Blue Label Telecoms
Results Presentation
22 February 2011

Mark Levy

Introduction

Good afternoon, ladies and gentlemen. Welcome to you all. By now Blue Label's presentations are synonymous with Summer Place, so maybe next time we'll do it a little bit different and take you to either India, Nigeria or Mexico. So I hope I've given you enough notice to sort out your travel arrangements. I welcome listeners via webcast and those who have dialled in. Thank you for attending Blue Label's interim results presentation for the six months ended 30th November 2010 which were announced on SENS this morning.

We have once again reported a solid financial performance with core earnings up 7% on the corresponding period as we rationalised and consolidated the new group structure behind the single Blu Approved identification point. We've taken the major steps at looking at how to provide financial inclusions in the lower LSM's in South Africa, firstly by signing a distribution agreement with Mpesa, and then in October last year we announced the strategic relationship with UBank, formally known as Teba Bank. Over time we will be reporting back to you on how these important relationships develop.

In our international operations we were somewhat unfortunate having to cancel the Multi-Links agreement in Nigeria. Nonetheless we remain on track to implement our strategy for that region. In India, the partnership with the State Bank of India, we continue to successfully roll out no-frills kiosk banking across the major cities in the sub-continent as well as continuing to grow our footprint of touch points. At Ukash, which is based in the UK, we have strengthened management to support our global footprint strategy which now reaches six continents. In fact we have seen a welcome turnaround in the Ukash, India and Datacel businesses.

I think any comment on the last six months would be incomplete without reference to the rebasing of our share register with local and institutional shareholders taking up significant tranches of stock. I'm proud to say that Blue Label was for the first time admitted to the JSE's Socially Responsible Investment Index.

International distribution

Just to repeat, our international strategy is to pursue growth opportunities in our existing footprint, namely India, Mexico and Nigeria, by continuing to roll out footprints of touch points and deliver a myriad of products and transactional services in the same successful way which we have done in South Africa.

India

As we anticipated with the development of GPRS-enabled terminals characterised by their new low GPRS rates of approximately $1 for 2GB of GPRS data – our footprint has recently rapidly accelerated in India, rising some 20% to reach about 90,000 points of presence spanning all India's 27 cities. You may be interested to know that India only currently has about 450,000 POS devices deployed throughout the whole country, so we are making some progress in achieving growth.

We believe that mobile has done for communication it is now poised to do for banking and other products and services. Our expansion in the financial services industry continues to gain momentum. At the State Bank of India, which is the largest public bank in India with over 120 million subscribers and 20,000 branches, we are busy rolling out no-frills kiosk banking for them. We have started in Delhi, Mumbai and Maharashtra. The Business-Correspondent model initially envisaged being deployed in about 20,000 of our Oxigen merchants who would in effect become an extension of the State Bank of India, thereby raising the profile of branchless banking. Each transacting customer is recognised vi a simple biometric reader that is placed at each kiosk. As the footprint grows we will be well positioned to extend the Oxigen suite of products and services to that customer base. This model is now being considered for replication by ICICI bank, which is the largest private bank in India, the second largest bank in India with 14 million customers and 950 branches. As you may know, India has become the largest receiver of remittances in the world, with China number two, Mexico number three and Nigeria number six.

Relating back to India, the value of remittances there is about $60 billion per annum, and about half comes out of the Arabic Gulf states. In support of our statergy, in October we announced an arrangement with LUUP, renowned for its comprehensive portfolio of mobile payment solutions with rich functionality via its bank based platform.This service technology enabled by Oxigen will benefit not only a large number of under- and un-banked people in India, but will also bring mobile phone convenience to millions of migrant workers in their ability for them to send money back home.

Late last year Oxigen launched its own mobile wallet called Oxicash with related card products and wallet solutions for the State Bank of India. This semi-closed wallet can be used for products and services offered by Oxigen e.g. travel.. I'm also pleased to report that Oxigen India, which is accounted for as an associate, continued to return an EBITDA positive for the period under review while simultaneously increasing our product offering as well as growing our footprint.

Mexico

Now looking on to Mexico. Our points of presence are continuing to grow as our POS devices roll out steadily each month, which now are about 4,000 POS points. Key to this rollout success is the partnership relationships we have established over the last two years we have been in Mexico. And these aren't only with the three mainly Telmex, Telephonica and Telcel, but with also other leading players in a distribution channels in Mexico, the likes of Estafeta, which is a major courier company, amongst others. We continue to place a lot of focus on identifying appropriate distribution partnership, recognising these will be imperative in delivering our strategy of expanding our footprint and finding more products and services to process through these touch points. During the last six months technical integration was essentially completed into the Lotto, Pronosticos, which allows us to now sell a Lotto system, enabling the printing of Lotto vouchers on our touch points.

Nigeria

Moving on to Nigeria. Our distribution agreements are now in place with the likes of Zain, Glo, Etisalat and Starcomms, hold us in good stead for the future. We continued to offer POS and mobile solutions as well as bulk printing, amongst other value added products and services. I'm also pleased to say that in spite of all the negative publicity surrounding Multi-Links we've been able to strengthen our relationships with our dealer and super-dealer networks. A highlight was the launch of our Eezzee recharge airtime product.

I referred to the noise surrounding Multi-Links in the previous slide, and as you can see from the numbers APS Nigeria only contributed about 2.6 million in this period, down from R8.4 million last year. I reported last time that the ten year exclusive agreement with Multi-Links was under review by the parties, yet on the 25th November we were notified that Multi-Links that they had unilaterally terminated the agreement. The APS Nigeria Board acted decisively, and on the 26th November announced that the termination was unlawful and constituted a repudiation of Multi-Links obligations under the agreement. APS Nigeria then cancelled the agreement and will be instituting a claim for damages.

Speaker	Narrative
	The team in Lagos are working hard to right-size every aspect of the operation in Nigeria, and they are very clear in understanding that there was life before Multi-Links and there will most certainly be life after Multi-Links. Our strategy remains 100% in place and that is simply stated as 'to continue to expand the existing footprint and grow the distribution of virtual pre paid products and services'. Our strategy will continue to be driven thro all the remaining networks in the region, in addition to rolling out other product and service offerings. Ukash Ukash vouchers are now available in over 420,000 retail locations across 50 countries and in all six continents. The business is evolving into a vast secure cash-loading eMoney network, and for the first time I'm pleased to say it returned a positive contribution to profit. One of Ukash's other major shareholders with a 8.68% shareholding is now MasterCard through its recent acquisition of Datacash. Our technology segment remains focussed on the deployment and support of commercially viable and functionally rich transactional engines which provide us with a rich scalable and robust platform. In order to keep up development plans we have used this period to beef-up our systems and platforms with further consolidation and integrations while finalising our core architectural framework across the group. On the product side Ukash vouchers are now available in South Africa through completion of the relevant switching, and Pinless products are now available from all the main networks following completion of integration back into our AEON platform. Once again our EFT business managed through our subsidiary transaction junction through our bank grade Postillion Switch SAW processing volumes significantly increase over the last six months. With the extension of the RICA deadline to 30 June 2011 I can report that our systems enabling RICA accreditation continue to run smoothly. We have ij excess of 9,000 of these devices deployed in South Africa alone. One of our more recent and biggest challenges has been the integration of additional systems into Mexico. This has now been successfully completed, and my due thanks to our technology team. This is our new segment comprising of three divisions, which is the Mobile Services Company, Cellfind and Content Connect Africa, as the name implies, it focuses on managing the group's mobile technologies and mobile strategies. The Mobile Services Company has taken the period as well as being consolidated in stabilisation. In phase one of our strategic partnership with Ubank we are gearing up to provide functionality for balances, mini-statements, do inter-account transfers and purchase prepaid airtime. On our own wallet products which we developed and launched mobiMerchant through which we sell the suite of Blue Label products, mobiWallet was enhanced now providing for full payment services. At the media section we experienced pleasing growth in line with building up a diverse and interesting inventory, which now includes bulk vouches, till slips for Blue Label and 3rd parties, corporate gift cards and screens. Cellfind, which houses the WASP and location-based services of our group, now has over 600,000 subscribers. Our WASP service is now one of South Africa's top five, and our B2B products and services are our focus area showing good growth potential. Our B2C products and services remain our traditional or annuity business with its stable customer base. One of our new offerings gaining traction in the corporate marketplace is product called miPayslip, a salary payment advice notification which in some sectors like health is being used to provide benefit statements. Symantec, the anti-virus protection for Smartphones, continues to be trialled in South Africa with the view to take this internationally is part of our process.

Speaker	Narrative
	Content Connect Africa remains the premium supplier of on-deck South African and African operator's content to the networks. The 2010 World Cup brought us a project from each of MTN and Vodacom. Since then we extended our catalogue with the signing up of eight new suppliers, one of which targets the very important Bollywood market in South Africa. Overall we've seen increasing content consumption as the network operators go live with new delivery platforms. Blue Label Solutions segment now comprises of Datacel and its entities Velociti, CNS and Blue Label Data Solutions. At Velociti it has been a time of change as we right-size the operations, consolidating it in Durban with a 760 seat call centre capacity. It provides full inbound and outbound sales and customer service as well as business process outsourcing. Clearly focus will now be on delivering on the specific campaigns for our customers. Even the smaller companies within our group like Blue Label Data Solutions live by the innovations mantra. They are smoothly evolving into an all-encompassing data analytic solution and delivery concern, now offering direct marketing solutions through geo-special coding processing whereby data samples are analysed according to their geographic location. Then lastly you all know my favourite slide covering the switching overview, actually a snapshot of how we work. In case you think I've forgotten about it, I haven't. We have included it in slide 52 of the pack. And this outlines how we actually work, how ACTIVI is our provider of our full technology platforms for both local and international operations and AEON is our technology platform switch and backbone. Let me now hand you over to Dave Rivkind to take you through the financial results for the six months, and he will be followed by Brett who will take you through the South African segment and the road ahead. We will then wrap up the presentation with a Q&A from the floor and the phones. Thank you.
Dave Rivkind	<u>Financial Results</u> Good afternoon, ladies and gentlemen. During the period under review growth in earnings was organically achieved through a hybrid of increased revenues, expense control and turnarounds in previously loss-making divisions. Net profit after tax for the year end increased by 9% and core earnings by 6%. On elimination of the impact of STC applicable to the maiden dividend declared in August 2010 the effective growth in net profit after tax was 14% and core earnings 11%. Contributing factors to this growth were as follows: increased revenues of 8%, rationalisation of business units that make up the group structure and elimination of common overhead in the process thereof, an overall decline in overheads of 7%, efficient utilisation of cash resources in terms of settlement discounts and rebates in lieu of interest received from time to time, and turnaround in the Datacel and Ukash groups. This positive growth was achieved despite a decline in earnings from Africa Prepaid Services Nigeria. The following were the salient performance indicators for the period under review. Revenue, R9 billion. Gross profit, R573 million. Operating expenditure, R270 million. EBITDA, R310 million. Operating profit, R259 million. Net finance income, R25 million. Net profit after tax and minorities, R193 million. Core earnings of R206 million. Headline earnings per share, 25.45 cents, and core earnings per share of 27.27 cents.

The movements in these performance indicators were as follows. Revenue growth of 8%. Gross profit, a decline of 8%. Operating expenditure, a decline of 7%. EBITDA, a decline of 16%. Operating profit declined by 13%. Net finance income increased in excess of 100%. Net profit after tax and minorities increased by 9%. Core earnings up 6%. Headline earnings per share increased by 9%. And core earnings per share increased by 7%.

The impact on accounting for IFRS standards as regards the creditor and debtor mix and the consequent accounting for the interest element thereon has always been a factor noted in our previous presentations. IFRS requires the effective interest afforded to customers and the effective interest received from creditors to be eliminated at trading level and accounted for at net interest level. A variation in the mix of debtor and creditor financing can result in the distortion of the comparative movement in performance at trading level, albeit compensated for at the net finance income level. The impact of these IFRS adjustments on gross profit and EBITDA will be expounded upon in the presentation at these levels.

I will now refer to the group performance on a segmental basis. Revenue, South African distribution, which increased by R928 million to R8.5 billion, were generated from the distribution of physical and virtual electronic tokens of value. The growth of 12% was predominantly volume related, achieved through a hybrid of industry and market share growth. Whilst prepaid airtime remains a primary source of revenue commissions earned on the distribution of prepaid electricity amounted to R30 million for the period, equating to revenue of R1.5 billion on behalf of the utilities. The commission compares to R14 million earned in the comparative period.

The international distribution encompasses the group's operations in Nigeria, Mexico, India and the United Kingdom. Africa Prepaid Services Nigeria and Blue Label Mexico are subsidiary companies while Oxigen India and Ukash are associates. International revenue does not include turnover of the associate companies as these operations are equity accounted for in line with the group's minority interest therein. Blue Label has an effective holding of 36.72% in Africa Prepaid Services Nigeria, and a 72% share in Africa Prepaid Services South Africa.

The performance of Nigeria was adversely impacted by negative consumer sentiments in respect of the Multi-Links products. Given the statements made by Multi-Links regarding the uncertainty of the network's future and the strained relationship between them and our group as the exclusive distributor of Multi-Links' products Nigeria was negatively affected by a decline in market decline for their services. Revenue generated by Nigeria declined by R137 million to R388 million, directly attributable to the decline in customer demand for Multi-Links products.

Revenue in Blue Label Mexico increased by R32 million through the expansion of its rollout of POS devices. The disposal of the group's interest in Mozambique, the DRC as well as the VPN and USA during the comparative period had a negative impact on turnover growth to the extent of R121 million. The mobile group encompassing Cellfind, Content Connect Africa and MSC, makes up this newly formed segment. Although revenue declined by R15 million, cost-cutting and margin improvement ensured a growth in profitability.

Technology is a predominantly in-house technical support, maintenance and product development. Revenue generated from sales to third parties was limited. Blue Label Solutions encompasses the businesses of Datacel, a database provider and call centre operations focussing on telecommunication offerings. The call centre operations were rationalised in 2009, resulting in a decline in revenue but an increase in profitability.

Speaker	Narrative
	Gross profit. The segments that are continuously impacted by IFRS imputed interest adjustments are the South African and international distribution units. Movements in the relativity of debtors to creditors have a direct impact on sales and cost of sales with regard to imputed interest elements pertaining thereto. Accordingly these slides have been prepared to demonstrate the comparison of gross profit pre and post these adjustments. South African distribution at face value, a gross profit of R443 million, represented a decline of R18 million on the comparative period. This further compares to R406 million that was earned for the six months ended 31st May 2010. On reversal of the IFRS adjustments the gross profit of R454 million represented an increase of R10 million on the comparative period and R45 million on the six months ended 31st May 2010. The implementation of RICA in August 2009 initially had a negative impact on margins due to the delay in activation of starter packs across the industry. The gradual streamlining of RICA registrations between implementation and November 2010 and growth in commissions earned in prepaid electricity is clearly evident in the margin improvement of 5.11% for the six months ended 31st May 2010 to 5.3% for the period under review. The negative impact on the ultimate demise of the Multi-Links distribution contract contributed towards the piecemeal decline in gross profit by the international segment. Gross profit of R93 million earned in the comparative period and R95 million for the six months ended May 2010 declined to R58 million for the period under review. Of the R34 million decline against the comparative period R13 million pertains to IFRS adjustments, R14 million for the secession of equity holdings in DRC, Mozambique as well as BPN [?] and R7 million to Nigeria. Moving on to EBITDA. As in the case of gross profit IFRS adjustments only had an impact on EBITDA at South African and international distribution level. The decline in EBITDA of R16 million equated to a growth of R12 million after the reversal of imputed interest. Of the international decline of R56 million, R30 million pertains to the capital profit on the sale of APS Mozambique in the comparative period. This, together with the reversal of imputed interest of R13 million resulted in a decline in EBITDA of R13 million, mainly attributable to Nigeria as the comparative EBITDA contribution of the disposal of international investments were not material. Mobile and solutions rationalisation of business entities and containment of overheads resulted in EBITDA growth of R4 million in the mobile segment and R13 million in solutions. Neither of these segments was affected by IFRS adjustments. Technology and corporate. Technology declined by R2 million while corporate through a neutral growth in expenditure remains static in its charge against EBITDA. In summary total EBITDA declined by R57 million from R367 million to R310 million, of which R40 million was attributable to IFRS adjustments. The comparative period also included a capital profit on the disposal of Mozambique amounting to R30 million. EBITDA increased by R13 million after the IFRS and capital profit adjustments. Finance income. Interest received on cash resources declined by R16 million from R44 million to R28 million due to a further reduction in interest rates and the preference of settlement discounts to interest received on core funds when opportunities availed themselves. The imputed IFRS adjustments increased by R20 million as a result of extended credit for selected customers.

Speaker	Narrative
	Finance costs. Of the costs of R43 million, R4 million pertains to interest on borrowed funds and R39 million pertains to the IFRS adjustments relating to credit received from suppliers. On a comparative basis the imputed IFRS interest adjustments was R60 million. The decline amounting to R21 million of the present value adjustments was attributable to the utilisation of funds to early settlement discounts in lieu of creditor finance and in turn the imputed interest element thereon. Depreciation, amortisation and impairment charges. Goodwill impairment of R12 million on the Datacel group and software impairments in the technology segment of R5 million occurred in the comparative period. There were no impairments or material variances in depreciation during the current period, hence the decline of R17 million. Share of losses from associates. There was a positive turnaround from a combined loss of R12 million to a profit of R2 million. Oxigen continues to reduce its losses with a decline of 57%. This was achieved through revenue increases of 7% and a reduction in overheads by 18% reported in their local currency. Although Ukash accounted for a turnaround of R11 million the inclusion of a historical unrecognised deferred tax asset accounted for R4 million of this amount. The increase of R7 million in trading profits was in line with an increase in volumes of redemption of vouchers by 101%. Moving on to core net profit. Core earnings for the period increased by R12 million after the deduction of STC of R9 million applicable to the dividend paid in September of 2010. Growth excluding the STC payment therefore equated to R21 million, 11%. In computing core earnings per share basic earnings were increased by the amortisation of intangible assets amounting to R14 million. It is important to note that whilst profit earned from Nigeria declined from R9 million to R3 million the group's share of profit earned through that entity for the full year to May 2010 was R39 million. Moving on to the balance sheet. Total assets increased by R982 million to R5.43 billion. There were no material movements in non-current assets and non-current liabilities. Capital and reserves increased by the net profit for the period of R192 million less the maiden dividend of R91 million declared in August. Negative movements in treasury shares, minority interest and foreign exchange totalling R11 million resulted in a net increase in capital and capital reserves of R90 million. Net current assets increased by R979 million and current liabilities increased by R891 million, resulting in an increase in net current assets of R88 million. The group took advantage of additional discounts from suppliers by increasing inventories prior to the traditionally busy December period. This was funded by a combination of utilisation of cash resources, short-term loans and additional supplier facilities afforded to the group. In line with this inventories increased by R699 million. Accounts receivable, which included a pre-payment of R329 million for a bulk purchase transaction, increased by R616 million in support of increased revenues and provision of additional credit extended to customers. Cash resources declined by R295 million. A short-term loan of R300 million was procured for a tenure of ten days. And accounts payable increased by R584 million. Although the group generated an operating profit of R259 million working capital movements of R6999 million and non cash movements of R62 million resulted in negative cash generated by operations of R378 million. Moving on to the cash flow statement. Working capital movements emanated from outflows of the temporary growth in inventories to the extent of R699 million, the pre-payment of R329 million for additional inventory and rebates thereon, extended credit of R287 million afforded to customers and inflows of additional funding from trade creditors of R584 million and a reduction in starter pack assets of R28 million.

	Taxation paid of R92 million including the STC payment of R9 million less net interest received was R23 million resulted in net negative cash flows from operating activities of R447 million.
	SA Distributions
	The investing activities of R43 million related mainly to the acquisition of fixed assets. Net inflows from financing activities of R203 million included a short-term ten day loan of R300 million raised at the end of November 2010 for inventory funding, less the maiden dividend of R91 million in September of 2010 and the purchase of treasury shares of R9 million. Accumulated cash and cash equivalents at the end of the period accumulated to R1.8 billion. Thank you, I will now hand you over to Brett Levy.
Brett Levy	Good afternoon everybody. The past six months have once again shown us a consistent growth in our core South African business activities, and have once again proven to us that not only our technologies but our methodology of how we deploy our products and services into our distribution channel works. Probably more pleasing for us over the last six months is the growth in our products outside of the telcos market. This is something I will touch on later in our presentation. As we told you last time, on 1st June we went ahead with the consolidation of our core SA businesses. This unfortunately had taken us a little bit longer than anticipated, and the effect of it has been slightly down for the period under review. However, the long term effect of this will definitely bear the fruits of the vine, one from an expense point of view, but two, more importantly from a revenue point of view. We now have a single sales force directed at our customers, as well as a central back office. Something very positive, two years in the making for us, and we look forward to the effects coming through in the future. What's really important about this is the ability for us to drive more products and services to our customers. Where traditionally our customers were used to only cellular telcos products, by consolidating our SA business into one, we now have a vision to have up to three new products into every single one of our customers. That is truly the organic growth of Blue Label. One is the increase of our distribution points, but as we add on new products and services into our existing distribution that will drive revenue as well as gross profit percentages. New Products Our focus for the last six months has been implementation of our new products. These products might not be brand-new to Blue Label, but there might be enhancements to it, new versions of it. Products like M-PESA, Ubank, Neotel and 8ta, Axxess ADSL, data retail and wholesale plans, UniPin which is our prepaid electricity – and I will go more into that when I get into electricity , EFT bill payments, PINless and our one brand Blu Approved, as well as the continuation of our existing products. Existing Products This is upgrading, maintaining and ensuring that the flagship of the group is maintained , such as RICA, prepaid airtime and Lotto, kiosk stalls in stores, starter packs, Algoa bus ticketing and transport as a whole, Ukash and cover2go, which is our insurance product. Electricity I'll start with my favourite, which is electricity. Electricity without a doubt is the leading new product in the Blue Label stable. Just to put this into perspective, three years ago our turnover on electricity for the six months it was R3 million. Last year for the relative

Speaker	Narrative
	period, R685 million. Six months for the period under review, in excess of R1.5 billion. That's a 100% increase again from last year. Just to remind you all, in Blue Label we do not account for the revenue as we act as the agent on behalf of the utility companies we bring the commission in on the profit line. But it is interesting to track it from the turnover point of view, and as David pointed out to you from a commission point of view, R14 million for the six months prior, for the six months under review, R30 million. So really heading in the right direction. Why is this? First of all when we reported to you last time electricity was 11.6% of our base, which means our distribution. As we stand today we have increased it to 19.2% and continue with the increase. Traditionally electricity in the past could only be bought in the online environment. This is very important because it eliminated the whole independent and rural market of South Africa. The only people with the capability of online transactions were the likes of Pick 'n Pay, Checkers and so on. With the launch of our new product called UniPin we have now taken electricity from an online to an offline environment, which means we can now bulk wholesale electricity as we do on recharge, open up an entire independent market which immediately gives us 50,000 to 60,000 brand-new outlets that can now do electricity. A customer will purchase it in the offline world, will contact our back office which is live, we will recognise the municipality they belong to, the electricity that they require, and download either to their phone or to the meter itself. This sounds very simple. Two and a half years for Blue Label to develop this. We're the leader in this, the only one in South Africa with this, and it will revolutionise the way electricity sells in South Africa. Some of the salient points of electricity is the two biggest municipalities of electricity supplies in the country, Eskom and Johannesburg City Power, both of which have endorsed UniPin. This was very big for us because the chain stores and the independents wouldn't take on the product unless it was endorsed. We were awarded for the first time Ekurhuleni and eThekwini municipalities. The first time that we're buying direct from them. They've always been in our stable but via a third party. And very important is the cross-selling opportunity. And to put this into perspective I'd like to take you through Algoa bus ticketing. When we launched Algoa bus ticketing in the Eastern Cape everyone thought we spent too much time launching a product for a bus company that was very limited. What happened is we immediately signed on 800 new stores in the Eastern Cape because we were the only ones with bus ticketing capabilities. And what it automatically did was it transferred about R20 million to R30 million a month in extra sales for our prepaid airtime. So there are cross-selling opportunity once you develop these products, and the multiple opportunities between the products through a central system. <u>Money transfers</u> I know there is a lot of buzz around it, and probably you sit out there and say where is it translating? I can tell you that money transfers without a doubt is the most exciting product to come into our industry since telcos. Domestic money transfers of money that lives outside the banking environment, will overtime double the telcos market. Blue Label is positioned well in the rural market where we believe 80% of all money transfers domestically will take place. What does this mean? We have concentrated on two products, M-PESA (as you all know, Vodafone's product) and Ubank. There are probably about 15 money transfer systems in the country, of which ultimately with consolidation you will probably see three or four survive. When we sell an airtime voucher we make money twice. We make money on the treasury and we make money on the commodity of the sale. In money transfers we make money

up to five times. We make money when you put money in. We make money when you take money out. We are the treasury and the credit that looks after the customers out there. And very importantly we are the VAS products within the wallet of M-PESA. So when you buy airtime we get a percentage, when you buy electricity we get a percentage. So not only are we moving into a very exciting market, but we have made opportunities in five places to make money rather than two.

Currently it is in a closed loop environment. As you know Absa is sticking to Absa, Standard Bank to Standard Bank, M-PESA to M-PESA. The secret of Blue Label is the inter-operable pin. That's where Ubank comes in. We will give everyone the opportunity to transfer money from a Checkers to a Pick 'n Pay, from an Absa to a Standard Bank. And this will be the first of its kind where it comes open loop for money transfers outside of the banking environment. It might look like it's gaining traction slowly, but if you compare it to the rest of the world M-PESA is gaining traction. We ourselves have signed up 850 outlets. Compared to our 140,000 points you will think we do our job badly, but to sign up an outlet is a laborious process because the merchant is an agent of a bank. It takes on average 25 days to sign up a client. The 850 outlets is a big number.

M-PESA already has approximately 60 000 registered users and is transacting approximately 60,000 to 70,000 transactions on a daily basis. In the next three to four years it will gain more and more momentum, and if Kenya is anything to go by, which does R2.5 billion to R3 billion a month currently and controls 4% of the total GDP of Kenya I think money transfers as a whole in emerging markets is something to watch

<u>Other Products</u>

Bill payments as you know we're already fully integrated into Spar via the post office. We link up to most of the bill payees. But the secret of bill payments is taking it once again to the rural and independent market which has never had the opportunity to do it. Up till today in order to do a bill payment you had to be at Checkers, Pick 'n Pay or a mainstream blue chip retailer. Blue Label is taking it to the independent market, offering cafes on the side of the road, even shebeens. It seems like a small thing, but once again takes it from this closed loop of only five or six chain stores to 100,000 to 300,000 outlets. The market currently does in excess of R1 billion a month and is growing.

RICA was launched in August 2009. What is interesting from our side is that from August 2009 till today we have registered through our system 7.8 million RICA people, which means Blue Label has been responsible for about 20% of the entire RICA registrations of the country. We have 9,300 RICA distribution points, which makes us the largest RICA agent in the country. It is now stable, there is reduced churn and it is starting to achieve what it should. But believe me, the last five months have been quite a hard place for Blue Label and for the industry in this space.

Just to mention Neotel and 8ta, we are the full services from beginning to end for Neotel actually are the pin generation for them. We create the product, we create the pin and we're the exclusive distributor for Neotel. And of course you have all seen the new launch of 8ta. Once again on a pinless platform, it's a new product. We now are suppliers of data to Wireless G and Axxess ADSL. So data is now becoming a very large part of our business. Up till today you've never heard us mention data. We have concentrated on the prepaid, voice and products of that nature. We are now enhancing retail strategy.

<u>Pinless</u>

On PINless we are now fully integrated into every single network. When we spoke to you last we were only in Vodacom and Cell C. PINless gives us the ability to generate our own pin and therefore not rely on the network systems ever. We distribute that pin into the market. Only on redemption does it become live, and we then interact with the platform of the network and therefore pay the network on our predetermined payment terms from a payment point of view we're obviously adding on a number of days to what we do.

Prepaid Airtime

Our core South African business continues to grow steadily. And as you can see from our revenue growth of 12% we are outperforming the networks, 6-7% by increasing our distribution points. We're still growing Vodacom in our base, but here you see a decline in Vodacom and an increase in MTN and Cell C. So what you're seeing is a continuing penetration and growth of Vodacom but real growth coming through from the other networks.

Just to mention again, the margin reduction from the networks in the last six months had no impact on us. In fact, when you strip out these numbers and you strip out IFRS and you compare us to the six months ended May 2010 to the six months under review that we're talking about you will see that our GP percentages in the South African distribution increased, not decreased. We expect another decrease from the networks in the next six months and would like to make it clear that networks decreasing their price do not affect the model of Blue Label. In fact, it enhances it.

Our new starter pack connections grow in line with our expectations. RICA for us really was a hard process. And what's really good about it is we're coming back to where we were we're already pre-RICA 2009 on our connections. But what is really good for us is the churn is decreasing. You're seeing a much more consistent growth.

Just on this slide, what I wanted to mention was in 2009 Vodacom made up 58% of our business as opposed to 51% currently. That doesn't mean that we're decreasing in Vodacom. But MTN has gone from 30% to 35% and Cell C from 7% to 10%. Unfortunately Telkom is decreasing year on year. That's not 8ta. That is your prepaid home phone or your phone card traditionally known as your ticky box. So really interesting to note that the split in Blue Label is changing nicely across the networks.

Shareholder Profile

I think for us what the most pleasing thing about this is when we listed our free float was around about 37%. Our free float currently sits at about 47%. I'm sure for some of you who are watching this you will see the liquidity in our shares has become a lot better. I think that's because of the free float increasing. Our shareholder is really good. 65% is sitting in local South African institutions. A nice interest from America at around 19% or 20% and the UK at 6% to 7%.

Conclusion

So in conclusion as I said South Africa revenues grew by 12% - very important to note larger than the networks – and I think there was a lot of work behind that. We now reach over 140,000 points of presence. We say that very lightly, but 140,000 points of presence in South Africa is a large number. We are really excited about the new money transfers that are coming into place from an M-PESA and Ubank point of view. This is a whole new angle for us. It's the same systems, the same customer, the same agent, the same store. All we've got to do is educate the people on how to do it. It's all about taking the product to the people rather than the people to the product. We are pursuing healthcare and ETC opportunities. In India we continue with our rollout of footprint. 90,000 points of presence in India. We have been there for eight years. We've seen 11 companies like us come and go. We're still there. Since October last year we remain EBITDA positive.

Mexico is positioned nicely for growth with some nice sign-ups that we've done there and

Speaker	Narrative
	all on track for our expectations. Nigeria, I think Mark hit the nail on the head, but there was life before Multi-Links and I can assure you there is life after Multi-Links. We are currently rolling out 10,000 POS terminals, a brand-new way for Nigeria, a brand new market for them. We have signed up all the right networks, and we are going to be talking about Nigeria for many years to come. Ukash, our revenue up 67% and 101% up in redemptions, which means the actual people redeeming off our system is up 100%. For us as a tracker that's more important than the actual revenue. On the settlement discounts, a lot of people are going to look at the cash flow and say, how did your cash go backwards? However, leaving money in a bank and earning 5.5% would just be an absolute tragedy if that's all we did. We've learnt how to do settlement discounts, to bargain with the networks. We've learnt how to pay upfront for goods in order to get settlement discounts that are much larger than keeping our money in the bank. And more importantly we're geared for a December period. The December trading month was the biggest trading month in the history of the company. We geared up in November for the trading group; we bought in stock early and overall reflects our cash generating business. So to end off I guess I would like to leave you with three thoughts. We are a growth company. We continue to be an acquisitive company. We continue to look for acquisitions. We're not going to make them because we have money. We're going to make them strategically because they're the right thing to do. The third thing to end off is we last year that we're a dividend yielding company. If you look at us, growth, acquisitive and dividend yielding company, I have no doubt you would want to invest in no other company than ours. Thanks to our management and staff. Really the truth of Blue Label is the people. Thank you to all of you, to our Board and our Chairman for your continued support. So thank you. <u>Questions</u> I will now open it up to the floor and telephones.
Rubie	Thank you, Mr Levy. Brett. You spoke at some length about the increase in your stock holding. Now, the sales increase was 8%. Let's assume for the moment that from now on you double that growth. You are still way behind the increase of 124% in inventories. Please explain why it was necessary to increase the inventory level to the extent that you did.
Brett Levy	Two reasons. One is that we specifically geared up for December trade. The busiest part of any month in the Blue Label group is the 1^{st} to the 10^{th} of the month when everyone stocks up. Networks as well in December shut down. MTN shut down from the 15^{th} December to the 27^{th} as it is their year end. So, you have to purchase in enough quantities to hold stock for December because of the specific trading environment of the networks. And we geared up specifically for December trade, of which we exceeded our expectations and more. We have gone back to normality of a normal trading month. That was specifically geared up for a certain time, for a certain month and more importantly for a certain discount we received from the networks for purchasing a couple of hundred million Rand upfront for stock.
Rubie	Can I assume that there is no such thing as obsolescence in this large inventory that you've purchased?
Brett Levy	Absolutely. One thing about Blue Label is the turnaround of stock on a general basis is 12

	hours. We have no such thing as obsolescence.
Rubie	Let's go to your trade and other receivables. The level at the end of November was 17.7% of revenue, whereas in the previous six months it was 11.6%. Is there not an increasing danger of bad debts given that we were informed that you gave an additional R287 million credit granted to customers?
Brett Levy	I'll hand you over to David for that specifically.
David Rivkind	To put this into perspective, the increase in accounts receivable was R584 million. That would include a pre-payment of R329 million. So the actual increase in debtors is R287 million as you pointed out. The increase in revenues period on period in SA distribution was 12%, which would equate to an average of R150 million a month, of which the majority of that increase pertained to customers we would afford credit terms to. So in addition to that the existing customers will also extend a credit service. As far as any risk of doubt or debt we were comfortable at the end of the period that everything is recoverable.
Rubie	My last question please regards the overdraft, the current portion of interest-bearing borrowings of R303 million. In his presentation Mr Rivkind said this was a ten day loan. The question now arises that if you paid it back within ten days where did you get R300 million from given that according to the workings you collect on average R4.7 million per day from operations? Ten days makes R47 million. Where did you pick up R300 million to pay back that short-term loan?
Brett Levy	I don't know where you get the R4.7 million. The average if I was a guessing man that we recoup on a daily basis is close to R50 million to R70 million a day.
Rubie	I'm taking it from your cash flow from operating activities on page 17.
David Rivkind	Our normal inventory turn is every 13 days. And our normal debtors' collections would be around 30 days. As far as the trading environment for December was concerned we would have turned enough stock within the first ten days which we would obviously have been able to repay that debt of R300 million. Between the disposal of our inventories at those levels as well as the collection of our debt it would facilitate the repayment of that R300 million within ten days.
Rubie	Thank you for that.
Brett Levy	Any other questions?
Male Speaker	Multi-Links-Litigation, Where are we in that process?
Mark Levy	Obviously we looked at a legal resolution process. One is quantifying the claim, then going through the process of selecting arbitrators. Over time we will get more specifics on exactly when we can anticipate going into arbitration. At the moment we have no further input.
John Slettevold	It's John from UBS. Just a question. Why do you think the operators are changing the way they do business with you with regards you paying them upfront for example?
Brett Levy	I think without saying too much there are certain operators that need the cash upfront. Obviously if we can push sales through them by discounting it into the market at the

Speaker	Narrative
	moment there is a big chase from the networks to increase sales, to increase revenue, to drive more of their product. Although you will see the networks are aggressively pulling back costs in our space the networks have never been more aggressive in contributing to what we do to gain market share. So there is a big drive from the networks to maintain market share. And of course there are certain networks that are coming into the market for the first time and trying to gain market share. We don't believe it is slowing down at all. In certain networks we are settling deals and early settlements for the next 12 to 24 months. This is a new practise in the networks. It is a hard drive from them to steal market share. They know that if they discount it to us we do discount it into the market to a degree and obviously pocket the rest.
John Slettevold	Just the inventory which you acquired in November, was it for one specific network or across several networks?
Brett Levy	It was across two different networks. The R300 million related to a specific network that Dave was talking about, but in the November period we actually did a deal with two different networks. What we're finding is a minimum of one network a month to a maximum of all three in the same month. The networks are also consolidating their distribution.
Mark Levy	Any questions from the conference call?
Operator	Our first question comes from Craig Hackney of Religare Capital Markets. Please go ahead.
Craig Hackney	Good afternoon. Looking at Oxigen, revenue growth there of 7%, which would maybe seem a bit low given the potential opportunity in that market. Could you speak a little bit about what is constraining that and when you would expect that to pick up, please?
Mark Levy	What has been quite interesting in India is the mix of products where we're generating profits from. Our stated strategy is that 50% of our profits would come from non-telephony and 50% of our profits would come from outside of South Africa. We've seen India achieve some of those milestones before South Africa. Products like DTH [digital terrestrial home view] where you're able to buy a [unclear] box in India for $100 and it is about pay per view. We're seeing telephony is relatively stable or growing somewhat; we've seen significant other increases in other products, maybe not as high value in terms of their turnover but better in terms of the profit we're making. Another product that we've done exceptionally well with is a product like a Nokia extended warrantee programme. In India the ability to sell second-hand phones is a necessity to the mass population. No one wants to buy a second-hand phone without a warrantee, so we now distribute warrantee products. So who would have thought a distribution network doing pay per view and warrantee products? So we're seeing that market at 50% coming out of telephony and 50% out of other products. What we need to be careful of is only gauging this company by its turnover in the future. In many instances we will act as an agent, not only as a principle. An example in South Africa is the electricity. We talk about R1.5 billion in turnover, yet we only account for the R30 million of profit that we make. In India that agent principle relationship is a lot more relevant. We will act more as an agent rather than a principle.
Craig Hackney	Thanks very much.
Operator	There are no further questions from the conference call.
Mark Levy	Any more questions from the floor? Thanks very much for coming.

Speaker	Narrative

END OF TRANSCRIPT