BLUE LABEL TELECOMS

Audited results

for the year ended 31 May 2012

Conference call transcript

21 August 2012

RESULTS FOR THE YEAR ENDED 31st MAY 2012

Brett Levy – Joint CEO
Hello everybody. Good afternoon ladies and gentlemen. Welcome to you all. Nice to see most of you again, or all of you actually. I hope you had a chance to stop off at our marketing displays on the way-in to see our new generation vending machines and the other devices coming soon to a Blu Approved store near you.

I also welcome listeners via webcast and those who have dialled-in. Thank you all for attending the Blue Label Telecoms results presentation for the year ended 31st May 2012, which was released on SENS earlier this morning.

I'd like to start off with some highlights for the year. We are once again reporting growth in our financial performance, with revenue bordering on R19 billion. This, supported by margin increases, resulted in gross profit of R1.2 billion, up 13%. EBITDA was up 26% to R750 million. Headline earnings per share were up 40% to just under 65 cents per share.

A key driver of Blue Label's investment proposition is our cash generating capability, and in the year under review cash generated from trading operations amounted to just under R530 million to R528 million.

During the period our organic growth strategy continued to deliver tangible results. In South Africa electricity commissions earned increased, Oxigen Services India turned the corner into a profitable entity, and the strategic value of our partnership with Grupo Bimbo manifested itself into an accelerated roll-out rate of point of sale devices in Mexico.

I am pleased to report that the board yesterday approved dividend number three, of 23 cents per share, an increase of 64% from last year. If you look at our dividends over the past three years, the accumulated payment to shareholders will have amounted to R354 million. Last December, we completed the specific share buyback and subsequent cancellation of just under 92 million shares from Microsoft, which absorbed R392 million.

This, together with the compounded dividends declared, equates to an effective payback to shareholders of R746 million since listing. Over and above these dividends, after applying funds to other investing and financing activities over the years, we still have cash resources of just under R2 billion.

As is customary at the annual results presentation, let me update you on the progress of the strategic objectives. Blue Label distributes secure electronic tokens of value and other valuable transactional services to emerging markets.

The prepaid payments business model provides certainty, and is an alternative method of payment to credit, debit and cash. Our business has been built on the core foundation of a vast footprint (which we call our railroad tracks) to which we offer prepaid services, of which airtime continues as the predominant product offering. Years of development and changes in the culture of payments gives us the distinct opportunity of adding products and services to this solid foundation.

The opportunity is now shifting quite rapidly into prepaid electricity, financial services and data delivery. Our business model enables us to derive income from three pillars, namely commodity, which makes up 47% (which is the sale of products), 43% which is our ongoing revenue and our value-added services, and 10%

from our interest received. Just to put a note on this, five years ago over 55% of our business' profits were generated from interest received. You can see how we are adapting and improving as we go along.

And we continue to deliver on our robust, scalable and proprietary Aeon technology platform, alongside the top grade Postilion bulk switch for banking transactions, are our technology enablers. Naturally, we ensure we have the right skills-sets to support technology. Sustainability, and hence value, lies in the 11 years we have been growing the business, now touching about 150 000 Points Of Presence in South Africa alone.

Our strong cash generating capability, with nominal gearing, enables us to consider repaying funds to shareholders via an annual dividend, after considering the cash flow needs of the business, share buyback and M&A opportunities. Strategy is determined against the background of our entrepreneurial spirit.

Moving on to SA distribution, which is my prime area of responsibility. Revenue grew 3% to R18.4 billion, which should be seen against the increasing trend for us to act as the agent on sales of these products, of the likes of PINless top up. Just to clarify exactly what that means, when you look at electricity we do not account for the revenue but only the profits that are accumulated because we act as the agent and not the principle. In the telecom sector through PINless we're starting to act as the agent and not the principle. So you will see start seeing a lot of our revenue only shown through commissions and not the revenue line. Therefore something to take note of is our gross margins which increased by 0.54%, which we obviously are very happy about, from 5.19% to 5.69%.

Our prepaid telecoms business is underpinned by contracts with each of the major network operators, and in this past period we successfully renewed a long-term contract with Vodacom. Prepaid electricity commissions received, once again showed strong growth, up 39% on last year. The development team are applying a lot of effort in bringing to market new products and services, and in time to come there will be a number of more product launches.

In our outlook for the 2012/2013 financial year for the SA distribution segment, we expect to have another strong performance from Prepaid Electricity and from Telco's derived though rural and urban retail strategies. Data delivery to mobile phones continues to be a growing market. Then, of course, we watch the telecoms and financial services landscapes with growing interest, given recent pricing and service developments across both these sectors.

Revenue comprises the sale of physical and virtual prepaid airtime, as well as compounded annuity generated from starter packs. Revenue growth, represented here over the past 12 months, was up 3% year on year. Growth was mostly organic and volume related, achieved through an increasing number of connections, which reached 450,000 per month by the end of May. I am pleased to report that revenue earned from starter packs is already in excess of R20 million per month.

I would like to expand on our rural and urban retail strategies. Overarching our retail plan is the ongoing brand roll-out called Blu Approved, the group's outward visual sign showing that our products and services are available at a particular point of presence. It also serves as our stamp of approval and authenticity. All Blu Approved merchants are equipped with in-store point of presence tools, window decals and other marketing materials to clearly identify them.

Then our rural strategy for distribution includes a fleet of 60 three ton trucks with accompanying foot soldiers. This is complemented by our urban strategy, which has seen an increase in our footprint to 349 retail outlets. Combining these strategies ensures that we can reach out to consumers every day and everywhere across South Africa.

An interesting slide to watch because we're really big in the airtime space is to see how the networks are doing. If you have a look here you will see Vodacom increased from 52% to 54%. This is obviously internal in Blue Label. MTN decreased from 35% to 34%, not necessarily because it has decreased on our side, but rather a nice increase from Vodacom. Cell C remains at 10% and Telkom has reduced from 3% to 2%. That is Telkom prepaid home phones, not 8ta.

Moving on to our star performer, prepaid electricity. The sale of prepaid electricity continues its phenomenal growth. Commissions received on prepaid electricity sales increased in the year by 39% from R61 million to R85 million. This equates to utility sales of R5.5 billion, and remember that in respect of prepaid electricity we act as the utility's agent and not as principle, therefore only the commissions earned by us, and not the face value of the sales, are included in the revenue numbers.

Prepaid electricity continues to enjoy widespread endorsement from electricity utilities and municipalities alike across the country. To date, we have been awarded contracts by Eskom for nationwide coverage, and by 11 more municipalities of which five are major metropolitan municipalities.

Organic growth continues as we equip and enable devices in the nationwide POS-base to incorporate prepaid electricity tokens. More and more consumers are opting to convert from conventional post-paid to prepaid meters. Prepaid avoids receiving spurious monthly bills and provides the freedom and flexibility to manage monthly expenditure, in particular on rising electricity costs. This is illustrated by the fact that the average prepaid electricity consumer tops up at least four times a month.

Ultimately, market growth for prepaid electricity will depend on the roll-out rate of prepaid meters at each of South Africa's municipalities, power utilities and the like. Currently, market sources estimate there are 9 million meters installed across the country and to meet government targets this is expected to reach 13 million meters by 2014.

Innovations in the market which may well spur the roll-out of prepaid meters include the introduction of smart meters, as well as free basic electricity allowances of up to 50 Kilo Watt Hours (kWh) per month to many households.

Prepaid electricity chart. What I wanted to show you here was if you have a look at the yellow line for June you will notice that we've already topped the R600 million mark. So we really expect a strong performance for electricity in the 12 months to come.

At my previous presentation, I detailed some statistics on our innovative UniPIN, which allows customers the optionality to purchase and redeem prepaid electricity in off-line environments. Again, let me illustrate the growth in popularity of UniPIN redemptions in the market for the year ended 31 May 2012.

Value redeemed is up 350%, from R87.5 million to R395 million; and quantity redeemed is up 384%, from 736,092 to 3.6 million. The sustainable growth we have reported today in prepaid electricity clearly establishes the base for further growth in the year ahead.

As you have come to expect from me, no discussion of our business is complete unless I talk about some of the other products and services in our stable. Some of the new launches include customer-centric and loyalty programmes, Kingo, a numbers gaming application based on the results of the licensed lottery, PlaySALottery, enabling one to buy Lotto from a mobile phone, Corporate Governance tools in arrangement with the CGF Research Institute, Prepaid TV in arrangement with TopTV, SportsConnect and MallConnect, loyalty and rewards programmes, which can be branded for a particular sports club or shopping mall.

These are of course, in addition to the financial, digital couponing, Ticketing and many other products and Services available from Blue Label at present.

To end off, just a bit of our shareholder base. I am really happy to report that our free float is now around 52%, up again from last year, which is really good. Our shareholder base sits at 80% in South Africa, 8% in the USA, and 6% in the UK and 6% for the rest of the world. I can also report that at the end of last year, Blue Label was admitted to the MSCI Global Small Cap Index.

With that, I am pleased to hand over to my brother Mark. Thank you.

Mark Levy – Joint CEO

Thanks Brett, and good afternoon everyone. I'd like to talk to some of the highlights in our International businesses over the past year, and then give an overview of our Technology, Mobile and Solutions segments.

On the International side, our strategic partnership with Grupo Bimbo has established a solid foundation for accelerating the rollout of POPs through their distribution channel in Mexico. In India, I am pleased to note, that the business has turned a profit.

The arbitration proceedings over the cancellation of the Multilinks contract are due to start in November of this year. Our share of the losses in Nigeria are R5.5 million, which are related to legal expenses, and costs associated with winding down the operations in Nigeria.

At Ukash, based in the United Kingdom, focuses on the digitisation of cash, redeemable against products and services. Our share of trading profit grew 119% to reach R5 million, mainly based on volume increases. I am also pleased to report that Ukash received the Queen's Award for Enterprise in International Trade, for the second year running.

Just to remind you that these investments in Mexico, India and Ukash, are each accounted for as associate companies.

Moving on to India. The strategic shift in the business model, evolving from a telecoms recharge platform, in addition to becoming, a versatile banking and payments solution provider, continues apace, driven by at least three regional enabling factors.

The government of India has announced a clearer vision for electronic payments, and will invest substantially in expanding these capabilities across India. The Reserve Bank of India has removed restrictions on the role of agents – these are customer service points. There is a very human story behind delivering branchless banking to the unbanked masses, currently estimated at 52% of the Indian population.

In this context, we continue to build up our platform for handling banking transactions. Key to achieving this are the banking partnerships we have entered into. We can now talk to an exclusive partnership with the State Bank of India, the largest commercial bank in India. In addition to Oxigen providing kiosk banking through our business correspondent model, we have concluded a long-term, exclusive technology and marketing services agreement with SBI for its mobile wallet called Mobicash. This alone, reaches over 150 million SBI account holders.

Oxigen also maintains strong relationships with Yes Bank, Union Bank, ICICI Bank, Pramerica and the National Payments Corporation of India, in respect of an array of products and services, including domestic and international remittances, traditional insurance products, cash cards and merchant payments via mobile systems.

During the year, Oxigen became profitable, and this was achieved mainly through revenue growth of 52%. A shift in commissions received from airtime to banking. Oxigen is now processing over 90% of India's mobile banking transactions by volume for its banking partners (according to the Reserve Bank of India); extending our footprint in India, now reaching some 100,000 retail outlets, serviced through 1,135 distributors; and the ongoing deployment of the Oxismart ultra-low operating cost terminals, which run at less than $2 per month, with some 13,000 devices deployed.

The benefits of our relationship with Grupo Bimbo underscore our International strategy of partnering in the areas in which we operate. Just to remind you, we enjoy a global partnership with Grupo Bimbo, who is the largest bakery in the world, with operations across 17 countries.

In Mexico, through an extensive distribution network we can reach the target market of over 700,000 independent mom and pop stores, through about 17,000 truck routes and 300 depots. As you know by now in Mexico, our catch-phrase is “where there’s bread there’s airtime” and this is represented by the Blue Label SIM Burger!

Our roll-out rate has recently accelerated to around 6,000 points of sale per month. As our distribution platform ramps–up, we are simultaneously taking the opportunity to redeploy under-performing POP, which will impact on the net number of points of sale rolling out as we report going forward.

Against this background of an aggressive roll-out environment requiring expansion expenditure, our share of losses for the year amounted to R25 million. At the half year was R8.5m. We expect to continue incurring losses around this level over the next 18 months, as we continue our support for a rapid and large-scale roll-out across Mexico.

Let me know turn to my three other main areas of responsibility, the Technology, Mobile and Solutions segments.

The Technology segment is responsible for the group’s technology systems. Through our proprietary Aeon and banking grade Postilion platforms we connect to telecommunication operators, utility companies, and major banks, as well as to some of the leading retail and petroleum companies.

In our business environment of significantly increasing volumes, our group now does about 400 million transactions per month. On bulk sales, we already handle up to 80 million bulk print vouchers only a monthly basis as well.

This means that we have to be constantly optimising our systems and platforms in respect of their capability and capacity, and in this year our AEON platform was enhanced to provide additional availability and scalability.

Of course, we also need the right skills-sets to support our technology offerings, there was a concerted focus to identify and address any gaps, and we also restructured the product development and operational teams.

Our Electronic Funds Transfer capability continues to be provided through our subsidiary Transaction Junction, which this year has been involved in a project to roll out EFT services to a major South African FMCG retailer.

Looking forward, we will be fully deploying into a number of public and cloud-based environments which will enable us to support, rapid, and large-scale roll-outs, for example, as envisaged in Mexico. We already manage about 350 individual servers and about 700 devices such as routers, firewalls and the like.

The Mobile segment. There are now over 5 billion mobile phones worldwide, so we see the market for services to these users as expanding exponentially. With this in mind, we’ve developed a complete ecosystem of services for mobile users, which allows to rapidly roll out of mobile-mediated sales, financial services, banking, couponing, loyalty, rewards, ticketing, transport NFC, media-advertising, gaming and location-aware services, to name a few.

MSC is our Mobile Services Company. During the year a number of projects advanced in sales, advertising and marketing, NFC, transport and commerce, as well as in couponing and loyalty. Brett has already mentioned some of the products brought to market recently - like Spinner, Senda, SportsConnect and MallConnect. The BLMcloud.com was launched this year, which enables 3rd party developers to use MSC’s ecosystems.

Cellfind is our WASP, aggregator and Location-Based Services provider, and continues to deliver annuity income. Strong growth continues to be shown in two products – miStatement and miPayslip. The product range was extended recently, with the launch of IDMe, a cellphone based, voice-free panic button system, linked to ER24 Emergency Medical Services. Looking ahead, we will be leveraging the economies of scale, created by combining all the SMS messaging for the group, and our customers into one entity. This will ultimately reduce the costs per SMS.

Our Solutions segment specialises in marketing mostly cellular products and services, through call centres, as well as providing data and analytical support services. It once again reported a remarkable improvement in core net profit, up 202% to R21 million.

Blue Label Data Solutions continued its excellent performance, achieved through building sustainable relationships with a number of high-profile customers, and providing them with direct- or tele-marketing strategies. One of the growth areas is the data environment, where we continue to participate in revenue generating opportunities. Data Solutions' deep capability remains impressive, with accessibility to 35 million unique cell phone numbers, 19 million financially active people, and 190,000 companies. They are also one of the first companies to have been accredited to the Direct Marketing Association of South Africa.

The Velociti and CNS call centres continue to provide business process outsourcing by offering in- and outbound, sales and customer services. The call centre business remains challenging, as it is always largely dependent on the marketing campaigns of 3rd parties.

Thank you. I now hand over to Dave Rivkind for his review of the financials and prospects, and he will also handle the Q&A.

David Rivkind – CFO
Good afternoon ladies and gentlemen. The financial results for the year ended 31 May 2012 reflected growth in revenue by 4% to R18.7 billion, an increase in gross profit by 13% to R1.2 billion supported by gross profit margin increases from 5.91% to 6.45%.

EBITDA increased by 26% to R750 million and headline earnings per share of 64.65 cents equated to a 40% growth. These earnings included a once-off income receipt of R79.4 million, the source and circumstances of which remain bound by a confidentiality agreement.

On exclusion of the once-off income receipt, growth in headline earnings per share would have equated to 19%. Cash generated from operating activities amounted to R528 million. This partly facilitated the payment of the 2011 dividend, the purchase of Microsoft's shareholding in the group and various investing activities.

On the 20th August, the board declared a dividend of 23 cents per share amounting to R155 million, representing an increase of 64%. This dividend of R155 million together with the purchase of Microsoft's shareholding for R392 million represents an effective return of funds to shareholders of R547 million.

The income statement. Revenue. The revenue of R18.7 billion does not include the turnover of Oxigen Services India, Blue Label Mexico and Ukash, as these international associated companies are equity accounted for.

Moving on to gross profit margins. The increase in gross profit margins from 5.91% to 6.45% incorporated IFRS adjustments. On exclusion of these adjustments gross profit margins equated to 6.04%, compared to 5.80% for the year ended 31 May 2011.

The EBITDA increased by 26% to R756 million due to both growth in trading performance and the extraneous income of R79.4 million.

South African distribution. As the predominant contributor to group profitability, it remains prudent to elaborate on the South African Distribution segment of the group. Revenue comprised sales of physical and virtual prepaid airtime, commissions on the distribution of prepaid electricity and compounded annuity revenue generated from starter packs. The increase in revenue to R18.4 billion was mainly volume driven by all of these components.

Commission earned on the distribution of prepaid electricity amounted to R85 million against R61 million in the comparative period, representing a growth of 39%. This commission was earned on revenue generated of R5.5 billion on behalf of the utility companies, equating to a growth on their behalf of 62%.

Gross Profit margins, inclusive of IFRS adjustments, equated to 5.69%. This compares to 5.19% for the year ended May 2011. On exclusion of IFRS adjustments the gross profit margins for the current year were 5.30% against 5.09% for the comparative year. EBITDA increased by 13% to R802 million.

Moving on to the share of profits from associates. The comparative share of profits of R8.8 million included a deferred tax credit adjustment of R6.5 million, with trading profits net of amortisation of intangible assets amounting to R2.3 million. In the current year, after a deferred tax debit adjustment of R2.8 million, the share of profits earned on a pure trading basis net of amortisation of intangible assets amounted to R5 million.

This represented an increase of R2.7 million (119%) achieved through growth in revenue of 57% with a gross profit margin increase from 49% to 53%, all reported in their local currency.

Oxigen Services India. Blue Label's share of profits equated to R4.6 million, compared to prior year share of losses of R5.2 million. This turnaround was mainly attributable to the addition of banking services to its prepaid airtime platform. These results were achieved through an increase of 52% in revenue at gross profit margins of 2.95% compared to 2.25% in the prior year. EBITDA increased by 778%, all reported in their local currency.

Share of losses from joint ventures. The group's share of losses in Blue Label Mexico increased from R17.8 million to R25 million. This was largely attributable to costs incurred in the process of gearing up for an extensive roll out of point of sale devices through the Grupo distribution network.

Headline earnings from continuing operations increased by of R95 million to R463 million from continuing operations equated to 26%.

The discontinued operation is APS Nigeria. Although trading operations have ceased the losses incurred of R5m related to expenses incurred on the winding of this operation.

Headline earnings of R457m increased by 31%. On exclusion of this income receipt headline earnings growth would have equated to 12%. Net headline earnings adjustments. In the comparative year the group's remaining 40% shareholding in Blue Label Mexico was required to be revalued based on the equity value payable by Grupo Bimbo for its 40% shareholding. This resulted in a net fair value gain of R146 million. This gain less impairments of R64 million during the year resulted in a net positive headline earnings adjustment of R82 million.

During the current year the loss on disposal of group companies and impairments resulted in a negative adjustment to headline earnings of R20 million. Headline earnings per share increased by 40% to 64.65 cents.

Moving onto the balance sheet. The net increase in Non- current assets pertained to additional investments in Oxigen India, Blue Label Mexico and the purchase of starter pack bases.

There was a net decline in current assets of R274 million mainly due to a decline in cash resources which will be expounded upon in more detail when I discuss the cash flow. Inventory declined by R473 million, returning to its optimal level of 11 days. The affording of additional credit to selected clients resulted in debtor's collections period increasing from 17 to 26 days. Creditor payment terms averaged 37 days.

Moving on to the cash flow statement. Cash flow of R528 million generated from operating activities was applied to investing activities to the extent of R278 million. This comprised the funding of an additional investment of R74 million in Oxigen Services India, the provision of working capital of R26 million to Blue

Label Mexico, the acquisition of starter pack bases for R121 million and capex of R30 million.

A further R520 million was applied to financing activities to facilitate the purchase of Microsoft's 12% interest in the group for R392 million, Treasury shares R16m and a dividend payment of R107 million. The resultant accumulated cash resources of the group declined by R269 million to R1.98 billion.

Dividends. In accordance with our policy to declare an annual dividend, the board has approved a dividend of 23 cents per share equating to a 2.95 cover on headline earnings.

Moving on to prospects. The group is building its SMS aggregation capabilities through own product development and strategic acquisitions, growing customer awareness of prepaid electricity and additional contracts with utilities are expected to enhance electricity commissions received.

Annuity revenue from the expanding starter pack base should compound accordingly.

Distribution capabilities of Grupo Bimbo are expected to add momentum to the roll-out of point of sale devices Oxigen Services India is expected to continue its drive into banking services in partnership with leading banks and financial institutions in India. The group continues to focus on expending its product range organically as well as through acquisitions.

The balance sheet remains robust and liquid, which augurs well for future growth, acquisitions, and distributions to shareholders. Thank you. I will now open the floor to questions.

Jonathan Kennedy-Good
Afternoon. It's Jonathan here from Standard Bank. Well done on a good set of results. I just wanted to ask you about the Indian business, could you give us a bit more colour on how many people are using your mobile banking service at the moment? And could you elaborate on who your major competitors are there? And then finally just on the rate of growth in new users in India, could you give us a bit of colour on the monthly run rate at the moment?

Mark Levy
Let me unpack that a little bit. Mobile wallets globally are relatively new in the consumer space. At the moment it is still in its infancy across all the banks there. Seeing that we are the exclusive mobile wallet provider to SBI with access to 150 million customers there is massive opportunity. So not only are we the technology partner but the value-added services provider to that partnership as well. So it allows people to procure their products and services which will provision Oxigen into the future. The run rate, every month you see compounded growth as they're starting to get behind... We went through quite a significant proof of content with them. When they put their muscle behind it and it starts gaining momentum, we're talking about just one bank, the State Bank of India, which has 20,000 branches. We also have relationships with all the other banks, especially ICICI bank, [unclear] bank and Union Bank and the National Payment Corporation of India. That's quite an important relationship because what they're trying to do is create a third rail which allows people to transact with the banks outside of the traditional Visa and MasterCard environment. So we're seeing a lot of change in the legislation. We could only at one stage go from SBI to SBI accounts. We're now able to go from SBI to any other bank and visa versa. Just to give you a little bit of logistics, a person is able to walk into a traditional mom and pop store, scan his finger and open an account on the fly. He is able to use both a domestic and international remittance there and there and be able to deposit and withdraw money. So I think it's a very interesting space to be in. I think we're very well positioned. These exclusive partnership agreements that we have with the banks are positioned very well. And I think to give you specific numbers they will pick up momentum and we will be able to give you more granular clarity in the future.

Chris Grundberg
Hi, it's Chris Grundberg from UBS. A couple of questions, firstly on electricity. I wonder if you could give a sense of the total sales in the market today. You mentioned that your sales relate to about R5.5 billion of total sales. Can you give a sense of what that is in absolute terms in the market overall? And then secondly on the

airtime distribution. You talked about how you're seeing a shift from principle to agent. Can you give a rough split in your total sales in airtime now, what that is and where it has come from?

Mark Levy
Starting off on the electricity first of all. Currently it is around about 9 million metres, so obviously very important to grow to about 13 million metres by 2014. We split the bulk of electricity into two; one is household electricity and one is commercial. To estimate it, it's very difficult to get the exact number. Over 56 different municipalities there is no one who can bring it all together. But our estimation is around R9.5 billion, so R5.5 billion obviously if you round up that at about 60%. Up until about eight months ago electricity could only be bought in what's called an online environment. That meant that only the likes of a Pick 'n Pay or a Checkers could sell it. By the introduction of Blue Label's UniPin, which is in a total offline environment, which means you SMS our back office, you put the metre number in, we recognise what kind of electricity is required, we go and pull it and send it to you, that now has opened up this market tremendously. What that means is now anyone can wholesale and sell electricity. So we are definitely seeing the same kind of growth for the year 2012/2013 and beyond. On the telco's it's quite interesting because there are already telco's that are pinless. In India, by the way, 60% of the entire Indian market is pinless. Obviously the market adopted it early. South Africa were late adopters. Although we had it from 2001 it never took off. And I guess the reason it didn't was the distribution channel of South Africa made it so convenient and easy for the physical and virtual world that you actually didn't need pinless technology. But why pinless is becoming very relevant is when you walk into a Pick 'n Pay or a Checkers and your bill comes to R282.30, you are now able to say, sorry, can you give me R16.70 of Vodacom. So you're rounding off the denominations. And that's where pinless is becoming really powerful. Will it ever take over virtual? No. Currently we think it will equate to 8% to 10% of our turnover for the current year. So you're looking at between R1.5 billion and R2.5 billion, and obviously coming off from a zero base growing quite rapidly.

Chris Grundberg
So what would that have been this time last year?

Mark Levy
This time last year would have been less than R100 million.

Brett Levy [?]
What would it be without you, Ruby?

Peter Takendsa
Peter here, RMB Morgan Stanley. The changes in the telecom sector in South Africa, particularly at Cell C, is that an opportunity for you? Can you just give your thinking around that area?

Brett Levy
There are two parts I want to answer that question. First of all, we've been shouting it off the rooftops but I think we're going to prove it now. In the past 12 months the networks increased their discount to us twice, and yet our GP margins increased for the year. Which means there is a certain limit where we believe we could set it and where it's been passed on, which I think we've finally proved. But this fight in the market is extremely good for Blue Label. Obviously Alan-Knott Craig and Blue Label from a Vodacom perspective and he was very instrumental in giving Blue Label its first contract with Vodacom. So from a relationship point of view, really good. But the 5% network is just because it's giving great value to the consumer, and it will only give more value to the consumer. In our world we're only looking at an ARPU of R65 or R70. We're not looking at the huge ARPUs. So as soon as the consumer can consume more for his R65 or R70 we will definitely see an increase in ARPUs. It won't be a huge increase, but it will increase from R65 to R68. So the first thing we're seeing is it's really great for us. And of course Cell C just adds a new dimension into the telco sector. A lot of exciting things that we're doing with them. And we're fortunate enough to have a good relationship with them. So we're really watching the space carefully to see what they do. Just on the separate part of Blue Label, we believe what they've launched is really good. What they have done quite cleverly is there is no confusion. This is what the price is, this is what you get and that's what you buy. So I think without the confusion and quite aggressively dropping the price – although on certain peaks on MTN Zone and

Vodacom you can get similar discounts – it's very easy for the consumer to understand and we've seen some good results in the market already.

Ruby
Thank you. I have a few questions please. The revenue increase is just under 4%. I assume that it includes five months January to May of your acquisition of Multiserve. Would that be correct?

Brett Levy
That is correct.

Ruby
Therefore your organic growth is slightly lower than the 4% I've just mentioned. Why then is there a 25% increase in employee compensation and benefits expense?

Brett Levy
I told Mark not to take so much money, Ruby.

Mark Levy
It's a great question, Ruby. From a revenue perspective Multiserve is really relevant. But I think just to stress on the point, I think next presentation... in this one we didn't have a comparison to do it again. On the pinless top-up of the network a lot of it we're now acting as the agent and not the principle. So you're seeing a few hundreds of millions and close to billions coming through on that line which you won't see on the revenue line. The 4% growth is not a true indication of the revenue growth. Yes, I think in future we will try break it up so that you can add that in the revenue of the pinless side which will definitely give a better view of it in our November results. Multiserve has no impact whatsoever. The employment conversation really links into our [inaudible segment].

Dave Rivkind
[Inaudible segment] the increasing employee cost of 25% and other expenses by 6%. The significant increase in employee cost of R64 million is broken down into an increase in bonuses to senior execs as well as senior management. As you are aware, last year senior execs forfeited their bonuses, so there was an increase of approximately R34 million across the group included senior execs. There was also an increase in the share scheme expense of R10 million due to an additional [unclear] award which was granted last year in September. If you had to eliminate both of these increases your real increase would be approximately 7.6%, of which the average increase was about 4.2%.

Ruby
I will to back to the Multiserve acquisition. There is a footnote regarding the intangible asset section which states intangible assets include R5.4 million of franchise fees. Surely a franchise fee owing to the company is much more than an intangible asset?

Dave Rivkind
The franchise fee there is just the purchase price evaluation which was done to identify the intangible assets at acquisition of Multiserve. So there are various franchise [unclear] that pay a franchise fee on a monthly basis. So that would be the present value of future cash flows of that intangible asset.

Ruby
Since Multiserve is the only acquisition which I see here on which detail is given and the acquisition cost R5.8 million how come on the balance sheet intangible assets and goodwill has gone up R72 million?

Dave Rivkind
The acquisition cost of Multiserve was in fact R14 million. It wasn't R5 million. The acquisition price was split.

Ruby
It states here on page nine the goodwill is R5.8 million.

Dave Rivkind
Correct. Goodwill of R5.8 million plus the NAV that we purchased at acquisition of about R8 million. The total purchase price was R14 million. As far as the increase in intangible assets is concerned year on year the bulk of that was due to the acquisition of a starter pack base by R121 million, which comprises the bulk of that R74 million increase less amortisation on your intangible assets.

Ruby
That starter pack story confuses me no end. I've been asking that question for years. Don't get me started on that please. I just don't understand it. Could I now go to the current asset section of the balance sheet? Inventories are down R474 million. Now, inventories are listed as [unclear]. Trade and other receivables are up by exactly the same amount, R474 million. Trade and other receivables are at selling price. Is this just a coincidence that the number of R747 million is the same for both lines, one up and one down?

Dave Rivkind
Yes, it is a coincidence. The reason why inventories have declined so much is in May 2011 we acquired a significant amount of stock because of price increases from the networks which amounted to about R400 million. That's why your inventories have declined so much year on year. The increase in accounts receivable by the same amount is really a case of affording additional credit to certain independents over the year.

Ruby
Thank you. That's all, thank you.

Brett Levy [?]
Any questions from the conference call?

Operator
We don't have any questions from the conference.

Male speaker
Coming back to your comment about Cell C. In your presentation you don't indicate any change in Cell C's market share relative to your revenue. What has happened since they launched their [unclear] special? Has there been a noticeable change in what you do for them?

Mark Levy
Just to give you a little information on the launch of the new product. Generally when any of the networks launch a new product it takes between four and six months to make penetration in the market. That includes Vodacom and MTN as well. So if you take the launch of the 99 cents on 20th May you're really going to see the first impact at the end of October and real impact at the end of November. So you're already starting to see an increase, but the real impact is only going to happen in October or November. The reason for it is not guesswork. The market is an intelligent market who works a lot of trust. They nibble at these products. When Vodacom changes a voucher from R15 to R12 it literally takes six months for the R12 voucher to take up properly because they nibble on the voucher, they nibble on the concept, they wait for some [unclear]. Once it takes on it doesn't go from one to two. It goes from one to a million, a million to a billion. You will see the impact... you will see a little bit in our November results, but all things being equal, and if they get it right, and we really think they're on the right track you will see it in the second half of our year, which will be December to May.

Brett Levy
Any other questions? From our side obviously we'd like to thank our Chairman, Mr Larry Nestadt, and our board of directors, non-executive and executive, and of course all of our staff. We really are pleased with the last 12 months. We've achieved a lot of what we set out to do. And of course really excited for the next 12 months. So thank you all and we look forward to seeing you all pretty shortly. Thank you.