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PayPoint IPO

PayPoint Plc ("PayPoint" or the "Company"), a leading branded payment collection network, today announces the offer price in connection with the Company's listing on the London Stock Exchange, by way of an institutional Placing, of 192 pence per share.

Summary of the offer:

- Placing of 15,694,809 ordinary shares by selling shareholders, representing 23 per cent of the Company's enlarged and issued share capital and corresponding to a total offer size of £30.1 million. No new ordinary shares are to be offered by the Company.
- Based on the offer price of 192 pence per share and the number of shares in issue of 67,465,794 the market capitalisation of the Company at listing will be approximately £129.5 million.
- Conditional dealings will commence at 8am on 21 September 2004 on the London Stock Exchange. It is expected that the listing will become effective and unconditional dealings will commence at 8am on 24 September under the ticker symbol PAY.
- Cazenove & Co Ltd ("Cazenove") acted as sole financial adviser and Cazenove and Dresdner Kleinwort Wasserstein acted as joint sponsors and bookrunners for the Placing.

Summary of Business:

- PayPoint operates a leading branded payment collection network used primarily for the cash payments of bills and services and prepayments for mobile telephones and energy meters.
- Approximately 14,300 outlets use PayPoint's collection systems. Multiple Retail Agents account for about half of PayPoint's Retail Agency network including selected Co-op, One Stop, Spar, Londis, Costcutter, Texaco and Somerfield outlets or stores.
- For the financial year ended 31st March 2004, PayPoint processed over 204 million payments, with a value of approximately £2.3 billion. This generated operating profit before depreciation and amortisation of £8.1 million on gross revenue of £67.1 million.
- The Board believes PayPoint is the market leader in energy pre-payments and has an increasing share of cash bill payments. In the energy sector, PayPoint provides a cash payment network for all the UK and Ireland's major energy suppliers.
- PayPoint collects cash payments for all of the five major mobile telephone networks in the UK (Vodafone, Orange, O2, T-Mobile and Virgin) and for new

mobile telephone network market entrants such as Tesco Mobile and '3' as well as for all three Irish mobile telephone networks.

- PayPoint also collects cash payments for a number of other types of household bills including water, housing rentals, council tax, television licensing, fixed line telephone, cable television and others.
- The Board believes that over 95 per cent of UK households are situated within one mile in urban areas, or five miles in rural areas, of a PayPoint Retail Agent.
- PayPoint is the retail collection channel for Transport for London's ("TfL") congestion charge scheme handling approximately 30 per cent of all daily Congestion Charge payments.
- PayPoint has recently joined LINK as an independent ATM deployer. PayPoint's ATM service was launched in August 2003 and has grown by on average approximately 50 installed machines per month to 601 as at 31 August 2004.

Board Appointments

- PayPoint has appointed Kenneth Minton, Andrew Robb and Roger Wood as Non-executive Directors and George Earle as Finance Director.

Dominic Taylor, Chief Executive of PayPoint, said:

"The flotation of PayPoint is an exciting milestone for the company, its staff and shareholders. We have created a powerful brand in the field of cash payment collection. As a public company, we believe that we will have an enhanced platform to grow and develop our business further, attract new customers, and retain and motivate the employees at PayPoint."

David Newlands, Chairman of PayPoint, added:

"Since PayPoint began trading in 1996 it has built a business of over 400 clients, 14,300 outlets and over £2 billion of payments collected per year. This has been a very strong performance and I am confident that following the IPO, PayPoint will go from strength to strength."

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High resolution photos are available free of charge to the media from Universal Picture Press on 020 7421 6000 or www.uppa.co.uk

Information on PayPoint

PayPoint operates a leading branded payment collection network used, primarily, for the cash payment of bills and services and prepayments for mobile telephones and energy meters. PayPoint commenced trading in 1996 and initially collected payments through its network of Retail Agents for its founder Client investors, which included British Gas, BT, BBC TV Licensing, London Electricity (now part of EDF) and four water companies. Since then, PayPoint has successfully added to its founder Client base, grown its Retail Agency network, developed new services and now has over 400 Clients.

There are approximately 14,300 outlets using PayPoint's payment collection systems. These include approximately 11,900 Retail Agents with dedicated PayPoint Terminals and 3,000 outlets with EPoS connections to PayPoint systems, of which approximately 600 outlets have both a PayPoint Terminal and EPoS connectivity. For the financial year ended 31 March 2004, the Company processed over 204 million payments, with a value of approximately £2.3 billion.

PayPoint's Clients include many of the UK and Ireland's major energy, cable, mobile and fixed line telephony companies. Its Client list also extends to numerous water companies, local authorities (for rents and council taxes), housing associations and a growing transport and travel base. Clients pay fees for each payment collected.

PayPoint's Retail Agents include convenience stores, newsagents, forecourts, off-licences and supermarkets. Multiple Retail Agents account for about half of PayPoint's Retail Agency network including selected stores with Co-op, One Stop, Spar, Londis, Costcutter, Texaco, Somerfield and many other regional retailers. The balance are stores under private ownership or within smaller independent groups. PayPoint processes, on average, approximately four million Consumer transaction payments per week. PayPoint provides the necessary technology, training and merchandising free of charge to Retail Agents who earn commission for each payment they take. PayPoint has an active database of approximately 10,000 prospective Retail Agents who have either registered interest or applied to become a PayPoint Retail Agent.

The Board believes, based on PayPoint's internal mapping systems, that over 95 per cent of UK households are situated within one mile in urban areas or five miles in rural areas of a PayPoint Retail Agent. MORI research, conducted during September and October 2002, indicated that 97 per cent of PayPoint's Consumers were satisfied with the PayPoint service (which included 79 per cent of Consumers stating they were 'very satisfied'). The service is provided free of charge to the Consumer.

PayPoint has recently joined LINK as an independent ATM Deployer (IAD). PayPoint's ATM service was launched in August 2003 and has grown by, on average, approximately 50 installed machines per month to 601 as at 31 August 2004. Consumers pay a surcharge for each cash withdrawal.

Reasons for the Placing

Although the Placing will not involve the raising of any additional funds for the Group, it will create an open market for the Ordinary Shares and broaden the Company's shareholder base. The Placing will also provide the Company with improved access to capital to take advantage of expansion or development opportunities over and above those currently envisaged in the Board's budgeted plans.

In addition, the Placing will raise the profile of the Group amongst both the media and within the industry in which the Company operates and will heighten PayPoint's ability to retain, attract and incentivise employees through the provision of share ownership.

Strategy

PayPoint aims to continue to grow its profitability, market share and enhance its competitive positioning through generating greater economies of scale from a central infrastructure at a substantially fixed cost. Fundamental to this proposition is that marginal revenue is transaction driven, but that marginal costs are largely driven by Retail Agent numbers. As a result, the strategy focuses on optimising the combination of Retail Agent numbers and transaction volumes. This strategy continues the approach which has delivered success for PayPoint to date.

The key strategic objectives focus on growing the Retail Agent network penetration and geographic footprint; increasing transaction volumes on existing services, improving the range of payments provided by the PayPoint Terminal and enhancing customer convenience. Specifically, PayPoint is focused on:

- selectively extending coverage to prospective Retail Agents and continually optimising the Retail Agent network, facilitated by the use of the New Terminal which is allowing PayPoint to target Agents currently using inferior solutions;
- working with Clients to increase PayPoint's share of their volumes, notably in the light of closures by the Post Office and its diminishing share of benefits' distribution;
- adding new Clients and new transaction generating services in existing and new sectors to increase the range of payments that can be made by Consumers;
- continuing to improve service quality to maintain and extend competitive differentiation by investing in technology solutions; and
- potential expansion into new geographies.

As shown with the introduction of ATMs and the introduction of Congestion Charging, new products and services can be added by PayPoint at a relatively low risk and low marginal cost, but with significant revenue and profit delivery. PayPoint's expansion into Ireland has also demonstrated the Company's ability to expand into new geographies.

Client Base

PayPoint has an impressive penetration of the UK and Ireland's energy, telecoms, mobile, cable, water and transport companies and local authorities. Throughout its

history it has been successful in winning new Clients. PayPoint has over 400 Clients, including major service providers in both the public and private sectors.

PayPoint's five largest Clients, in terms of transaction volumes, are British Gas, Orange, Scottish and Southern Electric, EDF and Vodafone who together represent approximately 52 per cent of the Group's transaction volumes. PayPoint's highest volume bill payment Clients have remained loyal and will have been working with PayPoint for 10 years by the time that their current agreements expire.

The continued retention and expansion of PayPoint's Client base has been important in growing the Company. In the last three years, PayPoint has won several significant new Clients including Scottish and Southern Energy, Virgin Mobile, Thames Water and TfL/Capita. Only two of the largest ten customers were among the eight founding Client investors reflecting PayPoint's success in winning new Clients and the rapid growth in mobile telephony. PayPoint has also been successful in winning further contracts in Ireland including Bord Gais, NTL, Eircom, Vodafone, Meteor and Q₂, as well as in retaining Clients on renewal of existing contracts in the UK. Recent new Client launches have included the recent mobile telephone market entrants, Tesco Mobile and '3'.

Market Overview

According to TGI/BMRB, over 24 million adults in the UK prefer to make payments for their goods and services in cash. The markets which PayPoint addresses include:

- bill and general payment collection which, based on APACS statistics for 2002, the banks' representative body, represent approximately one billion cash payments per annum. The Board believes that PayPoint is the market leader in energy prepayments and has an increasing share of cash bill payments;
- bill and general payments also extends to newer transport schemes. PayPoint is TfL's and Capita's exclusive retail channel for collecting the London Congestion Charge, handling approximately 30 per cent of all daily Congestion Charge payments, so making it the most used payment method. In addition, PayPoint is currently ensuring that its network is enabled to accept transport ticket sales;
- electronic mobile telephone top-ups, which, based on PayPoint data sourced from the Mobile Networks, account for over 300 million transactions per year. The Directors expect this market to continue to grow as remaining paper based top-ups are replaced with electronic versions. Data from the Mobile Networks indicates that PayPoint is the second largest solution provider in this market; and
- the deployment of Independent ATMs, a market that has grown rapidly and for which continued growth is expected. The ATM surcharge market has driven much of the growth in LINK machine numbers in the last three years, accounting for 19,343 of the 51,600 machines installed according to LINK data.

Competitive differentiators

The Board believes that the combination of the following factors sets considerable barriers for PayPoint's competitors:

- an established large scale infrastructure;
- long term contracts with blue chip Clients (many with exclusivity provisions);
- comprehensive national coverage and strong retail partnerships;
- a strong technological offering requiring many man years' development;
- quality service;
- proven settlement and collection systems;
- recognised brand presence; and
- competitive pricing.

Summary financial information

	Year ended 31 March		
	2002	2003	2004
	£m	£m	£m
Gross revenue	23.6	43.8	67.1
ABT deferred revenue release*	<u>2.5</u>	<u>6.5</u>	<u>0.0</u>
	26.1	50.3	67.1
Net Revenue before ABT deferred revenue release**	14.0	21.1	28.6
Operating profit/(loss) before depreciation and amortisation ***	(0.2)	4.0	8.1
Operating profit/(loss)***	(1.4)	2.7	6.1
Profit/(loss) before tax***	(2.4)	1.8	6.0
Net cash flow before financing	(0.1)	1.7	10.9

* ABT deferred revenue relates to income in respect of certain minimum volume contracts. As these contracts expired during 2002 and 2003 contractual amounts paid to the Group, which had not previously been recognised in the profit and loss account, were released from deferred income.

**Net Revenue (as defined) before ABT deferred revenue release is turnover net of the deduction of commissions paid to Retail Agents.

***Before ABT deferred revenue releases of 2002: £2.5million, 2003: £6.5 million, 2004: £41,000.

Net revenue before ABT deferred revenue release has grown significantly over the three year period from increased Consumer usage within existing Client agreements and as new Retail Agent and Client agreements have been signed and new services added. This has resulted in an operating profit increase of approximately 129 per cent (before ABT deferred revenue releases) for the financial year ended 31 March 2004 compared with the financial year ended 31 March 2003.

No taxation was paid during the financial year ended 31 March 2004 due to the availability of tax losses brought forward. As at 31 March 2004, those tax losses amounted to £18.6 million.

Current trading

The Company has experienced a good start to the current financial year with trading demonstrating strong year-on-year growth. Transaction volumes to 31 August 2004 were approximately 29 per cent, ahead of the corresponding period in 2003. Growth has been achieved in mobile telephone top-ups; bills and energy prepayments; and transport ticketing. Since 31 March 2004, Retail Agent numbers with Terminals have increased by approximately 700 and EPOS outlets have increased by approximately 1,200.

In addition, the ATM business continues to be rolled out at the rate of approximately 50 machines a month, with 601 machines installed as at 31 August 2004.

Accordingly, the Directors view the Group's financial and trading prospects for the current financial year with confidence.

Dividend policy

Given the cash generative nature of the Group's business, it is the Board's intention to pursue a progressive dividend policy taking into account the Group's capital requirements, cash flow and earnings whilst maintaining appropriate levels of dividend cover. The Directors anticipate adopting a dividend policy under which initially dividends are covered approximately 2 times by after tax earnings. The Board will regularly assess the appropriateness of the dividend policy.

The Directors do not intend to pay an interim dividend in respect of the half year ending 30 September 2004, but anticipate that a final dividend in respect of the financial year ending 31 March 2005 will be recommended representing two-thirds of a full year's dividend and which will be payable in July 2005. Thereafter, the Directors intend that interim and final dividends in respect of each financial year ending 31 March will be paid in November and July, respectively, in the approximate proportions of one-third and two-thirds of the total annual dividend.

Board Directors

David Newlands, Chairman

David has been Chairman of PayPoint since 1998. He is currently non-executive chairman of Tomkins plc and KESA Electricals plc, deputy chairman of The Standard Life Assurance Company and a director of a number of other companies.

Dominic Taylor, Managing Director

Dominic was a Royal Naval officer for 12 years, leaving as second in command of a submarine, to complete an MBA at the Cranfield School of Management. In 1991 Dominic joined the Vodafone Group where he led a number of initiatives including the development of its SMS service and a bid for the National Lottery, before becoming sales and marketing director for the indirect sales of mobile phones to retailers. In 1996 Dominic joined Granada plc as a director of Granada Technology Group and managing director of Granada Business Technology, supplying film and telecoms products into the hotel and leisure sectors. He joined PayPoint in 1997 as retail director and was appointed managing director in April 1998.

George Earle, ACA, Finance Director

George joined Centrica in 2001 to work as group director, chief executive's office, and in 2003 was appointed as director of financial control responsible for group financial and

management accounting. George joined PayPoint in September 2004 and is responsible for all financial affairs of the Group.

Tim Watkin-Rees, Business Development Director

Tim was a founder Director of PayPoint. Until February 2000, he was sales & marketing director responsible for creating the PayPoint brand and delivering initial sales success. Since then, Tim has been responsible for longer-term strategic opportunities.

David Morrison, Non-executive director

David has been chief executive of Prospect Investment Management since 1998, when he started the company. He became a director of PayPoint in 1999 following an investment in the company by clients of Prospect.

Andrew Robb, Non-executive director

Andrew was group finance director of P&O Steam Navigation Co from 1983. From 1989 to 2001 he was group finance director of Pilkington plc. He is currently non-executive director of Kesa Electricals plc and Corus Group plc.

Kenneth Minton, Non-executive director

Kenneth spent most of his career at Laporte plc and held the position of chief executive officer for ten years. Kenneth is currently non-executive director of Tomkins plc and Solvay SA and executive chairman of 4Imprint Group plc.

Roger Wood, Non-executive director

Roger joined the board of Centrica plc in 1997 following the demerger from British Gas plc, initially as managing director of British Gas Services Limited, and was subsequently appointed managing director of the Automobile Association in 1999 after Centrica's acquisition of the business. Roger is currently a director of Centrica plc and managing director of the AA.

Definitions

The following definitions apply throughout this document, unless the context otherwise requires:

“ABT”	additional billable transactions;
“APACS”	the Association of Payment Clearing Services;
“ATM”	automated Teller Machine (i.e. cash machine);
“Client”	companies and other entities for whom PayPoint collects and/or processes payments;
“Consumer”	members of the general public, who make payments through PayPoint Terminals;
“LINK”	the ATM network operated by LINK Interchange Network Ltd;
“Multiple Retail Agents”	Retail Agents which own or control a number of Agents;

“New Terminal”	the new terminal currently being tested which will replace in due course the PayPoint Terminal;
“Ordinary Shares”	ordinary shares of $\frac{1}{3}$ pence each in the capital of the Company;
“Retail Agent”, “Agent” or “Retail Agency”	Retail outlets and convenience stores with PayPoint Terminals installed on the premises;

Cazenove, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting exclusively for PayPoint as sole financial adviser, joint sponsor and joint bookrunner and for no one else in relation to the offer of ordinary shares in PayPoint (“Shares”) and the Placing. Cazenove will not regard any other person (whether or not a recipient of this announcement) as its client in relation to the Placing and will not be responsible to anyone other than PayPoint for providing the protections afforded to clients of Cazenove or for providing any advice in relation to the Placing, the contents of this announcement or any transaction or arrangement referred to herein.

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This announcement does not comprise listing particulars or a prospectus relating to PayPoint and does not contain or constitute or form part of any offer or invitation, or any solicitation of an offer, for securities and should not be relied on in connection with any contract or commitment whatsoever. Any purchase of securities of PayPoint pursuant to the Placing should be made only on the basis of the information contained in the formal listing particulars and any supplements thereto to be issued in connection with the Placing. The price and value of, and the income from, securities may go down as well as up. Persons needing advice should consult a professional adviser.

This announcement is not an offer of securities for sale in the United States. The Shares have not been and will not be registered under the US Securities Act of 1933, as amended, (the 'Securities Act') and may not be offered or sold in the United States unless registered under the Securities Act or pursuant to an exemption from such registration. No public offering of the Shares is being made in the United States.

This announcement is not an offer of securities for sale in Canada, Japan or Australia. The Shares will not qualify for distribution under any of the relevant securities laws of Canada or Japan nor has any prospectus in relation to the Shares been lodged with the Australian Securities and Investment Commission. Accordingly, absent registration or an

available exemption from such requirements, the Shares may not be offered or sold, directly or indirectly, in or into Canada, Japan or Australia.

The Placing and the distribution of this announcement and the other documents or other information relating to the Placing may be restricted by law in certain jurisdictions.

No action has been taken by PayPoint, Cazenove or Dresdner Kleinwort Wasserstein that would permit the Placing, any offer of the Shares and/or possession or distribution of this announcement or any other offering or publicity material relating to the Placing and/or the Shares in any jurisdiction where action for that purpose is required, other than to certain investors in the United Kingdom. Persons into whose possession any of the documents or other information contained herein comes are required by PayPoint to inform themselves about and to observe any such restrictions.

This announcement may include 'forward-looking statements'. All statements other than statements of historical facts included in this announcement, including, without limitation, those regarding PayPoint's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives relating to PayPoint's products and services) are forward-looking statements.

By their nature, such forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of PayPoint to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These factors include but are not limited to those described in the formal listing particulars to be issued in connection with the Placing.

Information in this announcement or in any of the documents relating to the Placing and/or the Shares cannot be relied upon as a guide to future performance.