

**PayPoint plc**  
**Preliminary results**  
**Year ended 28 March 2010**

	Year ended 28 March 2010	Year ended 29 March 2009	Increase/ (decrease)
<b>Revenue</b>	<b>£196.6m</b>	£224.4m	(12.4)%
<b>Net revenue<sup>1</sup></b>	<b>£77.4m</b>	£77.4m	-
<b>Gross margin</b>	<b>32.3%</b>	28.5%	3.8 ppts
<b>Operating profit</b>	<b>£34.1m</b>	£33.7m	1.2%
<b>Profit before tax</b>	<b>£32.6m</b>	£34.6m	(5.7)%
<b>Basic earnings per share</b>	<b>32.9p</b>	35.6p	(7.6)%
<b>Proposed final dividend per share</b>	<b>14.4p</b>	11.6p	24.1%

## OPERATIONAL HIGHLIGHTS

- Continued leadership of the UK retail cash payment sector
- Bill payment network and transaction volume growth in Romania
- 22% transaction growth in internet payments and the successful introduction of energy meter home vending solutions for major utility clients, demonstrating the success of a multi-channel approach
- Successful launch of Collect+, a ground-breaking, new consumer parcel collection and delivery service into 3,400 outlets, in a joint venture with Home Delivery Network
- Acquisition of PayByPhone, worldwide leader in parking payments by mobile phone

### Enquiries

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A presentation for analysts is being held at 11.45 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 and SIM cards where PayPoint is principal and acquiring bank charges.

# CHAIRMAN'S STATEMENT

PayPoint has continued to grow and invest in new business areas despite the tough economic climate. Margins, operating profit and dividends have increased.

PayPoint's established business streams delivered to plan and provide a solid base for ongoing development. We added over 650 net new retail outlets in the UK and Ireland. PayPoint.net has continued to grow but margins for larger merchants reduced as they reached volumes that justified lower pricing.

Our investment is focussed on developing new business streams: bill payment, top-ups and retail services in Romania; developing and building our parcel collection and delivery joint venture; and by extending our payment channels using PayByPhone.

We have continued to transform PayPoint Romania into a full service network by rolling out 900 more full service terminals, whilst removing mobile top-up only sites. We plan to replace the remaining mobile top-up only sites with full service sites. We accept bill payment for 22 clients and volumes have grown to over 5.5 million transactions, an increase of nearly six times the number of transactions in the prior year.

Collect+, our parcels joint venture with the Home Delivery Network, was successfully launched in May 2009 and we are continuing the roll out of this service across the network. Momentum is building, with considerable interest among major internet retailers. We have over 3,400 sites able to take Collect+ transactions and thirteen clients live.

In March, we completed the acquisition of PayByPhone (Verrus Mobile Technologies Inc. and Verrus UK Limited), adding mobile payments capability to our existing retail and internet channels. This service has considerable potential beyond its existing market leadership in mobile phone parking payments.

In the established business streams, our focus is on yield in our retail networks, extending retail services and on growth in our internet channel.

We have provided the National Lottery Commission (NLC) with a robust response to Camelot's application to provide bill payment and mobile top-ups. We argue that the application should be rejected, primarily on competition grounds, for which we have received strong independent legal advice, including counsel's opinion and are reserving our position. Whatever the decision, we are well prepared and our new developing business streams, which are unaffected by this threat, provide opportunity for strong profitable growth. It is clear that the uncertainty arising from this consultation process, with a decision still pending, has had some adverse impact on our share price, which is disappointing.

We have core strength in the attractive UK cash payments sector to which our skills are well suited. In addition, consumer behaviour, regulatory change and technical innovation are leading to a proliferation of new payment media utilising a variety of new channels. With our key skills in client and retail management, transaction processing and financial settlement, we are well placed to take advantage of the new markets opening up to us.

These opportunities are supported by strong cash generation and the stability of the underlying industries in which our clients operate.

We are proposing a final dividend of 14.4 pence per share, which together with the interim dividend of 7.4 pence makes a total for the year of 21.8 pence, an increase of 24 percent.

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

Our established business is strong, with opportunities to enhance retail yield and increase the number of online merchants we serve. In our developing businesses, there is substantial growth potential as we roll out our services to a wider base, to improve profitability. Together, these businesses provide a solid foundation from which we aim to deliver long term value for shareholders.

David Newlands  
Chairman

27 May 2010

## CHIEF EXECUTIVE'S REVIEW

PayPoint has had a satisfactory year in which we delivered profit just ahead of market expectations and reinforced our prospects for further growth. Our established business streams (delivered through our retail networks in the UK and Ireland and the internet) continue to be highly profitable and cash generative. Our developing business streams (bill payment and mobile top-ups in Romania, parcels through Collect+ and mobile payments through PayByPhone) are important to our strategic development and longer term value creation, although we recognise that the decline in mobile top-ups in Romania has resulted in a delay to profitability. The developing business streams are currently loss making but bill payment in Romania, parcels and PayByPhone are growing strongly and we expect them to generate profits and cash next year.

The last year has been significant in the evolution of our strategy, particularly through the acquisition of PayByPhone, as we broaden our position as a leading specialist payments company. At the time of flotation, PayPoint's capabilities centred on its UK and Irish based retail networks. PayPoint has now also become a leading player in web and mobile phone payments through PayPoint.net and PayByPhone, as well as operating a retail cash network in Romania. We have expanded the sectors which we serve and moved into new geographies. The profit yield of outlets in PayPoint's retail networks is also being enhanced by additional services including ATMs, debit and credit card payments, international money transfer and the ground-breaking new Collect+ service, allowing consumers to send and collect parcels from their local store.

The payments industry is changing. Technology advances are creating new channels for secure and convenient payments, providing greater accessibility for consumers to the internet through sophisticated computers and smartphones. Client and retailer requirements are for multi-channel solutions. Consumers value new technology's convenience and speed, and better access to information. Developments such as Wave & Pay and growth in prepaid cards, e-money and other payment media require underlying processing and financial settlement between consumers and businesses. At the same time, regulatory changes such as the Payment Services Directive and plans to phase out cheques, are opening up parts of the payments industry which were previously the exclusive domain of banks. Banks are having to focus on their core businesses and enhanced payment security standards are leading other businesses to focus on efficiencies and their core activities.

These developments lead us to believe that there will be new opportunities for the outsourcing of payment and related transaction processing. Cash payments markets also continue to deliver a high proportion of regular payments, demonstrating entrenched preference for cash among many consumers.

PayPoint's strategy places the group in a strong position to benefit its existing business streams and from changes in technology, regulation and competitor focus which external influences are providing. Our strategy, which aims to reinforce our position as a specialist payments provider, is built around four key elements:

### **Payments capability**

The acceptance of multiple payment media (cash, cheque, cards, e-money, etc.) through different channels (retail based terminal networks, internet and mobile phone);

### **Attractive vertical markets**

Targeting high volume, recurring consumer payments;

### **Value added content / services**

Providing additional content or services to the payment channel and chosen vertical markets to create differentiation; and

### **Geographic reach**

Identifying regions with attractive payment dynamics where we can create value through importing know how.

PayPoint has succeeded in establishing broad payment capability in a number of key vertical markets. We provide a vital payments hub to our clients in many sectors (energy, telecoms, household bills, transport, e-commerce and parking), with the ability to process consumer payments and related transactions across the consumer's choice of payment media or channel. The delivery of the payment from the consumer to our client touches various elements such as the payment medium used (cheque, cash or credit/debit card); the channel through which the payment is made (by post, in a shop, via the internet or mobile); the processing company (for example PayPoint, banks and internet payment service providers); and the financial intermediary (acquiring banks, card schemes and card issuers). PayPoint either runs operations within each channel directly (such as our retail proposition for cash collection, internet payment service provision and mobile payment for parking) or works closely with partners (retailers, internet merchants and acquiring banks) to drive a secure and efficient consumer payment to the client, from whichever consumer source.

PayPoint also provides value added content and services within each channel, which differentiates the PayPoint proposition from competitors. In the case of our retail channel, this differentiation is achieved through providing retailers with a broad range of retail

services, including ATMs, parcels, SIM cards and international money transfer. With respect to our internet channel, differentiation to merchants will be driven through having a wider base of acquiring bank relationships, combined with value adding products such as Fraudguard and superior reporting to merchants. Our mobile channel, delivered through PayByPhone, will similarly drive differentiation through its ability to leverage our cash retail payment capability and internet payment services, combined with improving the consumer experience with appropriate smartphone applications.

The execution of the final element of our strategy to extend geographic reach has commenced. We entered into the Romanian market to replicate our UK retail success in cash payments, and we have recently acquired PayByPhone which has contracts in the UK, Canada, USA and France.

Our objective is to increase shareholder value through accessing the range of opportunities which build around the four key elements of our strategy. We aim to:

1. grow our established UK market position through incrementally adding new payments to our existing portfolio; by focusing on optimising the retail network to enhance our yield; by adding further payment schemes and online merchants to our internet business; and by continually adding content and services to attract consumers and clients.
2. accelerate growth in our developing businesses as we expand our PayByPhone business in parking and into new markets and applications. We have opportunities to add services from the UK to our Romanian business such as international money transfer, to leverage our retail presence in Romania. Collect+ should benefit from the continued roll-out to stores across the UK, greater take-up by online merchants and through increased consumer adoption.
3. add content and services to our payment channels, which is fundamental to maintaining our competitive differentiation. We have a number of developments aimed at offering new content-rich services to our retailers and online merchants and by extending our role in financial settlement where it is to our clients' advantage. We also aim to enhance functionality around PayByPhone, the terminal networks and PayPoint.net, notably where these functions build bridges between the different payment channels by offering choice to consumers.
4. take the opportunity for improved and more rapid returns from new geographies, which is substantially greater with the combination of PayByPhone, the internet and a retail-based network, than through entering a new market with a single proposition. PayByPhone already has a presence in Canada, USA, France and the UK, with opportunities in other countries under investigation.

As we move to maximise these opportunities, we are strengthening the management in our established business streams to ensure senior management attention is directed proportionally to the developing business streams.

These are exciting times to be an innovator in the payments industry and we look forward to the opportunities and challenges presented. At the same time, we continue to maintain our status as the market leader in our more established business streams.

Dominic Taylor  
27 May 2010

## **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. 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 forward looking information.

Our key performance indicators are shown on page 14.

PayPoint is a payment service provider for consumer payment transactions and, as such, has only one operating segment. However, reflection on various facets helps explanation of the execution of our strategy in developing the group and accordingly, in addition to the analysis of the number and value of consumer transactions (throughput), revenue and net revenue, we have shown an analysis which separates our developing business streams (bill payment and top-ups in Romania, Collect+ and PayByPhone), from our established business streams.

In addition, we have expanded and altered the channel analysis as follows:

**Retail networks:**

- Bill and general (prepaid energy, bills and tickets)
- Top-ups (mobile, pre-paid cards and phone cards)
- Retail services (ATM, debit/credit, parcels, money transfer and SIMs)

**Internet** (transactions between consumers and merchants, pre-authorisations, fraudguard where separately charged and failed transactions)

**PayByPhone** (parking transactions)

**Other for revenue and net revenue only** (software development, configuration and customisation and settlement of claims)

Growth opportunities are centred around retail services in the UK retail network including parcels; new merchants for internet payments; the expansion of the retail network and new retail services in Romania; new parking contracts for PayByPhone and building and developing Collect+.

## Operational review

Transactions have increased to 552 million (2009: 545 million), up 1% in the established business streams and 20% in the developing business streams.

Throughput increased to £9.7 billion (2009: £8.9 billion), an increase of 8% in the established business streams and over a threefold increase in the developing business streams despite the reduction in mobile top-ups in Romania.

Revenue in developing business streams and in the remainder of our business (shown in the table below as established business streams) has fallen as a result of fewer mobile top-up transactions, especially where PayPoint is principal and accounts for the face value of the top-up as revenue. Net revenue in the developing business streams was up 20% but was down slightly in the established business streams.

Operating profit in the established business streams was flat and the operating loss including our share of Collect+ in the developing business streams was £4 million (2009: £3 million), an increase of £1 million as a result of a full year of losses in Collect+ (2009: two months)<sup>1</sup>.

	Established business streams <sup>2</sup>	Developing business streams <sup>3</sup>	Total	Adjust Collect+	As reported
<b>Transactions</b> (million)					
2010	540	12	552	-	552
2009	535	10	545	-	545
<b>Throughput</b> £000					
2010	9,560,776	127,647	9,688,423	-	9,688,423
2009	8,845,846	35,291	8,881,137	-	8,881,137
<b>Revenue</b> £000					
2010	171,933	24,875	196,808	(205)	196,603
2009	188,870	35,482	224,352	(1)	224,351
<b>Net revenue<sup>4</sup></b> £000					
2010	74,589	2,981	77,570	(164)	77,406
2009	74,922	2,477	77,399	(1)	77,398

Collect+ is a joint venture and its profit after tax is therefore included in our consolidated profit and loss account after operating profit. In the table above, the developing business streams figures for revenue and net revenue include our 50% share of Collect+ to render a like-for-like comparison. The figures are reconciled to the relevant figures in the profit and loss account and elsewhere in the operating and financial review.

1. The group's operating profit (which excludes Collect+) was £34,072k (2009: £33,684k).

2. Established business streams include the whole of PayPoint less the developing business streams.

3. Developing business streams include bill payment and mobile top-ups in Romania, Collect+ and PayByPhone.

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

## Analysis of transactions

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

<b>Transactions</b>	<b>Year ended 28 March 2010 million</b>	<b>Year ended 29 March 2009 million</b>	<b>Increase/ (decrease) %</b>
<b>Retail networks</b>			
Bill and general	<b>339</b>	334	1.5
Top-ups	<b>129</b>	143	(9.7)
Retail services	<b>39</b>	32	23.4
<b>Internet</b>	<b>44</b>	36	22.1
<b>PayByPhone</b>	<b>1</b>	-	-
<b>Total</b>	<b>552</b>	545	1.3

Prepaid energy volumes (included in bill and general) in the UK have increased by 1% on last year despite reductions through the year in domestic gas and electricity prices. The cold winter had a beneficial impact on volumes in the second half of the year.

Bill payments in Romania have grown significantly and include a full year of transaction volumes compared to last year (launched August 2008). Volumes continue to grow as more terminal sites are rolled out and consumers become aware of the service. In the year, we have processed over 5.5 million bill payment transactions an increase of nearly six times on the previous year and our current run rate is c.160,000 transactions per week.

Mobile top-ups in UK, Ireland and Romania have continued to decline. E-money volumes are up 43% with the introduction during the year of the O<sub>2</sub> pre-pay debit card and a full year of trading for PayPal's pre-pay debit card.

Retail services volumes have increased as a result of the growth in credit/debit card transactions performed by the retailers on the PayPoint terminal.

Internet transactions of 44 million are up 22% on last year as we continue to add new merchants and existing merchants grow organically. New merchants in the last 12 months include Moneysupermarket.com, Severn Trent Water, Ann Summers and British Gas Home Vend.

## Throughput

There has been substantial growth in the value paid by consumers (throughput), primarily in bill and general payments and internet payments.

	<b>Year ended 28 March 2010 £000</b>	<b>Year ended 29 March 2009 £000</b>	<b>Increase/ (increase) %</b>
<b>Throughput</b>			
<b>Retail networks</b>			
Bill and general	<b>5,925,249</b>	5,549,152	6.8
Top-ups	<b>1,166,507</b>	1,199,186	(2.7)
Retail services	<b>377,271</b>	378,714	(0.4)
<b>Internet</b>	<b>2,216,319</b>	1,754,285	26.3
<b>PayByPhone</b>	<b>3,077</b>	-	-
<b>Total</b>	<b>9,688,423</b>	8,881,337	9.1

Bill and general throughput reflects the increase in transactions and in the average transaction value. There has been strong growth in higher value transactions for local authority and housing authority payments and a small rise in the average value for gas prepayments.

The reduction in top-ups throughput reflects the reduction in the overall market value of mobile top-ups as a consequence of mobile operators offering more airtime for the same value or less to consumers and the migration of pre-paid mobile top-up customers to contracts offset by the increase in e-money top-ups.

Retail services include ATMs where throughput is flat. Whilst credit/debit transactions have grown, we report no related throughput as the merchant acquirer settles direct with our retailer.

Internet throughput has increased at a greater rate than the transaction growth, as the average consumer spend per transaction has increased.

## Revenue analysis

Revenue	Year ended 28 March 2010 £000	Year ended 29 March 2009 £000	Increase/ (decrease) %
<b>Retail networks</b>			
Bill and general	58,564	60,566	(3.3)
Top-ups	108,508	135,013	(19.6)
Retail services	16,168	14,527	11.3
<b>Internet</b>	<b>9,968</b>	11,798	(15.5)
<b>PayByPhone</b>	<b>283</b>	-	-
<b>Other</b>	<b>3,112</b>	2,447	27.2
<b>Total</b>	<b>196,603</b>	224,351	(12.4)

Bill and general payments revenue is lower than last year because the amount billed to clients in respect of agent commission has reduced mainly as a result of a new British Gas contract which includes a reduction in agent commission.

In Romania and Ireland, PayPoint is principal for mobile phone top-ups and, as a result, the sales value of the top-up is recorded as revenue, with the cost of the top-up recorded in cost of sales. In the UK, PayPoint is not principal and only the commission income is recorded as revenue. The decline in mobile volumes, as a result of mobile operators offering more airtime, affects revenue from Romania and Ireland more than from the UK.

Retail services revenue has increased as a result of the growth in the number of sites processing credit/debit transactions to 4,998 sites live at the year end (2009: 3,930), and growth in revenues from parcels, SIM card sales, advertising on till receipts and money transfer.

Retail services also includes ATM machine rental and revenue for ATM withdrawals and balance enquiries. Average revenue per ATM has decreased as a consequence of lower cash withdrawal volumes on more recently installed ATMs and lower rental income, as five year term rental agreements expire and fully depreciated machines are rolled over on lower rentals.

Internet revenues are lower, largely as a result of the migration of larger merchants from our higher margin bureau service (where we take credit risk and arrange settlement) to our lower margin gateway service (where we are not exposed to merchant credit risk). We expect this to complete early in the next financial year. In addition, the need to change our bureau sponsoring bank, when Pago decided to exit the market, required the switching of all bureau internet merchants to our new acquirer by March 2010. This was completed without loss, but diverted considerable resources and delayed sales activity.

Other revenue includes rechargeable software development work, configuration and customisation and settlement of claims.

## Net revenue analysis

Net revenue is revenue less commissions paid to retail agents, acquiring bank charges, the cost of mobile top-ups and SIM cards where PayPoint is the principal. Net revenue is a measure which the directors believe assists with a better understanding of the underlying performance of the group and is shown in the table below.

	<b>Year ended 28 March 2010 £000</b>	Year ended 29 March 2009 £000	Increase/ (decrease) %
<b>Net revenue</b>			
<b>Retail networks</b>			
Bill and general	<b>33,586</b>	33,653	(0.2)
Top-ups	<b>24,272</b>	25,692	(5.5)
Retail services	<b>8,684</b>	7,553	15.0
<b>Internet</b>	<b>7,469</b>	8,053	(7.3)
<b>PayByPhone</b>	<b>283</b>	-	-
<b>Other</b>	<b>3,112</b>	2,447	27.2
<b>Total</b>	<b>77,406</b>	77,398	-

Bill and general net revenue is flat because the benefit of the increase in Romania bill payment and UK local authority housing payments has been offset by margin reduction in respect of energy clients which have taken advantage of developments in energy prepayment infrastructure which have enabled them to negotiate agreements with better transaction pricing with individual payment networks rather than working with all three networks.

The decrease in top-ups net revenue is lower than the decrease in revenue as a result of the growth in e-money transactions which have higher than average net revenue.

Retail services net revenue has a greater percentage increase than revenue because debit/credit and advertising on till receipts attracts no retailer commission.

Internet net revenue is down 7% for the reasons noted under revenue. The reduction is proportionally lower because bureau revenue, which has reduced, includes the charges from sponsoring banks.

## Collect+

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 year, we had 3,418 (2009: 1,250) convenience retailers offering the parcel service within our existing retailer base.

During the year, we processed 247,000 transactions for thirteen clients. The service is growing and major internet merchants are showing interest.

## PayByPhone

On 9 March 2010, PayPoint acquired 100% of the share capital of Verrus Mobile Technologies Inc. and Verrus UK Limited (together known as PayByPhone) for £29 million (including deferred consideration of £4 million) with a further potential consideration of £4 million dependent on results to March 2013.

PayByPhone is a leading international provider of services to parking authorities allowing consumers to use their mobile phones to pay for their parking by credit or debit card. It has contracts in the UK, Canada the USA and France.

## Network growth

Terminal sites overall have decreased by 1% to 27,459.

In the UK and Ireland, sites have increased by 653, an increase of 3%, but reflect the current economic climate, where two medium retailers, with over 500 terminal sites, went into administration.

In Romania, we installed over 900 new full service terminals in the year and have removed over 1,700 of the old mobile top-up only terminals.

	28 March 2010	29 March 2009	Increase / (decrease) %
<b>Analysis of sites</b>			
<b>UK &amp; Ireland</b>			
Terminal sites	17,830	18,705	(4.7)
Terminal and EPOS	4,813	3,285	46.5
	22,643	21,990	2.9
<b>Romania</b>			
Terminal sites	4,816	5,702	(15.5)
<b>Total terminal sites</b>	27,459	27,692	(0.8)
Internet merchants	5,618	5,160	8.9

## Financial review

Revenue for the year was 12.4% lower at £197 million (2009: £224 million), driven by the decrease in mobile top-ups. This revenue reduction is also reflected in cost of sales which, at £133 million (2009: £160 million), was down 17.1%. Agents' commission decreased to £73 million (2009: £84 million) due to fewer mobile top-up transactions, which pay a higher than average commission, and reductions in the amount paid for commission by the mobile operators. The cost of mobile top-ups in Ireland and Romania<sup>1</sup> has fallen to £43 million (2009: £59 million).

Net revenue<sup>2</sup> of £77.4 million (2009: £77.4 million) was flat with operating margin<sup>3</sup> of 44.0% (2009: 43.5%) as a result of reduced operating costs.

Operating costs (administrative expenses) were 2% lower at £29.4 million (2009: £30.2 million) despite investment in parcels and the acquisition of PayByPhone.

1. 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.
2. Net revenue is revenue less commissions paid to retail agents, the cost of mobile top-ups and SIM cards where PayPoint is principal and acquiring bank charges.
3. Operating margin is calculated as operating profit as a percentage of net revenue.

Our share of the loss in developing Collect+ was £1.6m as expected (2009: loss of £0.3m). This reflects a full year of trading compared to two months in the previous year.

Profit before tax was £32.6 million (2009: £34.6 million), a decrease of 6%, as a result of the loss in Collect+ and lower interest rates impacting investment income. The tax charge of £10.5 million (2009: £10.8 million) represents an effective rate of 32.2% (2009: 31.3%). The tax charge is higher than the UK nominal rate of 28% because of unrelieved losses in Romania and the write off of a deferred tax asset relating to tax relief for share based payments which are unlikely to be released in June 2010, on the third anniversary of their award.

Cash flow from operating activities was £25 million (2009: £33 million), reflecting strong conversion of profit to cash offset by corporation tax paid of £14 million (2009: £8 million), bringing the group's tax payments into line with the charge for tax over the last two years. Capital expenditure of £3 million (2009: £9 million) reflected spend on new terminals, ATMs and IT equipment. In 2009, the freehold of our Welwyn operations base was purchased for £6 million. Net interest received was £0.2 million (2009: £1.2 million) as a result of low interest rates.

Equity dividends paid were £12.9 million (2009: £11.1 million).

As part of the funding for the purchase of PayByPhone, the company has drawn down £6 million (2009: £nil) from its £35 million loan facility.

Cash and cash equivalents were £20.8 million (including client cash of £6.8 million), down from £36.3 million (including client cash of £7.5 million) last year due to the acquisition of PayByPhone, costing £29 million.

## **Economic profit**

PayPoint's economic profit (operating profit less tax and capital charge) was £18.5 million (2009: £19.5 million) reduced as a result of the losses in Collect+.

## **Dividend**

We propose to pay a final dividend of 14.4p per share on 16 July 2010 (2009: 11.6p) to shareholders on the register on 18 June 2010, subject to the approval of the shareholders at the annual general meeting. An interim dividend of 7.4p (2009: 6.0p) per share was paid on 15 December 2009 making a total dividend for the year of 21.8p (2009: 17.6p).

## **Liquidity and going concern**

The group has cash of £20.8 million and a loan of £6 million drawn down on its unsecured loan facility of £35 million, with a remaining term of over one year. Cash and borrowing capacity is adequate to meet the foreseeable needs of the group taking account of any risks (see page 15). The financial statements have therefore been prepared on a going concern basis.

## **Financing and treasury policy**

The financing and treasury 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.

## **Employees**

We would like to take this opportunity to thank PayPoint's employees for their commitment, energy and enthusiasm in the delivery of these results.

## **Economic climate**

The company's bill and general payments sector, which accounts for 43% (2009: 43%) of our net revenue, continues to be reasonably resilient in the recession as consumers' discretion in expenditure was limited for essential services. Utility providers continue to install new prepay gas and electricity meters, which will have a beneficial impact on our transaction volumes. The internet payment market continues to grow. 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.

### **National Lottery Commission**

We have provided the National Lottery Commission (NLC) with a robust response to Camelot's application to provide bill payment and mobile top-ups. We argue that the application should be rejected, primarily on competition grounds, supported by strong, independent legal advice, including counsel's opinion and are reserving our position. Whatever the decision, we are well prepared and our new developing business streams, which are unaffected by this threat, provide opportunity for strong profitable growth. It is clear that the uncertainty arising from this consultation process, with a decision still pending, has had some adverse impact on our share price, which is disappointing.

### **Outlook**

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

Our established business is strong, with opportunities to enhance retail yield and increase the number of online merchants we serve. In our developing businesses, there is substantial growth potential as we roll out our services to a wider base, to improve profitability. Together, these businesses provide a solid foundation from which aim to deliver long term value for shareholders.

## 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.

### Measuring our performance

Strategic focus	KPI	Description	2010	2009
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 year	<b>32.9p</b>	35.6p
	Dividends per share	Proposed final dividend and interim dividend divided by the number of fully paid shares at the end of the year	<b>21.8p</b>	17.6p
	Economic profit	Operating profit after tax and a charge for capital employed based upon the group's cost of capital	<b>£18.5 million</b>	£19.5 million
Growth	Terminal sites in the UK, Ireland and Romania	Number of live terminal sites at the end of the year	<b>27,459</b>	27,692
	Internet merchants	Number of live internet merchants at the end of the year	<b>5,618</b>	5,160
	Retail networks transactions	Number of PayPoint transactions processed in the year on our terminals, ATMs and on our retailers' EPoS systems	<b>507 million</b>	509 million
	Internet transactions	Number of transactions processed in the year by PayPoint.net	<b>44 million</b>	36 million
	PayByPhone	Number of PayByPhone transactions processed in the year since acquisition	<b>1 million</b>	n/a
	Throughput	The value of transactions processed via our terminals, retailers' EPoS systems, internet merchants, ATMs, PayByPhone and the sale of other retail services	<b>£9.7 billion</b>	£8.9 billion
	Net revenue	Revenue less: commissions paid to retail agents; the cost of mobile top-ups and SIM cards where PayPoint is principal; and acquiring bank charges	<b>£77 million</b>	£77 million
	Operating margin	Operating profit as a percentage of net revenue	<b>44.0%</b>	43.5%
Asset optimisation	Return on capital employed	Total operating profit for the year divided by monthly average capital employed excluding cash	<b>88%</b>	115%
People	Labour turnover	Number of permanent employees who left during the year divided by average total permanent employees		
		UK & Ireland	<b>20%</b>	23%
		Romania	<b>49%</b>	56%
	Gender diversity	% women	<b>43%</b>	42%
		% women managers employed by the group at the year end	<b>7%</b>	7%

## 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.

<b>Risk</b>	<b>Future prospects depend on our ability to:</b>
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 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	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**

	Note	Year ended 28 March 2010 £000	Year ended 29 March 2009 £000
<b>Continuing operations</b>			
<b>Revenue</b>	2	<b>196,603</b>	224,351
Cost of sales		<b>(133,110)</b>	(160,496)
<b>Gross profit</b>		<b>63,493</b>	63,855
Administrative expenses		<b>(29,421)</b>	(30,171)
<b>Operating profit</b>		<b>34,072</b>	33,684
Share of loss of joint venture		<b>(1,601)</b>	(323)
Investment income		<b>224</b>	1,275
Finance costs		<b>(50)</b>	(34)
<b>Profit before tax</b>		<b>32,645</b>	34,602
<b>Tax</b>	3	<b>(10,513)</b>	(10,818)
<b>Profit for the financial year attributable to equity holders of the parent</b>	12	<b>22,132</b>	23,784
<b>Earnings per share</b>			
Basic	5	<b>32.9p</b>	35.6p
Diluted	5	<b>32.7p</b>	35.3p

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 28 March 2010 £000	Year ended 29 March 2009 £000
Exchange differences on translation of foreign operations	12	<b>35</b>	190
Net income recognised directly in equity		<b>35</b>	190
<b>Profit for the year</b>		<b>22,132</b>	23,784
Total recognised income and expenses for the year		<b>22,167</b>	23,974

## CONSOLIDATED BALANCE SHEET

		28 March 2010 £000	29 March 2009 £000
	Note		
<b>Non current assets</b>			
Goodwill	6	56,872	27,628
Other intangible assets		1,400	1,973
Property, plant and equipment		14,767	16,161
Investment in joint venture	7	326	177
Deferred tax asset	8	1,167	1,128
Investments		405	375
		<b>74,937</b>	<b>47,442</b>
<b>Current assets</b>			
Inventories		1,567	1,213
Trade and other receivables		23,482	26,260
Cash and cash equivalents	10	20,769	36,345
		<b>45,818</b>	<b>63,818</b>
<b>Total assets</b>		<b>120,755</b>	<b>111,260</b>
<b>Current liabilities</b>			
Trade and other payables		37,926	40,853
Current tax liabilities		5,684	9,153
Short-term borrowings	11	6,000	-
Obligations under finance leases		22	9
		<b>49,632</b>	<b>50,015</b>
<b>Non-current liabilities</b>			
Other liabilities		379	278
		<b>379</b>	<b>278</b>
<b>Total liabilities</b>		<b>50,011</b>	<b>50,293</b>
<b>Net assets</b>		<b>70,744</b>	<b>60,967</b>
<b>Equity</b>			
Share capital	12	226	226
Investment in own shares	12	(370)	(926)
Share premium	12	25	25
Share based payment reserve	12	2,684	2,489
Translation reserve	12	543	508
Retained earnings	12	67,636	58,645
<b>Total equity attributable to equity holders of the parent</b>		<b>70,744</b>	<b>60,967</b>

These financial statements were approved by the board of directors on 27 May 2010.  
Signed on behalf of the board of directors.

Dominic Taylor  
Director,  
27 May 2010

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Year ended 28 March 2010 £000	Year ended 29 March 2009 £000
<b>Opening equity</b>		<b>60,967</b>	49,587
Profit for the year		<b>22,132</b>	23,784
Dividends paid	4	<b>(12,856)</b>	(11,077)
Movement in investment in own shares	12	<b>556</b>	9
Exchange differences on translation of foreign operations	12	<b>35</b>	190
Movement in share based payment reserve	12	<b>195</b>	208
Adjustment in share scheme vesting	12	<b>(285)</b>	(1,759)
New shares issued		-	25
<b>Closing equity</b>		<b>70,744</b>	60,967

## CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 28 March 2010 £000	Year ended 29 March 2009 £000
<b>Net cash flow from operating activities</b>	14	<b>24,986</b>	32,619
<b>Investing activities</b>			
Investment income		224	1,192
Purchases of property, plant and equipment		(2,700)	(9,158)
Proceeds from disposal of property, plant and equipment		93	40
Acquisition of subsidiaries	9	(28,942)	(2,108)
Investment		(30)	(500)
Purchase of own shares	13	(490)	(2,489)
Loan to joint venture	7	(1,750)	-
<b>Net cash used in investing activities</b>		<b>(33,595)</b>	(13,023)
<b>Financing activities</b>			
Repayments of obligations under finance leases		(8)	(61)
Dividends paid	4	(12,856)	(11,077)
Receipt of short-term borrowings	11	6,000	-
<b>Net cash used in financing activities</b>		<b>(6,864)</b>	(11,138)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(15,473)</b>	8,458
Cash and cash equivalents at beginning of year		36,345	27,727
Effect of foreign exchange rate changes		(103)	160
<b>Cash and cash equivalents at end of year</b>		<b>20,769</b>	36,345

# NOTES TO THE FINANCIAL INFORMATION

## 1. Accounting policies

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

### Basis of preparation

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 years ended 28 March 2010 or 29 March 2009, but is derived from those accounts. Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 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 statements under s498(2) or (3) Companies Act 2006 or equivalent preceding legislation.

The financial information complies with the recognition and measurement criteria of IFRS, and with the accounting policies of the group which were set out on pages 32 to 34 of the 2009 annual report and accounts. No subsequent material changes have been made to the group's accounting policies.

The directors are satisfied that the group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report.

The adoption of IFRS 8 Operating Segments has resulted in the segmental disclosures previously required by IAS 14 Segment Reporting being replaced by those required under IFRS 8. The segments identified in accordance with IFRS 8 have not been changed from those previously identified as business segments under IAS 14.

The adoption of the revision to IAS 1 Presentation of Financial Statements has resulted in the consolidated statement of changes in equity being presented as a primary statement (previously disclosed as a note titled Reconciliation of changes in equity) and disclosure of the tax impact of individual items in the consolidated statement of comprehensive income. In addition, the group has elected to continue to present a separate income statement and statement of comprehensive income.

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

### (i) Segmental information

PayPoint is a service provider for consumer payment transactions (payments and receipts) through various distribution channels, involving the processing of high volume transactions, the management of retailers and clients, the settlement of funds (collection and transmission) and transmission of data in a secure environment, by the application of technology.

The application of technology is directed on a group basis from the group's executive team (consisting of the Chief Executive Officer, Finance Director, Business Development Director and Chief Information Officer) to develop products across the business, prioritised on an economic value basis (generally by product), rather than on a subsidiary by subsidiary basis. As the business has high fixed operating costs, the company regards the analysis of net revenue as the most reliable indication of contribution on a product by product basis and net revenue analysis is shown in the operating and financial review.

Whilst the group has a number of different products, these do not meet the definition of different segments under IFRS 8 and, therefore, the group has only one reportable class of business, being a payment service provider for consumer payment transactions.

### (ii) Reconciliation of revenue to net revenue, analysis of 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 sales value to retailers of mobile top-ups and SIM cards where PayPoint acts as principal and, for the bureau sales of PayPoint.net, it includes external processing charges which are amounts billed to merchants that are passed on to the sponsoring bank.

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.

### Net revenue

	<b>Year ended 28 March 2010 £000</b>	Year ended 29 March 2009 £000
Revenue – transaction processing	<b>195,008</b>	222,693
– rental income from ATMs	<b>1,595</b>	1,658
	<b>196,603</b>	224,351
less:		
Commission payable to retail agents	<b>(73,178)</b>	(83,891)
Cost of mobile top-ups and SIM cards as principal	<b>(43,520)</b>	(59,317)
Acquiring bank charges	<b>(2,499)</b>	(3,745)
<b>Net revenue</b>	<b>77,406</b>	77,398

## 2. Segmental reporting, net revenue analysis and cost of sales continued

## Cost of sales

	Year ended 28 March 2010 £000	Year ended 29 March 2009 £000
<b>Cost of sales</b>		
Commission payable to retail agents	73,178	83,891
Cost of mobile top-ups and SIM cards as principal	43,520	59,317
Acquiring bank charges	2,499	3,745
Depreciation and amortisation	4,820	5,698
Other	9,093	7,845
<b>Total cost of sales</b>	<b>133,110</b>	<b>160,496</b>

## Geographical information

	Year ended 28 March 2010 £000	Year ended 29 March 2009 £000
<b>Revenue</b>		
UK	147,658	159,290
Ireland	24,476	29,579
Romania	24,386	35,482
North America	83	-
<b>Total</b>	<b>196,603</b>	<b>224,351</b>

	Year ended 28 March 2010 £000	Year ended 29 March 2009 £000
<b>Non-current assets</b>		
UK	73,290	45,423
Ireland	14	61
Romania	1,422	1,958
North America	211	-
<b>Total</b>	<b>74,937</b>	<b>47,442</b>

### 3. Tax

	Year ended 28 March 2010 £000	Year ended 29 March 2009 £000
<b>Current tax</b>		
Charge for current year	10,178	10,503
Adjustment in respect of prior years	394	(148)
Current tax charge	10,572	10,355
<b>Deferred tax</b>		
Credit for current year	(110)	(94)
Adjustment in respect of prior years	51	557
Deferred tax (credit)/charge	(59)	463
<b>Total income tax</b>		
Income tax charge	10,513	10,818
The income tax charge is based on the United Kingdom statutory rate of corporation tax for the year of 28% (2009: 28%).		
The charge for the year can be reconciled to the profit before tax as set out in the consolidated income statement		
Profit before tax	32,645	34,602
Tax at the UK Corporation tax rate of 28% (2009: 28%)	9,141	9,689
Tax effects of:		
Losses in countries where the tax rate is different to the UK	304	313
(Non-taxable income) / disallowable expenses	(6)	54
Utilisation of tax losses not previously recognised	-	(379)
Losses in companies where a deferred tax asset is not recognised	408	339
Adjustments in respect of prior years	445	409
Deferred tax impact of share based payments	221	393
Actual amount of tax charge	10,513	10,818

#### 4. Dividends on equity shares

	Year ended <b>28 March 2010 £000</b>	Year ended 29 March 2009 £000
Equity dividends on ordinary shares:		
Interim dividend paid of 7.4p per share (2009: 6.0p)	<b>5,008</b>	4,054
Proposed final dividend of 14.4p per share (2009: paid 11.6p per share)	<b>9,756</b>	7,840
Total dividends paid and recommended 21.8p per share (2009: 17.6p per share)	<b>14,764</b>	11,894
Amounts distributed to equity holders in the year:		
Final dividend for the prior year	<b>7,848</b>	7,023
Interim dividend for the current year	<b>5,008</b>	4,054
	<b>12,856</b>	11,077

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements

#### 5. Earnings per share

##### Basic earnings per share

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

	Year ended <b>28 March 2010 £000</b>	Year ended 29 March 2009 £000
Profit for basic and diluted earnings per share is the net profit attributable to equity holders of the parent	<b>22,132</b>	23,784

	<b>28 March 2010 Number of shares</b>	29 March 2009 Number of shares
Weighted average number of ordinary shares in issue (for basic earnings per share)	<b>67,170,830</b>	66,754,486
Potential dilutive ordinary shares:		
Long-term incentive plan	<b>427,415</b>	515,410
Deferred share bonus	<b>133,313</b>	111,828
<b>Diluted basis</b>	<b>67,731,558</b>	67,381,724

#### 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 to perpetuity. Terminal values are based on growth rates that do not exceed three per cent.

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

	<b>Total £000</b>
<b>Cost</b>	
At 29 March 2009	27,628
Recognised on acquisition of subsidiaries (see note 9)	29,168
Exchange rate adjustment	76
<b>At 28 March 2010</b>	<b>56,872</b>
<b>Accumulated impairment losses</b>	
At 29 March 2009	–
<b>Impairment losses for the year</b>	–
<b>At 28 March 2010</b>	–
<b>Carrying amount</b>	
<b>At 28 March 2010</b>	<b>56,872</b>
At 29 March 2009	27,628

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

## 6. Goodwill continued

Goodwill arising on acquisition:

	<b>28 March 2010 £000</b>	29 March 2009 £000
PayPoint.net	<b>18,207</b>	18,207
PayPoint Romania	<b>9,497</b>	9,421
PayByPhone	<b>29,168</b>	-
<b>Total</b>	<b>56,872</b>	27,628

## 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	<b>28 March 2010 £000</b>	29 March 2009 £000
Total assets	<b>545</b>	406
Total liabilities	<b>(1,969)</b>	(229)
Share of net assets	<b>(1,424)</b>	177
Loan to joint venture	<b>1,750</b>	-
Investment in joint venture	<b>326</b>	177

	<b>Year ended 28 March 2010 £000</b>	Year ended 29 March 2009 £000
Revenues	<b>205</b>	1
Loss for year	<b>(1,601)</b>	(323)

## 8. Deferred tax asset

	29 March 2009 £000	Credit / (charge) to income statement £000	Debit to equity £000	28 March 2010 £000
Tax depreciation	1,137	183	-	1,320
Share based payments	421	(162)	(20)	239
Tax losses	36	(36)	-	-
Intangibles	(517)	125	-	(392)
Short term temporary differences	51	(51)	-	-
<b>Total</b>	<b>1,128</b>	<b>59</b>	<b>(20)</b>	<b>1,167</b>

	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
<b>Total</b>	<b>1,571</b>	<b>(463)</b>	<b>20</b>	<b>1,128</b>

### At the balance sheet date:

A deferred tax asset of £1.2 million (2009: £1.1 million) 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 £5.1 million (2009: £2.5 million) available for offset against future profits for which no deferred tax asset is recognised. Included in unrecognised tax losses are losses of £2.0 million that will expire within three to four years and £2.6 million that will expire within four to seven 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. Acquisition of subsidiary

On 9th March, 2010 the group acquired 100 per cent of the issued share capital of Verrus Mobile Technologies Inc and Verrus UK Limited (together PayByPhone) for cash consideration of £29 million with the potential for a further £4 million dependent on financial results until March 2013.

These transactions have been accounted for by the purchase method of accounting.

	<b>Book value</b> <b>£000</b>	<b>Fair value</b> <b>£000</b>
<b>Net assets acquired</b>		
Property plant and equipment	322	319
Trade and other receivables	1,170	1,170
Cash and cash equivalents	596	596
Trade and other payables	(1,127)	(1,127)
Non-current liabilities	(128)	(128)
	833	830
Goodwill		29,168
<b>Total consideration</b>		<b>29,998</b>
Satisfied by:		
Cash		28,577
Liability (to Verrus UK Limited) assumed for share option exercise		460
Directly attributable costs		961
		<b>29,998</b>
<b>Net cash outflow arising on acquisition</b>		
Cash consideration		29,538
Cash and cash equivalents acquired		(596)
		<b>28,942</b>

The goodwill of £29.2 million has arisen primarily from the international opportunity to compete successfully for substantial new parking contracts, based on the demonstrable success of the business in offering such services to existing clients in the UK, North America and France.

PayByPhone contributed £283,000 to revenue and a loss of £20,000 to profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of PayByPhone had been completed on the first day of the financial year, it would have contributed £4.7 million to revenue and a loss of £0.3 million attributable to equity holders of the parent.

In May 2008, the company paid £2,108,000, the deferred consideration due for the acquisition of PayStore SRL, which it had acquired on 15 May 2007. The total consideration paid was £10,242,000, of which £8,143,000 was paid in 2007.

## 10. Cash and cash equivalents

Included within group cash and cash equivalents is £6,818,000 (2009: £7,547,000) 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.

The group operates cash pooling amongst its various bank accounts in the UK and therefore individual accounts can be overdrawn without penalties being incurred so long as the overall position is in credit. At 28 March 2010, the group's cash was £20,769,000 (2009: £36,345,000) in credit.

## 11. Short-term borrowings

	<b>28 March</b>	29 March
	<b>2010</b>	2009
	<b>£000</b>	£000
Bank loan	<b>6,000</b>	-

During the year £6 million of the £35 million loan facility was drawn down to part fund the purchase of PayByPhone.

## 12. Equity

	2010 £000	2009 £000
<b>Authorised share capital</b>		
4,365,352,200 ordinary shares of 1/3p each (2009 4,365,352,200: ordinary shares of 1/3p each)	14,551	14,551
	<b>14,551</b>	14,551
<b>Called up, allotted and fully paid share capital</b>		
67,754,202 ordinary shares of 1/3p each (2009: 67,723,820 ordinary shares of 1/3p each)	226	226
	<b>226</b>	226
<b>Called up share capital</b>		
At start of year	226	226
<b>At end of year</b>	<b>226</b>	226
<b>Investment in own shares</b>		
At start of year	(926)	(935)
Acquired in year (note 13)	(490)	(2,489)
Used on share scheme vesting (note 13)	1,046	2,498
<b>At end of year</b>	<b>(370)</b>	(926)
<b>Share premium</b>		
At start of year	25	-
Arising on issue of shares	-	25
<b>At end of year</b>	<b>25</b>	25
<b>Share based payment reserve</b>		
At start of year	2,489	2,281
Additions in year	942	759
Released in year	(761)	(764)
Current tax on awards	34	515
Other adjustments	(20)	(302)
<b>At end of year</b>	<b>2,684</b>	2,489
<b>Translation reserve</b>		
At start of year	508	318
Movement during year	35	190
<b>At end of year</b>	<b>543</b>	508
<b>Retained earnings</b>		
At start of year	58,645	47,697
Profit for year	22,132	23,784
Dividends paid	(12,856)	(11,077)
Dividends received	-	-
Adjustment on share scheme vesting (note 13)	(285)	(1,759)
<b>At end of year</b>	<b>67,636</b>	58,645

### 13. Related party transactions

PayPoint has entered into a loan agreement with its 50:50 joint venture Drop and Collect Limited (trading as Collect +) and during the year it has lent Drop and Collect Limited £1,750,000.

The terms of the loan are:

- Interest payable annually at a rate of 3 months LIBOR.
- Repayable upon termination of the joint venture or upon demand by the lender.

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 5 June 2009, PayPoint released the second tranche of its long term incentive plan awards to the three executive directors and seven senior managers. PayPoint Network Limited Employee Investment Trust (the Trust) acquired 23,701 ordinary shares at 532.4 pence per share in the open market. 68,273 shares were then sold by participating directors and managers to the Trust at 532.4 pence per share.

Accordingly, PayPoint has funded £490,000 (excluding deal costs) for the purchase of its own shares. The difference of the cost of the shares used in share scheme vesting over their fair value determined at the date of grant in accordance with IFRS 2 of £285,000 has been charged to retained earnings.

In March 2008, PayPoint purchased shares in OB10, a company that specialises in electronic invoicing. During the year, PayPoint subscribed for a further £30,000 of shares under a rights issue, resulting in a shareholding at 28 March 2010 of 1.04% (29 March 2009: 1.05%).

In the view of the directors, the aggregate cost of £405,000 represents the fair value of the investment in the shares.

David Newlands, who is also Chairman of OB10, Dominic Taylor, George Earle, Eric Anstee and Nick Wiles all hold shareholdings in OB10 as follows:

Directors' shareholding in OB10	<b>Year ended 28 March 2010 £000</b>	Year ended 29 March 2009 £000
	<b>%</b>	<b>%</b>
David Newlands	<b>4.73</b>	4.73
Dominic Taylor	<b>1.42</b>	1.42
George Earle	<b>0.42</b>	0.42
Nick Wiles (appointed 22nd October 2009)	<b>1.04</b>	1.04
Eric Anstee	<b>0.08</b>	0.08

## 14. Notes to the cash flow statement

	Year ended <b>28 March 2010 £000</b>	Year ended 29 March 2009 £000
Operating profit	<b>34,072</b>	33,684
Adjustments for:		
Depreciation of property, plant and equipment	<b>4,286</b>	4,907
Amortisation of intangible assets	<b>534</b>	791
Share based payment charges	<b>942</b>	759
Operating cash flows before movements in working capital	<b>39,834</b>	40,141
(Increase)/decrease in inventories	<b>(373)</b>	155
Decrease in receivables	<b>2,385</b>	6,178
Decrease in payables		
– client cash	<b>(729)</b>	(454)
– other payables	<b>(2,386)</b>	(5,433)
Cash generated by operations	<b>38,731</b>	40,587
Corporation tax paid	<b>(13,702)</b>	(7,940)
Interest and bank charges paid	<b>(43)</b>	(28)
Net cash from operating activities	<b>24,986</b>	32,619

## ABOUT PAYPOINT

PayPoint is a leading specialist payments company with operations in the UK, Ireland, Romania, France, USA and Canada. We handle over £9.5 billion from over 550 million transactions annually for more than 6,000 clients and merchants.

PayPoint processes consumer payments across a wide variety of markets (energy pre and post-payment, telecoms, housing, water, transport, e-commerce, parking and gaming) through its retail networks, internet and mobile phone channels:

### **Retail networks**

The PayPoint branded retail network in the UK numbers over 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 energy meter prepayments, cash bill payments, mobile phone top-ups, transport tickets, BBC TV licences and a wide variety of other payment types for most leading utilities and many telecoms and consumer service companies.

We also supply added value services to our retailers to improve the yield from our network. We have recently successfully launched a consumer parcel drop off and collection service using PayPoint's retail network through Collect+ a joint venture with Home Delivery Network. This service is already available in 3,400 of our convenience retailers. Clients include Littlewoods, Woolworths, Very and Great Universal. In addition, in the UK we have over 2,300 LINK branded ATMs, mainly in the same sites as our terminals.

In Romania, the branded retail network numbers over 4,800 terminals located in local shops across Romania and is expanding. Our terminals process cash bill payments for utilities and mobile phone top-ups. In addition, we have a number of mobile top-up only, unbranded sites. In Ireland, we have over 500 outlets in shops and Credit Unions processing mobile top-ups and bill payments.

### **Internet**

PayPoint.net is an internet payment service provider linking into all major UK acquiring banks to deliver secure online credit and debit card payments for over 5,600 web merchants, including PKR, Bettson, Moneysupermarket.com, Severn Trent Water, Ann Summers and British Gas Home Vend. We offer a comprehensive set of products ranging from a transaction gateway through to a bureau service, in which we take the merchant credit risk and manage settlement for the merchants. We offer real time reporting for merchant transactions and Fraudguard, an advanced service to mitigate the risk of fraud for card not present transactions.

### **PayByPhone**

We recently acquired PayByPhone (Verrus Mobile Technologies Inc and Verrus UK Limited). PayByPhone is a leading international provider of services to parking authorities allowing consumers to use their mobile phones to pay for their parking by credit or debit card. It has contracts in the UK, France, Canada and the USA.

PayPoint is widely recognised for its leadership in prepayment systems, smart technology and consumer service. Our high quality services are backed by a 24/7 operations centre with dual site processing for business continuity.

To give competitive differentiation, we aim to meet our clients' payment needs not just through a wide spectrum of payments but also with products that span payment channels. For example, PayCash enables cash payment for internet transactions at PayPoint retailers and our new home vending solutions allow customers to pay across the internet as well as through our retail network.

27 May 2010