Blue Label Telecoms
Interim Results for the period ending
30 November 2009

Speaker	Narrative
Mark Levy	Good morning everyone. Great to see so many familiar faces and some new faces. Thank you for attending Blue Label Telecoms interim results presentation for the period ending 30th November 2009. To those of you who have dialled in via webcast, we thank you as well. Our group structure remains unchanged and is divided into four segments, namely South African Distribution, International Distribution, Technology and Value Added Services. I'm providing an overview of International Distribution, Technology and Value Added Services, while Dave Rivkind, our Chief Financial Officer, will guide you through the financial results, and thereafter Brett Levy will present the South African Distribution segment and we'll provide you with an overview of the group and what lies ahead. Notwithstanding the adverse economic climate the mobile consumer base still grew by 13.8%, comprising mainly of prepaid users. We are pleased to report that despite tough economic conditions we continued to meet our group's revenue and growth profit targets. This can be in part attributed to the following. Our target emerging markets continued to grow, albeit in single and not double digit figures, the increase in our prepaid electricity offerings and modest growth in South African cellular, albeit less than expected. Blue Label's proven business model and product and technology offerings enables customers to purchase airtime and other electronic tokens of value that we offer, including electricity, prepaid insurance, bus ticketing and money transfers. Blue Label engages in the continuous process of adding new products and services to its existing product range for seamless distribution through its transactional footprint. Our strategic outlook remains focussed on taking first-world products to a third-world customer in a manner which they are accustomed to, whether it be debit, credit, bank transfers or cash, and whenever they wish to transact. We are confident that our existing and expanding product range and services will continuously address these needs. The barriers to entry which confront any distribution model, namely integration into complex customer and supply environments have become some of our greatest assets. We have achieved this by securing additional long-term contracts from both customers and suppliers. Some of our key highlights for the period are: revenues are up, our EBITDA is up, our margins have improved and we have positive cash flow generation. Onto the International Distribution side. Blue Label's Telecoms' vision of deriving at least 50% of our revenue from outside the borders of South Africa and driving 50% of our revenues from non-telephony based products is still very much our focus. Our business in Africa, India, Mexico and Europe continued to drive our geographic and product diversity and expansion. As a result, Blue Label Telecoms remains a leading provider of transactional services within emerging and developing markets, and the introduction of new products and services through our established footprint of touch points has continued to secure and support our presence in each of these markets. During the interim period under review this has entailed expanding our point of sale terminals, integration into banks to reload individual consumers' phones to allow mobile vending, bus and railway ticketing, prepaid insurance, lottery, prepaid utilities and bill payments. Our objective at the outset of the year was to get as much of what

we offer in South Africa to our international businesses as we penetrate the markets in which they operate. This process is well underway.

Our African Prepaid Services group. APS group has over the past six months undergone some significant changes. The strategic decision by the APS group to disinvest from both the DRC and Mozambique and commence trade in Nigeria has all contributed to improved profitability. The APS group has as a result of this strategic decision successfully been able to focus its efforts in reallocation of key resources into a single market and dedicate its expertise to achieve this goal.

In Nigeria. Efforts by APS Nigeria prior to commencement of trade centred on improving operational efficiencies, including rationalisation and decentralisation of the distribution channels. Initial emphasis was placed on stimulating consumer usage and to counter churn, followed by handset promotional activity to drive the subscriber growth. All three of these initiatives have proven successful.

It is projected that the infusion of new, more up to date handsets, the introduction of starter packs, greater service selection and the implementation of bulk distribution of airtime will further impact positively on the business by growing subscriber numbers and maintaining high usage levels. Increased marketing activities and heightened customer awareness from multi-links will have a significant effect on growing this business. APS Nigeria has established the required foundations for sustainable and profitable business in Nigeria, and the results to date and those projected for the remainder of the year are in keeping with our projections.

Crossing over to India. Oxigen Services India has throughout the period continued to exceed our budget as a result of management’s continued focus on efficiencies in controlling expenses. Measures taken to improve the technology and increase the effectiveness of the distribution channels has helped Oxigen achieve consistence and smoothness in revenues over this period despite the market forces which drove a downturn for mobile operators.

The launch of cell phone vending in October of 2009, the first instance of offering all mobile operators from a mobile handset, was well received in India, with over 3,000 mobile merchants signing up on a monthly basis. Oxigen’s integration into the State Bank of India in October 2009 also gave us access to their banking clients to allow us direct consumer sales. The stability achieved by Oxigen is attributable not only to operational improvements but the ability to offer a wide range of products from non-Telcos and also the ability to vend direct top-up pinless recharge which was previously not available through the Oxigen channels.

Efforts were also made to improve margins earned on airtime sales, which steadily increased over the period, without negatively impacting on revenue. The facilitation of more profitable bill payments business was also an objective set by the Board early in the year, and progress is being made. All of these initiatives together with the operational improvements have resulted in improved gross profits, containment of operating expenditure and decreased our losses significantly.

Mexico. Blue Label Mexico commenced its rollout of point of sale devices and is currently sitting at close to 2,000 deployed POS devices and has also successfully integrated into several retail environments. These were either un-serviced or under-serviced in the past, and these also include petroleum forecourts. Mexico continued to develop in terms of POS deployment and the introduction of new products and services to the retailer. With the assistance of an independent sales organisation for the purpose of acquisitions, we intend to bolster our on the ground representation to meet the current demand for our devices and services.

In order to service all sectors of the retail market, in addition to our POS devices and web integration, we will be launching a mobile merchant and internet web-based sales function. As new incremental sites have been added each month existing site revenues have also continued to grow month on month very much in accordance with the patterns we have seen in other markets. And in doing so the average sales per device, including new additions, has steadily increased over the period.

Strategic synergistic relationships with the World Organisation of Credit Unions were established; giving both Blue Label Mexico and WOCCU extended reach into new segments. Blue Label Mexico is on track to achieve the deployment of several thousand POS devices by the end of the financial year. In anticipation of the expansion of the footprint we have commenced discussions with several prepaid utility suppliers, bill payment facilitators and providers of other value added services to offer these additional products and services through our points of presence in Mexico.

Ukash has maintained its expansion of issuing sites in new markets and has achieved further growth in known redemption environments such as VOIP and gaming. Improved efficiencies within Ukash have ensured containment of operating expenditure, and this is specifically important going into the second half of this year. During the six months leading up to November 2009 Ukash successfully concluded an agreement with MasterCard as an alternative means of redemption of payment facilitation.

Other initiatives such as “Re-load” and “Re-power” for the replenishment of prepaid debit cards as well as mobile wallets and e-commerce type environments, including the launch of its own prepaid card, are expected to positively impact on sales over the remainder of the period.

Crossing over to Technology. Activi provides our full technology platform for both our group locally and internationally. It remains focussed on deployment of commercially viable and functionally rich transactional systems these provide stable and robust capabilities for products and services. Further, Activi provides all operational support for these platforms both locally and internationally. It strives to optimise the rich technology investment while at the same time standardising deployments- processes, templates and methodologies through AEON, which is Blue Label’s backbone and switch.

Activi’s core service capabilities include EFT switching, EVD/VAS platforms, card management platforms, device deployment and support, factory, group MIS platforms and core IT platforms and operational support. AEON allows for the rapid deployment, development and provision of the group’s transactional and e-token services. These transactional capabilities are currently integrated into Microsoft service platforms.

Some key highlights for the year have been FNB Lotto integration and delivery through internet banking, ATM and mobile banking, Pick ‘n Pay Lotto integration and delivery through point of sales, accelerated rollout of POS and integrations into Mexico, deployment of core platforms in Nigeria, finalisation of electricity integration

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	in South Africa and the Navision implementation in South Africa and in Mexico. The Mobile Services Company. The Mobile Services Company is Blue Label Telecoms' mobile services aggregation business. The services that are aggregated include our own transactional products and services such as airtime and electricity, our own services (such as miLocate services from Cellfind) and those of third parties such as mig33 and Facebook. MSC aggregation services are now available through a number of channels, including the on-phone portal mibli, stand-alone Java applications, WAP, web and SMS. This allows us to bring services to a wide range of customers including B2C, B2B and B2B2C using the same infrastructure and the same interfaces we've developed. Most significantly MSC has launched a fully featured mobile wallet which is live in the market. The mobiWallet functionality allows customers to make payments from the wallet, deposit money into the wallet using several mechanisms including Ukash, shop for goods and services, make withdrawals, participate in loyalty and reward schemes and perform money transfers, all from their normal handset. The near future expansion of Blue Label Telecoms' merchant services through the mobile channel will be brought to market, thereby further increasing our ability to take products and services to the customer. Further expansion of the mibli base aggregation service is expected, as well as expansion into third party environments. Value Added Services. The entire Datacel group of companies was severely affected by the economic downturn. The impact of large-scale retrenchments which continued throughout the year, particularly in the lower income groups, significantly reduced the uptake of our products in both our mobile and our insurance divisions. This reduction in sales had a significant impact on revenue generated during this period. The Blue Label call centre was closed during this period due to operational inefficiencies and operating losses incurred. The closure cost combined with non-contributing earnings from this business had a significant impact on the overall Datacel consolidated profits. Velociti continued to diversify its client base to ensure a more balanced spread of income. The revenue base of Velociti's inbound customer service division was clearly apparent during the difficult period. Growth plans in Velociti were shelved pending recoveries in the market. CNS with offices in Bloemfontein, Kimberly and Cape Town were equally affected by negative market sentiment. Insurance companies took stock of their direct marketing models and adjusted commission models down based on lower than expected persistency ratios. We continue to monitor this very closely. Our data services company, Blue Label Data Services, performed well over this period and achieved forecasted sales and profits. The forecast for the next period remains conservative as the effects of the downturn are still not evident in the market. Cellfind. Blue Label's WASP and location-based service provider, Cellfind, continued to deliver annuity income through Vodacom and MTN's location services as well as WASP aggregation services. In addition to the traditional location-based services, Cellfind's value added services such as traffic congestion, heat maps, security, tracking services and location-specific weather continued to show good growth. Similarly Cellfind's subscription music downloads are now well entrenched and growing on a monthly basis. These services are now being bundled under the miLocate and miMusic sub-range.

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	Thank you for your time. I will now hand you over to Dave Rivkind who will provide you with the financial overview for the period.
Dave Rivkind	Good morning ladies and gentlemen. I am once again proud to present the financial results of Blue Label Telecoms for the interim period ending 30th November 2009. Against the background of global economic crisis the group once again endorsed its ability to compound trading growth irrespective of volatile economic conditions. Whilst most people welcome reduction in interest rates we as an extremely cash positive and cash generating group would have preferred the opposite. On a high level basis the following represents the group's performance. Revenue R8.4 billion. Gross profit R621 million. EBITDA R368 million. Operating profit R299 million. Net profit after tax R177 million. Core earnings R194 million. Headline earnings per share 23.38c. Core earnings per share 25.59c. Cash generated from operations of R316 million. The movement in the above earnings was as follows. Revenue increased by 11%. Gross profit increased by 19%. EBITDA increased by 24%. Net profit after tax declined by 11%. Operating profit increased by 20%. Core earnings increased by 10%. Headline earnings per share declined by 10%. Core earnings per share declined by 9%. The decline in net profit after tax and core earnings was attributable to significant reduction in interest received as well as certain impairments to goodwill and intangibles and deferred tax asset reversals. I will expound on the quantum of these factors further on in this presentation. The four segments that constitute the group profile are as follows. South African Distribution, International Distribution, Value Added Services and Technology. The contribution to group revenue by segment was as follows. South African Distribution growth of 7% was predominantly volume related. This segment continues to be the major contributor to the group's revenue at 90%. Included in this revenue was commission received from prepaid electricity amounting to R13 million, and commission on sales on behalf of municipalities of R656 million. The comparative sales on their behalf were R185 million, equating to growth in this activity of 360%. International Distribution's growth in revenue of 139% was mainly attributable to Africa Prepaid Services Nigeria, the exclusive distributor of prepaid airtime, products and service on behalf of Multi-Links, a subsidiary of Telkom. Value Added Services. The telemarketing of cellular and financial services products, inbound customer care and technical support was provided by various call centres operated by this group. On the decline in revenue of R70 million, R23 million was attributable to the call centres resulting from adverse market conditions. This in turn exacerbated the impairment of goodwill of R11 million pertaining to the CNS call centre. The balance of R47 million pertained to E-voucher, a subsidiary company that was sold prior to the commencement of the financial period under review but was in existence for the full comparative period. The growth in revenue generated by location-based services and aggregation of mobile content was neutral. The Technology division is an in-house technical support and product development enhancement in operations. Although the main focus of this division is on internal services and development, the revenue growth of 31% was related to limited services provided to third-party clients.

Segmental contribution to gross profit. The increase in gross profit of R97 million was attributable to margin increases from 6.92% to 7.4% on a higher revenue base.

Segmental contributions to EBITDA. EBITDA of R368 million represents growth of R73 million, 24% on the comparative period. South African Distribution, the growth in EBITDA of R65 million, 22%, was achieved through revenue growth of 7%, and increase in gross profit margins of 5% and the containment of overheads growth by 1%. The International Distribution, the growth of R45 million, 237%, included a profit of R29 million on the sale of APS Mozambique. On elimination of this profit the growth in EBITDA equated to 82%.

The Value Added Services. The decline in revenue of the call centres, reduced margins and costs of rationalisation were the major contributing factors to negative growth in the Value Added Services of R29 million, 61%.

Technology and Corporate. The growth in EBITDA of R81 million, 22%, generated by trading operations could not have been achieved without skilled technological, administrative and managerial support. These skills were provided at increased costs of R8 million.

Net finance income. Finance income of R64 million was attributable to the South African Distribution segment of this group. Of this amount, R20 million relates to imputed interest receivable on debtors balances in terms of IFRS requirements and R44 million pertained to interest earned on liquid working capital. Finance income in the comparative period was R104 million, of which R14 million pertained to imputed interest receivable on debtors balances. The effective decline and finance income net of IFRS adjustments was therefore R46 million from the comparative period. This decline was primarily due to an erosion in interest rates, posting 500 basis points. The impact of the above resulted in the net negative growth of R40 million, 39%.

Finance expense. Of the finance expense of R63 million, R60 million relates to imputed interest payable on creditor’s balances in terms of IFRS requirements. In comparison with the relative period the finance expense of R13 million was due to a positive movement in IFRS requirements of R12.3 million. The net growth in finance expense after accounting for IFRS adjustments was R1 million.

Share of losses from associates and joint ventures. Oxigen Services India continues to incur losses, albeit at a lesser rate when comparing the group share of historical losses of R14.3 million to the current losses of R4.6 million. This reduction in losses of 68% was derived through growth in revenue by R130 million, 21%, coupled with the reduction in overheads of 46%. Ukash, the group’s share of associated company losses was R7.5 million, including the share of amortisation of intangible assets. The comparatives related to two months only as Ukash was acquired in October 2008. In addition, the reversal of a deferred tax asset of R3.7 million impacted further on Ukash’s negative contribution to core earnings.

Core net profit. The decline in core earnings from R216 million to R194 million, 10%, after having achieved a growth in EBITDA of 24% was attributable to the reduction in interest earned of R46 million, purely as a result of a piecemeal decline in interest rates, the impairment of goodwill pertaining to the CNS call centre amounting to R11 million, the reversal of deferred tax assets amounting to R6 million and the impairment of the intangible assets amounting to R5 million.

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	Moving on to the balance sheet. Total assets increased to R4.2 billion, up R369 million, 10%. Non-current assets, the net increase in non-current assets of R91 million was attributable to capital expenditure net of disposals and depreciation of property, plant and equipment of R24 million. This was mainly applied to the acquisition of point of sale devices in both South African and International Distribution segments, a decrease in intangible assets comprising goodwill and intangibles of R62 million net of acquisitions, disposals, impairments and amortizations, a decrease in investment in associates of R14 million, a net decrease in financial assets at amortised cost of R36 million. This relates to starter packs which have been sold but not yet activated. And the reversal of the deferred tax asset of R3 million. Current assets increased by R460 million. This was attributable to the increase in cash and cash equivalents by R203 million, trade and other receivables by R239 million and the current portion of inactivated starter packs by R21 million. The stock turn average was 3.44 times per month and debit collections were 24 days. Capital and reserves increased by R179 million, of which net profits for the period accounted for R177 million. The purchase of treasury shares in terms of the group's share incentive schemes, increase in share-based payment reserves, positive movement in minority interests and foreign exchange translation movements accounted for the balance of the net increase in capital and reserves. Liabilities. The net increase in total liabilities of R191 million related to an increase in accounts payable of R183 million, taxation owing of R33 million, less the reduction of interest-bearing borrowings of R18 million and deferred tax of R7 million. Trade creditor payment terms equated to 40 days. Moving to the cash flow statement. Operating profit and a continuous focus on working capital management generated cash of R337 million, which was further enhanced by R41 million net interest received on the liquid working capital. After the payment of taxation of R62 million the cash flow from operation activities equated to R316 million. Sums applied to investing and financing activities, as well as negative translation differences on foreign exchange transactions resulted in net cash flow generated by the group for the period under review of R203 million. Total cash on hand as of the 30th November 2009 accumulated to R1.96 billion. Dividends. In line with the group's present stated dividend policy no dividend has been declared during the period under review. Thank you. I will now hand you over to Brett Levy to conclude with the South African Distribution business.
Brett Levy	Good morning. The past six months have shown a consistent growth in our core South African business activities. We have seen our revenue grow by 7%, our EBITDA grow by 22%, our Gross Profit (GP) percentage grow by 0.5% to 6.07% and our core net profit grow by 11%. We have successfully deployed new products and sales distribution channels as well as increased our footprint on a monthly and daily basis. Our employee costs have grown in line with inflation and the gearing up of our staff complement last year has definitely helped us to speed up our delivery time of products and services to the market. It has, however, been a tough year on interest received, making R44 million for the

six months compared to R90 million for the same six months from the prior year. RICA has had a negative impact on our business in line with the Networks, but I will touch on more of this later. We have launched many new products into the market that are starting to gain momentum. This is illustrated in the growth of our GP percentage. As we have sunk our costs into our distribution channels throughout telecoms, so as we add on new products and services the GP percentages will and does sink to our bottom line for both us and for the retailer. We have commenced with the consolidation of our South African subsidiaries. This should not only help the growth of our revenue but should also save a lot of our expenses.

As of the 1st August 2009 it is now law that all post-paid and prepaid customers, both old and new, need to be RICA accredited (Regulation of Interception of Communications and Provision of Communication-Related Information Act. RICA is a mobile version of KYC (Know Your Customer). The impact of the months of August, September and October were negative but in line with the Networks. However, we have seen a sharp increase from November in our registrations and our starter pack connections due to our aggressive RICA deployment strategy. We believe that by May our connection ratio for starter pack registrations will be back up to the level prior to August 2009. As a result in the reduction of churn because of RICA the long-term effects of this will be both positive for us and for the Networks.

We can already see that our churn is declining. By the 21st January 2010 we had already registered 1.8 million people, both old and new, to our system. It is very important to understand that at this same date we had already put out 6,165 RICA agents or RICA distribution points. This is well on target to reaching our 9,000 points by end May, that we promised, which will make us by far the biggest RICA destination point in the country.

Our new products that we have launched recently are starting to make a difference to our overall offering of products and services. Algoa bus ticketing has increased by 50% for the six months under review. Now that this is a proven methodology of how to sell tickets we are looking forward to taking this to the whole country as an alternative method of purchasing bus tickets.

Lotto. We are now able to not only offer it through your cell phone but through integrated till systems at various major chain stores. We can see on a monthly basis that these transactions are literally doubling, and have been accepted very well by the general public. Our Cover2Go, which is our insurance product, is one more product that is trying to create loyalty in a prepaid market where loyalty is very hard to achieve.

Our Ukash continued to grow its footprint throughout the world and has become the alternative payment mechanism for debit and credit card transactions. We have successfully tested our PINless platform with two Networks. In the first week of March we pilot phase with another Network. PINless gives us the ability to generate our own PINS and therefore we will not rely on the Network's PINS. This will make a significant difference to our bottom line when in full motion.

Of all of these products, electricity is currently our leading offering. When we launched electricity three years ago we only did R3 million turnover for the year. A few years ago, R180 million turnover. Last year, approximately R450 million turnover. For the six months under review we have already achieved R700 million. As compared to the six months for the prior year, it is a growth of 360%. This product is

	making a significant difference to our bottom line. Over the next few months we will be increasing our offering and our vending capability by adding on multiple new municipalities. This will add a whole new dimension of how electricity is deployed across the country. Our Middle River stores which are our 17 wholesale stores, continued to grow. Our turnover through these 17 stores has increased by 25% for the six months. Our plans to open four new stores are well on track. We are opening the first of the four in the Eastern Cape in the next three weeks, with the others to follow shortly. Our physical and virtual divisions have performed well for the six months. Our vision of creating our company as a virtual company rather than a physical company is well on track. For the six months under review from the prior year 79% of our distribution was done via virtual, 21% via physical. For the six months to November 2009 our virtual had increased from 79% to 81% and our physical had decreased from 21% to 19%. As we increase our footprint and continue to add on new products, the next six months looks very positive. In conclusion, on our international operations side as a whole we are seeing an encouraging turnaround, mainly led by operations in both Nigeria and in India. Nigeria is proving to be a great region for us and with a market penetration of only 45%, we look forward to our future there. Our Value Added Services division has been the biggest disappointment for our group for the six months, mainly from our call centre operations. We have already implemented a get-well plan, and slowly we can see the improvement coming through. We continue with our vision of taking products to the people rather than people to the product. We continue to build our distribution channels and add new products. We have achieved many of our objectives in the six months to November in our core SA Distribution as well as on the international front. Our core South African Distribution remains robust and continues to be the solid foundation on which we are building this group. We do realise that there is work to be done on our Value Added Services side, but we continue to put a tremendous amount of effort behind it. Once again we would like to thank all management and staff for their tremendous effort and dedication over the six months and to our Board and our chairman for their continued support. Thank you very much. Questions. Hello, Johan?
Johan	Hi. On your SA Distribution segment. You're obviously going to be losing some market share. Who do you think is gaining the market share? If that is correct.
Mark Levy	I don't think that's correct. In line with the networks if you cut out exactly the market share that we're playing with in recharge vouchers going out of the phone and not in the growth was between 7% and 8%. So very much in line with them. What we have done is really concentrate on our GP percentage margin. So whereas in the past we chased basically all kinds of business we're now consolidating our business into good, bad, medium business and really chasing the margins, which obviously affects our total margin. I don't believe we're losing market share to anybody though. We're in fact gaining on some.
Johan	And on the Telkom distribution of prepaid, are you also experiencing double digit

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	declines in that area?
Mark Levy	That's basically the answer as well to your first question. The reason why there is a bit of a decline is Telkom's prepaid home phones. Their phone card which is known as the tickey box is pretty consistent. But the Telkom prepaid home phones are definitely on the decline because of cellular competition. So from our side where we manage around about 95% of Telkom's distribution we are definitely feeling the effects of that.
Johan	Then lastly on the growth margin. To what extent do you think early settlement discounts relative to the previous year helped the growth margin, if any?
Mark Levy	I think it did help a small percentage, not a large percentage. I think the main effect of our GP percentage growing our growth margin really has been the new products that we are bearing the fruits of. Early settlements do exist, will exist and do have an effect, but not a major effect. Any other questions? Thank you all very much for coming and we look forward to seeing you all in six months' time.

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