

PRESS RELEASE



PayPoint plc
Preliminary results
for the year ended 31 March 2005

	Year ended 31 March	
	2005	2004
Turnover	£89.1m	£67.1m
Net revenue ^{1, 4}	£36.9m	£28.6m
Operating profit before exceptional items ⁴	£12.0m	£6.2m
Operating profit	£7.5m	£6.2m
Adjusted earnings per share ^{2, 4}	15.5p	9.1p
Basic earnings per share	8.7p	9.1p
Proposed dividend per share	5.2p	1.6p

Key highlights:

- Turnover of £89.1 million up 33%
- Transactions processed up 27% to 259 million with strong growth in all sectors
- Net revenues^{1, 4} up 29% with operating margins^{3, 4} increased to 33%
- Operating profit before exceptional items nearly doubled to £12 million
- Adjusted earnings per share^{2, 4} of 15.5p up 70%
- PayPoint terminal outlets have increased to over 13,000 up 15% on March 2004
- 4,700 second generation terminals rolled out to agents

David Newlands, Chairman of PayPoint, said "We are pleased to report strong growth in all sectors, generating improved margins and excellent cash flow. We are confident of continued growth, bringing on new revenue streams and expanding the existing trade in the coming year."

1 Net revenue is turnover net of the deduction of commissions paid to retail agents and the cost of e-vouchers for mobile top-ups where PayPoint is the principal.

2 Adjusted earnings per share are based on profits before exceptional items after taxation.

3 Operating margins are calculated as operating profit before exceptional items as a percentage of net revenue.

4 Net revenue, operating profit before exceptional items (£4.6 million, mainly the costs of the flotation), adjusted earnings per share and operating margins are measures which the directors believe assist with a better understanding of the underlying performance of the Group. The reconciliation to statutory amounts can be found in notes 2 and 6 and on the face of the profit and loss account.

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This announcement is available on the PayPoint plc website: www.paypoint.co.uk.

About PayPoint

PayPoint is a leading branded payment collection network used, primarily, for the cash payment of bills and services and prepayments for mobile telephones and energy meters. There are over 13,000 retail outlets using PayPoint's payment terminals.

PayPoint began trading in 1996 and initially collected payments through its network of retail agents for its founder client investors, who included British Gas, BT, BBC TV Licensing, London Electricity (now part of EDF Energy) and four water companies.

It now has more than 500 clients including many of the UK and Ireland's major energy, cable, mobile and fixed line telephony companies. Its blue chip client list also extends to numerous water companies, local authorities and housing associations and a growing transport and travel base.

Operational and financial review

Growth has been achieved through the success of our strategy to: increase and optimise network coverage; increase throughput per agent; and grow the range of payments through our network.

Operational overview

During the financial year, PayPoint processed 259 million consumer transactions (2004: 205 million) an increase of 27%, with a value of £2.9 billion (2004: £2.3 billion) up 30%. Agent commission charges of £50.3 million were up 33%, reflecting increased volumes and new products carrying higher agent commission, in particular the heavier mix of e-top up and ATM volumes.

There has been strong growth in transaction volumes across all sectors:

Transactions by sector	2005 millions	2004 millions	Increase %
Bill and general payments	166.0	137.6	21
Mobile top-ups	87.9	66.2	33
ATMs	4.6	0.7	593
Total	258.5	204.5	27

Bill and general payments

This sector has benefited from continued transaction volume growth helped by a migration away from the Post Office following its branch closure programme, in particular with respect to TV licence payments, BT and British Gas bill payments. In the case of the latter, gas consumer price increases have also continued to have a beneficial effect on PayPoint's transaction volume. Transport ticketing remains an important area for growth and whilst current volumes are relatively modest, there is considerable potential for long term growth.

Mobile top-ups

Mobile growth has been strong as the migration to electronic top-ups from paper vouchers nears completion, accelerated by the introduction of an e-voucher product by all but one network operator. Once this migration is complete, future growth in mobile volumes is expected to be in line with mobile operators' revenues. Margins have also continued ahead of expectations as a result of a slower migration of volume away from terminals to multiple retailers' own electronic point of sale (EPOS) till systems, which we expect to take place during the current financial year, which will reduce revenue by £1.5 million.

ATMs

The ATM business has performed in line with expectations, with new machines rolling out at an average of 50 new sites per month. Transaction volumes and revenue are in line with expectations for the year as a whole. Our current intention is to continue to roll out ATMs until 2,000 machines have been placed at a total cost of £6 million, which will be recovered, either by the sale or rental of the ATMs, to agents.

Network growth

PayPoint terminal outlets have grown to over 13,000 sites at 31 March 2005 (2004: 11,400) an increase of 15%. Installed ATMs have grown to 957 (31 March 2004: 358).

New terminal

The second generation terminal is proving to be popular with retailers. The new terminal offers much faster processing, better reliability and new functionality through a touch screen and a contactless smartcard reader. These functions help new products, including the new transport ticketing schemes, to be introduced rapidly and efficiently. The new terminal design is also chip and PIN compliant. The replacement of the old terminals commenced in October last year, with some 6,000 new terminals now in operation. It is anticipated that the old terminal estate will have been substantially replaced by the end of the current financial year at a total cost of approximately £6 million.

Financial overview

Turnover for the financial year was £89.1 million (2004: £67.1 million) up 33% driven by a 27% increase in transaction volumes. Cost of sales was £61.3 million (2004: £47.3 million) an increase of 30%. Cost of sales comprises commission paid to agents, depreciation and other items including telecommunications. Agents' commission increased to £50.3 million (2004: £37.7 million) up 33%, slightly ahead of volume growth as a result of the heavier mix of higher agent commission schemes, in particular mobile top-ups and ATM volumes. Depreciation has reduced to £1.8 million (2004: £2.0 million) because the first generation terminal estate has been completely written off and the new terminal deployment will not be completed until the end of the current financial year.

Other costs of sales increased overall, but mainly as a consequence of the growth in the Irish mobile top-up business where PayPoint acts as principal and so the cost of the top-up is included in cost of sales¹. Gross profit improved to £27.7 million (2004: £19.8 million), 40% ahead of last year, with a gross margin of 31% (2004: 29%).

Net revenue of £36.9 million (2004: £28.6 million) was up 29%, driven primarily by volume growth. Operating margins² were 33% (2004: 22%), benefiting from operational gearing and also from a delay in the migration of mobile top-ups, in some of our multiple retailers, from our terminals to the retailers' own till systems.

Operating costs (administrative expenses) before exceptional items have risen to £15.7 million (2004: £13.6 million), an increase of 15%, driven largely by increased marketing expense in rolling out the new point of sale materials to independent retailers and investment in providing retailers with the ability to top-up mobile telephones using their own EPOS systems on PayPoint's network. Operating profit before exceptional charges was £12.0 million (2004: £6.2 million) with a corresponding increase in operating margins² as noted above.

We incurred exceptional costs of £4.6 million of which £4.2 million related to the listing of the Company's shares on The London Stock Exchange and £0.4 million related to bid defence costs.

Profit before tax after exceptional items was £8.1 million (2004: profit before tax £6.0million). The tax charge of £2.2 million results from the partial release of the brought forward deferred tax asset of £3.6 million. The remaining deferred tax asset of £1.4 million relates to capital allowances in excess of depreciation.

Operating cash flow was £17.4 million (2004: £12.5 million), reflecting strong conversion of profit to cash and the impact of the Easter bank holiday weekend at the end of our financial year, which increased cash held for mobile operators to which PayPoint has legal title, but for which an equal amount is included in creditors (client cash).

¹ In Ireland, PayPoint purchases the e-voucher and holds it in stock prior to its sale to the consumer. The full market value of the sale is included in turnover and the cost of the e-voucher and agents' commission is included in cost of sales. This contrasts with the UK where, for mobile top-ups, turnover includes the commission only.

² Operating margins are calculated as operating profit before exceptional items as a percentage of net revenue.

Financial overview continued

Net capital expenditure of £4.2 million (2004: £1.1 million) reflected spend on new terminals, ATMs and infrastructure assets. Net interest received of £0.6 million compared to a net interest paid of £0.1 million in 2004, as a result of the repayment of finance leases and increased net funds in 2005. Equity dividends paid were £0.8 million (2004: £0.3 million). The net financing outflow of £0.9 million was the repayment of leases and compares to a net outflow of £1.5 million last year, being £1.9 million of lease repayments, offset by £0.4 million of new lease finance.

Net funds were £25.7 million including client cash of £11.1 million, up £13.1 million from £12.6 million, including client cash of £4.7 million at 31 March 2004.

Dividend

We propose to pay a final dividend of 5.2 pence per share to shareholders in July, subject to approval of the shareholders at the annual general meeting. The dividend will be payable to shareholders on the register on 24 June 2005. No interim dividend was paid, as stated in the listing particulars.

International Financial Reporting Standards (IFRS)

Under European Union legislation, all listed groups will be required to report under IFRS for accounting periods commencing on or after 1 January 2005. The first annual report for PayPoint under IFRS will be in respect of the year ending 31 March 2006. The interim results for the six months ending 30 September 2005 will also be prepared in accordance with IFRS principles, with all comparative figures being restated as appropriate. As no substantial change is expected to the reported results, other than the reversal of the accrual for dividends payable, we do not currently expect to make a separate announcement concerning the impact of IFRS.

Employees

We would like to take this opportunity to thank PayPoint's staff for their commitment and energy in achieving these results.

Outlook

There are many opportunities to grow the business in the UK and Ireland with good prospects in all markets, in particular through broadening the range of payments across the PayPoint retail network. Retail network growth and optimisation will continue to be priorities and we will review the potential for international expansion. Strong cash generation should continue, although capital expenditure for new terminals and ATMs, the reversal of the exceptional level of client cash, tax and dividend payments will deplete cash balances this year. In the first two months of the current year, trading has started well and we are confident of continuing growth.

David Newlands
Chairman
13 June 2005

Dominic Taylor
Chief Executive

CONSOLIDATED PROFIT & LOSS ACCOUNT

	Note	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Turnover	2	89,054	67,132
Cost of sales	2	(61,332)	(47,331)
Gross profit	2	27,722	19,801
Administrative expenses		(20,257)	(13,629)
Add back exceptional items	3	4,572	-
Administrative expenses excluding exceptional items		(15,685)	(13,629)
Operating profit before exceptional items		12,037	6,172
Exceptional items	3	(4,572)	-
Operating profit		7,465	6,172
Interest receivable and similar income		937	240
Interest payable and similar charges		(339)	(388)
Profit on ordinary activities before taxation		8,063	6,024
Tax charge on profit on ordinary activities	4	(2,215)	(4)
Profit on ordinary activities after taxation		5,848	6,020
Dividend	5	(3,473)	(1,055)
Retained profit for the year	10	2,375	4,965
Earnings per share			
Basic	6	8.7p	9.1p
Diluted	6	8.7p	9.0p
Adjusted basic	6	15.5p	9.1p
Dividend per share	5	5.2p	1.6p

All turnover and operating profit is derived from continuing operations.

There have been no recognised gains and losses attributable to the shareholders other than the profit for the current and preceding financial year, and accordingly no Statement of Total Recognised Gains and Losses is presented.

CONSOLIDATED BALANCE SHEET

	Note	31 March 2005 £000	31 March 2004 £000
Fixed assets			
Tangible assets		4,617	2,217
Current assets			
Stocks		472	32
Debtors: amounts falling due within one year	7	9,137	10,246
Debtors: amounts falling due after more than one year	7	-	375
Debtors		9,137	10,621
Cash at bank and in hand	8	25,950	13,832
		35,559	24,485
Creditors: amounts falling due within one year	9	(26,640)	(15,645)
Net current assets		8,919	8,840
Total assets less current liabilities		13,536	11,057
Creditors: amounts falling due after more than one year	9	(301)	(304)
Net assets		13,235	10,753
Capital and reserves			
Called up share capital	10	226	14,418
Share premium account	10	23,976	23,894
Capital redemption reserve	10	14,193	-
Investment in own shares	10	(1)	(25)
Profit & loss account	10	(25,159)	(27,534)
Total shareholders' funds		13,235	10,753
Shareholders' funds are analysed as:			
Equity interests		13,235	(3,440)
Non-equity interests		-	14,193
		13,235	10,753

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Net cash inflow from operating activities	a	17,371	12,451
Returns on investments and servicing of finance	b	598	(148)
Capital expenditure		(4,168)	(1,127)
		13,801	11,176
Equity dividends paid		(783)	(277)
Net cash inflow before financing		13,018	10,899
Management of liquid resources ~ increase in short term deposits		(3,500)	(6,500)
Financing	b	(900)	(1,467)
Net cash inflow		8,618	2,932

Reconciliation of net cash inflow to movement in cash at bank and in hand

Net cash inflow	8,618	2,932
Increase in short term deposits	3,500	6,500
Increase in cash at bank and in hand	12,118	9,432

NOTES TO THE CASH FLOW STATEMENT**a. Reconciliation of operating profit to net cash inflow from operating activities**

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Operating profit before exceptional items	12,037	6,172
Exceptional items	(4,572)	-
Operating profit	7,465	6,172
Depreciation charge	1,801	2,011
Increase in stocks	(440)	(32)
(Increase)/decrease in debtors	(731)	786
Increase/ (decrease) in creditors - client cash (note 9)	6,371	4,110
- other creditors	2,905	(596)
Net cash inflow from operating activities	17,371	12,451
b. Analysis of cash flows		
Returns on investments and servicing of finance		
Interest received	937	240
Interest paid	(207)	(123)
Interest element of finance lease	(132)	(265)
	(339)	(388)
	598	(148)
Financing		
Increase in asset finance	-	401
Repayment of capital element of finance lease	(900)	(1,868)
	(900)	(1,467)

c. Reconciliation of net cash flow to movement in net funds

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Net cash inflow	8,618	2,932
Cash inflow from management of liquid resources	3,500	6,500
Cash outflow from change in debt and lease financing	900	1,467
Change in net funds resulting from cash flows	13,018	10,899
New finance leases	-	(760)
Debt converted	82	310
Change in net funds	13,100	10,449
Net funds at start of year	12,625	2,176
Net funds at end of year	25,725	12,625

d. Analysis of changes in net funds

	At beginning of year £000	Cash flows £000	Non-cash movements £000	At end of year £000
Cash	7,332	8,618	-	15,950
Short term deposits	6,500	3,500	-	10,000
Cash at bank and in hand	13,832	12,118	-	25,950
Other loans	(82)	-	82	-
Finance leases	(1,125)	900	-	(225)
	12,625	13,018	82	25,725

NOTES TO FINANCIAL STATEMENTS

1 Basis of preparation

- (i) The information set out above does not constitute the Group's statutory accounts for the years ended 31 March 2005 or 2004, but is derived from those accounts. Statutory accounts for 2004 have been delivered to the Registrar of Companies and those for 2005 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s237(2) or (3) of the Companies Act 1985.
- (ii) The accounting policies used for the preparation of the preliminary financial statements are unchanged from those used in the Group's 2004 annual report and financial statements, except that the group has implemented UITF 38 Accounting for ESOP Trusts from 1 April 2004. UITF 38 requires own shares held under trust to be deducted in arriving at shareholders' funds. Previously own shares held under trust were presented as fixed asset investments. Accordingly own shares held under trust at a book value of £25,000 have been reclassified from fixed asset investments to shareholders' funds. The implementation of UITF 38 had no material impact on the Group's previously reported profits and losses. Comparative figures have been restated in the balance sheet and related notes.

2. Segmental reporting, net revenue analysis and gross throughput

(i) Segmental Information

(a) Geographical segments

The Group operates in both the UK and Republic of Ireland but the Group has only one reportable geographical segment as defined in SSAP 25 Segmental Reporting due to the fact that principally all operations and sales occur in the UK.

(b) Classes of business

The Group has one class of business, being cash payment collection and distribution services.

(ii) Analysis of revenues by market

Group turnover comprises the value of sales (excluding VAT) of services in the normal course of business and includes amounts billed to customers to be passed on to retail agents as commission payable. Cost of sales includes the cost to the Group of the sale, including commission to retail agents and the cost of mobile top-ups where PayPoint is the principal in the supply chain.

Revenue performance of the business is measured by net revenue which is calculated as the total turnover from clients less commission payable to retail agents and the cost of mobile top-ups where PayPoint is the principal in the supply chain.

(ii) Analysis of revenues by market continued

Although there is only one class of business, the Group monitors net revenue with reference to each market in which the Group operates as follows:

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Turnover	89,054	67,132
less:		
Commission payable to retail agents	(50,348)	(37,743)
Cost of e-vouchers on mobile top-up sales as principal	(1,810)	(793)
Net revenue	36,896	28,596
Net revenue by market		
Bill and general payments	18,861	15,005
Mobile top-ups	15,286	12,625
ATMs	1,947	307
Other	802	618
Net revenue before deferred revenue release	36,896	28,555
Deferred revenue release	-	41
Net revenue including deferred revenue release	36,896	28,596

(ii) Analysis of revenues by market continued

Commission payable is included within cost of sales as shown below

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Turnover	89,054	67,132
Cost of sales		
Commission payable to retail agents	(50,348)	(37,743)
Cost of e-vouchers on mobile top-up sales as principal	(1,810)	(793)
Other	(9,174)	(8,795)
Total cost of sales	(61,332)	(47,331)
Gross profit	27,722	19,801

(iii) Gross throughput

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Gross throughput	2,931,423	2,269,178

Gross throughput represents payments made by consumers using the PayPoint service and cash withdrawals from ATMs.

Included within gross throughput is £104 million relating to ATM cash withdrawals by customers for the year ended 31 March 2005 (2004 £14.1 million).

3. Exceptional items

Exceptional charges of £4.6 million relate to the listing of Company's shares on The London Stock Exchange (£4.2 million) and bid defence costs (£0.4 million).

4. Tax on profit of ordinary activities

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Analysis of tax charge on ordinary activities		
Deferred tax		
Timing differences origination and reversal	-	(4)
Partial release of deferred tax asset	(2,215)	-
	(2,215)	(4)

5. Dividend

A final dividend of £3,473,000 is proposed (5.2p per share) to be paid on 21 July 2005 to members on the register on 24 June 2005. No interim dividends were proposed. The total dividends in the year ended 31 March 2004 were £1,055,000 (1.6p per share based on the adjusted number of shares after the share split as described in note 10).

6. Earnings per share**(a) Basic and diluted earnings per share**

Basic and diluted earnings per share are calculated on the following profits and number of shares.

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Profit on ordinary activities after taxation (used for basic earnings per share)	5,848	6,020
Potential dilutive impact of interest saved on the conversion of debt	4	35
Diluted basis	5,852	6,055
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue (for basic earnings per share)	67,054,583	65,850,855
Dilutive potential ordinary shares:		
Conversion of convertible debt	30,550	652,979
Long term incentive plan	171,366	-
Exercise of share options	-	496,336
Diluted basis	67,256,499	67,000,170

(a) Basic earnings per share continued

On 13 September 2004, the authorised share capital of 1,455,117,400 ordinary shares of 1p each were sub-divided into 4,365,352,200 ordinary shares of $\frac{1}{3}$ p each. In accordance with Financial Reporting Standard 14 Earnings Per Share, the comparative figures for the numbers of shares used in the earnings have been adjusted retrospectively as if the shares had been denominated at $\frac{1}{3}$ p each.

(b) Adjusted earnings per share

The adjusted earnings per share are calculated on the profit after tax but before exceptional items (see note 3).

This adjusted measure has been presented in order to demonstrate the growth in earnings in the underlying business.

	Year ended 31 March 2005 £000	Year ended 31 March 2004 £000
Earnings used for unadjusted basic earnings per share	5,848	6,020
add: exceptional items	4,572	-
Adjusted basis	10,420	6,020

7. Debtors**Amounts falling due within one year**

	31 March 2005 £000	31 March 2004 £000
Trade debtors	6,519	5,910
Other debtors	782	276
Prepayments and accrued income	451	460
Deferred tax asset	1,385	3,600
	9,137	10,246

Amounts falling due after more than one year

Other debtors	-	375
	-	375

Other debtors comprised a security deposit paid by the Company (now due within one year).

8. Cash at bank and in hand

Included within cash at bank and in hand is £11.1 million (2004: £4.7 million) relating to monies collected on behalf of PayPoint clients where PayPoint has title to the funds (client cash). An equivalent balance is included within trade creditors (note 9). At 31 March 2005 the amount held included five days' collections (one day, two bank holidays and a weekend) rather than three days' collections (one day and a weekend) at 31 March 2004.

9. Creditors

Amounts falling due within one year	31 March 2005 £000	31 March 2004 £000
Amounts owed in respect of client cash (see note 8)	11,099	4,728
Other trade creditors	5,094	3,675
Trade creditors	16,193	8,403
Obligations under finance leases	158	903
Other taxes and social security	708	138
Other creditors	55	515
Accruals	5,823	4,544
Deferred income	230	365
Dividend	3,473	777
	26,640	15,645
Amounts falling due after more than one year		
Obligations under finance leases	67	222
Convertible or redeemable loan stock	-	82
Deferred income	234	-
	301	304

10. Capital and reserves

	31 March 2005 £000	31 March 2004 £000
Authorised share capital		
4,365,352,200 ordinary shares of $\frac{1}{3}$ p each (2004: 244,530,200 ordinary shares including deferred ordinary shares of 1p each)	14,551	2,445
2004: 1,210,587,200 F shares of 1p each	-	12,106
	14,551	14,551
Called up, allotted and fully paid share capital		
67,653,358 ordinary shares of $\frac{1}{3}$ p each (2004: 22,427,499 ordinary shares of 1p each)	226	225
2004: 208,735,620 deferred ordinary shares of 1p each	-	2,087
2004: 1,210,587,111 F shares of 1p each	-	12,106
	226	14,418

Capital Reorganisation

On 23 July 2004 1,210,587,111 F shares of 1p each were converted into and were re-designated as 1,210,587,111 deferred shares of 1p each. As a result of such conversion there are no remaining F shares in the capital of the Company.

On 13 September 2004 1,419,322,731 deferred shares of 1p each were repurchased (for a total sum of 1p for all such deferred shares) and cancelled by the Company in accordance with its Articles of Association. As a result of such repurchase there were no remaining deferred shares in the capital of the Company. This transaction created a capital redemption reserve of £14.2 million.

On 13 September 2004 1,455,117,400 ordinary shares of 1p each were sub-divided into 4,365,352,200 ordinary shares of $\frac{1}{3}$ p each.

10. Capital and reserves continued

	31 March 2005 £000	31 March 2004 £000
Called up share capital		
At start of year	14,418	14,415
Loan stock converted	-	3
Share issued under Share Incentive Plan	1	-
Deferred shares purchased and cancelled	(14,193)	-
At end of year	226	14,418
Share premium		
At start of year	23,894	23,586
Loan stock converted	82	308
At end of year	23,976	23,894
Capital redemption reserve		
At start of year	-	-
Deferred shares purchased and cancelled	14,193	-
At end of year	14,193	-
Investment in own shares		
At start of year as originally stated	-	-
Reclassified (see note 1 (ii))	(25)	(25)
At start of year as restated	(25)	(25)
Issued on exercise of options	25	-
Issued under share incentive plan	(1)	-
At end of year	(1)	(25)
Profit and loss account		
At start of year	(27,534)	(32,499)
Profit for the year	2,375	4,965
At end of year	(25,159)	(27,534)