neopost **PRESS RELEASE**

# EXCELLENT 1ST HALF 2006: VERY STRONG GROWTH AND NEW RECORD LEVEL OF PROFITABILITY

- **Sales: up 10.2% at constant exchange rates**
- **Current operating margin: 25.5% of sales (24.5% in H1 2005)**
- **Net income: up 19.1% (net margin of 17.1% of sales)**

# OUTLOOK FOR 2006

- **Sales forecast confirmed: organic growth close to 10%**
- **Current operating margin forecast raised to over 25.5% of sales**

## Paris, 3 October 2006

Neopost, the European leader and number two worldwide supplier of mailing solutions, today announced that it had set a new record for profitability in the first half of its 2006 financial year (six months ended 31 July 2006).

Current operating income was €114.9m, an increase of 16.2% on the €98.9m recorded in the first half of 2005. Current operating margin was 25.5% of sales, compared to 24.5% a year earlier.

Net income rose 19.1% to €76.9m. Net margin came to 17.1% of sales (against 16.0% in first half 2005).

| *(in € million)* | **H1 2006** | H1 2005 | Change |
|---|---|---|---|
| Sales | **450.3** | 404.4 | +11.3%[1] |
| EBITDA | **146.0** | 126.3 | +15.6% |
| *As % of sales* | *32.4%* | *31.2%* | |
| Current operating income | **114.9** | 98.9 | +16.2% |
| *As % of sales* | *25.5%* | *24.5%* | |
| Net income | **76.9** | 64.5 | +19.1% |
| *As % of sales* | *17.1%* | *16.0%* | |

Jean-Paul Villot, Neopost's Chairman and CEO, noted: ***"Our excellent performance in the first half of 2006 is the perfect illustration of the success of our profitable growth strategy. Our sales grew by more than 10% at constant exchange rates, we improved current operating margin by 1.0 point and net margin by 1.1 point. At the same time we continued to prepare for the future, investing both in new products and services and in the optimization of our distribution through selected acquisitions."***

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[1] +10.2% at constant exchange rates

## Continued strong sales growth in 1st half 2006

Sales in the first half of 2006 were 10.2% higher than in the first half of 2005, at constant exchange rates.

This very strong growth was driven particularly by the remarkable performances in North America and the United Kingdom. In North America, Neopost took full advantage of the acceleration of franking machines sales related to next decertification deadlines, posting growth of 16.9% for the first half, at constant exchange rates. In the United Kingdom, Neopost enjoyed exceptionally strong growth (26.4% at constant exchange rates) due to the success of its products, which are particularly well-suited to the new postal rating system in the UK, which takes into account both the weight and the dimensions of the piece of mail. In this market, Neopost took also full advantage from the 'echo' effect of the 2001/2002 decertification programme. Neopost's performance in its other markets of France, Germany and the Rest of the world was biased by the very high basis of comparison from the first half of 2005.

Over the first half, document systems grew at the same pace as mailing systems (10%), reflecting the success of the Group's marketing policy of enhancing cross selling.

Recurring revenues (rental, leasing, services and supplies) accounted for 59% of the Group's first half sales, and grew by 5.9%, while equipment sales, which represented 41% of total sales, grew very strongly, rising by 16.4%. Under Neopost's business model of sustained profitable growth, these equipment sales represent a source of recurring revenues for the years to come.

## New record level of profitability

The very strong sales growth recorded in the first half of 2006 and the on-going efforts to improve profitability enabled Neopost to produce further growth in current operating income. This was 16.2% higher than in the first half of 2005, at €114.9m. As a result, current operating margin set a new record for the Group at 25.5% of sales.

The improvement in current operating margin was due primarily to:

- volume growth,
- the shift in the product mix towards more high-end machines,
- increased cross selling,
- the growing share of sales generated from supplies,
- control over currency effects.

Net income was 19.1% higher at €76.9m, giving a net margin of 17.1% of sales. This improvement was due notably to lower tax rates in certain European countries.

The Group indicated that for its 2006 financial year as a whole, the average tax rate is likely to be between 30% and 31% of income before tax. It also indicated that financial expense will increase in the second half, given the rise in net debt and higher interest rates.

## Expansion of financial services

The leasing business continues to grow, generating 6.1% of total sales in the first half of 2006 (from 5.7% in the first half of 2005). The leasing portfolio reached €350.4m at end-July 2006, up 19% on the figure of €294.6m a year earlier. This growth is fully in line with Neopost's target of building a leasing portfolio of around €500m by 2009.

The Group launched its postage financing service in the US market in June 2006 as planned. This was warmly welcomed by the Group's clients. This new financial service is expected to generate around 2% of the Group's total sales by 2010.

## Further optimisation of market coverage

Since 1 February 2006, Neopost has continued implementing its policy of optimising its distribution network.

In Europe the Group acquired two small local distributors in Italy. It also acquired a distributor of address printers in the Netherlands.

In the USA the Group acquired eight dealers, in the states of: Oregon, Tennessee, Alabama, Indiana, Texas, Massachusetts and Michigan. At 31 July 2006, 30% of the US market were covered by a single distribution channel, from 24% at 31 January 2006.

## A solid financial position

The first half of 2006 saw strong cash flow from operations. The Group continued its policy of acquiring distributors and of strong growth in financial services. It also committed to a voluntary policy of returning value to shareholders. To this end, Neopost paid €94.3m in dividends against the 2005 financial year and, between 1 February 2006 and 31 July 2006, repurchased 447,385 of its own shares, to be cancelled, for a total of €38.0m.

At 31 July 2006, net financial debt stood at €404.6m, an increase of €102.0m over a year earlier. This increase reflects the Group's will and ability to finance its investment programmes and return value to shareholders. As a result, gearing rose from 65.6% at 31 July 2005 to 87.6% at 31 July 2006.

# Strong outlook

In a buoyant market, where growth is being notably driven by the accelerated obsolescence of equipment and the expansion of the supplies and services offering, Neopost continues to implement its business model. This aims to:

- take advantage of technological developments,
- move towards the high end market segment,
- expand service offering,
- optimise distribution.

For 2006, the Group has confirmed that it expects sales growth of close to 10% at constant exchange rates. The excellent first half performance and the success of its strategy have led Neopost to raise its profitability target. The Group now forecasts current operating margin of over 25.5% for the full year 2006, from its previous guidance of over 25%.

For 2008, the Group's confidence in its ability to meet its target of €1bn of sales and a current operating margin of 26% is reinforced.

Looking beyond 2008, the market is likely to remain active. The majority of the initiatives currently being implemented by Neopost as part of its strategy of profitable growth (the move towards the high end, expansion of services and optimisation of distribution) will continue to bear fruit and generate their full potential benefits.

In conclusion, Jean-Paul Villot remarked: **"The figures we are announcing today show, once again, that Neopost knows how to generate above-market growth while at the same time improving profitability. Our model for sustained profitable growth is in place. I am convinced that over the next few years we will be able to further improve this performance."**

## Calendar

Sales figures for the third quarter of 2006 will be released on 5 December 2006 after the market closes.

## NEOPOST

**NEOPOST IS THE EUROPEAN LEADER** and number two worldwide supplier of mailing solutions. It has a direct presence in 14 countries, with close to 4,900 employees, and annual sales of €827m in 2005. Its products and services are sold in more than 90 countries, and the group has become a key player in the markets for mailroom equipment and logistics solutions.

Neopost supplies the most technologically advanced solutions for franking systems, folders, inserters and addressing as well as logistics management and traceability. Neopost also offers a full range of services, including consultancy, maintenance and financing solutions.

Neopost **is listed in the A compartment of** Eurolist by Euronext Paris. Its market capitalisation is €3.0bn.

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# First half 2006

## Consolidated income statements

| (€m) | H1 2006* (to 31/07/2006) | | H1 2005* (to 31/07/2005) | | Full year 2005 | |
|---|---|---|---|---|---|---|
| **Sales** | **450.3** | ***100.0%*** | **404.4** | ***100.0%*** | **827.3** | ***100.0%*** |
| Cost of sales | (105.8) | *(23.5)%* | (97.7) | (24.2)% | (195.1) | *(23.6)%* |
| **Gross margin** | **344.5** | ***76.5%*** | **306.7** | ***75.8%*** | **632.2** | ***76.4%*** |
| R&D expenses | (18.0) | *(4.0)%* | (18.7) | *(4.6)%* | (36.2) | *(4.4)%* |
| Sales and marketing expenses | (107.7) | *(23.9)%* | (98.1) | *(24.3)%* | (205.8) | *(24.9)%* |
| G&A expenses | (62.1) | *(13.8)%* | (53.9) | *(13.3)%* | (110.4) | *(13.3)%* |
| Service and other operating expenses | (39.1) | *(8.7)%* | (34.7) | *(8.6)%* | (69.7) | *(8.4)%* |
| Employee profit sharing | (2.7) | *(0.6)%* | (2.4) | *(0.6)%* | (4.6) | *(0.6)%* |
| **Current operating income** | **114.9** | ***25.5%*** | **98.9** | ***24.4%*** | **205.5** | ***24.8%*** |
| Results of disposals and other | 1.4 | *0.3%* | 0.7 | *0.2%* | 0.8 | *0.1%* |
| **Operating income** | **116.3** | ***25.8%*** | **99.6** | ***24.6%*** | **206.3** | ***24.9%*** |
| Financial results | (6.3) | *(1.4)%* | (4.6) | *(1.1)%* | (11.6) | *(1.4)%* |
| Results of associated companies | 0.4 | *0.1%* | 0.6 | *0.2%* | 0.7 | *0.1%* |
| **Net income before tax** | **110.4** | ***24.5%*** | **95.6** | ***23.7%*** | **195.4** | ***23.6%*** |
| Taxes | (33.5) | *(7.4)%* | (31.1) | *(7.7)%* | (57.4) | *(6.9)%* |
| Minority interests | - | - | - | - | - | - |
| **Net income** | **76.9** | ***17.1%*** | **64.5** | ***16.0%*** | **138.0** | ***16.7%*** |

*Half year consolidated accounts were subject to limited reviews by the Group's auditors.

# First half 2006

## Summary consolidated balance sheets

| Assets (€m) | **31 July 2006*** | 31 July 2005* | **31 January 2006** |
|---|---|---|---|
| Goodwill | 526.1 | 503.1 | 514.3 |
| Intangible fixed assets | 51.2 | 43.0 | 50.1 |
| Tangible fixed assets | 138.0 | 135.5 | 131.0 |
| Financial investments | 14.7 | 7.6 | 10.9 |
| Other non-current assets | 3.5 | 5.1 | 3.5 |
| Leasing receivables | 350.4 | 294.6 | 320.4 |
| Deferred tax assets | 46.9 | 47.3 | 48.8 |
| Inventories | 61.0 | 50.4 | 49.0 |
| Trade receivables | 135.5 | 137.9 | 195.2 |
| Other current assets | 26.2 | 24.0 | 22.6 |
| Financial instruments | 5.3 | 1.5 | 2.5 |
| Cash & marketable securities | 105.0 | 95.1 | 112.9 |
| TOTAL ASSETS | **1,463.8** | **1,345.1** | **1,461.2** |

| Liabilities (€m) | **31 July 2006** | 31 July 2005 | **31 January 2006** |
|---|---|---|---|
| Shareholders' equity | 462.2 | 461.5 | 513.8 |
| Provisions | 55.2 | 52.9 | 55.5 |
| Long-term financial debt | 179.4 | 181.2 | 189.9 |
| Leasing debt | 135.6 | 87.0 | 105.0 |
| Short-term financial debt | 194.6 | 129.5 | 109.2 |
| Deferred tax liabilities | 28.3 | 26.9 | 30.3 |
| Prepaid income | 124.6 | 112.4 | 154.7 |
| Financial instruments | 0.3 | 1.6 | - |
| Other short-term liabilities | 283.6 | 292.1 | 302.8 |
| TOTAL LIABILITIES | **1,463.8** | **1,345.1** | **1,462.1** |

*Half year consolidated accounts were subject to limited reviews by the Group's auditors.