Chairman's report

Larry Nestadt, chairman

The group returned a credible financial performance for the year ended 31 May 2011. Revenue increased by 13% to R18 billion, contributing to an EBITDA increase of 5% to R598 million.

In February 2011, in a strategic initiative, 40% of Blue Label Mexico was acquired by Grupo Bimbo by way of a fresh issue of shares for $20 million equating to an enterprise value of $50 million. This had the effect of diluting Blue Label's shareholding from 70% to 40%, resulting in a fair value gain of R146 million. This gain was offset by impairments to assets totalling R64 million in Africa Prepaid Services Nigeria (APSN), Africa Prepaid Services SA, Sharedphone International, Blue Label Distribution, Content Connect Africa and Blue Label One. The resultant net extraneous income of R82 million contributed to growth in core earnings of 15%. However, on reversal of the extraneous contributions, headline earnings declined by 4%. The primary cause of the decline in headline earnings was directly attributable to the deterioration in the financial performance of APSN, due to the failure by Multi-Links to perform its obligations in terms of the distribution agreement and consequent cancellation thereof resulting from its repudiation of such obligations.

Blue Label's strategy of distributing electronic tokens of value in emerging markets, continues to deliver growth through bases, principally in South Africa, India, Mexico and the United Kingdom. In June 2011, Blue Label took the strategic decision to refocus its investments and resources in these four regions, capitalising on the opportunity to increase its effective shareholding in Oxigen Services India to over 50% subsequent to year end.

From modest beginnings just over 10 years ago as a physical voucher distribution Telco, the journey continues as the company evolves into a virtual distributor of goods and services, using telephony infrastructure as the enabler.

THE CONVERGENCE OF EMERGING WORLDS AND GENERATION C

Since mobile banking first appeared in the Philippines in 2001, mobile network operators across the world are increasingly becoming retail bankers to the emerging world#. Unbanked and underbanked populations now have access to basic banking services.

By contrast, we note the Rise of Generation C* – those born after 1990; they are connected, communicating, content-centric, computerised, community oriented and always clicking. By 2020 Generation C will comprise some 40% of the total population in the US, Europe and BRICS countries, constituting the single largest bloc of consumers. They are the first generation whose lives are defined and enabled by the Internet, mobile devices and social networking.

Blue Label converges these two worlds, the underbanked and Generation C, using its proprietary technology, the AEON distribution platform, and thereby becomes a 'lifestyle enabler'.

Generation C increasingly depends on information and communication. The intelligence needed to manage this information load is now moving into the online cloud, as Generation C converges its digital life using cloud storage systems. Blue Label's products and service offerings align well to these developments: an unaffiliated distributor of goods and services in an open loop.

GROUP PERFORMANCE

In assessing performance over the past year, it is pleasing that the group's strategy of diversification by product and geography, has contributed to its resilience. Core earnings of R456 million equated to 15% growth. Headline earnings per share, however, declined by 4% to 46.20 cents, after eliminating the extraneous profit relating to the fair value gain in Blue Label Mexico, offset by impairments to assets.

The group's strong cash-generating capability and healthy cash reserves encouraged management to negotiate early settlement discounts and bulk stock purchases in order to maximise returns on cash, given the present low interest rate environment. The group's Treasury management has been both disciplined and focused on optimising favourable market opportunities. Cash generated from operations was R566 million and cash resources totalled R2.2 billion at year end.

DIVIDEND

On 23 August 2011, the board approved dividend no. 2 of 14 cents per share in respect of the year ended 31 May 2011. Dividend policy is to consider paying an annual dividend after taking into account cash flow requirements for working capital, capital expenditure, share buy-backs and acquisitions, while maintaining a dividend cover of three to four times on headline earnings per share. This equates to a pay-out ratio of 25% to 33.3% of headline earnings.

 # from Mobile banking in the Emerging World – Kevin O'Brien
** from The Rise of Generation C – Friedrich, Petersen, Koster and Blum*

CORPORATE GOVERNANCE

The board has acknowledged that King III requires more onerous governance than its predecessor code and is committed to ensuring application, as appropriate, over time. Last year I referred to an assessment to be conducted on Blue Label's adherence and readiness to adopt King III. I can now report that the recommendations, including a corporate roadmap, have been accepted and implementation across the group is well underway.

FROM SUSTAINABILITY TO INTEGRATED REPORTING

This is our first Integrated Report based on the recommendations of King III. Blue Label welcomes the King III shift from financial and sustainability to integrated reporting and recognises that the journey may take a number of years, as we co-ordinate and implement operational, environmental, social and governance best practices across the group. Each is an evolving field. We welcome your feedback on this report – any comments can be e-mailed to Elizna Viljoen, Group Company Secretary, at investors@blts.co.za

As the new Companies Act provides for the distribution of a summarised report to shareholders, this is likely to be our last printed integrated annual report to be circulated. In line with the Act and the JSE Listings Requirements we are looking at more cost effective and environmentally friendly ways of producing future summarised reports.

In December 2010 Blue Label was admitted for the first time to the JSE's Socially Responsible Investment Index. We are justifiably proud of this achievement.

We continue to develop and progress transformation and broad-based black economic empowerment (B-BBEE) in respect of our South African businesses. The enterprise development programme, coupled with a corporate social investment initiative spearheaded by the Chairman's Fund, helps uplift the less fortunate in the areas in which Blue Label operates. In the year ended 31 May 2011, the Fund contributed R3.5 million mainly for youth and sport development as well as health awareness.

As a technology driven business, the development, retention and succession planning of skilled and talented people remains a priority. Given the high-tech nature of the business, enhanced attention is placed on IT governance, disaster recovery and business continuity, as IT failure poses a major risk in terms of sustainable development.

In financial sustainability terms, our investment proposition remains our mantra: growing our market share both organically and through acquisitions, diversifying our product and service offerings, maintaining our strong cash-generating capability and focusing on the growth of our footprint in the countries in which we operate. Given that airtime contributes the bulk of total group profit, the board has identified the numerous long-term contracts with the Telco networks and other service providers, as important to the business's sustainability and has ensured that these contracts are in place. Substantiating Blue Label's sustainability, is the fact that its business model has stood the test of time: it was just over ten years ago that the Levy brothers conceptualised and brought to market the distribution of electronic tokens of value – then called "virtual airtime".

DIRECTORATE

At the annual general meeting on 12 October 2010, Microsoft's nominee to the board, Peter Mansour withdrew his eligibility for re-election as a director and as a result Mteto Nyati was nominated by Microsoft and joined the board in his place. However, on 5 October 2011, he tendered his resignation.
On 30 August 2011, Ms Pani Tyalimpi tendered her resignation from the board.

PROSPECTS

The diversity of product and service offerings, combined with the group's ability to drive growth, both organically and through acquisitions, together with our significant distribution footprint, positions Blue Label well to deliver anticipated growth.

PROPOSED SHARE REPURCHASE

On 6 October 2011, we announced a proposed specific repurchase of Blue Label shares from Microsoft Corporation. For more details, please see the circular to shareholders accompanying this Integrated Annual Report.

APPRECIATION

My sincere thanks to my fellow directors for their diligent service over the past year and the value they continue to bring to us. On behalf of the board, I thank joint CEOs, Mark Levy and Brett Levy, their executive and each member of the Blue Label group for their commitment over the past year.

Larry Nestadt
Chairman

Joint chief executive officers' report

Mark and Brett Levy, joint CEOs

When we started this business 10 years ago, based on scratch cards for airtime top-up, we upheld the vision that the world was in need of more prepaid and virtual offerings of products and services.

This could only be achieved by building and rolling out a vast network of various types of points of presence, which would be hardware and product agnostic. Our offering to market provides first-world products to third-world consumers, and allows them to transact in the time and manner that suits them best. This past year, our neutral purse became a reality, offering financial inclusion to the country's millions of unbanked and underbanked consumers. The practical implementation of our 'virtual vision' is now part of everyday life.

GROUP PERFORMANCE

The growing diversity of the group's products and services in the South African distribution segment, combined with consolidating and increasing the rollout of the International distribution segment footprint in India and Mexico, remain key to growth. This year, revenue increased by 13% to reach R18 billion.

This was achieved through a strong revenue increase of 15% in the South African distribution segment, which included growth in electricity commissions received of 79%.

Core net profit for the group increased by 15% to R456 million, equating to core earnings per share of 60.34 cents. Although gross profit margins in the South Africa distribution segment declined from 5.58% to 5.19% on an annual comparative basis, the current melded margins have been consistent for the past 18 months.

It is pleasing to note that efficiencies and cost containment programmes, mostly in the restructured South African segment, reduced overhead costs year on year by 2%. The positive impact of these achievements is expected to be carried into the next financial year.

Aligned with the consolidation in the International distribution segment, redeployment of resources continues into our faster growing regions where value can be derived more rapidly. This is already evident in Mexico, where the recently announced issue of shares in Blue Label Mexico to Grupo Bimbo combined with a distribution agreement, should result in an acceleration of footprint in that region.

In South Africa, the Regulation of Interception of Communications and Provision of Communication-Related Information Act (RICA) required the registration of all new mobile phone starter pack activations and all existing active users, which would ultimately result in a decline in churn by subscribers. The implementation of RICA initially inhibited volume growth, but as a result of commissioning practical registration capabilities, activations of starter packs have returned to levels achieved prior to the implementation of RICA.

Positive cash flow generation from trading activities and the accumulation of cash resources to over R2.2 billion, positions the group well to continue capitalising on early settlement discount opportunities as well as pursuing possible acquisitions.

NEW PRODUCT DEVELOPMENT

Investment in research and development continues to be an essential tool for delivering the strategy of growing our suite of products and services through the group's established footprint. It is fundamental for perpetual innovation to be exploited.

A notable development this year was the introduction of mobile banking in South Africa, notwithstanding the highly regulated banking environment. Blue Label's strategy is to be the neutral aggregator or back office switch to any organisation, not only banks, requiring such a service offering. To this end, agreements were concluded, in support of which we established our in-house infrastructure with dedicated sales and operations teams. Mobile banking has a strong track record in emerging and frontier markets and is particularly efficient, and therefore popular, among migrant and contract workers for remitting money to their traditional homes.

INTEGRATED AND SUSTAINABILITY REPORTING

We run our business mindful of its impact on economic, social and environmental factors. We remain committed to open and transparent dialogue with stakeholders, as reported in the engagement matrix on page 66 of this report.

In our transition to integrated reporting we have commissioned PricewaterhouseCoopers Inc to provide assurance over certain aspects of our 2011 sustainability report. The assurance report, including the scope of assurance, and the Global Reporting Initiative assessment, to an application level of C+, is included on page 80 of this report.

One of the areas in our sector that is not well understood is the relationship and the revenue structures with the major networks. Aside from the contractual rights we have secured, we continue to believe networks would rather link into Blue Label's ever-expanding points of presence, which now exceed 140 000 across South Africa, some 80% of which are outside the traditional or formal retail channel. It is beneficial for the networks to utilise the Blue Label distribution channel, than to establish their own independent channel, so as to avoid costs such as capital expenditure, R&D, call centre infrastructure, field support, stock provisioning to customers, new product and services development and the like – and that would only be for airtime. Even though each of the main networks increased prices to us recently, and a further increase is expected later this calendar year, the price changes have, and will continue to be, passed down the distribution channel. In return, our customers are entitled to expect more 'bang for buck', which we provide with alternative payment options for cash, more value in our product and services offerings, call centre support,and the facilitation of loyalty, coupons and rewards programmes. These are all underpinned by our robust technology and user-friendly reporting platforms.

On the retail side, we have embedded our AEON distribution platform with the major outlets which serve some 20% of our market, by integrating with all network operators and several utility providers. As neutral aggregator, Blue Label, is thus well positioned as distributor of choice between the networks and the major retailers. By providing a single integration for multiple products and services, a retailer receives only one device from Blue Label, which offers all of the above mentioned services.

One of the challenges facing the ICT sector is a shortage of talent and skills. Blue Label is no exception. It is our imperative to identify, retain and attract those who have entrepreneurial and innovative flair, as well as impressive IT skills and experience. For these reasons, talent management and succession planning are taking on new and critical meanings at Blue Label.

We received the Shell Distributor of the Year award in the Value Added Services category, as well as three awards from MTN – for the best Informal Channel, Top Achiever, Airtime, and Distributor of the Year.

PROSPECTS

It is generally believed that the next 18-24 months will be challenging for the Telco industry in South Africa as it grapples with cost containment. This squeeze is ultimately good for the market as it pressurises under-performing and inefficient participants in the Telco chain. We expect to grow our market share and improve margins in the year ahead.

The South African distribution segment is likely to see airtime sales continue to exceed industry growth norms. The non-telephony contribution continues to grow at a fast rate as prepaid electricity meters are rolled out by major municipalities and as contracts are signed with additional electricity providers.

The International distribution segment suffered a serious setback with the disposal of the majority of the assets and liabilities in Nigeria. The refocused segment, principally comprising our equity-accounted interests in India and Mexico, remains core to the delivery of our International strategy to replicate our South African business model in other emerging markets. Blue Label Mexico, recently recapitalised with the entrance of a local strategic shareholder, Grupo Bimbo, is ramping-up its rollout rate of POS devices. Oxigen Services India, with our effective shareholding now increased to over 50% post year end, continues to benefit from its banking relationships, in particular with the State Bank of India, enabling us to accelerate kiosk or no-frills banking, money transfers and money remittances.

We remain well-positioned to consider value accretive strategic acquisitions and organic expansion opportunities aimed at extending our footprint and range of products and services.

APPRECIATION

Our thanks are due to all employees for their effort this year and to the executive team for their dedication, often beyond the call of duty. We are fortunate to have members of the board whose commitment, guidance and leadership have been invaluable to the executive team over the past year. Finally, we would have no business if it was not for our suppliers and customers, whom we once again thank for their loyalty and support.

Mark Levy **Brett Levy**
Joint chief executive officers

South African distribution segment

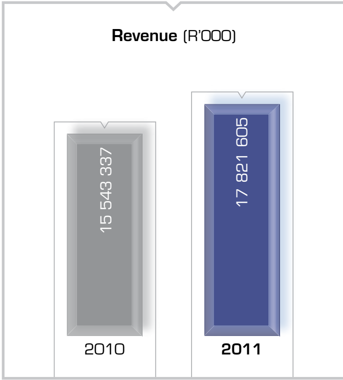
This segment distributes prepaid products and transactional services to the South African wholesale and retail consumer markets. Key products are prepaid airtime and prepaid electricity.

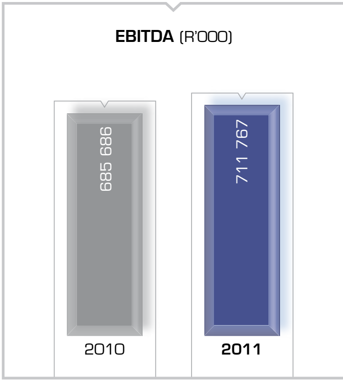
The priorities remain to expand footprint, driven through a co-ordinated approach across numerous subsidiaries and brand names, and to leverage intellectual property and technology platforms to support sustainable growth. The product development team continues to create proprietary e-tokens and distributes third-party tokens of value for the prepaid market.

This year, a greater emphasis was placed on providing more convenience to the customer. As an example, kiosk environments are expected to offer more facilities, with the unmanned self-service model gaining popularity as retailers aim to reduce queues. Touch screen solutions (at manned kiosks) are also in demand, given their greater flexibility over standard POS devices, as they can offer increased processing speed and a greater variety of products and services.

Each company in the segment is responsible for ensuring customer maintenance, site expansion and growth of new products and services. Once again, moving additional products through the retail environment has positively impacted sales. Blue Label is constantly engaged in increasing its channels to market through new retail and corporate relationships.

This year, new branding and a Blu Approved accreditation campaign commenced roll-out across the group. Blu Approved is a neutral aggregator of all Blue Label products and services. It is also the group's visual





representation of its footprint and points of presence. Blu Approved serves as a stamp of approval and authenticity, which acknowledges that Blue Label endorses the products and services offered as well as provides accreditation of the merchant. The brand encourages consumers to use an approved merchant where they can be sure of receiving a full bouquet of prepaid products and services. All Blu Approved merchants are equipped with in-store point-of-sale material and window decals to clearly identify them.

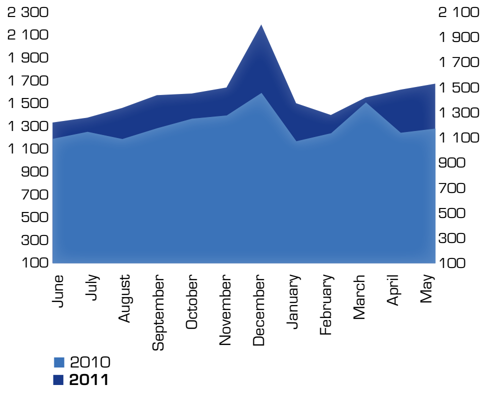
In order to accommodate these shifts in market dynamics, the South African distribution segment was restructured as of 1 June 2010 and now comprises:

THE PREPAID COMPANY ("TPC")

Established in 2001, TPC was the original company spearheading the group's entry into the prepaid airtime industry. TPC wholesales virtual and physical vouchers to all major chain stores in South Africa. With the introduction of e-tokens, this base was extended to include cash and carry operators and independent retailers.

TPC is the leading distributor of prepaid products for all SA network operators. Distribution of all virtual products and starter packs is facilitated, managed and maintained by proven technology developed in-house, which ensures purchasing efficiency, distribution and inventory control. Relationships with each of the major network operators is key to the success of the business and this year renewed vigour was put into ensuring solid relations are backed up with sound service, including being the preferred technology partner, value added solution provider and product developer. TPC is the major contributor to group revenue and profitability, and undertakes:

- supplier agreements and purchases;
- all wholesale and community sales;
- all sales to Blue Label Distribution;
- all bulk printing sales;
- sales of starter packs, and
- group treasury.



Revenue comprises sales of physical and virtual prepaid airtime as well as compounded annuity generated from starter packs

THE POST PAID COMPANY ("TPPC")

TPPC was established in 2004 and is 75% owned by Blue Label. It markets Vodacom postpaid cellphone contracts (airtime and handsets) and various insurance related products to customers via outbound call centres, including group owned Velociti, as well as through its own 60 seat call centre in Johannesburg.

BLUE LABEL DISTRIBUTION ("BLD")

During the year BLD consolidated its different business units and customer bases and also built on its technical competencies to increase product offerings. This also created a platform on which to test new ideas and solutions.

In support of BLD's main activities – sales, operations, customer support and technology – independent customers are increasingly demanding additional and complementary services. These new products and services, and improved technology solutions, are significant contributors to current growth. The focus in the year ahead will be to upgrade business tools for improving customer tracking and tracing systems.

BLD accounts for:

- over 10 000 points of presence, comprising either POS terminals, vending machines, touch screens and RICA devices.
- nine sales branches nationally, comprising sales and customer service representatives,
- 24/7 customer call centre – for retailer and UniPIN support.
- field support based at all nine branches.
- airtime and electricity sales.
- expansion in value added services – bill payments, ticketing and payments of fines.

CIGI CELL

Cigi Cell, with its B-BBEE partner, distributes virtual prepaid airtime and electricity through a broad network of channels, primarily through retail outlets and forecourts of the major oil companies. Its market covers approximately 1 700 such outlets. Cigi Cell is the custodian of the group's contracts with various utility suppliers and in turn procures and supplies prepaid electricity on behalf of all companies within the group. Recent contract awards indicate that Cigi Cell is emerging as the market leader in the prepaid electricity field.

CROWN CELLULAR

Crown is a wholesale and retail distributor of physical and virtual prepaid airtime, starter packs and electricity sales in the informal market. It services independent retail stores and a number of stores within stores in the Metro group. These are duly branded "Blu Approved" in alignment with the new branding.

BELA PHONE COMPANY

Bela offers a competitively priced international calling card and is available at several national retailers and throughout most of the independent retail footprint. In May, a further "white labelled" solution was launched with Edcon through its 1 100 stores under their brand "Ring the World". A recent development with Neotel will provide their users with low cost local and international calling rates. This takes the form of a public international payphone as well as a consumer product.

PRODUCT OVERVIEW

Prepaid airtime

Prepaid airtime continues to generate the majority of this segment's profits. Growth in airtime sales were volume related and entirely organic. The business model is based on purchasing airtime with volume discounts from each of the network operators and on-selling at a margin. Long-term and renewable contracts underpin the relationship with each of the networks.

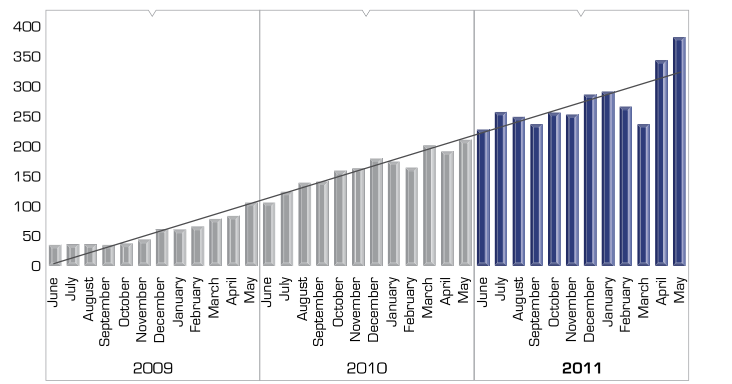
During the year, as was expected, the major networks increased prices, which were absorbed throughout the distribution channel. Customers are, however, expected to look for added value in respect of service, call centre support and facilitation of loyalty, couponing and rewards programmes, each underpinned by a single interface system, robust technology and user friendly reporting platforms. Also this year, agreements were reached with Neotel and 8ta to provide prepaid services on their behalf.

Prepaid electricity

Prepaid electricity commissions received increased by 79% to R61 million from R34 million. This equated to turnover generated on behalf of the utilities of R3.4 billion, up from R1.9 billion in the previous year.

Unlike prepaid airtime, the face value of electricity is not included in the revenue reported, but is confined to the commission earned thereon, which averages approximately 2% on such sales. The group's market share of third party electricity is expected to continue to grow as Eskom, the utility providers and municipalities roll-out increasing numbers of prepaid meters. Through agreements with Eskom and major municipalities, such as Ethekwini, Ekurhuleni, Cape Town and Tshwane, the single most comprehensive prepaid electricity supply pipeline has been created in South Africa, available both on- and off-line through our proprietary UniPIN voucher.

Prepaid electricity: Revenue growth (R'millions)



**The group does not account for revenue on face value of electricity but only on commissions received*

Lotto

A technical support arrangement with Gidani, the licensed operator, enabled integration of their products into on-line banking channels managed by FNB. Blue Label remains committed to growing access points for Lotto, in order to make it even more accessible to end-consumers.

Transport ticketing

Prepaid bus ticketing has been made available to commuters in the Eastern Cape. The model eliminates ticketing fraud and removes the cash receipt function from bus drivers, placing it with vending merchants. This has created a benchmark for discussions with other transport companies for a reload/prepaid ticketing system. The off-site Gautrain Gold Card, available via standard vending machines, continues to gain acceptance, as new sectors on the train's widening network are opened and as consumer up-take of the service grows.

Ukash voucher

This type of prepaid digitalised cash was introduced from the International segment to the South African market, where it sells mainly through Pick n Pay and Shoprite.

Bill payments

Agreement between Spar and third party bill payment facilitators (ie SAPO) allows the consumer to settle utility bills and the like at the retailer's till point. Additional bill payment points are being rolled out through kiosk type environments, as well as through check-out tills and independent retail environments.

NEW PRODUCTS AND SERVICES

Blue Label's entry into financial inclusion markets commenced this year. Following an agreement with Vodacom and Nedbank, outlets for the trade of m-pesa vouchers were established. Uptake has been slower than expected, as educating consumers on mobile banking principles has been a necessary forerunner to the process.

To date, over 300 outlets are active, which represents about 20% of applications received. With an overall market size for m-pesa outlets believed to be between 25 000 to 40 000, registrations are likely to accelerate once electronic record keeping to facilitate FICA requirements and integration to retailer systems are introduced.

Expressions of interest have come from several retailers and financial institutions this year, attracted by the group's ability to provide more than airtime and electricity offerings. Market requirements are now extending to products such as bill payments, event and transport ticketing, payments of fines, financial services including money transfers, integrated recharge (PINless recharge or direct top-up), Electronic Funds Transfers, mobile wallets, mobile couponing and facilitation of loyalty programmes, as well as web-based solutions.

Blue Label's ability to provide an array of products and services through many different customer facing devices, supported by a single integrated back-end, has proven to be a significant differentiator in the market. Over the past year this strength has been enhanced with the introduction of more mobile solutions – for retailers (mobile merchant) and for consumers (mobile wallets). This improving symbiotic working relationship between the SA distribution and Mobile segments has increased the group's overall offering and provided a more comprehensive business solution to retail partners.

International distribution

The strategy of the International distribution segment is to pursue growth opportunities across the group's global footprint by systematically rolling out multi-secure electronic tokens, in replication of the South African distribution segment model.

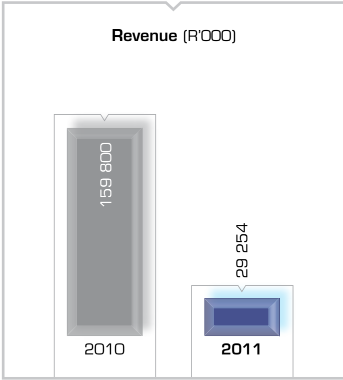
OXIGEN SERVICES INDIA

Oxigen is an electronic distributor of recharge vouchers and prepaid subscriptions for mobile and satellite TV. Other transactions facilitated include prepaid railway, airline and bus ticketing, cellphone vending, financial services through no-frills kiosk banking, as well as bill payments for mobile, landline and utilities. Oxigen is evolving to fulfil its vision of moving from a prepaid recharge platform to becoming a versatile payments' solutions provider, which besides its traditional businesses, will include mobile wallet, international remittances and cash cards.

The company was incorporated in August 2003. For the financial year, Blue Label and Microsoft each held 37.22%, with the remaining 25.56% owned by local management. In June 2011, Microsoft sold its investment in equal share to Blue Label and local management.

During the financial year, the deployment of POS devices and the expanding business correspondent initiatives continued to be the main drivers of the business. Sales revenues for the financial year increased 24% at static gross profit margins of 2.25%.

Currently there are approximately 450 000 POS devices deployed throughout India. Oxigen, with about 90 000 POS terminals, with another 30 000 being deployed, is in a strong position to facilitate the introduction of new products and services, as well as mobile and data processing.



Design and development of more efficient POS terminals has progressed and a new terminal prototype, called OxiSmart, was recently launched. The new ultra-low cost GPRS POS terminals and low cost GPRS Modem (USB Dongle) convert a phone line terminal to a GPRS enabled terminal. This will lead to an improvement in transaction reliability, scaling up and revival of under-performing retailers and accommodate low trading merchants. The new devices should pave the way for an expansion of footprint over the next few years, in support of which infrastructure has already been strengthened.

The company's efforts for continuous innovation in the banking channel culminated in September 2010 with the launch and activation of 150 (out of a planned 20 000) Customer Service Points (CSPs). These are our existing web-enabled Oxigen retailers, appointed as CSPs enabling them to carry out banking transactions on behalf of the State Bank of India (SBI). One of the immediate uptakes has been in domestic remittances. The company has already enrolled and enabled more than 900 CSPs.

A principal feature of the web-based, no-frill, kiosk banking system is that it reaches the unbanked population across India, helping them open accounts with minimal documentation, while biometric readers record the account holder's fingerprints in order to facilitate secure banking transactions. The company has opened kiosk banking at 500 outlets in rural areas. Primary services include cash deposits and withdrawals as well as money transfers to other SBI accounts. Clients can also access vehicle/home loans and loans against property and gold, obtain NSC/KVP certificates (Government Securities), invest in mutual funds and activate different current accounts, term deposits and recurring deposits at each location.

The market continues to expand, affording opportunities for Oxigen to remain one of the leaders in the industry. Over the next few years dependence on mobile recharge is expected to reduce in return for the rewards expected from the mobile payment's space,

where Oxigen is well placed with first mover advantage through its diversified solutions and hardware offerings.

The Reserve Bank of India renewed Oxigen's approval of the OxiCash Prepaid Card, thus providing another show of confidence in the prepaid payment and settlement system.

Product deployment now includes one-time purchase cards with multiple recharge options across bus and airline ticketing, direct TV top-ups, insurance, calling cards and car rentals, mobile services such as sms packs, phone back-ups and Nokia online music. In a recent development, Oxigen was appointed national service provider to Nokia Money, enabling a prepaid mobile wallet to be offered. Oxigen online services, like mobile recharge/TV recharges, are already integrated into the Nokia Money mobile wallet.

The business outlook continues to hold promise.

BLUE LABEL MEXICO

Blue Label Mexico commenced trading operations in August 2009. The current ownership structure is 40% Blue Label Telecoms Limited, 40% Grupo Bimbo SA de CV and 20% Nadhari SA de CV. The business model in Mexico is underpinned by a number of agreements with sales and distribution channels, independent sales organisations or ISOs, service providers and key mobile network operators. Products on offer include PINless recharge, direct top-up and payment of services.

Trading conditions were adversely impacted in the early part of the financial year by network downtime caused by severe flooding in Mexico and the unreliability of the Seacom underwater sea cable between Mexico and South Africa. As a result, platform infrastructure was established in Mexico, where it is now fully operational.

In February 2011, a strategic investor, Grupo Bimbo, purchased 40% of Blue Label Mexico by subscribing to a fresh issue of shares, resulting in Blue Label diluting its holding from 70% to 40% and local management's holding from 30% to 20%. Grupo Bimbo is the largest bakery business in the world and operates one of the most extensive physical distribution networks in Mexico. It also has a presence in 17 countries in North America, Latin America and Asia. In the framework of the new structure, terminals will be rolled out to Grupo Bimbo service locations to support their operations, as well as enhance competitiveness of their independent store clients.

At year end some 5 000 devices were active in the market and this is expected to grow in the year ahead. Mexico's geographic location makes it an important springboard for prepaid and remittance markets in the United States and Latin America. Blue Label Mexico has exclusive rights to use Blue Label Telecoms technology in these two geographies.

AFRICA PREPAID SERVICES NIGERIA ("APSN")

Blue Label has an effective ownership of 36.72% in APSN, through its 72% shareholding in Africa Prepaid Services. In 2008 APSN concluded a 10-year agreement with Multi-Links, a subsidiary of Telkom South Africa Limited, to service its entire distribution channel in Nigeria.

The performance of APSN was adversely impacted during the first six months of the year due to falling demand owing to ongoing negative commentary by Multi-Links over its uncertain future. In November 2010 Blue Label cancelled APSN's contract arising from Multi-Link's repudiation of its obligations under the contract and instituted arbitration action to recover losses suffered consequent to the cancellation of the contract. Arbitration proceedings are on-going. Taking cognisance of Blue Label's effective minority stake in APSN and after duly evaluating the investment, strategies and funding requirements, a commitment was made to sell the majority of the assets and liabilities prior to financial year end. The sale was concluded in June 2011. Core headline earnings for the year declined to a R18.3 million loss (previous year R49.1 million profit).

UKASH

The 15.75% strategic investment in Smart Voucher Limited, trading as Ukash, and based in the United Kingdom, was acquired in 2008. Ukash is an international developer of prepaid cash voucher technologies allowing it to supply end-users with prepaid (Ukash) vouchers, which effectively digitises cash. It is a global e-money network enabling consumers to turn their cash into an e-cash voucher so that they can pay, play and reload online. Ukash is patented, proven and fully scalable.

Ukash continued its expansion in new and existing markets this year, adding issuing sites in Argentina, Brazil, Mexico and New Zealand. Ukash is now available at 420 000 locations across 51 countries on six continents. Redemption values increased by 71% year on year on volume increases of 84%. Blue Label's share of historical losses of R8 million turned around to a share of profit of R9 million.

During the year, three new products were launched, Ukash Neo (prepaid virtual Mastercard), Ukash Air (mobile airtime top-up) and Ukash Payout. Management was also strengthened over this time. In April 2011, Ukash was the proud recipient of the 2011 Queen's Award for Enterprise in the International Trade Category. This prestigious award recognises UK businesses which have achieved substantial growth in overseas earnings and outstanding levels of commercial success.

SHAREDPHONE INTERNATIONAL

SharedPhone supplies SIM card mobile payphone software and hardware solutions, which is particularly practical in rural areas, as it allows vendors to provide public telephony services, as well as the ability to sell prepaid airtime from mobile phones through a mobile payphone reimbursement system. This facilitates the sale of prepaid products and services such as airtime, electricity and insurance.

Revenue declined from R39 million to R29 million, due to a lack of repeat international orders from the traditional payphone markets, as voucher denominations reduced and cheap entry level handsets became readily available, ultimately reducing the attractiveness of a payphone product. This necessitated an impairment to goodwill and intangible assets totalling R8.4 million.

Technology

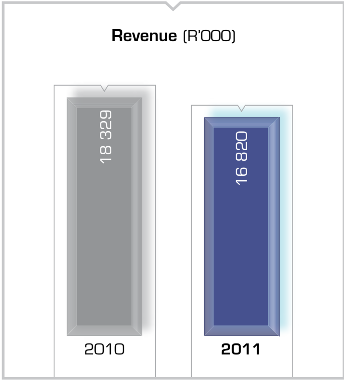
The Technology segment is responsible for the group's core technology systems. Its objective is to develop, deploy and support the technology platforms across the group and at a number of third-party partners. The group's infrastructure connects into some of South Africa's major banks, utility companies and telecommunication operators. This segment also switches both debit and credit card electronic funds transfer (EFT) transactions and e-token products for some of the country's leading retailers and petroleum companies.

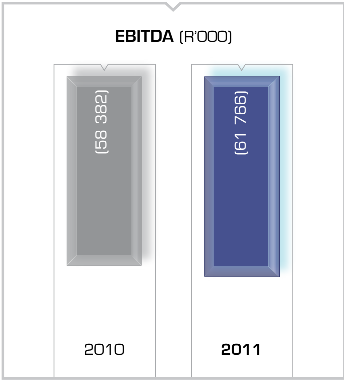
The core technology service offering includes:

- facilitating secure financial transactions;
- providing and enabling various types of secure e-tokens;
- operational support to these e-token and transactional systems;
- point of Sale device and customer field support;
- hosting and management of IT infrastructure; and
- sourcing and maintenance of devices in the field.

The strategy of the Technology segment is to:

- develop commercially viable and functionally rich transaction engines;
- provide stable and robust platforms;
- standardise deployments with templates and methodologies;
- optimise technology investment through the sharing of Blue Label's infrastructure;
- provide end-to-end support for technology and deployments; and
- retain and develop key IT skills.





THE KEY OPERATIONAL CAPABILITIES INCLUDE:

Distribution platforms for e-tokens of value (including AEON Online and AEON EVD (AMS)):

- Prepaid airtime: the platform enabling both local and international subsidiaries to vend airtime for all major telecommunication operators.
- E-token distribution: takes place via cellphones, kiosks, POS terminals, internet, bulk printing devices and self-service vending machines.
- Electronic Voucher Management System: supporting the electronic generation, issuing and redemption of paper vouchers and virtual PINs.
- Electronic Funds Transfer: switching credit, debit and fleet card transactions for leading South African retailers and petroleum companies, through Transaction Junction (TJ), a subsidiary of the group.
- Hosting services: hosts production servers and applications on behalf of the group's subsidiary companies as well as third-party clients. All services are backed by 24x7x365 monitoring, support, reporting and full disaster recovery.
- Device deployment services: full asset life cycle management and task tracking are provided. This service includes the sourcing, procurement and financing of POS terminals, kiosks and vending machines as well as the installation, training, task tracking and maintenance of these devices.

The group's technology operations, development and support were refocused during the year, following the restructuring of the South Africa distribution segment.

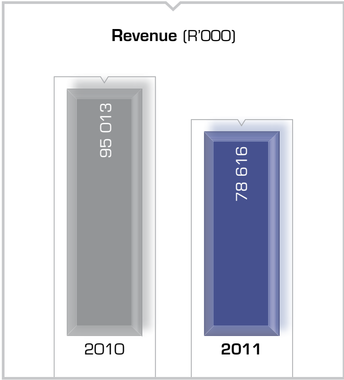
The migration of customers onto AEON continued, with further rollout of EFT services by TJ. Volumes throughout the entire environment continue to increase significantly – more than 10% growth through Postilion alone was recorded during the last quarter of the financial year. This dynamic environment requires that the core architectural framework is reviewed and updated regularly.

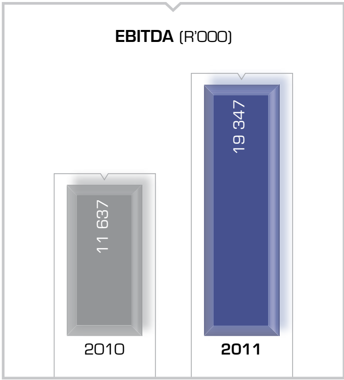
Over the last six months, an initiative has ensured that enterprise (i.e. non-production) systems are consolidated and optimised. As a result, network-device/element configuration management and control has been outsourced. Network and Security policies, as well as core network architecture and deployment guidelines, continue to be set by the CIO, but are actively implemented and managed through a co-source model i.e. high-level oversight and control exercised by Technology, with implementation, operational support and monitoring implemented by the outsource partner. This includes all network and intrusion – detection and prevention operational support. These changes comply with the group's Technology governance and risk management requirements.

In addition to these platform and systems enhancements, the group has actively engaged in deploying and managing infrastructure and services within cloud environments. This initiative is accelerating and anticipated to be production-ready with cloud infrastructure in place within Amazon EC2 during this calendar year, servicing Mexico's high availability requirements. As the roll-out of POS devices in Mexico continues to gain momentum, the migration of the infrastructure has been largely completed, with Technology providing operational and project support by redeploying key individuals to Mexico.

Blue Label Mobile

Blue Label Mobile provides a complete mobile transactional ecosystem and services-provisioning platform, delivering mobile-centric products and services through any mobile channel (eg smartphone, WAP, Java, SMS, USSD). Products include mobiWallet, mobiMerchant and mobiSecure, as well as mobile couponing, loyalty and Near Field Communication (NFC) solutions. Blue Label Mobile is also SA's leading location-based service provider, offering safety and security, tracking and informational products for individuals and companies. Additionally, it is a wireless application service provider (WASP) and top-5 aggregator. Blue Label Mobile is the provider of South African and African music and digital content to major mobile networks. Its services are provided directly to B2B customers as well as to the group for inclusion in their product/service bundling. On a core headline earnings basis, the Mobile segment made a R15.6 million profit, up from a R1.9 million loss in the prior year.





BLUE LABEL ONE TRADING AS MOBILE SERVICES COMPANY ("MSC")

MSC is Blue Label's mobile services business, aggregating transactional products and services (such as airtime, electricity and others) and those of third parties. The services are available through a number of channels, stand-alone Java applications, WAP, web and SMS. This reaches a wide range of customers including B2C, B2B and B2B2C using the same infrastructure and interfaces.

This has been a period of integration and stabilisation as the focus has shifted towards providing mobile solutions directly to Blue Label's channels and to various B2B2C opportunities. This year MSC launched a fully-featured mobile wallet – mobiWallet, which allows customers to make payments, deposit money, shop for goods and services, make withdrawals, participate in loyalty and reward schemes and perform person-to-person money transfers, all from their normal handsets. The mobile wallet architecture is more than a micro-transaction account, as it provides customers with a full set of tools for managing interactions by integrating various layers, such as rewards, pre-paid and banked transactions, together with fully secure and cost-effective messaging and alerting capabilities. It also provides secure and appropriate management of personal information, integration with location-enabled value-add services, and the ability to link all these elements together in a fully integrated way.

CELLFIND

As Blue Label's WASP and Location-Based Services (LBS) provider, Cellfind continues to derive annuity incomes through the Vodacom and MTN location services as well as WASP aggregation businesses.

Cellfind's investment in developing generic interfaces to its location services allows both easy and expanded consumption of services through its own products and those developed by partners using the same interfaces. Cellfind provides the billing and management processes to monetise these services.

Agreements were concluded with Nashua Mobile and Autopage Cellular to provide direct billing to certain contract customers. Cellfind developed and launched a generic panic (assist) button, which can be white-labeled or integrated into third-party systems, with full Call Centre and/or emergency assistance services if required. Customers include major companies in the health care, security and mining sectors.

Cellfind is focusing on lower risk models, such as corporate or B2C products, and seeking new revenue streams, while restructuring to improve efficiency, product mix and costs. The product range includes brands such as Look4Help, Look4Me, Look4Me for business, MTN WhereRU, MTN 2MyAid, miTraffic, 911 Alert, Look4Music, messaging and generic panic buttons, prepaid messaging web interface, LBS Accuracy, miPayslip, Willsure and Disaster Recovery.

CONTENT CONNECT AFRICA ("CCA")

CCA is the premium supplier of on-deck African music content to both Vodacom and MTN. During the year downloads fell significantly due to ongoing restructuring of the platforms at the major network operators. Efforts were directed to building-up the catalogue content base and securing additional digital distribution partners, and, in turn footprint, across numerous countries, in particular in Africa.

Blue Label Solutions

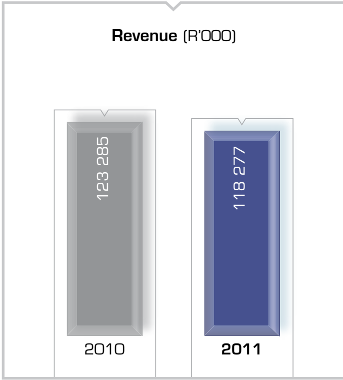
This segment specialises in marketing predominantly cellular products and services through outbound telemarketing, as well as providing inbound customer care, technical support and data and analytics services, particularly to group companies. The segment managed a remarkable turnaround this year, achieving R7 million in core headline earnings, compared to a loss of R7 million in the previous period. The following entities are housed in this segment:

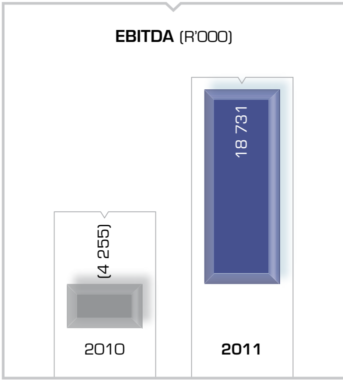
BLUE LABEL DATA SOLUTIONS ("BLDS")

The efforts over the past two years to build sustainable relationships with clients and entrench direct marketing strategies into their businesses culminated in a successful year, marked by revenue growth of 160%. BLDS consolidated operational processes during the year and maximised resources without increasing headcount. A number of high-profile opportunities have been entrenched in ongoing campaigns, positioning the company well for the future.

CNS AND VELOCITI

The CNS Call Centre has been scaled down to a call centre facility operation to third parties. The 700 seat Velociti Call Centre had another challenging year, characterised by fewer campaigns and shrinking margins, as seen throughout the industry. A number of recently launched campaigns are proving profitable, following management's innovative diversification of the business model.





Corporate governance

GOVERNANCE APPROACH

The board regards corporate governance as fundamentally essential to the success of the company's business and is unreservedly committed to applying the principles of good corporate governance in directing and managing the company. The board is the focal point for, and custodian of, the company's corporate governance system through its relationship with management, shareholders and other stakeholders of the company. The board remains ultimately accountable and responsible for the performance and affairs of the company.

The board is committed to sound and transparent business practices and senior management continues to develop its governance policies, practices and procedures in line with an integrated approach to governance, risk and compliance as recommended by King III. This approach ensures that the company balances its long-term social, environmental and economic interests with the primary requirement to maximise shareholder wealth.

The formal assessment of Blue Label's adherence to the principles and practices of best governance as contained in King III was completed towards the end of January 2011. Board and senior management have focused on the following key findings of the assessment, most of which will continue to be relevant for the ensuing financial year:

> IT Governance at a board, committee and management level to ensure the appropriate level of responsibility, reporting framework, information and assurance;
> increasing the understanding of integrated reporting as a continuous event throughout the year, culminating in an annual report and implementing required reporting structures;
> defining and calculating risk tolerance and appetite levels and ensuring that this is effectively communicated throughout the group as part of the risk management process;
> planning internal audit work to ensure that internal audit are positioned to provide a written assessment of the group's system of internal controls, internal financial controls and risk management; and
> development of a combined assurance model to ensure that management and the board obtain comfort on material issues across the group on inter alia, financial, technical, operational, social and regulatory compliance.

Each of the aspects above is highlighted in this integrated report in the section where it best applies.

ETHICAL LEADERSHIP AND BUSINESS CONDUCT

Good corporate governance is essentially about effective and responsible leadership. This is characterised by the ethical values of responsibility, accountability, fairness and transparency. The typical aspects of corporate governance, such as the role and responsibilities of the board and directors individually, internal audit, risk management and stakeholder engagement rest on a foundation of ethical values.

To this extent Blue Label's ethical standards are encapsulated in its ethics statement which provides a template for ethical reasoning as a guide to all employees in their dealings with both internal and external stakeholders. The ethics statement applies to employees across the group, as well as to customers, business partners, suppliers and other stakeholders. Each is requested to uphold the ethical reasoning of the statement, thereby enabling us to live our values.

The purpose of the ethics statement is to:

- emphasise the group's commitment to ethics and compliance with laws and regulations;
- set out basic standards of ethical and legal behaviour;
- provide reporting mechanisms for known or suspected ethical or legal violations;
- help prevent and detect wrongdoing.

From an ethical perspective Blue Label reiterates its stance on the following matters:

- Fraudulent, corrupt or illegal practices are not tolerated. Bribes or any other illicit payments including facilitations will neither be paid nor received.
- The group does not participate in any illegal anti-competitive activity. Employees cannot authorise or participate in any illegal conduct or action that purports to restrict competition.
- The group is non-political. It does not allow its assets and services to be used in any way which favours any particular political grouping.

The company's ethical business conduct is set out on page 6 of this report.

Employees are expected to demonstrate ethical business practices. All new staff members undergo an induction programme that includes training on the above "code of business conduct", including the function of the ethics hotline, such as what should be reported and how to report unethical behaviour via this channel. The ethics hotline is outsourced to KPMG Ethics Line, a division of KPMG, and has been certified by EthicsSA as fulfilling the External Whistle-blowing Hotline Service Provider Standard E01.1.1. This standard is a best-practice set of guidelines or norms for the professional and ethical conduct of external whistle-blowing hotline service providers operating their own centres or facilities.

The ethics hotline awareness campaign was rolled out to all group companies in July/August 2010. All incidents reported during the period under review were all human resource related matters which were resolved by the group human resources manager.

An overview of the group governance framework is provided below.

BOARD STRUCTURE AND DIRECTORS

Board composition and appointments

Blue Label's governance is underpinned by effective leadership exercised by the directors in their individual capacities and collectively as a board. The board comprised 11 directors: four executive directors, three non-executive directors and four independent non-executive directors. The chairman is an independent non-executive director.

The directors, with the support of the Remuneration and Nomination Committee in terms of its mandate, ensures that the board collectively possesses the skills, experience, diversity in demographics and mix of personalities appropriate for the strategic direction of the company and necessary to secure its sound performance. Directors are selected and appointed by the board based on the recommendation of the Remuneration and Nomination Committee. Changes in the board composition during the year under review included the resignation of Mr Mansour in October 2010, and following the recommendation of the Remuneration and Nomination Committee, the appointment of Mr Nyati (managing director of Microsoft South Africa). Post year end the following changes to the board composition were recorded:

- Ms Tyalimpi, independent non-executive director, resigned on 30 August 2011 to pursue other interests; and
- Mr Nyati, non-executive director, resigned on 5 October 2011 following the conclusion of the Share Buy-Back Agreement with Microsoft Corporation.

All directors are subject to retirement by rotation every three years in accordance with the company's memorandum of incorporation. In this regard Messrs Pamensky and Rivkind will be retiring at the forthcoming annual general meeting and being eligible, have made themselves available for re-election. The detailed categorisation of the directors as well as a brief curriculum vitae of each director appears on pages 10 to 13 of this report.

The Remuneration and Nomination Committee is actively canvassing to strengthen the board with individuals, particularly from historically disadvantaged groups, whom it believes can make an active and positive contribution to the continuing development and growth of the company.

INDEPENDENT NON-EXECUTIVE CHAIRMAN AND LEAD INDEPENDENT DIRECTOR

King III requires the board to be led by an independent non-executive chairman and makes a number of points pertinent to this matter:

- A chief executive officer should not also hold the role of chairman of the company.
- The chairman of the board should be independent and free of conflicts of interest on appointment, failing which the board should consider appointing a lead independent director.
- If the board appoints a chairman who is a non-executive director but is not independent, this should be disclosed in the integrated annual report, together with the reasons and justification of the decision.

Mr Nestadt is the independent non-executive chairman of Blue Label and has held this position since the company's listing in November 2007. For this reason the board has not appointed a lead independent director.

Board charter

The board has a formally approved charter which is reviewed annually to ensure its continuing compliance with local and international best practices and changes to the South African regulatory environment. The board charter provides, inter alia, an overview of the policies and practices of the board with regard to matters such as board composition, meeting procedures, board governance, dealings by directors in securities, disclosure and conflicts of interest and the nomination, appointment, induction, training and evaluation of directors and members of board committees.

The charter notes the following key board responsibilities in alignment with King III:

- ensuring that the company's ethics are managed effectively by, inter alia, building and sustaining an ethical corporate culture in Blue Label and ensuring that a code of conduct and ethics related policies are implemented;
- ensuring the integrity of the company's integrated annual report;
- responsibility for information technology (IT) governance, focusing on the governance of the information as well as the governance of technology, by establishing an IT governance framework that supports effective and efficient management and decision making around the utilisation of IT resources to facilitate the achievement of the company's objectives and the management of IT-related risks;
- reporting on the effectiveness of the company's system of internal controls;
- recognising that strategy, risk, performance and sustainability are inseparable and give effect to this by:
  - retaining full and effective control over the company by contributing to and approving the strategic direction of the company,
  - satisfying itself that the strategy and business plans proposed for the achievement of the group's objectives do not give rise to risks that have not been thoroughly assessed by management,
  - monitoring the implementation of the strategic plans and identifying key performance and risk areas,
  - ensuring that the strategy will result in sustainable outcomes taking into account financial, environmental and social objectives as approved by the board,
  - considering sustainability as a business opportunity that guides strategy formulation,
  - ensuring that Blue Label is and is seen to be a responsible corporate citizen with regard to not only the financial aspects of the business, but also the impact that the business has on the environment and the society in which it operates, thus ensuring that the company acts responsibly towards all its stakeholders, and
  - appreciating that stakeholders' perceptions affect a company's reputation and in this regard, identify, manage and monitor the gap between stakeholder perceptions and the performance of the company so as to enhance or protect Blue Label's reputation.

BOARD MEETINGS

A minimum of four board meetings are held during a financial year with additional board meetings convened as required. Where directors are unable to attend meetings personally, teleconferencing facilities are made available to enable their participation.

Attendance by directors of the meetings held during the year under review is detailed below:

DIRECTOR	Jun	Aug	Nov	Feb
LM Nestadt (Chairman)	✓	✓	✓	✓
BM Levy	✓	✓	✓	✓
MS Levy	✓	✓	✓	✓
KM Ellerine	A	✓	✓	✓
GD Harlow	✓	✓	✓	✓
NN Lazarus SC	✓	✓	✓	✓
P Mansour	A[1]	A[1]	R	–
JS Mthimunye	✓	✓	✓	✓
M Nyati[1]	–	-	A[1]	✓
MV Pamensky	✓	✓	✓	✓
DB Rivkind	✓	✓	✓	✓
LM Tyalimpi	✓	✓	✓	✓

Legend:

✓ *Attendance*
A *Apologies submitted and leave of absence granted*
A[1] *Apologies submitted and appointed an alternate who participated by way of teleconference*
R *Resignation by P Mansour on 12 October 2010*
[1] *Appointed on 12 October 2010*

NON-EXECUTIVE DIRECTORS

The non-executive directors bring leadership, judgement and insight to the board. They have access to management and may meet separately with management with or without the attendance of executive directors. A non-executive director has no fixed term of appointment and no service contract with the company. Fees are independent of the company's financial performance and they receive no bonus and do not participate in the company's Forfeitable Share Plan.

Both Messrs Harlow and Lazarus SC earn advisory fees for strategic input as well as corporate finance advice and, in the case of Mr Lazarus SC, legal consultancy services as well. Fees paid during the year under review in respect of consultancy services rendered by the said directors amounted to R1.3 million in respect of Mr Harlow (2010: R0.3 million) and R4.6 million in respect of Mr Lazarus SC (2010: R2.6 million). The majority of the fees paid to Mr Lazarus SC pertained to legal consultancy services in regard to litigation which the group is involved in together with commercial negotiations and contracts relating to the business of the group and certain corporate finance services in respect of acquisitions and disposals.

EXECUTIVE DIRECTORS

Executive directors are bound by a three-year employment contract, each of which commenced in November 2007. Contracts were renewed in November 2010 for a further three-year period. Details of the contract terms are set out in the Remuneration report on page 50.

PERFORMANCE ASSESSMENT

Performance assessment of the board collectively, directors individually and the various board committees is conducted annually in November, with the next evaluation due to be done in November 2011. The assessment is conducted internally and focuses on strategy and planning, board structure and role, meeting process, independence of the board and its committees, performance monitoring, board and director responsibilities, board culture and relationship. The process is managed by the chairman, whose own performance is assessed by the Remuneration and Nomination Committee. The Chairman presents his report on the assessment to the Remuneration and Nomination Committee for their appropriate recommendation to the board, which in turn, then considers the recommendations of the Remuneration and Nomination Committee.

BOARD COMMITTEES

Board committees play an active and pivotal role in assisting the board to discharge their duties and responsibilities. The responsibilities delegated to each board committee are formally documented in terms of reference duly approved by the board.

The membership and principal functions of the committees are set out below.

Audit, Risk and Compliance Committee ("ARCC")

The report from the ARCC is contained on page 54 of this report.

Remuneration and Nomination Committee ("RNC")

Members: NN Lazarus SC (Chairman), GD Harlow and KM Ellerine

Composition and meeting procedures: Messrs BM Levy, MS Levy and DB Rivkind attend meetings by invitation, but do not participate in discussions and decisions regarding their own remuneration and benefits. The chairman, at his discretion, may invite other executives or employees to participate in meetings of the committee. Meetings are held at least twice a year. The quorum for an RNC meeting is two members present throughout the meeting. During the year under review, the board discussed the composition and chairmanship of the committee in relation to the requirements of King III. The board confirmed the position of Mr Lazarus SC as chairman of the RNC and was satisfied that he was most suitably qualified to perform the role and acted with the required independence by expressing opinions, exercising judgement and making decisions impartially.

Role and functions: The RNC role and responsibilities are set out in its terms of reference, a summary of which are to:

- determine and agree with the board, the framework or broad policy for the remuneration of the executive directors, non-executive directors and any other members of executive management as it is designated to consider;
- review, for recommendation to the board, the design of, and targets for, the company's Forfeitable Share Plan;
- determine annually whether awards are to be made under the Forfeitable Share Plan. and, if so, the overall and individual amounts of such awards;
- recommend to the board the remuneration of non-executive directors for approval by the shareholders;

- identify and nominate candidates, for the approval of the board, to fill vacancies as and when they arise; and
- recommend the appointment of new executive and non-executive directors, including recommendations on the composition of the board and the balance between executive and non-executive directors and any adjustments that are deemed necessary.

Attendance at meetings:

Members (and invitees)	**Jun**	**Aug**
NN Lazarus SC (Chairman)	✓	✓
KM Ellerine	A	✓
GD Harlow	✓	✓
BM Levy^	✓	✓
MS Levy^	✓	✓
DB Rivkind^	✓	A

✓ *Attendance*
A *Apologies submitted and leave of absence granted*
^ *Attends by invitation and is not a member of the committee*

Investment Committee ("IC")

Members: GD Harlow (Chairman), NN Lazarus SC, JS Mthimunye, BM Levy, MS Levy, MV Pamensky, DB Rivkind, DA Suntup and DR Hilewitz (consultant)

Composition and meeting procedures: Meetings are held as the committee considers appropriate, but at least two meetings are held during a financial year. The quorum for an IC meeting is four members, of which two are executives and two non-executives, present throughout the meeting. Group Legal Counsel attends meetings by invitation only.

Role and functions: The responsibilities of the IC include:

- review acquisitions, investments and disposals made by the executive committee in accordance with the authority granted to it by the board;
- review, consider and approve proposed acquisitions, investments and disposals of the group recommended by the executive committee ranging between R40 million and R100 million;
- recommending to the board acquisitions and investments of the group above R100 million; and
- reviewing the performance of all investments and acquisitions made.

Attendance at meetings:

Members (and invitees)	**Jul**	**Feb**	**Apr**
GD Harlow (Chairman)	✓	✓	✓
S Gewer^	✓	✓	✓
DR Hilewitz	✓	✓	✓
NN Lazarus SC	✓	✓	✓
BM Levy	A	✓	✓
MS Levy	✓	✓	✓
JS Mthimunye	A	✓	✓
MV Pamensky	✓	✓	✓
DB Rivkind	A	✓	✓
DA Suntup	✓	✓	✓

√ *Attendance*
A *Apologies submitted and leave of absence granted*
^ *Attends by invitation and is not a member of the committee. Mr Gewer resigned as Group Legal Counsel on 31 July 2011 and Mr de Villiers was appointed in his stead*

Transformation Committee ("TC")

Members: GD Harlow (Chairman), KM Ellerine, LM Tyalimpi, BM Levy, DB Rivkind (alternate to BM Levy)

Composition and meeting procedure: Meetings are held at least twice per year and a quorum for a TC meeting is two members of the committee present throughout the meeting. The chairman, at his discretion, may invite other executives or employees to participate at meetings of the committee. Ms Hindley (group human resources and transformation manager) is a mandatory attendee of the TC meetings.

Role and functions: The responsibilities of the TC include:

- developing a transformation framework and policy;
- monitoring and overseeing the implementation of the transformation framework and policy; and
- overseeing the B-BBEE accreditation process of the group and monitoring the group's compliance with the DTI Codes of Good Practice.

Attendance at meetings:

Members (and invitees)	Oct	Feb
GD Harlow (Chairman)	✓	✓
KM Ellerine	✓	✓
BM Levy	✓	✓
LM Tyalimpi	✓	✓
IJ Hindley^	✓	✓

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

Executive committee ("Exco") and the Strategy Implementation Committee

Members: MS Levy (Chairman), BM Levy, MV Pamensky, DB Rivkind

Composition and meeting procedures: Meetings of Exco take place weekly. Mr Suntup (financial director of The Prepaid Company (Pty) Ltd) and the group legal adviser attend Exco meetings by invitation.

Role and function: Exco is responsible for managing and monitoring the business affairs of the company in line with board-approved plans, budgets, delegations and limits of authority, prioritising the allocation of capital and other resources, reviewing and approving acquisitions, disposals and investments, and establishing best management and operating practices. Exco is also mandated, empowered and held accountable for implementing the strategies, business plans and policies determined by the board. The board at its meeting held on 21 February 2011 approved an increase in the limit of authority granted to the Exco in terms of acquisitions, disposals and general investments from R20 million to R40 million. The rationale for the increase was that the authority level was set more than three years ago, and that there were few meaningful investments that did not exceed the existing authority level.

The Strategic Implementation Committee, which operated throughout the previous year, was dismantled during the year under review in favour of a more decentralised and streamlined approach, with responsibility for implementation of strategy now vesting with subsidiary boards and their executive committees.

COMPANY SECRETARY

Ms E Viljoen is the group company secretary for Blue Label and administers and monitors the statutory and governance compliance of its subsidiary companies. It is the responsibility of the group company secretary to ensure that the company complies with the JSE Listings Requirements and statutory requirements, as well as the implementation of governance practices and procedures as applicable to the company. The group company secretary is also responsible for ensuring that the proceedings and affairs of the directorate, the company itself, and where appropriate, owners of securities in the company, are properly administered in accordance with relevant laws. It is her responsibility to provide the board as a whole, and directors individually, with guidance as to how their responsibilities should be properly discharged in the best interests of the company. She also fulfils the role of compliance officer in ensuring compliance with applicable statutes, regulations and internal policies and procedures. As compliance officer she reports directly to the Audit, Risk and Compliance Committee. All directors have access to the advice of the company secretary and may liaise with her on agenda items for board meetings.

GOVERNANCE OF RISK

The board accepts responsibility for risk governance and is committed to managing risks in order to achieve key objectives and protect the core values of the company. The ARCC has been mandated to assist the board in carrying out its risk responsibilities. Management is accountable to the board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of Blue Label. The Internal Risk and Compliance Committee (IRCC) supports the enterprise-wide risk approach by identifying, evaluating and measuring group-wide risks and compliance in all functional areas of the group and implementing and maintaining adequate internal controls. The IRCC reports to the ARCC on a quarterly basis.

Blue Label has adopted an enterprise-wide approach to risk management, which means that key risks in the group are identified, assessed and monitored in a structured and systematic process of risk review and management. The risk management plan forms part of the annual internal audit plan approved by the ARCC. The approved plan for the ensuing financial year comprise inherent and residual risk assessments on a quarterly basis as well as the compilation and review of a separate IT related risk register to ensure complete visibility of all IT risks in the group by segment.

Management conducts group-wide risk assessments on a quarterly basis. This entails the identification and prioritisation of risks in accordance with the impact and likelihood of these risks. In line with the group's risk framework, the potential impacts of the risks are quantified on a five-point scale comprising catastrophic, critical, serious, significant and minor/insignificant. Risks are then further quantified in terms of the probability of occurrence in accordance with probability factors viz almost certain, likely, possible, unlikely and rare. Internal controls to mitigate the identified risks are evaluated to establish the appropriateness and adequacy of the existing controls to ensure that they perform the required risk mitigation. Management decides on the acceptance of the identified risk or exposure and, if considered high, an action plan and timeframe are put in place to reduce the level of risk to a more acceptable level.

The group's material impacts and risks are listed on page 60 on this report.

INTERNAL AUDIT

The Blue Label internal audit function is outsourced to KPMG Services (Proprietary) Limited (KPMG). The ARCC is responsible for reviewing and approving the internal audit charter and internal audit plans. Internal audit plans are compiled with input from management and balance risk-based and compliance reviews so as to maximise audit coverage while addressing the requirements of management. To ensure independence, internal audit functionally reports to the ARCC. The ARCC is satisfied that the independence of the internal audit function has not been impaired in any way.

Internal audit activities are performed by teams of appropriate qualification and experience. Internal audit conducts its work in accordance with internal auditing standards set by the Institute of Internal Auditing (IIA). Progress against the internal audit plan and the results of reviews were presented at ARCC meetings throughout the year.

The board recognises the importance of a sound system of internal control that supports the achievement of the group's objectives. The board acknowledges its overall responsibility for Blue Label's system of internal control. As recommended by King III, internal audit provided a written assessment of the system of internal controls and risk management to the board and a written assessment of internal financial controls to the ARCC.

GOVERNANCE OF INFORMATION TECHNOLOGY

King III defines IT governance as "a framework that supports the effective and efficient management of IT resources to facilitate the achievement of strategic objectives". IT governance is the responsibility of the board and management is responsible for the implementation of all structures, processes and mechanisms to execute the IT governance framework.

Dr Roussos is the chief information officer of Blue Label and is head of the Technology segment of the group. The group's IT framework includes:

- aligning strategy and business needs;
- delivering value and managing performance;
- information security;
- information management; and
- business continuity management.

IT governance is a focus area for the company in the ensuing 12 months to align the group with the principles of King III.

COMPLIANCE

Blue Label is committed to maintaining high standards of integrity, professionalism and ethical behaviour in all its relationships. This commitment is supported by the company's code of conduct set out above. Besides complying with the law, it is essential that each employee is sensitive to any improper conduct. The way in which each employee conducts the company's business directly affects the public image and reputation of the group.

On the recommendation of the ARCC, the board approved a corporate compliance policy, the objective of which is to provide a framework within which the board and management can operate in order to reinforce a compliance culture throughout the group. The corporate compliance policy focuses on the fundamental principles of business conduct supporting group values, and details the roles, authority and responsibility of key players.

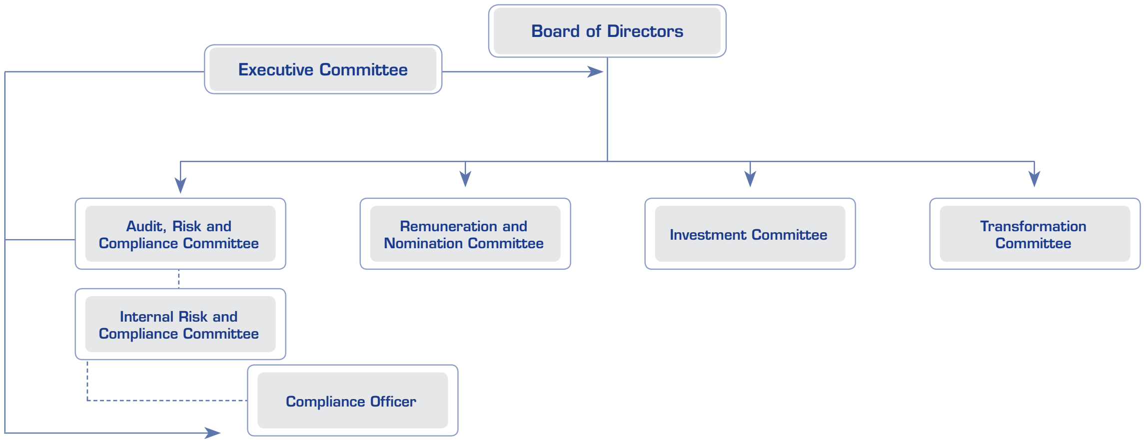
The governance structure and reporting lines supporting the compliance function is depicted below:

During the year Blue Label re-defined its regulatory universe and a focus area in the ensuing financial year will be on the implementation of a management tool to assist in evaluating the group's compliance with its regulatory universe, and the compilation of risk management plans to ensure that risks are mitigated effectively. The compliance process involves risk identification, risk assessment, compliance risk management and compliance risk monitoring.

No material judgements, damages, penalties or fines were recorded and/or levied against the group during the year under review for non-compliance with any legislation.

CONFLICTS OF INTERESTS

All group directors are required to disclose details of any external shareholdings, directorships and interests in material contracts involving group companies, so as to identify and manage conflict of interests. These declarations are assessed and tabled at the beginning of each quarterly board meeting. Board members are required to make appropriate disclosures when participating in deliberations or decision-making processes which could in any way be affected by vested interests and, if the circumstances require, must recuse themselves from participation.



Remuneration report

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration Committee has been delegated by the board with responsibility for determining the remuneration of the executive directors and senior managers, as well as for approving the allocation of shares under the company's forfeitable share plan. The Remuneration Committee also acts as the Nomination Committee. Governance principles applicable to the constitution, composition and function of the Remuneration and Nomination Committee are more fully set out on page 44 of this report.

The committee also makes recommendations in respect of the fee structure for non-executive directors and the fees for members of the board committees, for approval by the shareholders once approved by the board.

The committee consists of three non-executive directors, being NN Lazarus SC (chairperson), GD Harlow and KM Ellerine. The chief executive officers and the financial director attend certain meetings of the committee by invitation but do not vote on committee decisions.

Whilst the majority of the committee members are not categorised as independent, the board is satisfied that it is made up of the board members most suitably qualified to perform the role and that the committee members act impartially and fairly in that role.

The chairperson reports to the board on the committee's deliberations and decisions.

PHILOSOPHY

The committee aims to achieve a balance between shareholders' interests and attractive and appropriate executive and senior management remuneration packages. The remuneration policy is formulated to attract, retain and motivate top-quality people in the best interests of the group. Remuneration arrangements are designed to support Blue Label's business strategy, vision and to conform to best practices. Total rewards are set at levels that are competitive in the context of the relevant areas of responsibility and the industry in which the group operates. Total incentive-based rewards are earned through the attainment of demanding targets consistent with shareholder growth expectations.

POLICY

The remuneration of executive directors and senior management is determined on a total cost-to-company basis and has three components:

- fixed remuneration – fixed monthly salary and benefits;
- variable remuneration – a short-term performance related bonus scheme; and
- forfeitable Share Plan – a long-term performance related incentive scheme.

Fixed remuneration is reviewed annually to ensure that the executives and senior management who contribute to the success of the group remain remunerated at appropriate levels in accordance with the remuneration philosophy. The variable pay element provided by the short-term bonus scheme is intended to enhance total pay opportunities, should that be merited by corporate and individual performance. Long-term incentives, in the form of forfeitable shares awarded under the share plan, are based on a percentage of total annualised salary packages and are intended to reward sustained long-term performance and to align the interests of the executive and senior management with those of shareholders.

The purpose of the annual performance-related bonus scheme is to reward and motivate the achievement of group and subsidiary financial targets, as well as to motivate strategic and personal performance. The joint chief executive officers may earn an annual incentive bonus of up to 120% of fixed remuneration and other executive directors up to 70%. Senior management may earn up to 50% of their annualised salary package.

ADVISERS

In the course of its deliberations, the committee considered the view of the chief executives on the remuneration and performance of the other executive directors and members of senior management.

Independent advice on market information and remuneration trends is provided to the committee by external remuneration consultants from time to time. Blue Label's human resources department also assists the committee by providing supporting information and documentation relating to matters presented to the committee. The company bears all the expenses relating to the appointment of external remuneration consultants and other appropriate independent professional advisers.

FIXED REMUNERATION

Blue Label applies discretion in all remuneration reviews and there is no minimum across-the-board increase to all employees.

The inflation rate considered for salary increases was 4.2% based on CPI data for April 2011. Salary increases for the forthcoming financial year ranged from 0% to 4.2% in bands of 0%, 2% and 4.2%. Management of each operating company was given the discretion to apply the appropriate increase to each staff member falling under their control within the stipulated range.

The salaries of executive management for the forthcoming year will remain at current levels in accordance with the election by executive management not to take up an increase. Executive management made the election in support of the cost cutting initiatives implemented by the group.

Details of the directors' emoluments for the year ended 31 May 2011 appear on pages 182 to 183 of this report. King III recommends that the salaries of the top three executives, other than executive directors, should be disclosed. After due consideration of the provisions of King III, the company decided not to disclose the remuneration of these individuals due to their specialised skills, value to Blue Label and the competitive nature of these positions in the market.

It was also concluded that the disclosure in this Integrated Annual Report in respect of Prescribed Officers is adequate.

INCENTIVE BONUS PLAN

The executive directors and senior management participate in an annual incentive bonus plan, which is based on the achievement of short-term performance targets. These targets comprise financial and non-financial components. The financial performance component is based on growth in profits, as measured by headline earnings per share. The non-financial elements include the achievement of agreed transformation targets, progress in the company's growth strategy in the countries in which it operates, the rollout of the group's transactional footprint and the level of progress made in respect of organisational development issues and succession planning. Each of these elements carried an appropriate weighting.

For the year ended 31 May 2010 the joint chief executive officers and the chief operating officer elected not to take up their bonus allocations as they were not satisfied with the group's financial performance. In respect of the year ended 31 May 2011 they again elected not to take up their bonus allocations. They are to be commended for leading by example.

The aggregate sum of the bonuses allocated to senior members of staff and executives amounted to R9 million.

FORFEITABLE SHARE PLAN

Forfeitable shares awarded in September 2010 will vest over a period of three years commencing on 1 September 2010 and ending on 1 September 2013. The element of performance criteria will be based on group results and individual performance for the years ended May 2011 to May 2013.

The criteria for vesting comprises 25% retention, 25% non-financial indicators and group performance makes up 50% determined with reference to growth in CPI plus 15% over the three-year vesting period. Refer to note 32 of the group annual financial statements for details of performance conditions.

The forfeitable shares that were granted to executive directors during the year are as follows:

	Balance 1 June 2010	Issue date	Forfeitable shares awarded	Vesting date	Balance 31 May 2011
BM Levy	343 060	1 September 2010	450 486	1 September 2013	793 546
MS Levy	343 060	1 September 2010	450 486	1 September 2013	793 546
MV Pamensky	250 148	1 September 2010	379 787	1 September 2013	629 935
DB Rivkind	149 572	1 September 2010	196 409	1 September 2013	345 981

EXECUTIVE SERVICE CONTRACTS

The three-year service contracts of the executive directors were renewed in November 2010 for a further three-year period. These contracts include a restraint of trade provision applicable for a period of 12 months from the day that the executive leaves the employ of the company of his own accord. The restraint of trade is not enforceable in the event of the employment contract not being renewed by the company or if the executive's employment is terminated by the company.

NON-EXECUTIVE REMUNERATION

Non-executive directors receive fees for service on the board and board committees, dependent on attendance. Non-executive directors do not receive short-term incentives nor do they participate in the forfeitable share plan of the company. The fees payable to the chairman and non-executive directors are recommended by the Remuneration and Nomination Committee to the board, which in turn proposes the fees for approval by the shareholders at the annual general meeting.

Non-executive directors may be contracted to render services to the group in addition to the aforegoing services from time to time. The remuneration for such additional services is considered by executive management and approved by the chairman of the board and thereafter submitted to the board for its approval. Details of the fees paid to each of the non-executive directors during the year under review are reflected on pages 182 to 183 of this report.

The group intends to continue to use the services of GD Harlow and NN Lazarus SC during the forthcoming 2012 financial year for the provision of legal, corporate, financial and strategic advice, and they shall continue to render those services for market-related fees. The fees shall continue to be considered by executive management, approved by the chairman of the board, who will, in turn, submit the fees to the board from time to time for approval.

The board resolved at its meeting held on 6 July 2011 that non-executive directors' remuneration not be increased for the 2012 financial year in support of and in solidarity with the cost cutting initiatives implemented by the group. The proposed fees payable to non-executive directors are set out below:

	Fee per meeting*	Capped fee per annum**
Services as directors		
> chairman of the board	—	R750 000
> board members	R34 340	R171 700
Audit, Risk and Compliance Committee		
> chairman	R47 694	R190 776
> members	R28 617	R114 468
Remuneration and Nomination Committee		
> chairman	R38 155	R152 620
> members	R22 894	R91 576
Investment Committee		
> chairman	R28 617	R228 936
> members	R17 170	R137 360
Transformation Committee		
> chairman	R28 617	R114 468
> members	R17 170	R68 680
Ad Hoc Committee		
> chairman	R28 617	R114 468
> members	R17 170	R68 680

* *In the event that there are fewer meetings than envisaged, the member shall receive the fee in respect of the number of meetings attended*

** *In the event that there are more meetings per year than initially planned, directors' fees will be paid only up to the capped fee*

No increase has been applied to the above listed fees and the fees are as per the fees approved by shareholders for the previous year 1 June 2010 to 31 May 2011.

Report of the Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee ("ARCC" or "the committee") is pleased to present its report for the financial year ended 31 May 2011. This report is presented in accordance with the requirements of the Companies Act and the recommendations contained in King III.

MANDATE AND TERMS OF REFERENCE

The ARCC discharges its duties in accordance with a formal detailed terms of reference. During the year under review the terms of reference were updated and approved by the board. In terms of the revised terms of reference the ARCC is mandated to:

- examine and review the group's financial statements and reporting of interim and final results;
- review and consider, for recommendation to the board, the consolidated budget for the ensuing financial year;
- oversee integrated reporting;
- oversee the Internal Risk and Compliance Committee;
- oversee the functions of the Compliance Officer;
- ensure that Blue Label has implemented an effective policy and plan for risk management that will enhance the company's ability to achieve its strategic objectives;
- ensure that the disclosure regarding risk is comprehensive, timely and relevant;
- ensure that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities;
- review and satisfy itself of the expertise, resources and experience of the Blue Label finance function;
- oversee the internal audit function and internal financial control process;
- recommend the appointment of the external auditor and overseeing the external audit process including external auditor's independence;
- establish, implement and maintain a compliance function with adequate policies and procedures to ensure compliance with rules, regulations, statutes and procedures applicable to Blue Label;
- report to the board and shareholders on how it has discharged its duties.

COMPOSITION AND PROCEDURES

The members of the ARCC are JS Mthimunye [chairman], GD Harlow, NN Lazarus SC and LM Tyalimpi. All of the members of the ARCC save for Mr Lazarus SC are independent non-executive directors. Mr Lazarus SC has specialist professional skill and experience and makes an important contribution to the work of the committee. Mandatory attendees of the ARCC include BM Levy, MS Levy, DB Rivkind, DA Suntup (financial director of TPC), the audit partner from PricewaterhouseCoopers Inc. and a partner from KPMG to whom Blue Label outsources its internal audit function.

The quorum for an ARCC meeting is three members present throughout the meeting. The ARCC meets quarterly and at every meeting the external and internal auditors have an opportunity to address the meeting. The external and internal auditors also have direct access to the ARCC to hold separate private discussions on matters they deem important.

Attendance at meetings:

Members (and invitees)	Jun	Aug	Nov	Feb
JS Mthimunye (Chairman)	✓	✓	✓	✓
GD Harlow	✓	✓	✓	✓
NN Lazarus SC	✓	✓	✓	✓
LM Tyalimpi	✓	✓	✓	✓
BM Levy^	✓	✓	✓	✓
MS Levy^	✓	✓	A	✓
DB Rivkind^	✓	✓	✓	✓
DA Suntup^	✓	✓	✓	✓

✓ *Attendance*
A *Apologies submitted and leave of absence granted*
^ *Attends by invitation and is not a member of the committee*

The internal auditors and external auditors attended and reported at each meeting of the ARCC.

DUTIES DISCHARGED

During the financial year ended 31 May 2011, the ARCC carried out its duties as set out in the terms of reference and in accordance with its annual plan. The committee's role and responsibilities included its statutory duties as per the previous Companies Act of 1973 (as amended), the Companies Act 71 of 2008 and the responsibilities assigned to it by the board. The committee performed the following duties:

> reviewed and commented on the annual financial statements and the accounting practices;
> reviewed interim reports and results announcements and recommended these to the board for approval;
> considered the committee's report describing how duties have been discharged;
> reviewed the external auditor's report to the committee and management's responses;
> nominated the re-appointment of PricewaterhouseCoopers Inc. with Eben Gerryts the audit partner, as the registered independent auditors;
> ensured that the appointment of the external auditor complies with the previous Companies Act of 1973 (as amended) and any other legislation relating to the appointment of the auditors;
> reviewed significant judgements and/or unadjusted differences resulting from the audit, as well as any reporting decisions made;
> monitored compliance with accounting standards and legal requirements;
> ensured that all regulatory compliance matters had been considered in the preparation of the financial statements;
> determined the fees to be paid to PricewaterhouseCoopers Inc. and approved the terms of engagement;
> maintained a non-audit services policy which determines the nature and extent of any non-audit services that PricewaterhouseCoopers Inc. may provide to the group;

- discharged those statutory obligations of an audit committee as prescribed by section 270A of the previous Companies Act of 1973 (as amended) and section 94 of the Companies Act 71 of 2008 acting in its capacity as the appointed audit committee of the subsidiary companies of Blue Label;
- reviewed the co-operation and co-ordination between the internal and external audit functions and co-ordinated the formal internal audit work plan with external auditors to avoid duplication of work;
- examined and reviewed the progress made by internal audit against the approved 2010/2011 audit plan and furthermore approved the internal audit plan for the 2011/2012 financial year;
- considered the effectiveness of internal audit;
- considered internal audit findings and corrective actions taken in response to findings;
- formed an integral component of the risk management process and, among others, monitored quarterly risk assessments and considered the adequacy of internal financial controls;
- considered and approved a Corporate Compliance Policy;
- reviewed developments in corporate governance and best practice and considered their impact and implications on the group in particular the principles of King III;
- satisfied itself that the financial director is suitable and appropriately qualified to fulfil his role and that the finance function of Blue Label is suitably resourced and skilled to carry out its obligations;
- reviewed and aligned the committee's terms of reference with the Companies Act 71 of 2008 and principles of King III;
- reviewed the text of various reports, including the corporate governance statement, the internal audit assurance statement, the sustainability report and the directors' report, for inclusion in the Blue Label's 2011 Integrated Annual Report.

EXTERNAL AUDITORS

The ARCC has satisfied itself as to the independence of the external auditor, PricewaterhouseCoopers Inc., as set out in section 270A of the previous Companies Act of 1973 (as amended) and section 94(7) of the Companies Act 71 of 2008, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by PricewaterhouseCoopers Inc. that internal governance processes within the firm support and demonstrate their claim to independence.

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2011 financial year.

Non-audit services to be provided by the external auditors are governed by a formal written policy which incorporates a monetary delegation of authority in terms of non-audit services to be provided. The committee has approved the terms of the written policy for the provision of non-audit services, and approved the nature and extent of non-audit services that may be provided by the external auditor.

The non-audit services rendered by the external auditors during the year ended 31 May 2011, comprised tax advisory services, tax compliance services and general advisory services. The fees applicable to the aforementioned services totalled R3.4 million (2010: R1.8 million).

The ARCC has nominated, for approval at the annual general meeting, the re-appointment of PricewaterhouseCoopers Inc. as registered auditors for the 2012 financial year and Mr Eben Gerryts, the audit partner, as the independent registered auditor of Blue Label Telecoms. The committee also satisfied itself that PricewaterhouseCoopers Inc. is accredited and appears on the JSE List of Accredited Auditors as contemplated in paragraph 3.86 of the JSE Listings Requirements.

INTERNAL AUDITORS

The internal auditors report administratively to the financial director and functionally to the ARCC and operate under an approved internal audit charter and audit plan. The internal audit partner is responsible for reporting the findings of the internal audit work against the agreed internal audit plan to the committee on a quarterly basis. The internal audit partner has direct access to the committee.

The ARCC has overseen a process by which internal audit performed a written assessment of the effectiveness of the group's system of internal control and risk management, including internal financial controls. This written assessment by internal audit formed the basis for the ARCC's recommendation in this regard to the board, in order for the board to report thereon. The board report on the effectiveness of the systems of internal controls is included on page 93 of this report. The ARCC supports the opinion of the board in this regard.

RISK MANAGEMENT

The committee is responsible for monitoring risk management in the group, whilst the board retains overall accountability for risk in general. The IRCC supports the ARCC by identifying, evaluating and measuring group-wide risks and compliance in all functional areas of the group. The ARCC reviews the minutes of the IRCC on a quarterly basis and clarifies any questions or concerns with the financial director who is chairman of the IRCC.

COMPLIANCE

A corporate compliance policy was approved by the ARCC. The compliance officer has obtained the necessary authority to implement a management tool to assist in evaluating the group's compliance with its regulatory universe and the compilation of risk management plans to ensure that risks are mitigated effectively. The committee will be provided with appropriate progress reports as the project progresses.

WHISTLE-BLOWING AND ETHICS HOTLINE

The committee is satisfied that instances of whistle-blowing were appropriately dealt with during the year under review.

Report of the Audit, Risk and Compliance Committee continued

EXPERTISE AND EXPERIENCE OF THE FINANCIAL DIRECTOR AND FINANCE FUNCTION

In accordance with the JSE Limited Listings Requirements and governance best practice, the committee considered the appropriateness of the expertise and experience of the financial director and finance function of the group. The ARCC is satisfied that Mr David Rivkind possesses the appropriate expertise and experience to discharge his responsibilities.

The ARCC has furthermore considered and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for the finance function.

ANNUAL FINANCIAL STATEMENTS

The group annual financial statements and company annual financial statements have been prepared by senior management and supervised and reviewed by Mr Rivkind.

The committee has reviewed the annual financial statements of the company and the group and is satisfied that they comply with International Financial Reporting Standards and the Companies Act.

RECOMMENDATION OF THE INTEGRATED ANNUAL REPORT FOR APPROVAL BY THE BOARD

The ARCC has reviewed the report and recommended the report for approval by the board.

JS Mthimunye
Chairman
10 October 2011

Sustainability report

VALUE ADDED STATEMENT

The value added statement of the group shows how much economic value has been created by Blue Label through its utilisation of capital, capacity and other resources and how the economic value was distributed to stakeholders.

	2011 R'000	2011 %	2010 R'000	2010 %	2009 R'000	2009 %
Value added						
Value added by operating activities	1 008 910	95.2	989 172	92.2	847 005	84.2
Revenue	18 601 571		17 027 696		15 281 449	
Net operating expenses	(17 592 661)		(16 038 524)		(14 434 444)	
Value added by investing activities	50 645	4.8	84 127	7.8	158 539	15.8
Fair value movement on financial assets at fair value through profit or loss	—		—		32	
Interest income	50 645		84 127		158 507	
	1 059 555	100	1 073 299	100	1 005 544	100
Value distributed						
Distributed to employees	298 718	28.2	299 928	27.9	278 970	27.7
Salaries, wages, medical and other benefits	298 718		299 928		278 970	
Distributed to providers of finance	8 221	0.8	5 130	0.5	4 891	0.5
Finance costs	8 221		5 130		4 891	
Distributed to the state	171 620	16.2	183 773	17.2	190 144	18.9
Income tax	171 620		181 838		190 144	
Withholding tax	–		1 935		–	
Value reinvested	196 025	18.5	159 287	14.8	166 574	16.6
Depreciation, amortisation and impairment	193 132		119 785		93 220	
Net discounting finance cost	17 634		41 537		61 269	
Share of losses of associates	2 757		14 982		27 445	
Deferred taxation	(17 498)		(17 017)		(15 360)	
Value retained	384 971	36.3	425 181	39.6	364 965	36.3
Retained profit	431 448		365 022		390 547	
Minority shareholders' interest	(46 477)		60 159		(25 582)	
	1 059 555	100	1 073 299	100	1 005 544	100

MATERIAL IMPACTS AND RISKS

In determining the material impacts and risks of the group, a formalised group-wide "top down" and "bottom up" risk management process is applied. The following key impacts and risks to the group have been identified:

Category	Impact/risk	Comment
Economic	General economic conditions, including certain political, social and environmental conditions in South Africa	In an economic downturn consumers are forced to limit expenditure, particularly on non-essential needs. This could have an adverse effect on revenue and profitability. The depressed interest rate environment affects the revenue earned from treasury. While South Africa features a highly developed financial and legal infrastructure at the core of its economy, it has high levels of unemployment, poverty and crime. Particular considerations include how the Government addresses political tensions and social and economic problems, the extent to which its efforts will be successful, the political, social and economic consequences of such efforts, and the effect on businesses of the continuing integration of the local economy with the economies of the rest of the world, in particular Brazil, Russia, India, China and South Africa.
Financial	Margin compression	Network operators determine the margins to the prepaid airtime distribution channel. Blue Label may not always be able to pass on to the retailer or customer any margin compression enforced by the network operators.
Financial	Reduction of inter-connect fees	Parliamentary intervention has reduced cellular inter-connect fees, and is likely to promote further decreases in the immediate future. This, in turn, has led to some lowering of cellular airtime prices. It is expected that downward pressure on the networks' prices is likely to continue. Lower pricing may lead to both margin compression by the networks and decreased spend by consumers.

	Response
	It has been the group's experience over the last 10 years that the diversity of its mix of products and services and distribution channels has limited its exposure to economic downturns. The bulk of the product mix consists of goods, the demand for which thus far appears inelastic. Consumers appear to be unwilling to reduce spending on utilities, transport and even airtime. In this regard the group's products are bought rather than sold. The group has negotiated early settlement discounts and bulk purchase discounts with its suppliers to compensate, in part, for the loss of interest revenue from treasury activities. Blue Label believes that economic sentiment is positive in the areas in which it operates. In the past it has taken courageous decisions to terminate business activities in areas where returns have not delivered appropriately when compared to other competing opportunities. The group continues to consider expanding its operations beyond South Africa, India and Mexico with particular focus on other emerging markets, typified as large and fast growing with low penetration markets.
	Management is confident that based on the terms of the group's customer agreements and business model it should continue to be able to pass on any margin compression to the distribution channel. Any margin compression is also likely to force inefficient distributors out of the distribution chain, a trend welcomed by management.
	The group continues to monitor the situation, but believes that it should be able to pass margin compression onto the distribution channel. At this stage it would appear that networks are passing on the majority of the benefits of lower pricing to contract subscribers. The decreases in prepaid call rates that the networks have thus far implemented have not affected group turnover. It is management's view that prepaid customers currently consume less airtime than they require, but as much as they are able to afford. It would therefore appear likely that prepaid consumers' spend should remain the same, but consumers will receive more value for that spend.

Category	Impact/risk	Comment	
Economic	Changes in regulatory environment	Consumer Protection Act (CPA) governs suppliers and consumers in relation to, inter alia, the supply of goods and services in the ordinary course of business for consideration; the promotion of goods and services and the promotion of the supply thereof in South Africa. This act impacts the majority of the group. Protection of Personal Information Bill restricts the ability to use personal information of individuals. If promulgated it could affect the outbound sales campaigns of the group's call centres and the revenues earned by Blue Label Data Solutions.	
Social	Inability to attract and retain key and qualified employees in whom intellectual capital resides	The group's future performance will depend largely on the efforts and abilities of its key personnel and employees. The existing management at Blue Label pioneered the mass prepaid market and established the group's business model. Blue Label future success will depend, in part, upon its ability to continue to attract, retain, motivate and reward personnel, including executive officers and certain other key technical employees.	
Financial	Non-exclusivity of various supply, distribution and WASP agreements	Certain of the group's supply, distribution and WASP agreements are non-exclusive and can be terminated at relatively short notice. This type of agreement is standard in the industry.	

	Response
	The group has made a number of changes to its business practices to comply with the provisions of the CPA. The most significant changes pertained to the group's prepaid vouchers. In terms of the CPA these vouchers will not expire until the earlier of the date of redemption or three years after the date of issue. This requirement necessitated the upgrade of the group's technology to allow for vouchers to remain valid for a period of three years. Revenues earned from the Solutions segment are not significant to overall group income. Regulations under the bill are unclear and could exempt certain activities. The group's call centres and data aggregator have developed affinity campaigns in which permission is obtained to use personal information. The call centres continue to pursue inbound campaigns which will not be affected by the proposed legislation. The group's data aggregator has renewed its certification from the Direct Marketing Association that it adheres to best practice.
	The joint chief executive officers and co-founders, are both substantial shareholders and are passionate and dedicated to the sustainability and growth of the group. Key members of the management team are bound by service and restraint agreements and in many instances are shareholders of Blue Label. Executive management has implemented talent management and succession planning in key areas of the group. Appropriate skills transfer activities are ongoing through on the job and other training programmes. The Remuneration and Nomination Committee has approved remuneration policies which include long-term retention benefits and incentives. In addition, key components of the group's remuneration policy have been adjusted to focus on retention.
	Management is committed to growing the group's footprint by increasing its points-of-presence (touch points) and owning the entire technological value chain, which drives the group's products and services. Presently the group's points of presence number some 140 000 in South Africa alone and nearly 1 million across the world. This has placed the group in a strong position in the distribution chain. Relationships with and service to suppliers and customers are of paramount importance. The consolidation of the South African distribution segment allows for an increased focus on client relationships and management and specific CRM initiatives have been implemented.

Category	Impact/risk	Comment	
Financial	Elimination of the middle man	In most industries a wholesaler is at risk of being eliminated from the supply chain if the supplier elects to supply the customer directly.	
Financial	Disaster recovery and continuity of business	The group has developed proprietary technology supporting the rollout of its bouquet of products and services. The group's infrastructure connects into some of South Africa's major banks, utility companies and telecommunication operators and switches both debit and credit card electronic funds transfer transactions and e-token products for some of the country's leading retailers and petroleum companies. The effective continuous operation of this infrastructure is critical to the company's service delivery.	

	Response
	From inception, the objective of the Blue Label group was to become a one-stop destination for the supply and distribution of all of the networks' offerings. This would provide both convenience and efficiency to the retailer and customer. Furthermore the technology and footprint developed by the group allows retailers to earn additional revenue by the introduction of additional products. This would make it difficult to disintermediate the group. No single network can offer this complete solution. The introduction of the sale of prepaid electricity, and its phenomenal uptake in South Africa, would seem to be proof that it remains difficult to eliminate the middle man, who continues to rely on Blue Label as the neutral aggregator in both the prepaid airtime and electricity markets.
	Management recognises the importance assigned to IT in its corporate governance systems. The management team in the Technology segment is being strengthened. The group has compiled a formal Business Continuity and Disaster Recovery Plan which provides guidance for the restoration of Information Technology facilities. The plan describes the IT framework and procedures to be activated in the event of a disaster. The major goals of the plan are to: > minimise interruptions to the normal operations; > limit the extent of disruption and damage; > minimise the economic impact of the interruption; > establish alternative means of operation in advance; > train personnel with emergency procedures; and > provide for rapid restoration of service.

STAKEHOLDER ENGAGEMENT

The building of long-term and transparent relationships with the most significant stakeholders is one of Blue Label's core values. A broad range of internal and external stakeholders having a material interest in or who are affected by Blue Label have been identified. The group has a deliberate and measured approach to its interaction with stakeholders, taking into account the impact that each stakeholder may have on the business, while the frequency and form of that engagement is commensurate to its estimated impact.

Initiatives and methods used to engage with stakeholders comprise face-to-face formal or informal, individual or group meetings (including the annual general meeting); media and stock exchange announcements; presentations; road shows; conference calls; the Blue Label website (www.bluelabeltelecoms.co.za); an intranet site for employees; investor days and site visits; perception studies and reputation audits; whistle-blowing facilities and formal grievance mechanisms; financial and sustainability reports; newsletters, circulars and e-mail updates; regular customer, business partner and supplier meetings and formal consultation and audit processes. Dialogue and feedback is encouraged wherever possible which is presented to Exco for consideration and/or further action.

Blue Label's stakeholders consist of the following main groups:

Stakeholder group	Nature of engagement	Method of engagement	Frequency	Dialogue
Employees	Communication with employees involves matters of an operational nature such as health and safety initiatives, internal policies and practices such as the establishment of the ethics hotline, new products, competitions, business initiatives, charitable initiatives, human resource matters and regulatory and compliance matters.	Intranet, staff meetings, newsletters, electronic mail, staff notices	Ongoing	Staff performance is reviewed on an annual basis with the intention of measuring performance, however it also provides a forum at which staff may make recommendations and/or requests. Several recommendations have been received in this manner, such as the requirements for increased access to skills and development, and career development objectives. Blue Label Academy was established in August 2011, as an e-learning portal which is accessible to all staff. Blue Label purchased two licences per staff member, which entitled them to access and complete two business skills courses or one business skill and one technical course as appropriate.
	In addition to the ongoing communication Blue Label also holds an annual management conference attended by senior and middle management of the group. The purpose of the conference is to obtain input and feedback from the attendees on matters of a strategic nature specific to each business segment.	Annual management conference	Annually	

Stakeholder group	Nature of engagement	Method of engagement	Frequency	Dialogue
Providers of capital, including shareholders, investors and financial analysts	Engagement with this stakeholder group involves presentations and ad hoc meetings covering the financial performance of the group, an overview of the strategic direction, investment proposition, investor days and site visits. This also includes offering management access to financial analysts, institutional and retail investors. Names and contact details are registered on the Blue Label investor database.	Roadshows to institutional investors in South Africa, Europe, USA and United Kingdom	Ongoing	This stakeholder group indicated that they would like a deeper exposure to the management team and increase their understanding of the business model. To address this request an Investor Day was held in October 2010 hosted by the Joint CEOs and management team. The event was attended by 50 interested and affected parties. The presentation is available on the company website. The company has furthermore established a demonstration room at which transactions are simulated on the various terminals.
		Half-year results and year-end results presentations to shareholders	Bi-annually	
		Annual report and annual general meeting	Annually	
		Press announcements of its interim and year end results	Bi-annually	
		SENS announcements via the JSE	Ongoing	
		Face to face meetings, group meetings, conference and video conference calls		
		Speaker at conferences and workshops	Ongoing	
		Investor alerts via website registration		
Journalists, reporters and other members of the media	Announcements of activities and events in the group, including the release of financial information, are communicated timeously to the financial media, trade press and other interested media registered on the Blue label media database	News releases are distributed to media representatives Group briefings are held, followed by Q&A Interviews are conducted	Ongoing	This stakeholder group was included in the Investor Day.

Stakeholder group	Nature of engagement	Method of engagement	Frequency	Dialogue
Customers	The group's customer base comprises corporate clients, chainstores, large independent retail clients, wholesale/ cash-and-carry stores, mom & pop stores and petroleum industry forecourts. Engagement with customers involves information on new products, market trends, business queries, device installations, marketing, Blu Approved branding, maintenance and support. Blue Label senior management liaises regularly with senior management of customers and suppliers, and in so doing, have built long-term relationships.	Face-to-face formal and informal meetings, formal consultation. The company has implemented a Client Relationship Management (CRM) system to enhance its customer engagement.	Ongoing	Frequently asked questions by customers centre around matters of a technical nature or account queries. If it is a technical issue a call out is logged and a technician will visit the store within 24 to 48 hours. Account queries that need to be escalated are dealt with by Customer Service Representatives ("CSR") who will visit the merchant to resolve the query. Our CSRs also provide point of sales material, check if the merchant requires an additional product and to a degree are also able to assist with minor repairs and rebrand machines. The Contact Centre will also regularly send merchants emails and sms's to keep them up to date. The Business Unit Managers have good relationships with merchants and also pay them courtesy visits to ensure open lines of communication.

Stakeholder group	Nature of engagement	Method of engagement	Frequency	Dialogue
Business partners and suppliers	The relationships that Blue Label has with its business partners such as Vodacom, MTN, Cell C, Telkom, municipalities and parastatals, service providers, among others, are managed in terms of distributor and/or dealer agreements. Relationship managers are appointed to each partner to provide a single and dedicated point of contact. Suppliers are subjected to a formal procurement process whereby issues such as quality of product, creditworthiness and B-BBEE status are confirmed prior to becoming suppliers. Suppliers of services are, if appropriate, initially engaged through a tender process and if successful, agreements are concluded. The majority of the group's goods and services are procured from locally based suppliers.	Distributor and/ or dealer agreements Face-to-face formal and informal meetings	Ongoing Monthly	Matters raised pertain predominantly to technical and operational matters which are resolved timeously to ensure smooth service delivery.

Stakeholder group	Nature of engagement	Method of engagement	Frequency	Dialogue
Communities	The TPC Community Channel specialises in the development and empowerment of broad-based communities through the deployment of mobile technology and products. The community channel aims to not only distribute the group's products more widely but to create job opportunities for the members of the communities and to share a portion of the revenues earned with those communities. The company also engages with the business community on a regular basis. The joint chief executive officers are involved in collaborative projects with the Gordon Institute of Business Science (GIBS). The joint chief executive officers are regularly recognised for their contributions to the community eg Entrepreneur of the year finalist, IT personality of the year, as detailed in each person's biography on page 11 of this report.	Face-to-face formal and informal meetings and forums Training and workshops Presentation at conferences Participation in panel and round table discussions	Ongoing Informal weekly sessions and formal monthly sessions Ad hoc as requested.	The communities in which the TPC Community Channel operates are concerned about the upliftment of their community, the enhancement of skills and the provision of services to their rural areas. This concern is directly addressed by the objective of the Community Channel as it focuses on providing services to these communities as well as creating job opportunities and economic upliftment.
Government, regulatory bodies and the public sector	The group regularly engages government (at national and local level), parastatals and other public organisations through various tender processes. From a compliance point of view, the completion and rendition of statutory returns are undertaken diligently. Blue Label is not a member of any industry association and/or national/international advocacy organisation in which the company has positions in governance bodies, participates in projects or committees or provides substantive funding.	Formal meetings and tender processes	Regular and ongoing	During the year under review no prosecutions or fines were brought against the group for the contravention or non compliance of any laws or regulations.

SHAREHOLDER ANALYSIS

Below is a synopsis of Blue Label Telecoms Limited's shareholder spread as at 27 May 2011, showing the distribution of shareholders and beneficial shareholders holding 2% or more of the issued share capital of the company:

Shareholder spread	Number of shareholdings	%	Number of shares	%
1 – 1 000 shares	645	20.01	358 501	0.05
1 001 – 10 000 shares	1 717	53.27	6 925 546	0.73
10 001 – 100 000 shares	628	19.48	18 730 172	1.84
100 001 – 1 000 000 shares	162	5.03	58 940 628	4.33
1 000 001 shares and over	71	2.20	681 406 047	93.06
Totals	3 223	100.00	766 360 894	100.00

Distribution of shareholders				
Banks	31	0.96	109 832 854	14.33
Close Corporations	64	1.99	1 772 641	0.23
Empowerment	1	0.03	818 979	0.11
Endowment Funds	22	0.68	787 297	0.10
Individuals	2 427	75.30	189 168 175	24.68
Insurance Companies	19	0.59	12 480 835	1.63
Investment Companies	18	0.56	19 090 907	2.49
Medical Schemes	3	0.09	537 950	0.07
Mutual Funds	81	2.51	95 328 132	12.44
Nominees and Trusts	348	10.80	43 332 620	5.65
Other Corporations	46	1.43	604 856	0.08
Private Companies	99	3.07	148 292 935	19.35
Public Companies	7	0.22	94 763 578	12.37
Retirement Funds	55	1.71	39 296 240	5.13
Treasury Stock	2	0.06	10 252 895	1.34
Totals	3 223	100.00	766 360 894	100.00

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	20	0.62	401 250 133	52.36
Directors and associates	16	0.50	182 409 386	23.80
Strategic Holdings (10% or more)	2	0.06	208 587 852	27.22
Treasury stock	2	0.06	10 252 895	1.34
Public shareholders	3 203	99.38	365 110 761	47.64
Totals	3 223	100.00	766 360 894	100.00

Beneficial shareholders holding 4% or more	Number of shares	%
Shotput Investments (Pty) Ltd	116 736 000	15.23
Microsoft Corporation	91 851 852	11.99
Levy, BM	82 613 331	10.78
Levy, MS	75 205 922	9.81
Fidelity	42 350 497	5.53
Investec	38 004 822	4.96
Totals	446 762 424	58.30

SOCIAL PRACTICES

Transformation and broad-based black economic empowerment (B-BBEE)

The group continues to develop and progress transformation and B-BBEE in respect of the South African businesses. During the year under review Nthwese Investment Holdings Consortium (Pty) Ltd, the company's empowerment partner, sold down its shareholding. The Transformation Committee continue discussions with various B-BBEE groupings with suitable skills and stability with a view to concluding an empowerment transaction.

The group's approach to B-BBEE verification is at subsidiary level rather than holding company level. The group subsidiaries will undergo respective renewal verifications later this calendar year.

Transformation and B-BBEE focus areas continue to include training initiatives, inclusive of learnerships, enterprise development initiatives and comprehensive socio-economic initiatives through the Chairman's Fund.

Socio-economic development (SED)

Blue Label contributed R3.5 million (2010: R3.1 million) to various projects via The Chairman's Fund. The thrust of these contributions remained on youth development, HIV and Aids, and sports development with continuous support given to the Protea Glen Legacy Park and Nomonde's Children's Home and the Netcare

Cranio Facial Programme in partnership with Vodacom.

Other charitable organisations supported, included Business Against Crime, Feed SA, Afrika Tikkun, Soweto Marimba Youth League and Malamulele Onwards.

Staff also actively participated in various charitable initiatives, collecting soup and blankets in winter, raising R18 000 in support of Madiba Day by selling home made products and including the children from the Soweto Mariba Youth League Band in the Family Day festivities.

Enterprise development

Blue Label, through its major subsidiary TPC continues to provide financial assistance on an interest free basis to ZOK Cellular (Pty) Limited (ZOK). In addition, Blue Label provides management and strategic support and other resources to ZOK. The ZOK strategy aims to empower budding entrepreneurs from South Africa's previously disadvantaged communities, by equipping them with a ready-made ZOK container equipped for a Fast Moving Consumer Goods retailing solution. The container is a licensed business unit designed as a self contained turnkey business with start-up stock for food retail, airtime starter packs and top-up airtime, public phones, fax facilities, internet services and ATM facilities. Placing ZOK containers in previously disadvantaged areas is intended to bridge the gap in telecommunications, ICT and banking services in such areas, as well as to uplift the communities in the areas served by the containers.

Preferential procurement

The group continues to support those organisations which are B-BBEE verified.

HUMAN CAPITAL

The group recognises that its employees are its most valuable asset. All new employees undergo an induction session during which they receive a staff manual comprising the group's vision, mission, values, ethics statement, conditions of employment, standard group employment, standard group practices, procedures and policies, as well as a health and safety booklet. The group human resources department oversees the group's skills development and training initiatives. Senior management in each of the subsidiaries is responsible for ensuring that group strategy and culture are implemented consistently.

All permanent employees are automatically included in various group-wide schemes, namely, the group life benefit and medical aid, as well as free access to group products and services such as miTRAFFIC, Look4help, Look4me, MTN WhereRU, MTN 2MyAid and more recently MiPayslip.

The group life benefit scheme is employer funded and includes death, disability, dreaded disease and funeral benefits. All existing employees have an option to join Discovery Health, while membership is compulsory for all new permanent employees. All changes to terms and conditions of employment, inclusive of changes to significant operational matters are dealt with on the basis of consultation with staff and mutual acceptance.

The company has a monthly internal newsletter detailing current affairs, various wellness issues, profiling employees and recognising those who have been nominated for making a positive contribution to their work place or community. Those employees are issued the “Super Hero of the Month “ award.

Blue Label does not consider incidents of child labour, forced or compulsory labour to be a risk to any of its operations due to the protection provided by the Constitution of the Republic of South Africa, the Bill of Rights as well as the labour laws of the country.

EMPLOYMENT EQUITY

The group promotes equal opportunity and fair treatment in employment in accordance with its employment equity policy. The objective is to create an environment in which all employees are able to compete for job opportunities on the sole criterion of merit.

The individual subsidiary company employee statistics are monitored by the group human resources department. The group strives to ensure job descriptions and functionalities of top, senior and junior management are accurately reflected in the Employment Equity reports submitted annually, and to align the DTI Codes of Good Practice and the employment equity reports. Blue Label continues to be non-unionised.

The table below reflects the demographics of the employee base across the group, excluding international operations:

BLUE LABEL GROUP

Equity headcount by category summary 2010

Occupational level	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Permanent									
Unskilled & defined decision makers	22	0	3	7	19	5	3	3	62
Semi-skilled & discretionary decision makers	142	60	106	23	279	114	126	69	919
Skilled technical & academically qualified workers, junior management, supervisors	47	25	12	95	43	15	7	56	300
Professionally qualified & experienced specialists & mid-management	8	3	7	47	3	2	3	15	88
Senior management	1	2	1	21	6	5	3	27	66
Top management	3	0	0	39	3	0	0	4	49
Total permanent	223	90	129	232	353	141	142	174	1 484
Non-permanent	114	6	0	7	2	4	0	3	136
Grand total	337	96	129	239	355	145	142	177	1 620

Equity headcount by category summary 2011

Occupational level	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Permanent									
Unskilled & defined decision makers	28	1	5	4	20	6	5	1	70
Semi-skilled & discretionary decision makers	46	29	13	27	60	29	16	68	286
Skilled technical & academically qualified workers, junior management, supervisors	44	18	21	78	13	10	8	28	220
Professionally qualified & experienced specialists & mid-management	3	1	3	52	2	2	0	26	89
Senior management	3	3	8	27	3	3	4	19	70
Top management (incl non-exec)	5	0	0	41	1	0	0	0	47
Total permanent	129	52	50	229	99	50	33	141	782
Non-permanent	86	34	88	10	177	43	131	6	575
	215	6	138	239	276	93	164	146	1 357

The decrease in the total number of employees compared to the previous reporting period is mainly attributable to the group's disinvestment in CNS Call Centre, normal attrition and various cost cutting initiatives.

TRAINING AND SKILLS DEVELOPMENT

The group has implemented new training and development initiatives during the year as follows:

Learnership initiatives

The group has continued to partner with Bytes People Solutions in implementing various learnership programmes within its various subsidiaries as detailed in the table below:

Subsidiary	Learnership programme	NQF level	Number of participants
Blue Label Distribution (Pty) Ltd	Contact Centre Support	2	6
	End User Computing	3	2
	Systems Support	5	4
Blue Label Data Solutions (Pty) Ltd	End User Computing	3	1
Cigicell (Pty) Ltd	Contact Centre Support	2	5
	End User Computing	3	1
Cellfind (Pty) Ltd	Contact Centre Support	2	1
	Systems Development	5	1
The Prepaid Company (Pty) Ltd	End User Computing	3	3
	Systems Support	5	1
	Technical Support	4	4
Transaction Junction (Pty) Ltd	Systems Support	5	1

A total of 30 learners (2010: 25 learners) within the various subsidiaries are mentored throughout the duration of the programme to ensure that they successfully complete their learnership qualification and integrate effectively into the Blue Label workforce.

The group has also engaged disabled learners and has a total of nine such learners (2010: seven learners) currently engaged in the learnership programmes.

During the previous financial year the group hosted 25 learners and employed 10 within its various subsidiaries.

The Leadership Journey

Velociti (Proprietary) Limited, the group's call centre business, implemented a leadership workshop aimed at developing its team leaders. The Leadership Journey is centred on Passionate, Assertive and Transformational leadership objectives. The workshop has been highly effective and looks at leadership and its relevance in order to transform both the individual and the business.

COMMUNITY CHANNELS ("CC")

Community channels continued its development and empowerment of communities through the deployment of mobile technology. This allows the group to support continuing economic growth within broad-based communities, by creating jobs, developing skills and empowering South Africans through technology.

During the year under review the CC division successfully trained 1 500 "foot soldiers" in 11 communities across South Africa. In addition 16 new traditional councils have been signed up thereby creating 2 000 temporary jobs. Training provided to the "foot soldiers" includes introduction to the specific channel starter pack, the importance of retaining and recharging the starter pack, problems they might encounter when downloading the free airtime included in the starter pack and how to solve problems, how they need to dress and behave, recommended selling price and targets, what is RICA and how to operate a RICA terminal. Many of these "foot soldiers" have used this opportunity to start their own businesses or to earn additional income from the sale of starter packs.

SAFETY AND HEALTH RESPONSIBILITY AND PRACTICES

The Occupational Health and Safety Act No 85 of 1993 ("OHSA") provides a legislative framework outlining an employer's legal duty to provide healthy and safe conditions in the workplace.

The group Health and Safety Policy ensures comprehensive practical implementation of Blue Label's responsibility and commitment to a healthy, safe and incident-free working environment.

Health and safety activities include:

- identification of all health and safety hazards in the workplace through formal hazard surveys and taking appropriate action to mitigate them;
- continual awareness and training of employees to ensure health and safety competence in the workplace and a general awareness of potential safety and health hazards implicit in their work environment;
- conducting business activities in a manner that ensures an acceptable degree of physical, mental and social wellbeing of all employees; and
- ensuring the group complies with all relevant safety and health legislation.

Awareness of the group's health and safety requirements is created for all new employees as part of their induction. Frequent information updates are circulated via e-mail and the internal newsletter to all existing employees.

The group's health and safety officer manages health and safety practices in the group. Representatives appointed at each of the subsidiary companies assist the group's health and safety officer. These health and safety representatives have been trained by qualified external service providers in accordance with the requirements of OHSA. Monthly health and safety meetings are held to discuss the outcome of inspections and precautions to be implemented to mitigate identified hazards. In addition to the health and safety representatives the group has also appointed first-aid practitioners and fire marshals. Training of these individuals is also provided by qualified external service providers.

Health and safety risks associated with the group's business include fire, electrical safety and slippery floors. The group reported no major health and safety incidents during the year under review.

	2011	2010
Disabling injury frequency rate		
South Africa	**0.625**	Not measured
International	**Not measured**	Not measured
Work related fatalities	**0**	0

The group's fire drills and evacuation procedures at its head office were evaluated by the Sandton Fire Department Disaster Management team (SFDDM) during the year and its recommendations were fully implemented.

The group's "Wellness for Life Programme" has been operational for a year. Corporate wellness is the ability to reduce and manage employees' stress and contributes to staff wellness, enabling them to re-focus and re-energise allowing them to perform at their peak. The Wellness for Life Programme has focused on a number of initiatives put in place to support, encourage and educate employees on the benefits of a healthy lifestyle. The human resource department co-ordinated wellness days throughout the year. These have included programmes on dental care, vision screening, substance abuse in the workplace and at home, debt counselling and trauma counselling. Information and support for chronic diseases such as HIV and Aids, tuberculosis, diabetes, cancer, heart problems and weight issues have continued to form topics of the wellness programme. Over

50 group employees participated in the JP Morgan Corporate Challenge in March 2011 and the company also sponsors employees participating in the 94.7 Cycle Challenge and Cape Argus Cycle Race.

Blue Label partners with the Bryanston Assessment Centre providing access for employees in matters of a psychological nature. In addition, all employees have access to disease management forums within Discovery Health, such as Oncology, Diabetes and HIV management. Health awareness programmes such as condom distribution, voluntary HIV testing, infection control, are ongoing.

ENVIRONMENTAL PRACTICES

Blue Label acknowledges that the responsible use and management of natural resources are integral elements of Blue Label's commitment to sustainable development. While the group's business activities are categorised as either low risk or very low risk from an environmental perspective, the group continues to develop processes and practices to improve the measurement and monitoring of its environmental impact including energy efficiency, carbon emissions and waste management.

OFFICE BUILDINGS

The group occupies leased properties comprising mainly administrative office, technical facilities and warehouse facilities none of which are situated in biodiversity-rich or ecologically significant habitats. The office space leased by the group is in excess of 10 000m^2.

ENERGY EFFICIENCY

The group's electricity usage for the year under review at its main office building situated at 75 Grayston Drive, Morningside, Sandton amounted to 2 449 827kWh. The majority of group subsidiaries are situated in Gauteng and occupy the head office building in Sandton.

CARBON EMISSIONS

Business activities resulting in carbon emissions include electricity usage, transportation and processes relating to an office environment. The Blue Label Distribution fleet used a total of 407 583 litres of fuel (petrol and diesel). The BLD fleet comprises approximately 90 vehicles used by field technicians, sales representatives, customer service representatives and company drivers.

During the year under review, no prosecutions or fines were brought against the group for the contravention of any environmental laws and regulations.

Independent Assurance Report to the Directors of Blue Label Telecoms Limited

INTRODUCTION

We have been engaged by the Directors of Blue Label Telecoms Limited ("Blue Label") to perform an independent assurance engagement in respect of selected Identified Sustainability Information included in Blue Label's Integrated Annual Report for the year ended 31 May 2011 ("the Report").

SCOPE AND SUBJECT MATTER

The following Identified Sustainability Information was selected for an expression of limited assurance:

a) Key Performance Indicator:
  - Value Added Statement (Page 59)

b) Blue Label's account of their application of the AA1000 AccountAbility Principles Standard's ("APS")(2008) principles of inclusivity, materiality and responsiveness in preparing the Report (Page 1)

c) Blue Label's self declaration that it has achieved a C+ GRI (Global Reporting Initiative) G3 application level (Page 1)

Our responsibilities do not extend to any other information.

RESPONSIBILITIES OF THE DIRECTORS

Blue Label's Directors are responsible for the preparation and presentation of the Identified Sustainability Information, as incorporated in the Report, in accordance with their internally defined procedures (available on request from Blue Label) and for maintaining adequate records and internal controls that are designed to support the reporting process.

RESPONSIBILITY OF PRICEWATERHOUSECOOPERS INC

Our responsibility is to express, to the Directors, an opinion on the Identified Sustainability Information contained in the Report, for the year ended 31 May 2011, based on our assurance engagement.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3 000, *Assurance engagements other than audits or reviews of historical financial information* issued by the International Auditing and Assurance Standards Board. This Standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain assurance on the Identified Sustainability Information as per the terms of our engagement.

SUMMARY OF WORK PERFORMED

Our procedures included examination, on a test basis, of evidence relevant to the Identified Sustainability Information. The procedures selected depend on the assurance provider's judgement, including the assessment of the risks of material non-compliance of the Identified Sustainability Information with the criteria.

Our work consisted of:

- interviews with a selection of executives and senior management to discuss their approach to stakeholder inclusivity, materiality and responsiveness;

- inspecting documentation to corroborate statements of management and senior executives in our interviews;
- review of selected documents to substantiate management's account of their application of the AA1000APS (2008) principles including:
  - selected minutes of Exco and Board meetings, outputs from the risk assessment process, selected media reports, selected policies and general industry benchmarks;
  - evaluating the data generation and reporting processes against the reporting criteria;
  - reviewing the GRI summary table (located on Blue Label's website) to consider management's declaration regarding the application of the GRI G3 guidelines;
  - reviewing the consistency between the Identified Sustainability Information and related statements in Blue Label's Integrated Annual Report for the year ended 31 May 2011.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusion. Blue Label's internal corporate reporting criteria, the Global Reporting Initiative's (GRI) G3 guidelines and the AA1000APS (2008) principles standard were applied in evaluating the Identified Sustainability Information.

INHERENT LIMITATIONS

The accuracy and completeness of sustainability data is subject to inherent limitations given the nature and methods for determining, calculating and estimating such data. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements.

We have not carried out any work on data reported for prior reporting periods nor in respect of future projections and targets. We have not conducted any work outside of the agreed scope and therefore restrict our opinion to the Identified Sustainability Information.

CONCLUSION

Limited assurance

Based on our work performed, nothing has come to our attention causing us to believe that the Identified Sustainability Information for the year ended 31 May 2011 selected for limited assurance has not been prepared, in all material respects, in accordance with the defined reporting criteria.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: **Wessie van der Westhuizen**

Johannesburg
11 October 2011

Financial director's report

David Rivkind, financial director

Organic growth in revenues, a return to profitability in the call centre operations and a net reduction in the share of losses from associates and joint ventures were all positive contributing factors to the growth in group core earnings.

This growth was augmented by an extraneous profit resulting from the dilution of the group's equity holding in Blue Label Mexico. The sale of equity to Grupo Bimbo has created a strategic alliance between the two groups, with the objective of utilising Grupo Bimbo's logistic capabilities and footprint to accelerate the rollout of point-of-sale devices in Mexico. The synergy between the two companies was the driving force behind the above transaction.

Trading losses in Africa Prepaid Services Nigeria ("APSN") and the necessity for impairments of APSN following a commitment to dispose of the majority of assets and liabilities in May 2011, adversely impacted on profits. The decline in the financial performance of APSN was attributable to the failure by Multi-links to perform its obligations in terms of the distribution agreement and the consequent cancellation of that agreement arising from Multi-links' repudiation of its obligations.

Further impairments to goodwill and related intangibles in SharedPhone International and Content Connect Africa, as well as the write-off of internally generated intangible assets in Blue Label One and Blue Label Distribution, also inhibited the growth in core earnings.

The net positive growth in core earnings equated to 15%. Headline earnings, however, declined by 4% after the net deduction relating to the extraneous income and impairments. After the extraction of the total negative contribution of Nigeria as a discontinued operation, the balance of the group contributed positive growth in core headline earnings of 13%.

The combination of strong trading results and positive cash flow generation supported the board's approval of a dividend of 14 cents per share.

The underlying income statement has been divided into two parts, the first of which reflects the headline earnings of the continuing operations of the group, excluding the now discontinued Nigerian operation. By definition, these headline earnings also exclude extraneous income and expenditure.

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	18 064 572	15 939 764	2 124 808	13%
Gross profit	1 067 633	1 016 543	51 090	5%
GP margins	5.91%	6.38%	(0.47%)	
Other income	6 942	11 087	(4 145)	(37%)
Overheads	(476 758)	(489 438)	12 680	(3%)
EBITDA	597 817	538 192	59 625	11%
Depreciation and amortisation	(92 519)	(91 701)	(818)	1%
EBIT	505 298	446 491	58 807	13%
Net finance income	30 583	53 891	(23 308)	(43%)
Net profit before taxation	535 881	500 382	35 499	7%
Taxation	(157 243)	(163 917)	6 674	(4%)
Net profit after taxation	378 638	336 465	42 173	13%
Non-controlling interest	3 229	7 872	(4 643)	(59%)
Share of profit/(losses) from associates	4 817	(14 948)	19 765	132%
Share of losses from joint ventures	(18 896)	(12 699)	(6 197)	49%
Headline earnings from continuing operations	367 788	316 690	51 098	16%

REVENUE

Revenue comprised sales of physical and virtual prepaid airtime, commissions on the distribution of prepaid electricity and compounded annuity revenue generated from starter packs.

Group revenue increased by 13% to R18 billion mainly through continued growth in South African distribution. Group revenue excludes the turnover of Oxigen Services India, Blue Label Mexico and Ukash, which are equity accounted associate companies.

GROSS PROFIT

Gross profit margins declined from 6.38% to 5.91%, gross profit increased by R51 million (5%).

EBITDA

EBITDA increased by 11% as a product of the increase in gross profit and an overall expense decline of 3%. This was achieved in spite of a reduction in other income of R4 million.

Net profit after tax before non-controlling interests of R379 million equated to a growth of 13%.

Share of profits/(losses) from associates

The R20 million turnaround from historical share of losses of R15 million to a share of profit of R5 million was attributable to Ukash to the extent of R17 million, with Oxigen Services India making up the balance.

Share of losses from joint ventures

The share of losses from joint ventures pertains mainly to Blue Label Mexico, previously accounted for as a subsidiary.

HEADLINE EARNINGS

The growth in headline earnings of 16% from R317 million to R368 million reflects the financial performance of continuing operations excluding the trading performance of the discontinued Nigerian operation.

Computation of core earnings

	2011 R'000	2010 R'000	Growth R'000	Growth
Headline earnings from continuing operations	**367 788**	316 690	51 098	16%
Discontinued operation – APS Nigeria trading	**(18 341)**	49 119	(67 460)	(137%)
Headline earnings	**349 447**	365 809	(16 362)	(4%)
Gain on dilution	**145 905**	—	145 905	
Profit on disposal of subsidiary	**—**	18 566	(18 566)	
Impairments	**(63 904)**	(19 353)	(44 552)	
Net profit attributable to equity holders of parent	**431 448**	365 022	66 426	18%
Core intangible adjustment	**24 975**	31 623	(6 648)	(21%)
Core net profit	**456 423**	396 645	59 778	15%
Earnings per share (cents)	**57.04**	48.17		18%
Headline earnings per share (cents)	**46.20**	48.27		(4%)
– From continuing operations (cents)	**50.12**	43.46		15%
– From discontinued operations (cents)	**(3.92)**	(4.81)		19%
Core earnings per share (cents)	**60.34**	52.34		15%

DISCONTINUED OPERATION

This applies to Nigeria clearly showing an adverse turn-around from the group's share of profit of R49 million to an R18 million share of loss. This excludes the impairment of its assets. These losses had a negative impact on the growth in headline earnings from continuing operations of 16%, resulting in a net decline in group headline earnings of 4%.

GAIN ON DILUTION

In terms of IFRS, we were required to fair value our retained interest in Mexico. In February 2011, 40% of the share capital of Blue Label Mexico was issued to Grupo Bimbo for a capital injection of US$20 million, equating to an enterprise value of $50 million. BLT accordingly diluted its shareholding of 70% to 40% with management retaining the balance of 20%.

Our remaining 40% is valued at $20 million equating to a gain on dilution of R146 million.

PROFIT ON SALE OF SUBSIDIARY

In the comparative year, the profit on sale of subsidiary related to the disposal of Africa Prepaid Services Mozambique.

IMPAIRMENTS

The total impairments amounted to R64 million.

R15 million related to the available for sale financial asset in Africa Prepaid Services and R6 million to the write-off of Nigerian assets.

Other impairments to goodwill and intangibles in Nigeria, SharedPhone International, Content Connect Africa and Blue Label Distribution totalled R43 million.

NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT

The resultant attributable profit of R431 million, equated to basic earnings per share of 57.04 cents and an 18% growth.

CORE EARNINGS

After adding back the amortisation of intangible assets, the core earnings of R456 million equated to a growth of 15% and core earnings per share of 60.34 cents.

SEGMENTAL REPORT

South African distribution segment

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	**17 821 605**	15 543 337	2 278 268	15%
Gross profit	**925 398**	867 230	58 168	7%
EBITDA	**711 767**	685 686	26 081	4%
Core net profit	**571 471**	555 161	16 310	3%
Gross profit margin	**5.19%**	5.58%		
EBITDA margin	**4.00%**	4.41%		

REVENUE

South African Distribution remained the major contributor to group revenue (99%).

Whilst there were piecemeal price increases from the networks during the financial year, the bulk of the growth in revenue was volume related and entirely organic. Commissions on the sale of prepaid electricity increased by 79% from R34 million to R61 million, equating to turnover generated on behalf of the utilities of R3.4 billion.

The growth in airtime revenue exceeded industry norms, with gains mainly attributable to an increase in market share from competitors.

The distribution mix of prepaid airtime per network was:

– Vodacom 52%
– MTN 35%
– Cell C 10%
– Telkom 3%

GROSS PROFIT

Although gross profit margins declined from 5.58% to 5.19%, the current melded margins have been consistent for the past 18 months, albeit that electricity commissions do not attract a cost of sale and in turn account for 0.22% for the comparative period and 0.34% of the current year's gross profit margins.

Margins on prepaid airtime declined due to the negative impact on the implementation of RICA from the second half of the comparative period, the passing on of network price increases at cost price to the client base as well as the forfeiture of margins in return for higher revenue volumes.

EBITDA

The growth in EBITDA of 4% was achieved in spite of a decline in EBITDA margin from 4.41% to 4.00%. The decline in margin was due to the reduction in gross profit margins and an increase in certain group overheads.

INTERNATIONAL DISTRIBUTION SEGMENT

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	**29 254**	159 800	(130 546)	(82%)
Gross profit	**8 052**	30 339	(22 287)	(73%)
EBITDA	**(8 683)**	17 448	(26 131)	(150%)
Discontinued operations*	**93 901**	36 452	57 449	158%
Africa Prepaid Services Nigeria	**(40 813)**	49 105	(89 918)	(183%)
Blue Label Mexico	**134 714**	(12 653)	147 367	1 165%
Share of (losses)/profits from associates and joint ventures	**(2 884)**	(15 177)	12 293	81%
Ukash	**8 782**	(8 079)	16 861	209%
Oxigen Services India	**(5 163)**	(7 098)	1 935	27%
Blue Label Mexico	**(6 503)**	—	(6 503)	—
Core net profit	**61 896**	20 097	41 799	208%

**Represents net profit after taxation and non-controlling interests.*

In line with the commitment to dispose of the majority of assets and liabilities of Africa Prepaid Services Nigeria, IFRS requires its financial performance to be reflected as a discontinued operation. Consequently, revenue, gross profit and EBITDA exclude the Nigerian trading activities for both the current and comparative year.

The dilution from a 70% holding to a minority stake of 40% in Blue Label Mexico requires its trading performance for the period June 2010 to February 2011 to be reflected as a discontinued operation. Similarly, the results of Mexico are not reflected in revenue, gross profit and EBITDA, both in the current and comparative year.

As a result of the above, trading activities at EBITDA level only pertained to SharedPhone International, Africa Prepaid Services SA, Gold Label Investments, BLT USA and Blue Label Australasia.

REVENUE

Current revenue related only to SharedPhone International. Its revenue declined from R39 million to R29 million due to a fall in the competitive edge which payphones traditionally had over mobile phones. This has emanated from the mobile networks offering cheaper entry-level handsets and lower denomination airtime vouchers to consumers. The decline in revenue has warranted an impairment to goodwill and intangible assets relating to SharedPhone to the extent of R8.4 million.

The balance of the decline in revenue of R120 million related to the cessation of trading activities in the DRC, Mozambique and USA that existed in the comparative period.

GROSS PROFIT

Gross profit generated by SharedPhone declined from R10 million to R8 million, albeit at an increase in margin from 25.18% to 27.52%. The balance of the decline in gross profit of R20 million related to the above entities that ceased trading during the course of the prior year.

EBITDA

SharedPhone EBITDA declined from R3.9 million to R1.8 million. The balance of negative EBITDA of R10.4 million pertained to expenditure incurred by Africa Prepaid Services SA.

Discontinued operations

Discontinued operations include the financial results of APS Nigeria and Blue Label Mexico. Although the latter has not discontinued its operations per se, it is an IFRS requirement to categorise its results as a discontinued operation in line with the dilution to a minority stake.

– APS Nigeria

The cancellation of the distribution agreement with Multi-links impacted negatively on earnings culminating in a loss for the year of R41 million equating to a R90 million adverse movement on a comparative basis.

Impairments of assets and goodwill accounted for R23 million with the balance of R18 million attributable to trading losses. Arbitration proceedings have been instituted to claim compensation for losses suffered consequent upon cancellation of the distribution agreement.

– Blue Label Mexico

The comparative share of losses represented 70% ownership for the full year ended 31 May 2010. The current share of profits represents the gain of R150 million relating to the dilution of equity from 70% to 40%, less a non-distributable reserve release of R4 million and the group's share of trading losses of R11 million to the date of dilution.

Share of (losses)/profits from associates and joint ventures

– Ukash (15.75% holding)

Of the R17 million turnaround from a share of losses of R8 million to a share of profits of R9 million, a recognition of a deferred tax asset accounted for R6.5 million. The balance was directly attributable to volume growth, increased values in voucher redemption and the expansion of its footprint.

An increase in voucher redemption volumes by 84% resulted in a revenue increase of 71%. Gross profit margins remained static at 49% and overhead growth was limited to 1%, all reported in their local currency.

– Oxigen Services India (37.22% holding)

Revenue increased by 24% at static gross margins of 2.25%. A decline in overheads of 8% resulted in a positive EBITDA growth of 198%, all reported in their local currency.

– Blue Label Mexico (40% holding)

The share of losses of R6.5 million were from 23 February 2011 to 31 May 2011, the period in which Blue Label Mexico became a joint venture as a result of the dilution.

Revenues for the year ended 31 May 2011 increased by 232% reported in their local currency. In spite of this revenue increase, the company continued to incur losses due to an increase in overheads commensurate with the gearing up of infrastructure to accommodate the rollout of point-of-sale devices to the Grupo Bimbo channel of distribution as well as catering for organic growth.

CORE NET PROFIT

The increase in core net profit of R42 million was inclusive of the gain attributable to the dilution of equity in Blue Label Mexico. On eliminating this gain, core net profit would have declined by a net R104 million of which R90 million pertained to an adverse movement in APS Nigeria and R15 million to the impairment of an available-for-sale financial asset in APS SA.

MOBILE SEGMENT

In order to enhance the availability of management information on the group's performance from the distribution of mobile applications, Blue Label established the mobile segment on 1 June 2010. These mobile applications were previously housed in Value Added Services and Technology. A separate management and reporting structure has been established for Mobile, and the segmental analysis restated accordingly. The companies embodying this segment are Cellfind, Content Connect Africa and Blue Label One.

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	78 616	95 013	(16 397)	(17%)
Gross profit	62 444	66 119	(3 675)	(6%)
EBITDA	19 347	11 637	7 710	66%
Core net loss	(756)	(2 494)	1 738	70%

The bulk of the decline in revenue was due to a cut back in marketing spend by the networks on mobile content downloads, being the main source of revenue generated by Content Connect Africa.

The decline in gross profit was limited to 6% due to melded margins increasing from 69.59% to 79.43%. The margin increase was attributable to growth in revenue from media sales and location based services generated by Blue Label One and Cellfind respectively. A decline in overheads, however, resulted in a growth in EBITDA.

The consistent under-performance of Content Connect Africa, has necessitated the impairment of goodwill and intangibles by R11.2 million. A further impairment of R5.7 million was applied to Blue Label One's internally generated intangible assets, as its current revenues do not support the value of these assets. Core net profit of R18 million contributed by Cellfind was largely offset by these impairments.

SOLUTIONS SEGMENT

The Value Added Services segment has been renamed Solutions, which houses the Datacel group. The only change to the reporting of this segment is the extraction of financial information relating to the newly formed Mobile segment. The comparatives have been adjusted to reflect the change in segmental reporting accordingly.

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	118 277	123 285	(5 008)	(4%)
Gross profit	58 582	50 348	8 234	16%
EBITDA	18 731	(4 255)	22 986	540%
Core net profit/(loss)	7 061	(21 564)	28 625	133%

The decline in revenue was due to the closure of the CNS call centre activities which was operational for part of the comparative period and subsequently confined to an outsourced facility on behalf of third parties. The restructured Datacel group contributed a positive turnaround of R29 million to core net profit through a combination of call centre rationalisation and sustainable outbound sales of mobile services and applications.

TECHNOLOGY SEGMENT

	2011 R'000	2010 R'000	Growth R'000	Growth
Revenue	**16 820**	18 329	(1 509)	(8%)
Gross profit	**13 157**	2 507	10 650	425%
EBITDA	**(61 766)**	(58 382)	(3 384)	(6%)
Core net loss	**(84 932)**	(70 774)	(14 158)	(20%)

Technology losses and the escalation thereon represented the costs of development and support of the group's Information Technology infrastructure. Income generation was limited to services to third parties.

CORPORATE SEGMENT

	2011 R'000	2010 R'000	Growth R'000	Growth
EBITDA	**(81 664)**	(82 477)	813	1%
Core net loss	**(98 317)**	(83 781)	(14 536)	(17%)

Corporate expenditure was contained to neutral growth. STC of R9 million on the maiden dividend declared in August 2010 and additional depreciation on leasehold improvements, accounted for the increase in core net losses.

NET FINANCE INCOME

Finance costs

Finance costs totalled R116 million, of which R8 million related to interest paid on borrowed funds and R108 million to imputed IFRS interest adjustments relating to credit received from suppliers. On a comparative basis the imputed IFRS interest adjustment was R102 million. The increase of R6 million was directly IFRS related.

FINANCE INCOME

Interest received on cash resources declined by R33 million from R83 million to R50 million due to a continued reduction in interest rates and the preference of settlement discounts and bulk inventory procurements when the opportunities availed themselves.

The imputed IFRS interest adjustments increased by R19 million as a result of extended credit afforded to selected customers.

DEPRECIATION, AMORTISATION AND IMPAIRMENT

The increase of R31 million related to the increase in impairments with depreciation on property, plant and equipment remaining static.

Core headline earnings

The table below, which has been prepared on a core headline earnings basis, excludes the impairments to intangible assets and goodwill as well as the extraneous profit on the Mexico dilution.

Segments	2011 R'000	2010 R'000	Growth
South African distribution	**571 317**	554 172	3%
International distribution (excluding Nigeria)	**(21 827)**	(46 882)	53%
Mobile	**15 640**	(1 962)	897%
Solutions	**7 021**	(6 828)	203%
Total trading operations	**572 151**	498 500	15%
APS Nigeria	**(18 341)**	49 117	(137%)
Technology	**(81 281)**	(66 458)	(22%)
Corporate	**(98 107)**	(83 728)	(17%)
Core headline earnings	**374 422**	397 431	(6%)
Core headline earnings excluding Nigeria	**392 763**	348 314	13%

Financial director's report continued

The decline in core headline earnings of 6% would have equated to an increase of 13%, on elimination of the discontinued Nigerian operation.

STATEMENT OF FINANCIAL POSITION

Total assets increased by R641 million to R5.1 billion.

Material increases related to the investment in joint ventures of R143 million, inventory by R452 million and cash resources by R171 million. The increase in investment in joint venture pertains to the fair value gain on the retained 40% shareholding in Blue Label Mexico.

The increase in inventory was mainly attributable to stockpiling shortly prior to year end in anticipation of price increases.

The group remained highly liquid, maintaining its current asset ratio at 2:1.

The stock turn averaged 12 days net of the advanced purchases of approximately R470 million in May 2011.

Debtors collection period averaged 17 days and creditors payment terms averaged 41 days.

STATEMENT OF CASH FLOWS

The increase of cash on hand by R170 million accumulated cash resources to R2.2 billion at year end.

The cash flow generated by operations of R566 million represented a decline of R57 million on the comparative year, congruent with the decline in operating profit.

The purchase of a starter pack base for R83 million accounted for the majority of the acquisition of intangible assets of R113 million, with the balance being attributable to development costs and software.

Capital expenditure was confined to R74 million, representing a decline of R31 million.

The dividend payment of R91 million related to the maiden dividend declared in August 2010.

DIVIDEND NUMBER 2

On 23 August 2011, the board approved a dividend of 14 cents per ordinary share. The dividend in respect of ordinary shares for the year ended 31 May 2011 of R107 092 578, (STC: R10 709 258) has not been recognised in the financial statements, as it was declared after this date.

APPRECIATION

I would like to acknowledge the professional input of the finance team in the preparation of the financial results.

David Rivkind
Financial director