

## Commentary

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### INTRODUCTION

The directors of Blue Label Telecoms Limited (BLT) are proud to present the maiden reviewed interim results for the six months ended 30 November 2007. The results have exceeded expectations resulting in excellent growth and are above the financial forecasts for the period under review.

On 14 November 2007, two weeks before the half year end, BLT successfully debuted in the telecommunications sector on the Main Board of the JSE Limited, which took place subsequent to its corporate restructure.

### NATURE OF BUSINESS

BLT is a leading distributor of prepaid secure electronic tokens of value and transactional services within emerging markets and has in excess of 150 000 global mobile and physical points of presence covering South Africa, India, Mozambique and the Democratic Republic of Congo.

### BASIS OF PREPARATION

The condensed interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 Interim Financial Reporting. The accounting policies and methods of computation are consistent with those used in the comparative financial information for the six months ended 30 November 2006, (which were prepared in accordance with International Financial Reporting Standards (IFRS) and the South African Companies Act).

As a result of the Group's restructuring, its comparatives have been restated using predecessor accounting principles, a complex accounting treatment. The accounting principles applied result in extensive restatement of comparatives. Shareholders are therefore advised to exercise caution and should read the interim results as reported, in conjunction with BLT's pre-listing statement, when attempting to make year on year comparisons.

### FINANCIAL REVIEW

#### Overview

The Group's reported results for the six month period ended 30 November 2007 show actual Group revenue of R5.8 billion, EBITDA of R110.4 million, profit from core operations of R85 million and a net profit of R40.7 million (R14.4 million of which is attributable to equity holders).

The Group incurred once off expenses, net of tax, of R65.8 million relating to the management bonus settlement and the termination of a commission agreement, as expounded upon in the pre-listing statement. In addition, amortisation of intangible assets of R6.9 million arose as a consequence of the purchase price allocations calculated in terms of IFRS 3: Business Combinations.

The BLT Board believe that core earnings is a more appropriate measure of Group operating performance since it adjusts for non-recurring and non-operational items. Headline earnings per share for the half year were 3.79 cents and core headline earnings per share were 20.55 cents.

The *pro forma* results have been prepared to show the impact of the restructuring and listing on the BLT actual results for the half year ended 30 November 2007. It is important to note that these results assume that the listing, restructuring and minority acquisitions took place on 1 June 2007. As a result, most associates are now consolidated as subsidiaries for the full six months. Similarly most subsidiaries are consolidated as wholly owned for the full six months. The *pro forma* results assume cash raised on listing was received on 1 June 2007, impacting positively on finance income and similarly finance expenses.

#### Income statement

The net profit before tax and interest is after the deduction of the non-recurring management bonus settlement of R80 million, and the cancellation of the commission contract of R9 million both mentioned above.

Net interest paid of R17 million originally budgeted for did not materialise due to predecessor accounting principles. In terms of these principles the shareholders' loans and non-core receivables assets are assumed to be settled on 1 June 2006.

The Group's overall effective tax rate for the period is 37%. This is as a result of certain non-deductible expenses.

#### Dividends

One of the subsidiary companies declared a dividend, of which R1 million has accrued to the minority shareholder (49.9%).

As per the Group's dividend policy, disclosed in its pre-listing statement, BLT will only consider paying a dividend from the financial year commencing 1 June 2010.

## **Balance sheet**

The Group's successful listing resulted in the raising of cash totalling R1.3 billion. Of this R570 million was utilised to repay the majority of the Group's borrowings and R184 million was paid for the acquisition of minority interests in key subsidiaries.

The Group has a strong balance sheet which is attributable to good trading results, proactive attention to working capital management and significant cash balances. R450 million of this cash relates to the net funds remaining from the listing proceeds, which funds have been earmarked for future strategic acquisitions.

The restructuring reserve arose as a result of the restatement of 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.

As a result of the restructuring, additional intangible assets amounting to R120.8 million have been recognised. The useful life of the majority of these assets is five years and consequently will be amortised accordingly.

## **Change in accounting policy**

BLT has changed its accounting policy with regard to accounting for transactions with minorities. This differs to the Group's disclosure in its pre-listing statement. BLT 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). Under this policy, goodwill arising on transactions with minorities is recognised against reserves on the balance sheet, as minority shareholders are treated as equity participants. The remaining goodwill on the balance sheet relates to acquisitions of subsidiaries where the Group was not transacting with minorities.

## **STRATEGIC RELATIONSHIP WITH MICROSOFT AND ADDITIONAL INVESTMENT IN OXIGEN INDIA**

On 7 November 2007, BLT and the Microsoft Corporation signed a strategic collaboration agreement to provide each other with mutual assistance in exploring new business opportunities and preferred partnership initiatives across the world's emerging markets. Both BLT and Microsoft are pleased with the significant momentum and progress made to date and are optimistic about extending their relationship going forward to jointly bring technology and value to emerging markets globally. BLT is focused on becoming Microsoft's global touch point and secure electronic tokens partner.

BLT currently holds 35% of the equity in Oxigen Services India (OSI). On 29 December 2007 it concluded a share sale and subscription agreement, to increase its stake in OSI to 38.85%, subject to Reserve Bank approval, which is still pending.

This was pursuant to an agreement entered into between BLT, Microsoft Corporation and the existing operational partners in terms of which Microsoft simultaneously took up a 38.85% stake in OSI on a sale and subscription basis.

OSI is currently incurring losses as it continues to develop its infrastructure, asset base and points of presence across India. The Group's share of the loss for the period under review was R6.5 million.

Microsoft has signed a collaboration agreement with OSI which shall enable the business to increase its product and technology offerings and pursue additional advertising revenue opportunities.

## **PROSPECTS**

The directors of BLT are pleased with the Group's half year performance, which exceeded management expectations and internal budgets.

BLT plans to focus on growing its mobile offering and further enhancing its bouquet of proprietary and third party value added products and services. These initiatives are expected to enhance BLT's annuity based income stream in the medium term, compounding over the longer term.

BLT will focus on organically enhancing the growth of its global secure electronic token and transactional services footprint and will concentrate on looking for strategic and complementary acquisition opportunities.

BLT's strategic partnership with Microsoft positions it well to become Microsoft Corporation's preferred emerging market touch point, secure electronic token and mobile partner.

## **CORPORATE GOVERNANCE**

The directors and senior management of BLT endorse the Code of Corporate Practices and Conduct as set out in the King II Report on Corporate Governance. To date, the directors of BLT have formed Remuneration and Nomination, Investment, Audit and Risk Management and Transformation Committees of the Board.

## **REVIEW OPINION**

The results for the period ended 30 November 2007 have been reviewed by the Company's auditors, PricewaterhouseCoopers Incorporated, and the unqualified review report is available for inspection at the Company's registered office.

## **APPRECIATION**

The Board of BLT would like to thank BLT's staff for their commitment and hard work over the period under review, which included the significant effort required to list BLT on the Main Board of the JSE Limited. The Board would also like to thank BLT's many suppliers, customers, business partners, advisors and shareholders for their ongoing support.

By order of the Board

### **LM Nestadt**

*Chairman*

### **BM Levy and MS Levy**

*Joint Chief Executive Officers*

### **DB Rivkind**

*Chief Financial Officer*

### **Directors:**

LM Nestadt (Chairman)\* BM Levy MS Levy S Ellerine\* GD Harlow\* RJ Huntley\* NN Lazarus\* JS Mthimunya\* MV Pamensky DB Rivkind HC Theledi\* LM Tyalimpi\* (\*Non-Executive)

**Company Secretary:** E Viljoen

### **Blue Label Telecoms Limited**

(Incorporated in the Republic of South Africa)

(Registration number 2006/022679/06)

JSE Share code: BLU ISIN: ZAE000109088

("BLT" or "the Company")

The Prepaid Company Ventury Group Matragon Kwikpay Virtual Voucher  
Gold Label Oxigen Services India Africa Prepaid Services SharedPhone  
International Activi Technology Services Blue Label One Datacel CellFind  
e-Voucha