleasing increase in commissions earned on prepaid sales on behalf of the utilities. The exponential rollout of smart meters by the municipalities, being awarded additional contracts with municipalities and customer awareness to the benefits of controlling their own utility spend, all contributed to the growth in this form of revenue.

We should not look only at turnover or sales as the only proxy for our group performance, as there is an increasing shift to sales in which we act as the agent and not the principal. This enhances gross profit margin, without reflecting fully in turnover growth.

In the international segment, the performance from Oxigen India was pleasing, as it finally turned profitable. The POP rollout in Mexico continues to accelerate, which augurs particularly well for the future of this venture and our prospects in the Americas, albeit that the company incurred accelerated losses in this process.

### Q. What keeps you awake at night?

As we are moving more and more to becoming a technology driven company, we employ a high number of specialists. Consequently, there is an overarching need across the group to identify, develop and retain talented and skilled resources. We address this in various ways, including training.

### Q. How do you go about identifying the risks to sustainability?

We are committed to running our business sustainably, and the board oversees this approach by ensuring rigorous risk assessments. This year the procedure was

# Interview with our joint CEOs continued

refreshed to include engaging with the group's subsidiaries in workshops to prioritise their top risks, establish inherent risks, implement controls and consider mitigating actions to arrive at the residual risk exposure.

### Q. And your thoughts on climate change?

We acknowledge the interdependence of profits, people and the planet, the 3P Principle. We are committed to being a positive influence on climate change through the support of relevant activities aimed at reducing any harmful impacts. We believe that the responsible use and management of natural resources are integral to the sustainable development of our 3Ps. Due to the nature of our business our environmental impact is classified as low, but we endeavour to play our part in increasing energy efficiency and reducing carbon emissions. We do 'begin at home', aligning with the national call to conserve scarce resources in supporting staff-awareness campaigns e.g. on water and energy consumption.

### Q. What makes an entrepreneur?

A number of traits characterises us and it's probably no coincidence that we see these in many of the people surrounding us. These include 'nothing is impossible' and a 'can do attitude'. We are often asked to address groups of entrepreneurs, where 'what makes an entrepreneur?' is an FAQ. Our key thoughts usually cover:

**Attitude:** we should not be scared to fail, but we also shouldn't accept failure as an option. If we do fail, we need to learn from it;
**Will:** the will to get up and continue when you fall down. It is true that successful people control their own destiny;
**Spirit:** we don't easily accept 'no' or 'I can't', and we like being able to see a perspective or an angle which other people don't see; and
**Vision:** entrepreneurs have to constantly explore innovation in order to be one step ahead of the game.

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

# Governance framework

## Introduction

The Blue Label governance structure is founded on effective and responsible leadership. The board regards governance as fundamentally essential to the success of the company's business and is committed to applying the principles of good governance in directing and managing the company to achieve its strategic objectives.

## Application of King III

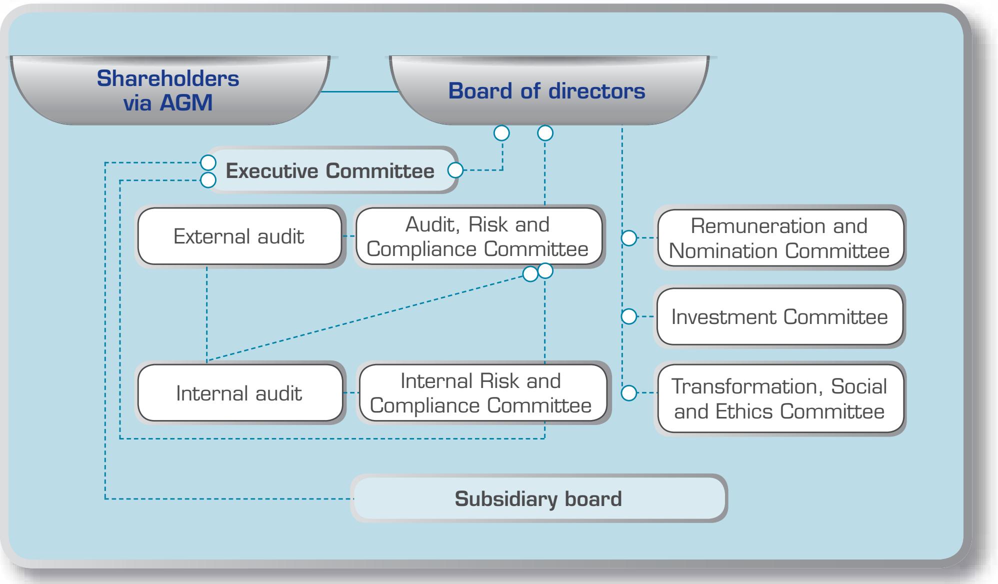
Blue Label is committed to the governance principles of King III and continues to develop its governance policies, practices and procedures in line with an integrated governance, risk and compliance framework. The board is satisfied that every effort has been made in 2011/12 to apply all material aspects of King III as far as appropriate.

During the year under review focus had been placed on areas in which the application of the King III principles could be improved such as IT governance, risk management, integrated reporting structure and processes and compliance. In support of the company's commitment to strengthen its application of the King III principles:

- Internal audit completed a review and follow up review of the maturity of the group's IT governance processes as it relates to King III. Further information on the group's IT environment and governance are set out on pages 43 and 69.
- The group has enhanced its risk assessment procedures to include linkage to strategic objectives, extensive risk categorisation, periodic assessment of risk movements, assessing assurance over risks, prioritised residual risk exposures and action plans.
- Internal audit completed a review of the group's compliance function with the objective of providing assurance on the initiatives taken to date as well as the compilation of a roadmap and advice on a way forward to mature the company's compliance function. More information is available on page 59.

# Governance framework continued

### Governance framework




### Board – role and composition

The board conducts its business in accordance with the principles of King III which includes exercising discipline, independence, responsibility, fairness, social responsibility, transparency and the accountability of directors to all stakeholders. The board remains ultimately accountable for the performance of the company and oversees processes which ensure that each business segment is responsible for acting in accordance with sound governance principles. The board has a formal charter which sets out its role and responsibilities. Key responsibilities are summarised as follows:

- Provide effective leadership based on an ethical foundation.
- Ensure that the company's workplace ethics are upheld effectively.
- Ensure that the company has an effective and independent audit, risk and compliance committee.
- Contribute towards and approve the strategic direction of the company.
- Satisfy 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.
- Ensure that the strategy will result in sustainable outcomes taking into account financial, environmental and social objectives as approved by the board.
- Ensure the integrity of the company's integrated annual report.

# Governance framework continued

- Define levels of authority, define areas of materiality and approve a framework for delegated authority.
- Report on the effectiveness of the company's system of internal controls.
- Be responsible for the governance of risk through effective risk management practices, including regularly reviewing and evaluating risks to the company and ensuring the existence of an effective risk-based internal audit as well as appropriate internal controls.
- Ensure that Blue Label is and is seen to be a responsible corporate citizen.
- Identify, manage and monitor the gap between stakeholder perceptions and the performance of the company so as to manage Blue Label's reputation.

Assessments of the performance of the board collectively and the directors individually were conducted in May 2012. The board was assessed on its effectiveness and composition, board dynamics, risk management, ethical leadership and corporate citizenship, remuneration of directors and succession planning. Individual directors were appraised in terms of knowledge, skills and execution of duties. The results were summarised in a report from the company secretary to the chairman of the board.

In the same process, the directors formally assessed the performance of the chairman, which was reported to the board by the chairman of RNC. All assessments are approached in a constructive manner with a view of improving the effectiveness of the board, the chairman and the directors.

Blue Label has a unitary board of ten directors: four executive directors, two non-executive directors and four independent non-executive directors. The chairman is an independent non-executive director.

The RNC, 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 RNC. Following its recommendation, the board appointed Mr JS Vilakazi as an independent non-executive director to the board. Mr Vilakazi's induction as a director of Blue Label was in line with his experience as a non-executive director in a listed company environment and involved one-on-one meetings with executive management to gain a more in-depth understanding of the group and the industry it operates in.

In terms of the company's memorandum of incorporation, directors are subject to retirement by rotation every three years. In this regard Messrs GH Harlow and NN Lazarus SC will be retiring at the upcoming annual general meeting and being eligible, have made themselves available for re-election. Mr Vilakazi will also be retiring and being eligible, has made himself available for election at the forthcoming annual general meeting in accordance with article 13.16 of the company's memorandum of incorporation. The detailed categorisation of the directors as well as a brief curriculum vitae of each director appears on pages 22 to 25.

The RNC regularly canvasses opportunities to strengthen the board with individuals whom it believes can make an active and positive contribution to the continuing development and growth of the company.

## Subsidiary boards

Subsidiary board meetings are held quarterly, ahead of the Blue Label board meeting. Two non-executive directors on the Blue Label board i.e. Messrs Harlow and Ellerine, serve as directors on the boards of The Prepaid Company and Blue Label Distribution, while Mr Harlow serves as a director and chairman on the board of Cellfind, Blue Label One, Velociti and Blue Label Data Solutions.

# Governance framework continued

## Board committees

The board has delegated certain functions to well-structured committees without abdicating its own responsibilities. The board approved, in February 2012 to reconstitute the Transformation Committee into the Transformation, Social and Ethics Committee, in compliance with the requirements of the Act. This was done to align Blue Label's already well-established transformation practices with regulatory requirements and to enhance the group's social and ethical activities and reporting.

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

| Committee | Member and attendees | Frequency of meetings | Principal activities |
|---|---|---|---|
| **Executive** | BM Levy<br>MS Levy<br>MV Pamensky<br>DB Rivkind<br>DA Suntup | Weekly | → Implementing strategies and policies of the company<br>→ Managing the business of the company<br>→ Senior management appointments and performance management<br>→ Prioritising the allocation of capital, technical and human resources<br>→ Reviewing and approving acquisitions, disposals and investments up to R40 million per transaction (or in any one year) |
| **Audit, Risk and Compliance** | JS Mthimunye<br>GD Harlow<br>NN Lazarus SC<br>BM Levy<br>MS Levy<br>DB Rivkind<br>DA Suntup<br>JS Vilakazi | Quarterly | More information on the activities and responsibilities of the committee is included on pages 57 to 60. |

# Governance framework continued

| Committee | Member and attendees | Frequency of meetings | Principal activities |
|---|---|---|---|
| **Remuneration and Nomination** | NN Lazarus SC<br>KM Ellerine<br>GD Harlow<br>BM Levy<br>MS Levy<br>DB Rivkind | Bi-annual | → 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 or as it is designated to consider<br>→ Review, for recommendation to the board, the design of, and targets for, the company's Forfeitable Share Plan<br>→ Determine annually whether awards are to be made under the Forfeitable Share Plan and the overall and individual amounts of such awards<br>→ Recommend to the board the remuneration of non-executive directors for approval by shareholders<br>→ Identify and nominate candidates, for the approval of the board, to fill vacancies as and when they arise<br>→ 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<br>→ More information on the activities and responsibilities of the remuneration committee is included on pages 52 to 56. |
| **Trans-formation, Social and Ethics** | JS Vilakazi<br>MJ Campbell<br>KM Ellerine<br>GD Harlow<br>IJ Hindley<br>NN Lazarus SC<br>BM Levy<br>DB Rivkind (alternate to BM Levy) | Quarterly | The main function of the committee is to monitor the company's activities and compliance with legislation relating to equality, black economic empowerment, good corporate citizenship, the environment, health, public safety and consumer and labour relations as well as to advise the board of directors where necessary and appropriate. More information on the activities and responsibilities of the committee is included on page 40. |
| **Investment** | GD Harlow<br>DR Hilewitz (Consultant)<br>NN Lazarus SC<br>BM Levy<br>MS Levy<br>JS Mthimunye<br>MV Pamensky<br>DB Rivkind<br>DA Suntup | Ad hoc, minimum 2 | → Review acquisitions, investments and disposals made within the Executive Committee's mandate<br>→ Review, consider and approve proposed acquisitions, investments and disposals of the group recommended by the Executive Committee ranging between R40 million and R100 million per transaction<br>→ Recommend to the board acquisitions and investments of the group above R100 million<br>→ Review the performance of each investment and acquisition made. |

# Governance framework continued

## Attendance at board and committee meetings

| | BOD | Ad hoc committee meeting | ARCC | RNC | TSE | IC |
|---|---|---|---|---|---|---|
| | A | A | A | A | A | A |
| LM Nestadt | 4 | 1 | NM | NM | NM | NM |
| BM Levy | 4 | NM | 3 | 2 | 1 | 6 |
| MS Levy | 4 | NM | 4 | 3 | NM | 6 |
| KM Ellerine | 4 | NM | NM | 3 | 2 | NM |
| GD Harlow | 4 | 1 | 4 | 3 | 2 | 6 |
| NN Lazarus SC | 4 | 1 | 4 | 3 | 2 | 6 |
| JS Mthimunye | 2 | 1 | 3 | NM | NM | 3 |
| MV Pamensky | 4 | NM | NM | NM | NM | 4 |
| DB Rivkind | 4 | 1 | 4 | 3 | 1 | 4 |
| M Nyati (Note 1) | 1 | NM | NM | NM | NM | NM |
| LM Tyalimpi (Note 2) | 2 | 1 | 2 | NM | 1 | NM |
| JS Vilakazi (Note 3) | 2 | NM | NM | NM | NM | NM |
| DA Suntup | NM | NM | 4 | NM | NM | 6 |
| IJ Hindley | NM | NM | NM | NM | 2 | NM |
| DR Hilewitz | NM | NM | NM | NM | NM | 6 |

*Notes to the attendance register:*
*1. M Nyati – resigned 5 October 2011*
*2. LM Tyalimpi – resigned 30 August 2011*
*3. JS Vilakazi – appointed 19 October 2011*

A – Attended
NM – Non-member

# Governance framework continued

### Transformation, Social and Ethics

The board at its meeting held in February 2012 agreed to reconstitute the Transformation Committee to the Transformation, Social and Ethics Committee.

The committee held its inaugural meeting in July 2012 and amended its terms of reference to include the requirements of the Companies Act No 71 of 2008, as amended, in regard to this type of committee. The committee was reconstituted as follows:

| Transformation Committee | Transformation, Social and Ethics Committee | Reconstitution |
|---|---|---|
| GD Harlow (Chairman) | GD Harlow (Member) | Handed chairmanship over to JS Vilakazi |
| | JS Vilakazi (Chairman) | Newly appointed chairman |
| KM Ellerine (Member) | KM Ellerine (Member) | No change |
| BM Levy (Member) | BM Levy (Member) | No change |
| DB Rivkind (Alternate member to BM Levy) | DB Rivkind (Alternate member to BM Levy) | No change |
| IJ Hindley (Invitee) | IJ Hindley (Member) | Appointed member |
| | NN Lazarus SC (Member) | Appointed member |
| | MJ Campbell (Member) | Appointed member |

The role of the committee is to monitor the company's activities with regard to matters relating to:

- social and economic development, including the company's standing in terms of goals and purposes of United Global Compact Principles, the OECD recommendations regarding corruption, the employment equity act and broad-based black economic empowerment;
- good corporate citizenship, including promotion of equality, prevention of unfair discrimination, corporate social investment and the recordal of sponsorship, donations and charitable giving;
- environment, health and safety including the impact of the company's activities and of its products and services;
- consumer relationships including the company's advertising, public relations and compliance with applicable legislation; and
- labour and employment.

The committee is furthermore mandated to draw matters within its mandate to the attention of the board as appropriate, to report to the shareholders via the integrated annual report on the matters within its mandate, oversee the implementation of an ethics management programme and revisit the values of the company and its code of conduct.

# Governance framework continued

The role and function of the previous Transformation Committee has been incorporated into the social and economic development activities of the TSE Committee. The committee will be meeting quarterly.

## Non-executive directors

The non-executive directors bring leadership, judgement and insight to the board. They have access to management and may engage 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, 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 amounted to R0.7 million in respect of Mr Harlow (2011: R1.3 million) and R5.1 million in respect of Mr Lazarus SC (2011: R4.6 million). The majority of the fees paid to Mr Lazarus SC pertained to legal consultancy services regarding litigation which the group is involved in, commercial negotiations and contracts relating to the business of the group, and certain corporate finance services in respect of acquisitions and disposals.

## Company secretary

The company secretary is responsible for the efficient administration of the group in accordance with the Act, King III and the JSE Listings Requirements. She ensures that all directors have full and timely access to all information that may be relevant to the proper discharge of their duties and obligations. This includes information incorporated in board documentation, corporate announcements, and any other information or developments which may affect Blue Label or its operations. Directors and prescribed officers have direct access to the guidance and assistance of the company secretary in regard to matters relating to, inter alia, their duties and responsibilities, meeting management, ethics and governance matters, compliance with statutory and regulatory requirements and policies and procedures. The company secretary facilitates, where appropriate, the procurement of services of independent professionals and advisers.

The company secretary is also responsible for ensuring that the proceedings and affairs of the directorate, the company itself and, where appropriate, stakeholders of the company are properly administered in accordance with the relevant laws and regulations.

# Governance of risk

The board accepts responsibility for risk governance and is committed to managing risks to ensure that the company achieves its mission and key objectives. The ARCC has been mandated to assist the board in carrying out its risk responsibilities. Management has formed an IRCC with the mandate to support the enterprise-wide risk approach by identifying, evaluating and measuring group-wide risks and compliance in all functional areas of the group and maintaining adequate internal controls. The IRCC reports to the ARCC bi-annually.

Blue Label continues to develop and enhance its enterprise-wide risk management programme (ERM). The objective of the ERM is to provide a proactive and comprehensive programme for group wide risk identification, prioritisation of key risks, the assessment of perceived control effectiveness, development of operational responses, action plans and monitoring progress. Internal audit plays an important role in evaluating the risk management process and guiding management to continued improvement. The internal audit function does not take any direct responsibility for making risk management decisions or managing the risk management function.

Internal audit facilitates strategic risk assessments. The outcome of the risk assessments are integral in developing a plan for audit engagements for the forthcoming year. The audit plan is tabled for approval by the ARCC and implementation progress is reviewed on a quarterly basis, ARCC ensures that the plan remains relevant to the business, with changes agreed as appropriate.

The strategic risk assessment conducted involved risk identification interviews with key members of executive management, non-executive directors and senior management at subsidiary level. This was followed with workshops to confirm risks and ratings assigned. This bottom-up approach ensures the determination and development of risk profiles at subsidiary and holding company levels. The governance of risk at subsidiary level is considered through the achievement of business strategies that are aligned to the group strategy. At holding company level, risk governance is considered through the management of top risks that impact on the group's ability to achieve its strategic objectives. The group's top strategic risks are listed on pages 15 to 18.

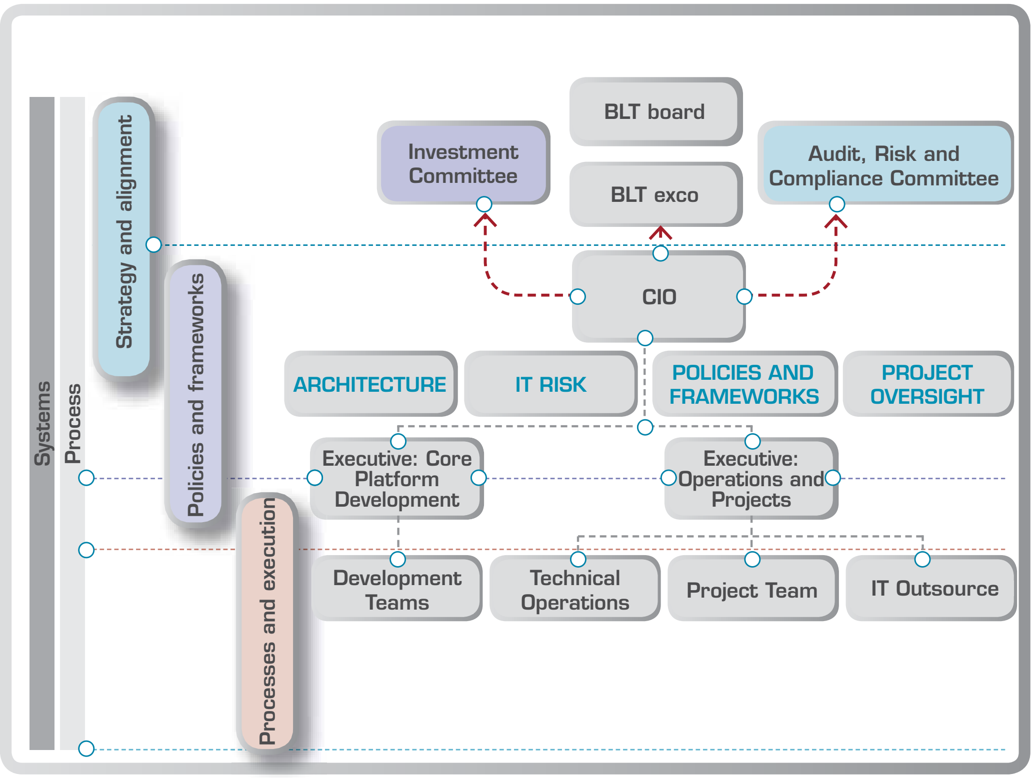
Management recognises the importance of the risk assessment process and has identified and implemented mitigating measures and controls as deemed appropriate. Risk owners, middle and senior managers are responsible for the implementation of the mitigating measures in their respective areas. The information flowing from the risk assessment, including mitigating measures and controls, will be summarised into a meaningful risk map for presentation to the board. The risk map will be utilised by the board to determine the specific risk appetite and tolerance in the pursuit of its objectives.

# Technology governance

The group has developed proprietary technology supporting its bouquet of products and services. Technology is core to the Blue Label business model and forms a critical part of our governance structure, policies and procedures. The group's Technology segment is managed by Dr Roussos, chief information officer, reporting to Mr M Levy, joint CEO.

The technology operating framework supports the alignment of processes and execution of policies and procedures in order to achieve the strategic objectives and business needs. This framework embraces the management of performance, information security, information management, business continuity management and disaster recovery. The group acknowledges that the recommendations of King III in regard to technology governance have not been fully applied as yet. This area of the governance structure will continue to be a focus area in the ensuing financial year.

## Organogram and structure – Technology



# Stakeholder relations

The board has the ultimate accountability for stakeholder strategy and engagement, while the responsibility for satisfactory stakeholder relationships vests with every employee in the group, as we recognise that a good reputation is a competitive advantage.

The nature of the relationships with our stakeholders can affect our reputation and therefore our ability to create value. We approach stakeholders with trust and respect and look to them for that same mutual good faith. A broad range of internal and external stakeholders having a material interest in or who are affected by us, have been identified.

We recognise the importance of identifying issues of a shared interest, but also value the opportunity of engagement, as it provides a unique insight into the expectations of each stakeholder group. We have a deliberate and measured approach to interacting with and responding to stakeholders. The process we adopt takes into account the impact that each stakeholder group may have on our business, while the frequency and form of engagement is aligned to its estimated impact.

Some of the initiatives and methods used in the process of engaging with stakeholders comprise face-to-face formal or informal, individual or group meetings (including the annual general meeting); media and stock exchange announcements; presentations; roadshows; conference calls; the Blue Label website (www.bluelabeltelecoms.co.za); investor days; site and trade 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, formal consultations and audit processes; and management and sales conferences. Dialogue, review and feedback is encouraged wherever possible which in turn is presented to Exco for consideration and/or further action.

# Stakeholder relations continued

| Stakeholder group | Nature of engagement | Method of engagement | Dialogue process and outcomes |
|---|---|---|---|
| **Employees** | Ongoing communication with employees covers matters of an operational nature such as new developments, product launches, health and safety initiatives, internal policies and practices such as the ethics hotline, new products, competitions, business initiatives, charitable initiatives, human resource matters and staff related news and regulatory and compliance matters. | Staff meetings, newsletters, posters, e-mail, staff notices posted on notice boards, in canteen and in lifts, lunch and coffee station discussions, management presentations and briefings of performance. | Innovation in our entrepreneurial environment is nurtured, while motivation and values are reinforced in a safe and rewarding environment. Staff performance is reviewed annually with the intention of measuring performance and reviewing salary. It also provides a forum for staff to make recommendations and/or requests. |
| | Blue Label also holds an annual conference attended by senior management. The purpose of the conference is to obtain input and feedback from attendees on strategic and common operational matters. Each segment hosts its own management and strategy conference, held at least once a year. | Discussion groups, breakaway sessions, motivational speakers. | |

# Stakeholder relations continued

| Stakeholder group | Nature of engagement | Method of engagement | Dialogue process and outcomes |
|---|---|---|---|
| **Providers of capital, including shareholders, institutional and retail investors and financial analysts** | Engagement includes ongoing and/or ad hoc meetings with top management and often involves presentations covering financial performance of the group, overview of strategic direction, and discussion of the investment proposition.<br>Visits to the Demonstration Room at No 75 Grayston Drive and visits to customer's sites are arranged on request.<br>Names of individuals from this stakeholder group and their contact details are registered on the Blue Label investor database. | Integrated annual report and annual general meeting.<br>Press announcements of interim and year end results.<br>SENS announcements via the JSE.<br>Face to face meetings, group meetings, conference and video conference calls.<br>Speaker at investor conferences and workshops.<br>Investor alerts are e-mailed after website registration. See detailed typical annual calendar programme below. | To address this stakeholder group's request to increase its understanding of the business model, its products and services, management is available to take meetings and conference calls throughout the year, subject to close period dates. Presentations are posted on the company's website.<br>The company's Demonstration Room, at which transactions are simulated on various types of terminals, remains popular with visitors, with over 50 guests from this stakeholder group hosted in the review year. |

## Engagement programme

Typical investor relations and media engagement programme of activities for a calendar year include:

| | J | F | M | A | M | J | J | A | S | O | N | D |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Results announcement for the year ended 31 May released on SENS and posted to website | | | | | | | | ✓ | | | | |
| Dividend declared | | | | | | | | ✓ | | | | |
| Dividend paid | | | | | | | | | ✓ | | | |
| Results presentation to market – Johannesburg and webcast, materials posted to website | | ✓ | | | | | | ✓ | | | | |
| Results roadshow to institutional investors and sellside analysts – SA | | ✓ | | | | | | ✓ | | | | |
| Results roadshow to institutional investors and sellside analysts – UK and USA | | | ✓ | | | | | | ✓ | | | |
| Integrated annual report posted to website and notice of annual general meeting posted to shareholders | | | | | | | | | | ✓ | | |
| Annual general meeting | | | | | | | | | | | ✓ | |
| Interim results announcement for the six months ended 30 November released on SENS and posted to website | | ✓ | | | | | | | | | | |
| Conference call by management to update market on specific activities/operations | | | | | ✓ | | | | | | | |
| Participation at investor conferences | | | ✓ | ✓ | ✓ | | | | ✓ | ✓ | ✓ | |
| Site visits | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Top management engages investors, analysts, media | | | ✓ | ✓ | ✓ | | | | ✓ | ✓ | ✓ | |
| Close period | ✓ | ✓ | | | | ✓ | ✓ | ✓ | | | | ✓ |

# Stakeholder relations continued

| Stakeholder group | Nature of engagement | Method of engagement | Dialogue process and outcomes |
|---|---|---|---|
| **Journalists, reporters, editors and other members of the media** | Announcements of activities and events in the group, including the release of financial information twice a year, are communicated timeously to the financial media, trade press and other interested media registered on the Blue Label media database. Briefings to media are held at the interim and full year results, followed by Q&A. One-on-one interviews are conducted on radio, TV and with print journalists and editors. | News releases are distributed to media and news services. | To raise this stakeholder group's interest and awareness of our business, products and services, a number of media site and trade visits, including the Demonstration Room, were held during the year. |

# Stakeholder relations continued

| Stakeholder group | Nature of engagement | Method of engagement | Dialogue process and outcomes |
|---|---|---|---|
| **Customers** | The group's customer base comprises corporate clients, chainstores, large independent retail clients, wholesale/cash-and-carry stores, mom & pop stores and petroleum forecourts. Engagement involves sharing information on new products, market trends, business queries, device installations, marketing, Blu Approved branding, maintenance and support and other growth opportunities. Senior management liaises regularly with their counterparts at customers and suppliers, and in so doing, have built long-term relationships furthering growth opportunities. | A dedicated, national helpdesk operating daily. from 07:00 to 21:00 with a team of customer relationship and technical support consultants.<br><br>Face-to-face formal and informal meetings, and formal consultation.<br><br>The company has a CRM system, with dedicated CRCs, to enhance its customer engagement. | Price and value for money drive this stakeholder group. FAQs by customers usually involve technical matters or account queries, so it's essential that these are expeditiously resolved to impart a greater sense of value to the customer. A call out is logged for technical matters and a technician will visit the site within 24 to 48 hours. Account queries needing escalation are dealt with by a CRC who will visit the merchant. The Contact Centre sends regular updates to the merchant base through SMS and e-mail communication.<br><br>CRCs and Regional Managers maintain good relationships through a set call cycle to ensure open communication and updates on new product offerings. Support is also provided for point of sale material, branding, minor repairs and maintenance and a key focus is given to up-sell and cross-sell opportunities within the group's listed products. |

# Stakeholder relations continued

| Stakeholder group | Nature of engagement | Method of engagement | Dialogue process and outcomes |
|---|---|---|---|
| **Business partners and suppliers** | The relationships with business partners such as Vodacom, MTN, Cell C, Telkom, Eskom, municipalities, utilities and parastatals, and 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.<br><br>Suppliers are subjected to a formal procurement process, when issues such as quality of product, creditworthiness and B-BBEE status are confirmed prior to their appointment. Suppliers of services are, if appropriate, initially engaged through a tender process and where successful, agreements are concluded. The majority of the group's goods and services are procured from locally based suppliers. | Distributor and/or dealer agreements.<br><br>Face-to-face formal and informal meetings.<br><br>Site visits are held on request. | We recognise that we need to work co-operatively with this stakeholder group to ensure quality and value for money products and services. Matters raised pertain mostly to technical and operational issues, which are resolved timeously to ensure smooth service delivery. |

# Stakeholder relations continued

| Stakeholder group | Nature of engagement | Method of engagement | Dialogue process and outcomes |
|---|---|---|---|
| **Communities and educational institutions** | In deepening our understanding of the interests of the community in which we operate, while enhancing trust and relationships, 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 not only to distribute the group's products more widely but also to create job opportunities for the members of the communities and to share a portion of the revenues earned with these communities.<br><br>Senior executives, like the group company secretary and the head of investor and media relations, also engage with the business community on a regular basis.<br><br>Senior executives, including the joint CEO's, are involved in collaborative projects with the Gordon Institute of Business Science (GIBS) and the Milpark Business School's MBA programmes.<br><br>The joint chief executive officers are regularly recognised for their contributions to the community, as detailed in each person's biography on pages 22 and 23. | Face-to-face formal and informal meetings and forums.<br><br>Training and workshops. Outreach programmes as requested.<br><br>Presentation at conferences, participation in panel and round-table discussions.<br><br>Address public conferences, round-table sessions on governance and sustainability.<br><br>Frequent engagement with lecturers and students in formal and informal settings. Case studies assist the company and the community in better understanding achievements and failures. | In support of contributing responsibly to broader societal issues, the communities in which the TPC Community Channel operates, are concerned about the upliftment of their community, the enhancement of skills and the delivery of services in their, mostly rural, areas. This concern is directly addressed by the Community Channel, as it focuses on providing services to these communities as well as creating job opportunities and economic upliftment.<br><br>This provides extra-mural stimulus for staff and enables them to extend their networks.<br><br>This enables the group to gain quick access to talented individuals, while gaining direct line of sight into academia, where it may be able to offer and receive learnings. This year Blue Label was profiled in the book *New Markets, New Mindsets,* by Tashmia Ishmail and Nicola Kleyn. |

# Stakeholder relations continued

| Stakeholder group | Nature of engagement | Method of engagement | Dialogue process and outcomes |
|---|---|---|---|
| **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 perspective, 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 personal meetings, written communications, and tender processes. | Our good reputation is our licence to operate and we therefore have to uphold our stature with all stakeholders. 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. |

# 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.

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 Messrs 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.

While 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 group's remuneration philosophy strives to reward employees in a fair and responsible way and to ensure a culture of high performance through employees who are motivated, engaged and committed while achieving a balance between shareholder interests and appropriate 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.

## Governance

The key duties of the committee include:

- ensuring that the group upholds its entrenched remuneration philosophy;
- ensuring that the combination of fixed and variable pay is appropriate when benchmarking remuneration levels;
- reviewing the incentive schemes to ensure the continued contribution to growth in shareholder value;
- reviewing incentive schemes to ensure that these are administered and implemented in terms of the rules and performance targets;
- reviewing the remuneration of executive directors and senior management; and
- making recommendations to the board regarding non-executive remuneration for ultimate approval by shareholders.

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.

Additional governance principles applicable to the composition and principal activities of the committee are more fully set out on page 38 of this report.

# Remuneration report continued

## 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. 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.

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.

## Fixed remuneration

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

Salary increases for the forthcoming financial year range from 0% to 6% in bands of 0%, 2%, 4% and 6%. 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 annual pay increase of the executive directors for the forthcoming year is 6%.

Details of the directors' remuneration for the year ended 31 May 2012 appear on pages 184 to 189. The emoluments paid to the three most senior members of management are set out on page 54. The company has decided not to disclose the identity of the three most senior members of management, due to the competitive nature of their positions in the market, their specialised skills and value to Blue Label, and because the committee is of the opinion that such information is private to the individuals concerned and the disclosure of their identities does not add value to stakeholders.

# Remuneration report continued

Emoluments of the three most senior members of management are:

| Employee | Salary, allowances and benefits (R'000) | Bonus (R'000) | Total (R'000) | Fair value of forfeitable shares as at 31 May 2012 (R'000) |
|---|---|---|---|---|
| 1 | 3 426 | 1 713 | 5 139 | 3 088 |
| 2 | 2 637 | 1 846 | 4 483 | 3 329 |
| 3 | 2 862 | 1 431 | 4 293 | 2 580 |

## 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.

The group's performance for the 2012 financial year achieved the levels required in terms of the group's predetermined target for growth in headline earnings per share. In addition, the non-financial targets set for the executive directors and senior management were also met. The achievement of these targets resulted in the joint chief executive directors being paid a bonus of 120% of their annual salaries and the financial director and chief operating officer being paid a bonus of 70% of their annual salaries.

After taking external advice and due consideration, the bonus parameters for executive directors and senior management for the 2013 financial year have been determined as follows:

### 1. Executive directors

CEOs 120% of annual salary, FD and COO 70% of annual salary, of which 80% will apply to financial criteria and 20% to non-financial criteria.

→ Financial (80%)
- If growth in headline earnings per share is less than CPI, no element of the 80% will be paid.
- If growth in headline earnings per share is equal to CPI plus 10%, then 70% of the 80% will be paid either in full or pro rata, as the case may be.
- If growth in headline earnings per share exceeds CPI plus 10%, then an additional 30% of the 80% will be paid.

→ Non-financial (20%)
The following criteria will be taken into account to determine qualification for the 20%: leadership, corporate governance best practice, strategy implementation and risk mitigation.

### 2. Executive and senior management

A maximum of 50% of annual salary will be paid, of which 80% will apply to financial criteria and 20% to non-financial criteria.

The financial criteria will be split as to 60% on the performance of the subsidiary and 20% on the group performance.

→ Financial per subsidiary (60%)
- If growth is less than CPI, no element of the 60% will be paid.
- If growth in headline earnings per share is equal to CPI plus 10%, then

# Remuneration report continued

70% of the 60% will be paid either in full or pro rata, as the case may be.
– If growth in headline earnings per share exceeds CPI plus 10%, then an additional 30% of the 60% will be paid.

- Group performance (20%)
  – If growth is less than CPI, no element of the 20% will be paid.
  – If growth in headline earnings per share is equal to CPI plus 10%, then 70% of the 20% will be paid either in full or pro rata, as the case may be.
  – If growth in headline earnings per share exceeds CPI plus 10%, then an additional 30% of the 20% will be paid.

- Non-financial (20%)
  The following criteria will be taken into account to determine qualification for the 20%: leadership, corporate governance best practice, strategy implementation and risk mitigation.

## Forfeitable share plan

The forfeitable share scheme vesting criteria for the 2012 financial year was 25% for retention, 25% for the achievement of non-financial indicators and 50% determined with reference to growth in CPI plus 15% over the three-year vesting period.

Vesting of the 2009 share scheme allocations fell due in September 2012. The shortfall between CPI plus 15% and the growth in core headline earnings per share over this period was 6.77%. The company determined that 11.37% of the shares allocated in 2009 should be forfeited to accord with the shortfall between the target set and the target achieved.

After taking external advice and due consideration, the vesting criteria for the forfeitable shares allocated in September 2012 for vesting over the next three years is as follows:

- 40% for retention (three years from date of award), and
- 60% financial (50% for growth in core headline earnings per share and 10% based on total shareholder return).

The 50% for growth in core headline earnings per share will be based on the following criteria:

- If growth is 5% above CPI over three years, then 20% of the 50% will vest.
- If growth is 10% above CPI over three years, then an additional 50% of the 50% will vest.
- If growth is 25% above CPI over three years, then a further 30% of the 50% will vest.

The 10% for total shareholder return will be based on a 10% compound growth in the share price over the three-year vesting period measured with reference to the weighted average price per share during the month of the commencement of the allocation and the weighted average share price for the month during which the vesting takes place, plus dividends over the three-year period.

## 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 undertaking 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

# Remuneration report continued

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 are reflected on pages 184 and 185.

The group intends to continue to use the services of Messrs GD Harlow and NN Lazarus SC during the forthcoming 2013 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 20 August 2012 that non-executive directors' remuneration be increased for the 2013 financial year by 6% subject to the approval of shareholders.

The proposed fees payable to non-executive directors are set out below:

| | Current fee per meeting | Proposed fee per meeting* | Proposed capped fee per annum** |
|---|---|---|---|
| Services as directors | | | |
| – Chairman of the board | – | | R795 000 |
| – Board members | R34 340 | R36 400 | R182 000 |
| Audit, Risk and Compliance Committee | | | |
| – Chairman | R47 694 | R50 556 | R202 224 |
| – Member | R28 617 | R30 334 | R121 336 |
| Remuneration and Nomination Committee | | | |
| – Chairman | R38 155 | R40 444 | R161 776 |
| – Member | R22 894 | R24 268 | R97 072 |
| Investment Committee | | | |
| – Chairman | R28 617 | R30 334 | R242 672 |
| – Member | R17 170 | R18 200 | R145 600 |
| Transformation, Social and Ethics Committee | | | |
| – Chairman | R28 617 | R30 334 | R121 336 |
| – Member | R17 170 | R18 200 | R72 800 |
| Ad hoc committee | | | |
| – Chairman | R28 617 | R30 334 | R121 336 |
| – Member | R17 170 | R18 200 | R72 800 |

**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.*

# 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 2012.

The committee is an independent statutory committee appointed by the shareholders of the company. In addition to its statutory duties the board has delegated further duties to the committee. This report includes both these sets of duties and responsibilities.

## Mandate and terms of reference

The ARCC operates within a formal board approved mandate and terms of reference. The responsibilities of the ARCC include the following:

- Examining and reviewing the group's financial statements and reporting of interim and final results.
- Reviewing and considering, for recommendation to the board, the consolidated budget for the ensuing financial year.
- Overseeing integrated reporting.
- Overseeing the Internal Risk and Compliance Committee function.
- Monitoring the risk management framework and assess the risks impacting the group's ability to achieve its strategic objectives.
- Reviewing and satisfying itself of the expertise, resources and experience of the Blue Label finance function.
- Overseeing the internal audit function and internal financial control process.
- Recommending the appointment of the external auditor and overseeing the external audit process including their audit fee, independence, nature and extent of any non-audit services.
- Monitoring compliance activities.

## Composition and procedures

In line with the requirements of the Act, Messrs JS Mthimunye, GD Harlow and NN Lazarus SC were elected members of the committee at the annual general meeting that was held on Tuesday, 22 November 2011.

Members of the ARCC during the period under review included the following directors:

Mr JS Mthimunye (Independent non-executive chairman)
Mr GD Harlow (Independent non-executive director)
Mr NN Lazarus SC (Non-executive director), and
Ms LM Tyalimpi (Independent non-executive director)

Ms LM Tyalimpi resigned from the board on 30 August 2011. On the recommendation of the ARCC, the board appointed Mr JS Vilakazi to the committee in February 2012. All of the members of the ARCC, save for Mr Lazarus SC, are independent non-executive directors. Mr Lazarus SC has specialist professional skills and experience and makes an important contribution to the work of the committee.

The committee meets quarterly and the quorum for an ARCC meeting is three members present throughout the meeting. Mandatory attendees at the meetings are the joint chief executive officers, the financial director of Blue Label and the financial director of TPC. The audit partner from PwC and a director from KPMG Services Proprietary Limited to whom Blue Label outsources its internal audit function are also attendees. Both internal and external audit are afforded the opportunity to address the meeting. They have unlimited access to the chairman of the committee. The internal audit function reports directly to the ARCC and is also responsible to the financial director on day-to-day administrative matters.

Refer to page 39 for the attendance register of the committee.

# Report of the Audit, Risk and Compliance Committee continued

## Duties discharged

For the financial year ended 31 May 2012, the ARCC carried out its duties as set out in its terms of reference and section 94(7) of the Act as follows:

- Reviewed and commented on the annual financial statements, interim reports, announcements and the accounting policies 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 thereto.
- Nominated the re-appointment of PwC, with Mr Eben Gerryts the audit partner, as the registered independent auditors.
- Approved the fees to be paid to PwC and other external auditors, where applicable, and approved the terms of engagement.
- Monitored compliance with accounting standards and legal requirements.
- Ensured that all regulatory compliance matters had been considered in the preparation of the financial statements.
- Maintained a non-audit services policy which determines the nature and extent of any non-audit services that PwC may provide to the group.
- Discharged those statutory duties as prescribed by section 94 of the Act 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 2011/12 audit plan and furthermore approved the internal audit plan for the 2012/13 financial year.
- Considered the effectiveness of internal audit.
- Considered internal audit findings and corrective actions taken in response to such findings.
- Monitored bi-annual risk assessments.
- Considered the adequacy of internal financial controls.
- Reviewed developments in corporate governance and best practice and considered their impact and implications on the group with particular reference to the principles of King III.
- Satisfied itself that the Financial Director is suitable and appropriately qualified to fulfil his role.
- Ensured that the finance function of Blue Label is suitably resourced and skilled to carry out its obligations.
- Reviewed the text of various reports for inclusion in Blue Label's Integrated Annual Report 2012.

## External auditors and non-audit services

The ARCC has satisfied itself as to the independence of the external auditor, PwC, as set out in section 94(7) of the Act, 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 PwC that internal governance processes within the firm support and demonstrate their claim to independence.

# Report of the Audit, Risk and Compliance Committee continued

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2012 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 2012, comprised tax advisory services, tax compliance services and general advisory services. The fees applicable to the aforementioned services totalled R1.4 million (2011: R3.4 million).

The ARCC has nominated, for approval at the annual general meeting, the re-appointment of PwC as registered auditors for the 2013 financial year and Mr Eben Gerryts, the audit partner, as the independent registered auditor of Blue Label Telecoms. The committee also satisfied itself that PwC is accredited and appears on the JSE List of Accredited Auditors as contemplated in paragraph 3.86 of the JSE Listings Requirements.

## Internal audit and controls

Internal controls comprise methods and procedures adopted by management to provide reasonable assurance in safeguarding assets, prevention and detection of errors, accuracy and completeness of accounting records, and reliability of annual financial statements of all entities within the group. The internal audit function serves management and the board by performing independent evaluations of the adequacy and effectiveness of the group's internal controls and risk management including internal financial controls.

As recommended by King III, internal audit provided a written assessment on the system of internal control and risk management to the board and a written assessment on internal financial control to the ARCC.

## Risk management and compliance

The committee is responsible to the board for the review and assessment of the integrity of the risk control systems and to ensure that the risk policies and strategies of the company are effectively managed. The committee will make recommendations to the board concerning the levels of tolerance and appetite and will monitor that risks are managed within the approved levels.

The group's strategic objectives and risks are detailed on pages 14 to 18.

The committee is furthermore responsible to the board for the company's compliance policy and its ongoing implementation to assess the extent to which the company is managing its compliance risk effectively. Internal audit completed a Regulatory and Compliance Review in July 2012 which resulted in the compilation of a detailed roadmap and advice on a way forward to ensure the effective implementation of the compliance function.

# Report of the Audit, Risk and Compliance Committee continued

## Whistle-blowing and ethics hotline

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

## Expertise and experience of the Financial Director and finance function

The committee considered the appropriateness of the expertise and experience of the Financial Director and finance function In accordance with the JSE Limited Listings Requirements and governance best practice. The ARCC has concluded that the finance function is adequately resourced with technically competent individuals and is effective. The committee confirms that it is satisfied that Mr David Rivkind possesses the appropriate expertise and experience to discharge his responsibilities as Financial Director.

## 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 requirements of the Act.

## Integrated annual report

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

**JS Mthimunye**
Chairman

23 October 2012

# Operational overview – South Africa

**This segment distributes prepaid products and transactional services to the South African wholesale and retail markets. Main products are prepaid airtime and prepaid electricity. The segment contributes some 98% to group turnover.**

# SOUTH AFRICA

## Operational and financial highlights

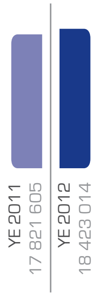
- Revenue up 3% to R18.4 billion
- Increasing trend to act as agent on sales of certain products eg PINless top up
- Gross profit margin increases 0.5% from 5.19% to 5.69%
- Electricity commissions received up 39% from R61 million to R85 million

# Operational overview – South Africa continued

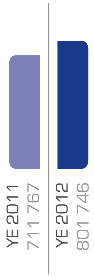
## Overview

Segmental revenue increased by 3% from R17.8 billion to R18.4 billion, mainly driven by an increase in prepaid airtime volumes. EBITDA increased by 13% from R711.8 million to R801.7 million. Gross profit margins for the segment increased by 0.5% year on year to 5.69%.

As the leading distributor of prepaid airtime and prepaid electricity in South Africa and with an array of a growing suite of products and services, this segment is well positioned to provide retailers, from the smallest individual or spaza shop to major chains, with its product range.




Revenue (R'000)




EBITDA (R'000)


## Prepaid airtime

Prepaid airtime and starter pack sales continue to generate the majority of this segment's profits. The business case is based on agreements to purchase airtime at volume discount prices from each of the major network operators and on-selling at a margin.

# Operational overview – South Africa continued

Critical to the growth in revenue has been the implementation of renewed urban and retail strategies aimed at further penetration in these respective markets. Services to rural areas have been up-scaled, following the expansion of the outsourced fleet of trucks, which now numbers 60 vehicles and, as ground support, the deployment of 100 foot soldiers. At present these strategies ensure that we are able to reach out to consumers every day and everywhere across South Africa.

Over the year, each of the major network operators increased their prices, which in turn was passed onto and absorbed by the distribution channel. This places an increasing onus on distributors to provide customers with further value adding services, such as call centre support, loyalty, couponing and rewards programmes.

The outsourcing of the POS device and assembly and repair factory yielded a 67% increase in productivity with a marginal decrease in the year-on-year repair cost. This improved efficiency continues to support the decision to outsource this function. The introduction of innovative new devices, which are presently being field-tested with top-tier customers, remains a key focus for the business going forward.

## Prepaid electricity

In contrast to prepaid airtime where we act as the principal party, whereas in respect of electricity we act as agent. Therefore only commissions received and not the face value on electricity sales, are included in the reported revenue stream. Prepaid electricity commissions increased by 39% to R85 million from R61 million, due to an increasing number of distributor contracts signed with municipalities, further footprint expansion and growing usage of our proprietary UniPIN product, in both on- and off-line environments.
This equates to turnover generated on behalf of the utilities of R5.5 billion, which is currently estimated at about 50% of the total prepaid electricity market.

UniPIN PREPAID ELECTRICITY


The growth in this prepaid market is limited only by the speed at which municipalities, utilities and Eskom can meet the increasing demand for installing prepaid domestic meters. Uptake is likely to lead to further innovation in the market, such as the deployment of smart meters.

### Blue Approved

**The rollout of the Blu Approved accreditation was completed across the group during the year. This is the group's visual sign that our products and services are available at a particular store. It also serves as a stamp of approval and authenticity, duly endorsed and acknowledged by Blue Label. All 'Blu Approved' merchants are equipped with in-store POS tools, window decals and other marketing materials to clearly identify them.**

# Operational overview – South Africa continued

### Other products and services

Also available in South Africa through the formal retail, independent store, petroleum forecourt, and corporate/banking sectors are:

- Financial Services:
  Mobile banking, money transfers, bill payments, Electronic Funds Transfer, Near Field Communications, Senda Mobile Merchant
- Digital couponing:
  Intelligent data and loyalty plans
- Ticketing:
  Events and transport
- Other:
  Prepaid water, advertising, Spinner, Superstakes Football, Bela international calling card, Kingo, PlaySALottery, Corporate Governance Tools, Prepaid Pay TV, SportsConnect, MallConnect.

### Operating companies

The following businesses are housed in the SA Distribution segment:

**The Prepaid Company** (TPC) is the leading distributor of prepaid products for all the major network operators. It also facilitates, manages and maintains, using proven technology developed in-house, the distribution of all virtual products and starter packs. This ensures purchasing efficiency, managing the distribution chain and inventory control. Relationships with each of the network operators is key to the success of this business. TPC is the major contributor to group revenue and profitability, and is responsible for:

- supplier agreements and procurement for the group;
- wholesale and community sales;
- sales of bulk printing and starter packs; and
- group treasury.

**The Post Paid Company** markets Vodacom postpaid cellphone contracts covering airtime and handsets, as well as death benefit and handset insurance products via its outbound call centre, external call centres and various banks, microlenders and retailers in South Africa.

**Blue Label Distribution** covers some 10 500 POS terminals, including integrated gateways, vending machines, touch screens and RICA devices, nine sales branches across the country situated in Sandton, Cape Town, Durban, Port Elizabeth, Bloemfontein, East London, Nelspruit, Polokwane and George. It provides sales, customer service and field support. A 24/7 customer call centre for merchant and UniPIN support, airtime and electricity sales ensures efficient service. A refreshed management team has been put in place in order to further consolidate and drive distribution into clearly defined formal retail, independent, petroleum and corporate sales channels where significant opportunities exist.

**Cigicell** distributes virtual prepaid airtime and electricity through a broad network of channels, including formal and informal retail and electronic banking environments. Cigicell is responsible for managing the numerous distribution contracts with utilities in respect of the distribution of prepaid electricity tokens.

# Operational overview – International

**The strategy for the international distribution segment is to pursue growth opportunities for group and third-party products and services across its global footprint by systematically rolling out points of presence, in replication of the South African business model.**


# INTERNATIONAL

## Operational and financial highlights

- Accelerating POP rollout in Mexico
- India delivers a profit
- Ukash (17,25% held)
  - share of trading profit up 117% to R5 million on volume increases
  - Queen's Award for Enterprise in International Trade for second year in succession

# Operational overview – International continued


Revenue (R'000)


EBITDA (R'000)

In January 2012 the 50.1% shareholding in Sharedphone International Proprietary Limited was sold, as its competitive advantage in the market weakened.

The assets and liabilities of Africa Prepaid Services Nigeria were disposed of in June 2011. The share of losses recorded relate to the costs of winding down the operation.

## Blue Label Mexico

Blue Label and Grupo Bimbo each hold 40% of the equity in Blue Label Mexico, with the remaining 20% held by local management. Grupo Bimbo, which acquired its stake in February 2011, is the world's largest bakery business, and has over 700 000 delivery points serviced from some 300 depots across Mexico. The benefits of this relationship underscore the group's international strategy of partnering in the areas in which it operates. The business in Mexico is based on a number of agreements with key participants in the sales and distribution channels. The main products on offer include PINless recharge, direct top-up and bill payments.

During the year BLM continued to work alongside Grupo Bimbo on a number of projects, including aligning and integrating systems and processes, ahead of implementing the rapid rollout of POPs nationwide.

GRUPO BIMBO

The rollout rate has accelerated while simultaneously, underperforming POPs are being redeployed. BLM's focus remains on building the distribution network.

Recargas telefónicas qiubo

Against the background of an aggressive rollout programme requiring expansion expenditure, the share of losses for the year amounted to R25 million.

# Operational overview – International continued

## Ukash

Ukash, a 17.25% investment, is an international technology operator which digitises prepaid cash. Ukash is patented, proven and scalable. An end-user receives prepaid (Ukash) vouchers, which are ideally suited for redemption in online environments, enabling consumers to use e-cash vouchers to pay, play and reload online. Ukash is now available at some 440 000 locations across 55 countries on six continents, with new locations recently added across Europe, Canada and Latin America. Initiatives in the current period include the deployment of a new core processing engine to improve capacity for future growth.

Ukash is proud to have won the Queen's Award for Enterprise in International Trade for the second year in succession. Year on year the business continued to show strong growth, as measured by an increase in revenue of 57% with a gross profit margin increase from 49% to 53%, all reported in their local currency.

THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2012

## Oxigen Services India

In June 2011 Blue Label increased its shareholding in Oxigen from 37.22% to 55.83%, with the remaining 44.17% held by local management.

Oxigen became a profitable entity during the year, with our share of profit at year end amounting to R4.6 million.

Oxigen's strategic shift to a versatile provider of payment solutions, mobile wallets, international remittances and cash cards, is rapidly taking hold.

Oxigen LIVE LIFE NON-STOP®

The traditional business, confined to prepaid airtime, has been augmented with prepaid subscriptions for mobile and satellite TV, transport ticketing, cellphone vending, bill payments and financial services through no-frills kiosk banking. Key to the evolving strategy are the partnerships forged with major players in the industry, who in turn are developing products and services, particularly focused on accessing the country's unbanked population, currently estimated at 52%.

# Operational overview – International continued

Oxigen's relationship with SBI, the largest commercial bank in India, strengthened during the year. In addition to Oxigen providing kiosk banking through the business correspondent model, a long-term technology and marketing services agreement was signed with SBI for the introduction of its mobile wallet. SBI's Mobicash will enable their 150 million bank account holders to make payments and money transfers amongst the vast unbanked and banked population, with more products and services in the pipeline. Oxigen has also signed a strategic initiative agreement with Yes Bank to expand its domestic remittance business to multiple banks across the nation, using the National Electronic Fund Transfer process. Late in 2011, DLF Pramerica appointed Oxigen as a service provider for its traditional insurance products, which have since been offered in several markets. The National Payments Corporation of India, the country's national switch, and Oxigen, jointly launched a mobile merchant payments system, believed to be one of the first of its kind in India.

In this dynamic environment, technological innovation is recognised as a competitive advantage. According to data from the Reserve Bank of India, in 2011, Oxigen was processing over 90% of the country's mobile banking transactions by volume for its partner banks. The 'Oxisecure' platform continues to be developed for handling future growth in transactional volumes. Deployment of the 'Oxismart' GPRS, ultra-low cost, battery operated terminal, reached 20 000 POPs since its launch in July 2011, providing reliable connectivity across urban and rural footprints. The 'Oxismart +' terminal, offering additional functionality, will soon be launched to market.


At year end Oxigen had about 100 000 retail outlets, serviced through 1 135 distributors and looks to deploy some 30 000 POPs in the year ahead in a total market of only around 600 000 terminals. This scale gives Oxigen a strong market presence and holds the business in good stead for the future.

## Operational overview – Technology

**The segment is responsible for the group's core technology systems. Its objective is to develop, deploy and support technology platforms across the group and at a number of third-party partners. The segment handles about 400 million transactions per month.**

# TECHNOLOGY

### Operational highlights

- Proprietary AEON and banking grade Postilion platforms connect to major networks, utilities, banks, retailers and petroleum companies
- Increasing transactions – 400 million/month
- Process approximately 80 million bulk print vouchers/month
- Optimising systems and platforms for capacity and capability
- Transaction Junction provides robust EFT capability
- EFT roll-out for large FMCG chain progresses steadily
- Additional focus on deploying platform into cloud environments

# Operational overview – Technology continued

The segment's strategic intent is to develop commercially viable and functionally rich transaction engines, while ensuring investment in technology is optimised across the group. By necessity this requires the segment to provide stable and robust operating platforms and end-to-end support for technology applications, delivered by appropriately motivated and skilled IT professionals.

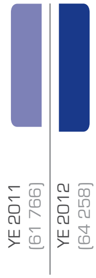
The group's two main transactional platforms, the proprietary AEON and the banking grade Postilion, connect into South Africa's telecommunication operators, utility companies and major banks, providing both debit and credit card acquiring services, EFT transactions and e-token products for some of the country's leading retail 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;
- POS device and customer field support;
- hosting and management of IT infrastructure; and
- sourcing and maintenance of devices in the field.

In Blue Label's business environment of significantly increasing transaction volumes, focus on optimising the group's systems and platforms in respect of capability and capacity was of paramount importance. In particular, the robust performance of the AEON switch was enhanced to provide additional availability and scalability. Apparent gaps in skills were also addressed, and the segment's development and operations teams were restructured, ensuring ongoing effective service delivery to the group.


Revenue (R'000)




EBITDA (R'000)

The group's EFT capability continues to be provided by the subsidiary, Transaction Junction. During the year the project to roll out EFT services across the country for a major FMCG retailer progressed steadily.

The Technology segment's focus remains on the continuing use and optimisation of the group's proprietary core transactional competencies and platforms. In addition, a significant effort is being made to deploy platforms into a number of public and private cloud environments, in order to ensure scalability and deployment of platforms to support rapid and large-scale roll-outs, such as in Mexico.

# Operational overview – Mobile

**The segment provides a complete mobile ecosystem for customers wanting to add mobility to their traditional channels, e.g. smartphone, WAP, JAVA, SMS, USSD.**

# MOBILE

## Operational highlights

- There are in excess of five billion mobile phone users in the world
- The Mobile segment provides a complete ecosystem of services for mobile users

### MSC

- Mobile services business
- Including sales, advertising and marketing, NFC, transport and commerce, couponing and loyalty
- BLMcloud.com launched

### Cellfind

- Range of LBS
- Established LBS includes miPayslip and miStatement
- New products include IDMe
- Enhancing SMS capability

## Mobile segment

Our ecosystem allows for the rapid rollout of mobile-mediated sales, financial services, banking, couponing, loyalty, rewards, ticketing, transport, NFC, media advertising, gaming and location-aware services. The technologies and products developed enable our customers to reach their customers, regardless of which type of phone or mobile operator is being used. The segment comprises two main operating entities, Mobile Services Company and Cellfind.

Core net profit increased by R6.4 million, excluding the impact of the non-recurring confidential income.

### Blue Label One trading as Mobile Services Company (MSC)

MSC houses the mobile services and media businesses. A number of projects advanced – in sales, advertising and marketing, NFC, transport and commerce, as well as couponing and loyalty. BLMcloud.com was launched, enabling third party developers to use MSC's ecosystem, while a suite of NFC and other contactless technologies were engineered, bridging the gap between mobile and physical transactional services. Some of the products brought to market in the year include the Spinner range of games, Senda mobile merchant, SportsConnect and MallConnect loyalty programmes.

### Cellfind

Cellfind is the group's WASP, aggregator and Location Based Services provider, deriving mostly annuity income from location based services delivered to the major mobile network operators. Two new products, miPayslip and miStatement, which provide a quick, convenient, secure and cost effective method of distributing information to a target base of staff or customers, gained ready acceptance in the market. Looking ahead, we will be enhancing our SMS aggregation capabilities for the group and third parties.

# Operational overview – Solutions

**The segment specialises in marketing cellular and insurance products and services through outbound telemarketing, providing inbound customer care, technical support, as well as data and analytical support services.**

# SOLUTIONS

## Operational highlights

### Blue Label Data Solutions

- Entrenching direct- and tele-marketing strategies
- Growth delivered through data delivery volumes and sustaining relationships

### CNS and Velociti

- Call centre expertise
- Growth from third party campaigns in challenging environment

## Blue Label Solutions

This segment houses Blue Label Data Solutions, CNS Call Centre and the Velociti call centre. Blue Label Data Solutions is accredited by the Direct Marketing Association of South Africa.

Core net profit was up 202% from R7 million to R21 million, mainly attributable to the results of building sustaining relationships over the years with a number of high-profile customers to provide them with direct marketing strategies. The data environment continues to grow well and is delivering various revenue generating opportunities beyond the segment's core business proposition. The call centre business remains challenging, as it is largely dependent on the marketing campaigns of third parties.

# Value added statement

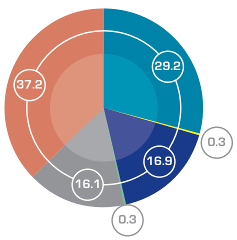
The value added statement of the group shows how much economic value has been created by Blue Label through its utilisation of capital, capacity and other resources and how the economic value was distributed to stakeholders.

| | 2012 R'000 | 2012 % | 2011 R'000 | 2011 % |
|---|---|---|---|---|
| **VALUE ADDED** | | | | |
| **Value added by operating activities** | **1 068 131** | **94.7** | 1 012 392 | 95.2 |
| Revenue | **18 722 080** | | 18 601 571 | |
| Net operating expenses | **(17 653 949)** | | (17 589 179) | |
| **Value added by investing activities** | **59 730** | **5.3** | 50 645 | 4.8 |
| Interest income | **59 730** | | 50 645 | |
| | **1 127 861** | **100** | 1 063 037 | 100 |
| **VALUE DISTRIBUTED** | | | | |
| **Distributed to employees** | **329 406** | **29.2** | 298 718 | 28.1 |
| Salaries, wages, medical and other benefits | **329 406** | | 298 718 | |
| **Distributed to providers of finance** | **3 307** | **0.3** | 8 221 | 0.8 |
| Finance costs | **3 307** | | 8 221 | |
| **Distributed to the state** | **190 759** | **16.9** | 171 620 | 16.2 |
| Income tax | **190 759** | | 171 620 | |
| **Distributed to social responsibility** | **3 340** | **0.3** | 3 482 | 0.3 |
| Corporate social investment | **3 340** | | 3 482 | |
| **Value reinvested** | **181 575** | **16.1** | 196 025 | 18.4 |
| Depreciation, amortisation and impairment | **91 557** | | 193 132 | |
| Net discounting finance costs | **66 505** | | 17 634 | |
| Share of losses of associates and joint ventures | **19 835** | | 2 757 | |
| Deferred taxation | **3 678** | | (17 498) | |
| **Value retained** | **419 474** | **37.2** | 384 971 | 36.2 |
| Retained profit | **438 104** | | 431 448 | |
| Minority shareholders' interest | **(18 630)** | | (46 477) | |
| | **1 127 861** | **100** | 1 063 037 | 100 |

The comparatives have been amended in order to disclose separately the CSI spend.

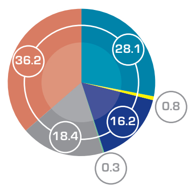
**Value distributed**

**2012 (%)**




- To employees
- To providers of finance
- To the state
- To social responsibility
- Value reinvested
- Value retained

**2011 (%)**



# Social practices

As with previous years, the group has aligned its approach to transformation with those of the B-BBEE codes. Consequently the group's focus has been predominantly around the training and development of staff, socio-economic development and enterprise development.

The group has partnered with NERA, a South African National Accreditation System accredited Broad-Based Verification Agency and a founding member of the Association of BEE Verification Agencies (ABVA), for the purposes of conducting ratings for the various group subsidiaries. NERA is a Level one (1) B-BBEE Contributor. The relevant subsidiaries will undergo respective renewal verifications in the new calendar year.

## Training and development

This year saw the launch of the Blue Label Academy, an internal on-line training academy aimed at providing training and development to all staff regardless of where they are located in South Africa. Each staff member was issued with two licences for the year, which entitled them to access two courses and complete them on-line, at their own pace and time. Staff registered for either a business skills or a technical course, depending on their individual requirements, which was duly approved by their line manager and included in their performance assessment for the financial year.

In addition to the e-learning initiative, relevant staff were also given the opportunity to register and complete formal classroom based training. Average training per employee amounted to 17.1 hours.

## Learnerships

The group has continued its partnership with Bytes People Solutions in providing various learnership programmes across the group as detailed in the table below.

### Group learnerships

| Subsidiary | Number of learners | Skill set |
|---|---:|---:|
| Cellfind | 1 | End User Computing |
| | 2 | Technical Support |
| Cigicell | 1 | End User Computing |
| | 1 | End User Computing |
| | 1 | End User Computing |
| | 1 | End User Computing |
| Blue Label Distribution | 4 | Contact Centre Disabled |
| | 13 | Contact Centre Support |
| The Prepaid Company | 2 | End User Computing |
| | 5 | Systems Support |
| Transaction Junction | 2 | Systems Development |

# Social practices continued

The total number of learners currently employed within the group is 33 (2011: 30 learners). Each learner is mentored and assisted through their learnership to ensure that it is completed successfully and the learner obtains the relevant qualification. Of the 33 learners, eight are disabled learners (2011: nine learners). Where possible, the company has also attempted to raise the number of females in the workplace within the learnership programme. Currently 51% of the learners are female.

Velociti recently was granted 315 learnerships from the KZN branch of the Services SETA.

## Socio-economic development

For the period under review, the group donated R3.3 million (2011: R3.5 million) to beneficiaries via the Chairman's Fund. The focus for the group has remained on youth development, HIV and Aids and sports development. The group has aligned the SED donations, where possible, with projects and initiatives that staff are actively involved in.

One such initiative is Rainbow of Hope, a not for profit organisation providing a house of safety to abused and abandoned children in the Western Cape. The Blue Label Branch Manager in Cape Town, Martin Gleeson, completed the 2012 Absa Cape Epic Mountain Bike Challenge in raising funds for this charity and was supported by the company by donations and sponsorship. Martin and his partner were placed 59th in the Masters Category and raised over R30 000 for Rainbow of Hope.

In addition to this initiative, the company has continued its support of the Cranio-Facial Foundation in partnership with Netcare and Vodacom, as well as Malamulele Onwards, Africa Tikkun, Soweto Marimba Youth League (SMYLE) and Business Against Crime, amongst others.

## Enterprise development

Historically the group, through its subsidiary TPC, has provided financial assistance and strategic support to ZOK. TPC has extended its financial assistance this year as well as assisting with establishing key relationships with service providers.

The group has been instrumental in establishing Parkrun SA, assisting it both strategically and operationally. Parkrun SA is a 51% black-owned business with the aim of setting up venues throughout South Africa where people, irrespective of race, gender, income bracket or fitness level, can run a 5 kilometre time trial once a week, free of charge. Parkrun SA is an informal partnership between Blue Label and Bruce Fordyce. Since inception in November 2011, Parkrun SA has been successful, with over 1 800 runners registered and operating from four venues. Other blue chip corporates are in discussion with Parkrun SA.

## Preferential procurement

The group continues to source goods and services from B-BBEE compliant suppliers.

# Human capital

The group continues to look at innovative ways of selecting and engaging new staff. All new staff participate in a detailed induction, which covers areas such as the group's vision, mission, ethics, management team, health and safety requirements, policies, procedures and processes.

All employees are automatically included in the group's various benefits such as medical aid, group life benefit scheme, wellness programme and free access to group products such as miTraffic, miPayslip, Look4help, Look4me, amongst others.

The group life benefit scheme is employer funded and includes death, disability, dreaded disease and funeral benefits. Membership of Discovery Health is compulsory for all new permanent employees, earning over R6 500 per month. All changes to terms and conditions of employment, including changes to significant operational matters, are dealt with in a consultative manner with staff, with the objective of mutual acceptance of the outcome.

BLD implemented a project aimed at strengthening the human resource structures and processes and aligning these with business objectives. Labournet, a leading HR solution provider, was appointed to facilitate the process. This involved a one-on-one consultation with every employee, within every region, to establish their duties, KPAs and KPIs. These are encapsulated in a job description and linked to a job grading. All performance assessments and skills development plans are referenced to the job descriptions, KPAs and KPIs. The results of the process are available online to line managers and subordinates, via the employee self-help module on Psiber. The project has enjoyed the support of both staff and management and it is intended to be rolled out to other subsidiaries in due course.

The group co-ordinates employee and social wellness days at head office on a quarterly basis, e.g. a blood drive, food parcels and winter blankets for the needy, Bandanna Day, Women's Day and World Aids Day. A monthly internal newsletter is distributed electronically to all staff in the group, which aims to share important events, achievements, highlights, profile companies and employees and recognise those employees who are "Super Heroes".

Blue Label management views incidents of child or forced labour as morally abhorrent. Consequently Blue Label does not allow or 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, the labour laws of the country and the moral and ethical stance of the company itself.

### Employment equity

The group promotes and supports equal opportunity and fair treatment of all in accordance with its employment equity policy. The group's recruitment policies and procedures are aimed at enabling staff and external candidates to compete for job and/or promotional opportunities in an equitable environment where the sole criterion is merit based.

Subsidiary performance against employment equity targets is recorded and monitored and reported quarterly to the Social and Ethics Committee. The group continues to be non-unionised.

# Human capital continued

The table below reflects the demographics of the employee base for the financial year indicated, excluding international operations:

### Actual equity headcount

| | AM | CM | IM | WM | AF | CF | IF | WF | **Total 2012** | Total 2011 |
|---|---|---|---|---|---|---|---|---|---|---|
| Unskilled and defined decision makers | 24 | – | 4 | 4 | 17 | 3 | 4 | 1 | **57** | 70 |
| Semi-skilled and discretionary decision makers | 20 | 7 | 11 | 16 | 48 | 18 | 9 | 56 | **185** | 286 |
| Skilled technical and academically qualified workers, junior management and supervisors | 34 | 18 | 23 | 61 | 10 | 8 | 15 | 32 | **201** | 220 |
| Professionally qualified and experienced specialists and mid-management | – | 3 | 4 | 50 | 2 | 1 | 2 | 18 | **80** | 89 |
| Senior management | 2 | 1 | 5 | 27 | 2 | 4 | – | 14 | **55** | 70 |
| Top management | 2 | 1 | 2 | 33 | 1 | – | 1 | 1 | **41** | 47* |
| **Total permanent** | 82 | 30 | 49 | 191 | 80 | 34 | 31 | 122 | **619** | 782 |
| Non-permanent staff | 114 | 23 | 85 | 1 | 213 | 46 | 107 | 8 | **597** | 575 |
| **Grand total** | 196 | 53 | 134 | 192 | 293 | 80 | 138 | 130 | **1 216** | 1 357 |

*AM: African male; CM: Coloured male; IM: Indian male; AF: African female; CF: Coloured female; IF: Indian female.*
** included six non-executive directors.*

The decrease in the actual number of employees is mainly attributable to normal attrition, cost cutting and outsourcing initiatives.

# Health, safety and environmental

## Health, safety and environmental

The OHSA clearly sets out the legislative requirements for companies to ensure a safe and healthy work environment. The group's health and safety policy has been implemented in accordance with the guidelines set down in the Act and articulates the group's commitment to ensuring a secure work environment. This includes regular fire drills, monthly Health and Safety Forum meetings and regular training workshops for elected representatives in respect of first aid, fire marshalling and evacuation procedures.

## Health and safety activities include:

- Appointment of a group health and safety manager who assumes full responsibility for the management and facilitation of health and safety related activities inclusive of policy, practices and procedures.
- Appointment and training of health and safety representatives, first aiders and fire marshalls at head office and branches.
- Facilitated and documented meetings conducted monthly to evaluate group health and safety performance and requirements.
- Identification of all health and safety hazards by means of a formal hazard survey done monthly and taking appropriate action to mitigate identified risks.
- Display all relevant health and safety plans, policies and procedures in strategic points throughout the business.
- Create awareness and training of employees around health and safety requirements via rigorous induction, regular drills and awareness presentations.
- Conducting business activities in a manner which ensures the general wellbeing of our staff from a physical, mental and social perspective.
- Regular evaluation of group practices against relevant health and safety legislation.

The three main health and safety risks identified for the group include fire, motor vehicle accidents and those related to a general office environment. The group reported 17 non-reportable health and safety incidents during the year under review.

| Disabling injury frequency rate: South African operations | 2012 | 2011 |
|---|---|---|
| South African operations | **1.102** | 0.625 |
| Work-related fatalities | **0** | 0 |

# Health, safety and environmental continued

The disabling injury frequency rate increased by 0.477 from 2011 to 2012 and the number of incidents increased from 8 to 17. The majority of the incidents related to the general office environment and motor vehicle accidents.

The group continues to offer the "Wellness for Life" programme to staff which is aimed at addressing and reducing their stress levels. The programme partners with organisations which specialise in areas such as debt counselling, trauma counselling, substance abuse and physical wellbeing, including support for HIV and Aids, cancer, tuberculosis and diabetes sufferers. The group regularly arranges presentations to staff by external parties covering medical insurance, financial planning and retirement funding.

## 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 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.

The table below depicts the group's electricity usage at its main national offices. The fuel usage represents the fleet of vehicles operated by BLD and TPC.

The combined fleet comprises 101 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.

No significant changes were made to the scope, boundaries or measurement methods. There have been no restatements of sustainability information when compared to the 2011 annual report, save for the electricity information as detailed below.

| Environmental parameters | 2012 | 2011 |
|---|---|---|
| Total electricity usage (kWh) (main office building) | **2 459 715** | 2 196 734* |
| Fuel (litres) | **531 808** | 407 583 |

**Amended to include the main national offices and excludes tenants that are not part of the group.*

# Assurance report

## Independent Assurance Report to the Directors of Blue Label Telecoms Limited

We have been engaged by the directors of Blue Label Telecoms Limited (BLT) to perform an independent limited assurance engagement in respect of selected identified sustainable development information reported in BLT's 2012 Integrated Annual Report for the year ended 31 May 2012 (the Report). This report is produced in accordance with the terms of our contract with BLT dated 18 September 2012.

## Independence and expertise

We have complied with the International Federation of Accountants' Code of Ethics for Professional Accountants, which includes comprehensive independence and other requirements founded on fundamental principles of integrity, objectivity, and professional competence and due care, confidentiality and professional behaviour. Our engagement was conducted by a multidisciplinary team of health, safety, environmental and assurance specialists with extensive experience in sustainability reporting.

## Scope and subject matter

The subject matter of our engagement and the related level of assurance that we are required to provide are as follows:

## Limited assurance

The following identified sustainable development information in the Report was selected for an expression of limited assurance:

- Average number of training hours per employee (Page 74) Total number of employee headcount (Page 77)
- Total corporate social investment spend (Page 73)
- Value Added Statement (Page 73)
- Limited assurance on BLT's self declaration of the GRI G3.1 C+ application level (Page 1).

We refer to this information as the "Subject Matter Selected for Limited Assurance".

We have not carried out any work on data reported for prior reporting periods except for data that was included in the prior year's assurance scope, nor have we performed work 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 Selected Identified Sustainable Development Information.

# Assurance report continued

### Respective responsibilities of the directors and PricewaterhouseCoopers Inc.

The directors are responsible for selection, preparation and presentation of the Selected Identified Sustainable Development Information in accordance with the criteria set out in BLT's internally defined procedures set out in the Glossary of terms and acronyms on Page 237 of the Integrated Annual Report and the Global Reporting Initiative's (GRI) new generation (G3.1) guidelines, collectively referred to as the "Reporting Criteria", and for the development of the Reporting Criteria. The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of the Selected Identified Sustainability Development Information that are free from material misstatements, whether due to fraud or error.

Our responsibility is to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the Selected Identified Sustainable Development Information has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This report, including the conclusion, has been prepared solely for the directors of BLT as a body, to assist the directors in reporting on BLT's sustainable development performance and activities. We permit the disclosure of this report within the Report for the year ended 31 May 2012, to enable the directors to demonstrate they have discharged their governance responsibilities by commissioning an independent assurance report in connection with the Report. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body and BLT for our work or this report save where terms are expressly agreed and with our prior consent in writing.

### Assurance work performed

We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' issued by the International Auditing and Assurance Standards Board (ISAE 3000). This standard requires that we comply with ethical requirements and that we plan and perform the assurance engagement to obtain limited assurance on the Selected Identified Sustainability Information as per the terms of our engagement.

# Assurance report continued

Our limited assurance procedures primarily comprised:

- reviewing processes that BLT have in place for determining the Identified Sustainability Information included in the Report;
- obtaining an understanding of the systems used to generate, aggregate and report the Identified Sustainability Information;
- conducting interviews with management at corporate head office;
- evaluating the data generation and reporting processes against the reporting criteria;
- testing the accuracy of data reported on a sample basis; and
- reviewing the consistency between the Identified Sustainability Information and related statements in BLT's Report.

The procedures selected depend on our judgement, including the assessment of the risk of material misstatement of the Selected Identified Sustainable Development Information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to BLT's preparation of the Selected Identified Sustainable Development Information in order to design procedures that are appropriate in the circumstances.

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

## Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining, calculating, sampling and estimating such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time. It is important to read the Report in the context of the Reporting Criteria.

In particular, where the information relies on factors derived by independent third parties, our assurance work has not included examination of the derivation of those factors and other third party information.

# Assurance report continued

## Conclusion

Based on the results of our procedures nothing has come to our attention that causes us to believe that the Selected Identified Sustainable Development Information for the year ended 31 May 2012, has not been prepared, in all material respects, in accordance with the Reporting Criteria.

## Other matters

The maintenance and integrity of the BLT's website is the responsibility of BLT management. Our procedures did not involve consideration of these matters and, accordingly we accept no responsibility for any changes to either the information in the Report or our independent assurance report that may have occurred since the initial date of presentation on the BLT website.

PricewaterhouseCoopers Inc.

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

Johannesburg
23 October 2012

# Financial Director's report

**"The statement of financial position remains robust and liquid, reflecting accumulated equity of R2.91 billion."**

**David Rivkind**, Financial Director

## FINANCIAL REVIEW

Growth in revenue by 4% to R18.7 billion supported by a gross profit margin increase from 5.91% to 6.45% and a once-off income receipt of R79.4 million contributed towards a growth in EBITDA by R158 million (26%).

The disclosure of information regarding the above once-off income receipt is restricted by a confidentiality agreement.

Headline earnings per share increased by 40% from 46.20 cents to 64.65 cents. On exclusion of the above once-off income receipt, growth in headline earnings per share would have equated to 19%.

The SA distribution segment remains the predominant contributor to group profitability. Prepaid airtime volumes continued to increase and commissions on the sale of prepaid electricity escalated by 39%. Compounded annuity revenue from starter pack bases added momentum to profitability.

On the international front, Oxigen Services India (OSI) has become a profitable entity as a result of the addition of financial service offerings to its bouquet of products.

Ukash has continued to make positive contributions to group profitability. While Blue Label Mexico's (BLM) footprint expansion initiatives have accelerated at a vast rate through the Grupo Bimbo distribution network, the costs of gearing up infrastructure in support of the roll-out of point of sale devices resulted in BLM incurring additional losses in the past year.

Cash flows generated from operating activities amounted to R528 million. Following the repurchase of Microsoft's 12% interest in the group for R392 million, as well as a dividend payment of R107 million and investing activities of R277 million, cash on hand at year end amounted to R1.98 billion.

The statement of financial position remains robust and liquid, reflecting accumulated equity of R2.91 billion.

### Group income statement

The income statement has been divided into two parts, the first of which reflects the headline earnings of the continuing operations of the group and the second of which computes the core earnings of the group.

# Financial Director's report continued

| | FY2012 R'000 | FY2011 R'000 | Growth R'000 | Growth |
|---|---|---|---|---|
| Revenue | **18 715 390** | 18 064 572 | 650 818 | 4% |
| Gross profit | **1 207 922** | 1 067 633 | 140 289 | 13% |
| GP margins | **6.45%** | 5.91% | 0.54% | |
| Other income | **96 707** | 6 942 | 89 765 | 1 293% |
| Overheads | **(548 813)** | (476 758) | (72 055) | (15%) |
| EBITDA | **755 816** | 597 817 | 157 999 | 26% |
| Depreciation and amortisation | **(73 883)** | (92 519) | 18 636 | 20% |
| EBIT | **681 933** | 505 298 | 176 635 | 35% |
| Finance costs | **(181 081)** | (115 845) | (65 236) | (56%) |
| Finance income | **170 995** | 146 429 | 24 566 | 17% |
| Net profit before taxation | **671 847** | 535 882 | 135 965 | 25% |
| Taxation | **(197 571)** | (157 244) | (40 327) | (26%) |
| Net profit after tax | **474 276** | 378 638 | 95 638 | 25% |
| Minority interest | **8 807** | 3 229 | 5 578 | 173% |
| Share of profit from associates | **6 844** | 3 619 | 3 225 | 89% |
| Share of losses from joint ventures | **(26 679)** | (17 698) | (8 981) | (51%) |
| **Headline earnings from continuing operations** | **463 248** | 367 788 | 95 460 | 26% |

## Revenue

Revenue is represented by the contributions of the South African operations, in that revenues generated by the international operations are equity accounted for only. The main contribution to revenue emanated from the sale of prepaid physical and virtual airtime and annuity revenue from starter packs, all generated through the South African distribution segment.

## Gross profit

The increase in gross profit by R140 million was attributable to the higher margins achieved on revenue growth in all local trading segments and increases in commissions earned from the sale of prepaid electricity on behalf of the utilities.

## Other income

Of the other income of R97 million, R79.4 million was attributable to a once-off income receipt. The disclosure of information regarding this receipt is restricted by a confidentiality agreement. Forex gains and sundry other income made up the balance of R18 million.

## EBITDA

On exclusion of the once-off income of R79.4 million the EBITDA growth would have equated to R78.6 million (13%).

## Depreciation and amortisation

Depreciation declined by R4 million and amortisation of intangible assets in terms of purchase price allocations declined by R14 million.

## Finance costs

Finance costs totalled R181 million, of which R3 million related to interest paid on borrowed funds and R178 million to imputed IFRS interest adjustments on credit received from suppliers. On a comparative basis, interest paid on borrowed funds was R8 million and the imputed IFRS interest adjustment was R108 million.

# Financial Director's report continued

### Finance income

Finance income totalled R171 million, of which R60 million was interest received on cash resources and R111 million pertained to IFRS adjustments. On a comparative basis interest received on cash resources amounted to R50 million and the imputed IFRS interest adjustment R96 million.

### Share of profits from associates

The share of profits of R6.8 million represented the group's share of earnings of Ukash and OSI.

### Share of losses from joint ventures

The share of losses of R27 million mainly represented the group's 40% share of BLM's losses.

### Headline earnings

The growth in headline earnings of 26% to R463 million reflects the financial performance of continuing operations and does not include the discontinued Nigerian entity.

| | FY2012 R'000 | FY2011 R'000 | Growth R'000 | Growth |
|---|---|---|---|---|
| **Headline earnings from continuing operations** | **463 248** | 367 788 | 95 460 | 26% |
| Discontinued operation – APS Nigeria trading | **(5 493)** | (18 341) | 12 848 | 70% |
| Headline earnings | **457 755** | 349 447 | 108 308 | 31% |
| Net headline earnings adjustments | **(19 651)** | 82 001 | (101 652) | (124%) |
| Gain on dilution | **–** | 145 905 | (145 905) | |
| Loss on disposal of group companies | **(6 039)** | – | (6 039) | |
| Impairments | **(14 037)** | (63 904) | 49 867 | |
| Other | **425** | – | 425 | |
| Net profit attributable to equity holders of parent | **438 104** | 431 448 | 6 656 | 2% |
| Core intangible adjustment | **17 693** | 24 975 | (7 282) | (29%) |
| Core net profit | **455 797** | 456 423 | (626) | – |
| Earnings per share (cents) | **61.87** | 57.04 | | 8% |
| Headline earnings per share (cents) | **64.65** | 46.20 | | 40% |
| Core earnings per share (cents) | **64.37** | 60.34 | | 7% |

# Financial Director's report continued

### Discontinued operation

The loss incurred of R5.5 million related to expenditure incurred in the winding down of APSN.

### Net headline earnings adjustments

The comparative year included a gain on dilution of R146 million pertaining to the valuation placed on BLM on the acquisition of 40% of the company for $20 million by Grupo Bimbo in February 2011.

Losses on disposal of group companies related to Sharedphone International (R3 million) and Blue Label Procurement (R3 million).

Further goodwill of R5 million relating to Content Connect Africa was impaired. Point of sale devices were impaired to the extent of R9 million.

### Net profit attributable to equity holders of parent

The resultant attributable profit of R438 million equated to basic earnings per share of 61.87 cents at a growth of 8%.

### Core earnings

After adding back the amortisation of intangible assets raised through business combinations net of tax and non-controlling interest, the core earnings of R456 million equated to core earnings per share of 64.37 cents at a growth of 7%.

## SEGMENTAL REPORT SOUTH AFRICAN DISTRIBUTION

| | FY2012 R'000 | FY2011 R'000 | Growth R'000 | Growth |
|---|---|---|---|---|
| Revenue | **18 423 014** | 17 821 605 | 601 409 | 3% |
| Gross profit | **1 048 893** | 925 398 | 123 495 | 13% |
| EBITDA | **801 746** | 711 767 | 89 979 | 13% |
| Core net profit | **595 895** | 571 471 | 24 424 | 4% |
| Gross profit margin | **5.69%** | 5.19% | | |
| EBITDA margin | **4.35%** | 4.00% | | |

Prepaid airtime and annuity revenue generated from starter packs continued to be the major contributors to the increase in revenue of 3%. Commissions earned on the distribution of prepaid electricity amounted to R85 million (2011: R61 million) equating to revenue generated on behalf of utilities of R5.5 billion (2011: R3.4 billion). The group acts as an agent in the distribution of prepaid electricity. Gross profit inclusive of IFRS adjustments increased by R123 million (13%), supported by margin increases from 5.19% to 5.69%. Commissions on prepaid electricity accounted for 0.11% of this margin increase. On exclusion of IFRS adjustments, margins increased from 5.09% to 5.28%.

The growth in EBITDA of 13% was inclusive of the effects of IFRS adjustments. On exclusion of these adjustments in both the comparative and current years, a more representative growth of R33 million was achieved, equating to a 5% increase.

# Financial Director's report continued

## INTERNATIONAL DISTRIBUTION

| | FY2012 R'000 | FY2011 R'000 | Growth R'000 | Growth |
|---|---|---|---|---|
| Revenue | **17 429** | 29 254 | (11 825) | (40%) |
| Gross profit | **2 574** | 8 052 | (5 478) | (68%) |
| EBITDA | **(15 901)** | (8 683) | (7 218) | (83%) |
| Discontinued operations* | **(5 493)** | 93 901 | (99 394) | (106%) |
| Africa Prepaid Services | | | | |
| Nigeria | **(5 493)** | (40 813) | 35 320 | 87% |
| Blue Label Mexico | **–** | 134 714 | (134 714) | (100%) |
| Share of losses from associates and joint ventures | **(19 182)** | (2 884) | (16 298) | (565%) |
| Ukash | **2 228** | 8 782 | (6 554) | (75%) |
| Oxigen Services India | **4 616** | (5 163) | 9 779 | 189% |
| Blue Label Mexico | **(24 873)** | (6 503) | (18 370) | (282%) |
| Other | **(1 153)** | – | (1 153) | – |
| Core net loss from continuing operations | **(36 563)** | (41 609) | 5 046 | 12% |
| – Equity holders of the parent | **(20 943)** | (32 005) | 11 062 | 35% |
| – Non-controlling interests | **(15 620)** | (9 604) | (6 016) | (63%) |
| Core net (loss)/profit from discontinued operations | **(15 454)** | 57 573 | (73 027) | (127%) |
| – Equity holders of the parent | **(5 493)** | 93 901 | (99 394) | (106%) |
| – Non-controlling interests | **(9 962)** | (36 328) | 26 366 | 73% |

** Represents net (loss)/profit after taxation and non-controlling interests.*

The decrease in revenue in the international segment was due to the disposal of SharedPhone International (SPI). The decline in EBITDA was due to this disposal of SPI as well as an increase in legal fees expended on the ongoing litigation relating to APSN. Forex gains of R7.6 million, limited this decline to R7.2 million.

The group's objective in the international segment is to partner with local management in the countries in which it operates. These partnerships result in its international operations being equity accounted for. The group's current active international operations, namely, Ukash, OSI and BLM are disclosed accordingly under share of losses from associates and joint ventures.

# Financial Director's report continued

## DISCONTINUED OPERATIONS

### Africa Prepaid Services Nigeria

In line with a commitment made in May 2011 for the disposal of the assets and liabilities of APSN, the financial performance thereof for both the years ended 31 May 2011 and 31 May 2012 are required to be reflected as a discontinued operation. The Multi-links contract was cancelled in November 2010. The share of losses of R5.5 million incurred in the current year was attributable to the expenditure relating to the winding down of the operation. The comparative year's losses of R41 million comprised impairments of assets and goodwill amounting to R23 million, and the balance of R18 million being attributable to trading losses.

### Blue Label Mexico

In February 2011, Grupo Bimbo acquired 40% of BLM by subscribing for new shares. Blue Label's 70% shareholding was diluted to 40% as a result of this transaction, with BLM's management retaining 20%. Accordingly, the group's share of trading losses of R11,3 million for the period June 2010 to February 2011 was reflected as a discontinued operation. Thereafter, the group's share of losses is reflected as "share of losses from associates and joint ventures".

The group's remaining 40% shareholding was required to be revalued based on the equity value payable by Grupo Bimbo for its 40% shareholding. This resulted in a net fair value gain of R146 million in the comparative year.

## Share of losses from associates and joint ventures

### Ukash

The comparative share of profits of R8.8 million included a deferred tax credit adjustment of R6.5 million, with trading profits net of amortisation of intangible assets amounting to R2.3 million. In the current year, prior to a deferred tax debit adjustment of R2.8 million, the share of profits earned on a pure trading basis, net of the amortisation of intangible assets, amounted to R5 million. This represented an increase of R2.7 million (117%). This was achieved through growth in revenue of 57% with a gross profit margin increase from 49% to 53%, all reported in their local currency.

### Oxigen Services India

Blue Label's share of profits equated to R4.6 million, compared to prior year share of losses of R5.2 million. This was mainly due to the addition of banking services to its prepaid airtime platform. These results were achieved through a 52% increase in revenue at gross profit margins of 2.95% (2011: 2.25%). EBITDA increased by 778%, all reported in their local currency.

### Blue Label Mexico

The comparative share of losses of R6.5 million was for the period March 2011 to May 2011, during which period Blue Label's equity holding in BLM was reduced from 70% to 40%. The current year's share of losses of R25 million was for the full 12-month period. BLM's total losses increased from R32 million to R60 million. The increase in losses was largely due to costs incurred in the process of gearing up for an extensive roll out of point of sale devices through the Grupo Bimbo distribution network.

# Financial Director's report continued

## MOBILE

| | FY2012 R'000 | FY2011 R'000 | Growth R'000 | Growth |
|---|---|---|---|---|
| Revenue | **87 244** | 78 616 | 8 628 | 11% |
| Gross profit | **66 059** | 62 444 | 3 615 | 6% |
| EBITDA | **97 359** | 19 347 | 78 012 | 403% |
| Core net profit/(loss) | **73 962** | (756) | 74 718 | 9 883% |

This segment comprises Cellfind, Blue Label One and Content Connect Africa. The growth in EBITDA of R78 million was inclusive of the once-off income receipt of R79.4 million.

A net decline at depreciation level and the movement in taxation relating to the once-off income receipt accounted for the growth in its contribution to core net profit.

## SOLUTIONS

| | FY2012 R'000 | FY2011 R'000 | Growth R'000 | Growth |
|---|---|---|---|---|
| Revenue | **171 029** | 118 277 | 52 752 | 45% |
| Gross profit | **79 505** | 58 582 | 20 923 | 36% |
| EBITDA | **38 927** | 18 731 | 20 196 | 108% |
| Core net profit | **21 324** | 7 061 | 14 263 | 202% |

The Solutions segment houses the Datacel group which operates call centres and provides data and lead generation services. Improvements in the call centre operations and the constant growth in data accumulation continued to manifest themselves in growth at all levels.

## TECHNOLOGY

| | FY2012 R'000 | FY2011 R'000 | Growth R'000 | Growth |
|---|---|---|---|---|
| Revenue | **16 674** | 16 820 | (146) | (1%) |
| Gross profit | **10 891** | 13 157 | (2 266) | (17%) |
| EBITDA | **(64 258)** | (61 766) | (2 492) | (4%) |
| Core net loss | **(82 765)** | (84 932) | 2 167 | 3% |

Technology losses are representative of the costs of development and support of the group's information technology infrastructure. Income generation was limited to services to third parties.

# Financial Director's report continued

## CORPORATE

| | FY2012 R'000 | FY2011 R'000 | Growth R'000 | Growth |
|---|---|---|---|---|
| EBITDA | **(107 391)** | (81 664) | (25 727) | (32%) |
| Core net loss | **(126 183)** | (98 317) | (27 866) | (28%) |

The increase in core net losses of the corporate segment was mainly attributable to the cost of executive bonuses. No executive bonuses were paid in the prior year.

## STATEMENT OF FINANCIAL POSITION

The decline in current assets was mainly attributable to the application of funds for an increase in investment in OSI of R74 million, additional working capital provided to BLM of R26 million and the acquisition of starter pack bases for R121 million (included in intangible assets).

The acquisition of Microsoft's 12% shareholding in the group for R392 million and the purchase of treasury shares for R16 million accounted for the decline in share capital, share premium and treasury shares.

Inventory declined by R473 million, returning to its optimal level of 11 days. The affording of additional credit to selected clients resulted in debtors collections increasing from 17 to 26 days. Creditor payment terms averaged 37 days.

## STATEMENT OF CASH FLOWS

Cash flow of R528 million generated from operating activities was applied to investing activities to the extent of R277 million. This comprised the funding of an additional investment of R74 million in OSI, the provision of working capital of R26 million to BLM and the acquisition of starter pack bases for R121 million.

A further R520 million was applied to financing activities to facilitate the purchase of Microsoft's 12% shareholding in the group for R392 million, treasury shares R16 million and a dividend payment of R107 million.

The resultant accumulated cash resources of the group declined by R251 million to R1.98 billion.

## FORFEITABLE SHARE SCHEME

Forfeitable shares totalling 4 828 644 (2011: 6 829 416) were issued to qualifying employees. During the year 1 067 905 (2011: 1 316 366) shares were forfeited and 311 637 (2011: 909 823) shares vested during the current period.

# Financial Director's report continued

## DIVIDEND NO 3

The group's current dividend policy is to declare an annual dividend. A gross dividend of 23 cents per ordinary share (19.55 cents per ordinary share net of dividend withholding tax) was declared on 20 August 2012.The dividend, inclusive of withholding tax, equates to a 2.95 cover on headline earnings. The total declaration of R155 137 080 for the year ended 31 May 2012 has not been recognised in the financial statements as it was made after this date.

## FINANCIAL ASSISTANCE

Pursuant to the resolution passed by shareholders on 22 November 2011, the company has provided financial assistance to the following group companies:

- Security and subordination of loan account in favour of Investec Bank Limited for TPC's facility of R850 million.
- Loans to Gold Label Investments Proprietary Limited amounting to $4,9 million and R1,5 million.
- Loan facility in support of APS amounting to R10 million.
- Loans to BLM totalling $7,25 million.
- Loan to BLI amounting to R10 000.
- Loan to Matrix Investments No 4. Proprietary Limited amounting to R13 623.

## APPRECIATION

I would once again like to express my appreciation to the finance team for their professional input in the preparation of the financial results.

D. Rivkind

David Rivkind
Financial Director

# Contents



# Prominent notice

These annual financial statements have been audited by our external auditor PricewaterhouseCoopers Inc. in compliance with the applicable requirements of the Companies Act, No 71 of 2008. David Rivkind, financial director, supervised the preparation of the annual financial statements.

D. Rivkind

**DB Rivkind CA(SA)**
Financial Director

# Statement of directors' responsibility

The directors are responsible for the maintenance of adequate accounting records and the preparation, integrity and fair presentation of the group and company financial statements of Blue Label Telecoms Limited. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa.

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

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

The group and company financial statements have been audited by the independent auditors, PricewaterhouseCoopers, 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 102 to 236 were produced and approved by the board of directors on 20 August 2012 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 88(2)(e) of the Companies Act, No 71 of 2008, I confirm that for the year ended 31 May 2012, Blue Label Telecoms Limited has lodged with the Companies and Intellectual Property Commission all such returns and notices as are required of a public company in terms of the Act and that all such returns and notices are true, correct and up to date.

**E Viljoen**
Company secretary

Sandton
20 August 2012

# Independent auditors' report

We have audited the group 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 2012, 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 98 to 236.

## 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.

## Auditors' 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.

# Independent auditors' report continued

## 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 2012, 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
20 August 2012

# Directors' report

The directors have pleasure in presenting the group 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 2012.

## 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 group recorded a profit after tax from continued operations attributable to equity holders for the year ended 31 May 2012 of R444 million (2011: R338 million). 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. The group and company annual financial statements for the year ended 31 May 2012 were approved by the board and signed on its behalf on 20 August 2012.

## Going concern

The financial statements have been prepared on the going-concern basis, since the directors have every reason to believe that Blue Label Telecoms company and the group have adequate resources in place to continue in operation for the foreseeable future.

## Subsidiaries, associates and joint ventures

Particulars of the principal subsidiaries, joint ventures and associates of the Blue Label Telecoms group are provided in note 34 to the annual financial statements.

## Disposals

On 31 January 2012 Blue Label Telecoms Limited sold its 50.1% shareholding in SharedPhone International Proprietary Limited to the minority shareholder for an amount of R3.9 million. For further details of the disposal during the year, refer to note 27 to the group annual financial statements.

## Acquisitions

On 1 January 2012, 100% of Multiserv Proprietary Limited was purchased for R14 million with the objective of utilising their 165 stores located nationally as a platform for Blue Label's strategy of marketing its products and services on a retail basis. For further details on the acquisition during the year, refer to note 28 to the group annual financial statements.

## Share capital

Full details of the authorised, issued and unissued capital of the company at 31 May 2012 are contained in note 16 to the group annual financial statements. There were no shares issued during the financial year ended 31 May 2012 (2011: nil).

The directors of the company have unrestricted authority until the following annual general meeting to allot and issue, as they in their discretion deem fit, the unissued ordinary shares of the company as at 31 May 2011, subject to the provisions of the memorandum of incorporation of the company, the Companies Act and the Listings Requirements.

# Directors' report continued

On 1 December 2011 the company acquired 91 851 852 shares from Microsoft Corporation representing 11.99% of the Blue Label ordinary shares in issue prior to the specific repurchase. The amount paid for these shares including transaction costs was R392 377 518. These shares have been cancelled.

## Subsequent events

Subsequent to year end a dividend was declared.

## Dividends

On 20 August 2012, the board approved a dividend of 23 cents per ordinary share. The dividend in respect of ordinary shares for the year ended 31 May 2012 of R155 137 050 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, 7 September 2012 |
| Shares commence trading ex dividend | Monday, 10 September 2012 |
| Record date | Friday, 14 September 2012 |
| Payment of dividend | Monday, 17 September 2012 |

Share certificates may not be dematerialised or rematerialised between Monday, 10 September and Friday, 14 September 2012, both days inclusive.

Before declaring the final dividend the board applied the solvency and liquidity test on the company and reasonably concluded that the company will satisfy the solvency and liquidity test immediately after payment of the final dividend. The final dividend will be paid 28 days after the directors have performed the solvency and liquidity testing.

With effect from 1 April 2012, Dividends Tax replaces Secondary Tax on Companies (STC). Dividends Tax is provided for at 15% of the amount of any dividend paid by Blue Label Telecoms Limited, subject to certain exemptions. The Dividends Tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

# Directors' report continued

## 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 | – |
| Joe S Mthimunye | Independent non-executive director | 5 October 2007 | – |
| Mteto Nyati | Non-executive director | 12 October 2010 | Resigned 5 October 2011 |
| 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 | Resigned 30 August 2011 |
| Jeremiah S Vilakazi | Independent non-executive director | 19 October 2011 | – |

## Directors' interests

The individual interests declared by directors and officers in the company's share capital as at 31 May 2012, held directly or indirectly were as follows:

| | Nature of interest | | | |
|---|---|---|---|---|
| | Direct beneficial | | Indirect beneficial | |
| Director | **2012** | 2011 | **2012** | 2011 |
| 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** | 5 565 738 |
| LM Nestadt | **–** | – | **8 204 674** | 8 204 674 |
| GD Harlow | **–** | – | **2 000 000** | 2 000 000 |
| NN Lazarus | **4 803 424** | 4 803 424 | **–** | – |
| DB Rivkind | **–** | – | **3 700 000** | 3 700 000 |

# Directors' report continued

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

| | Number of shares 2012 | 2011 |
|---|---|---|
| Beneficial | **182 409 386** | 182 409 386 |

The beneficial interest held by directors and officers of the company constitutes 27.58% (2011: 24.12%) of the issued share capital of the company.

Details of directors' emoluments and equity compensation benefit are set out in note 31 of the group annual financial statements and details of the forfeitable share plan are set out in note 33.

## Resolutions

On 22 November 2011 the Company passed and filed with the Companies and Intellectual Property Commission the following special resolutions:

- Approving the specific repurchase by the company of the Blue Label shares held by Microsoft Corporation.
- Approving the remuneration of non-executive directors.
- Granting of a general authority to repurchase the company's shares.
- Renewal of the authority that unissued shares be placed under the control of the directors.
- Approving financial assistance to directors, prescribed officers and related or inter-related companies.

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

PricewaterhouseCoopers Incorporated 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 2012

| | Note | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | **993 076** | 851 665 |
| Property, plant and equipment | 4 | **112 188** | 139 747 |
| Intangible assets | 5 | **292 200** | 218 679 |
| Goodwill | 5 | **213 498** | 214 834 |
| Investments in associates and joint ventures | 6 | **357 471** | 239 997 |
| Loans receivable | 7 | **1 435** | — |
| Available-for-sale financial asset | 8 | **—** | — |
| Starter pack assets | 9 | **4 501** | 20 361 |
| Deferred taxation assets | 10 | **11 783** | 18 047 |
| **Current assets** | | **3 942 456** | 4 216 942 |
| Financial assets at fair value through profit and loss | 11 | **—** | 10 |
| Starter pack assets | | **3 191** | 16 777 |
| Inventories | 12 | **539 221** | 1 012 594 |
| Loans receivable | 7 | **30 049** | 32 370 |
| Trade and other receivables | 13 | **1 387 650** | 914 164 |
| Current tax assets | | **7 103** | 14 330 |
| Cash and cash equivalents | 14 | **1 975 242** | 2 226 697 |
| **Assets of disposal group classified as held-for-sale** | 15 | **—** | 20 481 |
| **Total assets** | | **4 935 532** | 5 089 088 |

# Group statement of financial position continued

| | Note | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **Equity and liabilities** | | | |
| **Capital and reserves** | | **2 914 386** | 2 955 363 |
| Share capital | 16 | * | * |
| Share premium | | **4 012 359** | 4 404 737 |
| Treasury shares | | **(71 043)** | (56 506) |
| Restructuring reserve | | **(1 843 912)** | (1 843 912) |
| Foreign currency translation reserve | | **15 389** | (23 751) |
| Non-distributable reserve | | **10 150** | 10 150 |
| Transaction with non-controlling interest reserve | | **(909 572)** | (909 006) |
| Equity compensation benefit reserve | | **37 623** | 17 807 |
| Share-based payment reserve | | **1 292** | 1 292 |
| Retained earnings | | **1 671 378** | 1 340 318 |
| | | **2 923 664** | 2 941 129 |
| Non-controlling interest | | **(9 278)** | 14 234 |
| **Non-current liabilities** | | **50 624** | 38 093 |
| Deferred taxation | 10 | **21 598** | 22 196 |
| Interest-bearing borrowings | 17 | **—** | 15 897 |
| Trade and other payables | 18 | **29 026** | — |
| **Current liabilities** | | **1 970 522** | 2 081 760 |
| Trade and other payables | 18 | **1 931 204** | 2 046 773 |
| Provision | 19 | **6 260** | 8 676 |
| Current tax liabilities | | **21 041** | 22 326 |
| Bank overdraft | 14 | **—** | 527 |
| Non-interest-bearing borrowings | 17 | **12 017** | — |
| Current portion of interest-bearing borrowings | 17 | **—** | 3 458 |
| **Liabilities of disposal group classified as held-for-sale** | 15 | **—** | 13 872 |
| **Total equity and liabilities** | | **4 935 532** | 5 089 088 |

** Less than R1 000.*

# Group statement of comprehensive income

For the year ended 31 May 2012

| | Note | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | | **18 715 390** | 18 064 572 |
| Other income | | **97 412** | 7 197 |
| Changes in inventories of finished goods | | **(17 507 468)** | (16 996 939) |
| Employee compensation and benefit expense | 20 | **(327 830)** | (263 360) |
| Depreciation, amortisation and impairment charges | | **(91 557)** | (145 985) |
| Other expenses | | **(227 022)** | (213 738) |
| **Operating profit** | 21 | **658 925** | 451 747 |
| Finance costs | 22 | **(181 081)** | (115 845) |
| Finance income | 22 | **170 995** | 146 429 |
| Share of losses from associates and joint ventures | 6 | **(19 835)** | (2 757) |
| **Net profit before taxation** | | **629 004** | 479 574 |
| Taxation | 23 | **(194 075)** | (152 176) |
| **Net profit for the year from continuing operations** | | **434 929** | 327 398 |
| **Discontinued operations** | | | |
| Net (loss)/profit for the year from discontinued operations | 15 | **(15 455)** | 57 573 |
| Net profit for the year | | **419 474** | 384 971 |
| **Other comprehensive income:** | | | |
| Exchange profit/(loss) on translation of equity loans* | | **5 395** | (4 926) |
| Exchange profit/(loss) on translation of foreign operations* | | **36 058** | (6 550) |
| Foreign currency translation reserve recycled to profit or loss* | | **—** | 4 219 |
| **Other comprehensive profit/(loss) for the year, net of tax** | | **41 453** | (7 257) |
| **Total comprehensive income for the year** | | **460 927** | 377 714 |

# Group statement of comprehensive income

continued

| | Note | **2012 R'000** | 2011 R'000 |
|---|---|---|---|
| **Net profit for the year attributable to:** | | | |
| Equity holders of the parent | | **438 104** | 431 448 |
| Non-controlling interest | | **(18 630)** | (46 477) |
| **Net profit for the year from continuing operations attributable to:** | | | |
| Equity holders of the parent | | **443 597** | 337 547 |
| Non-controlling interest | | **(8 668)** | (10 149) |
| **Net (loss)/profit for the year from discontinued operations attributable to:** | | | |
| Equity holders of the parent | | **(5 493)** | 93 901 |
| Non-controlling interest | | **(9 962)** | (36 328) |
| **Total comprehensive income for the year attributable to:** | | | |
| Equity holders of the parent | | **477 244** | 430 538 |
| Non-controlling interest | | **(16 317)** | (52 824) |
| **Earnings per share for profit attributable to:** | | | |
| **Equity holders (cents)** | | | |
| **– Basic** | 24 | **61.87** | 57.04 |
| – From continuing operations | | **62.65** | 44.63 |
| – From discontinued operations | | **(0.78)** | 12.41 |
| **– Diluted** | 24 | **60.97** | 56.49 |
| – From continuing operations | | **61.74** | 44.08 |
| – From discontinued operations | | **(0.78)** | 12.41 |

** These components of other comprehensive income do not attract any tax.*

# Group statement of changes in equity

For the year ended 31 May 2012

| | Note | Share capital R'000 | Share premium R'000 | Treasury shares R'000 | Retained earnings R'000 |
|---|---|---|---|---|---|
| **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** |
| Net profit for the year | | **—** | **—** | **—** | **438 104** |
| Comprehensive loss | | **—** | **—** | **—** | **—** |
| **Total comprehensive income (loss)** | | **—** | **—** | **—** | **438 104** |
| Treasury shares purchased | 16 | **—** | **—** | **(16 095)** | **—** |
| Shares acquired | 16 | **—** | **(392 378)** | **—** | **—** |
| Equity compensation benefit scheme shares vested | | **—** | **—** | **1 558** | **—** |
| Equity compensation benefit movement | | **—** | **—** | **—** | **—** |
| Share of equity movement in associates | | **—** | **—** | **—** | **—** |
| Dividends | | **—** | **—** | **—** | **(107 044)** |
| Transaction with non-controlling interest reserve movement | | **—** | **—** | **—** | **—** |
| Non-controlling interest disposed of during the year | 27 | **—** | **—** | **—** | **—** |
| **Balance as at 31 May 2012** | | ***** | **4 012 359** | **(71 043)** | **1 671 378** |

* *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 *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.)*

3 *This relates to the group's movement in equity compensation benefit (refer to note 33) as well as the group's share of the movement in equity compensation benefit of associate companies. (Refer to note 6.)*

4 *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.*

# Group statement of changes in equity continued

| Restructuring reserve[1] R'000 | Foreign currency translation reserve R'000 | Non-distributable reserve R'000 | Transaction with non-controlling interest reserve[2] R'000 | Employee compensation benefit reserve[3] R'000 | Share-based payment reserve[4] R'000 | Total ordinary shareholders' equity R'000 | Non-controlling interest R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|---|---|
| (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** |
| — | — | — | — | — | — | 438 104 | (18 630) | 419 474 |
| — | 39 140 | — | — | — | — | 39 140 | 2 313 | 41 453 |
| — | 39 140 | — | — | — | — | 477 244 | (16 317) | 460 927 |
| — | — | — | — | — | — | (16 095) | — | (16 095) |
| — | — | — | — | — | — | (392 378) | — | (392 378) |
| — | — | — | — | (1 517) | — | 41 | (41) | — |
| — | — | — | — | 21 929 | — | 21 929 | 197 | 22 126 |
| — | — | — | — | (596) | — | (596) | — | (596) |
| — | — | — | — | — | — | (107 044) | (2 945) | (109 989) |
| — | — | — | (566) | — | — | (566) | — | (566) |
| — | — | — | — | — | — | — | (4 406) | (4 406) |
| **(1 843 912)** | **15 389** | **10 150** | **(909 572)** | **37 623** | **1 292** | **2 923 664** | **(9 278)** | **2 914 386** |

# Group statement of cash flows

For the year ended 31 May 2012

| | Note | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash received from customers | | **18 249 024** | 18 674 256 |
| Cash paid to suppliers and employees | | **(17 592 595)** | (18 108 203) |
| **Cash generated by operations** | 25 | **656 429** | 566 053 |
| Interest received | 22 | **59 730** | 50 645 |
| Interest paid | 22 | **(3 307)** | (8 221) |
| Taxation paid | 26 | **(184 743)** | (180 814) |
| Net cash flows from operating activities | | **528 109** | 427 663 |
| **Cash flows from investing activities** | | | |
| Acquisition of intangible assets | | **(134 955)** | (112 661) |
| Disposal of subsidiaries net of cash disposed | 27 | **2 501** | (1 274) |
| Acquisition of subsidiaries net of cash acquired | 28 | **(13 262)** | — |
| Loans advanced to associates and joint ventures | | **(104 517)** | (1 373) |
| Loans repaid by associates and joint ventures | | **1 228** | — |
| Loans granted | | **(6 246)** | (5 570) |
| Loans receivable repaid | | **2 442** | 42 883 |
| Dividends received from associates and joint ventures | | **453** | 1 416 |
| Proceeds on disposal of property, plant and equipment | | **4 895** | 2 676 |
| Acquisition of property, plant and equipment | | **(29 530)** | (73 535) |
| Net cash flows from investing activities | | **(276 991)** | (147 438) |
| **Cash flows from financing activities** | | | |
| Interest-bearing borrowings repaid | | **(4 022)** | (2 000) |
| Interest-bearing borrowings raised | | **2 500** | 807 |
| Acquisition of shares | | **(392 378)** | — |
| Acquisition of treasury shares | | **(16 095)** | (8 790) |
| Dividends paid to non-controlling interest | | **(2 945)** | (950) |
| Dividends paid | | **(107 044)** | (91 457) |
| Net cash flows from financing activities | | **(519 984)** | (100 004) |
| **(Decrease)/increase in cash and cash equivalents** | | **(268 866)** | 180 221 |
| Cash and cash equivalents at the beginning of the year | | **2 226 170** | 2 054 902 |
| Translation difference | | **17 938** | (8 953) |
| **Cash and cash equivalents at the end of the year** | 14 | **1 975 242** | 2 226 170 |

# Notes to the group annual financial statements

For the year ended 31 May 2012

Blue Label Telecoms Limited (the company) and its subsidiaries, joint ventures and associates (together referred to as the group) are 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 94.

## 1. Significant accounting policies

### Statement of compliance

The principle accounting policies applied in the preparation of these group annual financial statements are set out below in the related notes and are consistent with those adopted in the prior year, unless otherwise specified.

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 2012.

### Basis of preparation

The annual financial statements and group financial statements are prepared under the historical cost convention, except for certain financial and equity instruments which have been measured at fair value. Amounts are rounded to the nearest thousand with the exception of earnings per shares, ordinary share capital and equity compensation benefit. 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.

### Going concern

The group and company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group and company should be able to operate within its current funding levels.

After making enquiries, the directors have a reasonable expectation that the group and company have adequate resources to continue in operational existence for the foreseeable future. The group and company therefore continue to adopt the going-concern basis in preparing the financial statements.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### Standards, interpretations and amendments effective in 2012

The following standards and amendments are effective for the first time for the year ended 31 May 2012 and have been applied when presenting the group's financial statements:

- IFRS 7: *Financial Instruments: Disclosures – Clarification of disclosures*
- IAS 1: *Presentation of Financial Statements – Clarification of statement of changes in equity*
- IAS 34: *Interim Financial Reporting – Significant events and transactions*

The following standards, interpretations and amendments are effective for the first time for the year ended 31 May 2012 and have not had an impact on the group's financial statements:

- Amendments to IFRS 1: *First-time adoption on hyperinflation and fixed dates*
- Amendment to IFRS 7: *Financial Instruments: Disclosures – Transfer of financial assets*
- Amendment to IAS 24 – *Related party disclosures*
- Amendment to IFRS 1 – *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
- Amendments to IFRIC 14: *Pre-payments of a Minimum Funding Requirement*
- IFRS 1: *First-time Adoption of International Financial Reporting Standards – Accounting policy changes in the year*
- 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 1: *First-time Adoption of International Financial Reporting Standards – Measurement of non-controlling interest*
- IFRS 1: *First-time Adoption of International Financial Reporting Standards – Unreplaced and voluntarily replaced share-based payment awards*
- IFRS 7: *Financial Instruments: Disclosures – Clarification of disclosures*
- 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) – Unreplaced and voluntarily replaced share-based payment awards*
- 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*
- IFRIC 13: *Customer Loyalty Programmes – Fair value of award credits*
- IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*

### 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.

# Notes to the group annual financial statements
continued

## 1. Significant accounting policies (continued)

### 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.

### IFRS 9 – Financial Instruments (2009)

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.

This statement is effective on 1 January 2015. 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 2015. 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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### Amendments to IFRS 9 – Financial Instruments (2011)

The IASB has published an amendment to IFRS 9, *Financial Instruments*, that delays the effective date to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after from 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified.

This amendment has delayed the implementation of the standard from 1 January 2013 to 1 January 2015. The impact on the group is stated above.

### Amendment to IFRS 1 – First-time adoption on government loans

This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.

This amendment is effective on 1 January 2013 and is not applicable to the group.

### Amendment to IFRS 7 – Financial Instruments: Disclosures – Asset and Liability offsetting

The IASB has published an amendment to IFRS 7, *Financial Instruments: Disclosures*, reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with 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.

### 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.

# Notes to the group annual financial statements
continued

## 1. Significant accounting policies (continued)

### 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 does 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 does not believe the statement will have a significant impact as it merely provides for additional disclosures.

### 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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### 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.

### Amendments to IAS 32 – Financial Instruments: Presentation

The IASB has issued amendments to the application guidance in IAS 32, *Financial Instruments: Presentation*, that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from 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.

### IFRIC 20 – Stripping costs in the production phase of a surface mine

In surface mining operations, entities may find it necessary to remove mine waste materials (overburden) to gain access to mineral ore deposits. This waste removal activity is known as 'stripping'. The Interpretation clarifies there can be two benefits accruing to an entity from stripping activity: usable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The Interpretation considers when and how to account separately for these two benefits arising from the stripping activity, as well as how to measure these benefits both initially and subsequently.

This statement 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.

Improvements to IFRS 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 2012 year ends:

- Amendments to IFRS 1: *First-time adoption of IFRS – Permit the repeated application of IFRS 1, borrowing costs on certain qualifying assets*
- Amendment to IAS 1: *Presentation of financial statements – Clarification of the requirements for comparative information*

# Notes to the group annual financial statements
continued

## 1. Significant accounting policies (continued)

### Annual Improvements Project (continued)

- Amendment to IAS 16: *Property, plant and equipment – Classification of servicing equipment*
- Amendment to IAS 32: *Financial instruments: Presentation – Clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12: Income Taxes*
- Amendment to IAS 34: *Interim financial reporting – Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8: Operating Segments*

Management is currently considering the effect of the changes.

### 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.

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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### Basis of consolidation (continued)

**Subsidiaries (continued)**

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.

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. Loans made to subsidiaries which have no set terms are intended to provide the subsidiary with a long-term source of additional capital and are accounted for as an addition to the parent's investment in that subsidiary. As a result, the loan is considered to be an interest in the subsidiary.

**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 equity. 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.

# Notes to the group annual financial statements
continued

## 1. Significant accounting policies (continued)

### Basis of consolidation (continued)

**Associates (continued)**

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 34 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.

**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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### Foreign currencies (continued)

**(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.
- 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).
- All resulting exchange differences are recognised as a separate component of equity.

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-sales.
- Trade and other receivables.
- Cash and cash equivalents.

**Financial liabilities**

- Borrowings.
- Trade and other payables.
- 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.

# Notes to the group annual financial statements
continued

## 1. Significant accounting policies (continued)

### Financial instruments (continued)

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.

### 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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### Financial assets (continued)

**(c) Available-for-sale financial assets (continued)**

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.

### 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.
- It becoming probable that the borrower 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.

# Notes to the group annual financial statements
continued

## 1. Significant accounting policies (continued)

### 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.

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 historical cost, being the purchase cost plus any cost to prepare the assets for their intended use. Historical cost includes expenditure that is directly attributable to the acquisition of the item. 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 historical 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% |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### Property, plant and equipment (continued)

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.

### 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 to 10 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 (10 years).

Trademarks 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.

**(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 (20 years).

Franchise fees 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.

# Notes to the group annual financial statements
continued

1. **Significant accounting policies (continued)**

**Intangible assets (continued)**

(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 – 10 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 intends 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.
- 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 – 10 years).

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).

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### Intangible assets (continued)

**(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 and when there are indicators of impairment. 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.

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.

# Notes to the group annual financial statements
continued

## 1. Significant accounting policies (continued)

### 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.

### 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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### Trade receivables (continued)

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate 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.

# Notes to the group annual financial statements
continued

## 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 rate 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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### Deferred taxation (continued)

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 tax 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.

### Secondary Tax on Companies (STC)

Until 31 March 2012, 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 on Companies, on distributed income. STC is not a withholding tax on shareholders but a tax on companies. With effect from 1 April 2012, Dividends Tax replaces STC. Dividends Tax is provided for at 15% of the amount of any dividend paid, subject to certain exemptions. The dividend tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

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.

# Notes to the group annual financial statements
continued

## 1. Significant accounting policies (continued)

### Revenue recognition (continued)

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.

**(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. The group accounts for the sale of prepaid airtime based on the substance of the arrangement. Where the group acts in its capacity as principal for the sale of airtime (for instance where the group bears inventory risk), revenue is recognised as the fair value of the consideration receivable net of discounts and taxes. Revenue is recognised at the point at which risks and rewards are transferred to the customer and the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the prepaid airtime.

Where the group is acting in its capacity as an agent in the sale of prepaid airtime (for instance where the group does not bear any inventory risk), the amount of revenue recorded is the fair value of commission received or receivable.

**(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) 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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 1. Significant accounting policies (continued)

### 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 liability is recognised where the group is contractually obliged or where there is a past practice that has created a constructive obligation.

**(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.

### Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate 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.

### 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 32 (segmental summary).

# Notes to the group annual financial statements
continued

## 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) 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.

### (c) Income taxes

As with any enterprise, the group faces uncertainties in the markets in which it operates and 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.

### (d) 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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 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 receivables 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. Customers cannot exceed their set credit limit, without specific senior management approval. Such approval is assessed and granted on a case-by-case basis. Management regularly reviews the debtors age analysis and follows up on long outstanding debtors. 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'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 R2.9 million (2011: R5.6 million).

# Notes to the group annual financial statements
continued

## 3. Financial risks (continued)

### Credit risk (continued)

The group considers its maximum exposure per class, without taking into account any collateral and financial guarantees, to be as follows:

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Loans receivable** | | |
| Group 1 | — | 2 399 |
| Group 2 | 31 484 | 29 971 |
| | 31 484 | 32 370 |
| **Trade receivables** | | |
| Group 1 | 123 500 | 39 950 |
| Group 2 | 1 224 050 | 829 250 |
| Group 3 | 19 960 | 13 050 |
| Total unimpaired trade receivables | 1 367 510 | 882 250 |

Refer to note 13 for a breakdown of the provision raised for these trade receivables.

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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 3. Financial risks (continued)

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Cash at bank and short-term bank deposits** | | |
| Credit rating based on latest Fitch local currency long-term issuer default ratings | | |
| AAA | 198 | 30 945 |
| A | — | 62 944 |
| A- | 39 000 | — |
| AA- | — | 34 552 |
| BBB+ | 438 869 | 2 038 696 |
| BBB | 1 495 141 | 5 789 |
| BBB- | — | 7 458 |
| B+ | — | 42 793 |
| Other | 1 585 | 2 454 |
| | 1 974 793 | 2 225 631 |

# Notes to the group annual financial statements
continued

## 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 group has the following short-term facilities with Investec Bank Limited. A R850 million (2011: R750 million) facility which can be utilised as a guarantee or loan facility as well as a R350 million (2011: Nil) facility which can be utilised as a guarantee facility. These facilities have been utilised as guarantees.

In addition, the group has a R300 million (2011: R300 million) facility which can be utilised as a loan facility. This facility was unutilised as at 31 May 2012.

These facilities bear certain debt covenants. The group has not been placed in breach in respect of these covenants. The group has pledged certain securities in respect of these facilities. (Refer to notes 12, 13 and 14).

The company and a subsidiary company have issued a cross surety in respect of a guarantee and overdraft facility in the amount of R39.8 million in favour of FNB, a division of FirstRand Bank Limited. This facility was unutilised as at 31 May 2012. In addition, the company and four of its subsidiaries have issued a cross surety in the amount of R1.7 million.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 3. Financial risks (continued)

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

| | Less than 1 month or on demand R'000 | Payable in: 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 R'000 | More than 5 years R'000 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| Non-interest-bearing borrowings | **12 017** | — | — | — | — |
| Trade and other payables* | **1 247 957** | **604 113** | **29 026** | — | — |
| **Total** | **1 259 974** | **604 113** | **29 026** | — | — |
| **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 | — | — | — |

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

# Notes to the group annual financial statements
continued

## 3. Financial risks (continued)

### Market risk

Market risk is the risk that changes in market prices (interest rate and currency risk) will affect the group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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.

Fair value measurement hierarchy:

- level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2: fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- level 3: fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

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 8.

### 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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 3. Financial risks (continued)

### 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.

### 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 2012, 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 2012 would increase or decrease profit before tax by R19.8 million (2011: R22.1 million).

# Notes to the group annual financial statements
continued

## 3. Financial risks (continued)

### Foreign currency risk

Financial instruments by currency

| | ZAR R'000 | USD R'000 | NgN R'000 | GBP R'000 | Total R'000 |
|---|---|---|---|---|---|
| **2012** | | | | | |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 1 973 384 | 773 | 1 085 | — | 1 975 242 |
| Trade and other receivables* | 1 374 954 | 118 | 1 755 | — | 1 376 827 |
| Loans receivable | 31 484 | — | — | — | 31 484 |
| | 3 379 822 | 891 | 2 840 | — | 3 383 553 |
| **Financial liabilities** | | | | | |
| Non-interest-bearing borrowings | 12 017 | — | — | — | 12 017 |
| Trade and other payables* | 1 880 335 | 27 | 692 | 43 | 1 881 097 |
| | 1 892 352 | 27 | 692 | 43 | 1 893 114 |
| Net financial position | 1 487 470 | 864 | 2 148 | (43) | 1 490 439 |

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

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 3. Financial risks (continued)

| | ZAR R'000 | USD R'000 | EUR 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.*

# Notes to the group annual financial statements
continued

## 3. Financial risks (continued)

With a 10% strengthening or weakening in the rand against all other currencies, profit before tax would have increased or decreased by R0.3 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 R10.4 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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | Computer equipment R'000 | Furniture and fittings R'000 | Motor vehicles R'000 |
|---|---|---|---|
| **4. Property, plant and equipment** | | | |
| **Year ended 31 May 2012** | | | |
| Opening carrying amount | **11 316** | **5 796** | **8 415** |
| Additions | **7 385** | **860** | **3 283** |
| Disposals | **(182)** | **(8)** | **(1 783)** |
| Depreciation charge | **(7 335)** | **(1 573)** | **(2 761)** |
| Impairment charges* | **—** | **(487)** | **—** |
| Closing carrying amount | **11 184** | **4 588** | **7 154** |
| **At 31 May 2012** | | | |
| Cost | **35 331** | **10 329** | **14 404** |
| Accumulated depreciation | **(23 995)** | **(5 148)** | **(7 250)** |
| Accumulated impairments | **(152)** | **(593)** | **—** |
| Carrying amount | **11 184** | **4 588** | **7 154** |
| **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 |

* *The impairments in the current year mainly relate to the scrapping of terminals and vending machines. These terminals were scrapped due to technological redundancy, non-locatable devices and uneconomical for repair. These were scrapped at net book value. These impairments solely relate to the South African distribution segment.*

** *All impairment charges in the prior 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.*

There are no property, plant and equipment that are encumbered.

# Notes to the group annual financial statements
continued

| Office equipment R'000 | Leasehold improve-ments R'000 | Terminals and vending machines R'000 | Media equipment R'000 | Plant and machinery R'000 | Buildings R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| **3 331** | **38 677** | **68 150** | **1 673** | **557** | **1 832** | **139 747** |
| **248** | **483** | **17 491** | **114** | **36** | **—** | **29 900** |
| **(4)** | **(559)** | **(802)** | **(1 410)** | **(336)** | **—** | **(5 084)** |
| **(1 122)** | **(7 549)** | **(18 772)** | **(263)** | **(213)** | **—** | **(39 588)** |
| **—** | **—** | **(12 300)** | **—** | **—** | **—** | **(12 787)** |
| **2 453** | **31 052** | **53 767** | **114** | **44** | **1 832** | **112 188** |
| **7 052** | **49 790** | **110 086** | **114** | **143** | **1 832** | **229 081** |
| **(4 179)** | **(18 738)** | **(54 702)** | **—** | **(99)** | **—** | **(114 111)** |
| **(420)** | **—** | **(1 617)** | **—** | **—** | **—** | **(2 782)** |
| **2 453** | **31 052** | **53 767** | **114** | **44** | **1 832** | **112 188** |
| 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 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | Goodwill R'000 | Trademarks R'000 | Customer listing R'000 |
|---|---|---|---|
| **5. Intangible assets** | | | |
| **Year ended 31 May 2012** | | | |
| Opening carrying amount | **214 834** | **3 385** | **2 800** |
| Additions | **5 847** | **83** | **—** |
| Disposals | **(2 499)** | **(25)** | **—** |
| Amortisation charge | **—** | **(713)** | **(833)** |
| Impairment charges | **(4 684)** | **—** | **—** |
| Closing carrying amount | **213 498** | **2 730** | **1 967** |
| **At 31 May 2012** | | | |
| Cost | **239 618** | **6 918** | **32 817** |
| Accumulated amortisation | **—** | **(4 188)** | **(30 850)** |
| Accumulated impairments | **(26 120)** | **—** | **—** |
| Carrying amount | **213 498** | **2 730** | **1 967** |
| **Year ended 31 May 2011** | | | |
| Opening carrying amount | 242 562 | 4 121 | 3 210 |
| Additions | — | — | 1 029 |
| Disposals | — | — | — |
| Amortisation charge | — | (736) | (1 439) |
| Impairment charges | (27 985) | — | — |
| Translation differences | 257 | — | — |
| Closing carrying amount | 214 834 | 3 385 | 2 800 |
| **At 31 May 2011** | | | |
| Cost | 256 648 | 7 167 | 32 817 |
| Accumulated amortisation | — | (3 782) | (30 017) |
| Accumulated impairments | (41 814) | — | — |
| Carrying amount | 214 834 | 3 385 | 2 800 |

The carrying amount of goodwill and intangible assets have been reduced to their recoverable amounts through recognition of an impairment loss when required.

* *Included in the amortisation charge is an amount of R32 million (2011: R7 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 range between 55 months and 76 months.*

# Notes to the group annual financial statements
continued

| Distribution agreement R'000 | 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 |
|---|---|---|---|---|---|---|
| **5 670** | **30 165** | **25 030** | **2 132** | **19 813** | **129 684** | **433 513** |
| **—** | **11 754** | **2 606** | **5 400** | **—** | **120 593** | **146 283** |
| **—** | **—** | **—** | **—** | **—** | **—** | **(2 524)** |
| **(1 360)** | **(11 155)** | **(5 595)** | **(635)** | **(14 003)** | **(32 392)*** | **(66 686)** |
| **—** | **—** | **(204)** | **—** | **—** | **—** | **(4 888)** |
| **4 310** | **30 764** | **21 837** | **6 897** | **5 810** | **217 885** | **505 698** |
| **16 716** | **75 107** | **52 874** | **8 518** | **126 673** | **262 172** | **821 413** |
| **(10 528)** | **(43 933)** | **(16 470)** | **(1 621)** | **(120 248)** | **(44 287)** | **(272 125)** |
| **(1 878)** | **(410)** | **(14 567)** | **—** | **(615)** | **—** | **(43 590)** |
| **4 310** | **30 764** | **21 837** | **6 897** | **5 810** | **217 885** | **505 698** |
| 6 729 | 41 535 | 38 015 | 1 659 | 45 119 | 53 874 | 436 824 |
| 3 410 | 15 419 | 9 296 | 700 | — | 82 807 | 112 661 |
| — | (386) | (169) | — | — | — | (555) |
| (2 591) | (13 596) | (9 406) | (227) | (25 306) | (6 997)* | (60 298) |
| (1 878) | (12 751) | (12 703) | — | — | — | (55 317) |
| — | (56) | (3) | — | — | — | 198 |
| 5 670 | 30 165 | 25 030 | 2 132 | 19 813 | 129 684 | 433 513 |
| 16 716 | 86 683 | 56 031 | 3 118 | 126 673 | 141 579 | 727 432 |
| (9 168) | (46 952) | (16 638) | (986) | (106 245) | (11 895) | (225 683) |
| (1 878) | (9 566) | (14 363) | — | (615) | — | (68 236) |
| 5 670 | 30 165 | 25 030 | 2 132 | 19 813 | 129 684 | 433 513 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 5. Intangible assets (continued)

### Intangible asset impairments

In the prior year, 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 cutback in network marketing spend for mobile content downloads. Computer software of R9.5 million was impaired in the prior year due to the commitment to dispose of the Nigeria business. (Refer to note 15.)

Computer software of R3 million relating to the International segment was fully impaired to nil in the prior year as a result of the fall in the competitive edge that payphones traditionally had over mobile phones.

Internally generated software of R12.7 million was impaired in the prior year due to management's decision that the development of the software is no longer commercially viable.

Refer to note 32 for details of impairments per segment.

The above factors have also been taken into account in the impairment charges of goodwill.

### Change in accounting estimate

**2012**

No change in accounting estimate

**2011**

The amortisation of the purchased starter pack base was changed during the prior 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 |

# Notes to the group annual financial statements
continued

## 5. Intangible assets (continued)

The cash-generating units to which goodwill is allocated are presented below:

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| Blue Label Distribution | **36 364** | 36 364 |
| Cellfind Proprietary Limited | **21 406** | 21 406 |
| Content Connect Africa Proprietary Limited[1] | **4 745** | 9 429 |
| Little River Trading 181 Proprietary Limited, trading as Crown Cellular | **62 113** | 62 113 |
| Multiserv Proprietary Limited[2] | **5 847** | — |
| SharedPhone International Proprietary Limited[3] | **—** | 2 499 |
| Datacel group | **83 023** | 83 023 |
| | **213 498** | 214 834 |

1 *The goodwill arising on the acquisition of Content Connect Africa has been impaired in the current year due to the fair value less cost to sell being less than the carrying value.*
2 *Multiserv was acquired in the current year (refer to note 28).*
3 *SharedPhone International was disposed of in the current year (refer to note 27).*

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 terminal growth rates applied were between 1.5% and 4.5% (2011: 1.5% and 4.5%). The weighted average cost of capital used to discount these cash flows ranged between 16% and 22.25% (2011: 15% and 22%). 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 R4.7 million for the year (2011: R28 million).

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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **6. Investments in associates and joint ventures** | | |
| **Cost and share of reserves at the beginning of the year** | **218 027** | 76 146 |
| Acquisition of associates and joint ventures | **—** | 143 365 |
| Share of losses from associates and joint ventures | **(19 835)** | (2 757) |
| Share of results after tax | **(16 387)** | (1 527) |
| Amortisation of intangible assets | **(4 788)** | (1 607) |
| Deferred tax on intangible assets amortisation | **1 340** | 449 |
| Loss on dilution | **—** | (72) |
| Foreign currency translation reserve | **30 433** | 1 747 |
| Equity compensation benefit | **(596)** | 942 |
| Dividends received | **(453)** | (1 416) |
| Disposal of associate | **(3 025)** | — |
| **Cost and share of reserves at the end of the year** | **224 551** | 218 027 |
| **Loans at the beginning of the year** | **21 970** | 20 742 |
| Loans granted to associates and joint ventures | **104 517** | 1 373 |
| Loans repaid by associates and joint ventures | **(1 228)** | — |
| Movement in funding | **—** | (145) |
| Unrealised foreign exchange profit on loans to associates and joint ventures | **7 661** | — |
| **Loans at the end of the year** | **132 920** | 21 970 |
| Closing net book value | **357 471** | 239 997 |

# Notes to the group annual financial statements
continued

## 6. Investments in associates and joint ventures (continued)

Investments in associates and joint ventures include goodwill to the value of R205 million (2011: R163 million).

| Loans to associates and joint ventures | Interest rate | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Oxigen Services India (Private) Limited | LIBOR + 1.5% | **18 643** | 18 643 |
| Blue Label Mexico S.A. de C.V. | 4.50% | **27 829** | 257 |
| Demtrade 11 Proprietary Limited | — | **—** | 1 228 |
| 2DFine Holdings Mauritius* | 9.50% | **83 890** | — |
| Bela Phone Company Proprietary Limited | — | **2 260** | 1 842 |
| E-mail Marketing Solutions Proprietary Limited | — | **46** | — |
| Betterquote Proprietary Limited | — | **252** | — |
| | | **132 920** | 21 970 |

The loans are neither past due nor impaired with a low risk of default.
Loans to associates and joint ventures have no fixed terms of repayment.

* *Refer to note 30 for details on the surety relating to this loan.*

| Shares in associates and joint ventures acquired during the year | | Date acquired | Effective percentage |
|---|---|---|---|
| 2DFine Holdings Mauritius | Joint venture | 1 June 2011 | 50 |
| E-mail Marketing Solutions Proprietary Limited | Joint venture | 1 July 2011 | 40.5 |
| Betterquote Proprietary Limited | Joint venture | 17 June 2011 | 21.06 |

See note 27 for details of the acquisition of 40% in Blue Label Mexico S.A. de C.V. in the prior year.

In June 2011, Blue Label Telecoms (BLT), acting through its wholly owned subsidiary Gold Label Investments, acquired a 50% interest in 2DFine Holdings Mauritius. The investment is classified as a joint venture as unanimous approval of the shareholders is required for decisions. 2DFine Holdings Mauritius holds a 37.22% in Oxigen Services India. In terms of IFRS, an entity does not aggregate its interests held through associates and joint ventures when assessing for control as BLT through this relationship cannot direct the financial and operating policies of Oxigen Services India. Therefore, even though BLT has an effective interest of 55.83% in Oxigen Services India, the group neither controls nor jointly controls Oxigen Services India.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 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 |
|---|---|---|
| **2012** | | |
| Smart Voucher Limited | United Kingdom | **430 979** |
| Oxigen Services India (Private) Limited | India | **152 191** |
| Dual Data Proprietary Limited | South Africa | **8** |
| **2011** | | |
| Oxigen Services India (Private) Limited | India | 115 472 |
| Smart Voucher Limited | United Kingdom | 246 198 |
| Dual Data Proprietary Limited | South Africa | 11 |
| BLK Risk Services Proprietary Limited | South Africa | 1 324 |

** Less than R1 000.*

There are no contingent liabilities relating to the group's interest in associates. For details on related party transactions refer to note 30.

# Notes to the group annual financial statements
continued

| Liabilities R'000 | Revenues R'000 | Profit/(Loss) R'000 | Effective percentage interest held | Net book value R'000 |
|---|---|---|---|---|
| **326 694** | **241 623** | **39 659** | **17.25** | **49 773** |
| **102 370** | **2 575 239** | **4 859** | **55.83** | **77 598** |
| **—** | **—** | **12** | **50** | **6** |
| 70 501 | 1 742 446 | (13 871) | 37.22 | 59 992 |
| 213 074 | 141 544 | 22 114 | 15.75 | 37 546 |
| 14 | 27 | * | 50 | * |
| 429 | — | — | 25 | 220 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 6. Investments in associates and joint ventures (continued)

### Joint ventures

Set out below is the summarised financial information of joint ventures:

| Name | Country of incorporation | Non-current assets R'000 | Current assets R'000 |
|---|---|---|---|
| **2012** | | | |
| Blue Label Mexico S.A. de C.V. | Mexico | **76 097** | **52 993** |
| 2DFine Holdings Mauritius | Mauritius | **82 106** | **1** |
| Bela Phone Company Proprietary Limited | South Africa | **30** | **2 342** |
| E-mail Marketing Solutions Proprietary Limited | South Africa | **—** | **—** |
| Betterquote Proprietary Limited | South Africa | ***** | ***** |
| Datacision Proprietary Limited | South Africa | **124** | **5 651** |
| **2011** | | | |
| Blue Label Mexico S.A. de C.V. | Mexico | 19 904 | 97 424 |
| Demtrade 11 Proprietary Limited | South Africa | — | 2 513 |
| Bela Phone Company Proprietary Limited | South Africa | — | 2 521 |
| Datacision Proprietary Limited | South Africa | — | 915 |

* *Less than R1 000.*

** *This relates to the results for the period 23 February 2011 to 31 May 2011.*

In the current year, Demtrade 11 Proprietary Limited was liquidated and BLK Risk Services Proprietary Limited was disposed of at par value.

In the prior year, Demtrade 11 Proprietary Limited was diluted by 3.75%. Premet Cellular Proprietary Limited was disposed of in the prior year at par value.

There are no contingent liabilities relating to the group's interest in joint ventures. For details on related party transactions, refer to note 30.

# Notes to the group annual financial statements
continued

| Non-current liabilities R'000 | Current liabilities R'000 | Revenues R'000 | Profit/ (Loss) R'000 | Effective percentage interest held | Net book value R'000 |
|---|---|---|---|---|---|
| **—** | **79 988** | **859 592** | **(59 155)** | **40** | **146 344** |
| **84 367** | **275** | **—** | **(2 305)** | **50** | **82 617** |
| **—** | **6 181** | **1 511** | **(1 000)** | **51** | **318** |
| **—** | **135** | **148** | **(135)** | **40.5** | **(25)** |
| **—** | **2** | ***** | **(2)** | **21.06** | **(421)** |
| **—** | **3 262** | **10 430** | **1 659** | **50** | **1 261** |
| — | 9 230 | 26 856** | (15 501)** | 40 | 193 950 |
| — | 1 483 | 10 536 | 84 | 46.25 | 4 730 |
| — | 5 330 | 1 139 | (2 043) | 51 | 408 |
| — | 62 | 4 856 | 2 396 | 50 | 428 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **7.** | **Loans receivable** | | |
| | Interest-free loans receivable | **23 148** | 32 370 |
| | Interest-bearing loans receivable | **8 336** | — |
| | | **31 484** | 32 370 |
| | *Less:* Amounts included in current portion of loans receivable | **(30 049)** | (32 370) |
| | | **1 435** | — |

Non-interest bearing loans are unsecured and have no fixed terms of repayment. Interest-bearing loans bear interest at an average of between prime plus 2% to 4% and are unsecured. R6.3 million of interest-bearing loans has no repayment terms; the remaining balance is repayable over an average of four years.

The loans receivable are neither past due nor impaired with a low risk of default. Of this amount R23 million (2011: R30 million) relates to loans receivable from related parties (refer to note 30).

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **8.** | **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 timeframe. As settlement of the amount outstanding, AP transferred to APS its 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.

# Notes to the group annual financial statements
continued

| | | **2012** **R'000** | 2011 R'000 |
|---|---|---|---|
| **9.** | **Starter pack assets** | | |
| | Balance at the beginning of the year | **37 138** | 94 293 |
| | Additions | **5 078** | 4 889 |
| | Impairments* | **(3 534)** | (8 485) |
| | Disposals* | **(30 990)** | (53 559) |
| | At the end of the year | **7 692** | 37 138 |
| | *Less:* Current portion | **(3 191)** | (16 777) |
| | | **4 501** | 20 361 |

* *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.*

## 10. Deferred taxation

| Name | Capital allow-ances R'000 | Fair value gains R'000 | Pro-visions R'000 | Tax losses R'000 | Pre-pay-ments R'000 | Other R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| **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 |
| Charge/(credited) to statement of comprehensive income | **(697)** | **(6 898)** | **1 416** | **7 874** | **173** | **1 810** | **3 678** |
| Acquisition of subsidiary | **—** | **1 512** | **—** | **—** | **—** | **—** | **1 512** |
| Disposal of subsidiary | **81** | **—** | **26** | **553** | **(181)** | **(3)** | **476** |
| **At 31 May 2012** | **1 183** | **15 390** | **(4 509)** | **(9 836)** | **2 526** | **5 061** | **9 815** |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **10. Deferred taxation (continued)** | | |
| Deferred tax asset comprises: | | |
| Capital allowances | **(1 372)** | (797) |
| Provisions | **(4 578)** | (5 981) |
| Tax losses | **(9 836)** | (18 263) |
| Other | **(1 546)** | (725) |
| Total deferred tax asset | **(17 332)** | (25 766) |
| Deferred tax liability comprises: | | |
| Capital allowances | **2 555** | 2 596 |
| Fair value gains | **15 390** | 20 776 |
| Provisions | **69** | 30 |
| Prepayments | **2 526** | 2 534 |
| Other | **6 607** | 3 979 |
| Total deferred tax liability | **27 147** | 29 915 |
| Net deferred taxation | **9 815** | 4 149 |
| 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 | **(5 200)** | (8 636) |
| Deferred tax assets to be recovered within 12 months | **(6 583)** | (9 411) |
| | **(11 783)** | (18 047) |
| Deferred tax liabilities | | |
| Deferred tax liabilities to be recovered after more than 12 months | **43** | 656 |
| Deferred tax liabilities to be recovered within 12 months | **21 555** | 21 540 |
| | **21 598** | 22 196 |
| Net deferred tax liability | **9 815** | 4 149 |

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.

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 R23.1 million (2011: R19.6 million) in respect of losses amounting to R82.6 million (2011: R70 million) that can be carried forward against future taxable income.

There is no withholding tax that would be payable on any dividends received from the group's associates and joint ventures and therefore no deferred tax has been raised in this regard.

# Notes to the group annual financial statements
continued

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **11.** | **Financial assets at fair value through profit or loss** | | |
| | Balance at the beginning of the year | **10** | 150 |
| | Movements in financial assets at fair value through profit and loss | **(10)** | (140) |
| | At the end of the year | **—** | 10 |
| | Changes in the fair value of these assets are recorded in other income. | | |
| | This financial asset has been disposed of in the current year. | | |
| | The fair value of financial assets is based on management's best estimate. | | |
| **12.** | **Inventories** | | |
| | Finished goods – airtime and related products | **539 221** | 1 012 594 |
| | | **539 221** | 1 012 594 |

Inventory impairments of R9.7 million (2011: R12 million) have been charged to the statement of comprehensive income.

Inventories sold during the year of R17.5 billion (2011: R17 billion) 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 (2011: R750 million).

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **13. Trade and other receivables** | | |
| Trade receivables | **1 367 827** | 877 316 |
| *Less:* Provision for impairment | **(12 025)** | (14 064) |
| | **1 355 802** | 863 252 |
| Sundry debtors and prepayments | **20 970** | 27 245 |
| VAT | **3 332** | 6 368 |
| Receivables from related parties (refer to note 30) | **7 546** | 17 299 |
| | **1 387 650** | 914 164 |

The carrying value of trade and other receivables approximates their fair value.

The group's exposure to credit and currency risk relating to trade and other receivables is disclosed in note 3.

The ageing of trade receivables at the reporting date was:

| | Gross R'000 | Impairment R'000 | Net R'000 |
|---|---|---|---|
| **31 May 2012** | | | |
| Fully performing | **1 306 219** | **585** | **1 305 634** |
| Past due by 1 to 30 days | **35 128** | **579** | **34 549** |
| Past due by 31 to 60 days | **3 782** | **395** | **3 387** |
| Past due by 61 to 90 days | **2 213** | **429** | **1 784** |
| Past due by more than 90 days | **32 193** | **10 037** | **22 156** |
| | **1 379 535** | **12 025** | **1 367 510** |
| **31 May 2011** | | | |
| Fully performing | 844 185 | 317 | 843 868 |
| Past due by 1 to 30 days | 19 594 | 750 | 18 844 |
| Past due by 31 to 60 days | 9 269 | 869 | 8 400 |
| Past due by 61 to 90 days | 7 080 | 2 589 | 4 491 |
| Past due by more than 90 days | 16 186 | 9 539 | 6 647 |
| | 896 314 | 14 064 | 882 250 |

Receivables in respect of starter packs are included in fully performing debtors above.

The effect of discounting of the trade receivables balance of R4.162 million (2011: (R1.699 million)) 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.

# Notes to the group annual financial statements
continued

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **13.** | **Trade and other receivables (continued)** | | |
| | **Provision for impairment of receivables** | | |
| | Balance at the beginning of the year | **14 064** | 1 857 |
| | Allowances made during the year | **3 318** | 12 977 |
| | Disposal of subsidiaries | **—** | (162) |
| | Amounts used and reversal of unused amounts | **(5 357)** | (608) |
| | **At 31 May** | **12 025** | 14 064 |
| | 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 R1 317 million (2011: R829.4 million) in favour of Investec Bank Limited. | | |
| **14.** | **Cash and cash equivalents** | | |
| | Cash at bank | **1 974 793** | 2 225 631 |
| | Cash on hand | **449** | 1 066 |
| | Favourable balances | **1 975 242** | 2 226 697 |
| | Bank overdraft | **—** | (527) |
| | | **1 975 242** | 2 226 170 |

Guarantees to the value of R1.06 billion (2011: R1.2 billion) are issued by Investec Bank Limited in favour of suppliers, on behalf of the group.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 15. Assets and liabilities of disposal group classified as held-for-sale and discontinued operations

### Dilution of majority stake in Blue Label Mexico S.A. de C.V.

In the prior year, 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 BLM 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.

### Plan to dispose of Africa Prepaid Services Nigeria Limited

In the prior year, 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.

The discontinued operations were contained in the international segment.

# Notes to the group annual financial statements
continued

| | Note | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **15. Assets and liabilities of disposal group classified as held-for-sale and discontinued operations (continued)** | | | |
| **Profit for the year from discontinued operations** | | | |
| Revenue | | **6 690** | 536 999 |
| 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 | | **(6 535)** | (480 063) |
| Employee compensation and benefit expense | | **(1 576)** | (35 358) |
| Depreciation, amortisation and impairment charges | | **—** | (47 147) |
| Other expenses | | **(13 676)** | (56 707) |
| Operating (loss)/profit | 21 | **(15 097)** | 65 313 |
| Finance costs | | **—** | (6 420) |
| Finance income | | **4** | 626 |
| Net (loss)/profit before taxation from discontinued operations | | **(15 093)** | 59 519 |
| Taxation | | **(362)** | (1 946) |
| Net (loss)/profit for the year from discontinued operations | | **(15 455)** | 57 573 |
| Other comprehensive (loss)/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 (loss)/income for the year | | **(15 455)** | 61 807 |

*The current year results relate solely to African Prepaid Services Nigeria Limited.*

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | Note | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **15. Assets and liabilities of disposal group classified as 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 | | (8 850) | 41 753 |
| Investing cash flows | | — | (4 666) |
| Total cash flows | | (8 850) | 37 087 |

** Relates solely to Africa Prepaid Services Nigeria Limited.*

# Notes to the group annual financial statements
continued

| | 2012 Number of shares | 2011 Number of shares | 2012 R'000 | 2011 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 | **756 269 004** | 756 659 181 | * | * |
| Shares acquired during the year | **(95 078 724)** | (1 300 000) | * | * |
| Shares vested during the year | **311 637** | 909 823 | * | * |
| Balance at the end of the year | **661 501 917** | 756 269 004 | * | * |

** Less than R1 000.*

The total number of shares in issue, including shares held as treasury shares as at 31 May 2012, is 674 509 042 (2011: 766 360 894).

The company acquired 3 226 872 (2011: 1 300 000) shares on the JSE in order to grant forfeitable shares to employees and directors.

The amount paid to acquire these shares was R16 095 018 (2011: R8 789 983). An amount of R16 095 018 (2011: R8 934 993) has been deducted from shareholders' equity.

These shares are held as "treasury shares". (The difference in the prior year relates to shares held by equity-accounted group companies.) See note 33 for details on the forfeitable shares

The company acquired 91 851 852 shares from Microsoft Corporation representing 11.99% of the Blue Label ordinary shares in issue prior to the specific repurchase. The amount paid for these shares, including transaction costs, was R392 377 518. These shares have been cancelled.

The directors of the company have unrestricted authority until the following annual general meeting to allot and issue, as they in their discretion deem fit, the unissued ordinary shares of the company as at 31 May 2011, subject to the provisions of the memorandum of incorporation of the company, the Companies Act and the Listings Requirements.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **17.** | **Borrowings** | | |
| | Interest-bearing borrowings | — | 19 355 |
| | Non-interest-bearing borrowings | **12 017** | — |
| | | **12 017** | 19 355 |
| | *Less:* Amounts included in current portion of borrowings | **(12 017)** | (3 458) |
| | | **—** | 15 897 |

The group did not default on any loans or breach any terms of the underlying agreements during the period.

The carrying value of interest-bearing borrowings approximates their fair value.

Borrowings are unsecured and have no fixed terms of repayment. Interest-bearing borrowings bear interest at prime linked rates.

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **18.** | **Trade and other payables** | | |
| | Trade payables | **1 771 367** | 1 928 385 |
| | Accruals | **114 810** | 68 077 |
| | Sundry creditors | **3 318** | 17 930 |
| | VAT | **67 519** | 26 162 |
| | Payables to related parties (refer to note 30) | **3 216** | 6 219 |
| | | **1 960 230** | 2 046 773 |
| | *Less:* Amounts included in current portion of trade and other payables | **(1 931 204)** | (2 046 773) |
| | | **29 026** | — |

# Notes to the group annual financial statements
continued

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **19.** | **Provision** | | |
| | Opening balance | **8 676** | — |
| | Additions | **379 684** | 89 628 |
| | Used during the year | **(382 100)** | (80 952) |
| | | **6 260** | 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. | | |
| **20.** | **Employee compensation and benefit expense** | | |
| | **Continuing operations** | | |
| | Salaries and wages | **250 062** | 236 390 |
| | Bonuses | **53 874** | 14 514 |
| | Equity compensation | **22 126** | 11 132 |
| | Other | **1 768** | 1 324 |
| | | **327 830** | 263 360 |
| | Average number of employees for the year was 1 340 (2011: 1 402) | | |
| | **Discontinued operations** | | |
| | Salaries and wages | **1 576** | 35 076 |
| | Bonuses | **—** | 282 |
| | | **1 576** | 35 358 |
| | Average number of employees for the year was 1 (2011: 157). | | |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | **2012 R'000** | 2011 R'000 |
|---|---|---|
| **21. Operating profit** | | |
| The following items have been charged/(credited) in arriving at operating profit: | | |
| **Continuing operations** | | |
| Audit fees – services as auditors | **11 524** | 11 528 |
| Audit fees – other | **1 349** | 1 484 |
| Bank charges | **13 935** | 11 740 |
| Communication costs | **8 065** | 8 867 |
| Computer-related costs | **7 632** | 7 990 |
| **Confidential once-off other income***[1] | **(79 400)** | — |
| Consulting fees | **12 298** | 15 210 |
| Courier and postage | **3 739** | 4 623 |
| Fair value movements on financial assets at fair value through profit or loss | **—** | 140 |
| Foreign exchange profit – unrealised* | **(9 001)** | (1 189) |
| Foreign exchange loss – realised | **260** | 1 778 |
| Foreign exchange loss – unrealised | **—** | 1 808 |
| Foreign currency translation reserve recycled | **—** | (15) |
| Impairment of available-for-sale financial asset | **—** | 20 911 |
| Impairment of loans | **268** | 447 |
| Impairment of trade receivables | **20 830** | 1 783 |
| Impairment of trade receivables – provision | **(2 039)** | 12 207 |
| Impairment of intangible assets | **204** | 17 866 |
| Impairment of property, plant and equipment | **12 787** | — |
| Impairment of goodwill | **4 684** | 14 689 |
| Impairment of inventory | **9 686** | 12 047 |
| Insurance | **7 576** | 11 469 |
| IT infrastructure costs | **10 346** | 8 420 |
| Legal fees | **20 329** | 2 321 |
| Local travel | **6 259** | 5 000 |
| Loss/(profit) on disposal of subsidiaries | **3 014** | (130) |
| **Loss on disposal of associates** | **3 025** | — |
| Management fees paid | **455** | 2 947 |
| Management fees received* | **(962)** | (1 146) |
| Motor vehicle expenses | **9 235** | 7 984 |
| Operating lease rentals – equipment | **3 600** | 7 157 |
| Operating lease rentals – premises | **30 627** | 27 046 |
| Overseas travel | **2 404** | 4 650 |
| Printing and stationery | **2 141** | 2 209 |
| **Profit on disposal of investments*** | **(615)** | — |
| Profit on disposal of property, plant and equipment* | **(90)** | (151) |
| Rent and security | **2 116** | 4 329 |
| Repairs and maintenance | **7 266** | 2 327 |

# Notes to the group annual financial statements
continued

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **21. Operating profit (continued)** | | |
| **Discontinued operations** | | |
| Audit fees – services as auditors | 839 | 2 082 |
| Audit fees – other | — | 193 |
| Bank charges | 821 | 1 357 |
| Communication costs | 58 | 961 |
| Computer-related (recoveries)/costs | (126) | 2 646 |
| Consulting fees | 1 130 | 9 505 |
| Courier and postage | 25 | 1 135 |
| Foreign exchange loss – realised | 5 431 | 8 103 |
| Foreign currency translation reserve recycled | — | 4 234 |
| Gain on remeasuring existing interest in Blue Label Mexico due to loss of control | — | (143 365) |
| Impairment of intangible assets | — | 9 466 |
| Impairment of goodwill | — | 13 296 |
| Impairment of property, plant and equipment | — | 15 523 |
| Insurance | (40) | 417 |
| IT infrastructure costs | — | 499 |
| Legal fees | — | 2 041 |
| Local travel | 60 | 947 |
| Motor vehicle expenses | 120 | 318 |
| Operating lease rentals – premises | 794 | 8 716 |
| Overseas travel | 582 | 2 846 |
| Printing and stationery | 30 | 327 |
| Profit on disposal of subsidiary | — | (6 629) |
| Rent and security | 193 | 803 |
| Repairs and maintenance | 15 | 422 |

** Included in other income on the group statement of comprehensive income.*
*[1] The source and circumstances of this receipt are prohibited by a confidentiality agreement.*

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **22. Finance (income)/costs** | | |
| **Interest paid** | | |
| **Continuing operations** | | |
| – Bank | **2 487** | 5 464 |
| – Loans | **573** | 2 081 |
| – Finance leases | **—** | 42 |
| – Other | **247** | 507 |
| – Discounting of payables | **177 774** | 107 751 |
| | **181 081** | 115 845 |
| **Discontinued operations** | | |
| – Bank | **—** | 60 |
| – Other | **—** | 67 |
| – Discounting of payables | **—** | 6 293 |
| | **—** | 6 420 |
| **Interest received** | | |
| **Continuing operations** | | |
| – Bank | **(57 172)** | (49 795) |
| – Loans | **(2 202)** | (159) |
| – Other | **(352)** | (65) |
| – Discounting of receivables | **(111 269)** | (96 410) |
| | **(170 995)** | (146 429) |
| **Discontinued operations** | | |
| – Bank | **(4)** | (536) |
| – Other | **—** | (90) |
| | **(4)** | (626) |
| Net finance cost/(income) – Continuing operations | **10 086** | (30 584) |
| Net finance (income)/cost – Discontinued operations | **(4)** | 5 794 |

# Notes to the group annual financial statements
continued

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **23.** | **Taxation** | | |
| | **Current tax** | **178 917** | 162 270 |
| | Current year | **175 969** | 161 953 |
| | Prior year adjustment | **2 948** | 317 |
| | **Deferred tax** | **3 678** | (19 335) |
| | Current year | **2 640** | (19 335) |
| | Prior year adjustment | **1 038** | — |
| | STC | **11 480** | 9 241 |
| | | **194 075** | 152 176 |
| | Profit before tax | **629 004** | 479 574 |
| | Tax at 28% | **176 121** | 134 281 |
| | Income not subject to tax | **(538)** | (2 434) |
| | Expenses not deductible for tax purposes | **6 766** | 11 844 |
| | Capital gains | **(11 050)** | — |
| | Donations tax | **—** | (205) |
| | STC | **11 480** | 9 241 |
| | Utilisation of previously unrecognised tax losses | **(5 101)** | (8 860) |
| | Tax effect of assessed losses not recognised | **6 965** | 9 686 |
| | Share of losses from associates | **5 554** | 772 |
| | Prior year adjustment | **3 986** | 317 |
| | Effect of different tax dispensations | **(108)** | (80) |
| | Effect of discontinued operations | **—** | (2 386) |
| | Tax charge | **194 075** | 152 176 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | | **2012** | 2011 |
|---|---|---|---|
| **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) | **443 597** | 337 547 |
| | (Loss)/profit from discontinued operations attributable to equity holders of the company (R'000) | **(5 493)** | 93 901 |
| | Profit attributable to equity holders of the company (R'000) | **438 104** | 431 448 |
| | Weighted average number of ordinary shares in issue (thousands) | **708 060** | 756 359 |
| | Basic earnings per share (cents per share) | | |
| | From continuing operations (cents per share) | **62.65** | 44.63 |
| | From discontinued operations (cents per share) | **(0.78)** | 12.41 |
| | | **61.87** | 57.04 |

# Notes to the group annual financial statements
continued

## 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.

| | 2012 | | | |
|---|---|---|---|---|
| | 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 | 613 911 | (194 437) | 18 630 | 438 104 |
| Profit on disposal of property, plant and equipment | (90) | 25 | — | (65) |
| Loss on disposal of subsidiary | 3 014 | — | — | 3 014 |
| Loss on disposal of associate | 3 025 | — | — | 3 025 |
| Impairment of property, plant and equipment | 12 787 | (3 580) | — | 9 207 |
| Impairment of intangible asset | 204 | (57) | — | 147 |
| Impairment of goodwill | 4 684 | — | — | 4 684 |
| Profit on disposal of investment | (615) | 115 | 139 | (361) |
| Headline earnings | | | | 457 755 |
| Weighted average number of ordinary shares in issue (thousands) | | | | 708 060 |
| Headline earnings per share (cents per share) | | | | 64.65 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 24. Earnings per share (continued)
## b) Headline (continued)

| | 2011<br>Profit before tax and non-controlling interest<br>R'000 | Tax<br>R'000 | Non-controlling interest<br>R'000 | Headline earnings<br>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 |

# Notes to the group annual financial statements
continued

## 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.

| | **2012** | 2011 |
|---|---|---|
| Basic earnings (R'000) | **438 104** | 431 448 |
| Issued number of ordinary shares (thousands) | **708 060** | 756 359 |
| Adjusted for forfeitable shares (thousands) | **10 518** | 7 383 |
| Weighted average number of ordinary shares for dilutive earnings (thousands) | **718 578** | 763 742 |
| Dilutive basic earnings per share (cents per share) | **60.97** | 56.49 |
| Headline earnings (R'000) | **457 755** | 349 447 |
| Weighted average number of ordinary shares for dilutive headline earnings (thousands) | **718 578** | 763 742 |
| Dilutive headline earnings per share (cents) | **63.70** | 45.75 |

### 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*.

| | **2012** | 2011 |
|---|---|---|
| Reconciliation between net profit for the period and core net profit for the period: | | |
| Net profit for the period (R'000) | **438 104** | 431 448 |
| Amortisation on intangibles raised through business combinations net of tax and non-controlling interest (R'000) | **17 693** | 24 975 |
| Core net profit for the period (R'000) | **455 797** | 456 423 |
| Weighted average number of ordinary shares in issue (thousands) | **708 060** | 756 359 |
| Core earnings per share (cents per share) | **64.37** | 60.34 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **25. Cash generated by operations** | | |
| Reconciliation of operating profit to cash generated by operating activities: | | |
| Operating profit including discontinued operations | **643 828** | 517 060 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | **39 588** | 47 271 |
| Amortisation of intangible assets | **66 686** | 60 298 |
| Impairment of property, plant and equipment | **12 787** | 15 523 |
| Impairment of intangible assets | **204** | 27 332 |
| Impairment of goodwill | **4 684** | 27 985 |
| Discounting of receivables recognised in revenue | **111 269** | 96 410 |
| Discounting of payables recognised in changes in inventories of finished goods | **(177 774)** | (114 044) |
| Impairment of loan | **—** | 447 |
| Impairment of available-for-sale financial asset | **—** | 20 911 |
| Profit on disposal of property, plant and equipment | **(90)** | (151) |
| Net loss/(profit) on disposal of subsidiaries | **3 014** | (6 759) |
| Net loss on disposal of associate | **3 025** | — |
| Gain on remeasuring existing interest in Blue Label Mexico due to loss of control | **—** | (143 365) |
| Equity compensation benefit scheme expense | **22 126** | 11 132 |
| Transaction with non-controlling interest reserve movement | **(566)** | — |
| Net unrealised forex (profit)/loss | **(9 001)** | 4 838 |
| Changes in working capital (excluding the effects of acquisitions and disposals): | | |
| Decrease/(increase) in inventories | **472 922** | (467 986) |
| (Increase)/decrease in trade and other receivables | **(474 927)** | 20 008 |
| (Decrease)/increase in trade and other payables | **(97 573)** | 383 868 |
| Decrease in loans receivable | **6 781** | 8 119 |
| Decrease in starter pack assets | **29 446** | 57 156 |
| | **656 429** | 566 053 |
| **26. Taxation paid** | | |
| Balance outstanding at the beginning of the year | **7 996** | 17 035 |
| Taxation charge | **190 759** | 171 435 |
| Disposal of subsidiaries | **69** | 340 |
| Acquisition of subsidiaries | **(143)** | — |
| Net payable outstanding at the end of the year | **(13 938)** | (7 996) |
| | **184 743** | 180 814 |

# Notes to the group annual financial statements
continued

## 27. Disposal of subsidiaries

### 31 May 2012

| | SharedPhone International Proprietary Limited R'000 | Total R'000 |
|---|---|---|
| Date disposed | 31 January 2012 | |
| % disposed | 50.1 | |
| The carrying/fair value of the net assets disposed of: | | |
| Cash and cash equivalents | 1 406 | 1 406 |
| Property, plant and equipment | 278 | 278 |
| Intangible assets | 25 | 25 |
| Inventories | 9 422 | 9 422 |
| Receivables | 3 978 | 3 978 |
| Deferred tax | 476 | 476 |
| Borrowings | (5 958) | (5 958) |
| Current tax assets | 69 | 69 |
| Payables | (868) | (868) |
| Carrying/fair value of subsidiary disposed of | 8 828 | 8 828 |
| Non-controlling interests | (4 406) | (4 406) |
| Goodwill | 2 499 | 2 499 |
| Carrying/fair value of net assets disposed of | 6 921 | 6 921 |
| Loss on disposal of subsidiary | (3 014) | (3 014) |
| Total proceeds on disposal | 3 907 | 3 907 |
| *Less:* Cash and cash equivalents in subsidiary | (1 406) | (1 406) |
| Cash inflow on disposal | 2 501 | 2 501 |

*On 31 January 2012, Blue Label Telecoms Limited sold its 50.1% shareholding in SharedPhone International Proprietary Limited to the minority shareholder for an amount of R3.9 million. The loss on disposal of R3 million has been recognised in the statement of comprehensive income.*

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 27. Disposal of subsidiaries (continued)
### 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% 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% 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.*

# Notes to the group annual financial statements
continued

## 28. Acquisition of subsidiary

| | Multiserv Proprietary Limited R'000 |
|---|---|
| | Franchisor of retail outlets |
| Date acquired | 1 January 2012 |
| % acquired | 100 |
| At 31 May 2012 | |
| Assets | **7 697** |
| Liabilities | **7 725** |
| Revenue | **3 467** |
| Profit after tax since acquisition | **774** |

Had this acquisition of subsidiary been made at the beginning of the financial year they would have contributed R9 million to revenue and R0.3 million to net profit after tax. The actual contribution to revenue and net profit after tax for the year was R3.5 million and R0.8 million.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 28. Acquisition of subsidiary (continued)

The fair value of the net assets approximated the assets acquired on 1 January 2012.

| | Multiserv Proprietary Limited R'000 |
|---|---|
| Cash and cash equivalents | 897 |
| Property, plant and equipment | 370 |
| Intangible assets* | 5 481 |
| Loan receivable | 2 091 |
| Inventories | 1 552 |
| Receivables | 1 212 |
| Current tax assets | 143 |
| Borrowings | (5 210) |
| Deferred tax* | (1 512) |
| Bank overdraft | (158) |
| Payables | (1 780) |
| Fair value of net assets acquired | 3 086 |
| Goodwill | 5 847 |
| Total purchase consideration | 8 933 |
| Loans acquired | 5 068 |
| Less cash and cash equivalents in subsidiary | (739) |
| Cash flow on acquisition | 13 262 |

* *Included in additions in note 5 is R5.4 million of franchise fees which relates to the purchase price allocation performed in terms of IFRS 3(R): Business Combinations. Deferred tax to the value of R1.5 million was raised on recognition of this intangible asset.*

Multiserv Proprietary Limited was purchased with the objective of utilising their 165 stores located nationally as a platform for the group's strategy of marketing its products and services on a retail basis. In most business acquisitions, there is a part of the cost that is not capable of being attributed in accounting terms to identifiable assets and liabilities acquired and is therefore recognised as goodwill. In the case of the acquisition of Multiserv, this goodwill is underpinned by a number of elements, which individually cannot be quantified. Most significant amongst these is their 165 pre-existing stores located nationally.

# Notes to the group annual financial statements
continued

## 29. 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 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:

| | 2012<br>R'000 | 2011<br>R'000 |
|---|---|---|
| **Premises** | | |
| Payable within one year | 25 905 | 25 007 |
| Payable in two to five years | 84 387 | 71 890 |
| Payable in greater than five years | 8 288 | 23 064 |
| **Equipment** | | |
| Payable within one year | 3 011 | 3 952 |
| Payable in two to five years | 2 481 | 5 075 |
| Payable in greater than five years | — | — |
| | 124 072 | 128 988 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 30. Related party transactions

For details of subsidiaries, associates and joint ventures, refer to note 34. 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, AloeCap Proprietary Limited, Stylco Proprietary Limited, Dataforce Trading 240 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 and all relate to continued operations:

Directors' emoluments (refer to note 31)

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Sales to related parties** | | |
| BSC Technologies Proprietary Limited | **1 112** | 398 |
| Bela Phone Company Proprietary Limited | **82** | 217 |
| Blue Label Mexico S.A. de C.V. | **2 161** | 1 414 |
| Datacision Proprietary Limited | **—** | 269 |
| iBurst Proprietary Limited | **—** | 26 298 |
| Smart Voucher Limited | **514** | 990 |
| WBS Holdings Proprietary Limited | **—** | 5 167 |
| ZOK Cellular Proprietary Limited | **5 214** | 10 679 |
| **Purchases from related parties** | | |
| AloeCap Proprietary Limited | **1 238** | — |
| Bela Phone Company Proprietary Limited | **496** | 2 046 |
| Black Ginger 59 Proprietary Limited | **6 683** | 4 585 |
| Brett Levy | **525** | — |
| BSC Technologies Proprietary Limited | **1 339** | 197 |
| Datacision Proprietary Limited | **—** | 2 259 |
| Demtrade 11 Proprietary Limited | **13** | 7 857 |
| Dual Data Proprietary Limited | **—** | 27 |
| iBurst Proprietary Limited | **—** | 15 779 |
| Smart Voucher Limited | **16 205** | 30 056 |
| Stylco Proprietary Limited | **102** | 176 |
| WBS Holdings Proprietary Limited | **—** | 36 |
| ZOK Cellular Proprietary Limited | **68 466** | 69 547 |

# Notes to the group annual financial statements
continued

## 30. Related party transactions (continued)

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Cost recoveries from related parties** | | |
| Bela Phone Company Proprietary Limited | — | 4 |
| Datacision Proprietary Limited | — | 8 |
| Smart Voucher Limited | — | 139 |
| ZOK Cellular Proprietary Limited | — | 19 |
| **Interest paid to related parties** | | |
| Demtrade 11 Proprietary Limited | — | 43 |
| Smart Voucher Limited | — | 143 |
| **Interest received from related parties** | | |
| Demtrade 11 Proprietary Limited | 12 | 159 |
| **Management fees received from related parties** | | |
| Bela Phone Company Proprietary Limited | 100 | 160 |
| Blue Label Mexico S.A. de C.V. | 458 | 102 |
| Datacision Proprietary Limited | 404 | 308 |
| Demtrade 11 Proprietary Limited | — | 270 |
| Smart Voucher Limited | — | 564 |
| **Management fees paid to related parties** | | |
| Black Ginger 59 Proprietary Limited | 97 | — |
| Demtrade 11 Proprietary Limited | — | 1 364 |
| **Rent paid to related parties** | | |
| Ellerine Bros. Proprietary Limited | 5 096 | 4 611 |
| Dataforce Trading 240 Proprietary Limited | 1 383 | — |
| Friedshelf 669 Proprietary Limited | — | 216 |
| Moneyline 311 Proprietary Limited | 5 096 | 4 611 |
| PLL Investments Proprietary Limited | 2 472 | 2 257 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 30. Related party transactions (continued)

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Dividends received from related parties** | | |
| Demtrade 11 Proprietary Limited | **453** | 416 |
| Datacision Proprietary Limited | **—** | 1 000 |
| **Loans to related parties** | | |
| 2DFine Holdings Mauritius* | **83 890** | — |
| Bela Phone Company Proprietary Limited | **2 260** | 1 800 |
| Blue Label Mexico S.A. de C.V. | **27 829** | — |
| Demtrade 11 Proprietary Limited | **—** | 1 162 |
| Oxigen Services India Pvt Limited | **19 441** | 18 643 |
| ZOK Cellular Proprietary Limited | **23 148** | 29 928 |
| **Loans from related parties** | | |
| Bela Phone Company Proprietary Limited | **—** | 40 |
| Blue Label Mexico S.A. de C.V. | **—** | 257 |
| Demtrade 11 Proprietary Limited | **—** | 66 |
| **Amounts due from related parties included in trade receivables** | | |
| Bela Phone Company Proprietary Limited | **331** | 188 |
| Black Ginger 59 Proprietary Limited | **749** | 3 640 |
| Blue Label Mexico S.A. de C.V. | **2 745** | 2 062 |
| BSC Technologies Proprietary Limited | **112** | 230 |
| Datacision Proprietary Limited | **2 212** | — |
| iBurst Proprietary Limited | **1 397** | 7 792 |
| Moneyline 311 Proprietary Limited | **—** | 472 |
| Smart Voucher Limited | **—** | 2 337 |
| WBS Holdings Proprietary Limited | **—** | 571 |
| ZOK Cellular Proprietary Limited | **—** | 7 |
| | **7 546** | 17 299 |

* *B Levy and M Levy have signed personal sureties for the loan owing by 2DFine Holdings Mauritius to Gold Label Investments Proprietary Limited. Their liability is limited to the difference between the sum of 50% of the loan owing and the value of 18.61% of the shares in Oxigen Services India (Private) Limited on the 30th day after which the loan becomes due and payable or extended date as may be agreed in writing by Gold Label Investments Proprietary Limited.*

# Notes to the group annual financial statements
continued

## 30. Related party transactions (continued)

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **Amounts due to related parties included in trade payables** | | |
| Bela Phone Company Proprietary Limited | **1 460** | 2 167 |
| Black Ginger 59 Proprietary Limited | **1 070** | 896 |
| BSC Technologies Proprietary Limited | **28** | 375 |
| Datacision Proprietary Limited | **—** | 3 |
| Demtrade 11 Proprietary Limited | **—** | 378 |
| NN Lazarus SC | **—** | 447 |
| Smart Voucher Limited | **658** | 1 829 |
| Unihold Proprietary Limited | **—** | 124 |
| | **3 216** | 6 219 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | 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 |
|---|---|---|---|---|
| **31. Directors' emoluments** | | | | |
| **For the year ended 31 May 2012** | | | | |
| **Executive directors** | | | | |
| Levy, BM | — | 5 951 | 7 259 | 99 |
| Levy, MS | — | 5 958 | 7 259 | 92 |
| Pamensky, MV | — | 5 062 | 3 570 | 38 |
| Rivkind, DB | — | 2 599 | 1 846 | 38 |
| | — | 19 570 | 19 934 | 267 |
| **Non-executive directors** | | | | |
| Nestadt, LM | 767 | — | — | — |
| Ellerine, K | 240 | — | — | — |
| Harlow, G | 567 | — | — | — |
| Lazarus, NN | 498 | — | — | — |
| Mthimunye, J | 298 | — | — | — |
| Nyati, M | 34 | — | — | — |
| Tyalimpi, LM | 160 | — | — | — |
| Vilakazi, JS | 69 | — | — | — |
| | 2 633 | — | — | — |
| | 2 633 | 19 570 | 19 934 | 267 |

# Notes to the group annual financial statements
continued

| Subtotal R'000 | 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 group R'000 | Total R'000 | Fair value of forfeitable shares R'000 |
|---|---|---|---|---|---|---|---|
| 13 309 | — | — | — | — | — | 13 309 | 7 635 |
| 13 309 | — | — | — | — | — | 13 309 | 7 635 |
| 8 670 | — | — | — | — | — | 8 670 | 6 201 |
| 4 483 | — | — | — | — | — | 4 483 | 3 329 |
| 39 771 | — | — | — | — | — | 39 771 | 24 800 |
| 767 | — | — | — | — | — | 767 | — |
| 240 | — | — | — | — | — | 240 | — |
| 567 | 50 | — | — | — | 651 | 1 268 | — |
| 498 | — | — | — | — | 5 144 | 5 642 | — |
| 298 | — | — | — | — | — | 298 | — |
| 34 | — | — | — | — | — | 34 | — |
| 160 | — | — | — | — | — | 160 | — |
| 69 | — | — | — | — | — | 69 | — |
| 2 633 | 50 | — | — | — | 5 795 | 8 478 | — |
| 42 404 | 50 | — | — | — | 5 795 | 48 249 | 24 800 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | 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 |
|---|---|---|---|---|
| **31. Directors' emoluments (continued)** | | | | |
| **For the year ended 31 May 2011** | | | | |
| **Executive directors** | | | | |
| Levy, BM | — | 5 958 | — | 91 |
| Levy, MS | — | 5 965 | — | 84 |
| Pamensky, MV | — | 5 065 | — | 35 |
| Rivkind, DB | — | 2 602 | — | 35 |
| | — | 19 590 | — | 245 |
| **Non-executive directors** | | | | |
| Nestadt, LM | 750 | — | — | — |
| Ellerine, K | 160 | — | — | — |
| Harlow, G | 441 | — | — | — |
| Lazarus, NN | 397 | — | — | — |
| Mthimunye, J | 362 | — | — | — |
| Nyati, M | 34 | — | — | — |
| Tyalimpi, LM | 286 | — | — | — |
| | 2 430 | — | — | — |
| | 2 430 | 19 590 | — | 245 |

The fair value of forfeitable shares per director has been included.

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.

# Notes to the group annual financial statements
continued

| Subtotal R'000 | 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 group R'000 | Total R'000 | Fair value of forfeitable shares R'000 |
|---|---|---|---|---|---|---|---|
| 6 049 | — | — | — | — | — | 6 049 | 4 365 |
| 6 049 | — | — | — | — | — | 6 049 | 4 365 |
| 5 100 | — | — | — | — | — | 5 100 | 3 465 |
| 2 637 | — | — | — | — | — | 2 637 | 1 903 |
| 19 835 | — | — | — | — | — | 19 835 | 14 098 |
| 750 | — | — | — | — | — | 750 | — |
| 160 | — | — | — | — | — | 160 | — |
| 441 | 50 | — | — | — | 1 302 | 1 793 | — |
| 397 | — | — | — | — | 4 576 | 4 973 | — |
| 362 | — | — | — | — | — | 362 | — |
| 34 | — | — | — | — | — | 34 | — |
| 286 | — | — | — | — | — | 286 | — |
| 2 430 | 50 | — | — | — | 5 878 | 8 358 | — |
| 22 265 | 50 | — | — | — | 5 878 | 28 193 | 14 098 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | Issue date | Issue price |
|---|---|---|
| **31. Directors' emoluments (continued)** | | |
| **Forfeitable share scheme per director** | | |
| **For the year ended 31 May 2012** | | |
| Levy, BM | 27 November 2009 | 5.85 |
| Levy, BM | 1 September 2010 | 4.70 |
| Levy, BM | 1 October 2011 | 4.50 |
| Levy, MS | 27 November 2009 | 5.85 |
| Levy, MS | 1 September 2010 | 4.70 |
| Levy, MS | 1 October 2011 | 4.50 |
| Pamensky, MV | 27 November 2009 | 5.85 |
| Pamensky, MV | 1 September 2010 | 4.70 |
| Pamensky, MV | 1 October 2011 | 4.50 |
| Rivkind, DB | 27 November 2009 | 5.85 |
| Rivkind, DB | 1 September 2010 | 4.70 |
| Rivkind, DB | 1 October 2011 | 4.50 |
| **For the year ended 31 May 2011** | | |
| Levy, BM | 27 November 2009 | 5.85 |
| Levy, BM | 1 September 2010 | 4.70 |
| Levy, MS | 27 November 2009 | 5.85 |
| Levy, MS | 1 September 2010 | 4.70 |
| Pamensky, MV | 27 November 2009 | 5.85 |
| Pamensky, MV | 1 September 2010 | 4.70 |
| Rivkind, DB | 27 November 2009 | 5.85 |
| Rivkind, DB | 1 September 2010 | 4.70 |

# Notes to the group annual financial statements
continued

| Vesting date | Awards outstanding as at the beginning of the year | Number of shares awarded | Awards forfeited during the year | Balance as at the end of the year |
|---|---|---|---|---|
| 1 September 2012 | 343 060 | — | — | 343 060 |
| 31 August 2013 | 450 486 | — | — | 450 486 |
| 31 August 2014 | — | 470 507 | — | 470 507 |
| | 793 546 | 470 507 | — | 1 264 053 |
| 1 September 2012 | 343 060 | — | — | 343 060 |
| 31 August 2013 | 450 486 | — | — | 450 486 |
| 31 August 2014 | — | 470 507 | — | 470 507 |
| | 793 546 | 470 507 | — | 1 264 053 |
| 1 September 2012 | 250 148 | — | — | 250 148 |
| 31 August 2013 | 379 787 | — | — | 379 787 |
| 31 August 2014 | — | 396 667 | — | 396 667 |
| | 629 935 | 396 667 | — | 1 026 602 |
| 1 September 2012 | 149 572 | — | — | 149 572 |
| 31 August 2013 | 196 409 | — | — | 196 409 |
| 31 August 2014 | — | 205 139 | — | 205 139 |
| | 345 981 | 205 139 | — | 551 120 |
| 1 September 2012 | 343 060 | — | — | 343 060 |
| 31 August 2013 | — | 450 486 | — | 450 486 |
| | 343 060 | 450 486 | — | 793 546 |
| 1 September 2012 | 343 060 | — | — | 343 060 |
| 31 August 2013 | — | 450 486 | — | 450 486 |
| | 343 060 | 450 486 | — | 793 546 |
| 1 September 2012 | 250 148 | — | — | 250 148 |
| 31 August 2013 | — | 379 787 | — | 379 787 |
| | 250 148 | 379 787 | — | 629 935 |
| 1 September 2012 | 149 572 | — | — | 149 572 |
| 31 August 2013 | — | 196 409 | — | 196 409 |
| | 149 572 | 196 409 | — | 345 981 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 32. 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 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 executive 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.

# Notes to the group annual financial statements
continued

## 32. Segmental summary (continued)

At 31 May 2012, the group is managed on the basis of six main business segments, which is consistent with the prior year:

- 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.

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 32. 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.

The segment results for the year ended 31 May are as follows:

| | Total | | South African distribution | |
|---|---|---|---|---|
| | **2012 R'000** | 2011 R'000 | **2012 R'000** | 2011 R'000 |
| Total segment revenue | **30 173 943** | 30 224 202 | **29 855 365** | 29 954 525 |
| Inter-segment revenue | **(11 458 553)** | (12 159 630) | **(11 432 351)** | (12 132 920) |
| **Revenue** | **18 715 390** | 18 064 572 | **18 423 014** | 17 821 605 |
| **Segment result** | | | | |
| Operating profit before depreciation, amortisation and impairment charges | **750 482** | 597 732 | **801 746** | 711 767 |
| Depreciation and amortisation | **(78 616)** | (91 556) | **(31 901)** | (36 292) |
| Goodwill impairment | **–** | (14 689) | **–** | – |
| Impairment of property, plant and equipment | **(12 737)** | (516) | **(12 737)** | – |
| Impairment of intangible assets | **(204)** | (17 866) | **(204)** | – |
| Impairment of loans | **–** | (447) | **–** | – |
| Impairment of available-for-sale investment | **–** | (20 911) | **–** | – |
| Finance costs | **(181 081)** | (115 845) | **(180 277)** | (113 449) |
| Finance income | **170 995** | 146 429 | **167 564** | 145 893 |
| Share of (losses)/profits from associates and joint ventures | **(19 835)** | (2 757) | **(510)** | (1 041) |
| Taxation | **(194 075)** | (152 176) | **(154 911)** | (144 830) |
| **Net profit for the year** | **434 929** | 327 398 | **588 770** | 562 048 |
| **Reconciliation of net profit for the year to core net profit for the year** | | | | |
| Net profit for the year | **434 929** | 327 398 | **588 770** | 562 048 |
| Amortisation of intangibles raised through business combinations net of tax | **17 946** | 25 498 | **8 716** | 8 933 |
| **Core net profit for the year** | **452 875** | 352 896 | **597 486** | 570 981 |
| Core net profit for the year attributable to: | | | | |
| Equity holders of parent | **461 289** | 362 522 | **595 895** | 571 471 |
| Non-controlling interest | **(8 414)** | (9 626) | **1 591** | (490) |

# Notes to the group annual financial statements
continued

| | International distribution | | Technology | | Mobile | | Solutions | | Corporate | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 R'000 | 2011 R'000 | 2012 R'000 | 2011 R'000 | 2012 R'000 | 2011 R'000 | 2012 R'000 | 2011 R'000 | 2012 R'000 | 2011 R'000 |
| | 17 429 | 30 252 | 28 405 | 22 902 | 96 084 | 94 121 | 176 660 | 122 402 | – | – |
| | – | (998) | (11 731) | (6 082) | (8 840) | (15 505) | (5 631) | (4 125) | – | – |
| | 17 429 | 29 254 | 16 674 | 16 820 | 87 244 | 78 616 | 171 029 | 118 277 | – | – |
| | (15 901) | (8 683) | (64 258) | (61 766) | 97 359 | 19 347 | 38 927 | 18 731 | (107 391) | (81 664) |
| | (240) | (1 091) | (20 778) | (16 632) | (13 442) | (22 397) | (5 540) | (7 800) | (6 715) | (7 344) |
| | – | (5 380) | – | – | – | (9 309) | – | – | – | – |
| | – | – | – | (516) | – | – | – | – | – | – |
| | – | (2 970) | – | (5 057) | – | (9 839) | – | – | – | – |
| | – | – | – | – | – | – | – | – | – | (447) |
| | – | (20 911) | – | – | – | – | – | – | – | – |
| | (642) | (2 165) | (16) | (78) | (90) | (17) | (20) | (1) | (36) | (135) |
| | 1 420 | 73 | 691 | 87 | 24 | 113 | 490 | 184 | 806 | 79 |
| | (19 182) | (2 884) | – | – | – | – | (143) | 1 168 | – | – |
| | (5 859) | 368 | 2 854 | (1 982) | (14 581) | 9 475 | (8 730) | (6 401) | (12 848) | (8 806) |
| | (40 404) | (43 643) | (81 507) | (85 944) | 69 270 | (12 627) | 24 984 | 5 881 | (126 184) | (98 317) |
| | (40 404) | (43 643) | (81 507) | (85 944) | 69 270 | (12 627) | 24 984 | 5 881 | (126 184) | (98 317) |
| | 3 841 | 2 034 | 632 | 632 | 4 692 | 11 871 | 65 | 2 028 | – | – |
| | (36 563) | (41 609) | (80 875) | (85 312) | 73 962 | (756) | 25 049 | 7 909 | (126 184) | (98 317) |
| | (20 943) | (32 005) | (82 765) | (84 932) | 73 962 | (756) | 21 324 | 7 061 | (126 184) | (98 317) |
| | (15 620) | (9 604) | 1 890 | (380) | – | – | 3 725 | 848 | – | – |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | Total 2012 R'000 | Total 2011 R'000 | South African distribution 2012 R'000 | South African distribution 2011 R'000 |
|---|---|---|---|---|
| **32. Segmental summary (continued)** | | | | |
| **Non-cash items** | | | | |
| Net (loss)/profit on sale of subsidiaries | (3 014) | 130 | – | 130 |
| Net loss on disposal of associates | (3 025) | – | – | – |
| Discounting of receivables | 111 269 | 96 410 | 110 971 | 96 410 |
| Discounting of payables | (177 774) | (107 751) | (177 774) | (107 751) |
| **The segment assets and liabilities at 31 May are as follows:** | | | | |
| Assets excluding investments in associates and joint ventures | 4 578 061 | 4 828 610 | 4 279 439 | 4 361 707 |
| Investment in associates and joint ventures | 357 471 | 239 997 | 318 | 409 |
| **Total assets** | 4 935 532 | 5 068 607 | 4 279 757 | 4 362 116 |
| **Additions to non-current assets** | | | | |
| Property, plant and equipment | 29 900 | 46 874 | 23 927 | 23 805 |
| Intangible assets and goodwill | 146 283 | 101 510 | 138 990 | 88 987 |
| Investment in associates | – | – | – | – |
| Investment in joint ventures | – | 143 365 | – | – |
| **Total liabilities** | (2 021 146) | (2 119 853) | (1 889 608) | (2 018 747) |

** Less than R1 000.*

The company is domiciled in the Republic of South Africa. The result of its revenue from external customers in South Africa is R18.698 billion (2011: R18.035 billion), and the total of revenue from external customers from other countries is R17.4 million (2011: R29.3 million).

The total of non-current assets other than financial instruments and deferred tax assets located in South Africa is R647 million (2011: R596.4 million), and the total of these non-current assets located in other countries is R333.1 million (2011: R237.3 million).

# Notes to the group annual financial statements
continued

| International distribution | | Technology | | Mobile | | Solutions | | Corporate | |
|---|---|---|---|---|---|---|---|---|---|
| 2012 R'000 | 2011 R'000 | 2012 R'000 | 2011 R'000 | 2012 R'000 | 2011 R'000 | 2012 R'000 | 2011 R'000 | 2012 R'000 | 2011 R'000 |
| – | – | – | – | – | – | – | – | (3 014) | – |
| – | – | – | – | – | – | – | – | (3 025) | – |
| – | – | 274 | – | – | – | 24 | – | – | – |
| – | – | – | – | – | – | – | – | – | – |
| (18 836) | 152 350 | 84 304 | 89 876 | 62 278 | 80 899 | 136 758 | 132 610 | 34 118 | 11 168 |
| 356 330 | 234 211 | – | – | – | – | 1 239 | 5 793 | (416) | (416) |
| 337 494 | 386 561 | 84 304 | 89 876 | 62 278 | 80 899 | 137 997 | 138 403 | 33 702 | 10 752 |
| – | 4 084 | 229 | 344 | 1 009 | 492 | 4 121 | 3 122 | 614 | 15 027 |
| – | 410 | 4 396 | 6 586 | 2 299 | 3 625 | 349 | 1 095 | 249 | 807 |
| – | – | – | – | – | – | – | – | – | – |
| – | 143 365 | – | – | – | – | – | – | – | – |
| (17 436) | (36 746) | (19 278) | (22 035) | (16 187) | (13 452) | (33 011) | (14 040) | (45 626) | (14 833) |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

## 33. Equity compensation benefit

### Forfeitable shares

During the year, 4 828 644 (2011: 6 829 416) 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 14 cents (2011: 12 cents) per ordinary share was declared on 23 August 2011 (2011: 23 August 2010).

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 31 August 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 (31 August 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 is 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.

# Notes to the group annual financial statements
continued

## 33. Equity compensation benefit (continued)

The performance condition for the fourth award grant of forfeitable shares vesting on 31 August 2014 is 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 (31 August 2014).
- 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 2011), by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

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 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 | 31 August 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) |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | | Grant date | Vesting date | Number of shares | Fair value of grant R'000 |
|---|---|---|---|---|---|
| **33.** | **Equity compensation benefit (continued)** | | | | |
| | **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 |
| | **Granted during the year** | | | 4 828 644 | 21 729 |
| | Fourth award | 1 October 2011 | 31 August 2014 | 4 828 644 | 21 729 |
| | **Shares forfeited during the year** | | | (1 067 904) | (5 503) |
| | Second award | | | (456 755) | (2 608) |
| | Third award | | | (535 386) | (2 516) |
| | Retention award | | | (75 763) | (379) |
| | **Shares vested during the year** | | | (311 637) | (1 558) |
| | Retention award | | 30 April 2012 | (311 637) | (1 558) |
| | **At 31 May 2012** | | | 12 127 082 | 59 578 |
| | Second award | | | 3 083 804 | 18 040 |
| | Third award | | | 4 214 634 | 19 809 |
| | Fourth award | | | 4 828 644 | 21 729 |

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 1 542 820 (2011: 1 477 168).

The share-based payment in relation to these executive directors is R7.3 million (2011: R2 million).

Refer to the note 31 for details per director.

# Notes to the group annual financial statements
continued

| | Country | Number of issued ordinary shares | Percentage held |
|---|---|---|---|
| **34. Interest in subsidiaries, associates and joint ventures** | | | |
| **2012** | | | |
| **Subsidiaries** | | | |
| Directly held: | | | |
| **Subsidiaries of Blue Label Telecoms Limited** | | | |
| Activi Deployment Services Proprietary Limited | RSA | 100 | 100 |
| Activi Technology Services Proprietary Limited | RSA | 300 | 100 |
| Africa Prepaid Services Proprietary Limited | RSA | 150 | 72 |
| Airtime Xpress Proprietary Limited | RSA | 200 | 100 |
| Blue Label Distribution Proprietary Limited | RSA | 100 | 100 |
| 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 |
| The Prepaid Company Proprietary Limited | RSA | 10 000 | 100 |
| The Post Paid Company Proprietary Limited | RSA | 200 | 75 |
| Transaction Junction Proprietary Limited | RSA | 120 | 60 |
| Uninex Proprietary Limited | RSA | 100 | 100 |
| Ventury Group Proprietary Limited | RSA | 2 000 | 100 |
| Virtual Voucher Proprietary Limited | RSA | 200 | 100 |

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | Country | Number of issued ordinary shares | Percentage held |
|---|---|---|---|
| **34. Interest in subsidiaries, associates and joint ventures (continued)** | | | |
| **2012 (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 |
| Multiserv Proprietary Limited | RSA | 1 000 | 100 |
| **Subsidiary of Ventury Group Proprietary Limited** | | | |
| Cigicell Proprietary Limited *(refer to note 4 included in group statement of changes in equity)* | RSA | 100 | 100 |
| **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 |

# Notes to the group annual financial statements
continued

| | Country | Number of issued ordinary shares | Percentage held |
|---|---|---|---|
| **34. Interest in subsidiaries, associates and joint ventures (continued)** | | | |
| **2012 (continued)** | | | |
| **Associates** | | | |
| Indirectly held: | | | |
| **Associates of Gold Label Investments Proprietary Limited** | | | |
| Smart Voucher Limited trading as Ukash | United Kingdom | 46 353 933 | 17.25* |
| Oxigen Services India (Private) Limited | India | 14 244 294 | 37.22 |
| **Associates of Datacel Direct Proprietary Limited** | | | |
| Dual Data Proprietary Limited | RSA | 100 | 50* |
| **Joint ventures** | | | |
| **Joint ventures of Blue Label Telecoms Limited** | | | |
| Blue Label Mexico S.A. de C.V. | Mexico | 2 200 | 40** |
| **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 Blue Label Data Solutions Proprietary Limited** | | | |
| E-mail Marketing Solutions Proprietary Limited | RSA | 100 | 40.5** |
| Betterquote Proprietary Limited | RSA | 104 | 21.06** |
| **Joint venture of Gold Label Investments Proprietary Limited** | | | |
| 2DFine Holdings Mauritius | Mauritius | 2 | 50** |
| **Joint venture of 2DFine Investments Mauritius** | | | |
| Oxigen Services India (Private) Limited | India | 14 244 294 | 18.61** |

* *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.*

# Notes to the group annual financial statements
continued

For the year ended 31 May 2012

| | Country | Number of issued ordinary shares | Percentage held |
|---|---|---|---|
| **34. Interest in subsidiaries, associates and joint ventures (continued)** | | | |
| **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 |

# Notes to the group annual financial statements
continued

| | Country | Number of issued ordinary shares | Percentage held |
|---|---|---|---|
| **34. Interest in subsidiaries, associates and joint ventures (continued)** | | | |
| **2011 (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 *(refer to note 4 included in group statement of changes in equity)* | 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 |

# Notes to the group annual financial statements

continued

For the year ended 31 May 2012

| | Country | Number of issued ordinary shares | Percentage held |
|---|---|---|---|
| **34. Interest in subsidiaries, associates and joint ventures (continued)** | | | |
| **2011 (continued)** | | | |
| **Subsidiaries (continued)** | | | |
| Indirectly held (continued): | | | |
| **Subsidiary of 2DFine Holdings Mauritius** | | | |
| 2DFine Investments Mauritius | Mauritius | 1 | 100 |
| **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.*

# Notes to the group annual financial statements
continued

## 35. Subsequent events

A final dividend of R155 137 050 million (23 cents per ordinary share) was declared for the year ended 31 May 2012, payable on Monday, 17 September 2012 to shareholders recorded in the register at the close of business on Friday, 14 September 2012.

With effect from 1 April 2012, Dividends Tax replaces Secondary Tax on Companies (STC). Dividends Tax is provided for at 15% of the amount of any dividend paid by Blue Label Telecoms Limited, subject to certain exemptions. The Dividend Tax is a tax borne by the beneficial owner of the dividend and will be withheld by either the issuer of the dividend or by regulated intermediaries.

## 36. Contingencies

Multi-Links Telecommunications Limited, a previously wholly owned subsidiary of Telkom Limited in Nigeria, concluded a super dealer agreement with Africa Prepaid Services (APS) in December 2008 in terms of which APS was appointed for an initial period of 10 years to sell, market and procure customers for Multi-Links range of products and services in Nigeria (the agreement). On 29 May 2009, APS ceded and assigned all of its rights and obligations in terms of the agreement to Africa Prepaid Services Nigeria (APSN). On 26 November 2010, APSN cancelled the agreement arising from Multi-Links' repudiation of its obligations under the contract. On 13 June 2011, APSN launched arbitration proceedings in South Africa (as per contract) against Multi-Links claiming damages (nine claims) in the total sum of USD481 million. Multi-Links is defending the matter and has filed a counterclaim in the amount of USD123 million. Telkom sold its shareholding in Multi-Links to Hip Oils Topco Limited during September 2011. In addition, in terms of an indemnity contained in the sale and purchase agreement between Telkom and Hip Oils Topco Limited concluded in August 2011, Telkom has issued an indemnity in relation to the APSN claim for amounts in excess of $10 million. The arbitration has been set down for hearing from 4 November until 15 December.

# Company statement of financial position

As at 31 May 2012

| | Note | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | **3 105 121** | 3 050 150 |
| Property, plant and equipment | 3 | **30 351** | 36 254 |
| Intangible assets | 4 | **668** | 618 |
| Investment in subsidiaries | 6.1 | **3 019 621** | 2 985 893 |
| Investment in associate and joint venture | 6.2 | **54 481** | 27 385 |
| **Current assets** | | **289 430** | 835 855 |
| Loans receivable | 7 | **6 299** | 10 615 |
| Loans to subsidiaries | 6.1 | **280 598** | 820 017 |
| Trade and other receivables | 8 | **1 333** | 3 412 |
| Cash and cash equivalents | 9 | **1 200** | 1 811 |
| **Total assets** | | **3 394 551** | 3 886 005 |
| **Equity and liabilities** | | | |
| **Capital and reserves** | | **3 297 458** | 3 817 109 |
| Share capital | 10 | ***** | * |
| Share premium | | **4 012 359** | 4 404 737 |
| Treasury shares | | **(38 077)** | (29 682) |
| | | **3 974 282** | 4 375 055 |
| Equity compensation benefit reserve | | **14 884** | 4 999 |
| Share-based payment reserve | | **295** | 295 |
| Accumulated loss | | **(692 003)** | (563 240) |
| **Non-current liabilities** | | **2 208** | 2 427 |
| Deferred taxation liability | 5 | **2 208** | 2 427 |
| **Current liabilities** | | **94 885** | 66 469 |
| Trade and other payables | 12 | **42 137** | 13 448 |
| Loans from subsidiaries | 13 | **51 638** | 49 226 |
| Current tax liabilities | | **1 110** | 3 795 |
| **Total equity and liabilities** | | **3 394 551** | 3 886 005 |

**Less than R1 000.*

# Company statement of comprehensive income

For the year ended 31 May 2012

| | Note | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| Other income | | **111 133** | 79 901 |
| Employee compensation and benefit expense | 14 | **(76 277)** | (47 102) |
| Depreciation, amortisation and impairment charges | | **(19 716)** | (279 922) |
| Other expenses | | **(31 745)** | (35 614) |
| **Operating loss** | 15 | **(16 605)** | (282 737) |
| Finance costs | 16 | **(36)** | (121) |
| Finance income | 16 | **2 968** | 9 116 |
| **Net loss before taxation** | | **(13 673)** | (273 742) |
| Taxation | 17 | **(8 046)** | (13 608) |
| **Net loss for the year** | | **(21 719)** | (287 350) |
| **Other comprehensive income for the year, net of tax** | | **—** | — |
| **Total comprehensive loss for the year** | | **(21 719)** | (287 350) |

# Company statement of changes in equity

For the year ended 31 May 2012

| | Share capital R'000 | Share premium R'000 |
|---|---|---|
| **Balance as at 31 May 2010** | * | 4 404 737 |
| Net loss for the year | — | — |
| Comprehensive income | — | — |
| **Total comprehensive loss** | — | — |
| Shares purchased during the year | — | — |
| Shares awarded to group companies as part of equity-based compensation scheme | — | — |
| Equity-based compensation scheme shares vested | — | — |
| Equity-based compensation movements | — | — |
| Dividends paid | — | — |
| **Balance as at 31 May 2011** | * | 4 404 737 |
| Net loss for the year | — | — |
| Comprehensive income | — | — |
| **Total comprehensive loss** | — | — |
| Shares purchased during the year | — | — |
| Shares acquired | — | (392 378) |
| Shares awarded to group companies as part of equity-based compensation scheme | — | — |
| Shares forfeited by group companies as part of equity-based compensation scheme | — | — |
| Equity-based compensation scheme shares vested | — | — |
| Equity-based compensation movements | — | — |
| Dividends paid | — | — |
| **Balance as at 31 May 2012** | * | **4 012 359** |

**Less than R1 000.*

# Company statement of changes in equity continued

| Treasury shares R'000 | Equity-based compensation reserve R'000 | Share-based payment reserve R'000 | Accumulated loss R'000 | Total equity R'000 |
|---|---|---|---|---|
| (37 491) | 2 250 | 295 | (184 433) | 4 185 358 |
| — | — | — | (287 350) | (287 350) |
| — | — | — | — | — |
| — | — | — | (287 350) | (287 350) |
| (8 790) | — | — | — | (8 790) |
| 15 331 | — | — | — | 15 331 |
| 1 268 | (1 268) | — | — | — |
| — | 4 017 | — | — | 4 017 |
| — | — | — | (91 457) | (91 457) |
| (29 682) | 4 999 | 295 | (563 240) | 3 817 109 |
| — | — | — | (21 719) | (21 719) |
| — | — | — | — | — |
| — | — | — | (21 719) | (21 719) |
| (16 095) | — | — | — | (16 095) |
| — | — | — | — | (392 378) |
| 12 278 | — | — | — | 12 278 |
| (5 035) | — | — | — | (5 035) |
| 457 | (457) | — | — | — |
| — | 10 342 | — | — | 10 342 |
| — | — | — | (107 044) | (107 044) |
| (38 077) | 14 884 | 295 | (692 003) | 3 297 458 |

# Company statement of cash flows

For the year ended 31 May 2012

| | Note | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **Cash flows from operating activities** | 18 | **48 913** | 1 834 |
| Finance income | 16 | **2 968** | 9 116 |
| Finance costs | 16 | **(36)** | (121) |
| Taxation paid | 19 | **(10 950)** | (8 455) |
| Dividends received | | **4 798** | 631 |
| Net cash flows from operating activities | | **45 693** | 3 005 |
| **Cash flows from investing activities** | | | |
| Acquisition of property, plant and equipment | 3 | **(614)** | (15 027) |
| Proceeds on sale of property, plant and equipment | | **—** | 310 |
| Acquisition of intangible assets | 4 | **(249)** | (807) |
| Loans repaid by subsidiaries | | **522 039** | 139 081 |
| Loans advanced to subsidiaries | | **(28 298)** | (23 334) |
| Proceeds on sale of subsidiary | | **3 907** | — |
| Acquisition of investment in joint venture | | **—** | (1) |
| Loans granted to associate and joint venture | | **(27 572)** | (112) |
| Net cash flows from investing activities | | **469 213** | 100 110 |
| **Cash flows from financing activities** | | | |
| Dividends paid | | **(107 044)** | (91 457) |
| Acquisition of shares | | **(392 378)** | — |
| Treasury shares acquired | | **(16 095)** | (8 790) |
| Net cash flows from financing activities | | **(515 517)** | (100 247) |
| **Decrease in cash and cash equivalents** | | **(611)** | 2 868 |
| Cash and cash equivalents at the beginning of the period | | **1 811** | (1 057) |
| **Cash and cash equivalents at the end of the period** | 9 | **1 200** | 1 811 |

# Notes to the company annual financial statements

For the year ended 31 May 2012

## 1. Accounting policies

The accounting policies applied to the company annual financial statements are consistent with the group accounting policies as detailed on pages 109 to 130.

## 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 R852 million (2011: R753.6 million).

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **2. Financial risks (continued)** | | |
| **Loans receivable** | | |
| Group 1 | — | — |
| Group 2 | 286 899 | 800 529 |
| Group 3 | — | — |
| | 286 899 | 800 529 |
| **Trade receivables** | | |
| Counterparties without external credit rating | | |
| Group 1 | — | — |
| Group 2 | 364 | 2 337 |
| Group 3 | — | — |
| Total unimpaired trade receivables | 364 | 2 337 |

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.

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| BBB+ | 417 | 1 811 |
| BBB | 783 | — |
| | 1 200 | 1 811 |

# Notes to the company annual financial statements continued

## 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.

The company and a subsidiary company have issued a cross surety in respect of a guarantee and overdraft facility in the amount of R39.8 million in favour of FNB, a division of FirstRand Bank Limited. This facility was unutilised as at 31 May 2012. In addition, the company and four of its subsidiaries have issued a cross surety in the amount of R1.7 million.

### 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) |
| **2012** | | | | | |
| Loans from subsidiaries | 51 638 | — | — | — | — |
| Trade and other payables* | 445 | 5 614 | — | — | — |
| **Total** | 52 083 | 5 614 | — | — | — |
| **2011** | | | | | |
| Loans from subsidiaries | 49 226 | — | — | — | — |
| Trade and other payables* | 6 632 | — | — | — | — |
| **Total** | 55 858 | — | — | — | — |

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

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

## 2. Financial risks (continued)

### 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.

### 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 2012 would increase or decrease profit before tax by R12 002 (2011: R654 840).

# Notes to the company annual financial statements continued

## 2. Financial risks (continued)

### Foreign currency risk

**Financial instruments by currency**

| | 2012 ZAR R'000 | 2012 Total R'000 | 2011 ZAR R'000 | 2011 Total R'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash | 1 200 | 1 200 | 1 811 | 1 811 |
| Trade and other receivables* | 368 | 368 | 2 354 | 2 354 |
| Loans receivable | 286 899 | 286 899 | 800 529 | 800 529 |
| | 288 468 | 288 468 | 804 694 | 804 694 |
| **Financial liabilities** | | | | |
| Non-interest-bearing borrowings | 51 638 | 51 638 | 49 226 | 49 226 |
| Trade and other payables* | 6 059 | 6 059 | 6 632 | 6 632 |
| | 57 697 | 57 697 | 55 858 | 55 858 |
| Net financial position | 230 771 | 230 771 | 748 836 | 748 836 |

** 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.

### 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.

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

| | 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 2012** | | | | | | |
| Opening carrying amount | **203** | **1 270** | **424** | **1 574** | **32 783** | **36 254** |
| Additions | **41** | **—** | **525** | **10** | **38** | **614** |
| Depreciation charge | **(117)** | **(305)** | **(188)** | **(198)** | **(5 709)** | **(6 517)** |
| Closing carrying amount | **127** | **965** | **761** | **1 386** | **27 112** | **30 351** |
| **At 31 May 2012** | | | | | | |
| Cost | **776** | **2 022** | **1 070** | **2 303** | **38 973** | **45 144** |
| Accumulated depreciation | **(649)** | **(1 057)** | **(309)** | **(917)** | **(11 861)** | **(14 793)** |
| Carrying amount | **127** | **965** | **761** | **1 386** | **27 112** | **30 351** |
| **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 |

# Notes to the company annual financial statements *continued*

| | Computer software R'000 | Other R'000 | Total R'000 |
|---|---|---|---|
| **4. Intangible assets** | | | |
| **Year ended 31 May 2012** | | | |
| Opening carrying amount | **23** | **595** | **618** |
| Additions | **249** | **—** | **249** |
| Amortisation charge | **(59)** | **(140)** | **(199)** |
| Closing carrying amount | **213** | **455** | **668** |
| **At 31 May 2012** | | | |
| Cost | 2 545 | 700 | 3 245 |
| Accumulated depreciation | (2 332) | (245) | (2 577) |
| Carrying amount | 213 | 455 | 668 |
| **Year ended 31 May 2011** | | | |
| Opening carrying amount | 537 | — | 537 |
| Additions | 107 | 700 | 807 |
| Amortisation charge | (621) | (105) | (726) |
| Closing carrying amount | 23 | 595 | 618 |
| **At 31 May 2011** | | | |
| Cost | 2 296 | 700 | 2 996 |
| Accumulated depreciation | (2 273) | (105) | (2 378) |
| Carrying amount | 23 | 595 | 618 |

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **5. Deferred taxation** | | |
| At the beginning of the year | **2 427** | 1 723 |
| Credited to income statement: | | |
| – Provisions | **5** | 16 |
| – Capital allowances | **(49)** | (33) |
| – Equity compensation benefit | **291** | 1 103 |
| – Other | **(466)** | (382) |
| At the end of the year | **2 208** | 2 427 |
| Deferred taxation comprises: | | |
| – Provisions | **(114)** | (118) |
| – Capital allowances | **234** | 283 |
| – Equity compensation benefit | **3 284** | 2 993 |
| – Other | **(1 196)** | (731) |
| | **2 208** | 2 427 |
| 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 | **—** | — |
| Deferred tax assets to be recovered within 12 months | **—** | — |
| | **—** | — |
| **Deferred tax liabilities** | | |
| Deferred tax liabilities to be recovered after more than 12 months | **401** | 760 |
| Deferred tax liabilities to be recovered within 12 months | **1 807** | 1 667 |
| | **2 208** | 2 427 |
| Net deferred tax liability | **2 208** | 2 427 |

# Notes to the company annual financial statements continued

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **6. Investments in group companies and related loans (continued)** | | |
| **6.1 Investments in subsidiaries and related loans (continued)** | | |
| Shares at cost less amounts written off | 3 019 621 | 2 985 893 |
| Loans owing by subsidiaries less amounts written off | 280 598 | 820 017 |
| | 3 300 219 | 3 805 910 |

Details are reflected below:

| | Shares at cost R'000 | Loans owing by subsidiaries R'000 | Provision for impairment R'000 |
|---|---|---|---|
| **2012** | | | |
| Activi Technology Services Proprietary Limited | * | — | — |
| Activi Deployment Services Proprietary Limited | 5 060 | — | — |
| Africa Prepaid Services Proprietary Limited | 61 520 | 26 773 | (83 574) |
| Blue Label Distribution Proprietary Limited | 194 000** | — | — |
| Blue Label Investments Proprietary Limited | 108 416 | — | — |
| Blue Label One Proprietary Limited | 40 000 | — | — |
| Blue Label Telecoms USA Incorporated[3] | 50 540 | — | — |
| Budding Trade Proprietary Limited | 6 000** | — | — |
| Celebia Holdings Limited | * | — | — |
| Cellfind SA Proprietary Limited | 290 000 | — | (141 841) |
| Cigicell Proprietary Limited | 295 | — | — |
| Content Connect Africa Proprietary Limited | 27 000 | — | (25 000) |
| Datacel Direct Proprietary Limited[1] | 150 000 | — | (16 073) |
| Gold Label Investments Proprietary Limited | 29 400 | 184 714 | (175 075) |
| Kwikpay SA Proprietary Limited | 22 500** | — | — |
| Matragon Proprietary Limited | *** | — | — |
| The Post Paid Company Proprietary Limited | *** | — | — |
| The Prepaid Company Proprietary Limited | 2 150 214** | 236 794 | — |
| Transaction Junction Proprietary Limited | 4 200 | — | |
| Uninex Proprietary Limited | * | 976 | — |
| Velociti Proprietary Limited | 7 185 | 3 005 | — |
| Ventury Group Proprietary Limited | 98 406** | — | — |
| Virtual Voucher Proprietary Limited | 44 784** | — | — |
| | 3 289 520 | 452 262 | (441 563) |

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

## 6. Investments in group companies and related loans (continued)

### 6.1 Investments in subsidiaries and related loans (continued)

Details are reflected below:

| | Shares at cost R'000 | Loans owing by subsidiaries R'000 | Provision for impairment R'000 |
|---|---|---|---|
| **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[2] | — | — | — |
| Blue Label Investments Proprietary Limited | 108 416 | — | — |
| Blue Label One Proprietary Limited | 40 000 | 924 | — |
| Blue Label Telecoms USA Incorporated[3] | * | 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 | — | — |
| | 3 258 850 | 991 682 | (444 652) |

* *Less than R1 000.*

** *These investments have been pledged as security to Investec Bank Limited in terms of the facility.*

*All subsidiaries are based in the Republic of South Africa. For details on percentage held and issued shares, refer to note 34 in the group notes. Refer to notes 15 and 21 for details on impairments.*

1 *These loans bear interest at prime plus 2% and have no fixed terms of repayment. All other loans are interest free.*

2 *Blue Label Australasia was deregistered on 29 December 2010.*

3 *In the current year the loan to Blue Label Telecoms USA Incorporated was capitalised.*

In the current year Activi Technology Services Proprietary Limited sold its 100% investment in Activi Deployment Services Proprietary Limited and its 60% investment in Transaction Junction Proprietary Limited to Blue Label Telecoms Limited on loan account. In the current year, Matragon Proprietary Limited distributed its 100% investment in Blue Label Distribution Proprietary Limited to Blue Label Telecoms.

# Notes to the company annual financial statements continued

## 6. Investments in group companies and related loans (continued)

### 6.2 Investments in associate and joint venture and related loans

| | **2012 R'000** | 2011 R'000 |
|---|---|---|
| Shares and loans as at the beginning of the year | **27 385** | 29 682 |
| Provision for impairment | **—** | (2 554) |
| Disposal – Demtrade 11 Proprietary Limited | **(476)** | — |
| Loans owing by associate and joint venture | **27 572** | 257 |
| | **54 481** | 27 385 |

| | | Date acquired | Country of incorporation | Percentage interest held |
|---|---|---|---|---|
| Demtrade 11 Proprietary Limited | Joint venture | 1 June 2008 | South Africa | 46.25 |
| Blue Label Mexico S.A. de C.V.* | Associate | 23 Feb 2011 | Mexico | 40 |

* *In the prior year, 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 |
|---|---|---|---|---|
| **2012** | | | | |
| Blue Label Mexico S.A. de C.V. | **129 090** | **79 988** | **859 592** | **(59 155)** |
| **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) |

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **7.** | **Loan receivable** | | |
| | Loans to related parties | — | 10 615 |
| | Interest bearing loans | **6 299** | — |
| | | **6 299** | 10 615 |
| | Loans to related parties are unsecured, interest free and are repayable on demand. | | |
| | Interest bearing loans bear interest at prime +2% and have no fixed terms of repayment. | | |
| **8.** | **Trade and other receivables** | | |
| | Trade receivables | 7 | — |
| | Sundry debtors and prepayments | 969 | 1 075 |
| | Amounts due from related parties (refer to note 21) | 357 | 2 337 |
| | | 1 333 | 3 412 |

The ageing of trade receivables, including amounts due from related parties, at the reporting date was:

| | Gross R'000 | Impairment R'000 | Net R'000 |
|---|---|---|---|
| **31 May 2012** | | | |
| Fully performing | **336** | — | **336** |
| 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 | **28** | — | **28** |
| | **364** | — | **364** |
| **31 May 2011** | | | |
| Fully performing | 2 337 | — | 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 | — | 2 337 |

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.

# Notes to the company annual financial statements continued

| | **2012 R'000** | 2011 R'000 |
|---|---|---|
| **9. Cash and cash equivalents** | | |
| Cash at bank | **1 200** | 1 811 |
| Favourable balances | **1 200** | 1 811 |

Guarantees to the value of R600 000 (2011: R600 000) are held by Investec Bank Limited in favour of a subsidiary.

| | **2012 Number of shares** | 2011 Number of shares | **2012 R'000** | 2011 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 | **756 269 004** | 756 659 181 | ***** | * |
| Shares acquired during the period | **(95 078 724)** | (1 300 000) | ***** | * |
| Shares vested during the year – Blue Label Telecoms | **91 507** | 253 636 | | |
| Shares vested during the year – Blue Label Telecoms subsidiaries | **220 130** | 656 187 | | |
| Balance at the end of the year | **661 501 917** | 756 269 004 | ***** | * |

** Less than R1 000.*

All issued shares are fully paid up.

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

## 10. Share capital (continued)

The company acquired 3 226 872 (2011: 1 300 000) 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 R16 095 018 (2011: R8 789 983) has been deducted from shareholders' equity. These shares are held as "treasury shares". See note 11 for details on the forfeitable shares.

The company acquired 91 851 852 shares from Microsoft Corporation representing 11.99% of the Blue Label ordinary shares in issue prior to the specific repurchase. The amount paid for these shares including transaction costs was R392 377 518. These shares have been cancelled.

The directors of the company have unrestricted authority until the following annual general meeting to allot and issue, as they in their discretion deem fit, the unissued ordinary shares of the company as at 31 May 2011, subject to the provisions of the memorandum of incorporation of the company, the Companies Act and the Listings Requirements.

## 11. Equity compensation benefit

### Forfeitable shares

During the year, 2 100 259 (2011: 2 436 492) 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 14 cents (2011: 12 cents) per ordinary share was declared on 23 August 2011 (2011: 23 August 2010).

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.

# Notes to the company annual financial statements *continued*

## 11. Equity compensation benefit (continued)

### Forfeitable shares (continued)

The performance conditions for the third award grant of forfeitable shares vesting on 31 August 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 (31 August 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 is 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.

The performance condition for the fourth award grant of forfeitable shares vesting on 31 August 2014 is 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 (31 August 2014).
- 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 2011), by the percentage change in the CPI over the performance period, plus 15%. There is no linear vesting to this portion of the allocation.

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

## 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 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 | 31 August 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) |

# Notes to the company annual financial statements continued

## 11. Equity compensation benefit (continued)

### Forfeitable shares (continued)

| | Grant date | Vesting date | Number of shares | Fair value of grant R'000 |
|---|---|---|---|---|
| **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 |
| Granted during the year | | | 2 100 259 | 9 451 |
| Fourth award | 1 October 2011 | 31 August 2014 | 2 100 259 | 9 451 |
| Shares forfeited during the year | | | (99 032) | (532) |
| Second award | | | (52 800) | (309) |
| Third award | | | (27 512) | (129) |
| Retention award | | | (18 720) | (94) |
| Shares vested during the year | | | (91 507) | (457) |
| Retention award | | 30 April 2011 | (91 507) | (457) |
| **At 31 May 2012** | | | 5 411 291 | 26 612 |
| Second award | | | 1 391 009 | 8 137 |
| Third award | | | 1 920 023 | 9 024 |
| Fourth award | | | 2 100 259 | 9 451 |

Refer to note 14 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 1 542 820 (2011: 1 477 168).

The share-based payment in relation to these directors is R7.3 million (2011: R2 million).

Refer to note 31 of the group annual financial statements for details per director.

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **12.** | **Trade and other payables** | | |
| | Trade payables | **520** | 2 372 |
| | Accruals | **37 008** | 7 398 |
| | Sundry creditors | **780** | 2 621 |
| | VAT | **3 720** | 705 |
| | Amounts due to related parties (refer to note 21) | **109** | 352 |
| | | **42 137** | 13 448 |
| **13.** | **Loans from subsidiaries** | | |
| | Ventury Group Proprietary Limited | **48 000** | 48 000 |
| | Blue Label Investments Proprietary Limited | **3 638** | 1 226 |
| | | **51 638** | 49 226 |
| | Loans are unsecured, interest free and are repayable on demand. | | |
| **14.** | **Employee compensation and benefit expense** | | |
| | Salaries and wages | **39 260** | 42 183 |
| | Bonuses | **25 461** | 394 |
| | Equity compensation benefit | **10 342** | 4 017 |
| | Other | **1 214** | 508 |
| | | **76 277** | 47 102 |

The average number of employees for the year is 37 (2011: 35).

# Notes to the company annual financial statements *continued*

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **15. Operating loss** | | |
| The following items have been charged/(credited), in arriving at operating loss: | | |
| Management fees received | **(104 763)** | (78 884) |
| Dividends received | **(4 798)** | (631) |
| Consulting fees | **6 031** | 7 868 |
| Foreign exchange loss | **73** | 1 |
| Impairment of loans and investments* | **13 000** | 272 578 |
| Loss on disposal of property, plant and equipment | **—** | 291 |
| Insurance | **1 118** | 1 644 |
| Legal fees | **215** | 710 |
| Operating lease rentals – premises | **2 027** | 1 013 |
| Rental paid | **14 223** | 12 358 |
| Rental recovery | **(12 196)** | (11 345) |
| Overseas travel | **1 158** | 3 534 |
| Security | **—** | 658 |
| Repairs and maintenance | **—** | 20 |
| Audit fees | **4 086** | 4 227 |

** An impairment loss of R13 million (2011: R272.6 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 to note 21).*

*The current year impairment has been determined using the indicative sales value in order to determine the recoverable amount.*

*In the prior year a weighted average cost of capital of 15% – 22% and a growth rate of 1.5% to 4.5% was used in determining the recoverable value where the valuation was based on future cash flows.*

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **16.** | **Finance (income)/costs** | | |
| | Interest paid | | |
| | – Bank | 36 | 45 |
| | – Other | — | 76 |
| | | 36 | 121 |
| | Interest received | | |
| | – Bank | (67) | (40) |
| | – Loans | (2 892) | (9 038) |
| | – Other | (9) | (38) |
| | | (2 968) | (9 116) |
| | Net finance income | (2 932) | (8 995) |
| **17.** | **Taxation** | | |
| | Current tax | (2 398) | 3 758 |
| | Current year | 1 311 | 3 795 |
| | Prior year | (3 709) | (37) |
| | Deferred tax | (219) | 704 |
| | Current year | (88) | 704 |
| | Prior year | (131) | — |
| | STC | 10 663 | 9 146 |
| | | 8 046 | 13 608 |
| | **Tax rate reconciliation** | | |
| | Net loss before tax | (13 673) | (273 742) |
| | Tax at 28% | (3 828) | (76 648) |
| | Adjusted for: | | |
| | – Income not taxable | (1 343) | (867) |
| | – Expenditure not deductible | 6 394 | 76 594 |
| | – Prior year adjustment | (3 840) | (37) |
| | – Permanent difference | — | 5 420 |
| | – STC | 10 663 | 9 146 |
| | | 8 046 | 13 608 |

# Notes to the company annual financial statements *continued*

| | | 2012 R'000 | 2011 R'000 |
|---|---|---|---|
| **18.** | **Cash flows from operating activities** | | |
| | **Reconciliation of operating loss to cash flows from operating activities** | | |
| | Operating loss | **(16 605)** | (282 737) |
| | Adjustments for: | | |
| | Dividends received | **(4 797)** | (631) |
| | Depreciation of property, plant and equipment | **6 517** | 6 619 |
| | Amortisation on intangible assets | **199** | 726 |
| | Impairment of loans and investments | **13 000** | 272 578 |
| | Loss on disposal of property, plant and equipment | **—** | 291 |
| | Loss on disposal of subsidiaries | **4 164** | — |
| | Loss on disposal of associates | **476** | — |
| | Loss on restructuring (*refer to note 6.1*) | **533** | — |
| | Equity compensation benefit expense | **10 342** | 4 017 |
| | Unrealised foreign exchange differences | **(1 132)** | — |
| | Changes in working capital | | |
| | Decrease in trade and other receivables | **3 211** | 1 532 |
| | Increase/(decrease) in trade and other payables | **28 689** | (3 994) |
| | Decrease in loans receivable | **4 316** | 3 433 |
| | | **48 913** | 1 834 |
| **19.** | **Taxation paid** | | |
| | Balance outstanding at the beginning of the year | **3 795** | (654) |
| | Taxation charge | **8 265** | 12 904 |
| | Balance outstanding at the end of the year | **(1 110)** | (3 795) |
| | | **10 950** | 8 455 |
| **20.** | **Commitments** | | |
| | Future operating lease charges for: | | |
| | Premises | | |
| | Payable within one year | **11 261** | 10 191 |
| | Payable in two to five years | **53 660** | 52 650 |
| | Payable in more than five years | **—** | 12 270 |
| | | **64 921** | 75 111 |

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **21. Related party transactions** | | |
| **Related party relationships** | | |
| For details of subsidiaries, associates and joint ventures, refer to note 34 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, Ellerine Bros. Proprietary Limited, Stylco Proprietary 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 31 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 | 1 946 | 1 993 |
| Blue Label Distribution Proprietary Limited | — | 1 332 |
| Brett Levy | 525 | — |
| Content Connect Africa Proprietary Limited | — | 18 |
| Demtrade 11 Proprietary Limited | (4) | 947 |
| The Prepaid Company Proprietary Limited | 5 | 5 |
| Stylco Proprietary Limited | 40 | 176 |
| **Cost recoveries from related parties** | | |
| Blue Label Distribution Proprietary Limited | — | 176 |
| Cellfind SA Proprietary Limited | 6 | 9 |
| Smart Voucher Limited | — | 24 |
| **Interest received from related parties** | | |
| Africa Prepaid Services Proprietary Limited | 1 009 | 6 778 |
| Content Connect Africa Proprietary Limited | — | 101 |
| Datacel Direct Proprietary Limited | 957 | 1 804 |
| SharedPhone International Proprietary Limited | 148 | 278 |
| The Postpaid Company Proprietary Limited | 48 | 77 |
| Blue Label Mexico S.A. de C.V. | 431 | — |

# Notes to the company annual financial statements *continued*

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **21. Related party transactions (continued)** | | |
| **Management fees received from related parties** | | |
| Activi Technology Services Proprietary Limited | — | 73 |
| Activi Deployment Services Proprietary Limited | 80 | — |
| Africa Prepaid Services Proprietary Limited | — | 2 940 |
| Blue Label Distribution Proprietary Limited | 3 063 | 2 131 |
| Blue Label Mexico S.A. de C.V. | 458 | 770 |
| Blue Label One Proprietary Limited | 1 200 | — |
| Cellfind SA Proprietary Limited | 2 875 | 2 614 |
| Cigicell Proprietary Limited | 2 476 | 2 251 |
| Datacel Direct Proprietary Limited | 399 | 363 |
| SharedPhone International Proprietary Limited | 532 | 726 |
| Smart Voucher Limited | — | 564 |
| The Prepaid Company Proprietary Limited | 93 600 | 66 000 |
| Transaction Junction Proprietary Limited | 80 | 73 |
| Virtual Voucher Proprietary Limited | — | 327 |
| **Management fees paid to related parties** | | |
| Demtrade 11 Proprietary Limited | — | 1 210 |
| **Rent paid to related parties** | | |
| Ellerine Bros. Proprietary Limited | 5 096 | 4 611 |
| Moneyline 311 Proprietary Limited | 5 096 | 4 611 |
| **Rent received from related parties** | | |
| Africa Prepaid Services Proprietary Limited | 133 | 124 |
| Blue Label Data Solutions Proprietary Limited | 167 | 205 |
| Blue Label One Proprietary Limited | 588 | 295 |
| Blue Label Distribution Proprietary Limited | 2 438 | 3 402 |
| Demtrade 11 Proprietary Limited | — | 95 |
| The Prepaid Company Proprietary Limited | 3 099 | 2 780 |
| Zok Cellular Proprietary Limited | 95 | 195 |
| **Impairment of related party investments** | | |
| Africa Prepaid Services Proprietary Limited | — | 61 519 |
| Cellfind SA Proprietary Limited | — | 141 841 |
| Content Connect Africa Proprietary Limited | 13 000 | 12 000 |
| Datacel Direct Proprietary Limited | — | 16 073 |
| Demtrade 11 Proprietary Limited | — | 2 554 |
| SharedPhone International Proprietary Limited | — | 16 089 |

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **21. Related party transactions (continued)** | | |
| **Impairment of related party loans** | | |
| Africa Prepaid Services Proprietary Limited | — | 22 055 |
| Blue Label Australasia Proprietary Limited | — | 447 |
| **Dividends received from related parties** | | |
| Datacel Direct Proprietary Limited | 3 747 | — |
| Demtrade 11 Proprietary Limited | 453 | 416 |
| House of Business Solutions Proprietary Limited | — | 215 |
| Matragon Proprietary Limited | 1 | — |
| Matrix Investments No 4 Proprietary Limited | 596 | — |
| **Loans to related parties** | | |
| Africa Prepaid Services Proprietary Limited | 4 719 | 50 508 |
| Blue Label Distribution Proprietary Limited | — | 8 478 |
| Blue Label Mexico S.A. de C.V. | — | 257 |
| Blue Label One Proprietary Limited | — | 924 |
| Blue Label Telecoms USA Incorporated | — | 50 540 |
| Cellfind SA Proprietary Limited | — | 2 580 |
| Cigicell Proprietary Limited | — | 2 094 |
| CNS Call Centre Proprietary Limited | — | 15 |
| Content Connect Africa Proprietary Limited | — | 394 |
| Datacel Direct Proprietary | — | 14 951 |
| Gold Label Investments Proprietary Limited | 35 104 | 260 |
| SharedPhone International Proprietary Limited | — | 2 754 |
| The Postpaid Company Proprietary Limited | — | 1 197 |
| The Prepaid Company Proprietary Limited | 236 794 | 690 904 |
| Transaction Junction Proprietary Limited | — | 1 178 |
| Uninex Proprietary Limited | 976 | 976 |
| Velociti Proprietary Limited | 3 005 | 1 936 |
| **Loans from related parties** | | |
| Blue Label Investments Proprietary Limited | 3 638 | 1 226 |
| Ventury Group Proprietary Limited | 48 000 | 48 000 |

# Notes to the company annual financial statements *continued*

| | 2012 R'000 | 2011 R'000 |
|---|---|---|
| **21. Related party transactions (continued)** | | |
| **Amounts due from related parties** | | |
| Black Ginger 59 Proprietary Limited | **21** | — |
| Blue Label Mexico S.A. de C.V. | **336** | — |
| Smart Voucher Limited | **—** | 2 337 |
| | **357** | 2 337 |
| **Amounts due to related parties** | | |
| Black Ginger 59 Proprietary Limited | **—** | 37 |
| Blue Label Distribution Proprietary Limited | **109** | 12 |
| Demtrade 11 Proprietary Limited | **—** | 204 |
| Moneyline 311 Proprietary Limited | **—** | (472) |
| Neil Lazarus | **—** | 447 |
| Unihold Group Limited | **—** | 124 |
| | **109** | 352 |
| **Leasehold improvements recovered by related party** | | |
| Ellerine Bros. Proprietary Limited | **—** | 925 |

# Notes to the company annual financial statements continued

For the year ended 31 May 2012

| | No of shareholdings | % | No of shares | % |
|---|---|---|---|---|
| **22. Shareholder analysis** | | | | |
| **Shareholder spread** | | | | |
| 1 – 1 000 shares | 621 | 23.68 | 329 429 | 0.04 |
| 1 001 – 10 000 shares | 1 281 | 48.86 | 5 198 450 | 0.77 |
| 10 001 – 100 000 shares | 481 | 18.34 | 15 298 089 | 2.27 |
| 100 001 – 1 000 000 shares | 164 | 6.25 | 54 403 027 | 8.07 |
| 1 000 001 shares and over | 75 | 2.86 | 599 280 047 | 88.85 |
| **Totals** | **2 622** | **100.00** | **674 509 042** | **100.00** |
| **Distribution of shareholders** | | | | |
| Banks | 45 | 1.72 | 109 710 227 | 16.27 |
| Close corporations | 48 | 1.83 | 1 281 795 | 0.19 |
| Empowerment | 1 | 0.04 | 818 979 | 0.12 |
| Endowment funds | 20 | 0.76 | 1 320 495 | 0.20 |
| Individuals | 1 926 | 73.46 | 180 607 987 | 26.78 |
| Insurance companies | 21 | 0.80 | 9 001 752 | 1.33 |
| Investment companies | 14 | 0.53 | 17 767 045 | 2.63 |
| Medical schemes | 3 | 0.11 | 361 850 | 0.05 |
| Mutual funds | 77 | 2.94 | 103 731 632 | 15.38 |
| Nominees and trusts | 277 | 10.56 | 40 748 786 | 6.04 |
| Other corporations | 31 | 1.18 | 213 962 | 0.03 |
| Private companies | 78 | 2.97 | 140 532 826 | 20.84 |
| Public companies | 5 | 0.19 | 2 180 963 | 0.32 |
| Retirement funds | 74 | 2.82 | 53 223 618 | 7.89 |
| Treasury stock | 2 | 0.08 | 13 007 125 | 1.93 |
| **Totals** | **2 622** | **100.00** | **674 509 042** | **100.00** |
| **Public/non-public shareholders** | | | | |
| **Non-public shareholders** | 19 | 0.72 | 312 313 409 | 46.30 |
| Directors and associates | 16 | 0.61 | 182 409 386 | 27.05 |
| Strategic holdings (more than 10%) | 1 | 0.04 | 116 736 000 | 17.32 |
| Treasury stock | 2 | 0.08 | 13 007 125 | 1.93 |
| **Public shareholders** | 2 603 | 99.28 | 362 195 633 | 53.70 |
| **Totals** | **2 622** | **100.00** | **674 509 042** | **100.00** |
| **Beneficial shareholders holding 4% or more** | | | | |
| Shotput Investments Proprietary Limited | | | 116 736 000 | 17.32 |
| Levy, BM | | | 82 613 331 | 12.25 |
| Levy, MS | | | 75 205 922 | 11.15 |
| Allan Gray's clients | | | 52 228 623 | 7.74 |
| Fidelity | | | 45 390 137 | 6.73 |
| Investec | | | 40 565 430 | 6.01 |
| **Totals** | | | **412 739 443** | **61.20** |

# Glossary of terms

| Words | Definition |
|---|---|
| AEON | Blue Label's proprietary switch through which all transactional capability is accessed |
| Act/Companies Act/ The Act | Companies Act No 71 of 2008, as amended |
| 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 |
| APS | Africa Prepaid Services Proprietary Limited |
| APSN | Africa Prepaid Services Nigeria Limited |
| ARCC | Audit, Risk and Compliance Committee |
| ARPU | Average revenue per user |
| Average training hours per employee | Training at Blue Label Telecoms consists of formal and informal training. Formal training includes on-line training (Blue Label Academy) and external training. Learnerships are not included in this definition as they are not employees of BLT until such time as they take up permanent placements. Informal training is not included in the calculation of average training hours per employee. The average training hours per employee is calculated as follows: Total hours spent on training/total number of employees participating in training |
| B-BBEE | Broad-based black economic empowerment |
| BLD | Blue Label Distribution Proprietary Limited |
| BLI | Blue Label Investments Proprietary Limited |
| BLM | Blue Label Mexico S.A. de C.V. |
| BLT | Blue Label Telecoms Limited |
| Blue Label | Blue Label Telecoms Limited |
| Blue Label Telecoms | Blue Label Telecoms Limited |
| BoBo | Bill on Behalf of |
| BOD | Board of Directors |
| BPO | Business Process Outsourcing |
| Bulk Printing | Ability to print bulk vouchers |
| CDMA | Code division multiple access network |
| CEO | Chief executive officer |
| CIO | Chief information officer |
| company | Blue Label Telecoms Limited |
| COO | Chief operations officer |
| CPA | Consumer Protection Act |
| CRC | Customer Relationship Consultant |
| CRM | Customer Relationship Management |

# Glossary of terms continued

| Words | Definition |
|---|---|
| CSI | Corporate Social Investment. The CSI spend is closely linked to the CSI requirements established in the BEE Codes. The CSI spend spans across various beneficiary categories including HIV, youth development, education and sports development. See also definition of SED. |
| 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 |
| 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 |
| EBITDA | Earnings before interest, taxes, depreciation and amortisation |
| EFT | Electronic funds transfer |
| 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 |
| FAQ | Frequently asked questions |
| FD | Financial Director |
| FMCG | Fast moving consumer goods |
| FQUN | Fully Qualified User Name |
| GPS | Global Positioning System |
| GRI | Global Reporting Initiative, established in 1997, with the mission of designing globally applicable guidelines for the preparation of enterprise-level, sustainable development reports |
| group | Blue Label Telecoms Limited and its subsidiaries, associates and joint ventures |
| IC | Investment Committee |
| ICT | Information, Communications and Technology |
| IDMe | A life-saver product available internationally as a 24-hour panic button via your cellphone |
| Intelligent transport | Toll roads, bus and train prepaid ticketing |

# Glossary of terms continued

| Words | Definition |
|---|---|
| Interconnect fees | Charges associates 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 |
| JV | Joint venture |
| 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 |
| KPA | Key performance area |
| KPI | Key performance indicator |
| KPMG | KPMG Services Proprietary Limited |
| LBS | Location-based services |
| MMS | Multimedia Messaging Service |
| Money remittances | The ability to transfer money to another individual without a bank account |
| MSC | Mobile Services Company |
| NaaS | Network as a Service |
| NERA | National Empowerment Rating Agency |
| NFC | Near Field Communications |
| OECD | Organisation for Economic Cooperation and Development |
| OHSA | The Occupational Health and Safety Act No 85 of 1993 |
| OTA | Over The Air |
| Oxigen/Oxigen India | Oxigen Services (India) Private Limited |
| PaaS | Platform as a Service |
| pCommerce | Prepaid Commerce |
| Physical prepaid airtime | Prepaid vouchers that are available as physical items |
| PIN | Personal identity number |
| PINless top-up | E-token recharge directly to mobile phone via a POS device |
| POP | Point of presence |
| POPI | Protection of Personal Information bill |
| POS | Point of sale, usually a place or a device |
| PowerPin Voucher | Offline prepaid electricity top-up, consolidates the purchase of prepaid electricity across national municipalities |
| PwC | PricewaterhouseCoopers Incorporated |

# Glossary of terms continued

| Words | Definition |
|---|---|
| Q&A | Questions and Answers |
| R&D | Research and Development |
| RNC | Remuneration and Nomination Committee |
| RUIM (or R-UIM) | Reusable Identification Module; removable ID chip for cellular phones extends the GSM SIM card to CDMA phones and networks |
| SaaS | Software as a Service |
| 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 |
| SIM card | Subscriber Identification Module card |
| SMS | Short Message Service |
| SRI index | Socially Responsible Investment Index |
| SSETA | Services Sector Education and Training Authorities |
| Ticketing | Bus, train and airline ticketing as well as entertainment |
| Total number of employees | The total number of employees includes all Velociti employees. However, it excludes terminated employees and non-executive directors |
| Touch points | Devices through which consumers are able to purchase Blue Label products and services |
| TPC | The Prepaid Company Proprietary Limited |
| TPPC | The Post Paid Company Proprietary Limited |
| Transactional services | Includes money transfers, payments of bills and the like |
| TSE | Transformation, Social and Ethics Committee |
| unbanked | People without bank accounts |
| under-banked | People with poor access to mainstream financial services, such as banks and therefore rely on alternative financial services or alternatively people with banks 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 |
| ZOK | Zok Cellular Proprietary Limited |

# Administration

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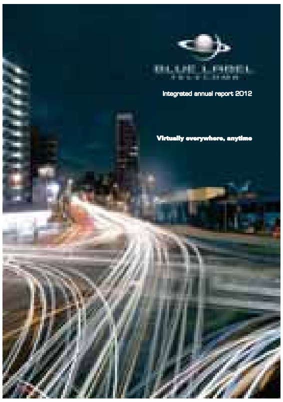
BASTION GRAPHICS

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