

2006 INTERIM RESULTS

CONFERENCE CALL SCRIPT

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RON MARTIN, PRESIDENT & CEO, NETELLER PLC

Operator: Good day, ladies and gentlemen, and welcome to today's NETELLER conference call. For your information, this conference is being recorded. At this time I would like to turn the call over to your host today, Mr Ron Martin. Please go ahead, sir.

Ron Martin: Thank you. Good afternoon, or morning, and welcome to NETELLER H1 investor update. I'm Ron Martin, President and CEO of NETELLER; I'm joined by Eric Hughes, NETELLER's CFO. I'm very pleased at NETELLER's performance across business and financial metrics in the first half of 2006. We issued a rather detailed report this morning, and rather than repeat the entire content in this call, I will instead provide a brief overview of the half year, followed by Eric, who will focus on the financial results. I will then conclude with some comments on our plans for the second half of the year. We will then open it up for any questions you may have.

During the first half of 2006, we have invested heavily in the business to improve the quality and depth of our product offering to both customers and merchants, in line with our 'deepen and extend' strategy. Our trading results and key metrics demonstrate the continued growth of NETELLER's experience from enhanced product and service efficiencies, and the growth in our merchants' primary market.

We have continued to reduce our exposure to North America, to the North American market, in line with our management expectations of the Company's diversification plan. Whilst the gaming industry is subject to continuing regulatory uncertainty, NETELLER is well placed to report significant progress during the second half of 2006.

I'd like to note, before I get into the numbers, that we have, in response to feedback from our investors, significantly increased the transparency of our reporting, with the addition of active member analysis by region, and regional revenue reporting. This supplements our existing, already extensive, reporting.

Let me provide you with just a quick snapshot of the financial KPIs of the business: revenue for the first half of 2006 was \$118.9 million, up 62% over the same period in '05. Gross margins were 71.8% versus 73.2% for the first half year '05. Profit before tax was \$58 million, up 42% from '05, net profit \$55.9 million, up 51% from '05. Diluted EPS was \$0.46, up 53%. Net operating cash flow was \$56.8 million, up 97%. And the net cash of the group was \$136 million, up 56%.

In terms of business KPIs, total customer receipts for the half-year 2006 were \$847 million, up 92%. Average daily receipts, \$4.68 million, up 56%, and average daily sign-ups, 3,251, up 18%. Total signed-up customers at the end of June '06 were 2.9 million, up 67%, and the new measurement that we've introduced this reporting period - active customers - at the end of the period for Q2 '06 were 535,853 up 49% from the same

period in '05. And just to define that for everyone, an active customer is a customer whose e-wallet account balance has changed during the quarter.

That's a snapshot of the key numbers, and Eric will spend some more time on some aspects of those numbers.

I just want to summarize what we consider to be our key achievements for the first half of '06: there was strong growth in the underlying business, both coming about from sector growth and from improved product efficiencies and work flows on the NETELLER platform. Continued progress in developing product improvement for merchant and customer; a number of examples include: European expansion with the launch of four new localized e-wallet versions, combined with local payment options and call centre support, to provide a complete localized solution. Additional payment functionality for the integrated Japanese e-wallet, launch of the Asian 1-Pay wallet, supported by 1-Pay direct processing, and a simplified sign-up process that was developed in H1 and just recently released in H2.

We launched our first successful internal marketing campaign that we coined 'Play Into Summer'; this far exceeded our expectations and laid the groundwork for future marketing efforts. Continued roll-out of our 'credit card declined' programme to merchants, a program that is gaining in attraction as we move forward. We now have 80% of our top 200 merchants are now on our Direct Accept product, and we've reduced North American exposure in line with Management's diversification plan.

And finally, I would add, while it doesn't receive much headlines ... the stability of the NETELLER platform continues to improve to the point where we are becoming industry best practice and we'll continue to move that toward a zero down time footprint, in line with our customers' expectations.

Just a quick reminder of the strategy that we articulated at the beginning of '06 and really just an update as we continue to move through and execute on the strategy that we articulated. You may recall the concept of 'deepen and extend', we have continued to focus on our core markets, acquisition, conversion and retention, product and program development and we're well under way with many of our objectives in that area and we'll continue that focus for H2. We've been constantly reviewing and renewing our merchant value proposition, and I'll give you a number of examples of our success in that area in H1, and continued strategic use of our contact centre as we've added to its capability in the first part of the year.

Extend, to extend reach to increase our market opportunity, we've aggressively entered new geographies, we now have seven localized versions of the product with an aggressive plan for H2, our objective was to innovate new services and technologies and to drive technology platforms, outpace our competitors; we are making good progress on all these strategic initiatives that we articulated at the beginning of the year.

The third piece of that strategy: still always to continue to develop additional markets, we are now, as we enter Q4, as we look to the balance of '06, looking to add additional merchant verticals to the wallet as we focus on additional services on an e-wallet-centric basis.

Just a quick review of the products we got to market in 2006, under the same metaphor of 'extend and deepen', we launched a platform in German, Spanish, French, Italian site launches. We brought Maestro 3D Secure, Visa Electron and other e-payment options to the market. We pushed out the official Japanese launch of the product and the China 1-Pay e-wallet launch was also achieved. In total we have achieved all of the launches that we had planned on for the year, bringing eleven new products into the market. On the 'deepen' side, we simplified our sign-up process, with a significant impact on the business that we are starting to feel now in H2; we created an instaCASH dispatcher, which makes the member experience of increasing their limits much easier to do and much more effective. We've continued to roll out the credit card decline program with merchants and we've added and deepened our VIP team and support programs.

I'm now going to hand it over to Eric who will spend some time on an overview of the financials.

ERIC HUGHES, CFO, NETELLER PLC

Thanks Ron and good afternoon or good morning. This morning we released our half-year results and I'd just like to take some time to go through the various figures. As Ron has noticed, we have disclosed active customer numbers for the first time. In the second quarter of 2006 we had 536,000 active customers, which is up 49% from the same period in 2005. Of interest is that we saw an increase year-on-year in active customer numbers in Europe and Asia of roughly 100% and North America was up about 43%. This reflects our growing diversity and growth of our active customer base.

Revenue in the first half of the year of \$119 million reflects a 62% growth from 2005. Our pre-interest revenue of approximately \$111 million reflects or includes \$14.5 million from Europe, \$3.7 million from Asia, and North America and the rest of the world make up the remainder. Revenue split is approximately 59% from our merchants, 22% from customers using instaCASH, 6% from foreign exchange and 7% from interest revenue. The 22% from instaCASH is a decline from prior years at 27% and reflects the success of the company to convert our major merchants over to our Direct Accept model.

Gross margins for 2006 year to date is 71.8%, which is down slightly from 2005. We have seen an increase in deposit and withdrawal fees driven by increased European customers. Customer support costs of \$8.2 million are up, in line with revenue, and reflect the transfer of certain employees to general admin costs and these costs were replaced by additional costs such as our VIP team, our credit card declined program staff. These additional staff predominantly have been added to the Canadian subsidiary. Staff costs in Canada have risen due to increased services requiring additional staff, increased hourly costs due to labour shortages in the marketplace, plus a rise in reported costs due to the appreciation of the Canadian Dollar, versus the US reporting currency. Our base rate increases in the hourly staff which were put in place in the latter portion of half one, are considered to be sufficient to retain an adequate staffing level.

Bad debts of \$15 million are in line with our first half of 2005, but they're up from the rates we experienced in the latter half of the prior year. The company is implementing and will continue to develop, preventative and detective solutions to mitigate our bad debt exposure and we expect that our bad debt rates will decline marginally compared to revenue in the second half of the year.

General and admin expenses have grown during the first half of the year to represent 17% total revenue. This growth has been fuelled by several items. As noted, we are now recording the cost of several teams in G&A which were previously recorded indirectly. It generally pertains to security, internal audits and marketing, which were more appropriately classified now below the gross margin line. In addition, we have added staff in the first half to assist with the company achieving the goals we have set out. This growth in staff is considered to be complete to achieve the goals in the latter half of 2006, so as the company grows we will see a reduction in G&A as a percent of revenue. G&A expenses were impacted in the current year by the addition of a profit sharing plan. This plan was for salaried staff in the middle ranks of the organisation and has taken the place of the option program for these individuals. We implemented this program to ensure that our compensation remained competitive in the face of a volatile stock price. The impact in the first half of the year for the profit share, totalled approximately \$850,000. As with our direct costs, G&A is mainly incurred in Canadian Dollars. Approximately \$1.3 million of both direct and G&A expenses are the result of the Canadian Dollar appreciation.

The earnings figure for the first half was positively impacted by a lower than expected tax rate. We received a favourable reassessment during the first half which resulted in a tax refund and thus the reduced expense. The balance sheet of the company is looking very healthy. We have free cash of \$136 million, total cash under management of \$433 million and, when the amount going to customers of \$261million is netted out, there's cash available for the business at just over \$170 million.

Capital asset additions in the first half of the year have grown. We have grown from \$9.5 million to \$18 million. This is predominantly due to the move to new facilities in Calgary which accommodates the Canadian subsidiary, NT Services. NT Services provides the call centre, the IT team and the accounting and processing team. The company has recently completed the move and is now located in one facility in Calgary.

Cash flows from operations of \$56.8 million closely tracks with earnings of \$55.9 million, both of which are up approximately 41% over the same period in 2005. Cash flows from operations are 48% of revenue for the first half of the year.

Our results to the end of the first half are positive and reflect a company which is growing quickly and managing costs in a dynamic environment. We believe that the second half of the year will result in continued growth and revenue and move to diversify our operations and cost control which will improve income as a percent of revenue. Our trading to date in the third quarter has shown the traditional growth in the third quarter is advancing as anticipated. Revenue for July was \$19.9 million and August was up to \$22.2 million, resulting in revenue for the two months ended of just over \$42 million.

I will now turn the call back to Ron Martin.

Ron Martin: Thanks Eric. Before we turn over to some questions, I just wanted to give you a quick view of H2 from a focus perspective. Continuing on the same headings of the strategy we've talked about for the year, that of 'extend and deepen' are offering on the 'extend' side of the equation we'll be launching the platform into five additional localizations: Swedish, Danish, Polish, Turkish and Portuguese, with a focus on Brazil. We will launch the Swedish Kroner as a currency to be supported on the platform and we will additionally launch a specific solution for Australia, thus bringing the total to twelve localizations for the NETELLER product for the end of the year and pushing our strategy of extending the platform and generating revenue opportunities beyond the North American market place.

On the 'deepen' side, as we've discussed, many programs aimed at acquisition, conversion and retention, the most interesting of which I think is our move from a seven step sign-up process to a two step sign-up process, we called 'simplified sign-up'. This in early days was released in July but has already generated an 8.6% flow through rate of our sign-up process. We expect as we fine tune it, we can continue to improve those results. We'll also be releasing an increased security component on sign-in for members to continually push the limits of the NETELLER security apparatus as it relates to the online environment.

In terms of the merchants, we have released NetDirect 4.1 and expect full release in the fall of a new, advanced API connection between us and our merchants that provides advanced error handling, country blocking and hence reporting for merchants and business intelligence. Our early feedback from our Beta test merchants has been extremely positive and we are accelerating the release of this product as we speak. We've also added the capability, or are going to add the capability for a UK Maestro card and instant payouts, both of which are in high demand.

On program development, we will continue to push our VIP programme to more personalized services and hot transfer from merchants VIP teams to ours. To extend our viral customer acquisition, we will bring into market a "refer-a-friend" program which will provide an engine to facilitate accounts set-up remotely. And we will continue, as always, to push the reliability and stability of the platform as we look to move to a zero down time environment.

On the regulatory front, you know NETELLER is subject to and continuously monitors various regulations and jurisdictions that we operate in, the Company also monitors significant legislative developments pertaining to its primary merchant base comprised of online gaming firms. The Company has internal anti-money laundering and anti-terrorist financing programs to ensure compliance with legislation in the countries in which we are domiciled. NETELLER undertakes rigorous due-diligence process prior to the acceptance of new merchants. The screening process applies information and intelligence from internal and external sources, including regulatory bodies to mitigate risks associated with merchant conduct or solvency.

Before I turn it over for some questions, let me just give you a quick summary and outlook for the quarter, for the year. In summary, NETELLER continues to generate record customer revenue and profit growth and investment in H1 has fuelled growth with focus on customers and merchants through our 'deepen and extend' strategy. We continue to reduce exposure to the North American market place in line with management's expectations of the diversification plan. Current trading outlook: Eric covered the numbers that we've experienced in July and August. Total signed-up customers at the end of August, we're just shy of 3.1 million. 80% of our top 200 merchants are now on the Direct Accept programme. The underlying business remains strong, the share price is subject to considerable sector-specific volatility and headline risk. The Board is confident of significant progress in H2.

I'll now make it available for questions. Let me pro-act on one question that we expect and I think we can save somebody a question; in terms of our available cash from the balance sheet and how we will employ it, NETELLER continues to view the best use of this cash to be strategic acquisitions that facilitate the strategy of the Company, however the Board of Directors continually reviews other alternatives such as additional share buy backs and/or a dividend policy that are in the best interests of shareholders and the long term health of the Company. I will now open it up for questions.

Operator: Thank you. The question and answer session will be conducted electronically. If you would like to ask a question, please press *1 on your telephone keypad. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. We will take questions in the order received and we will take as many as time permits. If you find that your question has been answered you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We will pause for just a moment to allow everyone to signal for questions. Our first question comes from Godfrey Gill with Keel Capital. Please go ahead.

Godfrey Gill: Good morning, guys. A couple of quick questions: one, could you just remind me again your non-US business as a percentage of revenue? And I have a follow-up.

Eric Hughes: We've tended to disclose sort of regions as opposed to country specific - European and ...

Godfrey Gill: North America.

Eric Hughes: And Asia. And they're sort of running at around 15 to 17% and North America of the remainder of which Canada and the US are represented in there. And given that Canada's roughly a 10th the size of the US I'll let you do the math but . . .

Godfrey Gill: Ok, thank you. Next question is: what is it that gives you confidence in the bad debt expense kind of moderating in the back half of the year?

Eric Hughes: A number of programmes that we're bringing to market both on the preventative and collection side of things give us some confidence that the percentages can be mitigated. By preventing them just in the way of process flow is ability to detect especially fraudulent online fraud in real time. We're implementing a couple of software and people solutions to enable us to prevent fraudulent transactions to go through. And on the sort of collection end of things we have software that we're implementing as well as additional staff and basically to go through in collective as well as additional use of third party collection to go after amounts that have gone bad. Those are expected to reduce the bad debt expenses that can happen.

Ron Martin: We took a close look at where we were: where the numbers and the aged ones are coming from and feel we've identified some root causes that we can go after with programmes and focus. And that, combined with in addition what Eric said, the historical rate of growth in the second half tends to moderate the bad debt as a percentage of sales.

Godfrey Gill: Ok. Ok, great. Thank you.

Eric Hughes: Thanks, Godfrey.

Operator: Our next question comes from Nitin Arora with Clear Capital. Please go ahead.

Nitin Arora: Hi there. Just a couple of questions. Firstly, given the need for the recent arrests, have NETELLER staff made any requests to management regarding fee and contractual terms and conditions? And secondly, we know that NETELLER uses three automatic clearing houses in the US to process its payments. Now, have any of these clearing partners in the US raised the subject of Department of Justice intervention in their affairs with you?

Ron Martin: The answer to both questions would be "no".

Nitin Arora: Ok. Ok, thank you.

Operator: As a reminder, ladies and gentlemen, please press *1 to signal for questions. We will pause for just a moment to allow everyone to signal for questions. Gentlemen, as there are no questions in the queue at this time I would like to turn the call back over to you for any closing remarks. Thank you.

Ron Martin: Thank you for your time today and we look forward to reporting our year end results in early '07 and we will take questions from investors over the balance of the year as needed. Thank you very much.

Operator: Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. You may now disconnect.