

corporate governance

As a newly listed entity the group has embraced the challenge of transforming from a privately owned company into a publicly listed organisation whilst maintaining a balance between its inherent entrepreneurial culture and the stringent requirements of the regulatory listed environment. During the first seven months of being a publicly listed entity governance processes became a greater focus of the business with wider accountability and increased monitoring. The corporate governance structure will evolve with the corporate development of the group to align with emerging best practices in South Africa and abroad.

Governance approach and compliance

The company subscribes to the governance principles of the King Report on Corporate Governance – 2002 (King II) and is developing its governance structure, policies and procedures in line with best practice and the guidelines as contained in the Code of Corporate Practices and Conduct forming part of King II. The directors recognise the need to conduct the group's business with integrity and according to sound corporate governance principles. During the first seven months of being a publicly listed entity certain of the key aspects of the recommendations of King II have been implemented, but the company acknowledges that it is not in full compliance with all material aspects of King II. These areas are highlighted below in line with the "comply or explain" principle.

Key governance targeted milestones for 2009 include:

- further improvement in reporting processes to the board, its committees and executive committee;
- annual director performance assessment;
- annual board effectiveness assessment;
- introduction of a corporate approval framework;
- development of a corporate code of ethics; and
- implementation of a corporate governance protocol that will allow the group to apply for formal certification of conformance to governance best practices.
- rollout of internal audit plan, processes and the resultant recommendations.
- formalisation of the documentation and consideration of business risks.

The governance structure of the group is summarised below:

Board structure and related matters

Board's function and responsibilities

The board is the driving force of the company's corporate governance system and remains ultimately accountable and responsible for the performance and affairs of Blue Label Telecoms. The board's primary responsibilities include determining the company's purpose and values and giving strategic direction to the company, identifying key risk areas and key performance indicators of the company's business, monitoring the performance of the company against agreed objectives, advising on significant financial matters and reviewing the performance of executive management against defined objectives and, where applicable, industry standards.

The board has adopted a charter that defines its role and composition, the composition and role of board committees, proceedings at meetings as well as director induction.

Having regard to its role set out in the charter, the board considers the following as key issues when providing strategic direction to the company:

- approving specific financial objectives, including budgets, and non-financial objectives and policies proposed by management;
- overseeing the company's performance against agreed targets and objectives;
- reviewing the management of business risk;
- reviewing investment, capital and funding proposals reserved for board approval in terms of the delegation policy set out in the board charter.
- approving, on recommendation of the remuneration and nomination committee, succession plans in respect of key positions within the company; and
- providing leadership and vision in a way that will enhance value and ensure the long-term organisational health of the company.

The board charter will be reviewed annually to ensure its continued compliance with local and international best practice and changes in the South African regulatory environment.



Composition

Blue Label Telecoms is headed by a unitary and effective board that leads and controls the company. The board comprises 13 directors: four executive directors and nine non-executive directors, four of whom are independent. The balance between executive, non-executive and independent non-executive directors in the board composition allows for appropriate and efficient decision-making, ensures that no one individual has undue influence and that the interests of all shareholders are protected.

Following Microsoft's acquisition of a 12% equity stake in the group, and in accordance with the agreement entered into with Microsoft at that date, Mr Peter Mansour was nominated by Microsoft for appointment to the board of Blue Label Telecoms as its representative. Mr Mansour was appointed as a non-executive director with effect from 22 May 2008.

Brief curriculum vitae's of each director are included in this report on pages 19 to 21.

Chairman and chief executive officers

In line with best practice, the roles of chairman and chief executive officers are separate. The board is led by Mr Larry Nestadt, an independent non-executive director.

The chairman presides over meetings of the board ensuring the integrity and effectiveness of the board governance process. The chairman fulfils this role by acting as facilitator at meetings ensuring that no director, whether executive or non-executive, dominates the discussion, that relevant discussion takes place, that the opinions of all directors relevant to the subject under discussion are solicited and freely expressed and that board discussions lead to appropriate decisions.

Operational management of the group is the responsibility of the joint chief executive officers, Brett Levy and Mark Levy. The position of joint chief executive officers is endorsed by the board, given the achievements and entrepreneurial history of the two individuals, the size of the Blue Label Telecoms group and the distinctly different portfolios of the two chief executive officers.

The chief executive officers are jointly responsible for developing and recommending to the board a long-term strategy and vision for the company that will

generate satisfactory stakeholder value. They are also responsible for developing and recommending to the board annual business plans and budgets that support the company's long-term strategy. The responsibilities of Brett Levy include, amongst others, managing the affairs of the Telecommunications Distribution segment of the South African operations. Mark Levy is responsible for, amongst others, managing the Technology Platforms and Other Related Services segments of the South African operations as well as the operations of the International Telecommunications segment and the group's global marketing strategies.

The performance of the joint chief executive officers will be appraised at least annually. The criteria necessary to measure the performance of the chief executive officers will be determined by the remuneration and nomination committee of the board and the results of the appraisal will be communicated to the board.

Effectiveness of the board

The board has defined its own functions and has started establishing its governance structures during the period. An evaluation of the effectiveness of the board and its committees will be conducted during the forthcoming financial year.

Directors

The board, in determining its optimum composition, shall seek to ensure that it collectively contains the skills, experience, diversity in demographics and mix of personalities appropriate to the strategic direction of the company and necessary to secure its sound performance. The entire board selects and appoints directors based on the recommendation of the remuneration and nomination committee. All appointments are in terms of a formal and transparent process.

Executive directors are bound by a three-year employment contract which commenced in November 2007. The contracts may be renewed on expiration thereof.

The non-executive directors have no fixed term of appointment and no service contracts with the group. Their fees are independent of the group's financial performance and they receive no bonuses and will not be eligible to participate in the company's Forfeitable Share Plan, salient details of which are discussed on pages 139 to 142.



corporate governance (continued)

Directors are subject to retirement by rotation and re-election by shareholders at least once every three years under article 15 of the articles of association. At the company's first annual general meeting to be held on 12 November 2008, all directors, having been newly appointed, are required to retire by rotation (refer to section 2 on page 138). The directors have offered themselves for re-election by shareholders.

To avoid conflicts of interest, board members must disclose their interests in material contracts involving the group, their shareholdings in Blue Label Telecoms as well as any other directorships. Board members are required to recuse themselves when participation in deliberations or decision-making processes that could in any way be affected by vested interests.

Board meetings

A minimum of four board meetings are scheduled per financial year. Additional board meetings may be convened when necessary. The table below depicts the attendance by each director at board meetings during the six months ended 31 May 2008:

Attendance at board meetings

Director	Dec 2007	Feb 2008	May 2008
LM Nestadt (Chairman)	✓	✓	✓
BM Levy	✓	✓	x
MS Levy	✓	✓	✓
S Ellerine	✓	✓	✓
GD Harlow	✓	✓	✓
RJ Huntley	✓	✓	✓
NN Lazarus SC	✓	✓	✓
P Mansour	¹	¹	x
JS Mthimunye	✓	✓	✓
MV Pamensky	✓	✓	✓
DB Rivkind	✓	✓	✓
HC Theledi	x	✓	✓
LM Tyalimpi	✓	✓	x

x Apology for non-attendance submitted

¹Appointed to the board on 22 May 2008

Board committees

The board has established various committees to assist them in discharging their duties and responsibilities. However, the board remains the focal point of the corporate governance system and is ultimately accountable and responsible for the performance and affairs of the company. The responsibilities delegated to each board committee are formally documented in board-approved terms of reference, which will be reviewed annually and updated as appropriate. It is intended that the effectiveness of the committees will be reviewed annually by the board, based on a self-evaluation exercise of the degree to which they have fulfilled their terms of reference.

The following committees are in place:

Audit and risk management committee

Members: JS Mthimunye [Chairman], GD Harlow, LM Tyalimpi

Other individuals such as the chief financial officer, audit partner and head of internal audit are invited to attend meetings and have unrestricted access to the chairman or any other member of the committee as is required in relation to any matter falling within the ambit of the committee.

Mandate: To assist the board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems and internal controls and the preparation of accurate financial reporting in compliance with all applicable legal requirements and accounting standards. The committee furthermore sets out the nature, role, responsibility and authority of the risk management function within the group and outlines the scope of risk management work.

The committee is also mandated to evaluate the performance of the external auditors as well as their independence and effectiveness and to consider any non-audit services rendered by such auditors and its impact on their independence. Prohibited non-audit related services include:

- performing any internal audit or internal audit outsourcing services to the group; and



- performing any valuations on any business assets of the group for which the external auditors will be required to subsequently issue an audit opinion.

Non-audit related services which the external auditors are permitted to render to Blue Label Telecoms include:

- tax compliance services;
- assurance-related work, but excluding implementation consulting work which results in an impairment of the external auditors' independence; and
- opinion work not relating to or associated with any of the prohibited services referred to above.

Services rendered by the external auditors during the financial year and pre-approved by the audit committee, comprised mainly compliance and other assurance-based engagements, including opinion work not relating to, or associated with any of the prohibited services referred to above.

Attendance

Members (and invitees)	Feb 2008	May 2008
JS Mthimunye (Chairman)	✓	✓
GD Harlow	✓	✓
LM Tyalimpi	✓	x
DB Rivkind	✓ ¹	✓ ¹
DA Suntup (CFO of TPC)	✓ ¹	✓ ¹

x Apology for non-attendance submitted

¹Attends by invitation and is not a member of the committee

Remuneration and nomination committee

Members: NN Lazarus SC [Chairman], GD Harlow, RJ Huntley, S Ellerine

The joint chief executive officers, chief financial officer, head of human resources and external advisors may be invited to attend all or part of any meeting as and when appropriate. The chairman, at his discretion, may invite other executives or employees to attend and to be heard at meetings of the committee.

Mandate: To assist the board in fulfilling its responsibilities in respect of maintaining an

appropriate remuneration strategy, ensuring the directors and senior executives are fairly rewarded, providing for succession planning, assessing the effectiveness of the composition of the board and evaluating the board and individual director's performance.

Attendance

Members (and invitees)	May 2008
NN Lazarus SC (Chairman)	✓
GD Harlow	✓
RJ Huntley	✓
S Ellerine	✓
DB Rivkind	✓ ¹

¹Attends by invitation and is not a member of the committee

Investment committee

Members: GD Harlow [Chairman], NN Lazarus SC, HC Theledi, JS Mthimunye, S Ellerine, D Hilewitz, BM Levy, MS Levy, MV Pamensky, DB Rivkind, DA Suntup

Mandate: To review, consider and approve proposed acquisitions and investments of Blue Label Telecoms and its subsidiaries in accordance with the limits of authority as defined by the board.

Attendance

Members	2008				
	Jan	Feb	Mar	April	May
GD Harlow (Chairman)	✓	✓	✓	✓	✓
NN Lazarus SC	x	✓	✓	✓	✓
HC Theledi	✓	✓	x	✓	✓
JS Mthimunye	¹	¹	✓	x	✓
S Ellerine	¹	¹	✓	✓	✓
D Hilewitz	²	²	²	✓	✓
BM Levy	✓	✓	✓	✓	✓
MS Levy	✓	x	✓	✓	✓
MV Pamensky	✓	x	✓	✓	✓
DB Rivkind	✓	x	✓	x	x
DA Suntup	✓	✓	✓	✓	x

x Apology for non-attendance submitted

¹Appointed to the investment committee on 18 February 2008

²Appointed to the investment committee on 12 March 2008

corporate governance (continued)

Transformation committee

Members: RJ Huntley (Chairman), S Ellerine, LM Tyalimpi, BM Levy, DB Rivkind (alternate to BM Levy)

Mandate: To develop framework policies and guidelines for the management of transformation issues including affirmative procurement, enterprise development, employment equity, human resource development, social development matters and ensuring the progressive implementation of the same throughout Blue Label Telecoms and its subsidiaries.

Members (and invitees)	March 2008	April 2008
RJ Huntley (Chairman)	✓	✓
S Ellerine	✓	✓
LM Tyalimpi	x	x
I Hindley (Human resource manager)	✓	✓

*x*Apology for non-attendance submitted

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

Corporate governance committee

The committee was constituted as an ad hoc committee mandated to investigate specific matters referred to it by the board. The committee will be constituted by members of the board as appropriate based on the specific matter to be investigated. During the financial year the committee met under the chairmanship of Mr LM Nestadt to consider the share dealings in Blue Label Telecoms by three directors of TPC and their spouses and the contravention of the JSE Limited Listings Requirements.

Company secretary

The group company secretary acts as an adviser to the board and plays a pivotal role in ensuring compliance with procedures and applicable statutes and regulations. The activities in which the group company secretary engages includes, inter alia:

- induction of new or inexperienced directors;
- assisting the chairman and joint chief executive officers in determining the annual board plan;
- assisting with other strategic issues of an administrative nature;
- facilitating full and timely access by directors to all information such as corporate announcements, investor communications and other developments which may affect the group;
- guiding the board and individual directors in the proper discharge of their responsibilities; and

- acting as a central source of guidance on matters of ethics and governance.

All directors of Blue Label Telecoms may liaise with the group company secretary on agenda items for board meetings. Where appropriate, the directors may also consult with independent professionals and advisers, at the expense of Blue Label Telecoms.

The group company secretary is furthermore responsible for the functions specified in section 268(G) of the Companies Act No 61 of 1973, as amended [the Act]. All meetings of shareholders, directors, and board sub-committees are properly recorded as per the requirements of section 242 of the Act. The removal of the group company secretary is a matter for the board as a whole.

Risk management and internal control

Risk management and internal audit are integral parts of the governance framework. The board has accepted the responsibility for the system of internal control and the total process of risk management and in this regard established an audit and risk management committee to assist the board in discharging its duties and responsibilities. The board agreed to outsource the internal audit function to KPMG Services (Proprietary) Limited (KPMG), who were appointed post year-end.

KPMG in providing the outsourced internal audit function will be responsible for:

- assisting management in evaluating the effectiveness of their processes for identifying, assessing and management of the key operational, financial and compliance risks of the group;
- assisting management in evaluating the effectiveness of internal control systems, including compliance with internal policies;
- recommending improvement in efficiency to the internal control systems established by management; and
- keeping abreast of new developments affecting the activities of the group and matters affecting internal audit work.

In assisting the board with its responsibility for the process of risk management, the audit and risk management committee will be responsible for, *inter alia*:

- monitoring and supervising the effective functioning of the internal audit;
- ensuring that the roles and functions of internal audit are sufficiently clarified and co-ordinated with external audit to provide an objective overview of the effectiveness of the company's internal control;



- reviewing and assessing the integrity of the risk control systems and the risk identification and measurement methodologies; and
- ensuring that the risk policies and strategies of the company are effectively managed.

Code of ethics

The board is developing a formal code of ethics that demonstrates the company's commitment to organisational integrity and will underwrite the group's standards of ethical behaviour. This is an important component of the business of Blue Label Telecoms which requires a top-down approach with examples to be set by the board and individual directors to ensure acceptance by all involved in the affairs of the company. The code of ethics will furthermore confirm the board and management's approach of zero tolerance, not only to fraud and dishonest behaviour, but also to criminal behaviour in general. Strong action will be taken against any employee found guilty of offences of this nature.

JSE Limited Listings Requirements and share dealings

The board as well as directors of the group's major subsidiary, TPC, were addressed by the company's sponsor on the Listings Requirements of the JSE Limited (JSE) to ensure a full understanding and appreciation of these requirements.

Subsequent to Blue Label Telecoms' listing on the JSE, the board implemented an Insider Trading and Dealings in Securities Policy. The purpose of the policy is to govern the dealing in Blue Label Telecoms securities and insider trading by directors and employees of the group. The policy defines the group's closed periods in terms of its year-end, details the information required to be disclosed in the event of a share trade and the procedure for obtaining clearance prior to dealing in Blue Label Telecoms shares.

A register of share dealings by directors is maintained by the company secretary and reviewed by the board on a quarterly basis.

During March and April 2008 the JSE carried out an investigation into dealings in Blue Label Telecoms shares by three directors of TPC and their spouses. An internal investigation was also conducted by the corporate governance committee comprising non-executive directors, appointed by the board, under the chairmanship of Mr LM Nestadt.

The JSE investigation concluded that Rules 3.65, 3.66, 3.71(a) and 3.72 of the JSE Listings Requirements had been contravened. The JSE privately censured two of the directors and publicly censured and fined the third director R100 000 (of which R60 000 had been conditionally suspended for 12 months). The trades occurred in an open period, and there was no suggestion of insider trading.

The internal investigation by the corporate governance committee concluded that the three directors be reprimanded by the board of Blue Label Telecoms as their conduct caused damage and embarrassment to the company and its stakeholders. The investigation furthermore concluded that the conduct of the individuals did not justify their dismissal or the termination of their directorships, nor would it have been in the best interest of Blue Label Telecoms and its stakeholders for their employment or directorships to be terminated. The directors concerned were duly reprimanded by the board.

Additional measures were put in place to ensure that directors are aware of and understand their responsibilities under the Listings Requirements.

Stakeholder communication

In all communications with stakeholders, the board aims to present relevant and timeous information that provides a balanced and understandable assessment of the position of Blue Label Telecoms and its group companies. This is done through adhering to principles of openness and substance over form and striving to address material matters of significant interest and concern to all stakeholders. The board encourages shareholder attendance at the company's first annual general meeting and other future meetings.

Communication with institutional shareowners and investment analysts is maintained through periodic presentations of financial results, one-on-one visits, and press announcements of interim and final results, as well as the proactive dissemination of any messages considered relevant to investors.

