BLUE LABEL TELECOMS

CONTINUING THE JOURNEY

Integrated Annual Report **2011**

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Approach to sustainable development

Blue Label's primary focus is on delivering goods and services to unbanked and underbanked persons in communities which have previously been ignored or underserviced. The company recognises that the well-being of these communities has an impact on the sustainability of the company, and therefore attempts to manage its business practices in a manner which positively impacts their economic, social and environmental lives.

The group's business model is sustained by extending its existing global footprint of touch points, both organically and acquisitively. The group continues to fulfil the significant demand for the delivery of prepaid products and services through multiple distribution bases utilising its proprietary AEON platform. Key to the sustainability, is the focus placed on governance, social, financial and environmental imperatives. Blue Label Telecoms is proud of its inclusion in the 2010 JSE's Socially Responsible Investment ("SRI") Index. The company has participated in the 2011 SRI Index review, the outcome of which is expected in due course.

The gap analysis of Blue Label's current sustainable development practices, taking into account the Global Reporting Initiative G3 Reporting Guidelines and the King III recommendations, was completed during the financial year under review. The findings provided a high level roadmap to assist in formulating and implementing a sustainable development strategy.

Blue Label has taken the principles of AA1000APS (2008), being inclusivity, materiality and responsiveness, into account in preparing this Integrated Annual Report.

While 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 page 66).

In order to determine what is material to Blue Label – both from a risk and opportunities perspective – the company has a formalised group-wide "top down" and "bottom up" risk

management process that involves operational, financial and strategic aspects. Although greater focus is needed in terms of our sustainability matters, we believe that we are currently addressing the most material issues (refer to the material impacts and risks on page 60).

Blue Label continues to develop its sustainable development policies and processes including stakeholder management to ensure our reporting matures and become more measurable and geographically inclusive over time.

Report scope and reporting standards

This integrated annual report contains a sustainability section, which should be read in conjunction with the integrated information throughout the report. This includes information on the group profile and global footprint, governance and risk management approaches, as well as the economic, social and environmental performance for the financial year ended 31 May 2011.

This document is aligned with the GRI guidelines on sustainability reporting, 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.

This report covers information on the activities and initiatives of the South African operations of the group. There have been no restatements of sustainability information when compared to the 2010 annual report.

Corporate profile

Blue Label Telecoms enables unbanked and underbanked consumers in emerging and developing markets to access first-world products and services, conveniently and cost effectively.

The vast majority of the world's emerging market population are either unbanked or underbanked, yet a large number of products and services are only available to people with bank accounts, credit cards or debit cards. Even though consumers may be unbanked or underbanked, they have access to cash and are increasingly demanding equal access to first-world products and services. The key to enabling access to these products and services to the unbanked or underbanked is to make them available on a prepaid or pay-as-you-go basis. This method of distribution is growing rapidly in emerging and developing economies and is the cornerstone of Blue Label's business.

In 2001, when Blue Label commenced operations, "prepaid" was synonymous with airtime. The group recognised the opportunity to grow the prepaid product and service concept from airtime to other offerings, including but not limited to electricity, ticketing, insurance as well as other transactional services.

The group develops proprietary technology to support the rollout of its bouquet of products and services. The Blue Label network was built around the premise that any product or service that can be digitised, can be distributed and paid for through its footprint.

Blue Label has established a distribution network for processing transactions through various points-of-presence including individual merchants, single entity retail outlets, national chain stores and petroleum forecourts in South Africa and beyond.

Blue Label aims to extend its global footprint of touch points, both organically and acquisitively, by continuing to fulfil the significant demand for the delivery of a multiplicity of prepaid products and services through multiple distribution bases utilising its various proprietary delivery mechanisms.

Blue Label Telecoms is:

> **The owner of scalable and transferable proprietary technology**
> **An unaffiliated distributor of products and services in an open loop**
  – **Hardware agnostic**
  – **Product and services agnostic**
> **A payment facilitator**
> **A virtual mall prevents overstocking, pilferage and has no perishables**
> So long as you are able to pay, you are able to purchase: all payment options, including cash, debit card, credit card and EFT can be accommodated

For more information visit our website: **www.bluelabeltelecoms.com**

Blue Label is a South African-based lifestyle enabler. We provide consumers with additional choice of how to pay for goods and services – prepay or as it is sometimes described, pay-as-you-go. This enables unbanked or underbanked consumers to access goods and services by prepaying for them. Our growing distribution network in South Africa covers over 140 000 points of sale from major retail stores to registered individuals and we continue to expand our footprint across the emerging markets of India and Mexico.

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

Enduring relationships

- Partnering with key stakeholders to ensure sustainability
- Skills retention through self-empowerment, incentivisation and creating a sense of ownership

Entrepreneurship

- Identifying new opportunities and converting them to profit centres
- Encouraging entrepreneurial thinking and rewarding innovation
- Encouraging a culture where excellence as opposed to position triumphs

Innovation

- Encouraging lateral thinking to achieve proprietary technology and commercialisation
- Not allowing comfort zones to hamper progress
- Not resting on laurels

Integrity

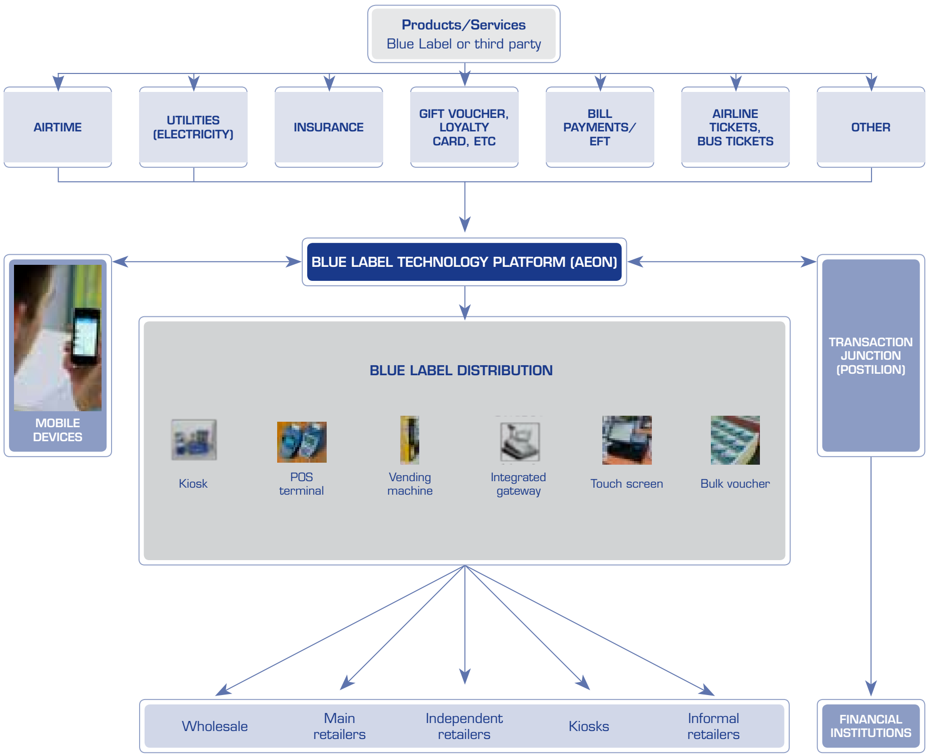
- Ethical business practices
- Sound governance
- Strict compliance with legal and regulatory obligations
- Respect for the interest of all stakeholders, including shareholders, customers, suppliers and employees
- Making a contribution to the betterment of society as a responsible corporate citizen, including commitment to transformation and socio-economic and environmental imperatives

Highlights, technical overview and strategy

Salient features for year ended 31 May 2011

- Revenue up **13% to R18 billion**
- South African Distribution revenue up **15%**
- Stand-out performance from **prepaid electricity up 79%**
- Rationalisation of operations in South Africa under Blue Label Distribution
- International strategy refocused:
  - Commitment to sell assets and liabilities in **Nigeria**,
  - Strategic partnership announced in **Mexico**, and
  - Shareholding increased in **India**, post year end
- Dividend of **14 cents per share** declared up 17%

A technical overview



Strategy to creating value

Opportunity

- Prepaid provides certainty
- Prepaid is an alternative payment method
- Airtime builds the highway
- Growing demand in SA:
  electricity, money transfers, data delivery
- Robust cash flows fund growth
- India and Mexico

Delivery

- Robust, scalable and proprietary technology
- Ensure right skills and talent
- Minimum capital expenditure
- Minimum cost to delivery
- Sustainable
- Unleveraged balance sheet
- Build network distribution and introduce products
- Grow product-lines and consumer-base

Value added

- Points of Presence: over 140 000 in South Africa
- Organic growth
- Mergers and acquisitions
- Dividend yielding
- Large, fast-growing markets with low penetration

Ethical business conduct supports our values

BLOW THE WHISTLE ON FRAUD, CORRUPTION AND UNETHICAL BEHAVIOUR!

Blue Label Telecoms have decided to introduce an independent hotline facility where employees can report any form of unethical practice, including sexual harassment and racial discrimination, in an anonymous and secure manner.

This hotline is run by the KPMG call centre that is completely confidential and anonymous. The number is 0800 22 10 20 and is toll free.

The call centre is manned on a 24-hour basis and calls are free. Employees who are afraid to be overheard using telephones in the office, can call from home after hours.

To contact KPMG Ethics Line, please follow the steps as set out below:

To contact KPMG Ethics Line 0800 22 10 20 toll free from any Telkom telephone

1. Dial 0800 22 10 20 toll free from any Telkom telephone
2. You may remain anonymous. Provide full detail in respect of the fraudulent, corrupt or unethical practice to the call operator. Such details may include:
   - Who is involved or doing what?
   - What has happened?
   - How is it done and how often is it done?
   - Where is it done – exact location or place?
   - When was the incident observed, dates and times
   - Value involved – estimated monetary value?
3. You will be given a reference number. Keep this confidential as you will need this number if you make a follow up call (call at a later date to add additional information to the original report) or feedback call (call at a later date to request feedback on the original call).

Blue Label Telecoms is appealing to you to utilise the toll-free number to report any incidents of fraud, corruption or unethical practices. Do not be a silent observer of practices that erode the very values we wish to uphold.

Blow the whistle on fraud, corruption and unethical behaviour Just call our confidential hotline 0800 22 10 20 toll-free

Alternatively you can:

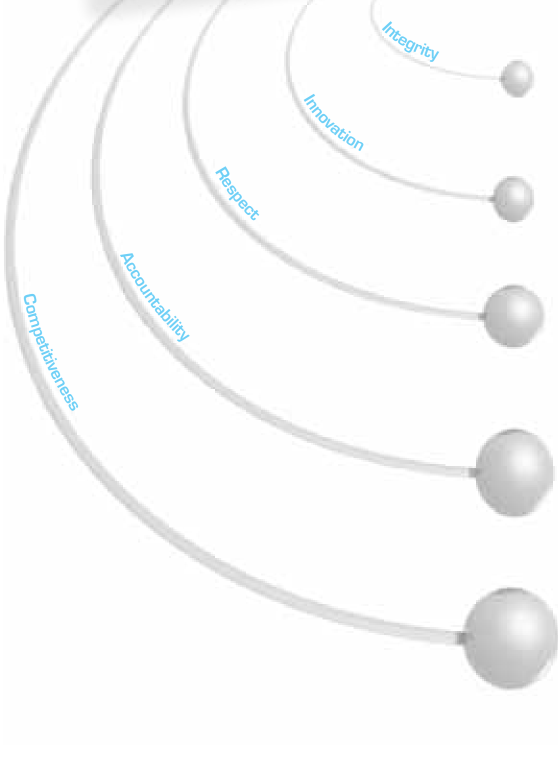
- Fax your information to 0800 200 796
- Post your information free-of-charge to KPMG Ethics Line at the following address:

  KPMG Hotpost, BNT371, P O Box 14671, Sinoville, 0129 or
- Send an e-mail to fraud@kpmg.co.za

BLUE LABEL TELECOMS

Ethical leadership and business conduct is more fully discussed in the corporate governance report on pages 39 to 40.

BLUE LABEL TELECOMS



Integrity

- > We are honest and trustworthy in all our dealings with all of our employees, customers, business partners, suppliers, competitors, and other stakeholders.
- > We adhere to business practices and all laws and regulations governing our business.

Innovation

- > We work creatively to develop new ways to provide value to our customers.
- > We drive our innovation by understanding our market's needs, and we are the first to deliver against those needs.
- > We create new markets with unique technologies and solutions.

Respect

- > We value people's differences.
- > We value diverse opinions.
- > We treat stakeholders fairly with respect and dignity.
- > We do not discriminate on the basis of race, religion, gender or sexual orientation.

Accountability

- > We admit mistakes, learn from them and ask for help.
- > We take ownership and responsibility for our actions and performance.
- > We take initiative to make a difference and to help.
- > We focus on results.
- > We recognise and celebrate our success.

Competitiveness

- > We are determined in our pursuit of success.
- > We strive to be leaders in the markets we serve.
- > We are committed to ensuring that we have the best people, technology, quality, service and market knowledge.
- > We act with a sense of urgency, and we strive for excellence in everything we do.

Operating structure

Blue Label South Africa
- Blue Label Distribution
- The Prepaid Company
  - Crown Cellular
  - Bela Phone Company (51%)
- Ventury
  - Cigi Cell
- The Post Paid Company (75%)

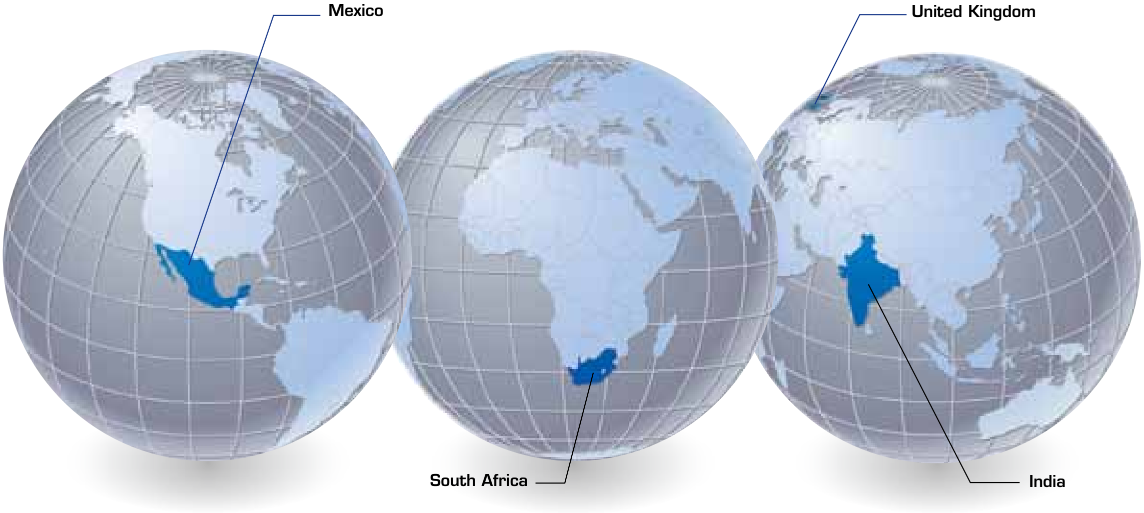
Blue Label International
- African Prepaid Services (72%)
  - APS Nigeria (51%)
- Gold Label Investments
  - Oxigen Services India (37.22%)
  - Ukash (15.75%)
- SharedPhone International (50.1%)
- Blue Label Mexico (40%)

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

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

Blue Label Solutions
- Datacel
  - Velociti
  - CNS Call Centre
  - Blue Label Data Solutions (81%)
    - Datacision (50%)

100% unless otherwise stated.
As at 31 May 2011



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

2003 August

Acquires equity stake in Cellfind

2004 October

Acquires interest in Ventury

Acquires stake in Kwikpay SA

2004 December

Acquires equity stake in Africa Prepaid Services

2005 February

Acquires indirect interest in Datacel

2005 May

Acquires equity stake in SharedPhone International

Nthwese Investment Holdings Consortium (Pty) Ltd, a BEE consortium, together with the Public Investment Corporation acquires 33.33% stake in BLI

2006 March

Acquires equity stake in Virtual Voucher

2006 May

Acquires interest in Matragon

2007 April

Acquires equity stake in Activi Technology Services

2007 November

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

2007 November

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

Microsoft acquires 12% equity stake in Blue Label

2009 May

Commences operations in Nigeria

2008 January

Acquires Content Connect Africa

2008 March

Acquires Crown Cellular

2010 August

Maiden dividend of 12 cents per share approved

2011 June

Celebrates 10 years in business

Termination of business activities in Nigeria

Increases equity stake in Oxigen Services India

2008 April

Acquires remaining minority interest in Ventury

2008 June

Increases equity stake in Oxigen Services India

Establishes Blue Label Mexico

2011 August

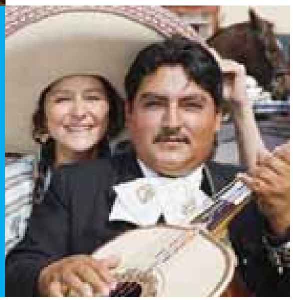
Dividend No. 2 of 14 cents per share approved

2008 September

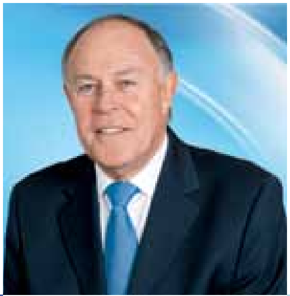
Acquires equity stake in Ukash

2011 February

Dilution of 30% in Blue Label Mexico to 40% shareholding



Board of directors



< Laurence 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

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 Group, Melrose Nissan-Renault, 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 these awards in 2011 he shared the Top Entrepreneur Award with his brother Mark.

BOARD COMMITTEE MEMBERSHIP:
Executive Committee: Member
Audit, Risk and Compliance Committee: Attendee
Investment Committee: Member
Transformation Committee: Member

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 these awards in 2011 he shared the Top Entrepreneur Award with his brother Brett.

BOARD COMMITTEE MEMBERSHIP:
Executive Committee: Member
Audit, Risk and Compliance Committee: Attendee
Investment Committee: Member

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 2002 to take up the role of financial director at Integr8IT (Proprietary) Limited. Previously as chief financial officer and now financial director for 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:
Executive Committee: Member
Audit, Risk and Compliance Committee: Attendee
Investment Committee: Member
Transformation 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 Committee: Member

Gary Harlow

Independent non-executive director

BBusSci (Hons) (UCT), FCMA, 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. He remains executive chairman today. Gary has served on numerous private and public company boards. He is presently an independent non-executive director of Mveloserve 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
Remuneration and Nomination Committee: Member
Investment Committee: Chairman
Transformation Committee: Chairman

Joe Mthimunye

Independent non-executive director

BCompt Hons/CTA (UNISA), CA(SA)

Born: 1965

Joe Mthimunye 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

Lucy Tyalimpi

Independent non-executive director

BCom (Hons) (UNISA), MBL (UNISA), Diploma in Investment and Portfolio Management

Resigned
30 August 2011

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 specialises in corporate restructures, mergers and acquisitions and has been 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 discharges both corporate finance and legal mandates for a number of local and international companies.

BOARD COMMITTEE MEMBERSHIP:
Audit, Risk and Compliance Committee: Member
Remuneration and Nomination Committee: Chairman
Investment Committee: Member

Mteto Nyati

Non-executive director

BSc University of Natal

Resigned
5 October 2011

< Kevin Ellerine

Non-executive director

Gary Harlow >

Independent non-executive director

Joe Mthimunye >

Independent non-executive director

Lucy Tyalimpi >

Independent non-executive director

< Neil Lazarus SC

Non-executive director

< Mteto Nyati

Non-executive director

Senior management

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

Bradley Turkington
Chief sales officer – South African Distribution
BSocSci (Finance Hons) (Natal)

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

Dean Suntup
Financial director – The Prepaid Company
BCom (Wits) Hons (UNISA), CA(SA)

Jimmy van der Merwe
Financial director – Blue Label Distribution
BCom Hons (UP), CA(SA)

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

Larry Pogir >
Executive chairman –
Blue Label Data Solutions
BCom

John Hawthorne >
Chief executive officer – Velociti
BA Communication

*BA Liberal Arts (Both
Virginia Polytechnic Institute
and State University)*

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

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

< Werner Barnard
Chief operating officer –
Blue Label Distribution
*BCom (Hons) –
Port Elizabeth*

(Finance) – University of Natal