

## PRESS RELEASE



**PayPoint plc**  
**Interim results**  
**For the six months ended 30 September 2006**

**HIGHLIGHTS**

	<b>6 months ended 30 September 2006 £million</b>	6 months ended 30 September 2005 £million	Increase
Revenue	<b>71.0</b>	54.1	31%
Net revenue <sup>1,3</sup>	<b>25.8</b>	21.3	21%
Operating profit	<b>10.4</b>	8.2	27%
Profit before tax	<b>11.0</b>	8.4	31%
Basic earnings per share	<b>11.3p</b>	10.5p	8%
Interim dividend	<b>4.6p</b>	3.0p	53%

- Consumer transactions processed up 27% at 178 million with strong growth in all sectors
- Operating margins<sup>2,3</sup> increased to 40% from 38%
- PayPoint terminal outlets have increased to over 16,000 up 16% on September 2005 and up 7% on March 2006
- Exclusive TV licensing contract live since August 2006
- Prompted consumer awareness now 60% up from 36% in the previous year<sup>4</sup>

David Newlands, Chairman of PayPoint, said "Transaction volumes have continued to drive strong revenue growth and the operational gearing delivers strong profit growth to the bottom line. PayPoint's investment in new signage and the publicity surrounding the TV Licensing win have improved consumer-prompted brand awareness to 60%, which is driving an increase in market share in all sectors. PayPoint's retail network continues to expand, as do PayPoint's Epos relationships, in which PayPoint connects to the retailers' till systems. Investment in new communication infrastructure and expansion of our operating base in Welwyn Garden City have given us a sound base for future growth.

Our acquisition of Metacharge will enable PayPoint to offer an internet payment solution alongside our physical payment collection network, allowing our clients a more comprehensive payment proposition. We are confident that this acquisition will provide us with further growth opportunities."

- 1 Net revenue is revenue less commissions paid to retail agents and the cost of e-vouchers for mobile top-ups where PayPoint is the principal
- 2 Operating margins are operating profit as a percentage of net revenue
- 3 Net revenue and operating margins are measures which the directors believe assist with a better understanding of the underlying performance of the group. The reconciliation of net revenue to statutory amounts can be found in note 2
- 4 BMRB Omnibus survey October 2006

## BUSINESS REVIEW

We continue to grow in all sectors particularly bill and general payments with the introduction of the exclusive TV licence contract.

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.

### Operational overview

In the first six months of the financial year, PayPoint processed 178 million transactions, with a value of £2.3 billion (2005: 140 million transactions with a value of £1.6 billion), an increase of 27% in transactions and 41% in value. TV licence payments and an increase in the average transaction value for gas and electricity, following rises in domestic prices, have contributed to an increase in the average transaction value to over £12. Commissions paid to retail agents were £35.9 million, up 23%.

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

	<b>6 months ended 30 September 2006 million</b>	6 months ended 30 September 2005 million	Increase %	Year ended 31 March 2006 million
Bill and general payments*	<b>109.2</b>	84.6	29	205.0
Mobile top-ups	<b>63.2</b>	51.7	22	108.2
ATMs	<b>6.1</b>	4.0	53	8.9
<b>Total</b>	<b>178.5</b>	140.3	27	322.1

\*Includes debit/credit transactions

### Bill and general payments

This sector has benefited from continued transaction volume growth, helped by winning an exclusive contract with TV Licensing. Energy consumer price increases have also continued to have a beneficial effect on PayPoint's transaction volume, mitigated by an increase in the average value of payments. Whilst current volumes in transport ticketing are relatively modest, there is potential for long term growth. We have continued to sign contracts with regional transport companies. We are on track to have five hundred retail agents with the Western Union service operational by the end of the current financial year.

### Mobile top-ups

Overall market share is c.28% (March 2006: c.27%) as a result of extending the retail network and our agent re-branding programme through all our independent outlets and over 1,200 of our multiple sites. The re-branding has contributed to an improvement in prompted brand awareness of 24ppts year on year to 60%<sup>1</sup>.

1 BMRB Omnibus survey October 2006

## ATMs

New machines continue to be rolled out, albeit at a slower than planned rate (average net increase of 34 per month). The quality of the installed estate has been maintained and average transaction volume and revenue are better than expected, with sites averaging 640 transactions per month split between cash withdrawals and balance enquiries, with the latter representing slightly more than half the transactions. Installed ATMs have grown to 1,655, an increase of 204 since the last year end.

## Network growth

Strong demand continues for the new PayPoint terminal and the retail network has grown to 16,325 sites, a net increase of 1,029 on the year end.

2,461 sites (2005: 2,000) with our terminals also have Epos connections, to allow mobile top-up transactions over the retailers' own till systems and there are a further 3,740 Epos only sites (2005: 2,880).

## Financial overview

Revenue for the first six months was £71.0 million (2005: £54.1 million), up 31% driven by a 27% increase in transaction volumes, and the increase in Irish mobile volumes<sup>1</sup> the revenue from which has risen to £9.4 million (2005: £3.8 million). Cost of sales was £50.7 million (2005: £37.4 million), an increase of 36%. Cost of sales comprises commission paid to agents, the cost of mobile top-ups where PayPoint is principal, depreciation and other items including telecommunications. Agents' commission increased by 23% to £35.9 million (2005: £29.1 million).

Depreciation has increased to £1.7 million (2005: £1.0 million) now that the new terminal has been rolled out. Gross profit improved to £20.3 million (2005: £16.7 million), 21% ahead of the same period last year, with a gross margin of 29% (2005: 31%). Eliminating the impact of acting as principal in Irish top-up sales would have resulted in the gross margin reducing marginally from 33.2% in the first six months of last year to 32.9% this year.

Net revenue<sup>2</sup> of £25.8 million (2005: £21.3 million) was up 21%, driven primarily by volume growth. Operating margins<sup>3</sup> were 40% (2005: 38%), benefiting from operational gearing and also from a delay in the migration of mobile top-ups, in one of our multiple retailers, from our terminals to the retailer's own till systems.

- 1 In Ireland, PayPoint is principal in the sale of mobile top-ups and accordingly the face value of the top-up is included in sales and the corresponding costs in cost of sales
- 2 Net revenue is revenue less commissions paid to retail agents and the cost of e-vouchers for mobile top-ups where PayPoint is the principal
- 3 Operating margins are operating profit as a percentage of net revenue<sup>2</sup>

## Financial overview (continued)

Operating costs (administrative expenses) have risen to £10.0 million as expected (2005: £8.5 million), an increase of 16%, driven largely by the increase in leased space at our operations base in Welwyn Garden City, merger and acquisition activity and the expansion of the senior management team.

Operating profit was £10.4 million (2005: £8.2 million), up 27% with a corresponding increase in operating margins<sup>1</sup>.

Profit before tax was £11.0 million (2005: £8.4 million), up 31%. The tax charge was £3.3 million (2005: £1.3 million) and the effective tax rate was 30% (2005: 16%).

Operating cash flow was £12.1 million including £0.8 million of client cash<sup>3</sup> (2005: £3.2 million after an outflow of £6.9 million in respect of client cash<sup>3</sup>), reflecting strong conversion of profit to cash. Capital expenditure of £5.6 million (2005: £3.2 million) reflected spend on new terminals, ATMs and infrastructure assets including the refurbishment of our operations base at Welwyn Garden City. Net interest received was £0.7 million (2005: £0.3 million) and equity dividends paid were £5.1 million (2005: £3.5 million).

## Dividend

We propose to pay an interim dividend on 21 December of 4.6p per share (2005: 3.0p) to shareholders on the register at 24 November.

## Outlook

There remains ample opportunity to grow revenue organically in the UK and Ireland by increasing our market share in bill and general payments, mobile top-ups and ATMs. We will also continue our focus in developing our new markets, transport and money transfer (via Western Union), to drive transaction volumes in the longer term. We are on track to exceed our target of 17,000 terminal locations by the end of this financial year.

The acquisition of Metacharge offers substantial prospects for future growth by extending our payment universe from cash into the internet and using this as a platform to broaden our payment capability further.

David Newlands  
Chairman  
15 November 2006

Dominic Taylor  
Chief Executive

1 Operating margins are operating profit as a percentage of net revenue<sup>2</sup>

2 Net revenue is revenue less commissions paid to retail agents and the cost of e-vouchers for mobile top-ups where PayPoint is the principal

3 Client cash is cash held on behalf of clients where PayPoint has title to the funds. An equivalent balance is included within trade payables

**CONSOLIDATED INCOME STATEMENT**

		<b>Unaudited 6 months ended 30 September 2006 £000</b>	Unaudited 6 months ended 30 September 2005 £000	Audited year ended 31 March 2006 £000
<b>Continuing operations</b>	Note			
<b>Revenue</b>	2	<b>70,974</b>	54,113	119,968
Cost of sales	2	<b>(50,661)</b>	(37,374)	(83,409)
Gross profit	2	<b>20,313</b>	16,739	36,559
Administrative expenses		<b>(9,950)</b>	(8,552)	(17,248)
<b>Operating profit</b>		<b>10,363</b>	8,187	19,311
Investment income		<b>691</b>	288	1,051
Finance costs		<b>(38)</b>	(34)	(15)
Profit before tax		<b>11,016</b>	8,441	20,347
Tax	3	<b>(3,341)</b>	(1,315)	(3,440)
<b>Profit for the period</b>		<b>7,675</b>	7,126	16,907
Earnings per share				
Basic	5	<b>11.3p</b>	10.5p	25.0p
Diluted	5	<b>11.2p</b>	10.4p	24.7p

There have been no gains or losses for the current or comparative periods other than those reported in the income statement

## CONSOLIDATED BALANCE SHEET

		Unaudited 30 September 2006	Unaudited 30 September 2005	Audited 31 March 2006
	Note	£000	£000	£000
<b>Non-current assets</b>				
Property, plant and equipment		13,383	6,685	8,894
Deferred tax asset		1,174	1,331	1,184
		<b>14,557</b>	8,016	10,078
<b>Current assets</b>				
Inventories		908	673	1,119
Trade and other receivables		12,238	7,427	12,112
Cash and cash equivalents	6	31,456	22,760	29,295
		<b>44,602</b>	30,860	42,526
<b>Total assets</b>		<b>59,159</b>	38,876	52,604
<b>Current liabilities</b>				
Trade and other payables		23,581	16,659	21,371
Current tax liabilities		3,361	1,261	1,972
Obligations under finance leases		-	138	67
		<b>26,942</b>	18,058	23,410
<b>Non-current liabilities</b>				
Other liabilities		396	-	344
		<b>396</b>	-	344
<b>Total liabilities</b>		<b>27,338</b>	18,058	23,754
<b>Net assets</b>		<b>31,821</b>	20,818	28,850
<b>Equity</b>				
Share capital	7	226	226	226
Share premium account		23,976	23,976	23,976
Capital redemption reserve		14,193	14,193	14,193
Investment in own shares		(1)	(1)	(1)
Share option and SIP reserve	7	1,110	457	738
Retained earnings	7	(7,683)	(18,033)	(10,282)
<b>Total equity attributable to equity holders of the parent</b>	<b>8</b>	<b>31,821</b>	20,818	28,850

## CONSOLIDATED CASH FLOW STATEMENT

		Unaudited 6 months ended 30 September 2006 £000	Unaudited 6 months ended 30 September 2005 £000	Audited Year ended 31 March 2006 £000
	Note			
<b>Net cash from operating activities</b>	9	<b>12,109</b>	3,195	14,318
<b>Investing activities</b>				
Interest received		739	288	1,051
Purchase of property, plant and equipment		(5,645)	(3,224)	(6,504)
Proceeds from disposal of property, plant and equipment		101	111	196
<b>Net cash used in investing activities</b>		<b>(4,805)</b>	(2,825)	(5,257)
<b>Financing activities</b>				
Repayments of obligations under finance leases		(67)	(87)	(213)
Dividends paid		(5,076)	(3,473)	(5,503)
<b>Net cash used in financing activities</b>		<b>(5,143)</b>	(3,560)	(5,716)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,161</b>	(3,190)	3,345
<b>Cash and cash equivalents at beginning of period</b>		<b>29,295</b>	25,950	25,950
<b>Cash and cash equivalents at end of period</b>		<b>31,456</b>	22,760	29,295

## NOTES TO ACCOUNTS

### 1. Accounting policies

These financial statements have been prepared on a historical cost basis and on the policies set out below.

#### Basis of preparation

The financial information contained in this report is unaudited, but has been formally reviewed by the auditors and their report to the Company is set out on page 13. The information shown for the year ended 31 March 2006, which is prepared under IFRS, does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. The report of the auditors on the statutory accounts for the year ended 31 March 2006, prepared under IFRS, was unqualified and did not contain a statement under section 237 of the Companies Act 1985 and has been filed with the Registrar of Companies.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

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

IFRS 7 Financial Instruments: Disclosures; and the related amendment to  
IAS 1 on capital disclosures  
IFRIC 8 Scope of IFRS 2  
IFRIC 9 Reassessment of Embedded Derivatives  
IFRIC 10 Interim Financial Reporting and Impairment

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 statements are presented in pounds sterling because it is the currency of the primary economic environment in which the Group operates. The directors consider that there are no critical accounting judgements and key sources of estimation uncertainty in applying the Group's accounting policies.

### 2. Revenue by sector, net revenue analysis and gross throughput

#### (i) Analysis of revenues by sector

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 onto 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 sectors in which the Group operates, the Group monitors net revenue (see below) with reference to each sector.

	<b>6 months ended 30 September 2006 £000</b>	6 months ended 30 September 2005 £000	Year ended 31 March 2006 £000
Revenue - transaction processing	<b>70,304</b>	53,564	118,909
- lease rental of ATMs	<b>670</b>	549	1,059
	<b>70,974</b>	54,113	119,968
less:			
Commission payable to retail agents	<b>(35,886)</b>	(29,073)	(63,558)
Cost of mobile top-ups as principal	<b>(9,255)</b>	(3,709)	(10,297)
<b>Net revenue</b>	<b>25,833</b>	21,331	46,113
<b>Net revenue by sector</b>			
Bill payments	<b>11,399</b>	9,248	21,428
Mobile top-ups	<b>10,741</b>	9,413	18,966
ATMs	<b>2,730</b>	1,850	4,124
Other	<b>963</b>	820	1,595
<b>Net revenue</b>	<b>25,833</b>	21,331	46,113

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

	<b>6 months ended 30 September 2006 £000</b>	6 months ended 30 September 2005 £000	Year ended 31 March 2006 £000
Revenue	<b>70,974</b>	54,113	119,968
<b>Cost of sales</b>			
Commission payable to retail agents	<b>(35,886)</b>	(29,073)	(63,558)
Cost of mobile top-ups as principal	<b>(9,255)</b>	(3,709)	(10,297)
Other	<b>(5,520)</b>	(4,592)	(9,554)
Total cost of sales	<b>(50,661)</b>	(37,374)	(83,409)
Gross profit	<b>20,313</b>	16,739	36,559
<b>(ii) Gross throughput</b>			
	<b>6 months ended 30 September 2006 £000</b>	6 months ended 30 September 2005 £000	Year ended 31 March 2006 £000
Gross throughput	<b>2,303,610</b>	1,635,102	3,784,824

Gross throughput represents payments made by consumers using the PayPoint service and cash withdrawals from ATMs. Included within gross throughput is £144 million to 30 September 2006 (2005: £92.5 million) relating to the ATM business.

### 3. Tax on profit of ordinary activities

	<b>6 months ended 30 September 2006 £000</b>	6 months ended 30 September 2005 £000	Year ended 31 March 2006 £000
Current tax	3,331	1,261	3,239
Deferred tax	10	54	201
<b>Total</b>	<b>3,341</b>	1,315	3,440

### 4. Dividend

The declared interim dividend is 4.6p (2005: 3.0p). The total dividends in respect of the year ended 31 March 2006 were £7.1 million (10.5p per share).

The interim dividend was declared on 15 November 2006 and accordingly has not been recorded as a liability as at 30 September 2006.

### 5. Earnings per share

(a) Basic and diluted earnings per share

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

	<b>6 months ended 30 September 2006 £000</b>	6 months ended 30 September 2005 £000	Year ended 31 March 2006 £000
Profit for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	7,675	7,126	16,907
Earnings for the purposes of diluted earnings per share	7,675	7,126	16,907
	<b>Number of shares</b>	Number of shares	Number of shares
Weighted average number of shares (for basic earnings per share)	67,678,074	67,665,908	67,671,307
Potential dilutive ordinary shares:			
Deferred share bonus	65,397	-	51,518
Long term incentive plan	887,737	624,118	733,347
<b>Diluted basis</b>	<b>68,631,208</b>	68,290,026	68,456,172

## 6. Cash and cash equivalents

Included within cash and cash equivalents is £6.4 million (September 2005: £4.6 million, March 2006: £5.6 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 payables.

## 7. Share capital, share option and SIP reserve and retained earnings

	30 September 2006 £000	30 September 2005 £000	31 March 2006 £000
<b>Authorised share capital</b>			
4,365,352,200 ordinary shares of $\frac{1}{3}$ p each	14,551	14,551	14,551
<b>Called up, allotted and fully paid share capital</b>			
67,678,283 ordinary shares of $\frac{1}{3}$ p each	226	226	226
<b>Share option and SIP reserve</b>			
At start of period	738	219	219
Additions	372	238	519
At end of period	1,110	457	738
<b>Retained earnings</b>			
At start of period	(10,282)	(21,686)	(21,686)
Profit for the period	7,675	7,126	16,907
Dividends paid	(5,076)	(3,473)	(5,503)
At end of period	(7,683)	(18,033)	(10,282)

## 8. Statement of changes in equity

	<b>6 months ended 30 September 2006 £000</b>	6 months ended 30 September 2005 £000	Year ended 31 March 2006 £000
Opening equity	28,850	16,927	16,927
Profit for the period	7,675	7,126	16,907
Dividends paid	(5,076)	(3,473)	(5,503)
Share option and SIP reserve	372	238	519
<b>Closing equity</b>	<b>31,821</b>	<b>20,818</b>	<b>28,850</b>

## 9. Notes to the cash flow statement

	<b>6 months ended 30 September 2006 £000</b>	6 months ended 30 September 2005 £000	Year ended 31 March 2006 £000
Operating profit	10,363	8,187	19,311
Adjustments for:			
Depreciation	1,691	1,047	2,320
Loss on disposal of property, plant and equipment	67	-	-
<b>Operating cash flows before movements in working capital</b>	<b>12,121</b>	<b>9,234</b>	<b>21,631</b>
Decrease/(increase) in inventories	211	(201)	(647)
Increase in receivables	(126)	(1,072)	(4,238)
Increase/(decrease) in payables			
- client cash	780	(6,942)	(5,524)
- other payables	611	1,947	4,008
Increase in share option and SIP reserve	372	238	519
<b>Cash generated by operations</b>	<b>13,969</b>	<b>3,204</b>	<b>15,749</b>
Corporation tax paid	(1,822)	-	(1,416)
Interest and commitment fees paid	(38)	(9)	(15)
<b>Net cash from operating activities</b>	<b>12,109</b>	<b>3,195</b>	<b>14,318</b>

## **INDEPENDENT REVIEW REPORT TO PayPoint plc**

### **Introduction**

We have been instructed by the Company to review the financial information for the six months ended 30 September 2006 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 9. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

### **Directors' responsibilities**

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### **Review work performed**

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (United Kingdom and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### **Review conclusion**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2006.

Deloitte & Touche LLP  
Chartered Accountants  
London  
15 November 2006

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

## DIRECTORS & KEY CONTACTS

### Directors

George Earle (Finance Director)  
Kenneth Minton\*  
David Morrison\*  
David Newlands\* (Chairman)  
Andrew Robb\*  
Dominic Taylor (Chief Executive)  
Tim Watkin-Rees (Business Development Director)  
Roger Wood\*

\* non-executive directors

### Registrars

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This announcement is available on the PayPoint plc website: [www.paypoint.co.uk](http://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 16,000 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.

Clients include many of the UK and Ireland's major energy, cable, mobile and fixed line telephony companies. PayPoint's blue chip client list also extends to numerous water companies, local authorities and housing associations and a growing transport and travel base.