



CHAIRMAN'S REPORT For the Half Year Ended 31 December 2012

- **REPORTED NET PROFIT AFTER TAX OF \$33.3M, UP 28.5% ON THE PREVIOUS CORRESPONDING PERIOD (PCP).**
- **INTERIM DIVIDEND INCREASED TO 18c, UP 5.9% ON PCP.**
- **CABCHARGE HALF YEAR REVENUE INCREASED TO \$99.8M, UP 1.2% ON PCP.**
- **POSITIVE OUTLOOK FOR LONG TERM GROWTH.**

I am very pleased to report that the Cabcharge Group's revenue increased to \$99.8m in 1H13, up 1.2% on 1H12. It is a challenging time with tough trading conditions for many businesses with consumer spending restrained. In these circumstances, we need to be adaptable while maintaining a clear focus on the motivators of our longer term growth – leading technology, high standards of customer service and choice, product innovation and targeted diversification building on our taxi and payments competence, our national focus and our experience in the land transport and logistics industries.

The Company's net profit after tax was \$33.3m for the period, a very healthy increase of 28.5%. However, it is down by 3.7% compared to our underlying NPAT of \$34.6m in 1H12 which excludes the \$8.7m prior period impairment charge on our investment in our Associate CityFleet UK. The result was impacted by the effect of the subdued economic conditions on taxi payments turnover and the continuing difficult economic environment in the UK. Increases in operating expenses are in line with growth in our operating revenues.

The equity accounted NPAT contribution from our Associates, CDC and CityFleet UK, for the period grew to \$10.4m, 31% of the Group's underlying profit. The growth in contribution from CDC would have been stronger but for one off acquisition and tender costs.

The net debt to equity ratio was 41.8% at 31 December 2012 compared to 42.2% at 31 December 2011.

The Board remains confident that current and planned initiatives will enhance the Group's future results. The fully franked dividend for 1H13 will be 18 cents, an increase of 5.9% on the 17 cents dividend in 1H12, with a record date of 28 March 2013 and a payment date of 30 April 2013.

Operations Review

Taxi related services revenue of \$92.4m is mainly from taxi service fee income and member taxi related services income.

Taxi service fee income, derived from processing taxi payments on behalf of passengers, is \$46.2m compared to \$46.7m in 1H12. During the period, taxi payments turnover was \$539m, down 2.2% on 1H12. Cabcharge account and third party card turnover declined. Turnover from bank issued cards increased with growing use of

contactless cards. As anticipated, the economic conditions in some parts of the country, combined with corporate and Government cost cutting measures, are having an impact on taxi payments turnover. In this difficult business environment we believe the introduction of the taxi bonus scheme is helping to offset the decline in corporate and government tax spending by Cabcharge account holders and third party card holders. We are working to protect our market share and provide a platform for growth when conditions improve. The market is getting more difficult to read and hence market share almost impossible to predict. However, our analysis indicates that we are progressing at an even faster rate than our competitors with all their special deals.

Our focus on broadening the Cabcharge product range to meet customer needs is building momentum. There was a 15% increase in GiftCard sales for the calendar year 2012 over the previous year following distribution improvements. We introduced an online payment portal to give customers a quicker and easier way to purchase GiftCards which has proved particularly popular. We also now distribute Cabcharge GiftCards to approximately 300 retail outlets across Australia.

Cabcharge continues to lead the way by being the first in-taxi payments provider to introduce contactless technology in taxis and use of contactless cards continues to grow. There was a 63% increase in contactless transactions in 1H13 compared to 2H12.

EFT Solutions continues to gain additional work from existing clients and win new business. Software developed by EFT Solutions is now running on 6,000 Australia Post terminals and 24,000 Woolworth's terminals. Our technology and product versatility has also been a major factor in us successfully tendering for Government Taxi Subsidy Schemes where we have been able to design and deliver tailored solutions which have resulted in a considerable reduction of fraud within the Schemes.

We are piloting Fareway Plus, our new in-taxi payment engine, in regional and rural areas and the feedback to date is extremely encouraging. This will be extended to the ACT in the coming months where we will also be testing additional applications. Importantly, we are planning to enable Cabcharge payments using smartphones. Cabcharge customers will be able to use the application but the intention is to also enable payments using other methods, initially allowing customers to use PayPal if commercially attractive to both parties.

Member Taxi related services revenue increased by 3.3% to \$46.3m reflecting the contribution from Yellow Cabs South Australia and an increase in the number of taxis electing to use our Taxi Network services in NSW and Victoria. There was an increase of 27 cars in NSW and 37 cars in Victoria compared to 1H12. This includes taxis covered by bureau services we provide and which are expanding, particularly in regional Victoria. In South Australia, there was an increase of 20 cars since the acquisition of the Yellow Cabs business on 2 July 2012. We are very pleased with the seamless integration of the business into the Cabcharge Group and the response of Taxi operators, drivers and passengers to the service improvements we have made.

Turning to the results from our Associates, the equity accounted NPAT contribution from CDC is \$9.9m, an increase of 4.2% compared to 1H12. The results reflect service growth on new Hillsbus routes in Sydney and the impact of the Deane's acquisition which was completed in September 2012. There were a number of one-off costs associated with the acquisition and tender processes. Tender processes in particular take a lot of management time and as a result reduce focus on increasing operational efficiency and service improvement. The equity accounted NPAT contribution from CityFleet UK was lower than expected at \$0.5m, compared to \$0.8m in 1H12.

Outlook

We remain cautiously confident about the prospects for our growth in the longer term based on our technology, product innovation and diversification. While economic conditions obviously impact our business we are well positioned as demonstrated by our performance throughout the GFC. Our other immediate challenges have been well documented and we are ready to respond depending on how events unfold.

We still do not believe that our products and services are impacted by the revised RBA surcharging standards because of the nature of its payments business and its unique characteristics. Our fee is a service fee, not a surcharge. We are currently in discussions with our transaction acquirer, the National Australia Bank. In our view, based on finalisation of scheme rules, the March 18th deadline is going to be difficult to reach. As you would appreciate, it is too early to comment further.

We are expecting the Victorian Government's response to their Taxi Inquiry most likely in late March or early April. While there are some changes we would foreshadow, there are others that we believe would not be in the best interests of the Victorian community. The Taxi industry in Australia is regulated for good reasons, which have stood the test of time, not for the benefit of taxi networks, but for the protection and security of passengers and drivers. In today's period of difficult social impacts networks are vital.

In relation to taxi service fee income we expect to benefit from both increasing use of Cabcharge products and more general taxi payments turnover growth as a direct result of consumers enjoying the convenience of contactless cards over cash. Cabcharge has always been committed to providing consumer choice through both the range of products it offers itself and the choice of payment options available in taxis. Our latest product, the "tap n go" contactless eTicket is gaining momentum and proving a great success with both passengers and drivers who have used it. And why wouldn't it be popular? It's fast, convenient and secure – terrific if you're in a hurry!

As expected, our transaction data indicates that contactless transactions are continuing to replace cash. Currently, more than 30% of Visa and MasterCard transactions are contactless, rising to over 35% on weekends. We are pleased with the steady increase in MasterCard and Visa contactless transactions and anticipate the trend will accelerate, particularly with the expected introduction of contactless debit cards in 2013 and smart phone applications which can be used to pay fares in taxis with Cabcharge terminals.

The ongoing success of our core payments business lies in our technology which we continue to develop to maintain our advantage in a fast changing, highly competitive marketplace. We have just completed the final certification for the next generation of PinPads, the VX 820, and will commence piloting next week. Compared to the current PinPad which was introduced 5 years ago, the VX 820 is faster, easier to use because of its colour screen and more secure. It meets the higher standards of the latest security certifications, costs less than the current PinPad and will be progressively rolled out across Australia over the next 2 years.

In addition, Fareway Plus is receiving a lot of interest from Taxi Networks across Australia because of the management information it can provide and the optional applications which can be downloaded by taxi operators. Based on this interest, a range of new products and services is being developed.

In recent times we have seen a number of small software companies claiming they will revolutionise the Taxi industry with their smart phone applications. We believe their

proposed revolution is seriously flawed. They seem to be unaware and have no solution to critical issues such as security, transparency and service levels. Cabcharge has no intention of relinquishing its position as the technology leader in the Taxi industry. Fareway Plus is a huge advance both on our existing platform and anything being offered by our competitors through the incorporation of additional new features such as DeepCover security processors and a variety of anti-tamper devices. You can trust Fareway Plus when you make a payment and we will begin full production and rollout later this year.

In any case, there's more to Australia than just Sydney, Melbourne and Brisbane and the reality is that Cabcharge reaches into almost the whole of Australian society including those places where Taxi services are vital to the community, particularly mobility impaired passengers and other people facing transport disadvantage. At Cabcharge we don't cherry pick the easy markets and ignore the rest, and we apply that approach confident in the knowledge that our efforts and contribution to this complex and important Industry are ultimately recognised by Governments. We intend to keep playing by the rules set out by the various Regulators and rely on our position of technical leadership and our longstanding relationships with our industry to succeed. We are accustomed to embracing new technologies. We are also accustomed to the patronising views of whichever externally appointed non-industry based experts are floating around at any given point in time. History seems to repeat itself! For example, I remember well statements made in Queensland in 1999 in response to the same views currently being promoted by such non-industry experts, I can only shake my head.

There will be further growth in Taxi related services income due to the impact of the acquisition of Yellow Cabs South Australia and continued growth in licenses in NSW. We expect this to be significant but less than the almost 500 additional licences which IPART has recommended in its draft report to the NSW Government at a time when drivers are struggling. Too many conditional licences are not the answer – proper utilisation of existing resources would seem more appropriate.

Within our own taxi networks, we are strongly focused on improving customer service and choice for our passengers, Taxi operators and drivers. Recent initiatives include improvements to our smart phone booking applications based on customer feedback and the launch of an on-line store for retail sales to the Taxi industry across Australia.

The post balance date acquisition of Maxi Taxi (Australia) Pty Ltd and related assets will also be earnings accretive. It provides an additional income stream and geographic diversification through the licences in the ACT and Queensland. Ownership of the trademark and phone number enables us to develop this business nationally and reduces our costs since we will no longer pay external licensing fees.

In relation to CityFleet UK, we are starting to see some uplift in the tourism trade and so we are investing in four new coaches. At the same time we are working with our joint venture partner to maintain strict cost controls whilst we await the inevitable more general pick up in the UK economy. We expect the business to remain profitable with a strong balance sheet.

We expect the NPAT contribution from CDC to again increase in 2H13 as a result of the Deane's acquisition, the full year impact of the new Hillsbus services and growth in passenger demand. CDC is strongly focused on retention of the Hillsbus Region 4 contract with tenders closing on 24 May 2013 and the results expected to be announced in August 2013. It will also be considering the wisdom in bidding for other contracts which are being tendered at the same time where this makes sense. The new contracts will take effect in July 2014.

The CDC Board is considering options in relation to the best use of its assets in Regions 1 and 3 which include three depots and 146 buses (out of the 272 servicing these areas). Although the transfer of bus operations will not occur until September 2013, the Cabcharge Board has already taken action to address the potential impact on our profit in FY2014 through cost reductions within the Cabcharge Group. Already we have cut costs by \$1m and the aim is \$2m by 30 June to take full effect from 1 July 2013. We remain committed to growing the bus business, particularly where the regulatory framework encourages long term investment.

Given the economic and political uncertainty in the near term, our focus will be on growing revenue where we can, increasing productivity and improving services for consumers and the Taxi Industry. The Board believes we are well placed for the longer term. Our contactless technology platform which allows fast, secure and convenient payments together with product innovations such as Fareway Plus and the use of applications strengthen our reputation not only in taxi payments but in the electronic payments market generally. Other sources of Taxi related services revenue are expanding and there are other opportunities for CDC to grow. We remain committed to acquisitions in the Taxi and Bus businesses. Finally, our balance sheet remains strong which enables us to continue to seek additional suitable opportunities for further growth including via acquisitions where we see value for shareholders.

Looking much further ahead to the “Asian century”, we expect our long standing relationship with Singapore based ComfortDelGro Corporation and our more recent arrangements with China UnionPay to provide us with insight into new opportunities for building our business.

To paraphrase the recent words of a prominent commentator, the current state of the global economy and financial markets are proof that brave optimism, not cheap pessimism, albeit not without a period of struggle, will always win. This is as true in business as it is in other spheres of human endeavour. We are thoughtful brave optimists.

I would like to thank all those who have contributed to our ongoing achievements and are helping to support our growth strategy.

Reg Kermode
Executive Chairman
19 February 2013

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