



**Blue Label Telecoms  
Annual Results  
24 August 2010**





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Mark Levy	<p>Good afternoon ladies and gentlemen. Welcome to you all. I hope today that Blue Label can take away any post World Cup blues that you may have. I also welcome listeners via webcast and those who have dialled in. Thank you for attending Blue Label Telecoms' results presentation for the year ended 31<sup>st</sup> May 2010 which were released on SENS this morning.</p> <p>With effect from 1<sup>st</sup> June 2010 we have evolved and expanded our group structure from its four segments into five segments. And today's presentation will on occasion refer to the new structure as you see it here. Blue Label South Africa, Blue Label International, Blue Label Mobile, Blue Label Technologies and Blue Label Solutions.</p> <p>Our intention since listing has always been to consolidate the subsidiaries across the group, eliminating a lot of overlapping and strengthening the Blue Label presence in the market and thereby achieving better economies of scale over time. This will create a more streamlined operating process, deliver cost savings and will allow customers a single Blue Label identification point at which they transact with us both locally and internationally. With this in mind we have introduced Blue Approved, our new branding and corporate visual identity which will be implemented across our group companies both locally and internationally.</p> <p>Our proven business model enables consumers to purchase any product or service that can be digitised across multiple vending solutions and channels. A vast majority of the world's emerging market population are still un-banked or under-banked, yet a large amount of products and services are only available to most people via traditional payment mechanisms. The key to enabling everyone access to these products and services, is to make them available conveniently and in a manner that they are accustomed to. We have a continuous process of adding new products and services to our existing product range for seamless distribution through our global footprint, primarily focussing on South Africa, India, Mexico and Nigeria.</p> <p>Moving on to our international distribution. Just to remind you, our international strategy is to pursue growth opportunities within the group's global footprint by rolling out prepaid products and transactional services in replication of the South African distribution model. In summary the get well plan implemented in India last year as started to bear fruit as the business emerges leaner, keener and meaner. In Mexico our Points of Sale devices continue to be steadily rolled out each month, and now number over 3,500. In Nigeria our offering has been extended to nearly all the operators, and at the same time we have strengthened our relationships with our dealer network.</p> <p>In India I'll take you through the progress over the year, bringing you up to date with joint launches with the State Bank of India of kiosk banking and Mobile Wallets. Today we have over 75,000 points of presence in India, and this is likely to accelerate as GPRS enabled terminals are deployed in an environment of markedly reduced GPRS rates, currently less than \$2 a month. In a highly competitive environment we have successfully launched cell phone vending, the first instance of offering all mobile operators through a single phone.</p> <p>While our historic focus has been on distributing airtime, significant progress has been made during the year in securing additional revenue sources from new higher-margin value added products and services. These include successfully completing technical integrations with the State Bank of India which has over 100 million customers, ICICI Bank and Corporation Bank, giving us access to the business to consumer segment for mobile and internet banking transactions. Oxigen has also recently launched their Oxicash Wallet and card products.</p>
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	<p>In July of this year Oxigen and the State Bank of India jointly launched kiosk banking, which will initially enable about 20,000 Oxigen merchants to become the bank's business correspondents, enabling each kiosk to become an extension of the bank's branches offering no-frills banking facilities to customers and bringing branchless banking to the forefront. I'm also pleased to report that just last week SBI approved the introduction of our Mobile Wallet platform with complete back-end management including merchant top-up at retail and new service integrations for their customers.</p> <p>We introduced a get well plan last year and have seen steady improvements, first reaching positive EBITDA in November last year. At financial year end our share of losses were R7 million, down from losses of R26 million in the previous year. Salient features of the plan included improved technical and operational performance, changing the distribution structure and applicable margins, introducing new products and services – one of which was direct top-up - which is pinless recharge – and thereby tapping into a strong market. We also facilitated more profitable bill payment systems in addition to implementing cost reductions and containing operating expenses.</p> <p>Moving on to Mexico, which is our green fields operation which commenced trading operations in May of 2009. This is the first time we can present comparative data. At the year end we had about 3,000 active points of presence active in the market, increasing steadily at a rollout rate of a few hundred net additions per month. The year has been characterised by establishing processes and procedures for extending our channels and broadening our offerings. Our strategic relationship and agreement with WOCCU continued to provide extended reach into new market segments for the millions of members of its affiliated credit unions and member micro finance sites.</p> <p>More recently we commenced technical integrations with Atio and its associated petroleum forecourts as well as the liquor chain Alianza. We have also introduced cell phone and PC based vending solutions while further diversifying our product offering by deploying bill payment services. And we recently obtained certification from Pronósticos to distribute their lotto vouchers. Mexico's geographic location will be an important springboard to us as we roll more and more products and services into the region.</p> <p>Blue Label has an effective ownership of 36.7% of Africa Prepaid Services Nigeria which also commenced trading in May 2009. This year we concentrated on developing a deeper relationship with our dealer and super-dealer networks. Our ten year contractual agreement to service Multi-Links' entire distribution channel, which commenced in December 2008, provides for an annual review of certain terms which is currently underway with Multi-Links and Telkom South Africa.</p> <p>During the year African Prepaid Services Nigeria extended its airtime offering by entering into distribution agreements with Zain, Glo, Etisalat and Starcomms. The year ahead promises to be full as we are gearing up to roll out Point of Sale and mobile solutions as well as bulk printing and other value-added products and services.</p> <p>Ukash was acquired by Blue Label in 2008. Our vouchers are now available in over 400,000 locations in 30 countries across six continents. Expansion has been maintained with more issuing sites in new markets, principally our operating regions are the United Kingdom, Europe, Australia, North and South America and China. As of this year Ukash vouchers are available in South Africa at Pick n Pay and Shoprite, while negotiations are in advanced stages with other multi-channel retailers.</p> <p>Redemption values continue to grow, showing a 70% annualised growth as new</p>



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	<p>opportunities were entered into like VOIP and gaming. New channels were identified, one of which is transient communities, where many members are un-banked Mobile Wallets have gained acceptance rapidly. The re-load and re-power agreement with MasterCard signed in 2009 is expected to enhance revenue growth as it provides alternative means for redemption and payment facilitation.</p> <p>Our technology segment remains focussed on the development and support of commercially viable and functionally rich transactional engines which provides us with robust and stable platform to launch all our products and services. This has been a period of consolidation and integrating the group's systems and platforms in line with the group's consolidated strategy as we ready ourselves for further expansion both locally and internationally. This entailed us focusing on the robustness, development and scalability of our core technology, and where appropriate recruiting additional skills to support our business.</p> <p>In South Africa we achieved further network integrations which facilitated real-time airtime top-ups, our innovative electricity top-up and transport ticketing like satellite bus ticketing for Gautrain and Algoa Bus. Our EFT business managed by Transaction Junction through our bank grade Postillion switch grew transactions threefold during the year. We also completed integrations for Lotto into FNB with delivery through internet banking, ATMs and mobile banking, and at Pick 'n Pay completed integrations to vend lotto through their lanes.</p> <p>Blue Label Mobile was established as part of a new structure and in future will report as a separate segment. It now comprises of three divisions, Cellfind, the Mobile Services Company and Content Connect Africa. As its name implies it now focuses on managing the group's mobile strategy and mobile technologies and in South Africa all Blue Label's business to consumer marketing. It also handles all media sales for our group. The new segment is expected to derive cost savings through economies of scale as well as remove duplicate structures and positions and integrate solutions across our group.</p> <p>During the year we extended our product range and launched three new services, mobiWallet, mobiMerchant and mobiSecure, each of which are driven off our extensive integrated services platforms. The importance of mobiSecure is that it provides an end-to-end security for mobiWallet and mobiMerchant which will facilitate an innovative extension to our group's footprint by securely integrating mobile channels into our core switch for the sale of any secure electronic tokens of value and services. This service is expected to be spread amongst smaller merchants via their mobile devices and can ensure continuity of services even in areas of poor GPRS connectivity.</p> <p>Location-based services, wireless application service provider aggregation business and Content Connect Africa (CCA) again delivered annuity income in tough trading conditions. In a world first for Symantec we have concluded a deal to act as their mobile enablement and billing partner as it launches its mobile anti-virus product in South Africa, which will be rolled out to mobile operators and service providers in due course.</p> <p>New traffic and music services are starting to show a steady increases in consumption following the introduction by MTN and Vodacom of new delivery platforms which were deployed in late 2009. CCA continued to sign up emerging and leading artists and musicians while also extending its services to B2B channels and corporate customers.</p> <p>The call centres were severely affected by the economic downturn and resulted in us closing our Bloemfontein, Kimberly and Cape Town call centres. As you will recall we took an impairment of R12 million at the half year. The remaining call centres have been</p>
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<p>Dave Rivkind</p>	<p>consolidated into Velociti which hosts about 700 seats. It now focuses on campaigns of in- and out- bound requirements of our customers as well as cellular contracts and insurance telemarketing. These can be time consuming to deliver, and in current tough market conditions the call centre business still faces some challenges. Blue Label Data Services I'm pleased to report was granted a Centre of Excellence Accreditation by the Direct Marketing Association of South Africa.</p> <p>To wrap up my section I thought I would remind you of the switching overview, actually a snapshot of how we work. Activi provides a full technology platform for both local and overseas operations. Aeon, our technology backbone and switch. Core service capabilities including airtime, utilities, insurance, gift vouchers and transport ticketing all integrate into our Aeon platform. In turn we distribute to one or more devices, for example kiosk, point of sale terminals, integrating gateways, touch screens and bulk vouchers. And ultimately servicing various distribution channels like wholesalers, main retailers, independent retailers, kiosks and informal retailers.</p> <p>I will now hand you over to Dave Rivkind who will take you through our financial results for the year. He will then be followed up by Brett's presentation of the South African distribution segment and the way ahead. Thank you.</p> <p>Good afternoon ladies and gentlemen. In maintaining its position as the major distributor of prepaid electronic tokens of value in South Africa the Blue Label Group once again delivered a robust performance in its trading operations. This achievement, together with contributions by the international segment, resulted in EBITDA growth of 21%. As a positive cash generating group with cash on hand accumulating to R2 billion at year end the sustained low rates of interest once again restricted maximisation of earnings. The disappointing performance in the call centre division and the consequent impairments required on intangible assets related thereto tarnished earnings that would otherwise have equated to growth at core level. In light of the group's strong trading performance and the resultant growth of cash on hand the Board has approved a maiden dividend of 12c per ordinary share.</p> <p>The following summarises the group's performance. Revenue, R17.03 billion. Gross profit, R1.17 billion. EBITDA, R689 million. Operating profit, R569 million. Net profit after tax, R365 million. Core earnings, R397 million. Headline earnings per share, 48.27c. Core earnings per share, 52.34c and cash generated from operations was R516 million. The movement in these earnings was as follows. Revenue increased by 11%. Gross profit increased by 10%. EBITDA increased by 21%. Operating profit increased by 20%. Net profit after tax declined by 7%. Core earnings declined by 7%. Headline earnings per share declined by 7% and core earnings per share declined by 6%.</p> <p>The positive growth contributors were negated by substantial differentiation in comparative interest rates, resulting in a declining interest received. Further negative impacts were caused by the reversal of an element of deferred tax assets, the impairments of goodwill relating to a non-performing CNS call centre and the impairment of intangibles pertaining to technology. I will now expound on the contributions to group performance at segmental level.</p> <p>Revenue. South African distribution continues to be the main contributor to group revenue. Its growth of 9% was organically achieved through its increase in market share of the distribution channel of prepaid goods and services. Commission earned on the distribution of prepaid electricity increased by 143% from R14 million to R34 million. This was achieved through a hybrid of expansion of consumer demand in this payment mechanism and establishment of additional contracts with a wider spectrum of</p>
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	<p>municipalities.</p> <p>International distribution encompasses the group's operations in Nigeria, Mexico, India and the United Kingdom. Interests in Mozambique and the Democratic Republic of Congo were disposed of in November and December of 2009. Revenue generated by African Prepaid Services and Blue Label Mexico increased by R826 million. Trading operations in Cyprus and the United States were disposed of in March and July of 2009 respectively. The non-repetition of the comparative revenue of these entities totals R302 million, resulting in a net comparative growth in international distribution revenue of R524 million, 72%. International revenue does not include the turnover of associate companies Oxigen Services India as well as Ukash. These operations are equity accounted for in line with the group's minority interest.</p> <p>Value-added services. The telemarketing of cellular and financial services products, inbound customer care and technical support are provided by the call centres operated by the group. Revenue generated by these call centres declined by R69 million, primarily due to the negative impact on outbound sales caused by adverse market conditions. This in turn necessitated the impairment of goodwill of R12 million attributable to these call centres. A further decline in revenue of R47 million pertained to eVoucher, a subsidiary company which was disposed of prior to the commencement of the financial year.</p> <p>The technology segment focuses on in-house technical support and product development enhancements. Its revenue of R20 million related to sales and services to third parties.</p> <p>Segmental contribution to gross profit. In a group in which profitability is achieved through high volumes and relatively low margins it is critical to ensure that gross profit margins at trading level are maintained and increased. On the face of that, although gross profit increased by R109 million, 10%, gross profit margins declined from 6.97% to 6.9% at group level and from 5.73% to 5.58% at the South African distribution level. These margins are calculated by accounting for actual trading margins adjusted by the interest element pertaining to debtor and creditor finance in terms of IFRS requirements. From a pure trading perspective group margins in fact increased from 6.46% to 6.65% and South African distribution gross profit margins increased from 5.21% to 5.47%.</p> <p>The growth in trading margins was achieved despite the negative impact caused by the introduction of RICA legislation. This legislation had the effect of restricting the maximisation of the activation of starter packs. The impact of this requirement manifested itself mainly in the second half of the year.</p> <p>Segmental contributions to EBITDA. South African distribution, the increasing gross profit and a reduction in operational expenditure resulted in an EBITDA growth of R61 million. International distribution, the growth of R131 million included the profit of the sale of APS Mozambique of R29 million. The net trading growth of R102 million was primarily contributed by African Prepaid Services Nigeria.</p> <p>Value-added services. The decline in EBITDA of R50 million was mainly attributable to the negative growth of the call centres and included closure costs pertaining thereto of R13 million.</p> <p>Technology and corporate. In-house technical support and managerial inputs continued to play an essential role in the contribution to the EBITDA growth of R142 million, 20%, achieved by the trading operations. Congruent with an expanding group ongoing expenditure is required on technology at both maintenance and personnel levels. The need to focus on in-house support resulted in both a reduction in revenue on services</p>
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	<p>provided to third parties and an increase in overheads in the technological segment. The resultant negative contribution to EBITDA was R76 million. Corporate, administrative and managerial costs were contained, resulting in a decline in this expenditure of R7 million.</p> <p>Net finance income. Of the R162 million finance income earned R84 million was attributable to interest generated from cash resources. Imputed interest receivable on debtor balances in terms of IFRS requirements amounted to R78 million. Finance income earned on the comparative period was R205 million, of which R47 million applied to imputed interest receivable on debtor balances in terms of IFRS requirements, and R158 million was earned from cash resources. The effective decline in finance income net of IFRS adjustments equated to R74 million as a direct result of the reduction in interest rate of 550 basis points since November of 2008.</p> <p>Finance expense. Of the R124 million finance expense R119 million related to imputed interest payable on creditor balances in terms of IFRS requirements. On a comparative basis R108 million of the R113 million was applicable to IFRS adjustments. The net increase of R11 million was directly IFRS related.</p> <p>Share of losses from associated and joint ventures, Oxigen India. The encouraging decline in the group's share of losses in Oxigen India from R26 million to R7 million, 72%, was achieved through increased revenues of 25% and a reduction in overheads of 40% for their financial year ended 31<sup>st</sup> March 2010 reported in their local currency. The growth in revenue emanated from the expansion of point of sale devices and distribution sites as well as product innovation which increased the bouquet of services available to consumers.</p> <p>Ukash, the group's share of this associated company's losses was R8 million after the amortisation of intangible assets amounting to R1.4 million. Of these losses R3.7 million related to deferred tax asset and R4.3 million to trading losses. The comparative share of losses of R2.3 million was for an eight month period in that equity in Ukash was only purchased in October 2008.</p> <p>Core net profit. Core earnings of R396 million were negatively impacted by a decline in interest earned of R74 million, the impairment of goodwill pertaining to the call centres of R12 million, the reversal of deferred tax assets by six million and the impairment of assets by R9.5 million. These negative impacts, totalling R78 million after taxation were the main contributing factors behind the declining core earnings by R31 million.</p> <p>Moving on to the balance sheet, the assets, total assets have accumulated to R4.45 billion, representing an increase of R568 million, 15%. Non-current assets, there was a net decline in non-current assets of R19 million, the material make-up of which is as follows: A net increase in capital expenditure of R52 million, mainly relating to the acquisition of additional point of sale devices; a net decline in intangibles and goodwill of R24 million, the make-up of which includes the acquisition of a starter back base for R59 million; increased expenditure of software and development of R31 million. This was offset by disposals of R27 million, impairments of R23 million and amortisation of R64 million. A decline in other non-current assets of R47 million, this was caused by a reduction in investments in associates by R13 million relating to losses incurred by Oxigen and Ukash and decline in unactivated starter packs by R37 million.</p> <p>Current assets: trade and other receivables increased by R89 million, maintaining collections at an average of 21 days. Inventory increased by R176 million, equating to an average inventory turn of 13 days. Cash on hand increased by R296 million and other current assets by R26 million. Capital and reserves: Capital and reserves increased by the</p>



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<p><b>Brett Levy</b></p>	<p>net profit for the year of R365 million and by the increase of R71 million in minority interest. The purchase of treasury shares for R26 million, in line with the group's share incentive scheme confined the growth in reserves to R411 million.</p> <p>Liabilities. Trade and other payables increased in tandem with volume growth by R200 million, with creditor terms averaging 40 days. This, together with the decline in taxation owing by R7 million, repayment of interest-bearing debts of R18 million and a reduction in deferred taxation by R17 million equated to a net growth in liabilities of R157 million.</p> <p>Moving on to the cash flow statements: Net cash flows generated from operations amounts to R623 million. On a comparative basis, this represented a decline of R123 million due to the application of cash to early settlement discounts in lieu of interest receivable at lower rates than the discounts received. Of the cash flows generated from operating activities amounting to R516 million, R91 million was expended on intangible assets and R104 million on property, plant and equipment. A further R26 million was also applied to the acquisition of treasury shares. The net cash generation of R298 million compounded cash resources at year end to R2 billion.</p> <p>Acquisitions. The board continues to explore acquisitive opportunities with a primary focus on widening its distribution of products and services. Dividends: On the 23<sup>rd</sup> August 2010 a dividend of 12c per ordinary share was approved. This dividend equating to R91 million has not been recognised in the financial statements as it was approved after the financial year-end. Thank you. I'll now hand you over to Brett Levy.</p> <p>Good afternoon, ladies and gentlemen. The past 12 months has shown a consistent growth in our core business activities and has once again proven to us that, not only our technology but our methodology of how we deploy our products and services into our distribution channel works. You know what's pleasing for us over the last 12 months is the growth non-telco products, something I'll touch on more, later.</p> <p>On the 1<sup>st</sup> of June we implemented the consolidation of our core South African businesses. This will not only help us from an expense point of view, but should drive extra revenues through our existing base. Our objective here, drive more products and services through them so that we can create our distribution channel, which has been seen in the past as a Telco distribution channel into a distribution channel of secure electronic tokens of value, therefore enhancing the total offering to the market.</p> <p>Over the last 12 months we have spent a tremendous amount of time, development and technology into putting new products into the market, some of them to touch on are prepaid electricity, money transfers, M-Pesa, a strategic alliance with mid-tier banks, EFT, Lotto, bill payment, PINless, Symantec – our virus protection – and our new brand, Blue Approved. While obviously at the same time maintaining our existing products, as well as developing on them and obviously maintaining them, such as RICA, prepaid airtime, our stores-in-store kiosks, Ukash, our starter packs, or SIM packs, bus ticketing, Algoa bus tickets in particular and our insurance product, Cover to Go.</p> <p>I'll start with the flagship of our new product, being prepaid electricity, obviously the leading new product in the Blue Label stable. Over the last year we have seen revenue growth in excess of double from R685 million for the year ended May 2009 to in excess of R1.8 billion for the year ended May 2010. We expect the same growth going forward. What's important to note here is that we have launched our new offline transaction called Uni-Pin, the first of its kind in the world, which is not in these numbers. What's more exciting for us as management is that prepaid electricity is currently only in 11.6% of our entire Blue Label base, therefore a tremendous opportunity in implementing it through</p>
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	<p>the whole base. Just a reminder to you, we do not account for electricity revenue at face value, but include the commission thereof, due to the fact that we act as an agent on behalf of the utility companies.</p> <p>Moving on to money transfers, probably the most exciting product to enter into our industry after telcos. We estimate that the money moving outside of the banking environment is that much larger than that of the Telco's market, well, at least definitely of the prepaid telcos market. We have spent tremendous time in the last 12 months developing our software and implementing our services. Our sales did very well to start putting in a number of our money transfer solutions. Starting with M-Pesa, Vodacom's money transfer solution, by the 1<sup>st</sup> of September we will have in excess of 500 agents, mainly rural or semi-rural areas. If Kenya is anything to go by, just to give you a statistic, Kenya currently does R2.5 billion a month through the M-Pesa system. That makes up 4% of the entire Kenya GDP. We believe that South Africa is a much larger market than Kenya and think that we can get there pretty quickly. Our own Blue Label money transfer technology is ready, our deployment's ready, we're just waiting for a few things to come through from the regulator.</p> <p>On our strategic alliance with the bank, probably one of the most exciting products and services and partnerships that we've entered into in Blue Label. The vision of Blue Label is to take product to the people, rather than people to the product, by using the base of these mid-tier banks, Blue Label will be able to achieve many of its objectives.</p> <p>Moving on to another product which we haven't spoken about too much in the past but is really becoming a serious product in our stable, and that is bill payment. We are now fully integrated through the Spar system via many different key high-revenue generating bill payees. Currently this market does in excess of R1 billion a month. Blue Label share – approximately or just over 5% market share. Tremendous growth for us in the bill payment market.</p> <p>I'd just like to touch on a few other products that Mark might have mentioned. Symantec. This product enables every handset to have virus protection. This is a key focus on the handset market worldwide and up to now it's quite strange that we protect our computer every time we put it on, but when we use our mobile handsets we don't think a virus can come there. So it should be interesting.</p> <p>Update on Lotto. Our integration into Pick 'n Pay, Checkers and FNB is gaining momentum. We are currently doing in excess of 200,000 transactions on a monthly base and we expect it to increase in the coming months.</p> <p>And lastly, PINless. We are fully integrated into the Vodacom and Cell C system. We are slowly starting to generate our own pins and soon we will not be reliant on the network system to generate recharge vouchers. A very big step for Blue Label.</p> <p>Moving on to the flagship of the South African core business, our airtime and starter packs. Our core South African telecoms business continues to grow in line with our expectations. Revenue grew by 9%, EBITDA grew by 10%, in spite of a reduction in interest received of R74 million of the same period ended May 2009. Just for interest' sake, should interest have remained the same, South African core telecoms businesses would have grown by 17% for the year ended May 2010. I'd like to also point out, because it's a question that gets posed to us often, is, in the current year that has passed, the networks dropped margins by 2%. I want to make something very clear. The margin reduction by the networks had zero effect on the South African core business and did not affect our GP percentage at all, and we do expect the networks to reduce the margin</p>
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	<p>again in the next 12 months and we expect the same outcome for Blue Label telecoms.</p> <p>From a SIM-pack point of view, we are connecting in excess of 100,000. We're actually up to 120,000 new Net connections, net of churn a month. As you all know, RICA had a huge impact on our market, but it definitely is settling down and we should soon be back on track where we were pre-RICA, i.e. pre-August of 2009, connecting in excess of 250,000 new connections on a monthly basis.</p> <p>Just really interesting to see what's happened in our business over the year is this is the revenue share within Blue Label telecoms. Vodacom had dropped from 58% to 57%, really positive growth in MTN from 30% to 31% and a relationship really growing on the MTN front. Cell C very positive, increased from 6% to 8% and once again obviously a relationship really brewing on that side of good. And probably the most disappointing for many reasons is a decrease in Telkom from 6% to 4%.</p> <p>Just a graph to show how our shareholders are split. On the left path we show the South African shareholder base at round about 73% with the rest of the world making up 27%, namely 16% coming out of the USA and 6% coming out of the UK. On the right side just interesting to see our free float which sits just under 37% at 36.9%.</p> <p>So I guess in conclusion, number one, growth in revenue by 11%, growth in gross profit by 10%, growth in EBITDA by 21% and cash generated for the year R516 million. We continue to build our points of presence and now have in excess, active access points of 130,000 points across South Africa; starting to connect over 120,000 new Net connections on our SIM-packs. We understand that our call centres are facing challenges, they're under evaluation and we are watching them carefully. We do believe we are on top of it. Probably very exciting for us is our growth in products and service, this is outside of South Africa. As Mark mentioned, our Multi-Links contract is under review and we will review it yearly for the next 10 years.</p> <p>Normalisation of our employment costs and general expenses, our new branding Blue Approved, which you can see all around you, which we're starting to implement and it's been well received by the market. The most exciting for management, the growth in products and services outside of the Telco sector. A lot of questions were asked of Blue Label. Can we replicate our model outside of Telcos and sure we are, we're doing it more and more every year and this is definitely coming to fruition. Our footprint in India and Mexico growing steadily and our maiden dividend of 12 cents per share approved yesterday as Dave mentioned, you know, really satisfied from management that we have enough cash for acquisitions going forward that we might have generated a little more than we expected and proud to give something back to our shareholders.</p> <p>Our prospects for the year going forward, well, our mobile merchant solution extends our point of sale footprint securely; reached an agreement with Symantec to provide anti-virus protection for smart phones. This product you're going to read a lot about. Symantec is a very reputable company worldwide. This is going to be a must for all smart phones and how we haven't done it till now is surprising to all of use. Expanding distribution agreements with multiple networks in Nigeria key for our group. You know, we're not only reliant on Multi-Links there although we really do good job there. We are going to do a great job for all the networks in Nigeria. Advertising revenue from our real estate of vouchers, just to put that into perspective, we produced 65 million physical vouchers a month ourselves, of which it has three points where you can have advertising real estate. A great opportunity for Blue Label starting to use it and you will see that coming forward in the future. That excludes approximately 400 million transactions that the Blue Label Group has on a month basis.</p>
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	<p>And probably a little bit underplayed, but Mark and I went for the launch, the Oxigen India/State Bank of India collaboration on kiosk and wallets. The State Bank of India only has 100 million clients. They want to grow that to around 240 million clients. Of the 140 million that they want to grow, they do not want one of those people to step into a bank. One, the banks can't handle it, and two; they just don't have the capacity in the banks. Oxigen's collaboration or their agreement is to take the next 140 million and put them in kiosks, Oxigen kiosks. Something to look out for.</p> <p>Finally, management is generally happy with the last 12 months. There were some places where we could have definitely improved, but generally we think we had a good, solid year. We'd really like to thank all management and all staff, to our board for your tireless efforts and continued support to us and really look forward to the next 12 months. Thank you very much. I'll now open it first to the floor for questions and then afterwards go to the phone. I believe we have 13 people from the UK, nine from the USA, so we'll do it in tandem. Thank you very much.</p> <p>And just by the way, Mr Michael Campbell, that handsome man at the back there with the glasses; for some of you who have not met him, he's Blue Label's new IR and, should you wish to contact him directly, it's the man with his hand up. Okay, questions.</p>
<p><b>Facilitator</b></p>	<p>[unclear]</p>
<p><b>Unidentified male speaker</b></p>	<p>Hello, Mr Levy. Mr Levy, the balance sheets shows starter packs listed under non-current and current. I don't understand the rationale for having them split, so please explain that and also the reason for the reduction of starter packs by R38 million under non-current and the increase of R10 million under current.</p>
<p><b>Mark Levy</b></p>	<p>100%. I'll pass you over to Dave.</p>
<p><b>David Rivkind</b></p>	<p>Okay, the reason why we classify starter packs separately on the balance sheet is we recognise all unactivated starter packs separately. So what that means is the total cost of the starter pack is R10. The unactivated portion gets reallocated to start pack assets which remain unactivated at year end. The reason why there's a significant decrease, by R37 million, because the start of the starter pack about 18 months ago reduced from R49 to R10. So the current portion that is now reflected is at a cheaper price and that is why there's been such a massive reduction of R37 million.</p>
<p><b>Unidentified male speaker</b></p>	<p>Thank you. Mr Levy, I'd like to turn now to finance costs of R124 million. Now, when I view that amount against the interest-bearing debt shown on the balance sheet, three items. One went from R20 million to R16 million; another from R15 million to R2.7 million and the overdraft from R3.8 million to R2.18 million. Now, measuring the R124 million interest costs, it just doesn't make sense. It's far too high. Mr Rivkind, in his presentation, I think on page 16, this [unclear] of R119 million relates to imputed interest payable on creditors' balance in terms of IFRS. Now, the word that puzzles me is imputed. Does that mean that at a later stage it might be reversed or are they actual – is it actual interest that was incurred. Then I don't understand why it's charged.</p>
<p><b>Mark Levy</b></p>	<p>In terms of IFRS requirements, due to the fact that we obtain extended payment terms from the networks which can average on about 45 to 60 days, there is then an interest imputation that needs to be calculated which is then stripped out of cost of sales. So the actual charge on the R120 million to finance costs, the contra-entry would be credited to</p>



Speaker	Narrative
<b>Unidentified male speaker</b>	<p>gross profit. And what we mean by that is, because we are on extended payment terms, we are paying – well, if we had paid cash, we would have paid a cheaper price. So you're actually reducing your cost of sales by the interest that gets imputed. So it's not actual interest that we pay, it's an IFRS adjustment.</p> <p>Okay. And finally, please Mr Levy, whilst I'm sure all shareholders would be very pleased at the maiden dividend, the R90 million cost is really puny against the R2 billion plus cash you hold and the one billion retained earnings. It was also mentioned, I think by you briefly, that you like to have money in the pocket for acquisitions, but two billion is a huge acquisition, so forgive me for speaking bluntly, you've been rather mingy in paying out the 12c dividend. [Laughter]</p>
<b>Mark Levy</b>	<p>Just to give you a short answer on that, unfortunately, of the full R2 billion, not all of it is free cash. A lot of it that we use in our cash cycle of general working capital cycle, of the free cash portion which is still quite a large sum of money, we've calculated carefully at board level, from a [unclear] level, making sure we have enough for acquisitions going forward and I think it's a good start for Blue Label to tell you. You know, initially we told the market that we would start looking at, only in June 2010 and probably start paying out at the end of May 2011. We have accelerated that by a year. So I think having a nice war chest to do acquisitions and we are looking for acquisitions aggressively, as well as creating our business into a dividend yielding company, I think we're giving the mix right. And just by the way, it's four times cover and we will look at that going forward. We did mention in our PLS that ideally we'd look at three times cover but, once again, I think it's a good start and we will re-evaluate it in the coming months. Any other questions from the floor? Okay, while you're thinking, I think let's turn to the phone lines. Hello?</p>
<b>Operator</b>	<p>We have no further questions from the conference call.</p>
<b>Mark Levy</b>	<p>Thank you very much. So once again I thank you all for coming. We look forward to talking to you again in six months from now. Food and drinks are outside and thank you all.</p>

*END OF TRANSCRIPT*