



**Blue Label Telecoms
Interim Results
Conference Call
24 February 2009**

Speaker

Narrative

Mark Levy

Hi, good afternoon everyone. Thank you for joining us. Instead of going through the whole presentation of this morning – I'm not quite sure if any of you dialled into our webcast. What we'll do, as we've done in the past, is just highlight a couple of salient points that transpired over the last six months and then I'll ask Dave Rivkind just to mention a couple of financial highlights.

From my side, to look at the Group, what's been happening on an international basis, we're really focussing on four main territories, being South Africa, India, Mexico and Nigeria. Let me talk a little bit about each one.

Let me start with Nigeria. Over the last couple of months we've decided to disinvest out of the DRC and Mozambique and concentrate all that staffing and resourcing by putting them mostly in Nigeria and some other parts of the world. By doing that it has significantly increased our profitability in Africa and Nigeria has been doing phenomenally well. We have grown our distribution network for Multi-Links. Currently we sell mostly only Multi-Links products. They are exclusive to us but we are not exclusive to them and they are busy signing up operators as we speak to vend their products.

With regards to India currently we are trading monthly on an EBITDA positive base. We anticipated achieving EBITDA positive in December; we actually achieved that in November 2009. We're seeing a lot of growth opportunities, there's a lot of excitement in India. You know, we've been in India for the last seven years and finally a lot of time and effort is beginning to start reaping rewards. We're currently signing up about 3,000 mobile merchants on a monthly basis so that's been well received in the market place.

With regards to Mexico, well that's true green fields; it's a true start up for us. Since inception less than a year ago we have rolled out over 2,000 physical points of presence and integrated into several multi-panel retailers, including petroleum forecourts. Mexico is on track as per our budgeted schedule in terms of performance and numbers.

With regards to South Africa, the core business in South Africa is still been doing very well. Our revenues have grown and Dave will take you through some of those numbers later. Our GPs have grown, our EBITDA margins have grown. What we chose to do is write off, being conservative, write off some impairments to goodwill and intangibles.

Where we've experienced some difficulties is in our call centres. The call centres were primarily based on outbound call selling of insurance products. The insurance industry in the economic crisis took one of the biggest hits and they cut back significantly on the commissions paid and based on persistency would only reward us accordingly. Those models were therefore turned on its head and forced us to close our Blue Label Call Centre in Joburg and put a lot of strain on our call centres in Bloemfontein and in Cape Town. So from that perspective, our valuated services side has taken a massive decrease based on what's happening in the call centres. We are monitoring that closely and trying to mitigate our risk by finding other campaigns, other products and look at focusing a lot more on in-bound campaigns, which are a lot more steady.



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Dave Rivkind

With regards to South Africa that business has been growing. Where we did experience some difficulties, like the network operators, was in RICA, the first couple of months were tough. But what we've managed to do is roll out just under six and a half thousand devices which gives us a massive footprint in terms of RICA registrations. We currently are up to just under two million subscriber registrations and we look to deploy up to 9,000 devices by the end of this financial year end. So from that point of view, although we had a slow start to RICA, we've picked up significant momentum and we should be back to normal within a couple of months. I think our position was no different to the networks, although going forward it will be a lot greater for us because we'll have 9,000 additional points of presence in this country.

I now hand you over to Dave to go through some of the numbers.

Thanks Mark. Just to run through some of the financial indicators for the six months to November 2009, the Group achieved revenue of R8.4 billion which represents an 11% growth compared to the November 2008 number of R7.5 billion. I think it's important just to touch on the revenue segmental contributions.

South African distribution growth of 7% was predominantly volume related with significant growth in electricity turnover whereby we achieved R656 million worth of turnover. Bearing in mind we do not recognise turnover on a gross level, we would only recognise the commission, due to the fact that we are agents on behalf of the municipalities, so the commission that was recognised on the R656 million was approximately R13 million, representing quite significant growth in comparison to the prior year where the commission was just over R3 million.

On the international front there was a growth in revenue of 139% which was mainly attributable to Africa Prepaid Services, our company in Nigeria. There is no comparative amount as we only recently entered the country commencing operations in May 2008.

On the Value Added Services front, thro the steady marketing of cellular and financial products through our inbound call centres, the revenue declined there by R23 million, which was attributable to the adverse market conditions that took place over the last couple of months, and in turn necessitated the impairment of goodwill within the CNS Call Centre located in Bloemfontein amounting to R11 million. In total, the segment decreased by R70 million in turnover. However, in the prior year, E-Voucher, which contributed R47 million is now no longer present as we disposed of it in March 2009.

The technology segment which provides typical in-house support for the Group, saw steady growth of 31% related to limited services that were provided to our third parties.

At the gross profit level, looking at these segmental contributions again, the increase in gross profit of R97 million from R524 million to R621 million also represented an increase in margins from 6.9 to 7.4 on a higher revenue base as well.

Drilling down into operating expenses our overheads increased from R253 million to R290 million to represent a 20% increase. Predominantly the increase comes out of our share incentive scheme which wasn't present last year. That would account for

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R8.2 million of the increase as well as the contribution from Nigeria of about R20 million. Nigeria only started up in May, therefore the comparative period would have no costs relating to Nigeria. Just drilling down into these segmental contributions EBITDA, again our EBITDA R368 million represented a growth of R72 million, being 24% on a comparative period.

On a segmental basis South African distribution, growth in EBITDA R65 million which is 22% was achieved on revenue growth of 7%, an increase in gross profit margins. On the international front there was a growth of R45 million, including a profit of R29 million from the sale of APS Mozambique which was disposed of in November 2009..

Value Added Services, again there was a significant decline in the revenues of the call centres which also reduced margins and a cost of closing of the call centres also obviously contributed to the negative growth in Value Added Services of R29 million.

On a technology and corporate front, the overall growth in EBITDA of R81 million generated by all the trading operations couldn't have been achieved without the significant skills and technological support provided by our technology and corporate division.

Just looking down to the next line, there was a significant reduction in net finance income of R53 million. Unfortunately there was a significant decline in interest rates since December 2008, totalling 500 basis points, which obviously impacted significantly on our cash balances.

The net profit before tax was R299 million for the year. The share of losses of associates and joint ventures was lower with Oxigen Services India moving from a loss of R14 million to a loss of R4.5 million.

Ukash, again, there was only a comparison for two months. Therefore it had significant increases in the losses of R7.5 million, which includes an amount of R3.7 million in deferred tax assets, that was now reversed in the current year, which was raised previously.

Moving on to the core profit, which decreased from R216 million to R194 million, representing a 10% decline. Core earnings per share was 25.59 cents from 28.18 cents, representing a 9% decline. It must be noted that the decline in the core earnings from R216 million to R194 million was attributable to reduction in interest of R46 million, again as a consequence of the reduction in interest rates, impairment of the goodwill at CNS Call Centre of R11 million, reversal of two deferred tax assets amounting to R6 million, as well as impairment of intangible assets amounting to R5 million.

On the balance sheet, our total assets increased to R4.2 billion, up by R369 million on the previous year. There was a net decrease in non-current assets of R91 million attributable to CAPEX which was made up of disposals and depreciation of R24 million with a decrease in intangible assets which is goodwill and intangibles of R62 million which would obviously include the impairment of CNS Call Centre of R11 million. We have a decrease in investment in associates of R14 million, taking into consideration the losses that have been incurred by India as well as Ukash.

There's a net decrease in financial assets, the amortised costs of R36 million which relates to starter packs which are out in the market which are yet to be activated, as well as a reversal of starter pack assets of R3 million.



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<p>Mark Levy</p> <p>Operator</p> <p>Nick Kershaw</p> <p>Brett Levy</p>	<p>Current assets increased by R460 million, mainly attributable to the increase of cash and cash equivalents of R203 million. Accounts receivable increased by R239 million and the current portion of unactivated starter packs by R21 million. Our stock churn was 3.44 times and debtors collections were 24 days.</p> <p>Then capital and reserves, the major increase there was our net profit for the half year of R177 million as well as a decrease due to the purchase of our treasury shares in terms of the share incentive scheme of R46 million.</p> <p>Our liabilities, the net increase in total liability is R191 million, purely based on accounts payable increased by R183 million, as well as taxation owing by R33 million less the reduction in interest-bearing borrowings of R18 million and deferred taxation of R7 million.</p> <p>Trade creditor payment terms was 40 days for credit. From a cash flow statement point of view we generated cash of R337 million. This was enhanced by a further R41 million net interest earned. The tax paid of R62 million offset this resulting in cash flows from operating activities of R316 million.</p> <p>As far as dividends are concerned for the year, which is in line with our dividend policy, no dividend has been declared for the period under review. We're happy to field some questions now if that's all right with you guys.</p> <p>Thank you very much, sir. Ladies and gentlemen, at this time if you would like to ask a question, please press star and then one. If you then decide to withdraw your question please press star and then two. Our first question comes from Nick Kershaw of Deutsche Bank. Please go ahead.</p> <p>Hi, good afternoon, guys. Just a quick couple of questions. I mean just, I know you mentioned that things have got a lot better in Nigeria. Can you maybe just give us an indication of, if you think sort of Q4 versus Q3 in your second half period, how much, you know, the growth was in the fourth quarter over the third quarter just on a sequential basis. And then I know you mentioned you've got about six and a half thousand points of sales now that can do RICA, I mean how has that changed over the second half. I can't remember what it was at the interim period as well.</p> <p>Sure. Alright, as far as Nigeria goes, without forecasting too much, Nick, is that obviously as we've started we've been picking up momentum. We've managed to increase the distribution capabilities. There is some reliance on Multi-Links in order to introduce new handsets, promote more products and so forth, but what we're seeing is constant growth month on month from our side. So as far as we're concerned, it all looks positive for the future. Where significant incremental growth can come from is us signing up other mobile operators which we're far down the way in terms of negotiating with currently so Nigeria is looking very positive from that respect. We are also starting to implement some pulse solutions in Nigeria, so a change in the way that traditional business is happening. So there's some great ideas that are happening within the Nigerian border. As far as RICA, I suppose everyone had a slow start. The networks couldn't deal with how to do RICA and the registration process. That has improved. We are signing up literally almost tens or a hundred RICA agents a day. That is compounding and every RICA agent does so many RICA registrations daily so we're currently sitting on close to 2 million registrations and, if you look at, you know roughly from where we were to where we're at, that is</p>
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<p>Nick Kershaw</p> <p>Operator</p> <p>Thompson Ganyeka</p> <p>Brett Levy</p> <p>Thomas Ganyeka</p> <p>Brett Levy</p> <p>Thomas Ganyeka</p> <p>Operator</p> <p>Craig Hackney</p>	<p>really compounded growth. I think the market is somewhere around, I'm taking a guess, 18 million. RICA registrations have been done by the networks so there's still quite a long way to go. But what it does for us, it creates additional points of presence which in the future will allow us to vend and support a lot of other products and services we do.</p> <p>Thanks, thanks so much.</p> <p>Ladies and gentlemen, a reminder that if you'd like to ask a question, please press star and then one now. Our next question comes from Thompson Ganyeka of Personal Trust. Please go ahead.</p> <p>Thank you. First of all, I'd like to say congratulations for the good results. I have two questions.</p> <p>Thank you very much.</p> <p>My first question is when do you guys, when do you think you'll start paying a dividend and then secondly your cash position seems to be stronger and stronger. Do you guys have any intention to do any acquisitions or what are you planning to do with that cash going forward?</p> <p>Alright, as far as our stated dividend policy is, we said it when we listed in November 2007. Give us a good two years to settle down and bed down our plans so in the financial year starting June 2010 thro to year end May 2011, we said that we would look at declaring dividends. Our message has been the same since inception. We constantly raise this with our board who are very happy with the path we're currently pursuing.</p> <p>With regards to the cash that we generate from operations, to date we have spent some money on acquisitions. Blue Label is in the market to look for strategic acquisitions to complement our existing verticals. We are cognisant of not allowing this money to burn a hole in our pocket and spending it for the sake of it. So, although there are some opportunities, we are trading lightly and we will spend the money wisely, definitely keeping our eyes and ears open at looking at how to strengthen our core businesses, both locally and internationally.</p> <p>Thank you.</p> <p>Our next question comes from Craig Hackney of BJM. Please go ahead.</p> <p>Hi, good afternoon. Just two questions. Firstly, your decision to withdraw from the DRC and Mozambique. Can you maybe just give a bit of colour as to what was making those markets so unfavourable for you guys and then secondly, in India, if you could also just give a little bit more details around the drivers of the profitability there. And I think in the past you had mentioned opportunities around rail ticketing and I didn't pick up anything like that in your presentation or commentary this time around. If you can just speak a little bit about that as well please.</p> <p>Sure. Let me start with the DRC and Mozambique. Mozambique was our first territory we went into, I think it was good for us to cut our teeth and learn how it works. It's quite a long country geographically, so it was interesting to see how technology would work in that country. What happened within Mozambique, we</p>
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<p>Brett Levy</p>	<p>reached a stage where we couldn't grow that business anymore. We got offered a good deal by our local partner and we took it because it made a lot more commercial sense to sell out and continue the path that we're going, by virtue of the market size of that country.</p> <p>With regards to the DRC, it's been a very difficult country in which to operate and so we decided to focus our attention on those markets that derive most upside for us. We've taken all those ex-pats and moved them through to Nigeria and wherever else we need to. So from that point of view I think it was a very wise move. The DRC on paper seems like a very lucrative country because they've got lots of people and good minerals but it's been a very difficult trading environment and we thought, instead of ploughing away with lesser upside, let's dedicate our resources and rather become a bigger fish in a smaller pond in other territories. So we were able to move those valuable resources and reallocate them in other countries like Nigeria, and you can see the upside of doing that.</p> <p>With regards to India, well India in terms of you know decreasing expenses significantly, enhancing revenues through better margins and customers and that hasn't decreased our revenues which has been great for us. We've also picked some more profitable products to put through our network so it wasn't one single thing that made it different, it was the compounded strategy of you know cutting costs, not having a customer just for the sake of it, finding a good customer we're able to make slightly more margin and what's good about that is we've made more margin and our revenues remain constant. We've also introduced new types of technologies like mobile vending and we're signing up about 3,000 mobile vendors a month and that's also increased our distribution capabilities. So, taking all those things into account, India reached EBITDA positive in November 2009 even though we forecast it only for December. So, those steps have obviously paid its dues and now we're starting to generate progress from there.</p> <p>With regards to rail, a good question. A couple of months ago within the Indian government they said if you're not a bank you're not allowed to have a mobile wallet. So if you recall last time we agreed that we had signed an agreement with the State Bank of India where they would be our banking partner. That metro rail ticketing process is currently underway but, like any new product, takes time to pick up momentum. But it's definitely something on the horizon and we look forward to yielding some positive results out of it.</p> <p>Okay, thank you very much.</p> <p>No problem.</p> <p>Gentlemen, we have no further questions. Would you like to make some closing comments?</p>
<p>Craig Hackney</p>	<p>Yes, from my side, guys, thanks very much. Thanks for the support. Obviously if there's anything that you want we have a new guy by the name of Mike Campbell who has joined us. He's our investor relations person. I'll ask him to send you all his detail and if you'd like to see us, meet with us or any information, I would believe that Mike would be a good place to start. His mobile is +27 82 458 2587. You have had all direct contact with us and we're still available to talk to you guys whenever you wish and once again, thank you from my side.</p>
<p>Brett Levy</p>	
<p>Operator</p>	
<p>Mark Levy</p>	



Speaker	Narrative
Operator	Thank you. On behalf of Blue Label Telecoms, that concludes this afternoon's conference. Thank you for joining us. You may now disconnect your lines.

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