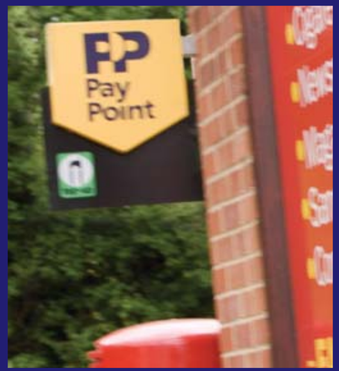
# Annual Report

For the 53 weeks ended 30 March 2008





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## ABOUT PAYPOINT

PayPoint is the leading cash and internet payments company in the UK with operations also in Ireland and Romania. We handle in excess of £7 billion in over 503 million transactions annually for more than 5,000 clients and merchants. The company operates several payment networks:

- The PayPoint branded retail network numbers over 19,800 terminals located in local shops (including Co-op, Spar, Costcutter, Sainsburys Local, One Stop, Londis and thousands of independents) in all parts of the UK and Ireland. Terminals handle 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. This network is used by consumers, free of charge, over 8 million times a week. The network has 99% population cover on a 1 mile urban or 5 miles rural measure;
- Multiple retailer connections into the electronic till systems of over 4,300 outlets in addition to the branded terminal outlets, including BP, Somerfield and Superdrug for mobile top-ups and selected payments from the PayPoint range;
- An ATM network which has 2,016 'LINK' branded machines across the UK, also typically in convenience stores;
- PayPoint.net, an internet payment service provider, provides secure online credit and debit card payments for over 4,800 web merchants linking into all the major UK acquiring banks; and
- Pay Store, a Romanian mobile top-up operator with over 4,000 outlets equipped with electronic terminals and 2,000 other retail outlets. A bill payment service has been added to increase the breadth of PayPoint's offering in Romania, in line with the UK branded retail network. PayPoint International also operates Irish bill payment and top-up services.

PayPoint floated on the London Stock Exchange in September 2004 and the company's market capitalisation at 30 March 2008 was £380 million. PayPoint is widely recognised for its leadership in prepayment systems, smart technology and consumer service.

22 May 2008

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## OFFICERS AND PROFESSIONAL ADVISERS

**Directors**

G D Earle
K J Minton*
D J Morrison*
D B Newlands*
A M Robb*
D C Taylor
T D Watkin-Rees
R N Wood*

* Non-executive directors

**Company Secretary**

S C Court

**Registered office**

1 The Boulevard
Shire Park
Welwyn Garden City
Hertfordshire, AL7 1EL
United Kingdom
Registered in England and Wales number 3581541

**Independent auditors**

Deloitte & Touche LLP
2 New Street Square
London, EC4A 3BZ
United Kingdom

**Registrars**

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent, BR3 4TU
United Kingdom

## HIGHLIGHTS

| | 53 weeks ended 30 March 2008 £m | 52 weeks ended 25 March 2007 £m | Increase % |
|---|---|---|---|
| Revenue | **212** | 157 | 35 |
| Net revenue[1,2] | **70** | 58 | 21 |
| Operating profit | **29** | 25 | 16 |
| Profit before tax | **30** | 27 | 14 |
| Basic earnings per share | **31.1p** | 27.7p | 12 |
| Proposed final dividend per share | **10.4p** | 9.1p | 14 |

- Strong growth in both revenues and operating profit driven by a 22% increase in transaction volumes
- Consumer satisfaction 98%[3]
- Like for like operating margin[2,4] of 46% against 44% last year
- Earnings per share of 31.1p, up 12%
- Total dividend for the year 15.7p per share, up 15%
- UK and Ireland network expanded by 13% to 19,878 terminal sites
- First full year for our rapidly growing internet payment service business
- International expansion through acquisition of Pay Store in Romania

David Newlands, Chairman of PayPoint, said "PayPoint has delivered another set of strong results with increases in both revenues and profits. We have expanded our UK terminal estate ahead of our targets and started to roll out new terminals in Romania. We have rationalised three data centres to one for our two internet service payment providers, now trading as PayPoint.net, and the balance of our integration work is approaching completion. The acquisition of Pay Store in Romania is the first step of our international strategy and the launch plans for our Romanian bill payment service are well advanced. There remain further opportunities for future growth through market share gains, new initiatives and new products."

The financial statements have been drawn up to the 30 March 2008, which covers 53 weeks (2007: 52 weeks).

1 Net revenue is revenue less commissions paid to retail agents, the cost of mobile top-ups where PayPoint is the principal and external processing costs.

2 Net revenue and operating margin are measures which the directors believe assist with a better understanding of the underlying performance of the group. The reconciliation of net revenue to revenue can be found in note 2.

3 Source: Ipsos Mori.

4 Operating margin is operating profit expressed as a percentage of net revenue. Like for like excludes the impact of acquisitions in the last two years and the additional work of trading in the period under review.


**During the year we processed 503 million transactions**

## OPERATING AND FINANCIAL REVIEW

The operating and financial review complies with the guidance set out in the Accountancy Standards Board's Reporting Statement: Operating and Financial Review and is 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 forward looking information.

Our key performance indicators are transaction volumes, numbers of terminal and ATM sites, net revenue[1], operating margin[2] and economic profit[3]. We have met or exceeded all of our targets except for ATM site numbers.

### Operational overview

We have continued to grow in all sectors and particularly in bill and general payments with the introduction in the prior year of the exclusive BBC TV Licensing contract. In addition, the year under review includes 53 weeks of trading. This growth has been achieved through the success of our strategy to:

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

During the financial year, PayPoint processed 503 million transactions (2007: 414 million), an increase of 22%, with a value of £7.5 billion (2007: £5.2 billion) up 44%, driving revenue of £212 million (2007: £157 million). Commissions paid to agents of £83 million (2007: £77 million) were up 8%, reflecting a lower than average increase in mobile top-ups which carry higher than average agent commission.

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

| Transactions by sector | 53 weeks 2008 million | 52 weeks 2007 million | Increase % |
|---|---|---|---|
| Bill and general payments[a] | **311** | 267 | 16 |
| Mobile top-ups | **151** | 130 | 16 |
| ATMs | **15** | 13 | 14 |
| Internet payments | **26** | 4 | 550 |
| Total[b] | **503** | 414 | 22 |

(a) Including debit/credit transactions

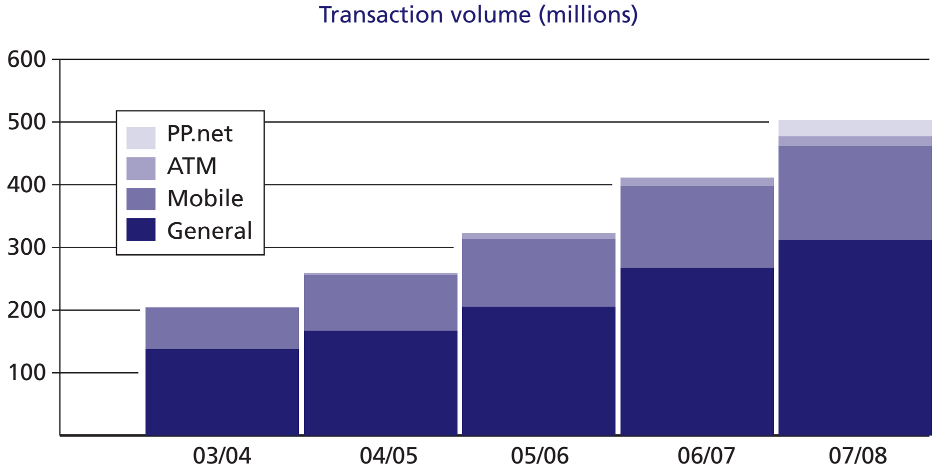
(b) Included in the total are 19 million international bill and general payments and mobile top-ups, for Ireland and Romania (2007: 8 million).

1 Net revenue is revenue less commissions paid to retail agents, the cost of mobile top-ups where PayPoint is the principal and external processing costs.

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

3 Economic profit is operating profit after tax and a charge for capital employed based upon the group's cost of capital (see Remuneration Committee Report on page 23).

We have grown transaction volume consistently:



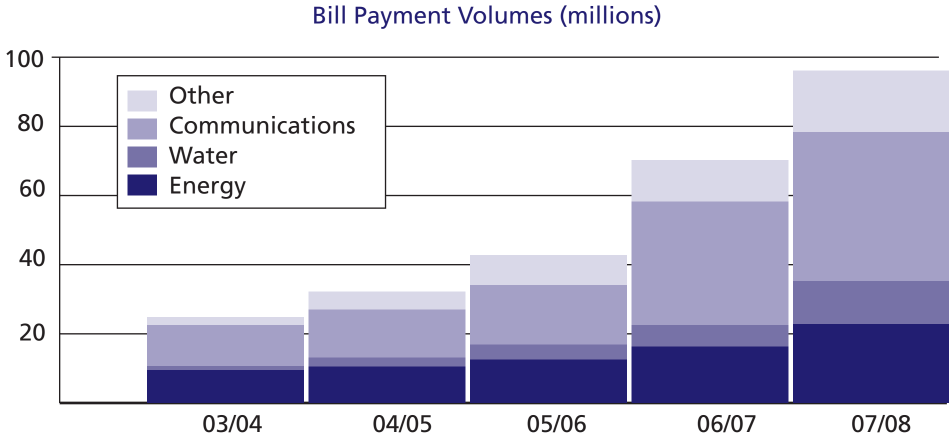

## Bill and general payments

PayPoint has continued to perform well in this sector, with growth stimulated by increased agent numbers, client payment options and brand awareness. Migration of market share away from the Post Office as a result of its branch closure programme, the launch of the BBC TV licence payments, which became exclusive to PayPoint from 1 August 2006 and the extra week of trading have contributed to growth in transactions.

Prepaid energy volumes have increased over the prior year despite reductions in domestic prices in the first half of the year. The increase results from our network growth and from our increasing sector share, particularly in the Midlands, where a competitor lost exclusivity. The more recently announced increases in domestic energy prices should have a beneficial effect on transaction volumes going forward.

**Continued to perform well in bill and general payments**

PayPoint has also continued to achieve strong growth in the rest of the bill and general payments sector.



## Mobile top-ups

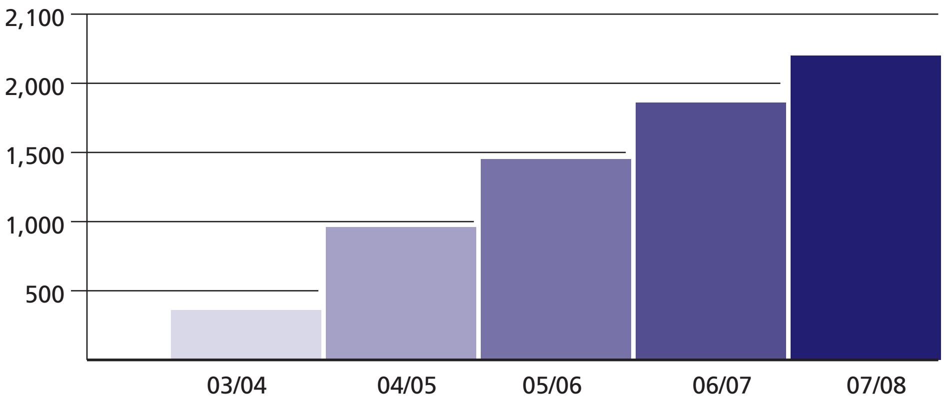
Mobile top-up volumes have increased by 16% compared to last year (9% excluding Pay Store which was acquired on 15 May 2007). During the year, PayPoint processed £1.1 billion of mobile top-ups in the UK, equating to 26% of the sector (2007: 24%). The two most popular methods for topping up remain e-voucher and electronic top-up.

## Automatic Teller Machines (ATMs)

**PayPoint.net trading profitably**

New machines have been rolled out at an average rate of 39 per month (2007: 49 per month). We have continued to be proactive in churning poor performing sites for redeployment and this higher than expected level of churn has reduced the net increase to 13 per month. The estate has maintained a high number of transactions per site, averaging over 620 transactions per month (2007: 630 per month), split between cash withdrawals and balance enquiries with the latter representing slightly more than half of the transactions. Installed ATMs have grown to 2,016 at the year end (2007: 1,860). We have reorganised the ATM team under new management to focus on sales. As at 22 May 2008 we have 2,076 ATMs.

Sites with ATMs




## PayPoint.net

PayPoint.net, combining Metacharge and SECPay, has traded profitably. We have completed the first phase of integration of these two businesses which involved the co-location of their hardware platforms at a hosted data centre (reducing the number of hosted data centres from three to one) and the provision of full disaster recovery from our Welywn Garden City operations base. We have made good progress towards completion of a single billing platform, the first part of the second integration phase will encompass the development of new products and focus attention on sales to increase the merchant base. At the end of the current year, we will merge the trading companies into a single company to complete the integration.

## PayPoint in Romania

Pay Store SRL was acquired from the RTC group on 15 May 2007 for £10.3 million. Pay Store is one of the largest independent mobile top-up providers in Romania, selling both electronic top-ups and paper scratch cards. The company has traded at a small loss as expected. We have invested in strengthening the management team, switched the processing from a local provider to our processing centre in Welwyn Garden City, built a new sales team, started branding of our agent outlets, upgraded systems to mirror the UK infrastructure and developed our bill payment offering. Nearly all Romanians pay their bills in cash and are poorly served by existing payment channels. Further investment is expected as we expand the network in Romania beyond our original plans. Pay Store is well placed to benefit from the migration of paper scratch cards to electronic top-ups and following the launch of bill payments, to capture a significant share of the bill payment market as privatised utilities look to rationalise current inefficient and costly cash collection channels.

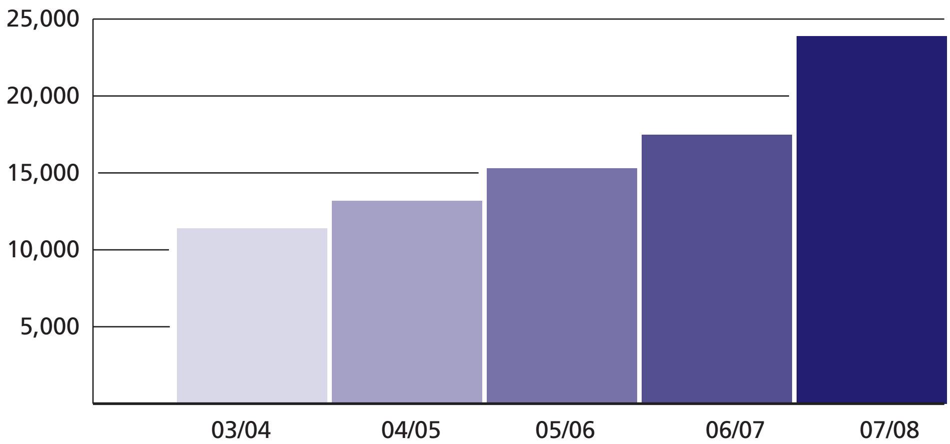
## Network growth

Terminal sites have increased to 23,895 (2007: 17,537).

The retail network in the UK and Ireland has grown to 19,878 terminal sites against our target of 19,500, an increase of 13% on last year. Terminals in Romania have increased by 756 since acquisition as we start to build the infrastructure for a national bill payment network.

**19,878 terminal sites in the UK and Ireland, up 13%**

Sites with terminals




A total of 2,833 sites (2007: 2,488) 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 | 30 March 2008 | 25 March 2007 | Increase % |
|---|---|---|---|
| PP terminal only | **17,045** | 15,049 | 13 |
| PP terminal and Epos | **2,833** | 2,488 | 14 |
| PP terminal sites | **19,878** | 17,537 | 13 |
| Pay Store terminal sites | **4,017** | – | – |
| **Total terminal sites** | **23,895** | 17,537 | 36 |
| ATM sites | **2,016** | 1,860 | 8 |
| Internet merchants | **4,808** | 4,249 | 13 |

## New service initiatives

PayPoint has continued to introduce a wide range of new services to stimulate further 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, stored value cards and money transfer. We are established as a premier convenience loading channel for cash onto both prepay and stored value cards, which have developed into strong sectors in the USA and are now being marketed with increasing success in the UK.

We have launched new digital voucher schemes allowing consumers to redeem electronic discount vouchers received on their mobile phone at participating PayPoint retailers.

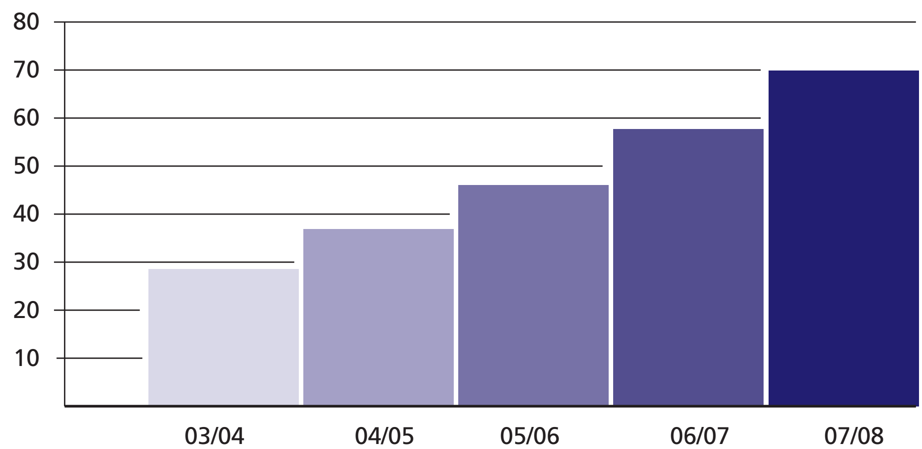
**Revenue up 35% to £212 million**

## Financial overview

Revenue for the financial period was 35% higher at £212 million (2007: £157 million), driven by a 22% increase in transaction volumes and the increase in revenue from the sale of mobile top-ups[1] in Ireland and Romania. Cost of sales was £156 million (2007: £111 million), an increase of 40%. 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 £83 million (2007: £77 million), up 8%, lower than the growth in volume as a result of lower than average growth of mobile top-ups which carry higher than average agent commissions. The cost of mobile top-ups in Ireland and Romania has risen to £55 million (2007: £21 million), which drives the disproportionate increase in cost of sales compared to revenue. Depreciation has increased to £4.8 million (2007: £3.6 million) as a result of new terminals, ATM deployments and acquisitions. Amortisation of intangibles has increased to £0.9 million (2007: £0.2 million) as a result of the acquisition of Pay Store and a full years charge for the internet payments businesses.

Net revenue[2] of £70 million (2007: £58 million) was up 21%, driven primarily by volume growth. Operating margin[3] was 42% (2007: 44%) down 2 ppts as a result of Pay Store's loss, operating margin on a like for like basis (excluding acquisitions in the last two years and the additional weeks trading in the year under review) was 46% (2007: 44%)

Net revenue (£ millions)




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.

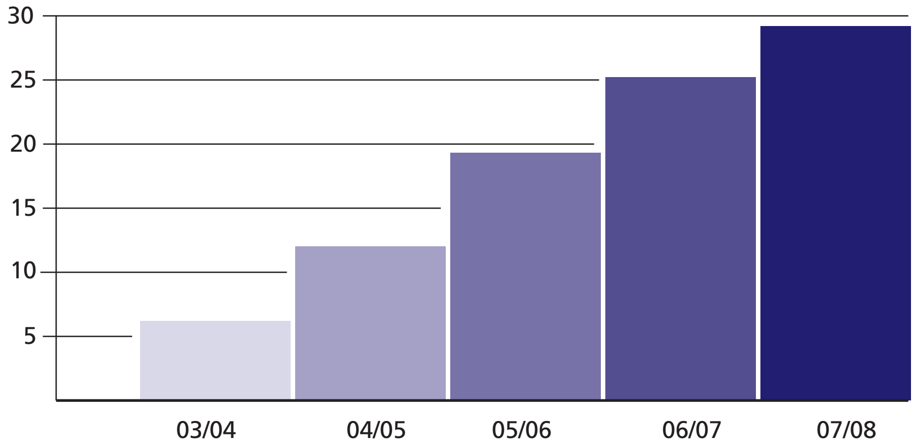
2 Net revenue is revenue less commissions paid to retail agents and the cost of mobile top-ups where PayPoint is the principal.

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

Gross profit improved to £57 million (2007: £46 million), 23% ahead of last year, with a gross margin of 27% (2007: 29%). The rate of increase in mobile top-ups[1] in Ireland and Romania is greater than the rate of revenue increases from other sources, which reduces gross margin, but this effect has been mitigated by lower rates of increase in other costs. Gross margin, excluding the cost of Irish and Romanian mobile top-ups[1] improved to 36% (2007: 34%).

Operating costs (administrative expenses) have risen to £27 million (2007: £21 million), an increase of 32%. The inclusion of PayPoint.net for a full 12 months and Pay Store since acquisition account for 23% of the 32% increase. Operating profit was £29 million (2007: £25 million).

Operating profit (£ millions)




**Profit, before tax £30 million, up 14%**

Profit before tax was £30 million (2007: £27 million), an increase of 14%. The tax charge of £9 million (2007: £8 million) represents an effective rate of 31% (2007: 30%). The increase in the effective rate of tax results from the disallowance of the charge for amortisation of intangible assets.

Operating cash flow was £30 million (2007: £28 million), reflecting strong conversion of profit to cash. Capital expenditure of £6 million (2007: £7 million) reflected spend on new terminals, ATMs and infrastructure assets required to combine the two internet payment providers and £2 million on the acquisition of the fixed assets in Pay Store. The company purchased £3.5 million of its own shares during the year to satisfy the first tranche of the Long Term Incentive Plan (note 27). Net interest received was £1 million (2007: £1 million). Equity dividends paid were £10 million (2007: £8 million).

Cash and cash equivalents were £28 million (including client cash of £8 million), up from £24 million (including client cash of £7 million) last year.

## Economic profit

PayPoint's economic profit (operating profit less tax and capital charge) was £17 million (2007: £16 million). Operating profits were £29 million (2007: £25 million), up 16%, tax was £9 million (2007: £8 million), and the capital charge was £3 million (2007: £1 million), which increased as a result of the acquisition of Pay Store, the funding of working capital in Romania and the capital invested in new terminal sites and ATMs.

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.

## Dividend

We propose to pay, on 14 July 2008, a final dividend of 10.4p per share to shareholders on the register on 27 June 2008, subject to the approval by our shareholders at the annual general meeting. An interim dividend of 5.3p per share was paid on 21 December 2007 making a total dividend for the year of 15.7p (2007: 13.7p), up 15%.

## Liquidity

The group has cash of £28 million and an unsecured loan facility of £15 million with a remaining term of 3 years. Cash and borrowing capacity is adequate to meet the foreseeable needs of the group.

## Financing and treasury policy

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

## Charitable donations

During the year, the group made charitable donations of £26,000 (2007: £33,000) to charities serving the communities in which the group operates.

## Employees

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

## Strategy, risks and corporate social responsibility

Details of the company's strategy, an analysis of risks facing the company and the company's approach to corporate social responsibility are set out in separate statements on pages 11, 12 and 13, respectively.

## Outlook

We expect further growth in revenues in the UK by increasing market share in bill and general payments, mobile top-ups, ATMs and from Post Office closures and 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 1,500 Paypoint terminals this year. These will complement the existing terminal base and provide initial coverage for a national bill payment network. This investment will result in losses in Romania in the first half. In PayPoint. net, which is currently trading profitably, growth should accelerate in the latter part of the year, following the introduction of the new single company branding, website and product set in the first half.

Trading since the period end is in line with the company's expectations. In the first half, the growth in the core business will be offset by the continuing losses in Pay Store and the shorter trading period of 26 weeks (2007: 27 weeks).

The directors are confident of continuing growth for the year overall, although the impact on revenue growth from the introduction of the exclusive TV licence contract will not recur in the current year.

David Newlands
Chairman

Dominic Taylor
Chief Executive

22 May 2008

## STRATEGY

PayPoint aims to create economic value for its shareholders by profitable expansion in:

- Cash payments (bill and general payments, mobile top-ups and ATMs);
- New payment technologies (internet payments, mobile functionality and solutions, debit and credit card payments, ticketing, on line verification); and
- International markets (in cash payments and new payment technologies)

### Cash payments

PayPoint aims to continue to grow profits, market share and enhance its competitive positioning through generating greater economies of scale from a central infrastructure that has a substantially fixed cost. Fundamental to this proposition is the fact that marginal revenue is transaction driven, but that marginal costs are largely driven by retail agent numbers. As a result, the strategy focuses on optimizing the combination of retail agent numbers and transaction volumes.

The key strategic objectives focus on growing the retail agent network penetration and coverage, increasing transaction volumes of existing services, improving the range of payments provided by the PayPoint terminal and enhancing customer convenience. Specifically, PayPoint plans to:

- selectively extend coverage to prospective retail agents and continually optimize the retail agent network, facilitated by the use of the PayPoint terminal which allows PayPoint to target agents currently using inferior solutions;
- work with clients to increase PayPoint's share of their volumes, notably in the light of closures by the Post Office;
- add new clients in existing and new sectors to increase the range of payments that can be made by consumers; and
- continue to improve service quality to maintain and extend competitive differentiation by investing in technology solutions.

### New payment technologies

PayPoint's existing skills in transaction processing, retail and client management, and developing technology to create new propositions can be leveraged in new payment technologies which complement the existing cash payment business and allow us to offer clients a broader range of services to meet their needs.

### International

PayPoint has identified key markets overseas which provide opportunities to leverage its existing business capability to roll out cash payment services and, in time, new payment technologies into new geographic locations.

## 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 crystallisation of some or all of such risks. The group's risk management policies and procedures are also discussed in the Governance statement.

| 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 (over the next six years) on attractive terms |
| Dependence on key executives | retain and recruit key staff through a mixture of basic salary, 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, particularly in commodity services such as mobile top-ups |
| Insolvency of a major multiple retail agent | mitigate the consequences of insolvency both in terms of the bad debt risk (where we bear it) and the impact of such insolvency on our network coverage |
| Technological changes | keep pace with technological changes and introduce new developments to compete effectively with our competitors |
| 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 availability of credit |
| Economic, political, legislative, taxation or regulatory changes | to deal with the impact of such 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 monies by the rigorous application of controls |

## CORPORATE SOCIAL RESPONSIBILITY

PayPoint has a set of core corporate social responsibility principles:

- **legal conformance** – we comply with statutory obligations in all areas and subject our practices to high levels of scrutiny through regular compliance audits;
- **protection of our environment** – we identify and manage the environmental impacts associated with our equipment, supplies and service;
- **continuous improvement** – we review our performance and set targets and objectives for growth; and
- **reporting on our performance** – we publish results twice each year and two Interim Management Statements, complying with reporting and disclosure obligations.

We recognise the importance of integrating our operations with our business values in order to meet the expectations of our shareholders, clients, suppliers, regulators and our employees.

We manage our social impact in accordance with established best employment practice and policies as follows:

- **business ethics** – we set out clear standards for ethical relationships and conduct to be maintained by employees and conduct our business in accordance with the highest ethical standards;
- **equal opportunities** – we treat job applicants, employees and temporary staff in the same way, regardless of their sex, sexual orientation, age, race, ethnic origin or disability;
- **charitable donations** – we support charitable causes in support of the communities in which we do business. We make donations in line with our published policy;
- **environment** – we aim to recycle paper, cans, plastic cups, and reduce their use where possible. We also ensure safe disposal of computers and related equipment at the end of their useful lives. Environmentally friendly and energy efficient products have been used in our office refurbishment, we operate energy efficient equipment at our operations base in Welwyn Garden City;
- **whistle-blowing** – we are committed to ensuring that malpractice is prevented and, should it arise, immediately dealt with. We encourage employees to raise their concerns about any malpractice at the earliest possible stage and have an established procedure for raising any such concerns;
- **health & safety** – PayPoint recognises that effective health and safety management is a fundamental element of running a successful business and consequently must be ranked equally with other management functions. We are committed to ensuring the health, safety and welfare of employees and other people who may be affected by our activities, so far as is reasonably practicable;
- **disciplinary & grievance procedures** – we provide a fair and consistent method of dealing with disciplinary problems and treat misconduct with appropriate action. We ensure that we treat any grievance an employee may have relating to their employment in a fair and reasonable manner; and
- **bullying & harassment** – we promote a working environment free of harassment and where individuals who believe that they are being subjected to any form of harassment are encouraged to come forward to have the issue resolved.

# GOVERNANCE

## Corporate governance

The directors recognise the importance of sound corporate governance, whilst taking into account the size and nature of the company. The company has fully complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance (Combined Code) for the 53 weeks ended 30 March 2008.

This statement describes how the principles of corporate governance in the Combined Code are applied by the company.

## The board

The board comprises eight directors: David Newlands, the non-executive Chairman, three executive directors, Dominic Taylor, George Earle and Tim Watkin-Rees and four non-executive directors, Kenneth Minton, David Morrison, Andrew Robb and Roger Wood. Kenneth Minton is the Senior Independent Non-executive Director.

The board considers that the non-executive directors David Newlands, Andrew Robb, Kenneth Minton and Roger Wood are independent for the purposes of the Combined Code. Given the size of the company and its ownership structure the board has concluded that the proportion of independent non-executive directors is appropriate.

All the non-executive directors bring considerable knowledge and experience to board deliberations. Non-executive directors do not participate in any of the company's share schemes or bonus schemes and their service is non-pensionable.

Biographical details of each of the directors are set out on pages 17 and 18. Procedures exist to allow the directors to seek independent professional advice in respect of their duties at the company's expense where the circumstances are appropriate. All directors have access to the Company Secretary for advice and are subject to re-election at intervals of no more than three years.

The terms and conditions of appointment of the non-executive directors and the executive directors' service contracts are available for inspection at the company's registered office during normal business hours and will be available at the annual general meeting.

The Chairman, David Newlands, chairs all board meetings and regularly consults with the executive directors regarding ongoing business. His other significant commitments are disclosed in his biography on page 17. The board considers that these commitments do not hinder his ability to discharge his responsibilities to the company and its subsidiaries (the group) effectively.

The directors believe it is essential for the company to be led and controlled by an effective board which monitors progress through monthly reports and management accounts. The board has a schedule of matters reserved for its approval. The most significant of these are the approval of:

- corporate strategy of the group and the annual operating and capital expenditure budgets;
- the appointment of the Chief Executive Officer, other directors and the Company Secretary;
- major capital investments;
- annual and half yearly accounts;
- interim management statements; and
- acquisitions and disposals.

Following the appointment of new directors, a full, formal and tailored induction programme is arranged.

The board met 8 times during the year and all members were in attendance. Where a director is unable to attend he provides input through discussion with the Chairman in advance of the meeting.

A formal performance evaluation of the board, its committees and individual directors took place during the year. The results of the board performance evaluation process have been analysed. The evaluation confirmed that the board was satisfied with the board's overall performance and there were no material changes recommended for improvement.

The various committees carried out self-assessments to assess whether their terms of reference had been satisfactorily fulfilled and how their processes could be improved. The non-executive and executive directors' performance was reviewed by the Chairman and Chief Executive respectively, taking into account the views of other directors. The performance of the Chairman was reviewed by the non-executive directors led by Kenneth Minton, the Senior Independent Director, also taking into account the views of the executive directors. Directors' and officers' liability insurance is maintained to provide cover should a legal action against the company's directors occur.

## Committees of the board

The following formally constituted committees deal with specific aspects of the group's affairs in accordance with the duties and responsibilities formally delegated to them by the board. The terms of reference for each of the committees are available on the company's website at www.paypoint.com.

## Audit Committee

The Audit Committee comprises Andrew Robb, Kenneth Minton and Roger Wood. It met 4 times during the year. All meetings (except one) were chaired by Andrew Robb who the board considers to have recent and relevant financial experience. All members were in attendance with the exception of Andrew Robb who was unable to attend one of the meetings.

The Audit Committee is primarily responsible for monitoring that the financial performance of the group is properly measured and reported and appropriate financial control systems and procedures are in place. During the year, it: reviewed reports from the auditors relating to the group's accounting and internal controls; advised the board on the appointment, performance, independence and objectivity of the auditors and the internal auditor; reviewed the effectiveness of the group's systems of internal control including fraud prevention; reviewed the appropriateness of the internal audit programme and the reports of the internal auditors. The committee considered the level of non-audit fees for services provided by the auditors in order to satisfy itself that the auditors' independence is safeguarded. The group has a policy which prohibits the auditors providing certain services which might impair their independence. Proposals to use the auditors for non-audit services are approved by the Audit Committee Chairman. The Audit Committee regularly meets the external auditors without the executive directors being present and procedures are in place which allows access at any time of both external and internal auditors to the Audit Committee. The Chairman of the committee reports the outcome of each meeting to the board which is provided with the minutes of all meetings.

## Remuneration Committee

The role, composition and activities of the Remuneration Committee and details of how the company applies the principles of the Combined Code in respect of directors' remuneration are set out in the Remuneration Committee Report on pages 23 to 31.

## Nomination Committee

The Nomination Committee comprises Andrew Robb, Kenneth Minton, Roger Wood and David Newlands who is its Chairman. It met once during the year and all members were in attendance.

The Nomination Committee is responsible for considering and making recommendations on the appointment of additional directors, the retirement of existing directors and for reviewing the size, structure and composition of the board and membership of board committees. There have been no changes to the composition of the board during the year.

## Risk management and internal control

The directors are responsible for establishing and maintaining the group's system of internal control which has been designed to meet the particular needs of the group and its risks. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. All procedures necessary to comply with Internal Control: Guidance for Directors on the Combined Code have been in place throughout the year and the directors have conducted a formal review of the effectiveness of the group's system of internal control during the year. No significant failings or weaknesses were identified during the review; however had there been, the board confirms that necessary actions would have been taken to remedy them. The operational management of the group is delegated to senior managers who are appointed by the Chief Executive. The responsibilities of the senior management group include the regular review of the main business risks to the group.

The group has prepared a detailed risk register which includes analysis of all the main operational risks identified by the senior management group covering all parts of the group's business activities. The senior management group evaluates and prioritises the identified key operational risks. In order to ensure that this process is managed effectively, members of the senior management group are asked to confirm in writing on each risk area that the potential threats in each area have been properly identified and recorded and the appropriate action taken. This process has been fully embedded into the operations of the business. The Audit Committee has received regular updates on the ongoing risk management, control systems and processes which are discussed at their meetings.

KPMG are the internal auditors and have conducted a rigorous three year internal audit programme covering all the group's key business areas which took place between 2005 and the end of the current year. Key risk areas were covered each year, with the balance of the programme completed over the three years. A new three year programme for 2008 to 2010 has been approved by the Audit Committee. In addition independent internal audits are conducted for assessment of compliance against ISO/IEC 27001:2005 (information security management), which takes place twice annually and by LINK auditors, on an annual basis, which assesses control over LINK related ATM systems and audits by our clients from time to time.

## Shareholder relations

The directors consider that the annual report and accounts play an important role in providing shareholders with an evaluation of the company's position and prospects. The board aims to achieve clear reporting of financial performance to all shareholders. The board acknowledges the importance of an open dialogue with its institutional shareholders and welcomes the interest of private investors. It believes that in addition to the annual report and the company's website, the annual general meeting is an ideal forum at which to communicate with investors and the board encourages their participation. The Senior Independent Director is available to address unresolved shareholder concerns.

The company held briefings with institutional fund managers, analysts and other investors following the announcement of half yearly results. Presentations have been held at other times during the year when appropriate and feedback from these has been reported to the board.

## BOARD OF DIRECTORS

**David Newlands, non-executive Chairman (aged 61) – appointed 4 August 1998**
David has been Chairman of PayPoint since 1998. He was previously Finance Director of The General Electric Company, p.l.c. (GEC) and non-executive Chairman of Britax International plc and deputy Chairman of The Standard Life Assurance Company plc. David is currently non-executive Chairman of Tomkins plc and Kesa Electricals plc, and a non-executive director of a number of other companies.

**Dominic Taylor, Chief Executive (aged 49) – appointed 4 August 1998**
Dominic joined PayPoint in 1997 as Retail Director and was appointed to his current role in August 1998. He was a Royal Naval officer for 12 years, following which he completed an MBA at the Cranfield School of Management. In 1991 Dominic joined the Vodafone Group where he led a number of initiatives including the development of its SMS service and a bid for the National Lottery, before becoming Sales and Marketing Director for the indirect sales of mobile phones to retailers. In 1996 Dominic joined Granada plc as a director of Granada Technology Group and Managing Director of Granada Business Technology, supplying film and telecoms products into the hotel and leisure sectors.

**George Earle, ACA, Finance Director (aged 54) – appointed 20 September 2004**
George joined PayPoint in September 2004 and is responsible for the financial affairs of the group. George qualified as a chartered accountant with Touche Ross & Co (now Deloitte & Touche LLP) in 1979, where he served in the corporate finance and audit groups becoming a partner in 1984. In 1987, George moved to Saatchi & Saatchi plc serving as Deputy Finance Director. George subsequently moved to GEC in 1989, where, until 2001, he fulfilled the role of Financial Services Director. George left Marconi (formerly GEC) in 2001 to work as Group Director, Chief Executive's Office at Centrica plc, and in 2003 was appointed as Director of Financial Control.

**Tim Watkin-Rees, Business Development Director (aged 45) – appointed 22 September 1998**
Tim was the founder Sales and Marketing Director of PayPoint in 1996. Since 2000, he has been responsible for strategic business development. Prior to PayPoint, he was a specialist in retail banking and payment systems starting with Lloyds Bank in 1984, then as a Senior Consultant with KPMG Management Consultants in 1998 and Head of Business Planning and Director of Consulting with Nexus (later Sligos and now Atos Origin) from 1989. He is qualified as an ACIB (Associate of the Chartered Institute of Bankers).

**David Morrison, non-executive director (aged 49) – appointed 12 January 1999**
David has been Chief Executive of Prospect Investment Management since 1999, when he started the company. He became a director of PayPoint in 1999 following an investment in the company by clients of Prospect. Prior to establishing Prospect he had worked in the venture capital sector with 3i, Abingworth Management and Botts & Company. He is currently a director of a number of public and private companies in the UK.

**Andrew Robb, non-executive director (aged 65) – appointed 18 August 2004**
Andrew worked for P&O Steam Navigation Co. from 1971 to 1989, initially as Financial Controller and, from 1983, as Group Finance Director. From 1989 to 2001 he was Group Finance Director of Pilkington plc. Andrew has also served on the board of Alfred McAlpine plc as a non-executive director and Chairman of the Audit Committee. Andrew is a Fellow of the Chartered Institute of Cost and Management Accountants and is currently a non-executive director and Chairman of the Audit Committee of Kesa Electricals plc, The Laird Group plc and Tata Steel (UK) Limited. He is also a non-executive director of Tata Steel Limited.

**Kenneth Minton, non-executive director (aged 71) – appointed 4 August 2004**
Kenneth spent most of his career at Laporte plc and held the position of Chief Executive officer for ten years. Kenneth has held roles as executive Chairman of Arjo Wiggins Appleton plc and non-executive Chairman of John Mowlem & Company plc and SGB Group plc. Kenneth is currently executive Chairman of 4Imprint plc. After 3 years on the board, Mr. Minton will retire at the AGM.

**Roger Wood, non-executive director (aged 65) – appointed 9 September 2004**
Roger began his career at International Computers Limited (ICL) becoming Managing Director of STC/Northern Telecom Limited and then Vice President of Nortel Europe SA. In 1993, he became Director General for Matra Marconi Space NV. Roger joined the board of Centrica plc in 1997 initially as Managing Director of British Gas Services Limited, then Managing Director of the Automobile Association in 1999 after Centrica's acquisition of the business until he retired in 2004. Roger is a non-executive director of Reliance Security Group Limited.

# DIRECTORS' REPORT

The directors present their annual report on the affairs of the company and of the group, together with the financial statements and independent auditors' report, for the 53 weeks ended 30 March 2008.

## Principal activity

The company is a holding company and its subsidiaries are engaged in developing and operating electronic payment collection systems for clients.

PayPoint processes transactions and collects payments on behalf of the UK and Ireland's leading utility and customer service organisations, and there are over 19,800 convenience retail outlets using PayPoint's terminals. On average, over seven million consumer transactions are processed weekly by PayPoint. At a PayPoint outlet consumers are provided with a one stop shop for making cash payments for the wide range of PayPoint's clients. In addition, PayPoint provides ATMs to retail outlets and processes ATM transactions.

PayPoint.net provides secure credit and debit card payments for web merchants.

Pay Store provides electronic mobile top-ups and scratch cards in Romania and is launching a bill payment service.

## Substantial shareholdings

On 6 May 2008, the company had been notified of the following disclosable interests in the voting rights of the company as required by provision 5.1.2 of the FSA Disclosure and Transparency Rules:

| Name of holder | No. of ordinary shares | Percentage of issued capital |
|---|---|---|
| Invesco Asset Management | 17,009,536 | 25.13% |
| Troy Asset Management plc | 7,009,157 | 10.35% |
| Lansdowne Partners Limited | 6,244,603 | 9.22% |
| RIT Capital Partners Plc | 6,221,207 | 9.19% |
| AXA Financial SA | 5,848,884 | 8.64% |
| Jupiter Asset Management Limited | 4,122,930 | 6.09% |
| Legal & General Investment Mgmt Limited | 2,989,350 | 4.42% |
| Standard Life Investments Limited | 2,343,300 | 3.48% |

As at the date of this report 67,700,397 Ordinary shares of 1/3p each have been issued and fully paid up and are quoted on the London Stock Exchange. During the year ended 30 March 2008, 20,526 Ordinary shares of 1/3p were issued pursuant to the Company's share option schemes. The rights and obligations attaching to the company's Ordinary shares, as well as the powers of the company's directors are set out in the company's articles of association, copies of which can be obtained from Companies House or by writing to the Company Secretary.

There were no restrictions on the voting rights attaching to the Ordinary shares or on the transfer of securities in the company. No person holds securities in the company carrying special rights with regard to control of the company. The company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. Unless expressly specified to the contrary in the articles of association of the company, the company's articles of association may be amended by a special resolution of the company's shareholders.

At the annual general meeting on 4 July 2007 the directors were given authority to purchase 14.99 % of its issued share capital, allot relevant securities up to an aggregate nominal amount of £75,123 and to disapply pre-emption rights in respect of allotments of relevant securities up to an aggregate nominal amount of £11,268. Resolutions to renew these authorities will be proposed at the 2008 annual general meeting, details of which are set out in the Notice of Meeting on page 66.

## Directors

The names of the directors at the date of this report and their biographical details are given on pages 17 and 18 and their interests in the ordinary shares of the company are given on page 31. There were no changes in directors during the year, although Mr. Minton will be retiring at the 2008 annual general meeting.

## Results for the period

The consolidated income statement, balance sheet and cash flow statement for the 53 weeks ended 30 March 2008 are set out in pages 35, 36 and 38.

The operating and financial review of the group for the 53 weeks ended 30 March 2008, which complies with the Accounting Standards Board's 2006 Statement on Operating and Financial Reviews, including an analysis of the group's key performance indicators and financing and treasury policy, is set out on pages 4 to 10. An analysis of risk is set out on page 12 and of risk management on page 16. The balance sheet and cash flow statement of the holding company for the 53 weeks ended 30 March 2008 are set out on page 37 and 39.

## Qualifying third party indemnity provisions for the benefits of directors

Under the Companies Act (Audit, Investigations and Community Enterprise) Act 2004 (which amends the Companies Act 1985), companies are under an obligation to disclose any indemnities which are in force in favour of their directors. The current articles of association of the company contain an indemnity in favour of the directors of the company which indemnifies them in respect of certain liabilities and costs that they might incur in the execution of duties as directors. Copies of the articles of association can be obtained from Companies House or by writing to the Company Secretary.

## Change of Control

All of the company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

There are no other significant contracts in place that would take effect, alter or terminate on the change of control of the Company.

## Suppliers' payment policy

The group aims to pay its creditors promptly, in accordance with terms agreed for payment. The group had 20 days' purchases outstanding at 30 March 2008 (2007: 18 days), based on the average daily amount invoiced by suppliers during the period.

## Charitable and political donations

The group made no political donations during the period (2007: Nil). Details of the charitable donations policy can be found within the operating and financial review on page 10.

## Employee matters and environmental issues

Employee matters and environmental issues are discussed in the corporate social responsibility report on page 13.

## Future developments

Future developments are discussed in the operating and financial review on pages 4 to 10.

## Dividends

The directors recommend the payment of a final dividend of 10.4p (2007: 9.1p) per ordinary share amounting to £7,040,500 (2007: £6,159,000) to be paid on 14 July 2008 to members on the register on 27 June 2008. An interim dividend was declared and paid during the year of 5.3p per share (2007: 4.6p per share) amounting to £3,579,000 (2007: £3,113,000).

## Related party transactions

Related party transactions can be found in note 27 on page 65.

## Going concern

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. Therefore, the financial statements have been prepared on an ongoing basis.

## Independent auditors

Deloitte & Touche LLP have expressed their willingness to continue as the company's auditors and a resolution for their re-appointment will be proposed at the forthcoming annual general meeting.

## Directors' report

Pages 4 to 22, inclusive, of this annual report comprise a Report of the Directors that has been drawn up and presented in accordance with English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

In particular, directors would be liable to the company (but not to any third party) if the directors' report contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

## Statement as to disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234 ZA of the Companies Act 1985.

Approved by the board of directors and signed on behalf of the board.

Susan Court
Company Secretary

22nd May 2008

## REMUNERATION COMMITTEE REPORT
## Introduction

This report has been prepared in accordance with The Directors' Report Regulations 2002, (the Regulations). The auditors are required to report on the auditable part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report is therefore divided into separate sections for audited and unaudited information.

## Unaudited information
## Remuneration Committee

The Remuneration Committee is responsible for developing policy on remuneration for executive directors and senior management and for determining specific remuneration packages for each of the executive directors. Kenneth Minton is Chairman of the committee with Andrew Robb and Roger Wood acting as committee members.

The Remuneration Committee received wholly independent advice on executive compensation and incentives from Halliwell Consulting during the year. No other services were provided to the company by Halliwell Consulting during the year.

The Remuneration Committee is formally constituted with written terms of reference which set out the full remit of the committee. A copy of the terms of reference is available to shareholders by writing to the Company Secretary whose contact details are set out on page 2. The terms of reference are also available on the company's website at www.paypoint.com. The Remuneration Committee met 3 times during the year and all members were in attendance.

## Remuneration policy overview

The Remuneration Committee has adopted a remuneration policy so that total levels of compensation encourage and reward high performance and attract and retain individuals of the right calibre to ensure the company meets its objectives. It is the opinion of the Remuneration Committee that shareholders' interests are best served by focusing a greater proportion of total remuneration on performance related compensation.

Short and long-term incentives are structured so as to align directors' interests with those of shareholders by rewarding them for enhancing shareholder value. It should be noted that the real value received by the executive directors under the share incentive arrangements will be dependent upon the degree to which the associated performance conditions have been satisfied at the end of the three year performance period and the share price of the company at this time. This ensures that substantial rewards are only received when value has been created in the business.

The company's comparator group for the purposes of benchmarking remuneration and comparative total shareholder return (TSR) performance under the PayPoint Long-Term Incentive Plan (the LTIP) for awards granted to the end of year under review is set out below:

Acal plc
Alphameric plc
Autonomy Corporation plc
BATM Advanced Communications plc
Big Yellow Group plc
BPP Holdings plc
BTG plc
Detica Group plc
DI com plc
Diploma plc
Fibernet Group plc
Gresham Computing plc
Intec Telecom Systems plc
Ricardo plc
Spring Group plc
Surfcontrol plc
Tribal Group plc

The comparator group companies are drawn from the FTSE All Share Support Services and Software and Computer Services Indices and were selected on their comparability in terms of market capitalisation and size to the company.

Over 50% of the executive directors' total remuneration packages are based on performance related elements. The main elements of these packages and the performance conditions are described below.

## Basic salary

The Remuneration Committee's policy is to set base salaries at median level. Salaries are reviewed annually. When determining the salary of the executive directors, the Remuneration Committee takes into consideration the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity, in particular the median salary levels of those companies within the comparator group. These factors are considered in parallel with the following:

- the performance of the individual executive director;
- the individual executive director's experience and responsibilities; and
- pay and conditions throughout the company.

## Annual performance related bonus

The annual bonus plan for the period ended 30 March 2008 provided for a maximum cash bonus of 50% of salary. Executive directors were also eligible to participate in the PayPoint plc Deferred Share Bonus Plan (DSB). Under the DSB they are able to choose to defer up to 50% of the bonus awarded (i.e. up to 25% of salary) and acquire shares (Bonus Shares), with the opportunity of an additional award of shares (Matching Shares) of an equivalent value to the gross bonus deferred (i.e. up to 25% of salary) which equates to a maximum bonus potential of 75% of salary.

The company's bonus plan for the period ended 30 March 2008 was based on the achievement of growth of economic profit (operating profit after tax and a charge for capital employed based on the company's cost of capital). Based upon the actual results for the period 91% of the maximum bonus is payable.

The Remuneration Committee believes that this will encourage a focus on both profit and capital efficiency which are key to driving shareholder value and which are implicit in the calculation of economic profit.

The Remuneration Committee reviews and agrees targets at the beginning of each financial year and adjusts those targets for any acquisitions during the year. Bonus payments are not pensionable.

The results are set out below:

| | 80% payment threshold for on plan delivery £000 | 100% payment threshold for 110% of plan delivery £000 | Actual results £000 |
|---|---|---|---|
| Economic profit | £15,821 | £17,403 | £16,713 |

## Deferred Share Bonus Plan (DSB)

The DSB was approved by shareholders prior to admission and was adopted by the company on admission. Executive directors and senior executives of the company are able to participate in the DSB. The maximum individual limit under the DSB is such that the maximum value of cash bonus, Bonus Shares and Matching Shares in any bonus year shall not exceed 100% of a participant's salary.

The release of Matching Shares is subject to:

- minimum earnings per share growth of the company of RPI + 3% p.a. over a three year period; and
- the participant still being employed by the company at the end of the three year deferral period from the award date.

If a participant disposes of any of the Bonus Shares during the three year deferral period a corresponding proportion of Matching Shares will be forfeited.

The executive directors elected to defer 50% of their cash bonus received in respect of the year ending 25 March 2007. During the year Bonus Shares were purchased and Matching Shares awarded under the DSB based on the value of bonus deferred. Details of the awards made under the DSB during the year are set out on page 30.

Since the year end all the executive directors have elected to defer 50% of the bonus earned in the current year in shares. It is intended that Bonus Shares and Matching Shares awards will be made under the DSB in May 2008.

## Long term incentives

The LTIP was approved by shareholders prior to admission and adopted by the company on admission.

Executive directors and senior executives are eligible to participate in the LTIP. Under the rules, the maximum annual award that can be made to an individual is 150% of salary.

Eligible executives are awarded rights to acquire a maximum number of shares at the beginning of a three year period, a proportion of which they will be entitled to acquire at the end of that period depending on the extent to which (if at all) the challenging performance conditions set by the Remuneration Committee at the time of the allocation is made are satisfied.

During the year Dominic Taylor received an LTIP award equivalent to 120% of salary and George Earle and Tim Watkin-Rees received LTIP awards equivalent to 100% of salary. Awards made in the year were granted as conditional awards of shares. Details of the LTIP awards made during the year are set out on page 29. During the year the first tranche of the LTIP awards were released in full and exercised by the executive directors, details are on page 29.

The performance conditions for the awards made during the year under the LTIP are set out in the following table:

| TSR position against comparator group | LTIP % of shares released |
|---|---|
| Below median | 0% |
| Median | 30%* |
| Upper quartile | 100%* |

*There is proportionate vesting between points.

In addition to the above comparative TSR performance of the company, the Remuneration Committee will, in any event, satisfy itself that the recorded TSR is a genuine reflection of the underlying financial performance of the company before the release of any share awards under the LTIP in accordance with the ABI guidelines, e.g. growth in earnings per share or economic profit.

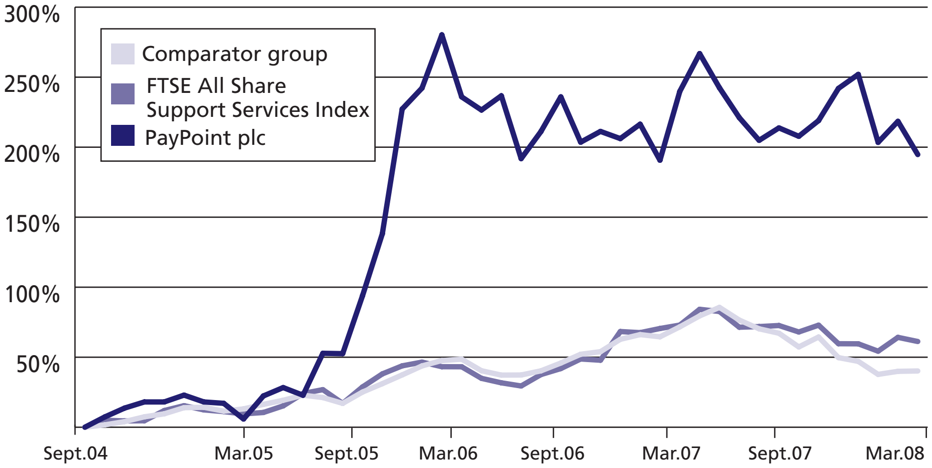
Comparative TSR was selected as the performance condition for LTIP awards by the Remuneration Committee as it ensures that the executives have outperformed their peers in the comparator group over the measurement period in delivering shareholder value before being entitled to receive any of their awards irrespective of general market conditions.

## Performance measurement

The Remuneration Committee determines whether the performance conditions for share awards are satisfied. Where the performance requirements are based on earnings per share, the Remuneration Committee will use the principles behind the audited figures disclosed in the company's financial statements, and may take advice from independent advisors as to whether any adjustments are required to ensure consistency in accordance with the terms of the performance conditions. Halliwell Consulting, the Remuneration Committee's advisors shall calculate the TSR where used as the performance measure. Performance conditions under the LTIP and DSB are not subject to re-testing.

## Total Shareholder Return (TSR) performance graph

The graph shows the company's performance, measured by TSR, compared with the constituents of the FTSE All Share Support Services Index and the company's comparator group since admission.




The Remuneration Committee consider the FTSE All Share Support Services Sector Index a relevant index for TSR comparison as the index members represent the broad range of UK quoted support service companies comparable to the company's business.

## PayPoint plc Share Incentive Plan (SIP)

The SIP was approved by shareholders prior to admission and adopted by the company at admission.

The board's objective is to give employees the opportunity to:

- invest their salary in company shares; and
- build up a shareholding in the company

The company is currently offering eligible employees, including executive directors and senior executives, the opportunity of purchasing £1,500 of shares a year out of pre-tax salary and provide additional matching shares on a one matching share for every share purchased basis. These matching shares will be normally released three years after they have been awarded provided that the associated shares purchased by the employee have been retained and provided the employee is still employed by a group company at this time.

Details of shares held in the SIP by executive directors are set out on page 30. Approximately 70% of eligible group employees currently participate in the purchase and matching element of the plan.

## Dilution

In accordance with the ABI guidelines the company can issue a maximum of 10% of its issued share capital in a rolling ten year period to employees under all its share plans. The company can only use half of the maximum (5%) to satisfy awards under discretionary or executive plans.

## Pension

The company pays the equivalent of 12% net of the executive director's basic salary for personal pension plans.

## Executive directors' contracts

Details of the service contracts of the executive directors of the company are as follows:

| Name | Company notice period | Contract date |
|---|---|---|
| D Taylor | 12 months | 13 September 2004 |
| G Earle | 12 months | 30 September 2004 |
| T Watkin-Rees | 12 months | 13 September 2004 |

There are no special provisions in service contracts relating to cessation of employment or change of control. The policy on termination is that the company does not make payments beyond its contractual obligations and executive directors will be expected to mitigate their loss. In addition, the Remuneration Committee ensures that there have been no unjustified payments for failure.

## Non-executive directors

The remuneration of the non-executive directors is determined by the board based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the Senior Independent Director and the Chief Executive) and is within the limits set by the articles of association.

Non-executive directors do not participate in any bonus plan or share incentive programme operated by the company and are not entitled to pension contributions or other benefits provided by the company.

Details of the terms of appointment of the non-executive directors are set out in the table below:

| Name | Date of appointment | Expiry date |
|---|---|---|
| K Minton* | 4 August 2004 | 1 August 2010 |
| D Morrison | 10 August 2004 | 1 August 2010 |
| D Newlands | 10 August 2004 | 1 August 2010 |
| A Robb | 10 August 2004 | 1 August 2010 |
| R Wood | 10 September 2004 | 1 August 2010 |

*K Minton is to retire at the 2008 annual general meeting.

Under the company's articles of association each director is required to submit themselves for re-election every three years. The board has determined that the basis of appointment of all non-executive directors will be that they will ordinarily serve two three year terms, but that any additional three year terms may be agreed by the board on a case by case basis. With the exception of K Minton who is retiring, all non-executive directors' appointments were renewed for a second three year term during the year.

## Compliance

The board has reviewed the group's compliance with the Combined Code on remuneration related matters. It is the opinion of the board that the group had complied with all remuneration related aspects of the Combined Code during the period since admission.

## Audited information

### Directors' emoluments

| | Basic salary[1] | | Bonuses | | Benefits in kind[2] | | Total | | Pension[3] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| **Executive** | | | | | | | | | | | | |
| D Taylor | **284** | 249 | **123** | 118 | **12** | 8 | **419** | 375 | **32** | 28 | **451** | 403 |
| G Earle | **232** | 212 | **100** | 100 | **6** | 7 | **338** | 319 | **61** | 24 | **399** | 343 |
| T Watkin-Rees | **196** | 179 | **84** | 83 | **8** | 7 | **288** | 269 | **22** | 20 | **310** | 289 |
| **Non-executive** | | | | | | | | | | | | |
| D Newlands | **75** | 75 | **–** | – | **–** | – | **75** | 75 | **–** | – | **75** | 75 |
| A Robb | **42** | 42 | **–** | – | **–** | – | **42** | 42 | **–** | – | **42** | 42 |
| K Minton | **42** | 42 | **–** | – | **–** | – | **42** | 42 | **–** | – | **42** | 42 |
| D Morrison | **35** | 35 | **–** | – | **–** | – | **35** | 35 | **–** | – | **35** | 35 |
| R Wood | **35** | 35 | **–** | – | **–** | – | **35** | 35 | **–** | – | **35** | 35 |
| Total | **941** | 869 | **307** | 301 | **26** | 22 | **1,274** | 1,192 | **115** | 72 | **1,389** | 1,264 |

1 Basic salary is the total salary paid during the year and includes payment of a car allowance as part of the contract of employment.

2 Benefits include the following elements: private medical cover, permanent health insurance and life assurance.

3 Defined contribution pension scheme, of which two current directors are members. For George Earle the Remuneration Committee have agreed that his pension contributions will be paid direct to him (grossed up for tax) and the 2008 figure includes a back dating of the gross up for 2007.

### Long Term Incentive Plan[1]

| | Number of shares at 26 March 2007 | Number of shares awarded during the period | Number of shares released/ exercised during the period | Number of shares at 30 March 2008 | Value of shares awarded | Date of grant | Release date |
|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | |
| D Taylor | 52,083[3] | | 52,083[5] | | £100,000 | 24.09.04 | |
| | 52,083[4] | | 52,083[5] | | £100,000 | 24.09.04 | |
| | 103,407[4] | | | 103,407 | £258,000 | 13.06.05 | 13.06.08 |
| | 43,721[4] | | | 43,721 | £282,000 | 05.06.06 | 05.06.09 |
| | | 51,266[2] | | 51,266 | £324.000 | 10.06.07 | 10.06.10 |
| G Earle | 52,083[3] | | 52,083[5] | | £100,000 | 24.09.04 | |
| | 84,635[4] | | 84,635[5] | | £162,500 | 24.09.04 | |
| | 73,747[4] | | | 73,747 | £184,000 | 13.06.05 | 13.06.08 |
| | 31,008[4] | | | 31,008 | £200,000 | 05.06.06 | 05.06.09 |
| | | 34,810[2] | | 34,810 | £220,000 | 10.06.07 | 10.06.10 |
| T Watkin-Rees | 52,083[3] | | 52,083[5] | | £100,000 | 24.09.04 | |
| | 2,605[4] | | 2,605[5] | | £5,000 | 24.09.04 | |
| | 61,723[4] | | | 61,723 | £154,000 | 13.06.05 | 13.06.08 |
| | 25,891[4] | | | 25,891 | £167,000 | 05.06.09 | 05.06.09 |
| | | 29,066[2] | | 29,066 | £183,700 | 10.06.07 | 10.06.10 |

1 Awards under the LTIP will only vest if the company's comparative TSR performance is equal to or greater than the median level of performance over the three year holding period at which point 30% of awards will vest, with full vesting occurring for upper quartile performance (proportionate vesting between points).

2 Awards were granted at a price of £6.32 per share (the closing price on the preceding dealing day).

3 Granted in the form of an EMI nil cost option.

4 Granted as a conditional award of shares.

5 At the date of exercise the market value was £5.98 per share.

### Deferred Share Bonus Plan

| | Number of Bonus Shares purchased at 25 March 2007[2] | Number of Matching Shares awarded at 25 March 2007[3] | Number of Bonus Shares purchased during the year | Number of Matching Shares awarded during the year | Number of Bonus Shares purchased at 30 March 2008 | Number of Matching Shares awarded at 30 March 2008 | Value of Matching Shares awarded | Date of grant | Release date[4] |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Dominic Taylor | 11,944 | 20,243 | | | 11,944 | 20,243 | £50,000 | 13.06.05 | 13.06.08 |
| | 4,841 | 8,206 | | | 4,841 | 8,206 | £53,749 | 05.06.06 | 05.06.09 |
| | | | 5,600[1] | 9,491[1] | 5,600 | 9,491 | £34,663 | 13.06.07 | 13.06.10 |
| | 16,785 | 28,449 | | | 22,385 | 37,940 | | | |
| George Earle | 10,451 | 17,713 | | | 10,451 | 17,713 | £43,750 | 13.06.05 | 13.06.08 |
| | 4,143 | 7,023 | | | 4,143 | 7,023 | £46,000 | 05.06.06 | 05.06.09 |
| | | | 4,765[1] | 8,077[1] | 4,765 | 8,077 | £29,494 | 13.06.07 | 13.06.10 |
| | 14,594 | 24,736 | | | 19,359 | 32,813 | | | |
| Tim Watkin-Rees | 8,361 | 14,170 | | | 8,361 | 14,170 | £35,000 | 13.06.05 | 13.06.08 |
| | 3,467 | 5,878 | | | 3,467 | 5,878 | £38,500 | 05.06.06 | 05.06.09 |
| | | | 3,979[1] | 6,744[1] | 3,979 | 6,744 | £24,629 | 13.06.07 | 13.06.10 |
| | 11,828 | 20,048 | | | 15,807 | 26,792 | | | |

1 The Bonus Shares were purchased and the Matching Shares awarded at a share price of £6.19.

2 Bonus Shares are purchased with the bonus deferred after the deduction of tax.

3 Matching Shares are awarded based on the value of the gross bonus deferred.

4 No Matching Shares will be released unless the Company's earnings per share growth is 3% p.a. in excess of the Retail Prices Index over the three year holding period.

## Share Incentive Plan

| | Number of Partnership Shares[1] purchased at 26 March 2007 | Number of Matching Shares[2] awarded at 26 March 2007 | Number of Free Shares[3] awarded at 26 March 2007 | Dividend Shares[4] acquired at 26 March 2007 | Total shares at 26 March 2007 | Number of Partnership Shares purchased during the year | Matching Shares awarded during the year | Dividend Shares acquired during the year | Dates of release of Matching/Free Dividend Shares | Total shares at 30 March 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | | |
| D Taylor | 926 | 926 | 1,562 | 130 | 3,544 | 245 | 245 | 85 | 24.09.07-16.03.10 | 4,119 |
| G Earle | 949 | 949 | – | 53 | 1,951 | 246 | 246 | 49 | 24.09.07-16.03.10 | 2,492 |
| T Watkin-Rees | 949 | 949 | 1,562 | 125 | 3,585 | 246 | 246 | 86 | 24.09.07-16.03.10 | 4,163 |

1 Partnership Shares are ordinary shares of the company purchased on a monthly basis during the year (at prices from £5.39 to £7.00).

2 Matching Shares are ordinary shares of the company awarded conditionally on a monthly basis during the year (at prices from £5.39 to £700) in conjunction with 2 share purchases.

3 Free Shares are ordinary shares of the company awarded conditionally on 24 September 2004 based on the share price on admission of £1.92.

4 Dividend shares are ordinary shares of the company purchased with the value of dividends paid in respect of all other shares held in the plan.

## Directors' shareholdings

The directors serving during the period who had interests in the shares of the company were as follows:

| | Ordinary shares of 1/3p each 30 March 2008 | Ordinary shares of 1/3p each 25 March 2007 |
|---|---|---|
| G Earle | 104,166 | 52,083 |
| K Minton | 130,208 | 130,208 |
| D Newlands[1] | 180,100 | 470,243 |
| A Robb | 10,417 | 10,417 |
| D Taylor | 1,517,813 | 1,771,502 |
| T Watkin-Rees | 640,180 | 750,000 |
| R Wood | 52,083 | 52,083 |

[1]D Newlands holds a non-beneficial interest in a further 900,000 shares held in various trusts of which he is a trustee (2007: 900,000).

Between the end of the period and 22 May 2008, D Taylor, G Earl and T Watkins Rees each acquired 45 Partnership Shares and 45 Matching Shares under the Share Incentive Plan.

The market price of the company's shares on 30 March 2008 was £5.65 (25 March 2007: £6.85) per share and the low and high share prices during the year were £5.29 and £7.28 respectively.

This report has been approved by the Remuneration Committee.

Kenneth Minton
Chairman, Remuneration Committee

22 May 2008

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. The directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRS as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial period the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We can confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and the undertakings included in the consolidation taken as a whole; and

2. the management report which is incorporated into the directors' report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Dominic Taylor
Director
22 May 2008

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYPOINT PLC

We have audited the group and parent company financial statements (the financial statements) of PayPoint plc for the 53 weeks ended 30 March 2008 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated and parent company balance sheets, the consolidated and parent company cash flow statements and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Remuneration Committee Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the Remuneration Committee Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Remuneration Committee Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Committee Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the results for the year section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Committee Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Committee Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Committee Report to be audited.

## Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 30 March 2008 and of its profit for the period then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 March 2008;
- the financial statements and the part of the Remuneration Committee Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

**Deloitte & Touche LLP**
Chartered Accountants and Registered Auditors
London, UK
22 May 2008

## CONSOLIDATED INCOME STATEMENT

| Continuing operations | Note | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
|---|---|---|---|
| **Revenue** | 2 | **212,145** | 157,068 |
| Cost of sales | 2 | **(155,591)** | (111,068) |
| Gross profit | | **56,554** | 46,000 |
| Administrative expenses | | **(27,354)** | (20,798) |
| **Operating profit** | 4 | **29,200** | 25,202 |
| Investment income | 6 | **1,262** | 1,470 |
| Finance costs | 6 | **(58)** | (75) |
| **Profit before tax** | | **30,404** | 26,597 |
| Tax | 7 | **(9,424)** | (7,859) |
| **Profit for the financial year attributable to equity holders of the parent** | 21 | **20,980** | 18,738 |
| | | | |
| **Earnings per share** | | | |
| Basic | 9 | **31.1p** | 27.7p |
| Diluted | 9 | **30.8p** | 27.3p |

## CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

| | Note | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
|---|---|---|---|
| Exchange differences on translation of foreign operations | 21 | **318** | – |
| Net income recognised directly in equity | | **318** | – |
| Profit for the period | | **20,980** | 18,738 |
| Total recognised income and expenses for the period | | **21,298** | 18,738 |

## CONSOLIDATED BALANCE SHEET

| | Note | As at 30 March 2008 £000 | 25 March 2007 £000 |
|---|---|---|---|
| **Non current assets** | | | |
| Goodwill | 10 | **27,428** | 18,207 |
| Other intangible assets | 11 | **2,742** | 2,839 |
| Property, plant and equipment | 12 | **13,114** | 11,844 |
| Deferred tax asset | 13 | **1,571** | 1,572 |
| Investment | 27 | **375** | – |
| | | **45,230** | 34,462 |
| **Current assets** | | | |
| Inventories | 15 | **1,250** | 1,651 |
| Trade and other receivables | 17 | **28,285** | 20,671 |
| Cash and cash equivalents | 18 | **27,727** | 24,324 |
| | | **57,262** | 46,646 |
| **Total assets** | | **102,492** | 81,108 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **45,275** | 36,228 |
| Current tax liabilities | | **7,226** | 4,115 |
| Obligations under finance leases | | **70** | – |
| | | **52,571** | 40,343 |
| **Non-current liabilities** | | | |
| Other liabilities | 20 | **334** | 392 |
| | | **334** | 392 |
| **Total liabilities** | | **52,905** | **40,735** |
| **Net assets** | | **49,587** | **40,373** |
| **Equity** | | | |
| Share capital | 21 | **226** | 226 |
| Investment in own shares | 21 | **(935)** | (1) |
| Share option and SIP reserve | 21 | **2,281** | 1,712 |
| Hedging and translation reserve | 21 | **318** | – |
| Retained earnings | 21 | **47,697** | 38,436 |
| **Total equity attributable to equity holders of the parent company** | 22 | **49,587** | **40,373** |

These financial statements were approved by the board of directors on 22 May 2008.
Signed on behalf of the board of directors

Dominic Taylor
Director

22 May 2008

## COMPANY BALANCE SHEET

| | Note | As at 30 March 2008 £000 | 25 March 2007 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments | 14 | 70,474 | 57,646 |
| | | 70,474 | 57,646 |
| **Current assets** | | | |
| Trade and other receivables | 17 | 7,168 | 16,903 |
| Cash and cash equivalents | | 12 | – |
| | | 7,180 | 16,903 |
| **Total assets** | | 77,654 | **74,549** |
| **Current liabilities** | | | |
| Trade and other payables | 19 | 2,172 | 18 |
| Bank overdraft | | – | 99 |
| **Non-current liabilities** | | | |
| Other liabilities | 20 | 35,855 | 31,759 |
| **Total liabilities** | | 38,027 | **31,876** |
| **Net assets** | | 39,627 | **42,673** |
| **Equity** | | | |
| Share capital | 21 | 226 | 226 |
| Investment in own shares | 21 | (935) | (1) |
| Share option and SIP reserve | 21 | 2,281 | 1,712 |
| Retained earnings | 21 | 38,055 | 40,736 |
| **Total equity** | 22 | 39,627 | **42,673** |

These financial statements were approved by the board of directors on 22 May 2008.

Signed on behalf of the board of directors

Dominic Taylor
Director
22 May 2008

## CONSOLIDATED CASH FLOW STATEMENT

| | Note | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
|---|---|---|---|
| **Net cash flow from operating activities** | 28 | **29,618** | 28,181 |
| **Investing activities** | | | |
| Investment income | | **1,252** | 1,310 |
| Purchases of property, plant and equipment | | **(5,519)** | (6,646) |
| Proceeds from disposal of property, plant and equipment | | **110** | 194 |
| Acquisition of subsidiaries | 16 | **(8,227)** | (19,754) |
| Investment | 27 | **(375)** | – |
| Purchase of own shares | | **(3,467)** | – |
| **Net cash used in investing activities** | | **(16,226)** | **(24,896)** |
| **Financing activities** | | | |
| Repayments of obligations under finance leases | | **(246)** | (67) |
| Dividends paid | | **(9,738)** | (8,189) |
| Net cash used in financing activities | | **(9,984)** | (8,256) |
| Net increase / (decrease) in cash and cash equivalents | | **3,408** | (4,971) |
| Cash and cash equivalents at beginning of year | | **24,324** | 29,295 |
| Effect of foreign exchange rate changes | | **(5)** | – |
| **Cash and cash equivalents at end of year** | | **27,727** | **24,324** |

## COMPANY CASH FLOW STATEMENT

| | Note | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
|---|---|---|---|
| **Net cash inflow from operating activities** | 28 | **23,993** | 25,125 |
| **Investing activities** | | | |
| Interest received | | **1** | 55 |
| Investment | 27 | **(375)** | – |
| Investment in group company | 14 | **(2,169)** | |
| Purchase of own shares | 27 | **(3,467)** | – |
| Acquisition of subsidiaries | 16 | **(8,134)** | (21,098) |
| Net cash used from investing activities | | **(14,144)** | (21,043) |
| **Financing activities** | | | |
| Dividends paid | | **(9,738)** | (8,189) |
| Net cash used in financing activities | | **(9,738)** | (8,189) |
| Net increase/(decrease) in cash and cash equivalents | | **111** | (4,107) |
| Cash and cash equivalents at beginning of year | | **(99)** | 4,008 |
| Cash and cash equivalents at end of year | | **12** | (99) |

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting policies

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

**Basis of preparation**

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

The group has adopted IFRS 7 Financial Instruments: Disclosures. This has resulted in the financial instrument disclosures previously required by IAS32 Financial Instruments: Presentation and Disclosure being replaced by those under IFRS 7.

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

- IAS1 (Revised) Presentation of financial statements
- IAS23 (Revised) Borrowing costs
- IAS27 (Revised) Consolidated and separate financial statements
- Amendment to IAS32 Financial Instruments: Presentation
- Amendment to IFRS2 Share based payment
- IFRS3 (Revised) Business combinations
- IFRS8 Operating Segments
- IFRIC11 IFRS2: Group and Treasury Share Transactions
- IFRIC12 Service Concession Arrangements
- IFRIC 13 Customer loyalty programmes
- IFRIC 14 IAS19: The limit on a defined benefit asset, minimum funding requirements and their interaction.

The group does not consider that these Standards and Interpretations will have a significant impact on the financial statements of the group when the respective standards come into effect.

The financial statements are presented in pounds sterling because it is the currency of the primary economic environment in which the group operates.

The principal accounting policies adopted are set out below.

**Basis of consolidation**

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

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

**Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Revenue**

Revenue is measured at the fair value of the consideration received or receivable and comprises the value of sales of services (excluding VAT) in the normal course of business.

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

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

**Cost of sales**

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

**Pension costs**

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

**Share-based payments**

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based upon the management's estimate of shares that will eventually vest. Fair value is measured by use of either a Monte Carlo simulation or Black Scholes model depending upon the scheme. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**Interest income**

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

**Taxation**

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

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

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

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

**Foreign currency**

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

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

**Intangible assets**

Contracts with merchants and technology

On acquisitions the group has recognised contracts with merchants and technology, based on their estimated fair values as intangible assets.

Contracts with merchants are amortised on a straight line basis generally between 1 and 5 years and technology is amortised over its estimated useful economic life of 10 years.

**Software development expenditure**

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

**Property, plant and equipment**

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

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

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

**Inventories**

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

**Leases**

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

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

**Dividends**

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

**Treasury shares**

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

**Cash and cash equivalents**

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

**Critical accounting judgements**

The critical accounting judgements and key sources of estimation uncertainty in the business are valuation of goodwill £27.5 million (2007: £18.2 million) and other intangible assets £2.7 million (2007: £2.8 million). Management reviews goodwill for any impairment on an annual basis, see note 10. Intangible assets are amortised over their economic useful life, see note 11. The accounting policies for goodwill and intangible assets are included above in this note 1.

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

**(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, cost of sales and gross throughput

Revenue comprises the value of sales (excluding VAT) of services in the normal course of business and includes amounts billed to customers to be passed on to retail agents as commission payable, the face value of mobile top-ups where PayPoint acts as principal and for Metacharge, 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.

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 and the cost of mobile top-ups where PayPoint is the principal in the supply chain.

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

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

| | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
|---|---|---|
| Revenue – transaction processing | **210,528** | 155,659 |
| – lease rental of ATMs | **1,617** | 1,409 |
| | **212,145** | 157,068 |
| less: | | |
| Commission payable to retail agents | **(83,439)** | (76,986) |
| Cost of mobile top-ups as principal | **(55,468)** | (21,050) |
| Acquiring bank changes | **(3,378)** | (1,333) |
| Net revenue | **69,860** | 57,699 |
| **Net revenue by market sector** | | |
| Bill and general payments | **30,652** | 25,737 |
| Mobile top-ups | **25,153** | 22,633 |
| ATMs | **6,561** | 5,751 |
| Internet payments | **4,927** | 1,623 |
| Other | **2,567** | 1,955 |
| **Net revenue** | **69,860** | 57,699 |
| UK | **66,507** | 56,757 |
| International[1] | **3,353** | 942 |
| **Net revenue** | **69,860** | 57,699 |

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

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

| | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
|---|---|---|
| Cost of sales | | |
| Commission payable to retail agents | (83,439) | (76,986) |
| Cost of mobile top-ups as principal | (55,468) | (21,050) |
| Acquiring bank charges | (3,378) | (1,333) |
| Depreciation and amortisation | (5,719) | (3,815) |
| Other | (7,587) | (7,884) |
| Total cost of sales | (155,591) | (111,068) |

**Gross throughput**

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Transactions via PayPoint terminals, retailer Epos systems and sale of scratch cards | 5,931,224 | 4,826,632 |
| ATM transactions | 328,237 | 293,287 |
| Internet transactions | 1,286,887 | 117,180 |
| Gross throughput | 7,546,348 | 5,237,099 |

## 3. Employee information

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| **Average number of persons employed** | | | | |
| Sales, distribution and marketing | 106 | 50 | – | – |
| Operations and administration | 305 | 194 | 5 | 5 |
| | 411 | 244 | 5 | 5 |
| **Staff costs during the year (including directors)** | £000 | £000 | £000 | £000 |
| Wages and salaries | 13,486 | 8,261 | 229 | 229 |
| Social security costs | 1,552 | 886 | 24 | 26 |
| Pension costs (note 23) | 622 | 432 | – | – |
| | 15,660 | 9,579 | 253 | 255 |

Directors' emoluments, pension contributions and share options are disclosed in the Remuneration Committee report on pages 23 to 31.

Included within staff costs is a share based payment charge (note 21) of £1,121,000 (2007: £954,000).

## 4. Operating profit

| | Group | |
|---|---|---|
| | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
| **Operating profit is after charging/(crediting):** | | |
| Inventory expensed – cost of mobile to-ups as principal | **55,468** | 21,050 |
| Depreciation on owned assets | **4,812** | 3,603 |
| Gain/(loss) on disposal of property, plant and equipment | **(29)** | (7) |
| Amortisation of intangible assets | **907** | 212 |
| Rentals under operating leases: | | |
| – other operating leases | **655** | 425 |
| – income from rental of ATM's | **(1,617)** | (1,409) |
| Auditors remuneration (see note below) | **175** | 207 |
| Staff costs | **15,660** | 9,579 |

| | 2008 £000 | 2007 £000 |
|---|---|---|
| **Auditors' remuneration** | | |
| Fees payable to the company's auditors for the audit of the company's annual accounts | **10** | 10 |
| Fees payable to the group's auditors for the audit of the company's subsidiaries | **109** | 92 |
| **Total audit fees** | **119** | 102 |
| Fees payable to the group's auditors and their associates for other services to the group | | |
| Tax | **56** | 90 |
| Corporate finance services* | **10** | 165 |
| Other | **–** | 15 |
| Total non-audit fees | **66** | 270 |

*In 2007 the corporate finance services costs were capitalised

Fees payable to Deloitte & Touche LLP and their associates for non-audit services to the company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

A description of the work of the Audit Committee is set out on page 15 and includes an explanation of how auditor independence is safeguarded where non-audit services are provided by the auditors.

## 5. Profit of parent company

The company has taken advantage of the exemption under section 230 of the Companies Act 1985 and consequently the income statement of the parent company is not presented as part of these financial statements. The profit of the parent company for the financial year amounted to £9,038,000 (2007: loss £221,000).

## 6. Investment income and finance costs

**Investment income**

Investment income comprises interest on current and deposit accounts.

| | Group | |
|---|---|---|
| | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
| Interest revenue: | | |
| Bank deposits | 1,262 | 1,470 |

**Finance costs**

| | Group | |
|---|---|---|
| | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
| Bank charges | 49 | 75 |
| Finance charges | 9 | – |
| | 58 | 75 |

## 7. Tax

The charge for the year can be reconciled to the profit per the income statement as follows:

| | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
|---|---|---|
| Current tax | **9,423** | 7,935 |
| Deferred tax | **1** | (76) |
| | **9,424** | 7,859 |
| The charge for the year can be reconciled to the profit before tax as set out in the consolidated income statement | | |
| **Profit before tax** | **30,404** | 26,597 |
| Tax at the UK Corporation tax rate of 30% (2007: 30%) | **9,121** | 7,979 |
| Tax effects of: | | |
| Profit/(losses) in countries where the tax rate is different to the UK | **47** | (40) |
| Disallowable expenses | **359** | 52 |
| Utilisation of tax losses not previously recognised | **(103)** | – |
| Losses in companies where a deferred tax asset is not recognised | **116** | – |
| Adjustments in respect of prior years | **(88)** | (132) |
| Revaluation of the deferred tax balance from 30% to 28% | **(28)** | – |
| **Actual amount of tax charge** | **9,424** | 7,859 |

## 8. Dividends on equity shares

| | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
|---|---|---|
| **Equity dividends on ordinary shares** | | |
| Interim dividend paid of 5.3p per share (2007: 4.6p) | **3,579** | 3,113 |
| Proposed final dividend of 10.4p per share (2007: paid 9.1p per share) | **7,040** | 6,159 |
| Total dividends paid and recommended 15.7p per share (2007: 13.7p per share) | **10,619** | 9,272 |
| **Amounts distributed to equity holders in the period** | | |
| Final dividend for the prior period | **6,159** | 5,076 |
| Interim dividend for the current period | **3,579** | 3,113 |
| | **9,738** | 8,189 |

During the year the company received dividends in total of £9,738,000 from its wholly owned subsidiaries, PayPoint Network Ltd and PayPoint Collections Ltd.

## 9. Earnings per share

**Basic earnings per share**

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

| | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £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 | **20,980** | 18,738 |

| | 2008 Number of shares | 2007 Number of shares |
|---|---|---|
| Weighted average number of ordinary shares in issue (for basic earnings per share) | **67,369,600** | 67,678,187 |
| Potential dilutive ordinary shares: | | |
| Long-term incentive plan | **669,449** | 974,116 |
| Deferred share bonus | **119,903** | 80,336 |
| Diluted basis | **68,158,952** | 68,732,639 |

## 10. Goodwill

| | Total £000 |
|---|---|
| **Cost** | |
| At 26 March 2007 | 18,207 |
| Recognised on acquisition of subsidiaries (note 16) | 9,085 |
| Exchange difference | 136 |
| At 30 March 2008 | **27,428** |
| **Accumulated impairment losses** | |
| At 26 March 2007 | – |
| Impairment losses for the period | – |
| At 30 March 2008 | – |
| **Carrying amount** | |
| **At 30 March 2008** | **27,428** |
| At 25 March 2007 | 18,207 |

## 10. Goodwill (continued)

| | Total £000 |
|---|---|
| **Cost** | |
| At 1 April 2006 | – |
| Recognised on acquisition of subsidiaries | 18,207 |
| At 25 March 2007 | **18,207** |
| | |
| **Accumulated impairment losses** | |
| At 1 April 2006 | – |
| Impairment losses for the year | – |
| At 25 March 2007 | – |
| | |
| **Carrying amount** | |
| **At 25 March 2007** | **18,207** |
| At 31 March 2006 | – |

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 (CGUs) 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 CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations 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 post tax rate used to discount the forecast cash flows is 10 per cent.

## 11. Other intangible assets

| | Technology £000 | Contracts with merchants £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 26 March 2007 | 1,800 | 1,251 | 3,051 |
| Acquired on acquisition of subsidiaries (note 16) | – | 801 | 801 |
| Exchange difference | – | 16 | 16 |
| At 30 March 2008 | 1,800 | 2,068 | 3,868 |
| **Amortisation** | | | |
| At 26 March 2007 | 65 | 147 | 212 |
| Charge for the year | 180 | 727 | 907 |
| Exchange difference | – | 7 | 7 |
| At 30 March 2008 | 245 | 881 | 1,126 |
| **Carrying amount** | | | |
| **At 30 March 2008** | **1,555** | **1,187** | **2,742** |
| At 25 March 2007 | 1,735 | 1,104 | 2,839 |

| | Technology £000 | Contracts with merchants £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2006 | – | – | – |
| Acquired on acquisition of subsidiaries | 1,800 | 1,251 | 3,051 |
| At 25 March 2007 | 1,800 | 1,251 | 3,051 |
| **Amortisation** | | | |
| At 1 April 2006 | – | – | – |
| Charge for the year | 65 | 147 | 212 |
| At 25 March 2007 | 65 | 147 | 212 |
| **Carrying amount** | | | |
| **At 25 March 2007** | **1,735** | **1,104** | **2,839** |
| At 31 March 2006 | – | – | – |

The amortisation period for technology costs incurred is 10 years and amortisation of merchant contracts is between 1.9 years and 4.6 years depending upon the merchant churn in the relevant acquired company.

An exchange difference arises as a result of the intangible assets for Pay Store. IAS 21 requires the use of the acquisition rate for the original purchase cost and the year end rate for the end of the year balance, thus giving an exchange difference.

## 12. Property, plant and equipment

| Group | Terminals and ATMs £000 | Fixtures, fittings and equipment £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 26 March 2007 | 26,329 | 1,653 | 27,982 |
| Acquisition of subsidiary (note 16) | 1,112 | 934 | 2,046 |
| Additions | 3,086 | 1,031 | 4,117 |
| Disposals | (145) | (4) | (149) |
| At 30 March 2008 | 30,382 | 3,614 | 33,996 |
| **Accumulated depreciation** | | | |
| At 26 March 2007 | 15,045 | 1,093 | 16,138 |
| Charge for the year | 4,197 | 615 | 4,812 |
| Disposals | (68) | – | (68) |
| At 30 March 2008 | 19,174 | 1,708 | 20,882 |
| **Net book value** | | | |
| **At 30 March 2008** | **11,208** | **1,906** | **13,114** |
| At 25 March 2007 | 11,284 | 560 | 11,844 |

The net book value of assets held under finance leases is £178,000 (2007: £NIL). The cost for ATMs that are rented out under operating leases is £5,455,000 (2007: £4,857,000) and the accumulated depreciation £3,548,000 (2007: £2,326,000). At 30 March 2008 the group had entered into contractual commitments for the acquisition of terminals and ATMs amounting to £678,000 (2007: £751,000).

## 12. Property, plant and equipment (continued)

| Group | Terminals and ATMs £000 | Fixtures, fittings and equipment £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 April 2006 | 20,617 | 868 | 21,485 |
| Acquisition of subsidiaries | – | 144 | 144 |
| Additions | 6,024 | 641 | 6,665 |
| Disposals | (312) | – | (312) |
| At 31 March 2007 | 26,329 | 1,653 | 27,982 |
| **Accumulated depreciation** | | | |
| At 1 April 2006 | 11,815 | 776 | 12,591 |
| Acquisition of subsidiary | – | 69 | 69 |
| Charge for the year | 3,355 | 248 | 3,603 |
| Disposals | (125) | – | (125) |
| At 25 March 2007 | 15,045 | 1,093 | 16,138 |
| **Net book value** | | | |
| **At 25 March 2007** | **11,284** | **560** | **11,844** |
| At 31 March 2006 | 8,802 | 92 | 8,894 |

## 13. Deferred tax asset

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| **Movement on deferred tax asset** | | |
| At start of year | **1,572** | 1,184 |
| Acquisition of subsidiary (note 16) | **–** | 312 |
| Charge/(credit) to income statement | **(1)** | 76 |
| At end of period | **1,571** | 1,572 |
| **Analysis of deferred tax asset** | | |
| Capital allowances in excess of depreciation | **620** | 807 |
| Share based payments | **795** | 546 |
| Short term timing differences | **27** | 89 |
| Losses | **129** | 130 |
| | **1,571** | 1,572 |

**At the balance sheet date:**

(i) the group has further unused tax losses of £1,839,000 (2007: £2,262,600) available for offset against future profits in the subsidiaries in which the losses reside. No deferred tax assets have been recognised in respect of these losses due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

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

## 14. Other financial assets

| | Company | |
|---|---|---|
| | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
| Investments carried at cost: | | |
| **Non-current** | | |
| Investments in subsidiaries | **70,474** | 57,646 |
| | **70,474** | 57,646 |

In addition to the acquisition of Pay Store for £10.3 million (note 16), in the period the company subscribed for additional share capital in Pay Store for £2.2 million in cash and 1.05% of the share capital of OBI0 Limited (note 27).

**Subsidiary undertakings**

The company, a holding company, has investments (directly or indirectly) in the following subsidiary undertakings:

| **Subsidiary of the company** | **Principal activity** |
|---|---|
| PayPoint Network Limited | Management of an electronic payment service |
| PayPoint Collections Limited | Provision of a payment collection service |
| PayPoint Retail Solutions Limited | Provision of retail services |
| PayPoint Ireland Limited | Holding company in Ireland |
| PayPoint Network Ireland Limited | Management of an electronic payment service in Ireland |
| PayPoint Collections Ireland Limited | Payment collection service in Ireland |
| Pay Store SRL | Management of an electronic and payment collection service in Romania |
| Metacharge Limited | Internet payment service provider |
| PayPoint.net Limited (formally SECPay Limited) | Internet payment service provider |
| Counter Payment Managers Limited | ESOP scheme |

All of the above companies are 100% owned. The companies are all registered in England and Wales other than Counter Payment Managers which is registered in the Isle of Man and PayPoint Network Ireland, PayPoint Collections Ireland and PayPoint Ireland which are all registered in Ireland and Pay Store which is registered in Romania.

## 15. Inventories

In Ireland, PayPoint trades as principal for the processing and sale of mobile phone top-ups. Stocks of e-vouchers are held at cost.

In Romania, Pay Store trades as principal in the processing and sale of mobile scratch cards and e-vouchers, stocks of these are held at cost.

## 16. Acquisition of subsidiary

On 15 May 2007, the company acquired 100% of the issued share capital of Pay Store for cash consideration of £10.3 million (of which £2.2 million was payable 12 months after acquisition).

This has been accounted for by the purchase method of accounting.

| | Pay Store | |
|---|---|---|
| | Book value £000 | Fair value £000 |
| Net assets acquired | | |
| Property, plant and equipment | 2,046 | 2,046 |
| Trade and other receivables | 2,310 | 2,310 |
| Overdraft | (93) | (93) |
| Trade and other payables | (3,866) | (3,866) |
| Intangible assets (note 11) | – | 801 |
| | 397 | 1,198 |
| Goodwill | | 9,085 |
| Total consideration | | 10,283 |
| Satisfied by: | | |
| Cash | | 8,134 |
| Deferred consideration | | 2,149 |
| | | 10,283 |
| Net cash outflow arising on acquisition | | |
| Cash consideration | | 8,134 |
| Overdraft acquired | | 93 |
| | | 8,227 |

The goodwill arising on the acquisition of Pay Store is attributable to the anticipated profitability of the distribution of the group's products in the new markets.

Pay Store contributed £30.8 million revenue and £1.0 million loss (including amortisation of intangible assets of £0.3 million) to the group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of Pay Store had been completed on the first day of the financial year, the group's results would have been revenue of £216 million and £21 million profit attributable to equity holders of the parent.

## 17. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 30 March 2008 £000 | 25 March 2007 £000 | 30 March 2008 £000 | 25 March 2007 £000 |
| Trade receivables (i) | **28,359** | 20,431 | **–** | – |
| Allowance for doubtful debts (ii) | **(2,730)** | (1,640) | **–** | – |
| | **25,629** | 18,791 | **–** | – |
| Other receivables | **1,460** | 569 | **–** | 28 |
| Prepayments and accrued income | **1,196** | 1,311 | **2** | – |
| Amounts owed by group companies | **–** | – | **6,676** | 16,385 |
| Group relief receivable | **–** | – | **490** | 490 |
| | **28,285** | 20,671 | **7,168** | 16,903 |

(i) The average credit period on the sale of goods is 24 days (2007: 21 days).

The group has provided fully for all receivables over 180 days.

Included in the groups trade receivable balance are debtors with a carrying amount of £5,948,000 (2007: £3,400,000) which are past due at the reporting date for which the group has not provided as there has not been a significant change in credit quality and the group believes that the amounts are still considered recoverable. The average age of these receivables is 41 days (2007: 40 days).

(ii) Movement in the allowance for doubtful debts

| | Group | | Company | |
|---|---|---|---|---|
| | 30 March 2008 £000 | 25 March 2007 £000 | 30 March 2008 £000 | 25 March 2007 £000 |
| Balance at the beginning of the period | **1,640** | 1,192 | **–** | – |
| Amounts recovered during the period | **(218)** | (21) | **–** | – |
| Increase in allowance | **1,308** | 469 | **–** | – |
| Balance at end of the period | **2,730** | 1,640 | **–** | – |

In determining the recoverability of the trade receivable, the group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the retail agent, merchant and client bases being large and unrelated.

## 18. Cash and cash equivalents

Included within group cash and cash equivalents is £8,001,000 (2007: £7,290,000) 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 (note 19).

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 the 30 March 2008 the group's overall cash position was £27,727,000 (2007: £24,324,000) in credit.

## 19. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 | 53 weeks ended 30 March 2008 £000 | 52 weeks ended 25 March 2007 £000 |
| Amounts owed in respect of client cash (i) | 8,001 | 7,290 | – | – |
| Other trade payables (ii) | 21,246 | 15,911 | 9 | 4 |
| Trade payables | 29,247 | 23,201 | 9 | 4 |
| Other taxes and social security | 1,317 | 2,249 | – | – |
| Other payables | 2,102 | 75 | 2,149 | – |
| Accruals | 10,988 | 8,980 | 14 | 14 |
| Deferred income | 1,621 | 1,723 | – | – |
| | 45,275 | 36,228 | 2,172 | 18 |

(i) Included within trade payables is £8,001,000 (2007: £7,290,000) relating to monies collected on behalf of clients where the group has title to the funds (client cash). An equivalent balance is included within cash and cash equivalents (note 18).

(ii) The group aims to pay its creditors promptly, in accordance with terms agreed for payment. The group has 20 days purchases outstanding at 30 March 2008 (2007: 18 days) based on the average daily amount invoiced by suppliers during the year.

## 20. Other non-current liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| Deferred income | 334 | 392 | – | – |
| Amounts due to group companies | – | – | 35,855 | 31,759 |
| | 334 | 392 | 35,855 | 31,759 |

## 21. Equity

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| **Authorised share capital** | | | | |
| 4,365,352,200 ordinary shares of 1/3 p each (2007 4,365,352,200: ordinary shares of 1/3 p each) | **14,551** | 14,551 | **14,551** | 14,551 |
| | **14,551** | 14,551 | **14,551** | 14,551 |
| **Called up, allotted and fully paid share capital** | | | | |
| 67,697,228 ordinary shares of 1/3p each (2007: 67,678,702 ordinary shares of 1/3p each) | **226** | 226 | **226** | 226 |
| | **226** | 226 | **226** | 226 |
| **Called up share capital** | | | | |
| At start of period | **226** | 226 | **226** | 226 |
| At end of period | **226** | 226 | **226** | 226 |
| **Investment in own shares** | | | | |
| At start of the period | **(1)** | (1) | **(1)** | (1) |
| Acquired in period (note 27) | **(2,533)** | – | **(2,533)** | – |
| Used on share scheme vesting | **1,599** | – | **1,599** | – |
| At end of period | **(935)** | (1) | **(935)** | (1) |
| **Share option and SIP reserve** | | | | |
| At start of period | **1,712** | 738 | **1,712** | 738 |
| Additions in period | **1,121** | 974 | **1,121** | 974 |
| Options exercised in period | **(552)** | – | **(552)** | – |
| At end of period | **2,281** | 1,712 | **2,281** | 1,712 |
| **Hedging and translation reserve** | | | | |
| At start of the period | **–** | – | **–** | – |
| Movement during the period | **318** | – | **–** | – |
| At end of period | **318** | – | **–** | – |
| **Retained earnings** | | | | |
| At start of period | **38,436** | (10,282) | **40,736** | 10,977 |
| Profit/(loss) for the period | **20,980** | 18,738 | **9,038** | (221) |
| Capital reduction | **–** | 38,046 | **–** | 38,046 |
| Undistributable reserves | **–** | 123 | **–** | 123 |
| Dividends paid | **(9,738)** | (8,189) | **(9,738)** | (8,189) |
| Adjustment on share scheme vesting (note 27) | **(1,981)** | – | **(1,981)** | – |
| At end of period | **47,697** | 38,436 | **38,055** | 40,736 |

## 21. Equity (continued)

**Share-based payments**

**Equity settled share scheme**

The group has a number of share schemes as defined in the Remuneration Committee Report on pages 23 to 31. The vesting period for all awards is 3 years, and they are forfeited if the employee leaves the group before shares vest. All awards made are free shares and do not have an exercise price.

Details of the share awards outstanding during the year are as follows:

| | 2008 Number of shares | 2007 Number of shares |
|---|---|---|
| Outstanding at 1 April 2007 | **1,085,938** | 879,335 |
| Granted during the period – LTIP | **193,989** | 176,142 |
| Granted during the period – DSB | **35,418** | 30,461 |
| Lapsed during the period | **(41,638)** | – |
| Exercised during the period LTIP | **(424,052)** | – |
| Outstanding at 30 March 2008 | **849,655** | 1,085,938 |

| Awards granted | | Number of shares | Vesting date |
|---|---|---|---|
| LTIP | 13 June 2005 | 342,966 | 13 June 2008 |
| DSB | 13 June 2005 | 55,075 | 13 June 2008 |
| LTIP | 19 September 2005 | 57,242 | 19 September 2008 |
| LTIP | 5 June 2006 | 176,142 | 5 June 2009 |
| DSB | 5 June 2006 | 30,461 | 5 June 2009 |
| LTIP | 4 June 2007 | 193,989 | 4 June 2010 |
| DSB | 4 June 2007 | 35,418 | 4 June 2010 |

The input into the Black Scholes model for the DSB and Monte Carlo model for LTIP and DSB awards during the year are as follows

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | LTIP | DSB | LTIP | DSB |
| Weighted average share price | **5.95** | **5.83** | 4.02 | 6.21 |
| Expected volatility | **35%** | | 38% | |
| Expected life | **3 years** | **3 years** | 3 years | 3 years |
| Risk free rate | **5.74%** | **4.73%** | | |
| Expected dividend yield | **2.02%** | **2.02%** | 1.8% | 1.8% |

**Other share-based payment plans**

The employee Share Incentive Plan is open to all employees of PayPoint Network, PayPoint Collections, PayPoint Retail Solutions and PayPoint.net and provides for a purchase price equal to the market price on the date of purchase. The shares are purchased each month and are placed in the employee share savings plan for a 3 to 5 year period.

## 22. Statement of changes in equity

| | Group | | Company | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | £000 | £000 | £000 | £000 |
| Opening equity | 40,373 | 28,850 | 42,673 | 50,109 |
| Profit/(loss) for the period | 20,980 | 18,738 | 9,038 | (221) |
| Dividends paid | (9,738) | (8,189) | (9,738) | (8,189) |
| Investment in own shares | (2,533) | – | (2,533) | – |
| Adjustment on share scheme vesting (see note 27) | (934) | – | (934) | – |
| Increase in Hedging and translation reserve | 318 | – | – | – |
| Increase in Share option and SIP reserve | 1,121 | 974 | 1,121 | 974 |
| Closing equity | 49,587 | 40,373 | 39,627 | 42,673 |

## 23. Pension arrangements

The group administers a non-contributory defined contribution scheme for some directors and employees. The amount charged in the consolidated income statement for the period for pension costs of the group under the scheme was £622,000 (2007: £432,000). There is an accrual of £45,000 for pension contributions at the balance sheet date (2007: £75,000).

## 24. Financial commitments

**Obligations under finance leases**

| | 2008 | 2007 |
|---|---|---|
| | £000 | £000 |
| Minimum lease payments due: | | |
| Within one year | 62 | – |
| Within two to five years | 8 | – |
| | 70 | – |
| Finance charges allocated to future periods | 3 | – |
| | 73 | – |

**Operating lease commitments**

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Land and buildings | Other | Land and buildings | Other |
| | £000 | £000 | £000 | £000 |
| Leases which expire: | | | | |
| Within one year | 91 | 22 | – | – |
| Within two to five years | 564 | – | 100 | – |
| After five years | 7,176 | – | 8,280 | – |

## 25. Operating lease receivables

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Amounts receivable under operating leases | | |
| Within one year | **1,663** | 1,582 |
| Within two to five years | **3,277** | 3,863 |
| After five years | **–** | – |
| | **4,940** | 5,445 |

The group enters into operating leases with some of its agents for the supply of ATM's. The average term of each lease entered into is 5 years.

## 26. Derivatives and other financial instruments

The group's financial instruments comprise cash and various items such as trade receivables, trade payables, other payables and accruals, which arise directly from the group's operations. It is, and has been throughout the period under review, the group's policy that no speculative trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are interest rate risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged during the year. The group has not used derivative instruments to manage its foreign exchange exposure.

(a) Interest rate risk

The group has been funded by equity, interests in short-term deposits and finance leases over the period currently under review. The group has interest bearing no financial assets at 30 March 2008 other than Sterling and Euro deposits of £27,727,000 (2007: £24,324,000). Of these deposits, £8,001,000 (2007: £7,290,000) relates to monies held on behalf of clients where PayPoint has title to the funds for periods of up to 7 days.

All sterling funds earn interest at the prevailing rate. Some money is deposited on short-term deposits (normally weekly or monthly). The group seeks to maximise interest receipts within these parameters.

Finance leases have been used to finance certain asset purchases within the group.

Interest is charged on these leases at fixed contractual rates.

Further analysis of the interest rate profile of the fixed rate financial liabilities as at 30 March 2008 and 25 March 2007 is provided below:

Weighted average interest rate on fixed rate financial liabilities:

| | 2008 % | 2007 % |
|---|---|---|
| Finance leases | **4** | 12 |

Weighted average period for which interest rate is fixed:

| | 2008 months | 2007 months |
|---|---|---|
| Finance leases | **14** | 2 |

(b) Liquidity risk

The group's policy throughout the year ended 30 March 2008 regarding liquidity has been to maximise the return on funds placed on deposit within the constraint of minimising the associated risk.

The group had no financial liabilities at 30 March 2008 other than short-term payables, such as trade payables, accruals and amounts due in more than one year comprising of finance leases.

(c) Foreign exchange risk

To date, the group has not engaged in an active programme of foreign exchange risk management. Given the size and nature of the group's non-sterling denominated balances, the directors do not consider a hedging strategy to be necessary.

The group's currency exposures comprise those transactional exposures that give rise to the net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating (or functional) currency of the operating unit involved. At 30 March 2008 these exposures were £70,000 (2007: £NIL).

(d) Borrowing facilities

The group has a £15 million loan facility with Lloyds TSB on a revolving loan facility with a remaining term of three years.

(e) Fair value of financial assets and liabilities

The directors consider there to be no material difference between the book value and the fair value of the group's financial instruments at 30 March 2008 and 25 March 2007.

(f) Market price risk

The group's exposure to market price risk comprises interest rate exposure. Group funds are invested in money market cash deposits with the objective of maintaining a balance between accessibility of funds and competitive rates of return. In practice, this has meant that no deposits were made with a maturity greater than 30 days during the year.

(g) Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

(h) Credit risk

The group's principal financial assets are cash, trade and other receivables and investments. The group's credit risk is primarily attributable to its trade receivables. Cients, agents and merchants are credit checked to mitigate credit risk and in all new client contracts we have the right of set-off of funds collected against monies due. The group's maximum exposure, at 30 March 2008, was £55,644,000 (2007: £43,884,000).

(i) Financial instrument sensitivities

Financial instruments affected by market risk include deposits, trade receivables and trade payables, any changes in market variables (exchange rates and interest rates) will have an immaterial effect on these instruments.

## 27. Related party transactions

Remuneration of the directors, who are the key management of the group, are disclosed in the audited part of the Remuneration Committee Report on pages 23 to 31.

During the year the company invested £375,000 for 1.05% of the ordinary share capital of OB10 Limited, a company that specialises in electronic invoicing. 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.

On 24 September 2007 the company released the first tranche of its Long Term Incentive Plan awards to the three executive directors and six senior managers. In order to satisfy the company's obligations, Paypoint Network Limited Employee Investment Trust (The Trust) acquired 424,052 ordinary shares at the mid market closing price of 597.5 pence per share, in aggregate £2,533,000, from RIT Capital Partners and the Weinstock Estate (both of which are connected to David Morrison, a non-executive director of the company). 156,348 shares were sold at 597.5 pence per share, in aggregate £934,000, by participating directors and managers to the Trust. Accordingly, the company has funded £3,467,000 (excluding £22,000 deal costs) for the purchase of its own shares. The excess of the market value of the shares acquired over their fair value at the date of grant of £1,981,000 has been charged to reserves.

## 28. Notes to the cash flow statement

| | Group | | Company | |
|---|---|---|---|---|
| | **53 weeks ended 30 March** | 52 weeks ended 25 March | **53 weeks ended 30 March** | 52 weeks ended 25 March |
| | **2008** | 2007 | **2008** | 2007 |
| | **£000** | £000 | **£000** | £000 |
| **Operating Profit/(loss)** | **29,200** | 25,202 | **9,411** | (221) |
| Adjustments for: | | | | |
| Depreciation of property, | | | | |
| plant and equipment | **4,812** | 3,603 | **–** | – |
| Amortisation of intangible assets | **907** | 212 | **–** | – |
| Increase in share option and SIP reserve | **1,121** | 974 | **1,121** | 974 |
| **Operating cash flows before movements in working capital** | **36,040** | 29,991 | **10,532** | 753 |
| Decrease / (increase) in inventories | **580** | (532) | **–** | – |
| (Increase) / decrease in receivables | **(10,528)** | 788 | **9,706** | (24) |
| Increase in payables | | | | |
| – client cash | **711** | 1,105 | **–** | – |
| – other payables | **9,196** | 2,866 | **3,755** | 24,396 |
| **Cash generated by operations** | **35,999** | 34,218 | **23,993** | 25,125 |
| Corporation tax paid | **(6,362)** | (6,007) | **–** | – |
| Interest and bank charges paid | **(19)** | (30) | **–** | – |
| **Net cash from operating activities** | **29,618** | 28,181 | **23,993** | 25,125 |

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.**

If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should seek your own advice from a stockbroker, bank manager, solicitor, tax adviser, accountant or other independent professional adviser.

If you have recently sold or otherwise transferred all of your shares in PayPoint plc, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer, so they can pass these documents to the person who now holds the shares as soon as possible.

# PayPoint plc

## NOTICE OF ANNUAL GENERAL MEETING

**Notice is hereby given that the 2008 annual general meeting of PayPoint plc will be held at the offices of JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA, on Wednesday 9 July 2008 at 12pm for the transaction of the following business:**

**ORDINARY BUSINESS**

1. To receive the financial statements and the reports of the directors and the auditors thereon for the year ended 30 March 2008.
2. To receive the Directors' Remuneration report for the year ended 30 March 2008.
3. To declare a final dividend of 10.4p per ordinary share of the company.
4. To re-elect G Earle as a director who retires by rotation in accordance with article 37.1 of the company's articles of association.
5. To re-elect D Newlands as a director who retires by rotation in accordance with article 37.1 of the company's articles of association.
6. To re-elect D Taylor as a director who retires by rotation in accordance with article 37.1 of the company's articles of association.
7. To re-elect R Wood as a director who retires by rotation in accordance with article 37.1 of the company's articles of association.
8. To re-appoint Deloitte & Touche LLP as auditors of the company.
9. To authorise the directors to determine the auditors' remuneration.

**SPECIAL BUSINESS**

To consider and, if thought fit, to pass the following resolutions, as to which resolution 10 shall be proposed as an ordinary resolution and resolutions 11 to 13 shall be proposed as special resolutions:

10. That the directors be and they are hereby generally and unconditionally authorised in accordance with section 80(1) of the Companies Act 1985 (the Act) to exercise all the powers of the company to allot relevant securities (as defined in section 80(2) of the Act) up to an aggregate nominal amount of £75,223 provided that this authority shall expire on the conclusion of the annual general meeting of the company to be held in 2009 or, if earlier, on the date which is 15 months from the date of this resolution, save that the company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors to allot relevant securities be and are hereby revoked.

11. That the directors be and they are hereby empowered in accordance with section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash (pursuant to the authority conferred by resolution 9 above) and for this purpose allotment of equity securities shall include a sale of relevant shares as provided in section 94(3A) of the Act as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

    (a) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on any such record date(s), subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever; and

    (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) to any person or persons of equity securities up to an aggregate nominal amount of £11,283,

    and shall expire upon the expiry of the general authority conferred by resolution 10 above, save that the company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

12. That subject to, and in accordance with the company's articles of association, the company be generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Act) of ordinary shares of the company provided that:-

    (a) the maximum number of ordinary shares hereby authorised to be acquired is 14.99 per cent;

    (b) the minimum price which may be paid for an ordinary share is the nominal value of such share;

    (c) the maximum price which may be paid for an ordinary share shall not be more than the higher of: (i) 105 per cent. of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid for an ordinary share in the company on the trading venue where the purchase is carried out;

    (d) the authority hereby conferred shall expire on the conclusion of the annual general meeting of the company to be held in 2009 or, if earlier, on the date which is 15 months from the date of this resolution;

    (e) the company may make any purchase of its ordinary shares pursuant to a contract concluded before the authority hereby conferred expires and which will or may be executed wholly or partly after the expiry of such authority; and

    (f) all shares purchased pursuant to the said authority shall either: (i) be cancelled immediately on completion of the purchase; or (ii) be held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act.

13. THAT the articles of association contained in the document produced to the meeting and signed by the Chairman for the purposes of identification be approved and adopted as the new articles of association of the company in substitution for, and to the exclusion of, the existing articles of association, with effect from the conclusion of the meeting.

BY ORDER OF THE BOARD

Susan Court
Company Secretary
22 May 2008

Registered Office:
1 The Boulevard
Shire Park
Welwyn Garden City
Hertfordshire
AL7 1EL

## Notes to the Notice of annual general meeting

1. A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the annual general meeting. Appointment of a proxy does not preclude a shareholder from attending the annual general meeting and voting in person.

2. A member entitled to attend, speak and vote at the annual general meeting may appoint one or more proxies (who need not be a member of the company) to attend and to vote on his or her behalf. In order to be valid an appointment of proxy must be returned by one of the following methods:

   - in hard copy form by post, by courier or by hand to the company's registrars, Capita Registrars, Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or

   - in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below,

   and in each case must be received by the company not less than 48 hours before the time of the meeting.

   CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment, or instruction, made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of annual general meeting . For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedure in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is therefore the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, in order to be able to attend and vote at the annual general meeting or any

adjournment thereof (and also for the purpose of calculating how many votes a person may cast) a person must have his/her name entered on the register of members of the company by 6 pm on 7 July 2008 (or 6 pm on the date being 2 days before any adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

5. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 ('nominated persons'). Nominated persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

6. Biographical details of the directors of the company are shown on pages 17 and 18 of the 2008 annual report.

7. The issued share capital of the company as at 22 May 2008 was 67,700,397 ordinary shares of 1/3 pence each, carrying one vote each. The company holds no treasury shares, therefore, the total number of voting rights in the company on 22 May 2008 was 67,700,397.

8. The following documents are available for inspection at the registered office of the company during normal business hours on any weekday and will be available at the place of the annual general meeting from 15 minutes before the meeting until it ends:

   - The directors' service agreements and letters of appointment.
   - The register of directors' interests in the share capital of the company.
   - Copies of the current and proposed articles of association of the company.

**Recommendation and voting intentions**

The directors consider that all the resolutions to be put to the meeting are in the best interests of the company and its shareholders as a whole and most likely to promote the success of the company for the benefit of those shareholders. Those directors who are shareholders will be voting in favour of the resolutions and unanimously recommend that you do so as well.

## Explanatory notes to certain of the resolutions to be proposed at the Annual General Meeting

Resolution 10: Directors' authority to allot shares

By virtue of section 80 of the Companies Act 1985 (the "Act"), the directors require the authority of shareholders of the company to allot shares or other relevant securities. The resolution numbered 10 authorises the directors to make allotments of up to an additional 22,566,799 ordinary shares (representing approximately one-third of the issued share capital of the company as at the date of this document). This amount is in line with ABI guidelines. If approved at the forthcoming annual general meeting, the authority will expire no later than 15 months from the date on which the resolution is passed or on the conclusion of the annual general meeting of the company to be held in 2009, whichever is the sooner. The directors have no present intention of exercising the authority proposed to be conferred pursuant to resolution 10.

Resolution 11: Authority for disapplication of statutory pre-emption rights

By virtue of section 89 of the Act, any issue by the company of equity capital for cash made otherwise than to existing shareholders on a proportional basis requires the consent of shareholders of the company unless the company has obtained their authority under section 95 of the Act. The resolution numbered 11 is for that purpose. It authorises the directors to allot shares by way of rights issue or pursuant to an open offer or otherwise than strictly pro rata when the directors consider that it is expedient to do so and also allows them to issue for cash up to 3,385,020 ordinary shares (representing approximately 5 per cent. of the issued share capital of the company as at the date of this document other than on a pre-emptive basis. If approved at the forthcoming annual general meeting, the authority will expire no later than 15 months from the date on which the resolution is passed or on the conclusion of the annual general meeting of the company to be held in 2009, whichever is the sooner.

Resolution 12: Authority to make market purchases of ordinary shares

By virtue of section 166 of the Act, the company may make market purchases of its own ordinary shares if authorised to do so by shareholders. Under resolution 12, the directors seek to renew an annual authority to make market purchases of shares: each year the directors will seek to further renew this authority at the company's annual general meeting . Any ordinary shares purchased under this authority would either be (i) cancelled immediately on completion of the purchase and the number of ordinary shares in issue reduced accordingly; (ii) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act; or (iii) transferred to an employee benefit trust for the satisfaction of awards under the company's existing share schemes.

The maximum number of ordinary shares which could be purchased pursuant to this authority is 10,148,281, being 14.99 per cent. of the issued share capital of the company as at the date of this document. Any repurchase of ordinary shares carried out by the company would be at a maximum price per ordinary share of 105 per cent. of the average middle market price of such a share for the five business days immediately preceding the date of the purchase, the price equal to the last independent trade or the highest current independent bid and at a minimum price equal to the nominal value. The authority to repurchase ordinary shares will, if approved by shareholders, only be exercised after careful consideration by the directors and if such exercise would result in an increase in earnings per share and be in the best interests of shareholders generally. If approved at the forthcoming annual general meeting, the authority will expire no later than 15 months from the date on which the resolution is passed, or on the conclusion of the annual general meeting of the company to be held in 2009, whichever is the sooner.

Resolution 13: New articles of association

We are also asking shareholders to approve a number of amendments to the articles of association of the company, primarily to reflect the provisions of the Companies Act 2006. Whilst we are asking for your approval to amend the articles at the 2008 annual general meeting, a number of the provisions contained in the new Act are not scheduled to come into effect until October 2009 and it may therefore be necessary to make further subsequent changes to the articles. So far as the 2008 annual general meeting is concerned, an explanation of the main changes between the proposed and the existing articles of association is set out the Appendix on pages 73 to 75 of this document.

# APPENDIX

# EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

The company's existing articles of association (the Existing Articles) were adopted in September 2004 and during the last year, a number of sections of the Companies Act 2006 (the "2006 Act") which affect the constitutional documents of UK listed public companies have been brought into force. In addition to those modifications stipulated by the 2006 Act, it is proposed that certain other amendments to the Existing Articles be adopted to reflect previous changes in legislation or to ensure consistency with the 2006 Act.

Given the number of amendments to be made in this regard, the directors consider it prudent to seek shareholder approval to the adoption of new articles of association (the New Articles) to reflect certain of those changes.

Set out below is a summary of the main differences between the Existing and the New Articles. This summary has been prepared in order to assist shareholders in understanding the rationale for and substance of the proposed amendments. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the 2006 Act have not been noted in the Appendix. Although the New Articles are in many respects largely unchanged from the Existing Articles, the directors are proposing that, for ease of reference, shareholders pass a resolution to adopt the New Articles rather than to pass resolutions detailing each individual amendment.

The New Articles showing all the changes made to the Existing Articles are available for inspection, as noted on page 70 of this document.

**1. Provisions which duplicate statutory provisions**

Provisions in the Existing Articles which replicate provisions contained in the 2006 Act are in the main to be removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution. Examples of such provisions are those relating to the form of resolutions, the variation of class rights and the requirement to keep accounting records. The main changes made to reflect this approach are detailed below.

**2. Form of resolution**

The Existing Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being removed as the concept of extraordinary resolutions has not been retained under the 2006 Act.

The Existing Articles enable members to act by written resolution. Under the 2006 Act, public companies can no longer pass members' written resolutions. These provisions have therefore been removed in the New Articles.

**3. Variation of class rights**

The Existing Articles contain provisions regarding the variation of class rights. The proceedings and specific quorum requirements for a meeting convened to vary class rights are contained in the 2006 Act. The relevant provisions have therefore been removed in the New Articles.

4. **Convening extraordinary and annual general meetings**

The provisions in the Existing Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the 2006 Act. In particular, an extraordinary general meeting (now called a general meeting) to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required.

5. **Votes of members**

Under the 2006 Act, proxies are entitled to vote on a show of hands whereas under the Existing Articles, proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the 2006 Act so that a company's articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. Multiple corporate representatives may be appointed (but if they purport to exercise their rights in different ways, then the power is treated as not being exercised). The New Articles reflect all of these new provisions.

6. **Age of directors on appointment**

The Existing Articles contain a provision requiring a director's age to be disclosed if he has attained the age of 70 years or more in the notice convening a meeting at which the director is proposed to be elected. Such a provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

7. **Conflicts of interest**

The 2006 Act sets out directors' general duties which largely codify the existing law but with certain changes. A director is now required to avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of any company of which he is a director. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The 2006 Act also allows articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision and secondly, in taking the decision, the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors. It is the Board's intention to report annually on the company's procedures for ensuring that the Board's powers to authorise conflicts are operated effectively.

**8. Notice of board meetings**

Under the Existing Articles, when a director is abroad he can request that notice of directors' meetings are sent to him at a specified address and if he does not do so he is not entitled to receive notice while he is away. This provision has been removed, as modern communications mean that there may be no particular obstacle to giving notice to a director who is abroad. It has been replaced with a more general provision that a director is treated as having waived his entitlement to notice unless he supplies the company with the information necessary to ensure that he receives notice of a meeting before it takes place.

**9. Records to be kept**

The provision in the Existing Articles requiring the Board to keep accounting records has been removed as this requirement is contained in the 2006 Act.

**10. Distribution of assets other than in cash**

The Existing Articles contain provisions dealing with the distribution of assets in kind in the event of the company going into liquidation. These provisions have been removed in the New Articles on the grounds that a provision concerning the powers of liquidators is a matter for insolvency law rather than the articles and because the Insolvency Act 1986 confers powers on the liquidator which would enable it in any event to do what is envisaged by the Existing Articles.

**11. Electronic and web communications**

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and, in addition, they also permit the company to take advantage of new provisions relating to website communications first introduced by resolution passed at the company's 2007 annual general meeting. Before the company can communicate with a member by means of website communication, the relevant member must be asked individually by the company to agree that it may send or supply documents or information to him by means of a website and the company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The company will notify the member (either in writing or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

**12. Directors' indemnities and loans to fund expenditure**

The 2006 Act has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions taken against them. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

## FORM OF PROXY
## PAYPOINT PLC – ANNUAL GENERAL MEETING

I/We, .............................................................................................................................................................. (NAME)

of ............................................................................................................................................................. (ADDRESS)

hereby appoint the Chairman of the meeting OR the following person ........................................................ (NAME OF PROXY)

of ............................................................................................................................................................. (ADDRESS)

As my/our proxy to exercise all or any of my rights to attend, speak and vote in respect of my/our voting entitlement

of ........................... shares on my/our behalf as indicated below at the annual general meeting of the company to be held at 12pm on 9 July 2008 at the offices of JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA and at any adjournment thereof.

Please indicate by ticking the box if this proxy appointment is one of multiple appointments being made* ☐

* For the appointment of one or more proxy, please refer to explanatory note 2 (below).

| RESOLUTIONS<br>**ORDINARY BUSINESS** | FOR | AGAINST | WITHHELD |
|---|---|---|---|
| 1. To receive the director's report and the financial statement for the 53 week period ended 30 March 2008, together with the auditors report. | | | |
| 2. To approve the committee's remuneration report for the period ended 30 March 2008. | | | |
| 3. To declare a final dividend of 10.4p per ordinary share of the Company. | | | |
| 4. To re-elect Mr George Earle as a director of the company. | | | |
| 5. To re-elect Mr David Newlands as a director of the company. | | | |
| 6. To re-elect Mr Dominic Taylor as a director of the company. | | | |
| 7. To re-elect Mr Roger Wood as a director of the company. | | | |
| 8. To re-appoint Deloitte & Touche LLP as auditors of the company. | | | |
| 9. To authorise the directors to determine the auditors' remuneration. | | | |
| **SPECIAL BUSINESS** | | | |
| 10. ORDINARY RESOLUTION: To authorise the directors to allot shares pursuant to Section 80(1) of the Companies Act 1985. | | | |
| 11. SPECIAL RESOLUTION: To disapply statutory pre-emption rights pursuant to Section 95 of the Companies Act 1985. | | | |
| 12. SPECIAL RESOLUTION: To authorise the company to make market purchases of its ordinary shares up to 14.99% of the issued share capital. | | | |
| 13. SPECIAL RESOLUTION: To adopt the articles of association of the company. | | | |

**To assist with arrangements, if you intend attending the meeting in person please place an 'X' in the box opposite** ☐

**Signature** ______________________ **Date** ______________

In the case of a corporation, this proxy must be given under its common seal or signed on its behalf by an officer duly authorised, stating their capacity (e.g. director, company secretary).

**Explanatory Notes**

1. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided (see above). If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name (see above) the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
2. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
3. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communication from the company in accordance with section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
4. The Vote Withheld option is provided to enable you to abstain on any particular resolution. However, it should be noted that a Vote Withheld is not a vote in law and will not be counted in the calculation of the proportion of the votes For and Against a resolution.
5. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the register of members of the company at 6pm on the day which is two days before the day of the meeting or adjourned meeting. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.
6. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number RA10) not later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
7. The completion and return of this form will not preclude a member from attending the meeting and voting in person. If you attend the meeting in person, your proxy appointment will automatically be terminated.
8. To be effective, all votes must be lodged not less than 48 hours before the time of the meeting at the office of the company's registrars at: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
9. This form is issued only to the addressee(s) and is specific to the unique designated account printed hereon. This personalised form is not transferable between different (i) account holders; or (ii) uniquely designated accounts. The company and Capita Registrars accept no liability for any instruction that does not comply with these conditions.

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**Capita Registrars**
**Proxies Department**
**PO Box 25**
**Beckenham**
**Kent**
**BR3 4BR**

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