

## PRESS RELEASE

25 May 2006



**PayPoint plc**  
**Preliminary results**  
**for the year ended 31 March 2006**

**FINANCIAL HIGHLIGHTS**

	Year ended 31 March 2006 £m	Year ended 31 March 2005 £m	Increase %
Revenue	120	89	35
Net revenue <sup>1,4</sup>	46	37	25
Operating profit before exceptional items <sup>4</sup>	19	12	60
Operating profit	19	7	159
Profit before tax	20	8	152
Basic earnings per share	25.0p	8.7p	186
Adjusted earnings per share <sup>2,4</sup>	25.0p	15.5p	61
Proposed final dividend per share	7.5p	5.2p	44

**OPERATIONAL HIGHLIGHTS**

- Transactions processed up 24% to 322 million with strong growth in all sectors
- Increased market share of utility and TV Licensing payments
- Prepaid energy transactions stimulated by cold weather and energy price increases
- Operating margins<sup>3,4</sup> increased from 33% to 42%
- PayPoint terminal outlets have increased to over 15,000, up 17% on March 2005
- New, faster, more reliable terminal rolled out to agents

David Newlands, Chairman of PayPoint, said *"We have had an excellent year. The improvements in our range of products and services, brand awareness and the increase in our network all stimulated revenue growth. Our operational gearing has delivered most of the growth in net revenue to the bottom line. The BBC TV Licence contract awarded to PayPoint in March, marks a major milestone in the Company's development, reinforcing our credibility as a sole provider of a national service. We are securing capacity for future profitable growth by investing in infrastructure including new communications and polling hardware, development of new peripheral information technology systems and the refurbishment and extension of our operating base. We are confident of continuing growth in the current year in which trading has started well."*

- 1 Net revenue is revenue less commissions payable to retail agents and the cost of those 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 operating profit before exceptional items expressed as a percentage of net revenue.
- 4 Net revenue, operating profit before exceptional items, 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 consolidated income statement.

**Enquiries:**

**PayPoint plc**

Dominic Taylor, Chief Executive  
George Earle, Finance Director

**01707 600 300**

**Finsbury**

Rollo Head  
Don Hunter

**020 7251 3801**

This announcement is available on the PayPoint plc website: <http://www.paypoint.com>

**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 15,000 retail outlets using PayPoint's payment terminals.

Its clients include most 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, housing associations, credit unions and a growing transport and travel base.

## BUSINESS REVIEW

The business review has been prepared solely to provide additional information to shareholders as a body to assess PayPoint's strategies and the potential for those strategies to succeed, and it should not be relied upon for any other purpose. It contains forward looking statements that have been made by the directors in good faith based on the information available at the time of the approval of the annual report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

### Operational overview

We have continued to grow in all sectors. This growth has been achieved through the success of our strategy to:

- broaden our customer service proposition and increase the range of payments through our network; and
- grow and optimize our network coverage.

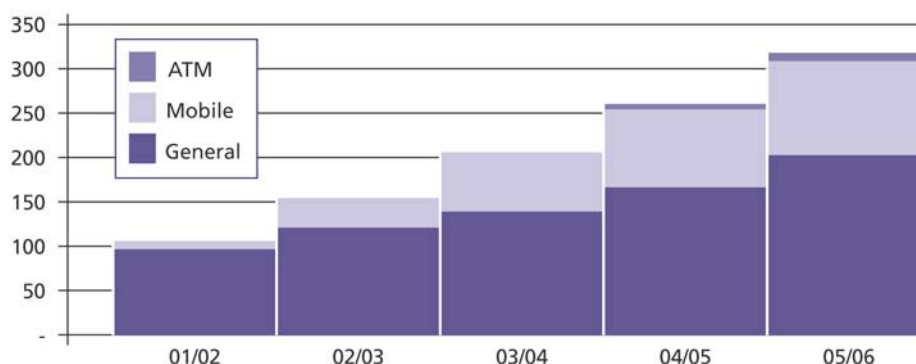
During the financial year, PayPoint processed 322 million consumer transactions (2005: 260 million), an increase of 24%, with a value of £3.8 billion (2005: £2.9 billion), up 29%. Commissions paid to agents of £64 million were up 26%, reflecting increased volumes and the heavier mix of ATM transactions, which carry higher agent commission values.

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

Transactions by sector	2006 million	2005 million	Increase %
Bill and general payments*	205.0	167.3	23
Mobile top-ups	108.2	87.9	23
ATMs	8.9	4.6	93
<b>Total</b>	<b>322.1</b>	<b>259.8</b>	<b>24</b>

\* including debit / credit transactions

Transaction volume (million)



## Bill and general payments

PayPoint has performed well in this sector with growth stimulated by increased agent numbers, client payment options and brand awareness. Performance has been helped by a migration of market share away from the Post Office, following its branch closure programme, in particular with respect to TV licence payments and utility bill payments. A major new contract with TV Licensing will add to transaction volumes.

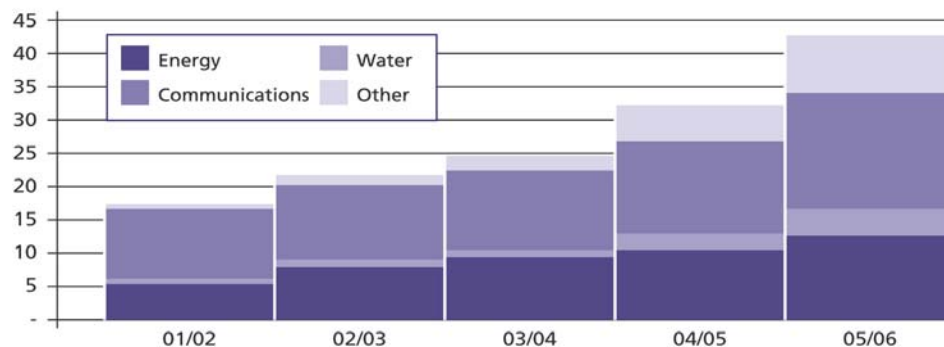
In prepaid energy transactions, the combined effect of colder than average temperatures compared to last year and substantial energy consumer price increases, have also continued to have a beneficial effect on PayPoint's transaction volume, as average transaction values have remained broadly the same.

In transport, we have extended our geographical coverage by signing new contracts with First and Greater Manchester Travelcards, in addition to our existing contracts with Arriva, National Express and Lothian. Whilst current volumes in transport ticketing are relatively modest, there is considerable potential for long term growth if transport authorities take steps to move ticket purchasing off buses. We are also discussing contracts with other operators and transport executives.

A new contract with Western Union will allow PayPoint retail agents to process money transfers to and from Western Union agents all over the world. We are expecting to roll out this service this year to selected agents.

In the rest of the sector (other than prepaid and transport), growth has also been strong, as shown by the chart below.

**Bill payment volume (million)**



## Mobile top-ups

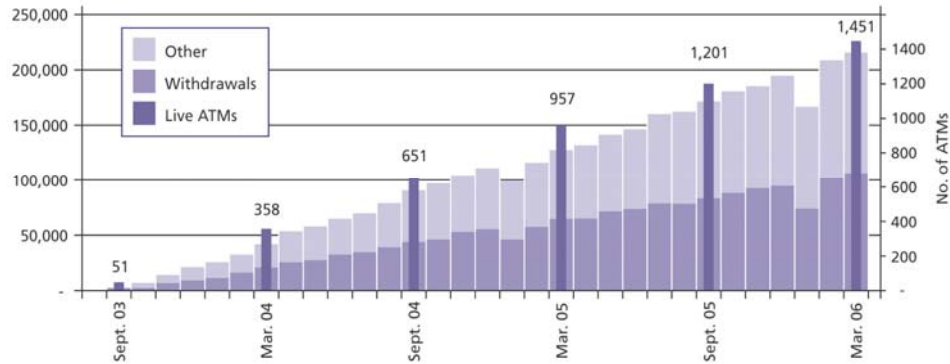
Overall market share is c.27% (last year c.23%) as a result of extending the retail network and the agent re-branding programme through all our independent outlets and over 1,200 of our multiple sites.

Two of our major multiple retailers were expected to transfer mobile top-ups from our terminals to their own till systems during the year, producing lower revenues for PayPoint. One retailer largely completed the transfer in the year. The other retailer is now expected to complete the transfer in the current financial year. The adverse impact on revenues is estimated at £0.5 million in the year under review, rising to a full year impact of £1.5 million when the transfer is completed.

## Automatic Teller Machines (ATMs)

Installations have continued in excess of 50 per month, at a broadly similar rate to the whole of last year. Decommissions have, however, increased over last year because we have taken a more rigorous approach to the removal of poor performers. As a result, the installed estate has performed better than expected, with sites averaging 600 transactions per month, split evenly between cash withdrawals and balance enquiries. Installed ATMs have grown to 1,451 (2005: 957).

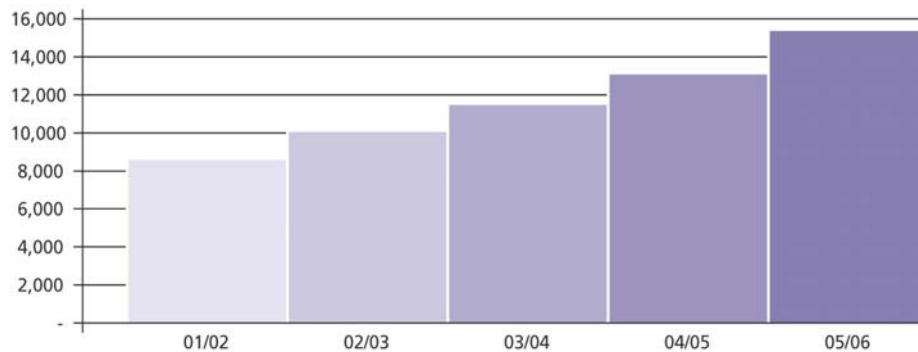
**ATM transactions**  
Average weekly transactions each month



## Network growth

Strong demand for new PayPoint terminal outlets continues and the retail network has grown to 15,296 sites at 31 March 2006, a net increase of nearly 2,200 up 17% on 2005. We have added over 3,200 sites and, in addition to normal churn, we decommissioned poorly performing sites, which were not required to maintain coverage and in which the investment in a new terminal was not worthwhile.

**Sites with terminals**

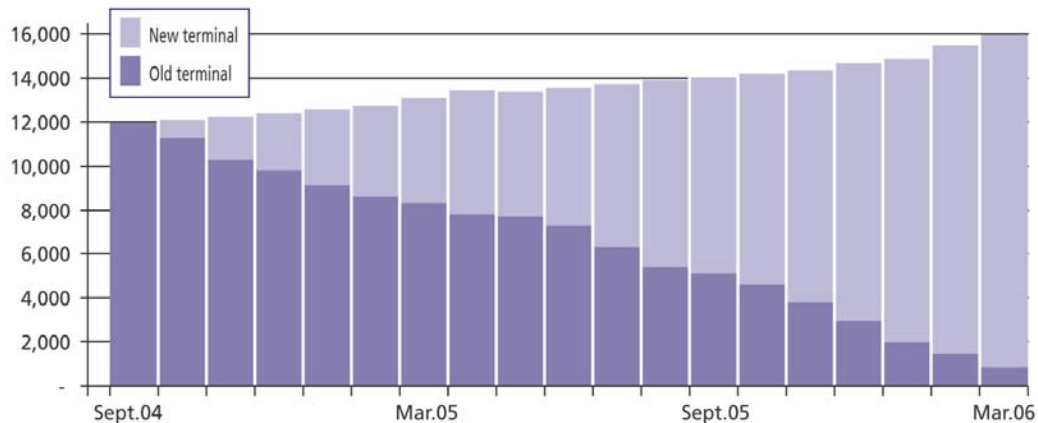


2,300 sites with our terminals also have EPoS connections (2005: 2,000), to allow mobile top-up transactions over the retailers' own till systems and there are a further 2,780 EPoS only sites (2005: 2,880).

## 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 in the introduction of new products, including the new transport ticketing schemes. The new terminal design is also chip and PIN compliant. The replacement of the old terminals, which commenced in October 2004, is now complete.

### New terminal roll out

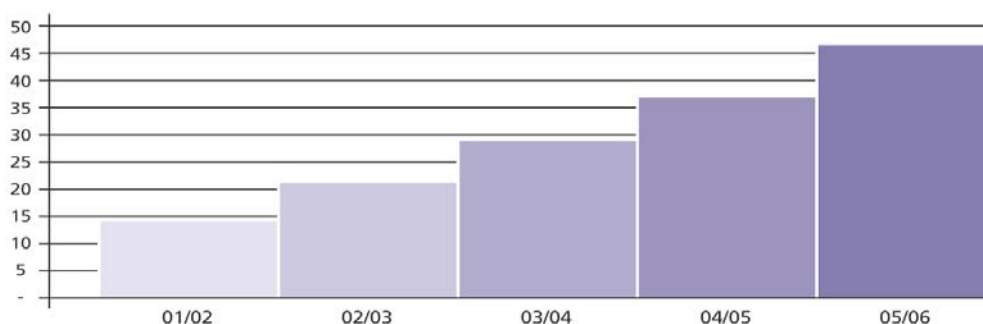


## Financial overview

Revenue for the financial year was up 35% at £120 million (2005: £89 million), driven by a 24% increase in transaction volumes and the increase in revenue from the sale of mobile top-ups in Ireland where PayPoint is the principal. Cost of sales was £83 million (2005: £61 million) an increase of 36%. Cost of sales comprises commission paid to agents, the cost of mobile top-ups where PayPoint acts as principal, depreciation and other items including telecommunications costs. Agents' commission increased to £64 million (2005: £50 million), up 26%, slightly ahead of volume growth as a result of the heavier mix of ATM transactions which carry higher than average agent commissions. The cost of mobile top-ups where PayPoint acts as principal has risen to £10 million, as a result of a more than a fivefold increase in the sale of mobile top-ups in Ireland over the previous year. Depreciation has increased to £2.3 million (2005: £1.8 million) as a result of the new terminal deployment.

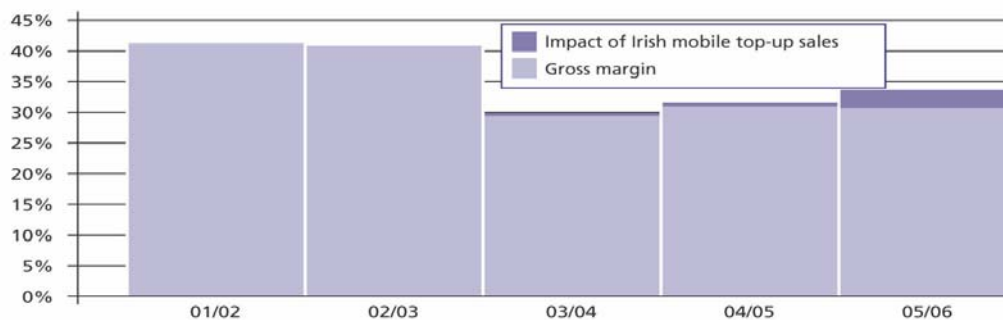
Net revenue<sup>1</sup> of £46 million (2005: £37 million) was up 25%, driven primarily by volume growth. Operating margins<sup>2</sup> were 42% (2005: 33%), benefiting from operational gearing and also from a delay in the migration of mobile top-ups, in two of our multiple retailers, from our terminals to those retailers' own till systems.

### Net revenue (£million)



Gross profit improved to £37 million (2005: £28 million), 33% ahead of last year, with a gross margin of 30% (2005: 31%). Were it not for the inclusion of the full face value of the Irish mobile top-ups in revenue and their costs within cost of sales, the gross margin would have increased by 1.6 percentage points. The effect of this is shown in the chart below.

### Gross margin

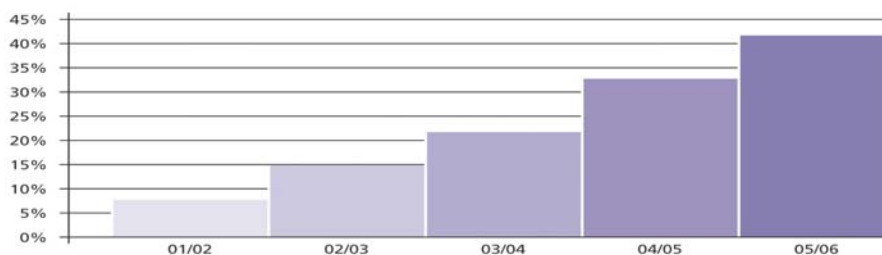


The reduction in gross margin in 03/04 compared to the previous year resulted from the introduction of mobile top-ups which carry higher agent commissions

Operating costs (administrative expenses) before exceptional items have risen to £17 million (2005: £16 million), an increase of 10%, driven by the increase in staff numbers, including the broadening of the senior management team in retail, corporate finance and information technology during the year. Operating profit before exceptional charges was £19 million (2005: £12 million) with a corresponding increase in operating margins<sup>2</sup> as noted above.

- 1 Net revenue is revenue less commissions payable to agents and the cost of those mobile top-ups where PayPoint is the principal.
- 2 Operating margins are calculated as operating profit before exceptional items as a percentage of net revenue.

### Operating margin<sup>1</sup>



Profit before tax was £20 million, up 152% on the previous year (2005: £8 million). The tax charge was £3.4 million, which mainly relates to current tax following the utilisation of the remaining tax losses which arose in previous years. The tax charge is expected to rise towards 30% in the current year.

Operating cash flow was £14 million (2005: £17 million), reflecting strong conversion of profit to cash offset by the adverse impact of £5 million in respect of the cash held over the Easter bank holiday weekend at the end of the previous financial year for mobile operators. PayPoint has legal title to this cash (client cash), but there is an equal amount included in liabilities. Net capital expenditure of £7 million (2005: £5 million) reflected spend on the new terminals, ATMs infrastructure assets and the start of the office refurbishment, which will be completed in the current financial year. Net interest received of £1 million (2005: £0.6 million) is as a result of increased cash balances during the year. Equity dividends paid were £5.5 million (2005: £0.8 million). Cash and cash equivalents were £29 million, including client cash of £5 million, up £3 million from £26 million, including client cash of £11 million, at 31 March 2005.

### Dividend

We recommend a final dividend of 7.5p per share to shareholders, subject to approval of the shareholders at the annual general meeting on 29 June 2006. The dividend will be paid on 3 July to shareholders on the register on 2 June 2006, which, together with the interim dividend of 3p per share paid on 2 January 2006, makes a total of 10.5p per share for the year under review.

### Liquidity

The group has cash of £24 million excluding client cash and an unsecured 5 year loan facility of £35 million.

### Financing and treasury policy

The policy requires a prudent approach to the investment of surplus funds, external financing, settlement, foreign exchange risk and internal control structures. The policy prohibits the use of financial derivatives and sets limits for gearing, cash interest cover and dividend cover.

<sup>1</sup> Operating margins are calculated as operating profit before exceptional items as a percentage of net revenue.

## **International Financial Reporting Standards (IFRS)**

Under European Union legislation all listed groups are required to report under IFRS for accounting periods commencing on or after 1 January 2005. The interim results for the six months ending 30 September 2005 were also prepared in accordance with IFRS principles, with comparative figures being restated as appropriate. There were no substantial changes to the reported results under UK generally accepted accounting principles, other than the reversal of accruals for dividends payable and the reclassification of an accrual for share based payments from liabilities to equity.

## **Charitable donations**

During the year PayPoint provided a scheme to allow the public to make donations to the Disasters Emergency Committee (DEC) for the Asia earthquake appeal through our network of agents at no cost to DEC. Our agents collected £27,000 for the Asia earthquake appeal (2005: £140,500 for the Tsunami) and we would like to thank our agents for accepting these donations at no commission. For the current financial year PayPoint has elected to sponsor a charity for the year and we are pleased to be sponsoring MacMillan Cancer Relief.

## **Employees**

We would like to take this opportunity to thank our staff for their commitment, energy and enthusiasm in achieving their targets that underpin the delivery of these results.

## **Outlook**

There are many opportunities to grow the business in the UK and Ireland with good prospects in all sectors, in particular through broadening the range of payments across the PayPoint retail network. Retail network growth and optimisation will remain priorities and whilst the current focus for international expansion is on Eastern Europe, we will also review other opportunities. Strong cash generation should continue, although capital expenditure on the refurbishment and peripheral information technology systems along with the increased dividends and tax payments will deplete cash balances in the first half of the current year. We are confident of continuing growth in the current year, in which trading has started well.

David Newlands  
Chairman

Dominic Taylor  
Chief Executive

25 May 2006

**CONSOLIDATED INCOME STATEMENT**  
Year ended 31 March 2006

	Note	2006 £000	2005 £000
<b>Revenue</b>	2	<b>119,968</b>	89,054
Cost of sales	2	<b>(83,409)</b>	(61,332)
Gross profit		<b>36,559</b>	27,722
Administrative expenses		<b>(17,248)</b>	(20,257)
Add back exceptional items	3	-	4,572
Administrative expenses excluding exceptional items		<b>(17,248)</b>	(15,685)
Operating profit before exceptional items		<b>19,311</b>	12,037
Exceptional item	3	-	(4,572)
<b>Operating profit</b>		<b>19,311</b>	7,465
Investment income		<b>1,051</b>	937
Finance costs		<b>(15)</b>	(339)
<b>Profit before tax</b>		<b>20,347</b>	8,063
Tax	4	<b>(3,440)</b>	(2,215)
<b>Profit for the financial year attributable to equity holders of the parent</b>		<b>16,907</b>	5,848
<b>Earnings per share</b>			
Basic	6	<b>25.0p</b>	8.7p
Diluted	6	<b>24.7p</b>	8.7p

The results are presented under IFRS and comparatives have been restated accordingly (see note 1).

There have been no gains or losses attributable to the shareholders other than the profit for the current and preceding financial year, and accordingly no Statement of Recognised Income and Expenses is presented.

**CONSOLIDATED BALANCE SHEET**  
**at 31 March 2006**

	Note	2006 £000	2005 £000
<b>Non-current assets</b>			
Property, plant and equipment	7	8,894	4,617
Deferred tax asset	8	1,184	1,385
		<b>10,078</b>	6,002
<b>Current assets</b>			
Inventories		1,119	472
Trade and other receivables		12,112	7,752
Cash and cash equivalents	9	29,295	25,950
		<b>42,526</b>	34,174
<b>Total assets</b>		<b>52,604</b>	40,176
<b>Current liabilities</b>			
Trade and other payables		21,371	22,790
Current tax liabilities		1,972	-
Obligations under finance leases		67	158
		<b>23,410</b>	22,948
<b>Non-current liabilities</b>			
Obligations under finance leases		-	67
Other liabilities		344	234
		<b>344</b>	301
<b>Total liabilities</b>		<b>23,754</b>	23,249
<b>Net assets</b>			
		<b>28,850</b>	16,927
<b>Equity</b>			
Share capital	10	226	226
Share premium account	10	23,976	23,976
Capital redemption reserve	10	14,193	14,193
Investment in own shares	10	(1)	(1)
Share option and SIP reserve	10	738	219
Retained earnings	10	(10,282)	(21,686)
<b>Total equity attributable to equity holders of the parent company</b>	11	<b>28,850</b>	16,927

**CONSOLIDATED CASH FLOW STATEMENT**

Year ended 31 March 2006

	Note	2006 £000	2005 £000
<b>Net cash flow from operating activities</b>	12	<b>14,318</b>	17,164
<b>Investing activities</b>			
Investment income		1,051	937
Purchases of property, plant and equipment		(6,504)	(4,576)
Proceeds on disposal of property, plant and equipment		196	408
<b>Net cash used in investing activities</b>		<b>(5,257)</b>	(3,231)
<b>Financing activities</b>			
Repayments of obligations under finance leases		(213)	(1,032)
Dividends paid	5	(5,503)	(783)
<b>Net cash used in financing activities</b>		<b>(5,716)</b>	(1,815)
<b>Net increase in cash and cash equivalents</b>		<b>3,345</b>	12,118
Cash and cash equivalents at beginning of year		25,950	13,832
Cash and cash equivalents at end of year		29,295	25,950

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting policies

The financial information set out in this press release does not constitute the Company's statutory accounts for the years ended 31 March 2006 or 2005, but is derived from those accounts. Statutory accounts for 2005 have been delivered to the Registrar of Companies and those for 2006 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 s. 237(2) or (3) Companies Act 1985.

This financial information has been prepared on a historical cost basis and on the policies set out below.

#### Basis of preparation

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The Company will publish full financial statements that comply with IFRS in due course.

At the date of authorisation of this financial information, the following Standards and Interpretations which have not been applied in this financial information were in issue but not yet effective:

- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRS 7 Financial Instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Right to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The directors do not anticipate that the adoption of these Standards and Interpretations will have a material impact on the financial statements of the Group.

The financial information is presented in pounds sterling because it is the currency of the primary economic environment in which the Group operates.

Management consider that there are no critical accounting judgements and key sources of estimation uncertainty in applying the Group's accounting policies.

The principal accounting policies adopted are set out below.

#### Basis of consolidation

PayPoint plc (the Company) acts as a holding company. The group accounts consolidate the accounts of the Company and entities controlled by the Company (its subsidiaries) drawn up to March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity in which it invests, so as to obtain benefits from its activities. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The acquisition of subsidiaries is accounted for using the purchase method. Investments are stated at cost less any required provision for impairment. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets that are classified as held for resale in accordance with IFRS 5 Non Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

### **Revenue recognition**

Group revenue is measured at the fair value of the consideration received or receivable and comprises the value of sales (excluding VAT) of services in the normal course of business. Revenue is wholly attributable to the operation of the Group's payment collection system and ATM business and has arisen solely in the United Kingdom and Republic of Ireland.

Revenue and cost of sales are recorded according to the actual transactions that occur in a given period. In Ireland, PayPoint is principal in the supply chain for prepaid mobile telephone top-ups (mobile top-ups). Accordingly, revenue includes the sale price of the mobile top-ups and the cost of sales includes the cost of the mobile top-ups to PayPoint.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

### **Cost of sales**

Cost of sales includes agents' commission, the cost of mobile top-ups where PayPoint acts as principal in their purchase and sale, consumables, communications, maintenance, depreciation and field service costs. All other costs are allocated to administrative costs.

### **Pension costs**

The group makes payments to a number of defined contribution pension schemes. The amounts charged to the profit and loss account in respect of pension costs represent contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

### **Share based payments**

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based upon management's estimate of shares that will eventually vest.

Fair value is measured by use of either a Monte Carlo simulation or Black Scholes model depending upon the scheme. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

### **Interest income**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The provision is calculated using tax rates that have been substantially enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax will be realised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Foreign currency**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. At each balance sheet date, monetary asset and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currency are translated at the rates prevailing at the date when fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the year, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year of disposal of the operation.

### **Software development expenditure**

The Group develops computer software for internal use. Software development expenditure on large projects is recognised as an intangible asset if it is probable that the asset will generate future economic benefits. The costs that are capitalised are the directly attributable costs necessary to create and prepare the asset for operations. Other software costs are recognised in administrative expenses when incurred. Software development costs recognised as an intangible asset are amortised on a straight line basis over the useful life, generally not more than three years.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost, net of depreciation. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its expected useful life. The estimated useful lives are as follows:

- leasehold improvements - over the life of the lease
- terminals - 5 years
- automatic teller machines - 4 years
- other classes of assets - 3 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised as income.

### **Inventories**

Inventories are valued at the lower of cost or net realisable value.

### **Leases**

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as property, plant and equipment and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the remaining balance of liability.

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Rentals received for ATMs from retail agents under operating leases are credited to income on a straight line basis over the lease term.

### **Dividends**

Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Interim dividends are recognised when declared.

### **Treasury shares**

PayPoint purchases own shares for the purpose of employee share option schemes. Such shares are deducted from equity and no profit or loss is recognised on the transactions.

### **Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short-term deposits maturing within 3 months and are subject to insignificant risk of changes in value.

## 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 IAS 14 Segment Reporting due to the fact that principally all operations 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 revenue 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.

Although there is only one class of business, since the risks and returns are similar across markets in which the Group operates, the Group monitors net revenue (see below) with reference to each sector.

	2006 £000	2005 £000
Revenue - transaction processing	118,909	88,518
- lease rental of ATMs	1,059	536
	<b>119,968</b>	89,054
less:		
Commission payable to retail agents	(63,558)	(50,348)
Cost of mobile top-ups as principal	(10,297)	(1,810)
<b>Net revenue</b>	<b>46,113</b>	36,896
Net revenue by market		
Bill payments	21,428	18,861
Mobile top-ups	18,966	15,286
ATMs	4,124	1,947
Other	1,595	802
<b>Net revenue</b>	<b>46,113</b>	36,896

**Commission payable is included within cost of sales as shown below**

	<b>2006</b>	2005
	<b>£000</b>	£000
Revenue	<b>119,968</b>	89,054
Cost of sales		
Commission payable to retail agents	<b>(63,558)</b>	(50,348)
Cost of mobile top-ups as principal	<b>(10,297)</b>	(1,810)
Other	<b>(9,554)</b>	(9,174)
Total cost of sales	<b>(83,409)</b>	(61,332)
Gross profit	<b>36,559</b>	27,722

**(iii) Gross throughput**

	<b>2006</b>	2005
	<b>£000</b>	£000
Gross throughput	<b>3,784,824</b>	2,931,423

Gross throughput represents payments made by consumers using the PayPoint service and cash withdrawals from ATMs. Included within gross throughput is £203,630,000 (2005: £103,924,000) relating to the ATM business

**3. Exceptional items**

There were no exceptional items in the year. Exceptional charges in 2005 of £4.6 million related to the listing of the Company's shares on the London Stock Exchange (£4.2 million) and bid defence costs (£0.4 million).

#### 4. Tax

##### Analysis of tax charge:

	2006 £000	2005 £000
Current	3,239	-
Deferred tax	201	2,215
	<b>3,440</b>	2,215
<b>The charge for the year can be reconciled to the profit before tax as set out in the consolidated income statement</b>		
Profit before tax	20,347	8,063
Tax at the UK Corporation tax rate of 30%	6,104	2,419
Tax effects of:		
Expenses not deductible in determining taxable profit	181	1,046
Capital allowances in excess of depreciation	(55)	1,762
Utilisation of tax losses not previously recognised	(2,392)	(3,012)
Timing differences	(237)	-
Other	(161)	-
Actual amount of tax charge	<b>3,440</b>	2,215

#### 5. Dividends on equity shares

	2006 £000	2005 £000
<b>Equity dividends on ordinary shares</b>		
Interim dividend paid of 3.0p per share (2005: nil)	2,030	-
Recommended final dividend of 7.5p per share (2005: paid 5.2p per share)	5,076	3,473
Total dividends paid and recommended 10.5p per share (2005: 5.2p per share)	<b>7,106</b>	3,473
<b>Amounts recognised as distributed to equity holders in the year</b>		
Final dividend for the prior year	3,473	783
Interim dividend for the current year	2,030	-
	<b>5,503</b>	783

## 6. Earnings per share

### (a) Basic earnings per share

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

	2006 £000	2005 £000
Profit for the purposes of basic earnings per share being net profit attributable to equity holders of the parent (used for basic earnings per share)	16,907	5,848
Potential dilutive impact of interest saved on the conversion of debt (net of tax)	-	4
Earnings for the purposes of diluted earnings per share	16,907	5,852

	2006 Number of shares	2005 Number of shares
Weighted average number of ordinary shares in issue (for basic earnings per share)	67,671,307	67,054,583
Potential dilutive ordinary shares:		
Conversion of convertible debt	-	30,550
Long term incentive plan	733,347	171,366
Deferred share bonus	51,518	-
Diluted basis	68,456,172	67,256,499

### (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.

	2006 £000	2005 £000
Earnings used for unadjusted basic earnings per share	16,907	5,848
add: exceptional item	-	4,572
Adjusted basis	16,907	10,420

## 7. Property, plant and equipment

<b>Group</b>	Terminals and ATMs £000	Fixtures, fittings and equipment £000	Total £000
<b>Cost</b>			
At 1 April 2005	14,254	822	15,076
Additions	6,748	46	6,794
Disposals	(385)	-	(385)
At 31 March 2006	20,617	868	21,485
<b>Accumulated depreciation</b>			
At 1 April 2005	9,747	712	10,459
Charge for the year	2,256	64	2,320
Disposals	(188)	-	(188)
At 31 March 2006	11,815	776	12,591
<b>Net book value</b>			
At 31 March 2006	8,802	92	8,894
At 31 March 2005	4,507	110	4,617

## 8. Deferred tax asset

	2006 £000	2005 £000
<b>Movement on deferred tax asset balance</b>		
Opening balance	1,385	3,600
Charge to income statement	(201)	(2,215)
Deferred tax asset	1,184	1,385
<b>Analysis of deferred tax asset</b>		
Capital allowances in excess of depreciation	947	1,385
Share based payment	237	-
	1,184	1,385

At the balance sheet date:

(i) the Group has unused tax losses of £1,792,000 (2005: £9,765,000) available for offset against future profits. No deferred tax assets have been recognised in respect of these losses due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

(ii) there were timing differences associated with undistributed earnings of subsidiaries for which a deferred tax liability has not been recognised. No liability has been recognised in respect of these differences because the Group is in a position to control their reversal and it is probable that such differences will not reverse in the foreseeable future. In any case the timing differences are not material.

## 9. Cash and cash equivalents

Included within cash and cash equivalents is £5,575,000 (2005: £11,099,000) relating to monies collected on behalf of clients where the Group has title to the funds (client cash). An equivalent balance is included within trade payables.

## 10. Equity

	2006 £000	2005 £000
<b>Authorised share capital</b>		
4,365,352,200 ordinary shares of 1/3p each (2005: 4,365,352,200 ordinary shares of 1/3p each)	14,551	14,551
	<b>14,551</b>	<b>14,551</b>
<b>Called up, allotted and fully paid share capital</b>		
67,678,000 ordinary shares of 1/3p each (2005: 67,653,358 ordinary shares of 1/3p each)	226	226
	<b>226</b>	<b>226</b>
<b>Called up share capital</b>		
At start of year	226	14,418
Shares issued under Share Incentive Plan	-	1
Deferred shares purchased and cancelled	-	(14,193)
At end of year	<b>226</b>	<b>226</b>
<b>Share premium</b>		
At start of year	23,976	23,894
Loan stock converted	-	82
At end of year	<b>23,976</b>	<b>23,976</b>
<b>Capital redemption reserve</b>		
At start of year	14,193	-
Deferred shares purchased and cancelled	-	14,193
At end of year	<b>14,193</b>	<b>14,193</b>
<b>Investment in own shares</b>		
At start of year	(1)	(25)
Share incentive plan issue	-	24
At end of year	<b>(1)</b>	<b>(1)</b>
<b>Share option and SIP reserve</b>		
At start of year	219	-
Movement	519	219
At end of year	<b>738</b>	<b>219</b>
<b>Retained earnings</b>		
At start of year	(21,686)	(26,751)
Profit for the year	16,907	5,848
Dividends paid	(5,503)	(783)
At end of year	<b>(10,282)</b>	<b>(21,686)</b>

**11. Statement of changes in equity**

	2006 £000	2005 £000
Opening equity	16,927	11,536
Profit for the year	16,907	5,848
Dividends paid	(5,503)	(783)
Investment in own shares	-	(1)
Share option and SIP reserve	519	219
Conversion of loan stock/options	-	108
Closing equity	28,850	16,927

**12. Notes to the cash flow statement**

	2006 £000	2005 £000
Operating profit before exceptional items	19,311	12,037
Exceptional items (see note 4)	-	(4,572)
<b>Operating Profit</b>	<b>19,311</b>	<b>7,465</b>
Adjustments for depreciation on property, plant and equipment	2,320	1,801
<b>Operating cash flows before movements in working capital</b>	<b>21,631</b>	<b>9,266</b>
Increase in inventories	(647)	(440)
Increase in receivables	(4,238)	(731)
(Decrease)/increase in payables		
- client cash	(5,524)	6,371
- other payables	4,008	2,686
Increase in share option and SIP reserve	519	219
<b>Cash generated by operations</b>	<b>15,749</b>	<b>17,371</b>
Corporation tax paid	(1,416)	-
Interest paid	(15)	(207)
Net cash from operating activities	14,318	17,164

## Appendix 1. Explanation of transition to IFRS

### Reconciliation of equity at 1 April 2004

	UK GAAP IFRS format £000	Effect of transition to IFRS £000	IFRS £000
<b>Non-current assets</b>			
Property, plant and equipment	2,217	-	2,217
Deferred tax asset	3,600	-	3,600
	5,817	-	5,817
<b>Current assets</b>			
Trade and other receivables	7,021	-	7,021
Inventories	32	-	32
Cash at bank and in hand	13,832	-	13,832
	20,885	-	20,885
<b>Total assets</b>	<b>26,702</b>	<b>-</b>	<b>26,702</b>
<b>Current liabilities</b>			
Trade and other payables	14,742	783	13,959
Obligations under finance leases	903	-	903
	15,645	783	14,862
<b>Non-current liabilities</b>			
Obligations under finance leases	222	-	222
Other liabilities	82	-	82
	304	-	304
<b>Total liabilities</b>	<b>15,949</b>	<b>783</b>	<b>15,166</b>
<b>Net assets</b>	<b>10,753</b>	<b>783</b>	<b>11,536</b>
<b>Capital and reserves</b>			
Called up share capital	14,418	-	14,418
Share premium account	23,894	-	23,894
Capital redemption reserve	-	-	-
Investment in own shares	(25)	-	(25)
Profit and loss account	(27,534)	783	(26,751)
<b>Total shareholders' funds</b>	<b>10,753</b>	<b>783</b>	<b>11,536</b>

The movement between UK GAAP and IFRS relates to the reversal of proposed dividends.

**Appendix 2. Reconciliation of equity at 31 March 2005**

	UK GAAP IFRS format £000	Effect of transition to IFRS £000	IFRS £000
<b>Non-current assets</b>			
Property, plant and equipment	4,617	-	4,617
Deferred tax asset	1,385	-	1,385
	6,002	-	6,002
<b>Current assets</b>			
Trade and other receivables	7,752	-	7,752
Inventories	472	-	472
Cash at bank and in hand	25,950	-	25,950
	34,174	-	34,174
<b>Total assets</b>	<b>40,176</b>	<b>-</b>	<b>40,176</b>
<b>Non-current liabilities</b>			
Obligations under finance leases	67	-	67
Other liabilities	234	-	234
	301	-	301
<b>Current liabilities</b>			
Trade and other payables	26,482	3,692	22,790
Obligations under finance leases	158	-	158
	26,640	3,692	22,948
<b>Total liabilities</b>	<b>26,941</b>	<b>3,692</b>	<b>23,249</b>
<b>Net assets</b>	<b>13,235</b>	<b>3,692</b>	<b>16,927</b>
<b>Capital and reserves</b>			
Called up share capital	226	-	226
Share premium account	23,976	-	23,976
Capital redemption reserve	14,193	-	14,193
Investment in own shares	(1)	-	(1)
Share option and SIP reserve	-	219	219
Profit and loss account	(25,159)	3,473	(21,686)
<b>Total shareholders' funds</b>	<b>13,235</b>	<b>3,692</b>	<b>16,927</b>

The movement between UK GAAP and IFRS relates to the reversal of proposed dividends and the reversal of the UK GAAP accrual for equity settled share based payments and its replacement with the share option and SIP reserve in accordance with IFRS.

There was no effect on the UK GAAP profit for the year ended 31 March 2005 except that dividends payable were shown on the face of the profit and loss account under UK GAAP and therefore no IFRS reconciliations have been prepared.

There were no material differences to the cash flow statement on transition to IFRS.