Blue Label Telecoms
Results Presentation
24 August 2011

Conference call transcript

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RESULTS FOR THE YEAR ENDED 31st MAY 2011

Brett Levy

Agenda:

Good afternoon everyone. Welcome to you all. Mark, Dave and I will now take you through the profit drivers of Blue Label. I'd like to thank those on the webcast and who have dialled in - welcome to Blue Label Telecoms May 2011 results, as released on SENS this morning.

Salient features for the year:

We once again reported a solid financial performance with revenue reaching R18 billion, attributable to an increase in revenue from airtime of 15% and from electricity commissions received of 79%, the stand-out performer in this year's results. In the SA Distribution segment we rationalised and consolidated the businesses, with effect from 1 June 2010, under Blue Label Distribution, consolidating a number of companies in the SA segment. In the International business we refocused our strategy in the geographic areas which can deliver greater returns to us. As a result, we committed to sell the business in Nigeria, entered into a strategic partnership in Mexico and since year end, increased our shareholding in India, which Mark will touch more on later. In keeping with our stated dividend policy, we are proud to announce a second dividend, of 14c per share, an increase of 17% from the year before.

Strategy to creating value:

I would now like to remind you of the overall stated strategy and the progress we have made on its delivery. To recap, Blue Label distributes secure electronic tokens of value and transactional services to emerging markets. The opportunities that we continue to capitalise on are: Prepaid vouchers provide certainly, act as an alternative payment method to credit, debit and cash. In the airtime-world prepaid builds the highway on which additional products and services can be delivered. Having done that in South Africa the opportunity is now shifting to prepaid electricity, money transfers and data delivery.

How do we deliver on this: On the one hand we have our robust, scalable and proprietary technology, Aeon, which includes the top-grade Postilion switch for bulk banking transactions. On the other hand we have a concerted effort to employ the right skills and talent across the group. Commentators will know that our capex, averaging at less than R100 million a year, is quite modest when compared with the telco networks. Having developed this network over the last ten years the costs to maintain and develop it are minimal. Our sustainability lies in the ten years that we have been growing our business, now touching about one million points of presence world-wide and 140,000 points of presence in South Africa alone.

Another milestone was achieved in December 2010 with our admission to the JSE Social Responsibility Investment Index. Our strong cash generating capability, approximately R566 million generated for the year, and our cash balance of approximately R2.2 billion at the end of May 2011, making for an unleveraged balance sheet, puts us in a very strong position.

This in turn gives us the capability to build up our network distribution and to introduce new products and services through it, while growing our product lines and consumer base.

South African Distribution:

This is the 'page' where I spend most of my time. A lot of people ask why Mark and I are joint CEOs. I often rhetorically ask 'how does only one CEO perform this role?' But we have very strategic and different roles. My concentration is on SA Distribution, while Mark looks after International Distribution, Technology and Marketing.

SA Distribution: Operational and Financial Highlights:

In South Africa our revenue increased 15% to R17.8 billion, which constituted 99% of the total group revenue for the year. Our core net profit was up 3% to R571 million, and in the following slides I will discuss the performances of airtime and electricity.

A disappointment for us this year has been the uptake of MPESA, which has been a lot slower than we had planned. The process with both Vodacom and Nedbank has taken a lot longer than we thought and we are now creating an electronic record to digitise the system. This will definitely accelerate the process. Once implemented the uptake of MPESA, and money transfers as a whole, in the independent market will grow. Currently we have about 300 merchants signed up, which is about 20% of total applications put forward. This is out of a possible 40,000 merchants, so really we have a long way to go - and an exciting place for us.

Our GP margin was down from 5.58% to 5.19%. David will elaborate a little more, but if I can just touch on one point. One of the strategies of Blue Label in the last 12 months was to grow market share, grow revenue and grow distribution points. Obviously in doing so, we had a bit of a cut-back on our GP margins. Our focus this year is to concentrate a lot more on GP margins, and still grow them, but not necessarily that aggressively on the points of presence.

Prepaid Airtime:

Revenue comprises the sale of physical and virtual prepaid airtime as well as a compounded annuity generated from starter packs. Growth was achieved entirely organically and was mostly volume-related, particularly as we gained greater reach in the independent stores. A survey was done quite recently by the networks which showed approximately 80% of prepaid products are bought in independent stores – these are in rural areas, and are one of Blue Label's focus areas. This means we are positioning ourselves well for future growth of prepaid products. In our base alone approximately 78% is independent or rural and 22% is done in urban environment or in blue-chip stores as you would know them. We are also targeting a real growth in our starter packs of approximately 50,000 connections a month for the coming year, but I will touch on this in the next slide.

Prepaid Airtime and Starter Packs:

Our volume growth as measured by the number of connections of starter packs increased 47% in the last year. Management is really happy with the number – it did exceed our expectations, but remember it came off a much lower base because of the impact of RICA. Now with RICA out the way (by 1 June 2011, everyone had to be RICA compliant and if not, they were switched off the network), so going forward the future of SIM packs looks about the same as it did pre-RICA, i.e. August 2009. And our goal is to get to 450,000 connections on a monthly basis.

While there were piecemeal price increases by the networks (which we were expecting) of 2% by MTN in the last year and 1% by Vodacom, as well as we are expecting another 1% from MTN in the current year, all these percentages are passed on through our distribution channels. So we actually absorbed none of the increase. We did pass them through the channel and expect to do the same on future increases by passing on the lower discount that we receive. And lastly, I must reiterate that our relationship with each of the networks is underpinned by a long-term and confidential contract.

Revenue per network:

This slide is quite interesting - we showed it at our previous results - as at 30 November. This is really what is happening in the heart of Blue Label. What you see is a decrease in the Vodacom market share from 57% to 52%. That doesn't mean that our market share of Vodacom has decreased. In fact, quite the opposite – it's increased. Remember, revenue increased 15% in South Africa, and if you compare that to the networks, which grew in our space of 5% to 6%, this means we more than doubled their growth. I point out the tremendous growth - in MTN from 31% to 35%, and Cell C from 8% to 10%. This bodes well for the coming year, as growth should continue as aggressively as in the past.

Prepaid Electricity:

As mentioned, prepaid electricity was the stand-out performer in our results. Commissions received on sales increased 79% from R34 million to R61 million. This represented a turnover of R3.4 billion in electricity sales, up from R1.9 billion from the year before. We expect continuous growth and a strong performance from electricity in the year ahead.

Just to remind you on electricity, because we act as the agent and not the principle for the utility, only the commissions earned by us and not the face value of the sales are accounted for in the revenue of R18 billion reported. Our GP percentage is approximately 2% on sales and we see no change in that. The quantum growth in this market shows us that in the years to come our electricity product could be just as big for us as telco's is at present.

The drivers of the prepaid electricity market are the quality of the distribution contracts entered into by the Blue Label group. This has been key in the last 12 months, during which we have signed up four municipalities directly. We have been endorsed by Eskom and Johannesburg City Power. We were awarded the distribution and vending contracts by Ekurhuleni municipality and eThekwini municipality, and these are gaining rapid traction. More recently we were awarded the Cape Town municipality distribution contract. The importance of this lies in the fact that, by law, all new houses in the Western Cape, regardless of value, be it R500,000 or upto R50 million, have to be fitted with prepaid electricity metre. Just last week we were awarded the distribution contract by Tshwane municipality, which will be effective from 1 September 2011.

The current prepaid market of electricity is estimated at about 7 million meters, but the potential lies in Government's statement that it will double the amount of prepaid electricity metres to 14 million by 2014, therefore doubling the prepaid electricity market in the next three years. Ultimately, market growth for us will depend on the rollout rate of prepaid meters at each of SA's municipalities, power utilities and the like.

Lastly on electricity, which we have mentioned to you briefly in the past, and which is starting to gain traction, is our UniPIN. Previously electricity could only be bought in an on-line environment, thereby excluding many stores from selling it. Over the last two years Blue Label has developed its own pin, called a UniPIN, which takes electricity purchasing into an off-line environment, which now means 95% of merchants are able to sell prepaid electricity. So now we are the only ones to offer prepaid electricity both in an off-line as well as an on-line environment.

Other Products:

To end off I guess no talk by me would be complete without telling you a bit about our other products. Bill payments continue to grow our base, particularly through our contract with Spar. A big opportunity for us in bill payments is to take it into the independent stores. Bill payments was like electricity - it was only offered in the on-line, blue-chip retailers. Our system has been developed to enable us to offer it in the independent market, which in turn is likely to open up the market for payments of SABC TV licenses, traffic fines and ticketing and the like.

Our EFT (electronic funds transfers) continues to grow. It is not so much a revenue driver for us, but good sticky product to have with our clients. It creates loyalty with our merchants, as well as another strand in this web.

A product to look-out for in the future is financial services – with its move into the independent market and rural market.

Our retail outlets, which are our ‘Blu Approved’ wholesale depots, have increased in number from 15 to 27 over the last year, therefore giving us greater penetration in the rural markets from a wholesale point of view.

We continue with our transport ticketing solutions.

Lotto continues to sell through the till points of Pick n Pay, Shoprite Checkers, as well as though our relationship with FNB and Gidani.

Bela is the international calling card that gives one the option of making international calls at about one tenth of the cost of normal calls.

Ukash will be covered by Mark shortly.

And lastly, a buzzword that is going around, is ‘NFC‘or Near Field Communications. Blue Label hasn’t spoken about this in the past, but our technology has been ready for about the last 24 months – and so this is really a space to watch.

I will now hand you over to my brother, Mark.

Mark Levy

Thanks, Brett. Good afternoon everyone.

International Highlights:

The past year has been spent consolidating our international positions. Taking cognisance of Blue Label’s minority stake in Nigeria and after duly evaluating our investment, strategies and funding requirements, we committed to sell the asset. However, soon after our year end, business activities in that region were terminated with immediate effect. This has allowed us to redeploy and refocus resources in other territories where capacity is sorely needed. Unfortunately the termination of our contract and the withdrawal from Nigeria has had a significant negative impact on our financial results - to the sum of R18 million, and we incurred a write-off of R23 million, whereas the previous year we made a profit of R49 million. As previously stated we are in an arbitration process with Multi-Links and have ensured that our claim is well supported and well documented as it includes a ten year view on our position. Arbitration is certainly proving to be a lengthy process.

Ukash, which focuses on the digitisation of cash which can be redeemed for different products and services, can be purchased at over 420,000 points of presence throughout 51 countries on six continents. Redemption value increased by 71%, volumes were up by 84% and profit was up 209% year on year. Ukash was also recently awarded the 2011 Queen’s Award for Enterprise in International Trade, which recognises UK businesses that have achieved growth in overseas earnings and outstanding levels of commercial success.

Oxigen India:

This is a very similar business model to that of South Africa. While constantly looking to expand our points of presence, we also look to add additional products and services, while ensuring that we're moving towards becoming a versatile payment solution provider. In fact, over the next three years, our dependency on mobile recharge will reduce. It was initially about 98% when we started business and now contributes about 60% of turnover. In return, we will reap rewards expected from the mobile payment's space, where Oxigen is well placed with its first-mover advantage thro its diversify of solutions and hardware offerings.

Currently in India there are only about 450,000 point of sale devices deployed throughout the country. Oxigen, with over 90,000 points of presence, with another 30,000 currently being deployed, is placed in a strong position to facilitate new products and services, as well as mobile and data processing.

During the financial year deploying POS devices and expanding the business correspondent initiatives with the State Bank of India, continued to be the main drivers of the business. The banking sector continued to grow and now constitutes 25% of revenue in Oxigen.

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

The market continued to expand and afford opportunities for Oxigen to remain one of the leaders in the industry. The Reserve Bank of India renewed Oxigen's approval for the OxiCash prepaid card, thus providing another vote of confidence to Oxigen in the prepaid payment system and settlement environment.

In a recent development, Oxigen was appointed national service provider to Nokia Money, enabling a prepaid mobile wallet to be offered. Oxigen's online services, like mobile recharge and TV recharge, are already integrated into the Nokia mobile wallet system.

Since year end we increased our shareholding to 55.83%.

Blue Label Mexico:

This is one of our most promising businesses with our new partnership with Grupo Bimbo. Our strategy of rolling out additional points of presence and increasing our products and services is starting to bear fruit. At year end we had some 5,000 devices active in the market, and this is expected to grow significantly in the year ahead.

The business model in Mexico is underpinned by a number of agreements with sales and distribution channels, independent sales organisations (ISO), service organisations and key mobile network operators. Products on offer include pinless recharge, direct top-up and payment of services.

In the second half of 2011, a stake in Blue Label Mexico was sold to a strategic investor, resulting in Grupo Bimbo and Blue Label each holding a 40% and local management the balance.

Grupo Bimbo is the largest bakery business in the world and operates one of the most extensive physical distribution networks in Mexico and in the territories in which it operates. They are currently present in 17 countries in North America, Latin America and Asia. In the framework of the new structure, terminals will be rolled out to Grupo Bimbo service locations in support of their operations, as well as enhance the competitiveness of their independent store clients. As we might be heard to say "*whereas bread is to butter*" in Mexico we say, "*where there is bread, there is airtime"*.

Mexico continues to represent strong growth opportunities, both in terms of POS deployment and the introduction of products and services as currently offered by Blue Label in other territories. Mexico's geographic location makes it an important springboard for prepaid products and services and remittances to the United States and Latin America.

Technology, Mobile and Solutions segments:

Technology is responsible for the group's core technology systems. Its object is to develop, deploy and support the technology platforms across the group, both locally and internationally, and has a number of third party partners. The group's infrastructure connects into some of South Africa's major banks, utility companies and mobile telecommunication operators. The segment switches debit and credit cards, electronic fund transfer transactions and electronic token products for some of the country's leading retailers and petroleum companies. The migration of customers onto Aeon continues with a further rollout of electronic fund transfer services, via the subsidiary Transaction Junction. Volumes have been growing significantly and we saw a 10% growth in the last quarter of the last financial year alone.

In addition to these platform and system enhancements, the group is engaged in managing infrastructure and services in a cloud environment. As the rollout of POS devices in Mexico continues to gain traction, the migration of infrastructure to that region has nearly been completed. Technology will be able to provide more operational and project support by redeploying resources to that region.

Mobile segment: With over 5 billion mobile phones worldwide the market for services to these users is expanding rapidly. To meet this we have developed an ecosystem of technologies and products so that our customers can reach their customers, regardless of which phone or network operator they are using. Our ecosystem allows the rapid rollout of mobile mediated sales, banking, loyalty, ticketing, couponing, transport, rewards and location aware services, to name but a few. Through our retail footprint, Blue Label Mobile is able to bridge the gap between mobile and physical transactional services, through the innovative use of Near Field Communicators (NFC) and contactless technologies. NFC is one of the fastest-growing technologies and you will hear more about this in the future.

Blue Label's Mobile Services (MSC): Over the past year MSC has created a multiple re-use modular technology to deliver a wide range of mobile services through a common platform. What does this mean for customers? It means that MSC can create solutions for mobile merchants, customers requiring a mobile wallet, mobile ordering, mobile shopping environment, mobile gaming, information services, loyalty, rewards, and couponing etc, all through the same ecosystem. This allows new services to be quickly brought live and added to existing bouquets of offerings. An example of this is the successful launch of our mobile banking platform developed and operated by MSC. Not only are the traditional services available, but new value-added products are added seamlessly, such as airtime purchase services and person-to-person payments. Another example is the launch of mobile merchant services, which allows anyone, anywhere, to buy and sell Blue Label products off their mobile device, once again irrespective of which network they belong to.

Cellfind is our WASP aggregator and location-based service provider. It continued to deliver annuity income through Vodacom and MTN's location services, as well as WASP and aggregation businesses. To extend the use of its service to third parties, Cellfind has created interfaces that allow partners to access its core capabilities. This is monetised using our own billing and management processes. Cellfind has launched a generic panic button mobile service, which can be linked to call centres and emergency services. This service can be white labelled for specific customer needs and has readily been adopted by the healthcare, security and mining sectors. Some of the current product range which form part of the Cellfind group are

Vodacom's Look 4 Me and Look 4 Help, MTN's WhereRU and 2MyAid, 911 Alert, MiPayslip, MiTraffic, just to name a few.

Solutions segment: Specialises in marketing predominantly cellular and insurance-based products and services through outbound telemarketing campaigns, as well as providing inbound customer care, technical support, data and analytic services. The efforts over the past few years has allowed Blue Label Data Services (BLDS) to build sustainable relationships with clients and entrench direct marketing strategies in their business, which has culminated in BLDS having a successful year marked by significant growth. BLDS consolidated operational processes during the year and maximised resources without increasing head count, and is now positioned for more growth in the new financial year.

The 700 seater call centre, Velociti, had another challenging year. It was characterised by fewer campaigns and shrinking margins, consistent with what the industry experienced.

The segment, however, managed to turn an historic R7 million loss to a R7 million profit, which is a welcome R14 million turnaround. A number of recently launched campaigns are proving profitable following management's innovative diversification of the business model.

Thank you. I would now like to hand you over to Dave for the financial overview and future prospects.

David Rivkind

Financial Overview:

Thanks Mark. Good afternoon ladies and gentlemen. Organic growth in revenue, a return to profitability in the call centre operations and a net reduction in the share of losses from associates were all positive contributing factors to the growth in group core earnings. This growth was augmented by extraneous profits resulted from the dilution of the group's equity holding in Blue Label Mexico. In February 2011, 40% of the share capital of Blue Label Mexico was issued to Grupo Bimbo for a capital injection of US$20 million. This resulted in Blue Label's shareholding declining from 70% to 40% with local management holding the balance of 20%. These contributions to profit enhancement were negatively impacted by trading losses in Africa Prepaid Services Nigeria (APSN) and the necessity for impairments following a commitment to dispose of the majority of its assets and liabilities in May 2011.

The decline in financial performance in Nigeria was directly attributable to the cancellation of the distribution agreement with Multi-Links. Impairments to goodwill and related intangibles in SharedPhone International and Content Connect Africa, as well as a write-off of internally generated intangible assets in Blue Label One and Blue Label Distribution, further inhibited the growth in core earnings. The net positive growth in core earnings equated to 15%. Headline earnings, however, declined by 4% after the net reduction relating to the extraneous income and impairments. After extracting the total negative contribution of Nigeria as a discontinued operation, the balance of the group contributed positive growth in core headline earnings of 13%.

Highlights for the year:

Revenues increased by 13% to R18 billion. Net profit after tax increased by 18% to R431 million. There was a 15% increase in core earnings to R456 million. Headline earnings per share from continuing operations increased by 15%. Cash generation of R566 million, compounded cash resources to R2.2 billion. A dividend of 14 cents per share has been declared.

Income Statement:

In order to give you insight into the contributions to group profit I have divided the income statement into two parts, the first of which reflects the headline earnings of continuing operations of the group, excluding the now-discontinued Nigerian operations. By definition, these headline earnings also exclude extraneous income and expenditure. Group revenue increased by 13% to R18 billion mainly through continued growth in South African distribution. These revenues do not include turnover of Oxigen India, Blue Label Mexico and Ukash as these associated companies are equity accounted.

Although gross profit margins declined to 5.91% from 6.38%, gross profit in fact increased by R51 million or 5%. EBITDA increased by 11% as a product of the increase in gross profit and the overall expense decline of 3%. This was achieved in spite of a reduction in other income of R4 million. The major contributor to revenue and in turn EBITDA was the South African Distribution segment.

South African Distribution:

Revenue comprised sales of physical and virtual airtime, commission on prepaid electricity and compounded annuity revenues generated from starter packs. Whilst there were piecemeal price increases from the networks during the financial year, the bulk of revenue was volume related and entirely organic. Commissions on the sale of prepaid electricity increased by 79% from R34 million to R61 million, equating to turnover generated on behalf of the utilities of R3.4 billion. The growth in airtime revenue exceeded industry norms, with gains mainly attributable to an increase in market share from competitors.

Although gross profit margins declined from 5.58% to 5.19% the current margins have remained constant for the past 18 months, albeit the electricity commissions do not attract cost of sales and in turn account for 0.22% for the comparative period, and 0.34% of the current year of gross profit margins. Margins on prepaid airtime declined due to the negative impact of the implementation of RICA from the second half of the comparative period, the passing on of network price increases at cost price to the client base, and forfeiture of margins in return for higher revenue volume.

EBITDA of R711 million was achieved after incurring expenditure of R5 million on the closure of the point of sale manufacturing plant by favouring a more economical outsourcing initiative. Further expenditure of R9 million was incurred on the consolidation of SA Distribution, limiting the growth of EBITDA to 4%. When comparing the EBITDA of South African Distribution to group EBITDA of R598 million, the group EBITDA includes the cost of corporate expenditure of R82 million and R75 million of technical support and maintenance. South African Distribution, supported by a significant turnaround of R23 million in the Solutions segment from negative EBITDA of R4 million to a positive of R19 million, were the main contributors for servicing corporate and technical expenditure.

Going back to group results, the net profit after tax before minority interests of R379 million equated to a growth of 13%.

Associates:

The R20 million turnaround from an historical share of losses of R15 million to a share of profit of R5 million was attributable to Ukash to the extent of R17 million, with Oxigen Services India making up the balance. The recognition of a deferred tax asset accounted for R6.5 million of Ukash's turnaround. The balance of R10.5 million was directly attributable to volume growth in voucher redemptions by 84% and commensurate increases in redemption values. Revenues increased by 71% at static gross profit margins of 49% and overhead growth was limited to 1%. Oxigen's revenue increased by 24% at consistent gross profit margins of 2.25% and a decline in overhead by 8%.

Joint Ventures:

Share of losses from joint ventures pertains mainly to Blue Label Mexico, previously accounted for as a subsidiary. In spite of a revenue increase of 232% Mexico continued to incur losses mainly due to an increase in overheads commensurate with both the gearing up of infrastructure to accommodate the rollout of point of sale devices to Grupo Bimbo's channel of distribution as well as anticipated internal volume growth.

Income Statement:

The growth in headline earnings of 16% from R317 million to R368 million reflects the financial performance of continuing operations, incorporating Mexico but excluding the trading operations of Nigeria.

Following on from this I now wish to take you through the composition of the core net profit contribution. Discontinued operations applies to Nigeria, clearly showing an adverse turnaround from the group share of profit of R49 million to an R18 million share of loss. This excludes the impairment of its assets. The growth in headline earnings from continuing operations of 16% was entirely negated by the Nigerian losses to a decline in group headline earnings of 4%.

In terms of IFRS we were required to fair value our retained interest in Mexico. The transaction was concluded at an enterprise value of US$50 million, of which our remaining 40% is valued at US$20 million, equating to R146 million.
Profit on sale of subsidiaries: In the comparative year the profit on sale of subsidiaries related to a disposal of Africa Prepaid Services Mozambique.

Impairments:

With regards to an impairment for the year of R64 million, R15 million related to the available for sale financial asset in Africa Prepaid Services South Africa and R6 million for the write-off of Nigerian assets. Other impairments to goodwill and intangibles in Nigeria, SharedPhone International, Content Connect Africa and Blue Label Distribution totalled R43 million.

The resultant attributable profit of R431 million equated to basic earnings per share of 57.04 cents and 18% growth. After adding back the amortisation of intangible assets, the core earnings of R456 million equated to a growth of 15% and core earnings per share of 60.34 cents.

Balance sheet:

Total assets increased by R641 million to R5.1 billion. Material increases related to the investment in joint ventures of R143 million, inventory by R452 million and cash resources by R170 million. The increase in joint venture corresponds to the fair value gain in Blue Label Mexico. The increase in inventory was mainly attributable to stockpiling prior to year end in anticipation of price increases. The group remains highly liquid, maintaining its current asset ratio at 2:1. The stock turn averaged 12 days, net of advanced purchases of approximately R470 million in May 2011. Debtor's collection period averaged 17 days and creditors payment terms averaged 31 days.

Cash flow statement:

Cash flow generated by operations was R566 million. Net interest and taxation paid of R138 million resulted in cash flow from operating activities of R428 million. Cash flow from investing activities totalling R147 million included capital expenditure of R74 million, the acquisition of intangible assets of R113 million, less the repayment of loans of R37 million. Cash flow from financing activities of R100 million included the dividend payment of R91 million relating to the declaration in August 2010 and the purchase of R9 million of treasury shares. The increase in cash on hand of R171 million compounded cash resources to R2.2 billion at year end.

Dividends:

The declaration of a dividend of 14c per share was covered 3.3 times by headline earnings and represented an increase of 17% from the previous distribution.

Prospects:

Our airtime sales are expected to continue exceeding industry norms.
Commissions received on prepaid electricity are likely to increase both organically and through additional contracts with electricity providers.
The mobile segment is expected to generate additional advertising revenue on the bulk printed vouchers.
The refocused international segment remains core to achieving footprint growth.
Grupo Bimbo's vast distribution and accelerating rollout of point of sale devices will result in increasing sales volumes of electronic tokens of value in Mexico.
Oxigen India is evolving to fulfil its vision of supplementing traditional prepaid recharge platform business, by providing versatile payment solutions, including mobile wallet, international remittances and cash cards.
The group will continue to focus on expanding its product range and distribution network organically and through acquisitions, both locally and internationally.

Thank you and I will now open the floor and telephones to questions.

Q&A:

Q: Jonathan Kennedy-Good from Standard Bank:
I just wanted to ask you on the sale to Grupo Bimbo is there an exclusivity arrangement with regards to distribution of your products as a result? And secondly, in terms of electricity sales in South Africa what are the current run rates? Could you give us a view on growth in that market currently, whether those kinds of growth rates are sustainable? My understanding was that margin was going to come down over time because it was related to volume and not value of electricity sales. I wondered if that had changed.
A: Mark Levy:
Grupo Bimbo is now a strategic investor or partner with a 40% shareholding. They distribute currently to hundreds of thousands of points of presence on any given day just in Mexico alone. So as a partner our intention is to grow with them to digitise their physical environment and in time to explore the other geographies they are in. Blue Label Mexico has its own sales force and is entitled to go out and procure customers. So I think the combination of our own sales force and Grupo Bimbo's sales force, alone in Mexico they have 16,000 trucks that deliver product on a daily basis. So it makes good commercial sense for us to stick with our partners. They are great partners and I think there is a lot of upside to that.
A: Brett Levy:
On the electricity side, just to remind everyone, there are approximately 256 municipalities across the country. So to get one source of information of exactly how many meters are out there and exactly how much turnover is going through the meters is quite difficult. We have done our own sums and calculate the amount to be around R8 billion to R10 billion per annum. This means our market share is between 35% to 45%. First of all, from that perspective in the airtime market where we have between 60% to 70%, there is no reason why in the electricity market we cannot get to similar percentages. Over and above that, with our offline pin, called the UniPIN, there is more reason why we should go even higher than that. That should be the first growth that we see coming through. In the month of June 2011, we topped the R400 million mark. So we're really on track. As well as the government's decision to roll out 14 million meters from the seven million which they declare at the moment. So for the next couple of years we see the continuous growth that we've seen for the last two years. Obviously when we launched prepaid electricity three years ago, in our first year we did R3 million turnover. So to go from R3 million to R3.4 billion in three years is not normal growth. But you will see extraordinary growth through the electricity market and definitely no slow-down for quite a few years to come.
On your second part of the question, there has been no decrease in the margin. What happened is we never got the increase in the sales price, but they changed our percentage margin based on what electricity is consumed or is used, instead of on the revenue spend. So what they did is they rework it backwards, basically putting us back at the same percentage that we were before. It does work a little bit in our favour. It

doesn't work to the 100% increase that they've done over the last three increases, but it is definitely not less. It is basically where it was and a little bit more.

Q: Martin Dullaart from Macquarie.
Maybe just two quick questions on the change to the ownership structure at Oxigen. You haven't disclosed in the announcement the consideration that you paid Microsoft for the acquisition of their stake. So just to get a sense of what that number is. Secondly, the fact that you've bought-in and they've sold-out maybe suggests a slightly different assessment of the long-term potential in that market between the two parties there. Maybe you could talk a little bit about where you guys are seeing the long-term upside, specifically starting with guidance in terms of when you might expect to see break even in India, which is something that has been a long-going issue.
A: Brett Levy:
The consideration it was sold for is unfortunately confidential. If you look at what Microsoft's strategy is and our strategy we can't really talk for Microsoft. But there was a willing buyer and willing seller. Blue Label has always seen a significant opportunity in that environment. Whether Microsoft, over time, chooses to change its strategy is not really our call. Blue Label still perceives that market as a growing market. You can see our profitability starting to increase. We haven't parted on bad faith. We have a good relationship with them. The doors aren't closed. The door is open to still work with them, but not necessarily having an equity contribution. Look, we've been EBITDA positive for over a year. We expect profitability in this coming year. So we have now turned on the upside of the hockey stick. You can see that there are other significant revenue drivers that are coming in. There has been significant downward pressure in the mobile space. When you consider that a minute sells for less than 0.001 cents, ARPU is around $2. So you can buy $2 and literally you can speak almost forever. Our turnover has grown, but unfortunately at lower margins. The banking initiatives are really starting to come through in the numbers. We're growing that network and we foresee significant opportunity in that payment space going forward.
A: Mark Levy:
Just to add to that, as Brett was saying, our stated strategy is to try and achieve additional income from other products rather than just telephony, not because we feel telephony is declining. If you allow telephony to pay for the whole business, every additional product there is 100% margin. That is where we see future growth, in the ability to add additional products. In India we move a lot of digital television home satellite products. A set costs less than 100 bucks. You are able to buy both prepaid bouquets and prepaid programmes. So that has become a big revenue driver. And Nokia warranty products. Second-hand phones are a big market in India. Nobody wants to buy a phone without a warranty, so we now bring that token to our network. We've become a partner of Nokia Money, which allows them to reload in all our environments. And we're aggressively looking to roll out or ramp up our footprint. We've introduced a lower cost device. While we stated that, just so I can explain a little bit more, traditionally when we started, a lot of our POS devices were connected to a landline. A landline would charge a fixed rate per call irrespective of how long you would be on it. Let's say it was 10 rupees. Often the 10 rupees would equate to more margin than the product being sold. So what happened is people were back-downloading products and they could never get their mix right because we didn't know which network they were on. We saw a big dip in sales because people couldn't get that right. The minute that the GPRS rates came down – you're talking about buying 2GB of data for less than $2 – all of a sudden we've seen a massive increase in consumption. But what we have to do is retrospectively equip the landline devices with GPRS modems, which we are currently doing, and already we are seeing an increase in uptake, as well as deploying a very cheap terminal, almost half the price of our original one. It is mobile, so we're opening another avenue of distribution in India.

Q: Peter Takaendesa from RMB Morgan Stanley.
I'm saying in Nigeria, the issue with Multi-Links there, so how long do you think it will take to finalise the arbitration process? Who is really behind Multi-Links now? Telkom?
A: Brett Levy:
Look, our claim is with Multi-Links. We've spent a lot of time, we've submitted our papers. Arbitration is a complicated process, even law is a complicated process. We're hoping that this could come to a head some time next year. The process of arbitration is about selecting arbitrators, everyone being happy, finding a

mutually convenient date. This is also a complex case, because it does cover ten years of an exclusive agreement that we had with them. So, we don't have a date yet, but we can give you some guidance some time during next year. And to your last Q, Telkom. Multi-Links. Ja, both.

Q: Peter Takaendesa:
Thanks for keeping up the momentum in the South African business, the distribution business, that looks quite good.
A: Brett Levy
Thank you very much.

Q: Jonathan Kennedy-Good
Just in terms of Nigeria, are you expecting to incur any further operating losses in the next financial period or is that wrapped up? And then just finally, who is the arbitration proceeding against - Telkom SA, Multi-Links based in Nigeria or Helios in Nigeria. Who do you have recourse to?
A: David Rivkind
The case is against Multi-Links and arbitration is under South African jurisdiction. In terms of the operating expenditure going forward we obviously would incur certain legal costs pertaining to the arbitration process, as well as certain other operating expenses. But it is of no significant value going forward at all, bearing in mind that we would only incur 36.72% of that number.

Q: John Slettevold, from UBS
With regards to your comment earlier that you will be focussed more on margins than revenue this year in the prepaid segment, what sort of revenue growth are you expecting and what kind of margin improvement could this lead to?
A: Brett Levy
Starting off with the revenue side, we explained that we should grow in excess of what the networks are growing at. So in our opinion the networks, in the specific field that we play in, will grow anywhere between 5% to 6.5%. So, we are looking at growth anywhere between 9% to 10%, so at least one and a half times the size of the networks. Obviously the excessive growth of 15% was really an aggressive rollout from us which worked in many cases. From a GP margin, just to go back a bit, this should be maintained and even grow. It shouldn't decrease simply because of the new products coming through. We expect great electricity commissions coming through, the bill payments and so forth. So without a doubt we expect our margin to not only maintain itself but to definitely increase. By what exact percentage is obviously the mix of the products that we get right from outside of telco's. But from telco's itself we're really maintaining our margin. One thing to make a point on, our GP margins are affected when the networks increase their price, but not our Rand value. So the actual cents that we make is the same, but our GP margins get affected because of the increase of the margins over the same amount. So the short answer is, from a Rand value we're making the same amount, but from a margin perspective we expect to not only maintain it, but increase it through added products. That shouldn't be a once-off. That should be a continuous increase year on year.

Q: Keith McLachlan, Thebe
I was wondering with the introduction of Grupo Bimbo in Mexico and your aggressive rollout of points of sale, what sort of targets do you have for the next year, even the next couple of years?
A: Mark Levy
We believe that Mexico will probably be the most aggressive POS rollout that we have ever done in any territory. Our intention would be to grow thousands of units per month. Obviously to do that one has to look at processes. That is taking us a little bit of time, e.g. how to cash collect, reconcile accounts, all those types of things. But we've been piloting and it's going very well. We have found a decent low-cost terminal which should provide less stress on capex. So literally, I would say, in the next two years, we will have the biggest POS deployment in Mexico than in any location anywhere in the world.
Q: Keith McLachlan

Can you put a number on that? I'm just trying my luck.
A: Mark Levy
We appreciate it. Once we've finished the pilot phase we can assess what capacity, field support and everything else we can handle. I think in our next results we will be able to give a better indication of how many devices per month we're targeting.

Operator:
There are no further questions from the conference call.

Brett Levy:
We would like to thank you all for joining us today. We'd like to thank our Board, our Chairman, Mr Larry Nestadt and our employees for all their support. Thanks for another great year, thank you very much.