



CHAIRMAN'S REPORT

For the Half Year Ended 31 December 2013

- **REPORTED NET PROFIT AFTER TAX OF \$36.0M, UP 8.0% ON THE PREVIOUS CORRESPONDING PERIOD (PCP).**
- **INTERIM DIVIDEND, 15c COMPARED TO 18c FOR PCP.**
- **CABCHARGE HALF YEAR REVENUE INCREASED TO \$103.3M, UP 3.5% ON PCP.**
- **POSITIVE OUTLOOK FOR LONG TERM GROWTH.**

I am very pleased to report that the Cabcharge Group's revenue increased to \$103.3m in 1H14, up 3.5% on 1H13. This result is a clear demonstration that the Cabcharge business is robust and sufficiently adaptable to take advantage of any positive changes in a difficult economic and trading environment. While challenges remain in the near term we remain very confident that our strong 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 public passenger transport industries – will ensure the sustainability of the Cabcharge business and positive results in the future.

The Company's net profit after tax was \$36.0m for the half year, a very solid increase of 8.0%. The result reflected positive contributions from all of our business activities including an improvement in the UK. Increases in operating expenses are in line with growth in our operating revenues and increases in our direct costs are at or below revenue increases.

The equity accounted NPAT contribution from our Associates, CDC and CityFleet UK, for the period grew to \$11.7m, a very healthy increase of 12.2% on the pc, and accounted for 32.3% of the Group's underlying profit for the period.

The net debt to equity ratio was 34.7% at 31 December 2013 compared to 41.8% at 31 December 2012 (45.3% at 30 June 2013). The reduction was supported by a prudent approach to cash management.

The Board remains confident that current and planned initiatives will support the Group's positive future results. The fully franked dividend for 1H14 will be 15 cents, compared to 18 cents dividend in 1H13, with a record date of 28 March 2014 and a payment date of 30 April 2014.

Operations Review

Taxi related services revenue of \$98.1m for 1H14, up from \$92.4m in 1H13, is from taxi service fee income and member taxi related services income. This result represents an increase of 6.2% (\$5.7m) over the pcip.

Taxi service fee income, derived from processing taxi payments on behalf of passengers, is \$48.5m compared to \$46.2m in 1H13, an increase of 5%. During the period, taxi payments turnover, a non-IFRS information, represents the value of taxi fares and the account service fee processed through the Cabcharge Payment System, was \$569m, up 5.7% on 1H13. As anticipated this growth came as a result of improved economic and trading conditions during the period under review and increased turnover from bank issued and third party cards, particularly from growing use of contactless cards rather than cash to pay taxi fares. Additionally, the taxi bonus scheme, which is offered to drivers of taxi networks in Sydney, is helping to support our market share and contribute to overall growth. These positive impacts offset a decline in Cabcharge account turnover. We are maintaining our focus on working to protect our market share and provide a platform for growth.

Investments in our world leading technology platform continue to deliver positive returns. Cabcharge led the way by being the first in-taxi payments provider to introduce contactless technology in taxis. Use of contactless cards continues to grow dramatically through use of the Cabcharge FASTCARD and FASTeTICKET. Transactions of the contactless FASTeTICKET are now running at more than 150,000 a week. At 30 June 2013 43% of Visa and MasterCard transactions processed via our terminals were contactless. Today it is 50%. On the weekends, this rises to 57%, up from 48% at the time of the full year results presentation. Total contactless transactions now average over 1 million per week.

Our focus on broadening the Cabcharge product range to meet customer needs continues with very positive results. There was a 40% increase in GiftCard sales for the 2014 half year over the previous corresponding period. This followed a targeted marketing campaign using radio, online advertising and social media.

Both personal and account Customers are responding favourably to the convenience of the Cabcharge GiftCard, with some account customers identifying potential for more effective management of their taxi transport use.

The GiftCard provided an appropriate vehicle for Cabcharge to support the International Fleet Review held in October by releasing four commemorative cards depicting images of ships and sailors participating in the Review. These cards were available to the general public and were used to provide \$10,000 of free taxi travel to sailors visiting from smaller nations, including Papua New Guinea, Micronesia and Tonga. There is increasing interest from a variety of organisations in using the Cabcharge GiftCard for promotional purposes.

Cabcharge continues to work closely with State and Territory Governments to provide Transport solutions to passengers with special needs as part of the government subsidy Schemes. During the reporting period we reached agreement to continue providing services for the Multi-Purpose Taxi Program in Victoria. Cabcharge also deployed the electronic Taxi Subsidy Scheme in the ACT to replace the existing paper

based scheme. Our technology and product versatility has enabled the provision of solutions using contactless cards in Queensland, Tasmania and the Australian Capital Territory following successful tender processes. This has resulted in greater convenience for both those people with disabilities who are scheme members and drivers. In total these schemes provide subsidised transport for over 120,000 participants. The introduction of Cabcharge electronic systems to replace paper based systems also reduces the potential for fraud.

Member Taxi related services revenue increased by 7.1% to \$49.6m primarily reflecting increases in the number of taxis electing to use our Taxi Network services. Overall there was an increase of 116 cars since 30 June 2013, with increases in NSW and South Australia and a decrease in Victoria. During the period we added Black Cabs – Melton / Bacchus Marsh to our expanding provision of bureau services in regional Victoria.

Expenses across all Cabcharge businesses are closely monitored; and revenue growth is ahead of cost increases, noting some decrease in interest, depreciation and amortisation expenses and the cost of supporting the driver bonus scheme. Over 2,600 of our customers are now receiving monthly electronic account statements and we expect this number to increase over the ensuing months. This provides for greater efficiency in managing accounts for both our customers and Cabcharge.

To help celebrate the return of Disney's hit musical, The Lion King, 50 Sydney based taxis were wrapped in Lion King livery for 3 months from November 2013. We were delighted to partner with the NSW Government, Destinations New South Wales and Disney Theatrical Productions Australia in this initiative. There is little doubt that the vividly detailed taxis caught people's attention and promoted our taxi services in a positive way.

Turning to the results from our Associates, the equity accounted NPAT contribution from CDC is 10.9m, an increase of 10.1% compared to 1H13. The results reflect full period impact of the contributions of Deane's of Queanbeyan acquired in September 2012 and the Driver Group in Melbourne in July 2013. There was also service growth on Hillsbus routes in Sydney and at the Altona depot in Victoria. A total of 8 buses were added during the period bringing the total fleet to 1614 as at 31 December 2013. The contribution from CDC is also impacted by the unsuccessful outcome of the tender process for Regions 1 and 3 in Sydney, resulting in those two Regions being taken over by an alternate provider from mid October 2013.

The equity accounted NPAT contribution from CityFleet UK improved from \$0.5m in 1H13 to \$0.8m in 1H14, due to generally improving economic conditions in the UK as we had previously forecast and effective cost management.

Outlook

The Board continues to be 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 to take advantage of conditions in areas where confidence improves in the general economy.

The introduction of laws in Victoria to limit the service fee on taxi payments to 5% came into effect on 1 February 2014. We remain disappointed and concerned about these and other changes to regulation of the taxi industry in Victoria. Our views are well known and have been publicly reported in the past. The Taxi Industry is complex and we remain concerned that some good aspects may be inadvertently harmed along the way. Already we have unfortunately witnessed the demise of at least two taxi operators who have recently entered voluntary administration. Given the significance of the reforms, we remain hopeful that the implementation phase is both cautious and pragmatic, accompanied by improved consultation with key industry participants.

Nevertheless, we have implemented these changes so that we are compliant with the laws in that jurisdiction. Our superior technology platforms have enabled this transition to be achieved seamlessly, with no inconvenience to our customers and stakeholders - drivers, taxi networks and merchants.

It is too early to forecast the financial impact at this stage. For taxi payments in Victoria it is a new environment and we will continue to work with our merchants and suppliers to look at costs and alternative business models to ensure our operations remain profitable. We will obviously be carefully monitoring and reviewing trading conditions and results and will take necessary commercial decisions as we go forward. We will carefully take into account the interests of our customers and other stakeholders and consult with them where this is appropriate.

Going forward for Taxi Services, it will be easier for operators to set up alternative networks in Victoria, although we are confident of our ability to maintain a strong position based on our experience and the quality of our service offering. The expected increase in licences on issue in Victoria is likely to create more opportunities to provide other services; however under utilisation of the taxi fleet can only have a detrimental impact on driver incomes. We will also be watching with great interest the outcome of the Essential Services Commission consideration of taxi fares in Victoria due by the end of March.

EFT Solutions is continuing to play a crucial role in providing the in-house capability for developing and maintaining the key technology infrastructure that underpins Cabcharge's success in providing world class in taxi facilities. During the period under review EFT Solutions also gained additional contracts with Woolworths and Westpac and together with other clients, including National Australia Bank, Suncorp and Australia Post, there are well over 100,000 non taxi terminals running EFT Solutions software in Australia and New Zealand.

Following successful pilots in regional and rural areas, Fareway Plus is being rolled out to taxis across the nation. To date over 1,000 units have been provided for installation to 30 taxi networks and we will continue the full roll out as quickly as possible.

Planning to enable Cabcharge payments using smartphones through over the air connection to in taxi systems is progressing well. 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; expanding customer choice of payment methods.

In addition, implementation of the next generation of PINPads, the VX 820, is well underway with around 5,000 units installed in taxis nationwide. Our technology development capacity and financial strength enables the upgrading and replacement of these facilities on a regular basis. The new PINPads meet the higher standards of the latest security certifications and will lower our operating costs as we replace our existing PINPads.

In relation to CDC, while there will be an impact in subsequent periods of the loss of contracts in Regions 1 and 3 in Sydney, we are obviously very pleased that CDC has won the tender for Region 4 and have signed the contract covering the next five years. CDC has also signed contract extensions for Regions 2 and 4 in the Hunter Valley covering the next three years. The NSW Government has also announced significant service improvements for Region 4 in Sydney to meet growth and demand. This provides for an additional 580 extra weekly services to take effect from 28 January 2014 and will involve an additional 22 busses operated by Hillsbus.

Earlier this month we launched our Green Apple Taxi Fleet comprising 250 vehicles, with already nearly half compliant with Commonwealth 5 star environmental certification. This provides a strong avenue to move the entire fleet of Apple taxis to green certification over coming years in order to build an environmentally sustainable taxi fleet.

Now that a number of more recent acquisitions have settled into the Group, the Board anticipates pushing ahead with further rationalisation and integration of core activities. The Board will also continue to focus on Corporate Governance issues in the coming period including preparing for implementing the Long Term Incentive Scheme later this year and Board renewal.

Finally, some observations on the outlook for the economy. The National Australia Bank's business survey, published earlier this month reported that "The improvements over recent months have established a clear upward trend in business activity, suggesting some upside potential to our current growth outlook, although indicators of employment continue to point to a soft labour market." supporting our generally positive outlook. However, we remain cautious as the general consensus forecasts for 2014 are for GDP growth slightly below the 3% trend and airlines are reporting lower than normal growth in domestic business travel.

The Board believes that these observations provide the basis for an encouraging outlook for Calendar year 2014, noting that there will be some demanding challenges. As we have clearly demonstrated in the past, our superior world class technology platforms, together with our agility in the market place and our dedicated and highly skilled staff enables us to sustain our strong market presence and growth potential.

Reg Kermode
Executive Chairman
25 February 2014

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