

joint chief executive officers' report



The group's core growth strategy is to gain integrated access to national distribution footprints

Mark and Brett Levy - Joint CEOs



## joint chief executive officers' report (continued)

We are pleased to be reporting on Blue Label Telecoms' maiden financial year as a listed company. The group listed on the Main Board of the JSE Limited on 14 November 2007 and raised sufficient capital to settle the majority of its operational and shareholder debt and to provide the group with funds to implement its local and international growth initiatives.

It is appropriate to briefly outline the group's structure, its core growth strategies and medium-term objectives in order to contextualise these growth initiatives.

The group was restructured prior to its listing in order to consolidate both the financial and strategic objectives of its subsidiaries. The majority of those subsidiaries had significant minority shareholders who comprised the subsidiaries' founding entrepreneurs, management and employees. At listing, these minority shareholders converted their equity into the group's listed equity. All key management and vending entrepreneurs have service contracts, restraint of trade and share lock up agreements which bind them to the group.

Additional restructuring involved the creation of four focused segments which house the group's subsidiaries and associates in accordance with common business objectives.

The group's four business segments are categorised as follows:

- **Telecommunications Distribution:** This segment houses all group companies involved in the distribution of prepaid secure electronic tokens of value (e-tokens) within South Africa.
- **International Telecommunications Distribution:** This segment houses all group companies involved in the distribution of prepaid secure e-tokens within international emerging and developing markets.
- **Technology Platforms:** This segment houses all group companies aligned to the group's IT systems and infrastructure.
- **Other Related Services:** This segment houses all group companies broadly aligned to the South African information and communication technologies (ICT) industry.

The group's restructure also entailed each subsidiary company realigning its go-to-market strategy to accord with the strategic goals of its respective business segment. During the current review period each segment's strategic goals have been further aligned to the group's overall strategic direction in order to promote effective inter- and intra-segmental collaboration. Further detail on each segment's strategy is provided in Segmental Reviews.

### Footprint growth

The group's core growth strategy is to gain integrated access to the national distribution footprints of leading wholesalers and retailers in order to supply a broad range of secure e-tokens and transactional products and services to consumers.

Due to the diverse nature of the group's local and international customer base, these distribution footprints often contain numerous types of touch points (or points of presence) and include point of sale (POS) devices, terminals, vending machines, integrated till points, mobile handsets, web-based solutions and bulk printing solutions. The group's in-house technology platform has developed proprietary software and technology solutions that allow the group to seamlessly and "virtually" distribute its proprietary and third-party product and service offerings across this footprint.

In order to maximise the distribution margin it earns on the sale of e-tokens, the group also actively rolls out proprietary distribution footprints in certain sectors of the South African consumer market.

### Distributing more products and services

It is the group's experience that traditionally un-banked, badly banked and cost-conscious consumers within the middle to lower economic tiers of the developing world's economic pyramid would prefer to transact with first world prepaid products and services if they can do so using a mode of payment which is familiar and convenient to them, namely cash.

To better leverage our existing infrastructure the group is both designing and trialling its own proprietary cash-based prepaid products and services.



# The group will continue to make investments in new products, technologies and markets, whilst continuing to drive organic growth in its existing businesses

These proprietary offerings, which the group will “own” from source through delivery to final transaction, include convenience, lifestyle and financial service solutions that are due to be piloted, trialled and distributed across the group’s footprint within the next 12-month period.

In addition, the group is pro-actively approaching third-party suppliers of products that match or can be converted to a prepaid methodology to establish distribution agreements. Being able to offer numerous types of third-party products across our footprint will provide added revenue streams to retailers as well as enhanced distribution reach to our third-party suppliers whilst benefiting the group’s top and bottom line growth.

## Microsoft

The group’s unique ability to reach and transact with consumers in a cash-based environment remains its key differentiator and an important component of the ten year strategic collaboration agreement with Microsoft, signed in November 2007. As strategic partners, the group and Microsoft are actively engaging in exploring new business opportunities and preferred partnerships both in South Africa and other developing economies.

In these markets, innovative products and services are expected to be delivered directly to consumers through transaction-centered interactions, transforming the retail POS and mobile handset, into the primary customer touch points. The aim of our strategic relationship with Microsoft is to develop technologies that allow a more intelligent interaction with these customers, and the delivery of targeted advertising.

Over the past months, the group and Microsoft have introduced key initiatives to ensure software and system alignment, enabling the group to begin to fully integrate into Microsoft Windows Live, a key Microsoft back-end. This is integral to the group and Microsoft’s recently launched direct-to-consumer mobile eco-system known as mibli®, a successful integration of the group’s back and front-end capabilities coupled to key Microsoft products and technologies. Salient details of the group and Microsoft’s direct-to-consumer strategy are provided in Segmental Review: Technology Platforms.

The group will shortly be launching other products and services, including innovative retail POS solutions and services, new transactional and financial products as well as customer-relevant advertising and loyalty schemes.

## joint chief executive officers' report (continued)

### Medium term objectives

The cumulative effect of enhancing the group's critical mass – by growing its footprint and increasing its ability to create end-to-end product and service offerings – has resulted in the group setting itself the following medium-term strategic objectives:

- To enhance consumer loyalty via a direct-to-consumer strategy;
- To “own” a significant proportion of its global footprint; and
- To increase the volume of products and services it currently distributes.

As a significant global distributor of prepaid e-tokens, the group has gained access to a global footprint that currently numbers in excess of 500 000 touch points (120 000 in South Africa) across 35 countries.

Combined with its proprietary e-token distribution, issuing and redemption platforms – which facilitate the rapid, low-cost, seamless and virtual integration of numerous product and services into this footprint – we are confident that over the medium term the group's combined value proposition, will see it transform into a global player in the distribution of transactional products and services.

### Financial highlights

We are proud of the group's excellent financial performance for the year ended 31 May 2008 and would like to highlight the following financial measures for the current review period:

- Pro forma revenue increased by 16,4% to R12,93 billion when compared to the R11,1 billion forecast in the PLS
- Pro forma core net profit increased by 9,0% to R371 million when compared to the R340 million forecast in the PLS
- Pro forma core basic earnings per share increased by 5,7% to 48,40 cents when compared to the 45,81 cents forecast in the PLS

The Chief Financial Officer's Report details the group's restructuring and listing, providing insight into how these corporate actions impacted on the group's financial reporting and overall financial performance.

### Operating environment

Group companies within the Telecommunications Distribution and International Telecommunications Distribution segments contributed 98% of the group's revenue and generated 125% of the group's profit.

The group does not foresee any material change in its operating environment and anticipates that these two segments will continue to be the group's main revenue and profit drivers for the forthcoming financial year.

Despite an anticipated global slow down, this segment continues to experience growing demand for prepaid airtime.

### Strategic acquisitions and investments

During the year management has evaluated a number of acquisition and investment targets and since listing has spent R290 million on opportunities, including increasing its overall stake in current businesses, which are expected to add significant strategic and financial value to the group over the next financial year. Acquisitions material to the group include:

#### Ventury (additional 10%)

- The group acquired the balance of Ventury's minority shareholders.

#### Crown Cellular (100%)

- The group acquired Crown Cellular, a significant re-seller of airtime and starter packs in order to boost its presence in previously under-represented wholesale and retail environments.

#### Content Connect Africa (100%)

- The group acquired Content Connect Africa, which is an aggregator of localised content to mobile operators and third-party clients throughout Africa and provides the group with direct access to aggregated content offerings for its direct-to-consumer strategies.



#### CNS call centre (80%)

- The group acquired a majority stake in CNS, a Bloemfontein-based outbound call centre, specialising in non-affinity databases and selling an average of 10 000 policies per month.

### Strategic post year-end events

#### Oxigen Services India (additional 3,85%)

- The group increased its stake in Oxigen Services India by 3,85%, making it an equal shareholder with Microsoft at 38,85%. It is not anticipated that Oxigen Services India will be profitable by the group's next financial year-end because of the ongoing investment in the rollout of touch points in India, in accordance with its stated strategy.

#### Content Connect Australia (50,25%)

- The business model of Content Connect Africa has been expanded into Australia through the establishment of Content Connect Australia.

#### Ukash (17,25%)

- The group acquired an equity stake in the developer of proprietary and patented prepaid voucher technology which provides the group with access to a footprint in Western Europe and its innovative technology which allows for online redemption capabilities of multiple products and services through a single prepaid voucher.

#### Blue Label Mexico (50%)

- The group jointly established, with Nadhari S.A. de C.V., a Mexican company with strategic and operational emerging market product and service development expertise. Blue Label Mexico will pursue opportunities complementary to the group's current areas of business and is an important step in the group's goal of creating a transaction-based distribution network in the emerging markets of Latin America, some of the world's largest remittance corridors.

### Prospects

The group is financially sound, exhibiting strong liquidity, operating and profitability ratios. We are pleased with the group's maiden results and intend to continue to maintain our entrepreneurial spirit, and the focus on improving the group's performance, both operationally and strategically, in order to provide our shareholders an acceptable return on their investment.

The group continues to experience significant interest in its combined value proposition from local and multinational companies, including retailers and mobile network operators, and intends to further build upon its solid foundation in order to grow its global footprint and suite of e-tokens.

In order to capture the market opportunities presented by significant consumer demand for cash-based prepaid products, the group will continue to make investments in new products, technologies and markets, whilst continuing to drive organic growth in its existing businesses into 2009.

### Appreciation

We value the ongoing support of our dedicated employees who strive to make Blue Label Telecoms a successful and prosperous group and look forward to them shortly becoming shareholders via the group's employee share ownership plan.

In conclusion, we are grateful to our management team and to the board for its guidance and support.



**Mark Levy and Brett Levy**

Joint chief executive officers