

The group's strong balance sheet is attributable to good trading results and stringent asset and treasury management

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chief financial officer's report

Blue Label Telecoms' (BLT) maiden financial period as a listed company embodied a multitude of corporate transactions which need to be explained to provide shareholders with meaningful insight into both the resultant structure of the group and its performance. In order of progression, the following events transpired:

Restructuring

Prior to the group's listing on the JSE Limited in November 2007, the companies incorporated in the listing were previously subsidiaries and associates of Blue Label Investments (Proprietary) Limited (BLI), The Prepaid Company (Proprietary) Limited and House of Business Solutions (Proprietary) Limited.

The group acquired these assets from the shareholders of BLI in return for the issue of 314 623 074 BLT shares at R5,50 per share. A further 63 474 919 BLT shares were issued to these shareholders for the purchase of their loan claims in BLI of R349 million.

The restructuring also embodied the acquisition of minority interests in the following companies:

- The Prepaid Company (Proprietary) Limited;
- Gold Label Investments (Proprietary) Limited;
- Cellfind (Proprietary) Limited;
- House of Business Solutions (Proprietary) Limited;
- Blue Label One (Proprietary) Limited;
- Matragon (Proprietary) Limited;
- Kwikpay SA (Proprietary) Limited;
- Virtual Voucher (Proprietary) Limited;
- Budding Trade 1170 (Proprietary) Limited;
- Datacel Direct (Proprietary) Limited; and
- Africa Prepaid Services (Proprietary) Limited (in part).

Minority interests remaining are:

• Polska Holdings Limited	50%
• SharedPhone International (Proprietary) Limited	49,90%
• The Hub Pretalk (Proprietary) Limited	60%
• Premet Cellular (Proprietary) Limited	60%
• Africa Prepaid Services (Proprietary) Limited	28%
• E-Voucha (Proprietary) Limited	49%
• Ventury Group (Proprietary) Limited*	10%

The restructuring was the first step in a programme to create the listed vehicle, in line with the group's strategy to control the cash flows and operations of these companies, and in turn to achieve significant vertical integration.

* This was purchased prior to year-end

Microsoft Corporation collaboration

In November 2007 Microsoft Corporation acquired 12% of the equity in BLT for R620 million, of which R239 million was represented by a fresh issue of shares at the listing price of R6,75.

Listing on the JSE Limited

Blue Label Telecoms was listed on the Main Board of the JSE Limited on 14 November 2007, through the placement of 183 585 830 shares at R6,75 per share and 14 545 455 shares at R5,50 per share. This resulted in the successful raising of capital of R1,32 billion.

The funds raised were allocated as follows:

- Repayment of interest-bearing debt approximating: R618 million
- Costs pertaining to the listing: R40 million
- The cash element of the acquisition of minority interests in subsidiaries and associate companies: R209 million
- The cancellation of the historical management bonus agreement: R80 million
- The cancellation of an onerous contract: R9 million

The net cash residue from the funds raised on listing amounted to R364 million.

Performance against the forecasts presented in the pre-listing statement

The PLS included the group's unaudited forecasts of basic and headline earnings of R144 million, core earnings of R234 million, pro forma earnings of R250 million and core pro forma earnings of R340 million. The group exceeded these forecasts in all four of these earnings categories.

The forecast earnings for the year ending 31 May 2008 were exceeded by 25,50% on the achievement of actual earnings of R181 million. These results were achieved after accounting for expending once off extraneous costs, amortisation of intangible assets in terms of IFRS 3: *Business Combinations* requirements, allocation to minorities of their share of profits up until listing date and the benefits of finance income generated from the net proceeds of cash received on listing from the date that such funds were received.

The forecast core earnings were exceeded by 15,38% on the achievement of earnings of R270 million. The core earnings are calculated after adding back the once off extraneous costs and the amortisation of intangibles.



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The forecast pro forma earnings were exceeded by 8% on the achievement of earnings of R269 million.

The pro forma financial results have been prepared to illustrate the impact of the group's financial results as if the listing, restructuring and acquisition of minorities occurred on 1 June 2007.

The forecast core pro forma earnings were exceeded by 9% on the achievement of earnings of R371 million. The core pro forma earnings are calculated after adding back extraneous costs and amortisation of intangibles to the pro forma earnings.

The core pro forma earnings represent the achievement of the company that currently makes up the group and the cash reserves that the group holds. These earnings therefore represent the effective financial performance of the group and represent the base on which management will compare growth in the year to come.

Financial results

Basis of preparation

The group's financial statements have been prepared in accordance with and in compliance of the international financial reporting standards (IFRS), the listings requirements of the JSE and the South African Companies Act, 61 of 1973, as amended.

The consolidated financial statements have been prepared in accordance with the going concern principle under the historical cost basis as modified by the revaluation of certain assets and liabilities where required or elected in terms of IFRS. The accounting policies and methods of computation are consistent with those used in the corporate financial information for the year ended 31 May 2007.

As a result of the group's restructuring, its comparatives have been restated using predecessor accounting principles.

The accounting principles applied result in an extensive restatement of comparatives. It is important to read the financial results as reported in conjunction with the pre-listing statement when assessing these comparatives.

Income statement

Revenue

Revenue increased by R3,65 billion (41%) predominantly due to strong organic growth and the continued escalation in consumer demand for prepaid airtime. The revenue of associate companies does not form part of this revenue as these companies are equity accounted for at net earnings level only.

Gross profit

The group's trading environment is characterised by high volumes and relatively low margins. The growth in gross profit percentage margin from 4,78% to 5,34% was congruous with the inclusion of the associated companies that became subsidiaries post listing. Prior to listing and in 2007, the margin contribution formed part of the equity accounted net earnings only.

Operating expenses

The growth in expenditure of R181 million (78%) incorporates once-off extraneous costs (R89 million) and the expenditure of subsidiaries (R51 million) that were previously associate companies prior to listing.

After deduction of the above operating expenses of R269 million, it represented a growth of 17,66% on the previous year, commensurate with the group's need for additional manpower and variable expenses in support of the substantial growth in group revenue.

Earnings before interest, taxation, depreciation and amortisation

The growth in EBITDA from R229 million to R328 million (43%) was after writing off the extraneous expenses of R89 million. The growth before the write off of extraneous expenses therefore equated to 82%.

Net finance income

Finance income

The group's finance income for the year was R193 million earned from the residue of funds raised on listing and the positive accumulative cash generated from trading operations through the majority of the year. Of this amount, R16 million relates to imputed interest receivable on debtors balances in terms of IFRS requirements.



Finance expense

The group's finance expense for the year of R148 million included R101 million relating to imputed interest on creditor balances in terms of IFRS requirements. R47 million pertained to historical interest-bearing debt that was expunged on listing.

Share of losses from associates

A loss amounting to R19,7 million is attributable to Oxigen Services India (Private) Limited (Oxigen). Other

associated companies prior to listing generated positive contributions of R2,3 million.

Effective tax rate

As a result of certain non-deductible expenses, the group's effective tax rate for the full year was 30%.

Dividends

As per the group's previously disclosed dividend policy, BLT will only consider paying a dividend from the financial year commencing 1 June 2010.

Segmental pro forma results

	Corporate R'000	Telecommuni- cation Distribution R'000	Inter- national Telecommuni- cation Distribution R'000	Technology Platforms R'000	Other Related Services R'000	Pro forma 31 May 2008 R'000
Turnover	—	12 194 784	500 268	27 881	207 676	12 930 609
Costs of sales	—	(11 649 402)	(436 826)	(9 964)	(115 315)	(12 211 507)
Gross profit	—	545 382	63 442	17 917	92 361	719 102
Other income	4 967	49 363	4 742	40	9 030	68 142
Overheads	(66 573)	(249 121)	(46 640)	(27 753)	(50 228)	(440 315)
Employee costs	(37 677)	(175 416)	(22 191)	(17 222)	(23 123)	(275 629)
Other expenses	(28 896)	(73 705)	(24 449)	(10 531)	(27 105)	(164 686)
EBITDA	(61 606)	345 624	21 544	(9 796)	51 163	346 929
Depreciation, amortisation and impairment charges	(851)	(28 417)	(11 594)	(4 079)	(28 734)	(73 675)
EBIT	(62 457)	317 207	9 950	(13 875)	22 429	273 254
Interest received	2 572	235 278	68	93	1 459	239 470
Interest paid	(489)	(102 461)	(1 127)	(528)	(1 999)	(106 604)
EBT	(60 374)	450 024	8 891	(14 310)	21 889	406 120
Taxation	(1 376)	(111 184)	(1 707)	1 428	(3 690)	(116 529)
Income from associate	—	—	(19 661)	—	—	(19 661)
Basic pro forma earnings	(61 750)	338 840	(12 477)	(12 882)	18 199	269 930
Minorities' share of income	—	(821)	(974)	1 277	11	(507)
Basic pro forma earnings attributable to ordinary shareholders	(61 750)	338 019	(13 451)	(11 605)	18 210	269 423
Once off management fee net of tax	—	57 600	—	—	—	57 600
Amortisation of intangibles raised through business combinations net of tax and minorities	—	11 217	4 427	400	18 875	34 919
Cancellation of once off contract	9 000	—	—	—	—	9 000
Core pro forma earnings	(52 750)	406 836	(9 024)	(11 205)	37 085	370 942



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Earnings per share

The earnings per share at basic, headline, pro forma and core levels exceeded the forecast as contained in the pre-listing statement.

	May 2008	Per PLS
Basic	30,65c	26,30c
Headline	30,26c	26,30c
Core basic	45,81c	42,68c
Pro forma basic	35,16c	33,61c
Pro forma headline	34,86c	33,61c
Pro forma core basic	48,40c	45,81c

Return on shareholders equity

	Percentage return
Basic	9,43
Pro forma core	19,34

Balance sheet

The group's strong balance sheet is attributable to good trading results and stringent asset and treasury management. The group is highly liquid and well positioned to support the funding of potential acquisitions without impairing its working capital requirements.

Assets

Goodwill and intangible assets

In terms of IFRS 3: *Business combinations*, the intangible elements comprising goodwill and intangibles in respect of acquisitions have to be determined and allocated. The group's carrying value of these acquisitive intangible assets as at 31 May 2008 was R193 million. The majority of these acquisitions emanated from the conversion of investments in previous associate companies to wholly owned subsidiaries as a result of the restructure of the group immediately prior to listing. The useful life of the majority of these intangible assets is five years, which will be amortised accordingly.

Goodwill of R266 million relates to the acquisition of subsidiaries in respect of which the group was not transacting with minorities.

Investments in associates

The group's investments in associates of R81 million represents the carrying value of its investment in Oxigen. As at 31 May 2008, BLT held 35% of the company and was allocated a further 3,85% in June 2008.

Financial assets at amortised cost

These assets represent the carrying value of starter packs acquired that are yet to be activated. A starter pack enables the initiation of the connection between the prepaid subscriber and the networks prior to the purchase of prepaid airtime.

Current ratio

The current ratio of 2:1 is indicative of the liquidity of the group.

Share capital and share premium

The number of shares in issue at a par value of 0,000001c per share is made up as follows:

	No of shares	Share premium R000's
Shares issued to BLI shareholders	378 097 993	2 079 533
Share element of the purchase price of minority interests	190 131 616	1 045 724
Shares issued for cash on listing	198 131 285	1 319 203
Microsoft Corporation Private and preferential placements	35 437 682	239 204
	162 693 603	1 079 999
Total number of shares in issue	766 360 894	
Total value		4 444 460
Less costs pertaining to the listing		39 723
Net total		4 404 737

Restructuring reserve

The restructuring reserve of R1,84 billion 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.

Transaction with minority reserve

The group has changed its accounting policy with regard to accounting for transactions with minorities. This differs from the group's accounting policy disclosure in its PLS. The group has adopted the economic entity method which is consistent with the requirements of IFRS 3 Revised: *Business combinations*, and IAS 27 Revised: *Consolidated and separate financial statements*.



As a consequence of the above, goodwill of R899 million, arising from transactions with minorities, is recognised against reserves on the balance sheet as minority shareholders are treated as equity participants.

Cash flow statement

Cash and cash equivalents increased by R237 million. A summarised reconciliation of this growth is as follows:

Proceeds from the listing	R1,32 billion
<i>Less:</i>	
Repayment of historical borrowings	R618 million
Costs pertaining to the listing	R40 million
Funds appropriated to investing activities	R405 million
Net funds applied to operating activities	R20 million

The net funds applied to operating activities reflected at year-end was after the application of R277 million increase in net working capital assets on a piecemeal basis over the year in support of the continued growth in group operations.

Excess cash flow is utilised on a regular basis for premature settlement of creditors in order to enjoy the benefit of settlement discounts in excess of interest receivable on such funds.

The majority of the R405 million pertaining to funds appropriated to investing activities were applied to the acquisition of shares and claims in group companies.

Net cash flows from financing activities resulted after applying a portion of the proceeds raised on listing to settle debt and listing costs.

Strategic acquisitions post listing

Ventury (additional 10%)	R8,5 million
Crown Cellular (100%)	R90 million
Content Connect Africa (100%)	R30 million
CNS call centre (80%)	R11million

Strategic acquisitions post year-end

Oxigen Services India (additional 3,85%)	R72 million
Content Connect Australia (50,25%)	R3 million
Ukash (17,25%)	R49 million
Blue Label Mexico (50%)	R27 million

Share incentive scheme

A staff share incentive scheme has been formulated for presentation and approval at the group's forthcoming annual general meeting.

Directors' dealings in securities post year-end

Further to the disclosures of directors' interests on page 72, the interests of the directors changed as follows from the end of the financial year to the most recent information available at the date of publishing this report:

Director	Nature of change	No of shares	Nature of interest
BM Levy	Shares acquired	1 000 000	Direct beneficial
MS Levy	Shares acquired	1 000 000	Direct beneficial
MV Pamensky	Shares acquired	1 000 000	Indirect beneficial
DB Rivkind	Shares acquired	3 431 669	Direct beneficial

Prospects

It is not anticipated that Oxigen Services India will become profitable during the next financial year as it continues to invest in the expansion of its transactional footprint. The group is confident that there will be positive growth and profitability across the rest of the group. The consolidation of the group emanating from the acquisition of minority interests and the healthy cash resources on hand have resulted in a solid foundation to support the perpetual expected growth of BLT both organically and acquisitively.

Management are constantly evaluating potential acquisitions that will need to meet the criteria of the group's objectives to expand its footprint both locally and globally in rolling out its bouquet of products and services to additional points of presence. Vertical integration and a positive impact on earnings per share are essential fundamentals to the equation of acquisitions.

Appreciation

I wish to acknowledge and express my appreciation to the staff of the group, in particular the finance team for their concerted efforts and high-quality performance.



David Rivkind

Chief financial officer