

PayPoint plc
Preliminary results
Period ended 29 March 2009

	52 weeks ended 29 March 2009 £m	53 weeks ended 30 March 2008 £m	Like-for-like ³ increase
Revenue	224	212	7%
Net revenue ¹	77	70	13%
Operating profit	33	29	20%
Profit before tax	35	30	19%
Basic earnings per share	35.6p	31.1p	14%
Proposed final dividend per share	11.6p	10.4p	12%

OPERATIONAL HIGHLIGHTS

- Revenue and operating profit growth driven by an 8% increase in transaction volumes (10% on a like-for-like basis³)
- Operating margin² 43% against 42% last year
- UK and Ireland network expanded by 11% to 21,990 terminal sites
- Bill payment service launched in Romania
- Romanian terminal sites increased to over 5,700 including 2,000 fully branded PayPoint sites
- PayCash launched allowing internet customers to pay in cash
- Announced Collect+ parcel delivery and collection joint venture with Home Delivery Network
- Consumer satisfaction⁴ 98% (84% very satisfied)

Enquiries

PayPoint plc

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A presentation for analysts is being held at 11.30 am today at Finsbury, Tenter House, Moorfields, London, EC2.

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

1. Net revenue is revenue less commissions paid to retail agents, the cost of mobile top-ups where PayPoint is the principal and acquiring bank charges. Net revenue is a measure which the directors believe provides a better understanding of the underlying performance of the group. The reconciliation of net revenue to revenue can be found in note 2.

2. Operating margin is calculated as operating profit as a percentage of net revenue

3. Like-for-like basis adjusts the comparative period to 52 weeks and excludes Collect+.

4. Source: Ipsos MORI

CHAIRMAN'S STATEMENT

David Newlands, Chairman of PayPoint, said "In 2009, PayPoint continued to grow and was strongly cash generative. Revenue, margins, profits and dividends increased. Plans announced this time last year to increase the UK terminal estate were exceeded. New terminals have continued to be rolled out in Romania, primarily for our bill payment service, launched in August 2008 and for which we now have 14 clients contracted. In February 2009, we announced a joint venture with Home Delivery Network, leveraging our existing retail network, to provide consumers with a more convenient solution for parcel delivery and collection. This demonstrates the adaptability of our retail network to provide new services.

For the current financial year, trading since the period end is in line with the company's expectations.

We expect further growth in the UK by increasing market share in bill and general payments, mobile top-ups, and ATMs. We plan to add a further 1,500 terminals during the course of the current financial year, to continue to capitalise on these opportunities.

In Romania, we plan to install a further 900 PayPoint terminals. These will complement the existing terminal base and provide further national coverage for our bill payment network. We expect losses in Romania in the first half of the year but the business should be trading profitably by the end of the financial year

PayPoint.net, which is trading profitably, should see growth accelerate in the latter part of the year, as sales leads are converted into live merchants and PayCash starts to become more widely accepted.

Collect+, our parcels joint venture, will require investment during the year to brand the network, install electronic signature pads, develop the billing platform and market the service. Whilst the prospects for this new business are excellent, it is anticipated that it will be loss-making this year.

Cash generation should remain strong, although the decline in interest rates in the second half of last year to their current historically low levels is likely to reduce severely interest income in the current year.

We are confident that further opportunities remain for future growth through market share gains, new initiatives and new products."

BUSINESS REVIEW

The business review has been prepared solely to provide additional information to shareholders as a body to assess PayPoint's strategies and their potential 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 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 forecast.

Our key performance indicators are shown on page 8.

Operational overview

The period under review had 52 weeks of trading compared to 53 weeks in the previous period. We have continued to grow, particularly in bill and general and internet payments. 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 optimise our network coverage.

During the period, PayPoint processed 545 million transactions (2008: 503 million), an increase of 8% (10% on a like-for-like¹ basis), with a value of £8.9 billion (2008: £7.5 billion), up 18%, driving revenue of £224 million (2008: £212 million). The gross profit margin of 28.5% is up on last year by 1.8ppts (2008: 26.7%) and the operating margin² has also increased by 1ppt. Commissions paid to agents of £84 million (2008: £83 million) increased slightly, reflecting fewer mobile top-up transactions which pay a higher rate of commission.

There has been strong growth in transaction volumes across most sectors with the exception of online where, for mobile top-ups in all territories, there has been a decrease in the market. Mobile operators are offering more value per top-up to consumers contributing to fewer transactions.

	52 weeks 2009 million	53 weeks 2008 million	Increase %	Like-for-like¹ Increase %
Transactions by sector				
Bill and general payments ^(a)	351	311	13	15
Online ^(b)	143	151	(6)	(4)
ATMs	15	15	-	2
Internet payments	36	26	34	36
Total ^(c)	545	503	8	10

(a) Including debit/credit transactions

(b) Online consists mainly of mobile top-ups but also includes prepay debit cards, e-money schemes and international calling cards

(c) Included in the total is 17 million international bill and general payments and mobile top-ups, for Ireland and Romania (2008: 19 million)

Bill and general payments

PayPoint continues to perform well in its largest sector, bill and general payments, with growth stimulated by increased agent numbers, client payment options, brand awareness and migration of market share away from the Post Office, helped by its branch closure programme.

Prepaid energy volumes have increased over the prior period despite there being one less week. Transaction volumes have increased as a result of substantial rises in domestic gas and electricity prices, partially offset by moderate price reductions since January 2009. The coldest winter for a number of years also had a beneficial impact on volumes in the second half of the year.

PayPoint has continued to achieve growth in the rest of the bill and general payments sector, which includes water payments, energy bill payments, BBC TV licensing, transport ticketing and housing and council payments.

Net revenue for bill and general payments of £34.4 million (2008: £30.6 million) increased 12% on the prior period, reflecting higher transaction volumes.

1. Like-for-like basis adjusts the comparative period to 52 weeks and excludes Collect+

2. Operating margin is calculated as operating profit as a percentage of net revenue

Online products including mobile top-ups

This sector contains mobile top-ups in the UK, Ireland and Romania as well as other online products, including international calling cards, e-currency, and pre-pay debit cards.

The mobile sector in the UK, Romania and Ireland has seen a reduction in transaction volumes as consumers reduce their spending and networks offer consumers more airtime for their money.

Our UK mobile transaction volumes are down 4% on a like-for-like basis¹. This decrease is lower than the market decrease as we have installed over 2,000 new terminal sites.

Romanian mobile top-ups have decreased 2% on last year, lower than the contraction in the overall market size as we have continued to roll out new terminals and gain market share.

In Ireland, the promotion of internet top-ups has exacerbated the volume reduction through market decline.

There has been strong growth in e-currency transactions, where we processed over 2 million transactions (2008: 1 million). Higher margins on e-currency transactions have resulted in an increase in online net revenue to £25.7 million (2008: £25.2 million), up 2%.

Automatic Teller Machines (ATMs)

New machines have been rolled out at an average rate of 35 per month (2008: 39 per month). The installed base of ATMs has grown to 2,249 at the year end (2008: 2,016). Lower churn has resulted in an increase in net installations to 19 per month (2008: 13). The number of transactions processed by self-fill Independent ATM Deployers (IAD's) increased by 1% compared to the same period last year. PayPoint's average transactions per site have decreased to 565 per month (2008: 620).

PayPoint.net – online payments

PayPoint.net is trading profitably and has added a net 352 merchants in the period. Merchant numbers at the end of the year were 5,160 (2008: 4,808). Transaction volumes were up 34% and consumer spend up 36%. Net revenues have increased to £8.1 million (2008: £4.9 million), up 63%.

Our PayCash product launched in November 2008, allowing internet merchants' customers to pay for goods with cash at a PayPoint retailer, is attracting considerable interest.

The growth in the business has been mitigated by the impact of the migration of large merchants from the bureau business, where PayPoint.net takes a higher return for retaining the merchant credit risk, to PayPoint.net's gateway business, where the risk is transferred to the acquiring bank, with consequentially lower returns. The two remaining merchants will complete this transfer in the current financial period.

The key to sustaining future growth is competitive differentiation which PayPoint.net will seek to achieve through the promotion of PayCash, Collect+ (PayPoint's new parcel service), PayPoint.net's added value fraud screening products, and PayPal offering as well as the complementary product sets of the rest of the PayPoint group. A number of new initiatives are in development and these will not only bring additional revenue but provide further differentiation.

Collect+ parcels

On 5 February 2009, PayPoint announced a 50:50 joint venture with Home Delivery Network, a leading logistics and parcel network company, to provide consumers with a more convenient solution for parcel delivery and collection, by leveraging our retail network of agents as parcel drop-off and collection points.

At the end of the period, we had 1,250 parcel sites within our existing retailer base. Initial volumes are encouraging and we plan to have c.4,000 sites live by the end of this year.

1. Like-for-like basis adjusts the comparative period to 52 weeks and excludes Collect+

PayPoint Romania

We completed the transfer of transaction processing to our operations centre in the UK, which has allowed us to offer, for the first time, mobile top-ups for Cosmote, the third largest mobile operator in Romania.

Bill payment was launched in August 2008, initially with four clients, including the national telecoms provider Romtelecom and Distrigaz, one of the two leading gas suppliers. We now have 14 clients contracted and 2,000 PayPoint bill payment branded terminals installed. Bill pay volumes are growing and we have already processed over 1 million bill payment transactions since going live. Our current run rate is c.50,000 transactions per week.

Overall, our terminal network has grown to 5,702 sites (2008: 4,017 sites).

The delay in initiating processing from the UK, along with the launch of bill payments, arose from technical difficulties, which have now been resolved. These factors, together with the impact of the recession on mobile top-up volumes, have adversely affected the results in the period under review.

Network growth

Terminal sites have increased to 27,692 (2008: 23,895).

The retail network in the UK and Ireland has grown to 21,990 terminal sites against our target of 21,400, an increase of 11% on last year. Terminals in Romania have increased by 1,685 since last year as we start to build the PayPoint full service infrastructure for a national bill payment network.

A total of 3,285 sites (2008: 2,833) that are already equipped with our terminals also have EPoS connections, to allow mobile top-up transactions over the retailers' own till systems.

Analysis of sites	29 March 2009	30 March 2008	Increase %
UK & Ireland			
Terminal only	18,705	17,045	10
Terminal and EPoS	3,285	2,833	16
	21,990	19,878	11
PayPoint Romania			
Terminal	5,702	4,017	42
Total terminal sites	27,692	23,895	16
ATM sites	2,249	2,016	12
Internet merchants	5,160	4,808	7

New service initiatives

PayPoint has continued to introduce new services to stimulate transaction growth in both cash and new economy payments. We are well placed to benefit from the expected increases in transaction volumes in the electronic money sector from services such as gift cards, prepay debit cards, saving schemes, e-currencies, stored value cards and money transfer. We are established as the premier convenience loading channel for cash onto both prepay and stored value cards.

The launch of the Collect+ joint venture shows our ability to adapt our current terminal network to offer new products.

Financial review

Revenue for the financial year was 7% higher on a like-for-like¹ basis at £224 million (2008: £212 million), driven by a 10% like-for-like¹ increase in transaction volumes and the increase in revenue from the sale of mobile top-ups² in Romania. Cost of sales was £160 million (2008: £156 million) an increase of 5% on a like-for-like¹ basis. Cost of sales comprises commission paid to agents, the cost of mobile top-ups in Ireland and Romania where PayPoint is principal, depreciation and other items including telecommunications costs. Agents' commission increased to £84 million (2008: £83 million), mitigated by the impact of an extra week in the prior year and fewer mobile top-up transactions which pay a higher than average commission. The cost of mobile top-ups in Ireland and Romania has risen to £59 million (2008: £55 million).

Net revenue³ of £77.4million (2008: £69.9 million) was up 13%, on a like-for-like¹ basis, driven primarily by volume growth. Operating margin⁴ increased to 43% (2008: 42%). The increase in margin is primarily as a result of our operational gearing.

Gross margin, excluding the cost of Irish and Romanian mobile top-ups² improved to 38.6% (2008: 36.1%).

Operating costs (administrative expenses) have risen to £30.5 million (2008: £27.4 million), an increase of 11% but include the operating loss of Collect+ which amounted to £0.3 million, and an increase of £2.8 million in the operating costs of PayPoint.net and PayPoint Romania.

Profit before tax was £35 million (2008: £30 million), an increase of 14%. The tax charge of £10.8 million (2008: £9.4 million) represents an effective rate of 31% (2008: 31%). The tax charge is higher than the UK nominal rate of 28% because of unrelieved losses in Romania and a deferred tax charge arising from the reduction in tax relief for share based payment schemes as a consequence of the reduction in the company's share price on 29 March 2009 to £3.75 (2008: £5.65).

Operating cash flow was £33 million (2008: £30 million), reflecting strong conversion of profit to cash. Capital expenditure of £9 million (2008: £6 million) reflected the purchase of the freehold of the company's operations base at Welwyn for £6 million (saving rental costs of £0.6 million per annum), spend on new terminals, ATMs and expenditure on infrastructure assets required to combine the two internet payment providers. The company purchased £2.5 million of its own shares during the year to satisfy the second tranche of the Long Term Incentive Plan. Net interest received was £1.2 million (2008: £1.3 million).

Equity dividends paid were £11.1 million (2008: £9.7 million).

Cash and cash equivalents were £36.3 million (including client cash of £7.5 million), up from £27.7 million (including client cash of £8.0 million) last year.

Economic profit

PayPoint's economic profit (operating profit less tax and capital charge) was £19.5 million (2008: £16.7 million). Operating profit was £33.4 million (2008: £29.2million), tax was £10.8 million (2008: £9.4 million), and the capital charge was £3.1 million (2008: £3.1 million).

Dividend

We propose to pay a final dividend of 11.6p per share on 10 July 2009 (2008: 10.4p) to shareholders on the register on 12 June 2009, subject to the approval of the shareholders at the annual general meeting. An interim dividend of 6.0p (2008: 5.3p) per share was paid on 22 December 2008 making a total dividend for the year of 17.6p (2008: 15.7p).

1. Like-for-like basis adjusts the comparative period to 52 weeks and excludes Collect+.

2. In Ireland and Romania, 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

3. Net revenue is revenue less commissions paid to retail agents and the cost of mobile top-ups where PayPoint is the principal and acquiring bank charges

4. Operating margin is operating profit as a percentage of net revenue

Liquidity and going concern

The group has cash of £36 million, no debt and an unsecured loan facility of £35 million with a remaining term of over two years. Cash and borrowing capacity is adequate to meet the foreseeable needs of the group taking account of any risks (see page 9). The financial statements have therefore been prepared on a going concern basis.

Economic climate

The company's bill and general payments sector, which accounts for 44% of our net revenue, continues to be robust in recession as consumers' discretion in expenditure is limited for essential services. Utility providers continue to install new prepay gas and electric meters, which will have a beneficial impact on our transaction volumes. The internet payment market continues to grow although it is now forecast to do so at lower rates. There has been an adverse impact on our mobile top-ups and in ATM cash withdrawal rates.

PayPoint's exposure to retailer bad debt is limited as most of the group's clients in the UK, other than mobile operators, bear the risk of retailer bad debt. Credit granted to retailers is restricted by daily direct debiting for all UK and Irish transactions via a terminal and weekly for EPoS mobile top-ups. In Romania the risk of the bad debt lies with PayPoint Romania. In PayPoint.net, exposure is limited to receivables from merchants for fees, except in the case of bureau internet merchants, where PayPoint.net retains credit risk on merchant default for charge backs. This risk is mitigated to some extent, by withholding settlement of funds to merchants.

Outlook

For the current financial year, trading since the period end is in line with the company's expectations.

We expect further growth in the UK by increasing market share in bill and general payments, mobile top-ups, and ATMs. We plan to add a further 1,500 terminals during the course of the current financial year, to continue to capitalise on these opportunities.

In Romania, we plan to install a further 900 PayPoint terminals. These will complement the existing terminal base and provide further national coverage for our bill payment network. We expect losses in Romania in the first half of the year but the business should be trading profitably by the end of the financial year.

PayPoint.net, which is trading profitably, should see growth accelerate in the latter part of the year, as sales leads are converted into live merchants and PayCash starts to become more widely accepted.

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Cash generation should remain strong, although the decline in interest rates in the second half of last year to their current historically low levels is likely to reduce severely interest income in the current year.

We are confident that further opportunities remain for future growth through market share gains, new initiatives and new products.

David Newlands
Chairman

Dominic Taylor
Chief Executive

28 May 2009

KEY PERFORMANCE INDICATORS (KPIs)

In order to realise its strategic aims, PayPoint has identified areas of strategic focus and has put in place a number of KPIs to measure progress against them. Whilst these KPIs are helpful in measuring the group's performance, they are not exhaustive and the group uses many other additional measures to monitor progress.

Strategic focus	KPI	Measuring our performance Description	2009	2008
Shareholder return	Earnings per share (basic)	Profit after tax attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period	35.6p	31.1p
	Dividends per share	Proposed final dividend and interim paid dividend divided by called up, allotted and fully paid share capital at the end of the period	17.6p	15.7p
	Economic profit	Operating profit after tax and a charge for capital employed based upon the group's cost of capital	£19.5 million	£16.7 million
Growth	Terminal sites in the UK, Ireland and Romania	Number of live terminal sites at the end of the period	27,692	23,895
	Internet merchants	Number of live internet merchants at the end of the period	5,160	4,808
	ATMs deployed	Number of ATMs deployed at the end of the period	2,249	2,016
	Transactions in the UK, Ireland and Romania	Number of transactions processed in the period via terminal, retailer EPoS systems and sale of scratch cards	494 million	462 million
	Internet transactions	Number of transactions processed in the period by PayPoint.net	36 million	26 million
	ATM transactions	Number of ATM transactions processed in the period	15 million	15 million
	Throughput	The value of transactions processed via our terminals, retailer EPoS systems, internet merchants, ATMs and sale of scratch cards	£8.9 billion	£7.5 billion
	Net revenue	Revenue less: commissions paid to retail agents; the cost of mobile top-ups where PayPoint is principal; and acquiring bank charges	£77 million	£70 million
	Operating margin	Operating profit as a % of net revenue	43%	42%
Asset Optimisation	Return on capital employed	Total operating profit for the period divided by monthly average capital employed excluding cash	115%	95%
People	Labour turnover	Number of permanent employees who left as a % of average total permanent employees		
		UK & Ireland	23%	24%
		Romania	56%	51%
	Gender diversity	% of women	42%	47%
		% women managers employed by the group at the period end	7%	6%

RISKS

PayPoint's business, financial condition or operations could be materially and adversely affected by the risks summarised below. Although management takes steps to mitigate risks where possible or where the cost of doing so is reasonable in relation to the probability and seriousness of the risk, it may not be possible to avoid the materialisation of some or all of such risks.

Risk	Future prospects depend on our ability to:
Managing growth of the business	manage growth through the employment of adequate skilled resources, whilst maintaining financial controls
Major contract loss or renewal at unattractive margins	renew contracts at expiry on attractive terms
Dependence on key executives	retain and recruit key staff through a mixture of basic salary, plus short and long-term incentive schemes
Failure of systems	maintain financial controls, defend against natural disasters, terrorist attacks, sabotage, and hacking
Competition	hold and gain market share
Insolvency of a major multiple retail agent	mitigate the consequences of insolvency both in terms of the bad debt risk and the impact of any such insolvency on our network coverage
Technological changes	keep pace with technological changes and introduce new developments to compete effectively
Reliance on intellectual property	stop third parties from using our products and defend the use of our products from any challenge
The need to raise capital in future	access any future capital on sufficiently attractive terms, particularly in view of prevailing economic conditions and the availability of credit
Economic, political, legislative, taxation or regulatory changes	to deal with the impact of any changes without affecting the growth or profitability of the business
Taxation	ensure the impact of any adverse changes is mitigated by enhanced performance
Fraudulent or criminal activity	avoid loss of client money by the rigorous application of controls
Consumers reduce number or value of payments via the PayPoint network	establish new products and services and keep abreast of technological and market changes

CONSOLIDATED INCOME STATEMENT

Continuing operations	Note	52 weeks ended 29 March 2009	53 weeks ended 30 March 2008
		£000	£000
Revenue	2	224,351	212,145
Cost of sales	2	(160,496)	(155,591)
Gross profit		63,855	56,554
Administrative expenses		(30,494)	(27,354)
Operating profit		33,361	29,200
Investment income		1,275	1,262
Finance costs		(34)	(58)
Profit before tax		34,602	30,404
Tax	3	(10,818)	(9,424)
Profit for the financial period attributable to equity holders of the parent	10	23,784	20,980
Earnings per share			
Basic	5	35.6p	31.1p
Diluted	5	35.3p	30.8p

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	52 weeks ended 29 March 2009	53 weeks ended 30 March 2008
		£000	£000
Exchange differences on translation of foreign operations	10	190	318
Net income recognised directly in equity		190	318
Profit for the period		23,784	20,980
Total recognised income and expenses for the period		23,974	21,298

CONSOLIDATED BALANCE SHEET

	Note	29 March 2009	30 March 2008
		£000	£000
Non current assets			
Goodwill	6	27,628	27,428
Other intangible assets		1,973	2,742
Property, plant and equipment		16,161	13,114
Investment in joint venture	7	177	-
Deferred tax asset	8	1,128	1,571
Investment	12	375	375
		47,442	45,230
Current assets			
Inventories		1,213	1,250
Trade and other receivables		26,260	28,285
Cash and cash equivalents	9	36,345	27,727
		63,818	57,262
Total assets		111,260	102,492
Current liabilities			
Trade and other payables		40,853	45,275
Current tax liabilities		9,153	7,226
Obligations under finance leases		9	70
		50,015	52,571
Non-current liabilities			
Other liabilities		278	334
		278	334
Total liabilities		50,293	52,905
Net assets		60,967	49,587
Equity			
Share capital	10	226	226
Investment in own shares	10	(926)	(935)
Share Premium	10	25	-
Share based payment reserve	10	2,489	2,281
Translation reserve	10	508	318
Retained earnings	10	58,645	47,697
Total equity attributable to equity holders of the parent company	11	60,967	49,587

These financial statements were approved by the board of directors on 28 May 2009.

Signed on behalf of the board of directors

D Taylor

CONSOLIDATED CASH FLOW STATEMENT

		52 weeks ended 29 March 2009	53 weeks ended 30 March 2008
	Note	£000	£000
Net cash flow from operating activities	14	32,619	29,618
Investing activities			
Investment income		1,192	1,252
Purchases of property, plant and equipment		(9,158)	(5,519)
Proceeds from disposal of property, plant and equipment		40	110
Acquisition of subsidiaries	13	(2,108)	(8,227)
Investment	7 & 12	(500)	(375)
Purchase of own shares	12	(2,489)	(3,467)
Net cash used in investing activities		(13,023)	(16,226)
Financing activities			
Repayments of obligations under finance leases		(61)	(246)
Dividends paid		(11,077)	(9,738)
Net cash used in financing activities		(11,138)	(9,984)
Net increase in cash and cash equivalents		8,458	3,408
Cash and cash equivalents at beginning of period		27,727	24,324
Effect of foreign exchange rate changes		160	(5)
Cash and cash equivalents at end of period		36,345	27,727

NOTES TO THE FINANCIAL INFORMATION

1. Accounting policies

While 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 expects to publish full financial statements that comply with IFRS in due course.

The financial information set out above does not constitute the company's statutory accounts for the periods ended 29 March 2009 and 30 March 2008 but is derived from those accounts. Statutory accounts for the period ended 30 March 2008 have been delivered to the Registrar of Companies and those for the period ended 29 March 2009 will be delivered following the company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The financial information complies with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), and with the accounting policies of the group which were set out on pages 40 to 44 of the 2008 annual report and accounts. No subsequent material changes have been made to the group's accounting policies.

2. Segmental reporting, net revenue analysis, gross throughput and cost of sales

(i) Segmental information

(a) Geographical segments

The group operates in the UK, the Republic of Ireland and Romania but the group has only one reportable geographical segment as defined in International Accounting Standard 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 payment collection and distribution services.

(ii) Analysis of net revenues by sector, gross throughput and cost of sales

Revenue comprises the value of sales (excluding VAT) of services in the normal course of business and includes amounts billed to clients to be passed on to retail agents as commission payable, the face value of mobile top-ups where PayPoint acts as principal and for PayPoint.net bureau sales, it includes acquiring bank charges, which are amounts billed to merchants that are passed onto the sponsoring bank. 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.

Sales revenue performance of the business is measured by net revenue, which is calculated as the total revenue from clients less: commission payable to retail agents; the cost of mobile top-ups where PayPoint is the principal in the supply chain; and acquiring bank charges.

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.

Gross throughput represents payments made by consumers using the PayPoint service for bill and general payments, online transactions, cash withdrawals from ATMs and the value of transactions via the internet.

2. Segmental reporting, net revenue analysis, gross throughput and cost of sales (continued)

	52 weeks ended 29 March 2009 £000	53 weeks ended 30 March 2008 £000
Gross throughput		
Terminals, retailer EPoS systems and sale of scratch cards	6,783,614	5,931,224
ATM	343,238	328,237
Internet	1,754,285	1,286,887
Total	8,881,137	7,546,348

Net revenue

Revenue – transaction processing	222,693	210,528
– lease rental of ATMs	1,658	1,617
	224,351	212,145

less:

Commission payable to retail agents	(83,891)	(83,439)
Cost of mobile top-ups as principal	(59,317)	(55,468)
Acquiring bank charges	(3,745)	(3,378)
Net revenue	77,398	69,860

Bill and general payments	34,388	30,652
Online ¹	25,692	25,153
ATMs	6,641	6,561
Internet payments	8,053	4,927
Other	2,624	2,567
Net revenue	77,398	69,860

UK	73,877	66,507
International ²	3,521	3,353
Net revenue	77,398	69,860

Cost of sales

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

Cost of sales		
Commission payable to retail agents	83,891	83,439
Cost of mobile top-ups as principal	59,317	55,468
Acquiring bank charges	3,745	3,378
Depreciation and amortisation	5,698	5,719
Other	7,845	7,587
Total cost of sales	160,496	155,591

1 Online consists mainly of mobile top-ups but also includes prepay debit cards, e-money schemes and international calling cards.

2 International consists of bill and general payment and mobile top-up revenue from Ireland and Romania.

3. Tax

	52 weeks ended 29 March 2009 £000	53 weeks ended 30 March 2008 £000
Current tax		
Charge for current period	10,503	9,511
Adjustment in respect of prior periods	(148)	(88)
Current tax charge	10,355	9,423
Deferred tax		
Charge for current period	(94)	29
Impact on changes in statutory tax rates	-	(28)
Adjustment in respect of prior periods	557	-
Deferred tax charge	463	1
Total income tax		
Income tax charge	10,818	9,424

The income tax charge is based on the effective United Kingdom statutory rate of corporation tax for the period of 28% (2008: 30%).

The charge for the year can be reconciled to the profit before tax as set out in the consolidated income statement

Profit before tax	34,602	30,404
Tax at the UK Corporation tax rate of 28% (2008: 30%)	9,689	9,121
Tax effects of:		
Profit in countries where the tax rate is different to the UK	313	47
Disallowable expenses	54	359
Utilisation of tax losses not previously recognised	(379)	(103)
Losses in companies where a deferred tax asset is not recognised	339	116
Adjustments in respect of prior periods	409	(88)
Deferred tax on share based payments	393	-
Revaluation of the deferred tax balance from 30% to 28%	-	(28)
Actual amount of tax charge	10,818	9,424

4. Dividends on equity shares

	52 weeks ended 29 March 2009 £000	53 weeks ended 30 March 2008 £000
Equity dividends on ordinary shares		
Interim dividend paid of 6.0p per share (2008: 5.3p)	4,054	3,579
Proposed final dividend of 11.6p per share (2008: paid 10.4p per share)	7,840	7,040
Total dividends paid and recommended 17.6p per share (2008: 15.7p per share)	11,894	10,619
Amounts distributed to equity holders in the period		
Final dividend for the prior period	7,023	6,159
Interim dividend for the current period	4,054	3,579
	11,077	9,738

5. Earnings per share

Basic earnings per share

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

	52 weeks ended 29 March 2009 £000	53 weeks ended 30 March 2008 £000
Profit for the purposes of basic earnings per share being net profit attributable to equity holders of the parent and for diluted earnings per share	23,784	20,980
	29 March 2009 Number of shares	30 March 2008 Number of shares
Weighted average number of ordinary shares in issue (for basic earnings per share)	66,754,486	67,369,600
Potential dilutive ordinary shares:		
Long-term incentive plan	515,410	669,449
Deferred share bonus	111,828	119,903
Diluted basis	67,381,724	68,158,952

6. Goodwill

The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past experience and expectation of future changes in the market.

The group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next four years and extends cash flows for the following eight years based on estimated growth rates. Terminal values are based on growth rates that do not exceed three per cent.

The pre-tax rate used to discount the forecast cash flows is 10 per cent.

	Total
	£000
Cost	
At 31 March 2008	27,428
Exchange rate adjustment	200
At 29 March 2009	27,628
Accumulated impairment losses	
At 31 March 2008	–
Impairment losses for the year	–
At 29 March 2009	–
Carrying amount	
At 29 March 2009	27,628
At 30 March 2008	27,428

	Total
	£000
Cost	
At 26 March 2007	18,207
Recognised on acquisition of subsidiaries	9,085
Exchange rate adjustment	136
At 30 March 2008	27,428
Accumulated impairment losses	
At 26 March 2007	–
Impairment losses for the year	–
At 30 March 2008	–
Carrying amount	
At 30 March 2008	27,428
At 25 March 2007	18,207

Goodwill arising on acquisition:

	29 March	30 March
	2009	2008
	£000	£000
PayPoint.net	18,207	18,207
PayPoint Romania	9,421	9,221
	27,628	27,428

7. Investment in joint venture

On 5 February 2009, PayPoint entered a 50:50 joint venture with Home Delivery Network. The joint venture company, Drop and Collect Limited, trades as Collect+. PayPoint subscribed to £500,000 of ordinary shares in the company. The joint venture company has the same accounting reference date as PayPoint plc.

PayPoint's share of aggregated amounts relating to joint ventures	29 March 2009 £000	30 March 2008 £000
Total assets	406	-
Total liabilities	(229)	-
Share of net assets	177	-
	52 weeks ended 29 March 2009 £000	53 weeks ended 30 March 2008 £000
Revenue	2	-
Loss for period	(323)	-

8. Deferred tax asset

	31 March 2008 £000	Credit / (charge) to income statement £000	Credit to equity £000	29 March 2009 £000
Tax depreciation	620	517	-	1,137
Share based payments	795	(394)	20	421
Tax losses	129	(93)	-	36
Intangibles	-	(517)	-	(517)
Short term temporary differences	27	24	-	51
Total	1,571	(463)	20	1,128

	26 March 2007 £000	Credit / (charge) to income statement £000	Credit to equity £000	30 March 2008 £000
Tax depreciation	807	(187)	-	620
Share based payments	546	249	-	795
Tax losses	130	(1)	-	129
Intangibles	-	-	-	-
Short term temporary differences	89	(62)	-	27
Total	1,572	(1)	-	1,571

8. Deferred tax asset (continued)

At the balance sheet date:

A deferred tax asset of £1.1m (2008: £1.6m) is recognised on the basis that there will be sufficient future taxable profits against which the deferred tax asset can be recovered based on management forecasts.

At the balance sheet date, the group has unused tax losses of £2.5m (2008: £1.9m) available for offset against future profits for which no deferred tax asset is recognised. Included in unrecognised tax losses are losses of £0.2m that will expire within 3 to 4 years and £2.1m that will expire within 4 to 7 years. Other losses may be carried forward indefinitely.

No deferred tax liability has been recognised in respect of temporary differences associated with investments in subsidiaries because the group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amount of these differences is not material at the balance sheet date.

9. Cash and cash equivalents

Included within group cash and cash equivalents is £7,546,000 (2008: £8,001,000) relating to monies collected on behalf of clients where the group has title to the funds (client cash). The group operates cash pooling amongst its various bank accounts and therefore individual accounts can be overdrawn without penalties being incurred so long as the overall gross position is in credit. At 29 March 2009, the group's overall cash position was £36,345,000 (2008: £27,727,000) in credit.

10. Equity

	Group	
	2009	2008
	£000	£000
Authorised share capital		
4,365,352,200 ordinary shares of 1/3 p each (2008 4,365,352,200: ordinary shares of 1/3 p each)	14,551	14,551
	14,551	14,551
Called up, allotted and fully paid share capital		
67,723,820 ordinary shares of 1/3p each (2008: 67,697,228 ordinary shares of 1/3p each)	226	226
	226	226
Called up share capital		
At start of period	226	226
At end of period	226	226
Investment in own shares		
At start of period	(935)	(1)
Acquired in period	(2,489)	(2,533)
Used on share scheme vesting	2,498	1,599
At end of period	(926)	(935)
Share premium		
At start of period	-	-
Arising on issue of shares	25	-
At end of period	25	-
Share based payment reserve		
At start of period	2,281	1,712
Additions in period	759	1,121
Released in period	(764)	(552)
Current tax on awards	515	-
Other adjustments	(302)	-
At end of period	2,489	2,281
Translation reserve		
At start of period	318	-
Movement during period	190	318
At end of period	508	318
Retained earnings		
At start of period	47,697	38,436
Profit for period	23,784	20,980
Dividends paid	(11,077)	(9,738)
Adjustment on share scheme vesting (note 12)	(1,759)	(1,981)
At end of period	58,645	47,697

11. Statement of changes in equity

	Group	
	2009	2008
	£000	£000
Opening equity	49,587	40,373
Profit for the period	23,784	20,980
Dividends paid	(11,077)	(9,738)
Adjustment on share scheme vesting	(25)	(934)
Investment in own shares (see note 12)	(2,489)	(2,533)
Increase in translation reserve	190	318
Increase in share based payment reserve	972	1,121
Issued new shares	25	-
Closing equity	60,967	49,587

12. Related party transactions

In March 2008, the company invested £375,000 for 1.05% of the ordinary share capital of OB10 Limited, a company that specialises in electronic invoicing. In the view of the directors, the cost of £375,000 represents the fair value of the investment in shares. David Newlands, Chairman of PayPoint plc, is also Chairman of OB10 and a shareholder with direct and indirect holdings of 4.10% of the issued share capital and both Dominic Taylor and George Earle are directly or indirectly interested in 0.42% each.

The company and its subsidiaries, in the ordinary course of business, enter into various sales, purchase and service transactions with joint ventures and associates and others in which the group has a material interest. These transactions are under terms that are no less favourable than those arranged with third parties. These transactions are not considered to be significant.

On 13 June 2008, the company released the second tranche of its long term incentive plan awards to the three executive directors and six senior managers. In order to partly satisfy the company's obligations, Paypoint Network Limited Employee Investment Trust (the Trust) acquired 200,299 ordinary shares at the mid market closing price of 602 pence per share, in aggregate £1,206,000, from RIT Capital Partners and the Weinstock Estate (both of which are connected to David Morrison, a non-executive director of the company). 163,432 shares were sold at 602 pence per share, in aggregate £984,000, by participating directors and managers to the Trust. The Trust also purchased 41,395 shares at an average of 612.5 pence per share, in aggregate £253,000, in the open market.

On 19 September 2008, the company released another tranche of its long term incentive plan awards to one senior manager, using 17,346 shares owned by the Trust. As a result of this tranche a further 7,112 shares were sold at 650 pence per share, in aggregate £46,000 by the senior manager to the Trust.

Accordingly, the company has funded £2,489,000 (excluding £18,000 deal costs) for the purchase of its own shares. The excess of the cost of the shares acquired over their fair value determined at the date of grant in accordance with IFRS2 of £1,759,000 has been charged to reserves.

13. Acquisition of subsidiary

In May 2008, the company paid £2,108,000, the deferred consideration due for the acquisition of Pay Store SRL, which it acquired on 15 May 2007. The total consideration paid was £10,242,000 of which £8,134,000 was paid in the prior period.

14. Notes to the cash flow statement

	Group	
	52 weeks ended 29 March 2009 £000	53 weeks ended 30 March 2008 £000
Operating profit	33,361	29,200
Adjustments for:		
Depreciation of property, plant and equipment	4,907	4,812
Amortisation of intangible assets	791	907
Share of loss of joint venture	323	-
Increase in share based payment reserve	759	1,121
Operating cash flows before movements in working capital	40,141	36,040
Decrease in inventories	155	580
Decrease / (increase) in receivables	6,178	(10,528)
(Decrease) /increase in payables		
– client cash	(454)	711
– other payables	(5,433)	9,196
Cash generated by operations	40,587	35,999
Corporation tax paid	(7,940)	(6,362)
Interest and bank charges paid	(28)	(19)
Net cash from operating activities	32,619	29,618

ABOUT PAYPOINT

PayPoint is the leading cash and internet payments company in the UK, with operations also in Ireland and Romania. We handle nearly £9 billion from over 540 million transactions annually for more than 6,000 clients and merchants. The company operates several businesses:

- The PayPoint branded retail network numbers nearly 22,000 terminals located in local shops (including Co-op, Spar, McColls, Costcutter, Sainsburys Local, One Stop, Londis and thousands of independents) in all parts of the UK and Ireland. Our terminals process gas and electricity meter prepayments, cash bill payments, mobile phone top-ups, transport tickets, London Congestion Charges, BBC TV licences and a wide variety of other payment types for most leading utilities, telecommunications suppliers and many consumer service companies;
- An ATM network which has over 2,200 'LINK' branded machines across the UK, typically in convenience stores;
- PayPoint.net, an internet payment service provider, delivers secure online credit and debit card payments for over 5,000 web merchants linking, into all major UK acquiring banks;
- Pay Store SRL, trading as PayPoint Romania, a mobile top-up operator with over 5,700 outlets equipped with electronic terminals. A bill payment service has been added to increase the breadth of PayPoint's offering in Romania, emulating the UK branded retail network; and
- Collect+, a joint venture with Home Delivery Network Limited, provides a parcel collection and drop off service at our retailers.

PayPoint floated on the London Stock Exchange in September 2004 and the company's market capitalisation at 29 March 2009 was £254 million. PayPoint is widely recognised for its leadership in prepayment systems, smart technology and consumer service.

28 May 2009