

# Annual Report

For the year ended  
31 March 2014



**PayPoint**

Simplifying payments  
for everyone

# OUR BUSINESS

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Today, there is an ever-expanding number of ways to pay. Customers increasingly expect to pay the way they want, wherever they are and at any time. PayPoint is the answer to that demand. We take all the complexity of multi-channel payments and translate it into convenient, simple, value-added solutions.

We are an international leader in our field, and a pioneer of a range of payment technologies. Every year, we handle over £14 billion in payments, for more than 6,000 clients and merchants. Our solutions transform payments for everyone from consumer and financial services companies to retailers, utilities, media, gaming and government clients. They are delivered through a unique combination of local shops, mobile and online distribution channels.

### Retail networks

We operate branded retail networks across the UK, Ireland and Romania.

In the UK, our growing network already includes terminals in over 26,700 local shops including Co-op, Spar, McColls, Costcutter, Sainsbury's Local, Tesco Express, One Stop, Asda, Londis and thousands of independent outlets. These outlets are quick and convenient places to make energy meter prepayments, bill payments, benefit payments, mobile phone top-ups, transport tickets, BBC TV licences, cash withdrawals and a range of other transactions. They are made available to customers by most leading utilities and a range of telecoms and consumer service companies.

Our Romanian network is growing too. We have more than 8,350 terminals in local shops across the country, helping people make cash bill payments, money transfers, road tax payments and mobile phone top-ups.

In the Republic of Ireland, people use our 500 terminal sites in shops and Credit Unions for mobile top-ups and bill payments.

In fact, the network is stronger still, thanks to the additional services we provide to retail agents. In the UK, our Collect+ joint venture with Yodel offers parcel drop-off and pick-up services in 5,600 convenience stores. Customers use Collect+ to handle parcels from major retailers including Amazon, eBay, ASOS, New Look, Boden, John Lewis, House of Fraser, M&S, Asda Direct and Very.

The UK network also includes over 3,600 LINK branded ATMs and 8,800 of our terminals enable retailers to accept debit and credit cards.

### Mobile and Online

Our unique mix of digital payments solutions helps maximise success in a complex and rapidly changing world. Every year, PayPoint Mobile and Online (formerly trading as PayPoint.net, PayByPhone and Adaptis) handles over 130 million payments for parking, payments and consumer services. In major cities in the UK, Canada, USA, France, Switzerland and Australia, our parking solutions make it easy for people to pay for parking by mobile – increasingly through our own app. We also provide electronic parking permits, automatic number plate recognition systems for car parks and penalty charge notices. If you are registered to our parking solution, you can also use other PayPoint services, including payment for electric vehicles, bicycles, taxis and buses.

Our core online payments platform is linked to 16 major acquiring banks in the UK, Europe and North America. It delivers secure credit and debit card payments for over 5,100 online merchants, including Hungryhouse, Moonpig, WHSmith, London and Zurich Insurance, Moneysupermarket.com and British Gas. Our complete suite of products ranges from transaction gateway to a bureau service, in which we take the merchants' credit risk and manage settlement for them. We also offer a variety of value-added services, such as FraudGuard, an advanced service that mitigates the risk of fraud in card not present transactions.

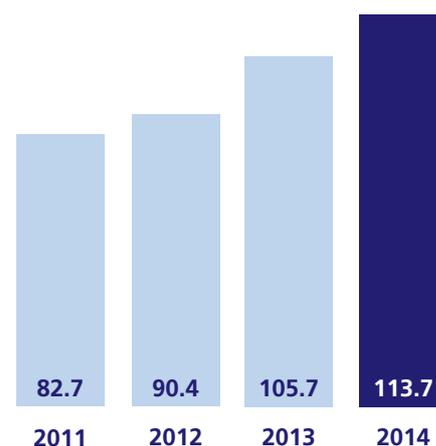
As well as this extensive range of services and solutions, we provide the backing of our 24/7 operations centres, with dual site processing to ensure business continuity. Little wonder, then, that PayPoint is so widely renowned for leadership in payment systems, smart technology and service.

Our history is one of anticipating clients' needs and pioneering solutions to meet them ahead of demand. Our future will be no different. Every day, we reinforce our competitive edge by developing our range of payments, products and services across the growing multitude of channels.

## HIGHLIGHTS

|                                 | 52 weeks ended<br>31 March<br>2014 | 53 weeks ended<br>31 March<br>2013 | Increase <sup>2</sup> |
|---------------------------------|------------------------------------|------------------------------------|-----------------------|
| Revenue                         | <b>£212.2m</b>                     | £208.5m                            | 1.7%                  |
| Net revenue <sup>1</sup>        | <b>£113.7m</b>                     | £105.7m                            | 7.7%                  |
| Gross margin                    | <b>45.7%</b>                       | 43.0%                              | 2.7ppts               |
| Operating profit <sup>3</sup>   | <b>£45.4m</b>                      | £41.0m                             | 10.6%                 |
| Profit before tax               | <b>£46.0m</b>                      | £41.3m                             | 11.5%                 |
| Diluted earnings<br>per share   | <b>52.6p</b>                       | 45.3p                              | 16.1%                 |
| Dividend per share <sup>4</sup> | <b>35.3p</b>                       | 30.4p                              | 16.1%                 |

### Net revenue<sup>1</sup>



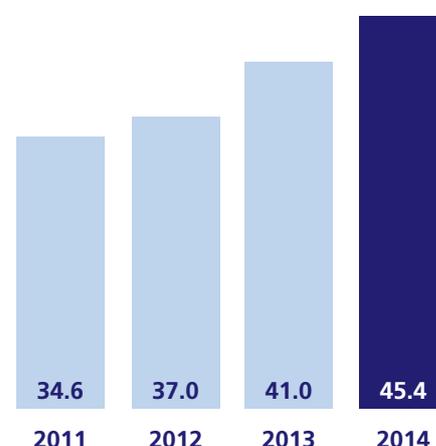
### Retail Payments and Services and Collect+

- UK & Ireland retail network net revenue increased 6.0%, with continued strong growth in retail services supported by the expansion of the network
- Romanian bill payment transactions were up 53.5% to 39.1 million, increasing profitability
- Collect+ profitable and now available in 5,600, sites with transactions up 76.4% to 13.6 million

### Mobile and Online (PayPoint.net, PayByPhone and Adaptis)

- Merged into one business
- Mobile increased transactions to over 32 million, up 44.7%
- Online transactions have grown by 8.7%
- Acquired Adaptis in February 2014

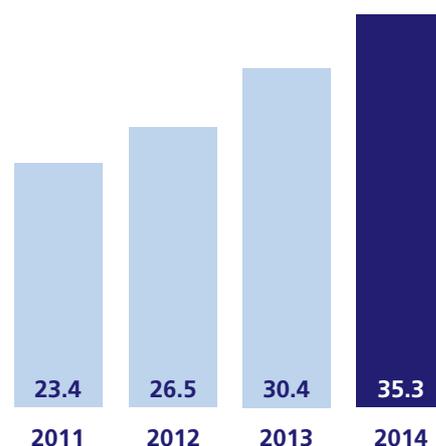
### Operating profit<sup>3</sup>



### Group

- Record group transaction volume at 768 million, up 3.9%, with growth in Retail and Mobile and Online channels
- Proposed final dividend of 23.9p, up 18.3% on prior period<sup>4</sup>, reflects the board's confidence in the business
- Launched new brand

### Dividend per share<sup>4</sup>



1. Net revenue is revenue less the cost of mobile top-ups (where PayPoint is principal), SIM cards and other costs incurred by PayPoint, which are recharged to clients and merchants. These costs include retail agent commission, card payment merchant service charges and costs for the provision of call centres for mobile parking clients. Net revenue is a measure which the directors believe assists with a better understanding of the underlying performance of the group.
2. The reported period of 1 April 2013 to 31 March 2014 contains 365 days. In the 2012 annual report, we announced we would move reporting to a calendar year basis from the last Sunday in the month of March. Comparative data is given for the 371 day period reported last year (i.e. 26 March 2012 to 31 March 2013). The impact of the extra week last year is generally to reduce stated growth by between 1 to 3 percentage points.
3. Operating profit including our share of joint venture results and excluding the £0.2m (2013: nil) costs associated with the acquisition of Adaptis Solutions Limited in the year.
4. Excludes special dividend in 2013.

## CHAIRMAN'S STATEMENT

### PayPoint Romania expands with new market sectors

*Having signed up the majority of the country's national and regional utility companies, PayPoint in Romania has enjoyed considerable success in delivering innovative new products and services for its customers in other markets, including telecommunications, financial services and even road tax. Amongst the schemes introduced has been a partnership with Scala Assistance, enabling Romanian customers to pay for their Road Tax at PayPoint shops across the country.*

*"Romania has one of the largest road networks in Europe and Scala Assistance wanted to work with a retail network with the coverage that would match it. Its network of terminals throughout the country makes it easy for Romanian drivers to pay for their Road Tax quickly and conveniently, before they take to the road."*  
Scala Assistance

### Distributing emergency funds to the most needy

*The distribution of Emergency Funds was transferred from the Department for Work and Pensions to local authorities from April 2013, for which PayPoint provided the solution to local authorities of how to accept and assess applications, then make payments in a timely manner. Quick Credit Voucher (QCV) is an online portal that provides a universal platform for any local authority to process quickly applications and deliver payments either by letter, email or text message, which can be immediately accessed by claimants at any PayPoint retailer. Almost 75 local authorities were using QCV by the end of March 2014, by when it had been used to make payments to approximately 130,000 residents in crisis, with a total value of £5.2 million. The versatility of the QCV portal means that it can also be used as an alternative to cheque payments for other purposes such as council tax refunds.*

*"The innovative system is easy to use, saving us valuable time and money and avoiding the need for us to hold cash or gift vouchers."*  
Judith Johnson at Milton Keynes Council

I am pleased to report strong growth in net revenue and operating profits for the year under review. We are proposing a final dividend of 23.9p per share, an increase of 18.3% on the dividend last year, excluding the 15.0p special dividend.

Our retail networks in the UK, Ireland and Romania delivered profitable growth from our strong client base and breadth of services. Prepaid energy transactions were in line with last year, despite warmer winter weather which reduced gas consumption. The reported growth rate was reduced by there being an extra six days of trading in the prior period. Retail services transaction growth was 25.1%. In Romania, bill payment transactions have grown 53.5%, as we added new clients including RCS & RDS, branded as DIGI, a pay TV and communications supplier and one of Romania's biggest bill issuers, and grew strongly in existing clients.

The market for mobile top-ups continues to decline in all three markets. In Romania, network expansion has countered the market decline. Mobile top-ups accounted for 13.9% of total group net revenues. The Simple Payment service for the DWP has contributed to growth in transactions, but volume has been lower than originally anticipated, as much of the cheque volume the service replaced migrated to other payment methods. Our UK field force has grown the network and driven sales of retail services to increase our average retail yield per site. We are developing a multi-channel product to address the payment challenges faced by utilities, as a result of the UK Government mandated change to smart meters by 2020, building on the credentials we already have in providing online payment solutions for prepayment meters.

Our Collect+ joint venture is now profitable. Parcel transactions rose 76.4% to 13.6 million (2013: 7.7 million) and outlet numbers expanded to 5,600. Collect+ increased the number of clients served by 54 to 266 by 31 March 2014. We have introduced a new standard two day delivery service in addition to the economy three to five day service and continue to invest in service improvements to encourage growth.

Our Mobile and Online channels have been combined into one business under our unified group brand and we have strengthened management to address the substantial opportunities available in digital commerce. Transaction growth in the year was 15.8% and net revenue growth 7.7%, with strong growth in mobile net revenue. Transaction growth was mainly from larger merchants, or newer parking clients, who have lower than average net revenues per transaction. Through mobile payments, we gain valuable insight into the development of mobile commerce and although we have continued to grow net revenues and win new clients, including the provision of services for 155,000 parking spaces in central Paris, this remains an early stage venture. In February, we acquired Adaptis, which provides a range of complementary parking services, including electronic parking permits, automatic number plate recognition systems for car parks and penalty charge notices. This small acquisition will strengthen our leading position in mobile parking payments, expanding our range of innovative parking products into off-street locations, fines and permits, and improving our capability to bid for bundled contracts. We also have the potential to extend into other mobile commerce areas, but this will require expenditure in development and marketing.

We have continued to invest in technology. We are in the process of migrating services to the two new data centres we started to fit out in the last financial year. Our objective is to move all systems and transaction processing to the new data centres over the next two years. We have introduced single daily settlement to our retailers, reducing retailer banking costs and our exposure to retail agent debt. As leading suppliers of retail technology, we are researching the functionality for our next generation of point of sale infrastructure, which in due course will replace existing terminals. In Mobile and Online, we are planning to replace and upgrade our internet gateway platform over the next two years and we are developing our technology, which will open the platform to mobile services other than parking.

For the current financial year, trading is in line with the company's expectations. Our retail networks in the UK and Romania should continue to deliver profitable growth from our strong client base and breadth of services. We will continue to invest in network expansion, innovative technology and new services to improve the quality of these retail networks to enhance their competitive advantages and our retail yield. Mobile and Online is an essential element of our strategy to provide multi-channel payments and services, placing us in fast growing markets and providing a bridge from cash to electronic payments. Together, our businesses provide a strong foundation to deliver value for our shareholders.

Andrew Robb, who has served on the board since 2004, was formerly Chairman of the audit committee and is Chairman of the remuneration committee and Senior Independent Director, will retire at the annual general meeting. I would like to thank Andrew for his service and wish him a long and happy retirement.

I am retiring from the end of the forthcoming annual general meeting after serving as Chairman of PayPoint for sixteen years. I have much enjoyed working with the management, in whose very capable hands, together with those of my successor, Warren Tucker, and our non-executive directors, I confidently leave the development of the business.

David Newlands 29 May 2014

## CHIEF EXECUTIVE'S REVIEW

David Newlands will be retiring at the annual general meeting in July after 16 years of service as Chairman. Over this period, he has provided strong leadership in the development of PayPoint as the company has evolved from a fragile start-up to the robust multi-channel international payments and services business of today. On behalf of the company, I would like to thank David for the significant contribution he has made to our success and all of us at PayPoint wish him a happy retirement.

PayPoint has continued to deliver earnings growth, in another busy year, in which our businesses have made good progress. Retail Payments and Services (UK, Ireland, Romania) and Collect+ have grown and strengthened their positions in their markets. We have combined PayByPhone, PayPoint.net and the recently acquired Adaptis to create PayPoint Mobile and Online. This brings mobile and online payment into the centre of our group capability alongside retail payments and services and reinforces our unique multi-channel payment capability, ready to service the needs of our clients, retailers and merchants.

### A single proposition with a new modern identity

We launched the rebranding of the company on 20 May 2014. The context for our new identity is that the world around us is changing, in particular, in the ways consumers shop, pay for and acquire products and services. Much of this is being driven by technology (smart mobile devices, faster internet access speeds, increasing connectivity), which is empowering consumers to demand more choice and convenience. As a result, many consumers will no longer want to have their relationship with a service organisation defined by a single payment channel. They prefer to use information rich apps that can be accessed anywhere and anytime, embedded with frictionless payment functionality.

These dynamics create increasing complexity for consumer service organisations as they seek to develop platforms to meet these new consumer needs. We are well placed to help our clients to deliver the simplified solutions that their consumers want using our multi-channel payment capability (distinctively with strength in mobile, online and retail). Our experience in developing successful consumer apps in parking, which serve millions, and our innovative fulfilment solution, Collect+, also demonstrates our understanding of these evolving consumer dynamics.

We are also refreshing our brand, originally created to target cash paying consumers in shops, to one which is more modern and effective for the multi-channel payment solution that now sits at the heart of PayPoint's offer. Our new logo will be more relevant to all consumers, across all payment channels. The new logo has been recently launched in all B2B relationships and will roll out to our consumer audiences in parking later this year. This new identity communicates all channels through a single brand, emphasising the full spectrum of our services. For example, it helps to position our multi-channel offer to the utility sector as smart meters start to be rolled out to UK households, for which we have already developed a prototype solution integrating mobile apps with web and retail, all with a consistent look and feel to the consumer.

### Retail Payments and Services

We have made good progress in the year within our retail businesses. PayPoint's market leadership in retail payments and services remains at the core of our success. We continue to be strongly differentiated through the unique quality and breadth of our client base and retail coverage. This allows us to contract with the best convenience retailers and seek to extend the range of payments and services that we provide, delivering new retail schemes that drive footfall and commission earnings to our retail partners and securing their continuing loyalty.

In the UK and Ireland, convenience retailing is increasingly becoming the first choice for many busy consumers looking for quality products and services. The sector continues to benefit from substantial investment in premises and upgraded product ranges. PayPoint sits at the core of this transformation as the principal innovator of in-store payments and services to local communities. We have continued to improve technology in-store by the introduction of PayPoint Point of Sale, the software version of our terminal on retailers' till systems, notably to the Co-Operative Group, and by placing broadband connected terminals which process transactions more quickly. We continue to extend our retail coverage in the UK and Ireland towards 30,000 sites, whilst maintaining our focus on yield per site. Our focus on retail services has enabled us increasingly to become the preferred technology gateway for the convenience sector.

Romania has made good progress with strong transaction growth, as we increase our share of over the counter bill payment, driving increased profitability. We continue to roll out further sites to get ever closer to where consumers live and work. We are evaluating new retail services to complement our international money transfer proposition, that is developing well through about 1,400 of our sites. The prospects for Romania continue to be good, with the opportunity to extend our share of payments, develop our retail services proposition and start to introduce the group's new multi-channel payment capability to our Romanian client base.

### Creating a first-class mobile gaming environment

*When AlchemyBet needed a mobile-friendly payment solution that would complement the high quality mobile entertainment on offer from its PocketFruity.com mobile and social gaming app, PayPoint implemented its API (Application Programming Interface), which has the flexibility to adapt to a mobile payment environment.*

*Operating in a thriving mobile games market, the API is able to cope with high levels of demand, helping to build long lasting loyalty with PocketFruity's customers who demand an efficient payment experience. As a result, the UK-based operator is now an established mobile gaming business and experienced an increase in volumes of 182% over the last year.*

*"Our customers need to be able to deposit and receive funds quickly and successfully, which the mobile payment functionality on the PayPoint platform has enabled."*  
James Harrison, CEO, AlchemyBet (PocketFruity.com)

### Collect+ reaches out to Ireland

*Collect+ has teamed up with Parcel Motel to give Irish online shoppers an easy and convenient way to return unwanted items to UK retailers. Littlewoods Ireland was the first Irish retailer to offer this service to its customers.*

*Since its launch in mid-2013 by Nightline Group, Ireland's largest independent delivery firm, the Parcel Motel network of lockers has attracted tens of thousands of subscribers. Littlewoods Ireland customers can return unwanted items to the UK by dropping them off at their nearest Parcel Motel locker.*

*Once registered on the Parcel Motel website, customers can book a locker slot and attach the Collect+ label to their package, which is provided when their item is shipped to them. Parcel Motel transfers the parcels to Collect+ in the UK. Customers receive a returns code and are able to track the journey of their item on the Collect+ website.*

*"This new system is simpler and, if anything, makes the business of buying online even easier than before."*  
John Tuohy, CEO, Nightline Group

## CHIEF EXECUTIVE'S REVIEW *continued*

### Top industry award for the Simple Payment service

*The Simple Payment service, the innovative solution that replaced costly cheques for the payment of government benefits and pensions, was recognised as the best in class at the 2014 Cards & Payments Awards. The Simple Payment service is delivered on behalf of the Department for Work & Pensions (DWP) by PayPoint and Citi, and its success has allowed the Government to discontinue all cheque services, with an annual saving to the taxpayer estimated at £15 million, including an estimated £5 million per year in fraud.*

*"In the current UK environment, there is an expectation that public and private sector organisations will drive efficiencies and reduce costs. There is also an expectation that organisations will drive a digital agenda through innovation. The Simple Payment service addresses these expectations, while enhancing the customer experience."*  
Cards & Payments Awards judging panel

### Heating homes over Christmas

*Although more shops are opening on Christmas Day each year, PayPoint's retail network is very often the only place where people with energy prepayment meters are able to top up their meters over bank holidays. As an illustration of the value of PayPoint in the communities served by its shops, consumers across the UK topped up their gas or electricity prepayment meters at PayPoint 3.9 million times on Christmas Day, Boxing Day and New Year's Day. In addition, over 10,000 customers collected their pension or benefits in cash from PayPoint on one of these bank holidays. In total, PayPoint was used 6 million times over the three days by consumers for a wide variety of payments. Almost 12,500 shops with PayPoint facilities were open on Christmas Day, with as many as nine out of ten open in some parts of the country, enabling over 225,000 people to top up their prepayment meters.*

*"What these figures show is just what a valuable service PayPoint provides. No other retail chain in the UK offers such a high level of service over the holiday period."*  
Seamus Smith, Managing Director, Retail Payments and Services, PayPoint

### Collect+

This exciting UK retail service, a 50:50 joint venture with Yodel, has developed well over the year, with annual parcel volumes growing 76.4%. The company is now in profit and we continue to invest in the proposition and network to support its growth, with an ultimate goal to provide a larger parcel network than the Post Office. Collect+ does not have the same characteristic operational gearing in its business model as PayPoint, as variable costs are much higher. This, together with cost increases, including marketing, will affect profit, although PayPoint Retail Services will continue to benefit from increased volumes and, taken together, the parcels service will continue to increase profit to PayPoint. We attract the best online retailers to the Collect+ service, including Amazon, eBay, ASOS, New Look, Boden, John Lewis, House of Fraser, M&S, Asda Direct and Very. The growth of Click & Collect is particularly encouraging.

### Mobile and Online

PayByPhone, PayPoint.net and our recent acquisition Adaptis, have been combined into the newly launched PayPoint Mobile and Online. The business is operating under a new single management team and is at the heart of PayPoint's multi-channel strategy. Our ability to understand and engage with the consumer, together with our B2B strength in more traditional transaction processing and value added services, gives us strength and differentiation within the payment sector. Already, we offer internet payment services to our parking clients and mobile payment services to our internet payment clients. We have continued to win large new clients, including the City of Paris, although NSL's winning bid for Westminster did not include our PayByPhone service and this loss will delay profitability for Mobile and Online.

As Mobile and Online has its own customer base of several million consumers in parking, it is well positioned to earn revenues from both consumers and merchants, with the potential for new business models beyond transaction revenues. We aim to sell more products to our B2B clients, to generate more sources of revenue per consumer and to have a greater proportion of transactions where we own the consumer experience.

### Consumers

PayPoint has traditionally served consumers through our B2B relationships and we remain, essentially, a B2B2C company in our approach. Our innovation has taken us into services, which have a direct relationship with consumers, such as in parking and Collect+, both of which have growing consumer bases. In addition, some 12 million transactions from unregistered consumers cross our retail counters in an average week and our brand awareness, consumer satisfaction and net promoter ratings are high, endorsed by feedback from our more recent social networking activities. We are working hard to drive greater insight into consumer behaviour and needs, with a view to extending our consumer base and driving further value to them.

Dominic Taylor  
Chief Executive  
29 May 2014

## STRATEGY AND BUSINESS MODEL

Our prime focus is to engage with clients, retailers, merchants and consumers across a multi-channel payment spectrum. This strategic evolution recognises that consumers demand increasing access and convenience and that clients need trusted partners to simplify the complexity of multi-channel payments and services.

In order to increase focus on our offer, we have combined PayByPhone and our internet payments into a new Mobile and Online business, which brings together our highly successful consumer facing mobile apps and services with our deep expertise in card not present payment processing, helping web merchants to transact with their customers across all digital interfaces.

We have also refreshed our brand to create a dynamic identity, which works well in all channels and ensures that the full breadth of our proposition is conveyed to clients, beyond any individual channel or service which attracted them originally.

In all the vertical sectors in which we specialise – energy, telecoms & media, financial, gaming, public sector, parking & transport and retail – the nature of service delivery is being transformed away from restricted access to fully integrated platforms offering multiple touch points. On PayPoint platforms, payments will flow as part of the customer service experience as a consequence of, rather than as an interruption to, the consumers' choices. Integrated service delivery can also extend to fulfilment through Collect+, where appropriate.

An example of this evolution is the advent of smart metering for energy companies, which will significantly expand the prepayment sector in which we are market leader, but will require flexibility beyond retail cash payments by extension into mobile and online channels as well. PayPoint is well placed to deliver these multi-channel solutions.

Also, our market leadership in mobile parking gives us a strong platform to extend into broader urban mobility solutions. For example, in Nice, we also handle payments for bike and electric vehicle hire and public transport schemes through a city-wide passport application. Mass transportation schemes will extend demand for retail cash solutions.

It follows that, to stay ahead in our chosen markets, we need to engage clients across this broader multi-channel scope.

In addition to our core payment expertise, we bring consumer insight to our solutions for clients. We have created a number of highly popular and heavily-used consumer services throughout our history. Across each of the retail, mobile and online channels, we handle millions of transactions with a value of billions of pounds, demonstrating our ability to create and deliver successful large scale consumer payment schemes in partnership with our clients and directly. We aim to use our consumer insight to continue to add value to our client offers and, where appropriate, to build our own direct propositions, enabling registered customers to benefit from a broad range of PayPoint services.

In summary, our multi-channel delivery builds through three levels:

1. Core payments and services wherever you see the PayPoint logo – simplified multi-channel consumer propositions for clients
2. Product and service diversification using our vertical market expertise, to maintain and extend our differentiation
3. Generating additional shareholder value through services building on our consumer insight

We already provide services in the UK & Ireland, USA, France, Canada, Romania, Switzerland, Australia and for multi-national merchants. We aim to extend our international reach. Our Mobile and Online channel is international by its nature and this will continue and widen. Our Retail Payments and Services are based in selected domestic markets. We are ready to consider further international retail expansion, building on our successful experiences in Romania.

In countries where we offer retail networks, we increase retail yield through delivering and extending a portfolio of retail services, further demonstrating the success of our product and service diversification.

We recognise that many businesses are investing in mobile and online solutions and that success will only come from those who really understand the consumer, can be trusted to deliver by the client and have a strongly differentiated and relevant offer. We believe that we have these attributes through our unique strength across traditional retail and newer digital channels, our ability to bring new popular B2B2C services to market, our proven technology and our pedigree in building and operating successful services at scale.

Further information about our business model can be found at the beginning of the annual report in the section entitled "Our business" and should be considered as part of the strategic report.

### Cashless parking at 155,000 parking spaces in City of Paris

*The City of Paris has awarded a partnership of PayByPhone and VINCI Park the contract to launch cashless parking for 155,000 parking spaces, the largest in the world by number of spaces. Initially available in the 1st, 2nd, 3rd and 4th arrondissements in 2014, PayByPhone will be extended to residential and business parking areas and to all other areas of the city by the end of 2015.*

*PayByPhone was the first phone parking payment service in France, in Issy-les-Moulineaux, and is now available in more than 30 cities across the country, including the outskirts of Paris. Since autumn 2013, travellers in Ile de France on any of the 3,000 Taxis Bleus have been able to use their smartphones to pay for their taxis on their PayByPhone account.*

*The successful bid for central Paris follows other successes during the year in PayByPhone's key markets of the UK (Lambeth, Southwark, Chelmsford and Exeter) and the USA (Seattle, Massachusetts Bay Transport Authority (MBTA) and Dallas).*

### Helping retailers become more profitable

*During the year, PayPoint introduced the single daily settlement system for retail payment services. In a significant shift from having separate collections and payments to and from retailers for each of its products and services, PayPoint now collects or pays a net amount each day, by deducting amounts paid out through services, such as CashOut, the Simple Payment service, ATM withdrawals and Western Union receive transactions, from the amounts paid in via the PayPoint terminal. This allows the retailer to deposit the net amount owed to PayPoint into their bank each day. Because of the level of charges that retailers pay on each transaction to deposit into or make payments from their bank account, net settlement is able to save our retailers hundreds of pounds each year on bank charges.*

*While retailers enjoy the benefits of lower banking costs and extra sales from recycling the cash they take through PayPoint, single daily settlement brings additional benefits to retailers, particularly in cash handling.*

## KEY PERFORMANCE INDICATORS (KPIs)

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

### Measuring our performance

| Strategic focus    | KPI                                       | Description   | 2014           | 2013           |
|--------------------|---|---|----------------|----------------|
| Shareholder return | Earnings per share (diluted)              | Profit after tax attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the period (including the impact of shares which are likely to be issued under share schemes).            | 52.6p          | 45.3p          |
|                    | Dividends per share                       | Proposed final dividend and interim dividend divided by the number of fully paid shares at the end of the period (excludes special dividend in 2013).   | 35.3p          | 30.4p          |
|                    | Economic profit                           | Operating profit (including PayPoint's share of joint venture results and excluding exceptional costs, relating to the cost of acquisitions) after tax and a charge for capital employed, excluding cash, based upon the group's cost of capital. | £28.1 million  | £24.0 million  |
| Growth             | Retail networks transactions              | Number of transactions processed in the period on our terminals, ATMs and on our retailers' EPOS systems.   | 635.4 million  | 624.8 million  |
|                    | Mobile and Online transactions            | Number of transactions processed in the period by Mobile and Online.  | 132.2 million  | 114.1 million  |
|                    | Transaction value                         | The value of transactions processed via our terminals, retailers' EPOS systems, online merchants, ATMs, mobile payments and the sale of other retail services.  | £14.7 billion  | £14.1 billion  |
|                    | Net revenue                               | Revenue less: commissions paid to retail agents; the cost of mobile top-ups and SIM cards where PayPoint is principal; acquiring bank charges and call centre costs recharged to clients.   | £113.7 million | £105.7 million |
|                    | Operating margin                          | Operating profit including our share of joint venture results and excluding exceptional costs, relating to the cost of acquisitions, as a percentage of net revenue.  | 39.9%          | 38.8%          |
| Asset optimisation | Return on capital employed                | Total operating profit for the period divided by average month end capital employed (net assets excluding cash).  | 62.6%          | 60.8%          |
|                    | Growth in retail networks' yield per site | Growth in net revenue from retail networks, excluding Simple Payment service set-up, divided by the average number of sites in the period.  | 3.9%           | 8.7%           |
| People             | Labour turnover                           | Number of permanent employees who left during the period divided by average total permanent employees:  |                |                |
|                    |   | UK & Ireland  | 20.7%          | 23.0%          |
|                    |   | Rest of world   | 8.7%           | 17.3%          |

## REVIEW OF BUSINESS

The review of business presented in this annual report includes highlights on page 1, the Chairman's statement on page 2 and the Chief Executive's review on pages 3 and 4.

PayPoint processes consumer transactions and, as such, has only one operating segment. However, we include an analysis of the number and value of consumer transactions, revenue and net revenue and our networks by product to help to explain the execution of our strategy.

Growth opportunities include: provision of single solution, multi-channel payments and services to new and existing clients; the extension of services in each payment channel across the existing client base, new and existing client development and retail services in the UK and Romanian retail networks; the expansion of these retail networks; building and developing Collect+; new merchants and new services for online payments; new parking contracts, driving consumer adoption and the development of other mobile services.

We announced in the 2012 annual report that, going forward, the company would change to calendar month end dates for reporting to shareholders. In the period ended 31 March 2013, the final Sundays in the months of September and March coincided with the calendar month end but that period also included an extra week at the beginning of the year as a consequence of previously reporting to the last Sunday in the month in the period ended 25 March 2012. These results cover a period of 365 days (2013: 371 days) and, as a consequence of an extra week in the prior period, percentage increases in the period under review are lower. The impact of the extra week is generally to reduce stated net revenue growth by between 1 and 3 percentage points.

The channel and product analysis is as follows:

### Retail Payments and Services:

Bill and general (prepaid energy, bills and cash out services)  
Top-ups (mobile, e-money vouchers, prepaid debit cards and lottery)

Retail services (ATM, debit/credit, parcels, money transfer, SIMs, broadband, receipt advertising, charges for failed direct debits and paper invoicing)

In addition, fees for early settlement, development and set-up are attributed to the client to which they are billed and included above in the relevant categories.

### Mobile and Online:

Parking, permits, tolling, ticketing, bicycle rental transactions, consumer transactions with merchants, pre-authorisations, optimisation of authorisations, FraudGuard, where separately charged, and real-time management reporting.

Formerly, we disclosed separately: transaction numbers and value; revenue and net revenue for internet payments and PayByPhone, but, following their combination, they are reported in total under Mobile and Online.

We also previously reported separately other revenue and net revenue for the recharge of development costs, early settlement fees, settlements of claims and other fees. These have now been allocated to bill and general, top-ups and retail services based on the client to which the income relates. The prior year figures have been restated accordingly. The impact of the restatement is the removal of £5.4 million (2013: £4.9 million) from other, which has been divided between bill and general £1.8 million

(2013: £2.3 million), top-ups £1.5 million (2013: £1.0 million) and retail services £2.1 million (2013: £1.6 million). The overall increase before restatement is largely as a consequence of higher early settlement fees, the size of which is unpredictable, and income from broadband (enabling faster terminals).

### OPERATING REVIEW

|                          |      | 52 weeks ended<br>31 March<br>2014 | 53 weeks ended<br>31 March<br>2013 | Increase<br>% |
|--------------------------|------|------------------------------------|------------------------------------|---------------|
| Transactions             | '000 | 767,520                            | 738,991                            | 3.9           |
| Transaction value        | £000 | 14,742,667                         | 14,095,423                         | 4.6           |
| Revenue                  | £000 | 212,158                            | 208,526                            | 1.7           |
| Net revenue <sup>1</sup> | £000 | 113,740                            | 105,657                            | 7.7           |

Transactions have increased to 767.5 million (2013: 739.0 million), up 1.7% in the retail networks and 15.8% in Mobile and Online.

Transaction value increased to £14.7 billion (2013: £14.1 billion), up 6.0% in Retail Payments and Services (retail networks) and 1.8% in Mobile and Online.

Revenue has increased to £212.2 million (2013: £208.5 million), up 1.1% in the retail networks and 9.3% in Mobile and Online. Revenue growth is lower than transaction volume due to higher transaction growth in some larger online merchants who benefit from lower pricing and from charges to newer parking clients, which are lower than those to existing clients.

Net revenue has increased to £113.7 million (2013: £105.7 million), up 7.6% in the retail networks and 7.7% in Mobile and Online. Net revenue growth is higher than revenue in retail networks, mainly as a consequence of the introduction of the Simple Payment service management fee from September 2012, offset by a reduction in the final tranche of Simple Payment service set-up fees, compared to the prior period; the renewal of a utility contract at better margins; and a richer transaction mix from other bill and general clients.

Operating profit, including our share of Collect+ and excluding exceptional costs, relating to the cost of acquisitions, was £45.4 million (2013: £41.0 million), an increase of 10.6%. The increase in the operating profit is the result of the strong growth of our retail networks and Collect+ turning to profit.

1. Net revenue is revenue less the cost of mobile top-ups (where PayPoint is principal), SIM cards and other costs incurred by PayPoint, which are recharged to clients and merchants. These costs include retail agent commission, card payment merchant service charges and costs for the provision of call centres for mobile parking clients. Net revenue is a measure which the directors believe assists with a better understanding of the underlying performance of the group.

## REVIEW OF BUSINESS *continued*

### Bill and general

|                          |      | 52 weeks ended<br>31 March<br>2014 | 53 weeks ended<br>31 March<br>2013 | Increase<br>% |
|--------------------------|------|------------------------------------|------------------------------------|---------------|
| Transactions             | '000 | <b>445,597</b>                     | 432,793                            | 3.0           |
| Transaction value        | £000 | <b>8,306,601</b>                   | 7,751,965                          | 7.2           |
| Revenue                  | £000 | <b>85,341</b>                      | 82,070                             | 4.0           |
| Net revenue <sup>1</sup> | £000 | <b>54,000</b>                      | 50,391                             | 7.2           |

Bill and general transactions were ahead of last year as a result of a 53.5% increase in Romanian bill payment transactions. Growth in UK transactions was suppressed by the impact of the extra week of trading in the prior period and the warmer weather during the winter. Simple Payment service transactions continue to be lower than originally expected, as a substantial proportion of the cheque volume it was designed to replace, migrated to other payment methods. The strong growth in Romania, where we processed 39.1 million transactions (2013: 25.5 million) was due to increasing market share and adding new clients.

Growth in net revenue of 7.2% exceeded that of revenue growth, mainly as a consequence of the introduction of the recurring Simple Payment service management fee from September 2012, offset by a reduction in the Simple Payment set-up fees; the renewal of a utility contract at better margins; and a richer transaction mix from other clients.

### Top-ups

|                          |      | 52 weeks ended<br>31 March<br>2014 | 53 weeks ended<br>31 March<br>2013 | Decrease<br>% |
|--------------------------|------|------------------------------------|------------------------------------|---------------|
| Transactions             | '000 | <b>97,465</b>                      | 118,270                            | (17.6)        |
| Transaction value        | £000 | <b>866,321</b>                     | 1,006,234                          | (13.9)        |
| Revenue                  | £000 | <b>73,680</b>                      | 81,360                             | (9.4)         |
| Net revenue <sup>1</sup> | £000 | <b>22,543</b>                      | 22,825                             | (1.2)         |

Top-up transactions decreased over last year as a result of the continued decline in mobile top-up volumes in the UK and Ireland of 17.3%. Other top-up transactions were also lower than last year. The reduction in UK and Irish mobile transactions was only partly offset by a small increase in Romanian mobile top-ups, where the impact of a larger network has offset market decline.

The reduction in top-up transaction value was lower than that of transaction numbers as the average value of mobile top-ups increased, which also helped mitigate the reduction in revenue and net revenue as did the increase in e-money top-ups.

The decline in net revenue was driven by fewer transactions in the UK and Ireland, offset by an increase in Romanian mobile top-ups and an increase in early settlement fees, the size of which is unpredictable.

### Retail services

|                   |      | 52 weeks ended<br>31 March<br>2014 | 53 weeks ended<br>31 March<br>2013 | Increase<br>% |
|-------------------|------|------------------------------------|------------------------------------|---------------|
| Transactions      | '000 | <b>92,308</b>                      | 73,785                             | 25.1          |
| Transaction value | £000 | <b>667,303</b>                     | 522,929                            | 27.6          |
| Revenue           | £000 | <b>35,883</b>                      | 29,317                             | 22.4          |
| Net revenue       | £000 | <b>22,105</b>                      | 18,427                             | 20.0          |

Retail services volumes have increased across all products. ATM transactions increased by 21.2%, credit and debit transactions by 18.4%, SIM card sales by 4.5%, money transfer transactions by 58.9% and parcels by 76.4% over last year.

A higher average ATM transaction value has driven an increase in total transaction value in excess of the increase in volume.

Strong net revenue growth of 20.0% was driven by the increases in credit and debit, parcels, and income from broadband (enabling faster terminals) but held back by a flat ATM performance in the first half of the year, where the increase in ATMs in the network had not yet shown in net revenue, and the impact of an extra week of trading last year, which occurred in the first half.

### Collect+

PayPoint has a 50% equity interest in Drop and Collect Limited, trading as Collect+, a 50:50 joint venture with Yodel. PayPoint does not consolidate the results of the joint venture but does include its share of the profit or loss of the joint venture in its consolidated income statement, after group operating profit.

|                  |      | 52 weeks ended<br>31 March<br>2014 | 53 weeks ended<br>31 March<br>2013 | Increase<br>% |
|------------------|------|------------------------------------|------------------------------------|---------------|
| Collect+ at 100% |      |                                    |                                    |               |
| Transactions     | '000 | <b>13,555</b>                      | 7,686                              | 76.4          |
| Revenue          | £000 | <b>34,093</b>                      | 17,753                             | 92.0          |
| Profit/(loss)    | £000 | <b>1,784</b>                       | (1,929)                            | n/a           |

Transactions have grown substantially, with a richer mix of consumer parcels driving an increase in revenue ahead of transactions. The business was profitable in the year for the first time following the strong growth in revenue.

1. Net revenue is revenue less the cost of mobile top-ups (where PayPoint is principal), SIM cards and other costs incurred by PayPoint, which are recharged to clients and merchants. These costs include retail agent commission, card payment merchant service charges and costs for the provision of call centres for mobile parking clients. Net revenue is a measure which the directors believe assists with a better understanding of the underlying performance of the group.

## REVIEW OF BUSINESS *continued*

### Mobile and Online

|                   |      | 52 weeks ended<br>31 March<br>2014 | 53 weeks ended<br>31 March<br>2013 | Increase<br>% |
|-------------------|------|------------------------------------|------------------------------------|---------------|
| Transactions      | '000 | 132,150                            | 114,143                            | 15.8          |
| Transaction value | £000 | 4,902,442                          | 4,814,295                          | 1.8           |
| Revenue           | £000 | 17,254                             | 15,779                             | 9.3           |
| Net revenue       | £000 | 15,092                             | 14,014                             | 7.7           |

Transactions increased by 15.8%, with online transactions of 100 million up 8.7% and mobile transactions of 32 million up 43.7%.

Transaction growth from online services was driven by the continued addition of large merchants and the organic growth in existing merchants.

We have continued to add key mobile parking contracts with councils and parking authorities across the UK, North America and France as we provide a more convenient and cost effective method for collecting parking charges.

Lower growth in transaction value is due to a decrease in average online transaction values of 6.9% to £48.05 (2013: £51.59). Mobile transaction values also increased by less than volume growth, with average transaction value down over the prior period as newer clients' parking charges were lower than existing clients.

Strong growth in mobile revenue and net revenue was offset by a fall in online revenue, due to the prior period impact of one-off software development income and the extra week of trading. Online revenue growth was also less than transaction and value growth due to higher transaction growth in some larger merchants which benefit from lower pricing.

Mobile revenues and net revenues have grown increasingly strongly, justifying the continued expenditure in technology, product development, sales and marketing to take this early stage venture forward.

Adaptis Solutions Limited was acquired on 3 February 2014 and is included in the Mobile and Online performance although volumes and revenues have not been material in the period since acquisition.

### Network growth

Terminal sites overall have increased by 9.8% to 35,596.

In the UK and Ireland, site numbers have expanded by 2,172, an increase of 9%. In 8,838 of these sites, we provide debit and credit card acceptance, including the capability for retailers to accept convenient contactless card transactions. During the year, we continued to roll out our PPOS integrated solution to retailers, which combines a virtual terminal (our software on the retailer's till system) with a plug-in reader, to provide the service at lower cost. As well as enhancing our service to retailers, this allows us to redeploy terminals for use in Romania. In addition to these 6,015 PPOS solutions, there were 7,874 broadband enabled terminals (which offer a faster service than PSTN enabled terminals for transactions where the terminal has to contact the client's host) at 31 March 2014.

In Romania, we increased the number of terminal sites by 1,015 in the period.

We added over 590 new merchants for online payments during the year and the overall reduction in merchants since 31 March 2013 is largely the result of the churn of low volume merchants.

We added Collect+ sites as transaction volumes increased. There is high demand among retailers for this service.

|                             | 31 March<br>2014 | 31 March<br>2013 | Increase/<br>(decrease)<br>% |
|-----------------------------|------------------|------------------|------------------------------|
| <b>Analysis of sites</b>    |                  |                  |                              |
| UK & Ireland terminal sites | 27,242           | 25,070           | 8.7                          |
| Romania terminal sites      | 8,354            | 7,339            | 13.8                         |
| <b>Total terminal sites</b> | <b>35,596</b>    | 32,409           | 9.8                          |
| Online merchants            | 5,168            | 5,511            | (6.2)                        |
| Collect+ sites              | 5,582            | 5,255            | 6.2                          |

## FINANCIAL REVIEW

### Income statement

Revenue for the period was 1.7% higher, at £212.2 million (2013: £208.5 million), from growth across the majority of services. Cost of sales reduced to £115.2 million (2013: £118.9 million). The cost of mobile top-ups in Ireland and Romania<sup>1</sup> has fallen to £31.3 million (2013: £32.0 million). Retailers' commission decreased to £64.9 million (2013: £69.1 million) as a result of lower mobile top-up commission. These reductions in costs were offset by higher depreciation (on increased capital expenditure). Gross profit margin improved to 45.7% (2013: 43.0%), mainly as a consequence of the reduction in the cost of sales.

Net revenue<sup>2</sup> of £113.7 million (2013: £105.7 million) was up 7.7% from the growth in bill payment, retail services and mobile parking.

Operating costs (administrative expenses) increased 10.5% to £52.7 million (2013: £47.7 million), reflecting:

- the increasing cost of IT operations and development required to support new products and improve the efficiency of IT delivery; and
- the continued investment in Mobile and Online to support our focus on these fast moving markets.

Operating costs included £0.2 million of expenditure relating to professional fees for the acquisition of Adaptis Solutions Limited in February 2014.

We plan to continue to increase expenditure in Mobile and Online in the current year.

Our share of the profit in our parcels joint venture, Collect+, was £0.9 million (2013: £1.0 million loss). The integration of new merchants, heightened consumer awareness, growth in activity from existing clients and improvements in service levels for peak trading all helped to drive up revenues which led to the business becoming profitable.

Operating margin<sup>3</sup> rose to 39.9% (2013: 38.8%) as a consequence of the improvement seen in Collect+ profitability. Profit before tax was £46.0 million (2013: £41.3 million), an increase of 11.5%, and included a £0.7 million profit on disposal of a small investment. The tax charge of £10.1 million

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 the cost of mobile top-ups (where PayPoint is principal), SIM cards and other costs incurred by PayPoint, which are recharged to clients and merchants. These costs include retail agent commission, card payment merchant service charges and costs for the provision of call centres for mobile parking clients. Net revenue is a measure which the directors believe assists with a better understanding of the underlying performance of the group.
3. Operating profit including our share of joint venture results and excluding exceptional costs, relating to the cost of acquisitions, as a percentage of net revenue.

## REVIEW OF BUSINESS *continued*

(2013: £10.3 million) represents an effective rate of 21.9% (2013: 25.0%). The reduction in tax rate reflects the decrease in the UK corporate tax rate, the use of past losses to be offset from current and future profits in Romania and the benefit of higher than expected research and development claims relating to prior periods. The reduction in UK corporation tax nominal rate to 21% became effective after the year end.

### Statement of financial position

Net assets of £103.6 million (2013: £105.9 million) reflect a strong financial position, including cash of £41.6 million (2013: £46.6 million) and no debt.

### Cash flow

Cash generated by operations was £55.8 million (2013: £50.7 million), reflecting strong conversion of profit to cash. Corporation tax of £10.3 million (2013: £10.6 million) was paid. Capital expenditure of £11.3 million (2013: £9.7 million) comprised expenditure on IT infrastructure, developments for new products, terminals, ATMs and prepaid energy card and key readers for PPoS (PayPoint Point of Sale, the software version of our terminal that can be loaded onto retailers' till systems). The amount paid for the acquisition of Adaptis in the year was £3.2 million. Share incentive schemes settled in cash absorbed £5.3 million (2013: nil). Equity dividends paid were £31.6 million (2013: £19.0 million), which included a 15.0p per share special dividend, in total £10.2 million. Cash and cash equivalents were £41.6 million (including client cash of £6.5 million and cash in Romania of £13.5 million), lower than £46.6 million (including client cash of £7.0 million and cash in Romania of £7.0 million) at 31 March 2013, mainly because of: the payment of the special dividend; the increased cost of the share incentive schemes which vested in the period; and the acquisition of Adaptis.

### Economic profit

PayPoint's economic profit (operating profit less tax and capital charge) was £28.1 million (2013: £24.0 million), an increase of 17.0%.

### Dividend

We propose to pay a final dividend of 23.9p per share on 24 July 2014 (2013: 20.2p) to shareholders on the register on 27 June 2014, subject to the approval of the shareholders at the annual general meeting. An interim dividend of 11.4p (2013: 10.2p) was paid on 19 December 2013, making a total dividend for the period of 35.3p (2013: 30.4p, excluding the 15.0p special dividend paid with the final dividend in 2013), up 16.1%, in line with earnings.

### Liquidity and going concern

The group has cash of £41.6 million (including client cash of £6.5m) and had, at the period end, an undrawn, unsecured loan facility of £35 million, which has an unexpired term of two years. Cash and borrowing capacity is adequate to meet the foreseeable needs of the group, taking account of risks (pages 11 and 12). The financial statements have, therefore, been prepared on a going concern basis.

### Financing and treasury policy

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

### Charitable donations

During the year, the group made charitable donations of £23,879 (2013: £23,808) to charities serving the communities in which the group operates. We encourage employees to raise funds for charity and the company matches funds raised by the employees, subject to certain limits.

Our UK retail network acted as a collection agent for the BBC's Children in Need telethon.

### Employees

Our success depends upon the continuing support and commitment of all our staff. We would like to take this opportunity to thank PayPoint's employees for their commitment, energy and enthusiasm in the delivery of these results.

### Economic climate

The company's bill and general payments service, which accounts for 47.5% (2013: 47.7%) of our net revenue, has continued to be resilient, as consumers' discretion in expenditure is limited for essential services and our service continues to be popular. Utility providers continue to install new prepay gas and electricity meters, which will have a beneficial impact on our transaction volumes. The online payment market continues to grow substantially. There has been an adverse impact on our mobile top-ups as mobile operators continue to offer more airtime at lower cost and to promote prepay less than contract. Mobile and Online is able to offer parking authorities a more cost effective collection system for parking compared to pay and display machines.

PayPoint's exposure to retail agent debt in the UK and Ireland is limited as credit granted to retail agents is restricted by daily direct debiting for all UK and Irish transactions, other than EPoS mobile top-ups (which are collected weekly). There is some concentration of risk in multiple retail agents. Most of PayPoint's clients in the UK, other than for top-ups, bear the cost of retail agent bad debt. In PayPoint Romania, the risk of bad debt lies with the company. In Mobile and Online, exposure is limited to receivables from online merchants for fees, except in the case of bureau online merchants, where PayPoint.net retains credit risk on merchant default for credit card charge backs, a risk mitigated in part by cash retention and to receivables from parking authorities.

## TRENDS AND FACTORS ON FUTURE DEVELOPMENT

For the current financial year, trading is in line with the company's expectations. Our retail networks in the UK and Romania should continue to deliver profitable growth from our strong client base and breadth of services. We will continue to invest in network expansion, innovative technology and new services to improve the quality of these retail networks to enhance their competitive advantages and our retail yield. Mobile and Online is an essential element of our strategy to provide multi-channel payments and services, placing us in fast growing markets and providing a bridge from cash to electronic payments. Together, our businesses provide a strong foundation to deliver value for our shareholders.

## RISKS AND UNCERTAINTIES

PayPoint's business, financial condition or operations could be materially and adversely affected by the risks summarised below. Although management takes steps to mitigate risks where possible or where the cost of doing so is reasonable in relation to the probability and seriousness of the risk, it may not be possible to avoid the crystallisation of some or all of such risks. The group's risk management policies and procedures are also discussed in the governance statement on page 20.

| Risk area   | Potential impact   | Mitigation strategies  |
|---|--|--|
| <b>Loss or inappropriate usage of data</b>  | The group's business requires the appropriate and secure use of consumer and other sensitive information. Mobile telephone and internet-based electronic commerce requires the secure transmission of confidential information over public networks, and several of our products are accessed through the internet. Fraudulent activity or security breaches in connection with maintaining data and the delivery of our products and services could harm our reputation, business and operating results.  | The group has established rigorous information security, anti-fraud and whistleblowing standards, procedures, and recruitment and training schemes, which are embedded throughout its business operations. The group also screens new employees carefully. Continued investments are made in IT security infrastructure, including the significant use of data and communications encryption technology.   |
| <b>Dependence upon third parties to provide data and certain operational services</b> | The group's business model is dependent upon third parties to provide operational services, the loss of which could significantly impact the quality of our services. Similarly, if one of our outsource providers, including third parties with whom we have strategic relationships, were to experience financial or operational difficulties, their services to us would suffer or they may no longer be able to provide services to us at all, significantly impacting delivery of our products or services.   | The group selects and negotiates agreements with strategic suppliers and agents based on criteria such as delivery assurance and reliability. Single points of failure are avoided, where practicable and economically feasible. Controls are continually reviewed and improved to minimise risk of retailer churn caused by financial loss to retailers through fraudulent third party activity.  |
| <b>Exposure to legislation or regulatory reforms and risk of non-compliance</b>       | The group is largely unregulated by financial services regulators although, in the UK, we are seeking Payment Institution status for prefunded cash payments to consumers and to allow the online business to act as a master merchant for SME online merchants. The group's agents which offer money transfer are licensed as Money Service Businesses by HMRC. Our Mobile and Online business is subject to Payment Card Industry Data Security Standards regulated by the card schemes. Regulatory reform could increase the cost of the group's operations or deny access to certain territories in the provision of certain services. Non-compliance with law, regulation, privacy or information security laws could have serious implications in cost and reputational damage to the group. | The group's legal department works closely with senior management to adopt strategies to educate legislature, regulators, consumer and privacy advocates and other stakeholders to support the public policy debate, where appropriate, to ensure regulation does not have unintended consequences over the group's services. The group has in place a business ethics policy which requires compliance with local legislation in all the territories in which the group operates. A central compliance department co-ordinates all compliance monitoring and reporting. Managing and finance directors are required to sign annual compliance statements. |
| <b>Interruptions in business processes or systems</b>                                 | The group's ability to provide reliable services largely depends on the efficient and uninterrupted operation of our computer network systems, financial settlement systems, data and call centres, as well as maintaining sufficient staffing levels. System or network interruptions, recovery from fraud or security incidents or the unavailability of key staff or management resulting from a pandemic outbreak could delay and disrupt our ability to develop, deliver or maintain our products and services, causing harm to our business and reputation and resulting in loss of customers or revenue.  | Comprehensive business continuity plans and incident management programmes are maintained to minimise business and operational disruptions, including fraudulent activity, system failure or pandemic incidents. Support arrangements have been established with third party vendors and there are strict standards, procedures and training schemes for business continuity.  |
| <b>Dependence on recruitment and retention of highly skilled personnel</b>            | The ability of the group to meet the demands of the market and compete effectively is, to a large extent, dependent on the skills, experience and performance of its personnel. Demand is high for individuals with appropriate knowledge and experience in payments, IT and support services. The inability to attract, motivate or retain key talent could have a serious consequence on the group's ability to service client commitments and grow our business.  | Effective recruitment programmes are ongoing across all business areas, as well as personal and career development initiatives. The executive management reviews talent potential at quarterly meetings. Compensation and benefits programmes are competitive and also reviewed regularly.   |

## RISKS AND UNCERTAINTIES *continued*

| Risk area   | Potential impact   | Mitigation strategies  |
|---|--|--|
| <b>Technology change may render products obsolete</b>   | There are rapid changes in technology in the payments industry, including the development of new payment methods, particularly on smart phones and tablets, but also as a consequence of technology changes in other areas, e.g. smart meters, which will replace the use of the energy keys and gas cards currently used to pay for prepaid energy.   | IT development resource is directed at a group level and developments are in hand to ensure the group has relevant products in place to meet the demands brought about by changing technology. For smart meters, a multi-channel product is under development.   |
| <b>Exposure to materially adverse litigation</b>  | The group contracts with a number of large service organisations for which it provides services essential to their customers. Failure to perform in accordance with contractual terms could give rise to litigation.   | The group seeks to limit exposure in its contracts. Mitigating actions are taken where contractual exposures are above the norm, including insurance coverage, where appropriate and economically sustainable.   |
| <b>Exposure to country and regional risk (political, financial, economic, social) in North America, United Kingdom, Romania, France and Ireland</b> | The group's geographic footprint subjects its businesses to economic, political and other risks associated with international sales and operations. A variety of factors, including changes in a specific country's or region's political, economic or regulatory requirements, as well as the potential for geopolitical turmoil, including terrorism and war, could result in loss of services, prevent our ability to respond to agreed service levels or fulfil other obligations. These risks are generally outside the control of the group. | The group's portfolio is diversified by geography, by product, by sector and by client in order to protect itself against many of these fluctuations, especially those that are restricted to individual territories and market sectors, although the bulk of its operations and revenues are UK based.  |
| <b>Exposure to consolidation among clients and markets</b>  | Consolidation of retailers and clients could result in reductions in the group's revenue and profits through price compression from combined service agreements or through a reduced number of clients.  | No single client accounts for more than 9% of the group's net revenue, and no single retailer accounts for more than 5% of the group's net revenue, which reduces the probability of this potential risk having a significant impact on the group's business. In addition, the group continues to expand in its developing businesses, and in CashOut (reversing the flow of money through its retail networks). |
| <b>Acquisitions may not meet expectations</b>   | The group's acquisitions, strategic alliances and joint ventures may result in financial outcomes that are different than expected.  | The group assesses all acquisitions rigorously, using both in-house experts and professional advisers. In addition, the group conducts regular reviews to monitor performance.   |
| <b>Exposure to the unpredictability of financial markets (foreign exchange, interest rate and other financial risks)</b>                            | As the group operates on an international basis, it is exposed to the risk of currency fluctuations and the unpredictability of financial markets in which it operates.  | The group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the group's financial performance.   |
| <b>Exposure to increasing competition</b>   | The group operates in a number of geographic, product and service markets that are highly competitive and subject to technological developments, for example, the introduction of smart meters and new payment solutions. Competitors may develop products and services that are superior to ours or that achieve greater market acceptance than our products and services, which could result in the loss of clients, merchants and retailers or a reduction in revenue.  | The group is committed to continued research and investment in new data sources, people, technology and products to support its strategic plan.  |
| <b>Loss or infringement of intellectual property rights</b>   | The group's success depends, in part, upon proprietary technology and related intellectual property rights. Some protection can be achieved but, in many cases, little protection can be secured. Third parties may claim that the group is infringing their intellectual property rights or our intellectual property rights could be infringed by third parties. If we do not enforce or defend the group's intellectual property rights successfully, our competitive position may suffer, which could harm our operating results.              | The group, where appropriate and feasible, relies upon a combination of patent, copyright, trademark and trade secret laws, as well as various contractual restrictions, to protect our proprietary technology and continues to monitor this situation. The group also vigorously defends all third party infringement claims.   |
| <b>Data centre security breaches</b>  | The group is highly dependent on information technology networks and systems to process, transmit and store electronic information. Fraudulent or unauthorised access, including security breaches of our data centres, could create system disruptions, shutdowns or unauthorised disclosure of confidential information.   | The group's data centres are protected against physical break-ins. The group has strict standards and procedures for security and fraud prevention.  |

# ENVIRONMENTAL MATTERS, EMPLOYEES, SOCIAL, COMMUNITY AND HUMAN RIGHTS

PayPoint is committed to dealing fairly and with a high level of integrity with all its stakeholders, including clients, retailers, merchants, consumers, local communities, employees and shareholders. We comply with statutory obligations in all areas and subject our practices to high levels of scrutiny. We publish results twice each year and provide two interim management statements, complying with reporting and disclosure obligations. This report sets out our approach and the way we measure our success in dealing with each group of stakeholders.

|   | <b>Clients and merchants</b>  | <b>Retailers and consumers</b>   | <b>Local communities</b>   | <b>Shareholders</b>   |
|---|---|--|--|---|
| <b>Information on stakeholders</b>                  | Over 6,000 clients and online merchants in six countries.   | Over 35,000 retailers in three countries and provide a service to millions of consumers.   | Where our employees live and work.   | 537 shareholders at 31 March 2014.  |
| <b>Impact</b>                                       | Provision of convenient services for consumer payments.   | To provide stable, reliable and a broad range of services to help generate consumer footfall for retailers who serve their communities.  | Financial support to local charities.  | Maximise shareholder return.  |
| <b>Engagement</b>                                   | Provision of a high standard of service to our clients and open communication. Client contracts contain service level agreements, which are set to a high standard. Specific performance is measured for key elements, including system availability and file delivery. | We seek to provide an unparalleled service to our retailers and consumers.   | Staff are encouraged to nominate local charities and fund raising events.<br><br>PayPoint has adopted a charitable giving policy which supports the local communities in which its employees live and work by matching funds raised by employees, subject to certain limits.   | PayPoint focuses on maximising economic value.  |
| <b>How we interact and support the stakeholders</b> | Communication - major clients have regular review meetings with dedicated sector managers.  | In the UK, terminal availability is over 99% and when a terminal needs to be replaced, it is achieved within four hours across the UK in 97% of cases. The breadth of products offered by PayPoint is greater than any other network.<br><br>An annual retailer survey is carried out to understand how we can improve our service. We also invite retailers to attend an annual forum to discuss new products and obtain retailer feedback.<br><br>Major multiple retailers have regular review meetings with dedicated account managers. | During the period, PayPoint donated £23,879 to local and national charities, which was supplemented by employees who also donate to some of these charities through various schemes.<br><br>We offer our network to collect for certain charities free of charge, including the BBC's Children in Need telethon.<br><br>31% of PayPoint's ATM network is 'speech-enabled', the largest proportion of an independent network in the UK. This achievement was recognised with an 'exemplar' award by the Royal National Institute of Blind People in June 2013.<br><br>PayPoint sponsors a category award at the Hertfordshire Community Awards, recognising exceptional service in the community in which many of our employees live. | Shareholders are invited to attend the annual general meeting and major shareholders are visited twice a year to discuss the group's results.<br><br>PayPoint has been a constituent of the FTSE4Good Index since 2008. |

# ENVIRONMENTAL MATTERS, EMPLOYEES, SOCIAL, COMMUNITY AND HUMAN RIGHTS *continued*

## Environment

PayPoint's main impact on the environment stems from our use of resources to run offices in the UK, Ireland, Romania, Canada and France and our communications with our retailers.

We measure our carbon footprint in accordance with the Green House Gas (GHG) protocol. This allows us to monitor, by region, our carbon footprint and implement, where practical, targets to reduce our carbon footprint.

The two primary sources of PayPoint's carbon emissions are business travel and energy consumption. We visit existing and prospective retailers in the UK, Ireland and Romania. Routes are pre-planned to ensure efficiency where possible. Management regularly visits our businesses to review and improve performance. We aim to avoid unnecessary travel. Energy consumption arises from our offices in the UK, Romania and Canada. We have a cycle to work scheme for our UK employees. We encourage employees not to print unless necessary and our board papers are sent electronically rather than printed and sent by post.

PayPoint's services help consumers to reduce the number of unnecessary car journeys through the convenience of our outlets, which are usually available within a short walking distance. Collect+ consolidated over 13m parcels into 1.5m store visits in the last year, saving millions of van deliveries to each consumer's home address.

We recycle wherever possible, including paper, cans, plastic cups, cardboard, toners and print cartridges. We also recycle computer equipment. This has resulted in an increase in the proportion of waste recycled to 54% of all waste generated (2013: 53%). Total waste has increased in the year due to the rise in employee numbers and head office locations as the business has grown.

|                   | 52 weeks ended<br>31 March<br>2014<br>Tonnes | 53 weeks ended<br>31 March<br>2013 <sup>1</sup><br>Tonnes | Change % |
|-------------------|--|---|----------|
| <b>Waste</b>      |  |   |          |
| Landfill          | 15.4   | 13.9  | 10.8     |
| Recycled          | 18.4   | 15.6  | 17.9     |
| <b>Total</b>      | <b>33.8</b>                                  | 29.5  | 14.6     |
| <b>% recycled</b> | <b>54.4%</b>                                 | 52.9%   | 1.5 ppts |

1. The waste numbers shown for the prior period have been restated to reflect additional landfill data now captured.

## GHG emissions

In this section we report on all required greenhouse gas (GHG) emissions in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

We report using a financial control approach to define our organisational boundary. A range of approaches can be taken to determine the boundaries of an organisation for the purposes of GHG reporting, including 'financial control', 'operational control' or 'equity share'.

The methodology used to calculate our emissions is based upon the "Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance", (June 2013) issued by DEFRA, which make it clear that, in most cases, whether an operation is controlled by the organisation or not, does not vary based on whether the financial control or operational control approach is used. The 2013 UK Government GHG Conversion Factors for Company Reporting have been used to calculate our emissions based on data gathered from each of our business units.

Global GHG emissions data for the year is as follows:

| Impact  | Units                    | 52 weeks ended<br>31 March<br>2014 | 53 weeks ended<br>31 March<br>2013 |
|---|--------------------------|------------------------------------|------------------------------------|
| Scope 1 (direct emissions from fuel combustion)                                       | tonnes CO <sub>2</sub> e | 357                                | 474                                |
| Scope 2 (indirect emissions from purchased electricity, heat and cooling)             | tonnes CO <sub>2</sub> e | 1,256                              | 1,308                              |
| Scope 3 (business travel, waste and water)  | tonnes CO <sub>2</sub> e | 932                                | 791                                |
| <b>Total</b>  |                          | <b>2,545</b>                       | 2,573                              |
| Intensity measurement:<br>Total tonnes of CO <sub>2</sub> e per employee <sup>1</sup> |                          |                                    |                                    |
|   |                          | 2.4                                | 2.9                                |

1. We have used the average number of employees to calculate our intensity measure as the majority of our emissions are directly related to business travel and energy consumption at our head office locations.

## Human rights

PayPoint supports fundamental human rights, such as the right to privacy, safety and to be treated fairly, with dignity and respect. Our employment standard sets out our commitment to good employment practices and the principles to govern the practices adopted in each of our businesses. All employees have a right to safe conditions of work, consideration of their welfare, fair terms of employment, reward and treatment, clarity and openness about what is expected. PayPoint offers an environment where all are treated equally and which is free from discrimination in respect of gender, ethnicity, religion, sexual orientation, age or disability.

## Employees

PayPoint employed, on average, 687 members of staff during the period. We operate an equal opportunities policy. PayPoint's culture is one of openness, honesty and accountability and we recognise that all employees play a part in delivering the group's performance.

PayPoint seeks to improve its employees' working environment. Employees are invited to participate in two staff meetings a year where the directors present the performance of the group. Overseas offices participate by webcam. In addition, there are a variety of management presentations to employees on key points of topical interest and functional meetings take place throughout the year at our various offices. PayPoint believes that keeping its employees informed of new developments and products as well as the financial performance of the group motivates the employees and helps them understand the group's progress towards its goals and objectives.

PayPoint's employment policies are designed to attract, retain and motivate the best people. All staff are given two appraisals per annum, which cover performance management, employee development, training and succession planning where applicable. Training is undertaken locally and all employees are given equal opportunities to develop their experience and their careers.

# ENVIRONMENTAL MATTERS, EMPLOYEES, SOCIAL, COMMUNITY AND HUMAN RIGHTS *continued*

Employees in the UK, Ireland, North America and Romania are asked annually to complete an anonymous employee engagement survey which covers a wide range of subjects, including goal clarity, employee involvement, job satisfaction, learning and development and management effectiveness. This survey is used to agree with employees the actions necessary for improvement.

PayPoint has the following policies in place:

**equal opportunities** - we treat job applicants, employees and temporary staff equally, regardless of their sex, sexual orientation, age, race, ethnic origin or disability. It is also the group's policy to retain employees who may become disabled while in service and provide appropriate training as necessary;

**whistle-blowing** - we are committed to ensuring that malpractice is prevented and immediately dealt with, should it arise. We encourage employees to raise their concerns about any malpractice promptly and we have an established procedure for raising any such concerns;

**health and safety** - we recognise that effective health and safety management is fundamental to running a successful business. We are committed to operating high standards, designed to minimise the risk of injuries and ill health to employees, contractors, visitors and others who come into contact with the business, so far as is reasonably practicable;

**disciplinary and 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;

**bullying and harassment** - we promote a working environment free of harassment and individuals who believe that they are being subjected to any form of harassment are encouraged to come forward to have the issue resolved;

**business ethics** - we set out clear standards for ethical relationships and conduct to be maintained by employees and sub-contractors and conduct our business in accordance with the highest ethical standards. We do not offer or accept any bribes; and

**training and development** - all employees meet twice a year with their line manager to discuss performance and any development needs. Training is provided either in-house or externally. We also sponsor employees through further professional and technical qualifications. We promote internally, where appropriate.

## PayPoint's employees

|  | UK                           |                              | Rest of the world <sup>3</sup> |                              |
|--|------------------------------|------------------------------|--------------------------------|------------------------------|
|  | 52 weeks ended 31 March 2014 | 53 weeks ended 31 March 2013 | 52 weeks ended 31 March 2014   | 53 weeks ended 31 March 2013 |
| <b>General<sup>1</sup></b>                         |                              |                              |                                |                              |
| Average number of staff employed during the period | 512                          | 464                          | 175                            | 156                          |
| Average length of service                          | 5 years                      | 5 years                      | 2 years                        | 2 years                      |
| Average staff turnover during the period           | 21%                          | 23%                          | 9%                             | 17%                          |
| Sickness absence rate                              | 1.6%                         | 1.5%                         | 1.5%                           | 1.1%                         |
| % working part-time                                | 10%                          | 9%                           | 4%                             | 2%                           |
| <b>Gender diversity<sup>1</sup></b>                |                              |                              |                                |                              |
| Number of women employed                           | 193                          | 198                          | 69                             | 59                           |
| % of all employees                                 | 41%                          | 43%                          | 39%                            | 38%                          |
| Number of men employed                             | 319                          | 266                          | 106                            | 97                           |
| % of all employees                                 | 59%                          | 57%                          | 61%                            | 62%                          |
| <b>PayPoint plc directors:</b>                     |                              |                              |                                |                              |
| Number of women employed                           | -                            | -                            | -                              | -                            |
| % of PayPoint plc directors                        | 0%                           | 0%                           | -                              | -                            |
| Number of men employed                             | 10                           | 9                            | -                              | -                            |
| % of PayPoint plc directors                        | 100%                         | 100%                         | -                              | -                            |
| <b>Senior management:</b>                          |                              |                              |                                |                              |
| Number of women employed                           | 2                            | 2                            | -                              | -                            |
| % of senior management                             | 22%                          | 22%                          | 0%                             | 0%                           |
| Number of men employed                             | 7                            | 7                            | 1                              | 1                            |
| % of senior management                             | 78%                          | 78%                          | 100%                           | 100%                         |

1. Numbers based on employees employed at the end of each month
2. Senior management includes the group executive, managing directors, the Group HR director and Group Head of Legal/Company Secretary
3. Rest of the world includes Ireland, Romania, Canada and France

# ENVIRONMENTAL MATTERS, EMPLOYEES, SOCIAL, COMMUNITY AND HUMAN RIGHTS *continued*

## PayPoint's employees - *continued*

|                                       | UK                                 |                                    | Rest of the world <sup>3</sup>     |                                    |
|---------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|                                       | 52 weeks ended<br>31 March<br>2014 | 53 weeks ended<br>31 March<br>2013 | 52 weeks ended<br>31 March<br>2014 | 53 weeks ended<br>31 March<br>2013 |
| <b>Ethnic minorities<sup>1</sup></b>  |                                    |                                    |                                    |                                    |
| % of all employees                    | <b>25%</b>                         | 24%                                | <b>9%</b>                          | 8%                                 |
| % of management grades                | <b>3%</b>                          | 3%                                 | <b>10%</b>                         | 6%                                 |
| <b>Disabled employees<sup>1</sup></b> |                                    |                                    |                                    |                                    |
| % of all employees                    | <b>1%</b>                          | 0%                                 | <b>0%</b>                          | 0%                                 |
| <b>Age profile<sup>1</sup></b>        |                                    |                                    |                                    |                                    |
| Employees under 25                    | <b>54</b>                          | 54                                 | <b>13</b>                          | 12                                 |
| Employees 25 to 29                    | <b>88</b>                          | 90                                 | <b>38</b>                          | 36                                 |
| Employees 30 to 49                    | <b>282</b>                         | 262                                | <b>117</b>                         | 107                                |
| Employees 50 and over                 | <b>88</b>                          | 66                                 | <b>7</b>                           | 3                                  |

1. Numbers based on employees employed at the end of each month
2. Senior management includes the group executive, managing directors, the Group HR director and Group Head of Legal/Company Secretary
3. Rest of the world includes Ireland, Romania, Canada and France

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

Dominic Taylor  
Chief Executive  
29 May 2014

## GOVERNANCE

The directors recognise the importance of sound corporate governance, whilst taking into account the size and nature of the company. The company has complied with the revised version of the UK Corporate Governance Code (the Code), as issued by the Financial Reporting Council for the year ended 31 March 2014, a copy of which can be found at [www.frc.org.uk/corporate/ukcgcode.cfm](http://www.frc.org.uk/corporate/ukcgcode.cfm) other than in respect of the requirement to perform an external evaluation of the board every three years. The rationale for the delay in the external evaluation is dealt with later in this governance report.

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

### The board

The board currently comprises ten directors: David Newlands, the non-executive Chairman, Warren Tucker, the non-executive Chairman designate, three executive directors, Dominic Taylor, George Earle and Tim Watkin-Rees, and five non-executive directors, Eric Anstee, David Morrison, Andrew Robb, Stephen Rowley and Nick Wiles.

Having served as Chairman of the board since 1998, David Newlands has elected to retire from the board at the annual general meeting on 23 July 2014. Warren Tucker was appointed to the board on 5 February 2014 and, subject to election by shareholders, will succeed David Newlands as Chairman with effect from the conclusion of the annual general meeting. Further information about the appointment of Warren Tucker is provided in the nomination committee report.

The board considers that Warren Tucker, Eric Anstee, Andrew Robb, Stephen Rowley and Nick Wiles are independent for the purposes of the Code. David Newlands was considered to be independent on appointment.

The Chairman is responsible for the leadership of the board and ensuring the effectiveness on all aspects of its role. The board is comprised of an appropriate balance of skills, experience, independence and knowledge, which enables it to discharge its responsibilities effectively. The balance of independence creates an environment that encourages the effective challenge and development of proposals on strategy. 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. The balance and independence of the board is kept under review by the nominations committee.

Biographical details of each of the current serving directors are set out on page 21. 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.

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 board meetings and regularly consults with the executive directors regarding ongoing business. His other significant commitments are disclosed in his biography on page 21. 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, other directors and the Company Secretary;
- major capital investments;
- annual and half yearly financial statements;
- interim management statements; and
- acquisitions and disposals.

The board met six times during the year and all meetings were attended by all board members in office at the relevant time except that Tim Watkin-Rees, Eric Anstee and Andrew Robb were each unable to attend one meeting. Where a director is unable to attend, he provides input through discussion with the Chairman in advance of the meeting.

In order for the company to be fully compliant with the Code, an external evaluation of the board was due to take place during the year. However, in view of the recent appointment of Warren Tucker, as Chairman designate, the board considered it would be of more value to undertake a formal external board evaluation following the 2014 annual general meeting when Warren Tucker will take over the role of Chairman. The external evaluation will be completed during the course of next year, to enable the board and the new Chairman to fully review its procedures, its effectiveness and development in the financial year ahead and to assist the nomination committee in its succession planning activities.

In contemplation of the performance evaluation that will be performed by an external advisor next year, an internal performance evaluation of the board, its committees and individual directors was undertaken during the period. There were no material changes recommended.

In addition to the evaluation of board members, the various committees carried out self-assessments to determine whether their terms of reference had been satisfactorily fulfilled and how their processes could be improved.

The Chairman and Andrew Robb (Senior Independent Director) will both retire at the 2014 annual general meeting. Warren Tucker will offer himself for election by shareholders for the first time. Every other member of the board will offer himself for re-election. The board's recommendations in respect of the re-election of each director can be found in the notice of meeting on pages 69 to 82.

The Chief Executive proactively manages succession planning for the executives and senior management team and keeps the board updated on developments as necessary.

## GOVERNANCE *continued*

### Conflicts of interest

Under the articles of association, the board has authority to approve any conflicts or potential conflicts of interest that are declared by individual directors; conditions may be attached to such approvals and directors will generally not be entitled to participate in discussions or vote on matters in which they have or may have a conflict of interest.

A register of conflicts is maintained and is reviewed at least annually to ensure all details are kept up-to-date. Authorisation is sought prior to the appointment of any new director or if any new conflicts arise.

### 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 correspondence from private investors.

We believe 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 any unresolved shareholder concerns.

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

### 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](http://www.paypoint.com).

#### Nomination committee

The nomination committee comprises Eric Anstee, Andrew Robb, Stephen Rowley, David Morrison, Nick Wiles, Warren Tucker (since 5 February 2014) and David Newlands, who is its Chairman. It met three times during the period and all members in office at the relevant time were in attendance. David Newlands did not chair the nomination committee when it was dealing with the appointment of his successor.

The 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, which are considered against objective criteria.

The committee considers the need for progressive refreshment and keeps the balance of skills, knowledge, diversity and experience of the board under review. During considerations on the appointment and retention of non-executive directors, the committee has regard to the need for particularly rigorous review and the need to progressively refresh the board where terms of appointment are beyond six years. In 2014 the committee will continue to assess the board's composition and how it can be enhanced. Diversity will be considered as part of this process to ensure candidates are selected from the broadest range of talent.

Further details on diversity throughout the group can be found on pages 15 and 16.

The Senior Independent Director would chair discussions relating to succession planning for the Chairman, in which the Chairman would not take part.

During the year, an external search was commissioned, using an independent executive search firm, Egon Zehnder, which has no other connection with the company, to search for a Chairman designate pending the retirement of David Newlands from the board at the 2014 annual general meeting. Warren Tucker was identified as the strongest candidate for the role and was subsequently recommended to the board by the nomination committee on the basis that he met the desired criteria.

Since the year end, the committee has commissioned Egon Zehnder to search for an independent non-executive director to replace Andrew Robb as Senior Independent Director and chairman of the remuneration committee. Andrew Robb will retire from the board at the 2014 annual general meeting after nine years. The search process is being conducted in line with the appropriate guidelines on diversity and is well advanced.

### Audit committee

The audit committee comprises Eric Anstee, Andrew Robb, Stephen Rowley and Nick Wiles. The board considers Eric Anstee, who is Chairman of the audit committee, to have recent and relevant financial experience in accordance with the Code. Full biographical details of each of the current committee members, including relevant financial experience, are set out on page 21.

The key responsibilities of the audit committee are as follows:

- monitoring that the financial performance of the group is properly measured and reported;
- reporting to the board on the appropriateness of the significant accounting policies and practices of the group;
- considering and making recommendations to the board on the nature and extent of the significant risk the group is willing to take in achieving its strategic objectives;
- overseeing the relationship with the external auditor and the quality of the internal and external audit processes;
- reviewing the internal financial controls and internal control and risk management systems of the group;
- monitoring and reviewing the effectiveness of the arrangements for internal audit, including its remit and programme and ensuring that it is adequately resourced; and
- advising the board on whether the committee believes the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides sufficient information to enable shareholders to assess the group's performance, business model and strategy.

The committee continues to keep its activities under review in the light of regulatory and market developments and met six times during the period. All members were in attendance with the exception of Eric Anstee and Andrew Robb, who were each unable to attend one of the meetings. In both cases, each of the directors reviewed all relevant papers and provided input through discussion with the Group Finance Director in advance of the meeting. By invitation, during the year, meetings were also attended by the Chairman and non-executive directors, the Chief Executive, Group Finance Director, Business Development Director and the Group Financial Controller. Our external auditor, Deloitte LLP and internal auditor, KPMG LLP attended as appropriate.

## GOVERNANCE *continued*

In order to maximise its effectiveness and as part of the process of working with the board, the committee meetings generally take place on the same day and prior to the company board meetings. Where all the board members have not been in attendance at an audit committee meeting, either as a member of the committee or by invitation, the chairman of the committee reports to the board as part of a separate agenda item, on the activity of the committee.

In contemplation of its key responsibilities, during the period, the committee: reviewed reports from the auditor relating to the group's accounting and internal controls; advised the board on the appointment, performance, independence and objectivity of the auditor 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 and other independent audits by clients, LINK and BSI.

The significant issues considered by the committee in relation to the 2014 accounts, and how these were addressed, were:

- **Goodwill impairment and disclosure:**

The judgments in relation to the impairment of goodwill largely relate to the value in use of the businesses acquired and, in particular, the combination during the period under review of PayPoint.net, PayByPhone and the newly acquired Adaptis into Mobile and Online. Forecasts used for the valuations are consistent with those prepared for business planning purposes, including the setting of targets for management incentives. The committee scrutinises these forecasts and challenges the assumptions with management. The forecasts include targets for the sale of new products and services to new clients, over which there is inherent uncertainty. In addition, the committee receives extensive reports from the auditors on these valuations. Sensitivity analysis is performed to understand whether the headroom (the amount by which the value in use would have to fall to cause impairment) is adequate and proper disclosure is made in the financial statements. The committee challenged the combination of business into Mobile and Online and is satisfied that it is appropriate, as forecast revenue attributed to new products and for new clients has been prepared on a group basis for Mobile and Online and cannot be distinguished between PayPoint.net, PayByPhone and Adaptis.

- **Revenue recognition:**

We have reviewed the recognition of income to ensure that the approach adopted is appropriate and consistent. Most of the group's revenue is transaction-based and recognised on the basis of completed transactions. We have challenged the basis of non-transaction-based recognition, where judgment is applied. The largest instance of this is the Simple Payment service set-up fee, the final tranche of which was taken to income last year. The committee also receives reports from the auditor on income recognition which it discusses with them.

- **Taxation:**

Judgment on taxation includes the recognition of losses. There were brought forward losses at the start of last year available for offsetting profit in the year and future years. The audit committee considers the losses, any time restrictions for their use and the financial forecasts prepared by management and management's views on the potential use of such losses and those it would be appropriate to recognise in the period under review. The committee also receives reports from the auditor and discusses the recognition of losses with them.

### External audit

Deloitte LLP has been the external auditor for the group since 2001 following a formal tender process. The appointment of Deloitte LLP as external auditor, including the rotation of the audit partner, is kept under annual review. The current lead audit partner has been in place for four years. An annual review of the effectiveness of the external audit is undertaken by the committee.

The effectiveness of the audit process is underpinned by appropriate audit planning and risk identification at the outset of the audit cycle. The auditor provides a detailed audit plan identifying its assessment of the risks and other key matters for review. For the year ended 31 March 2014, the primary risks identified were goodwill impairment, revenue recognition and taxation. The committee reviews and challenges the work undertaken by the auditor to test management's assumptions on these matters. An assessment of the effectiveness of the audit process in addressing these items is performed through the reporting received from the auditor at the half-year and year end. The committee seeks feedback from management on the effectiveness of the audit process. No significant issues were raised with respect to the audit process for the period and the quality of the audit process was assessed to be good.

The audit committee meets the external auditor without the executive directors being present and procedures are in place which allow access at any time of both external and internal auditor to the audit committee. The Chairman of the committee reports the outcome of each meeting to the board.

The committee's assessment of the external auditor's performance and independence, if satisfactory, underpins its recommendation to the board to propose to shareholders the re-appointment of Deloitte LLP as auditor. Based on the committee's assessment, the committee has provided the board with its recommendation to the shareholders on the re-appointment of Deloitte LLP as external auditor for the year ending 31 March 2015. There are no contractual obligations restricting the committee's choice of auditor. A resolution for re-appointment of the auditor will be proposed at the forthcoming annual general meeting, the notice for which can be found on pages 69 to 82.

**GOVERNANCE** *continued***Non-audit services**

The committee considered the level of non-audit fees for services provided by the auditor in order to satisfy itself that auditor independence is safeguarded. The group has a policy which prohibits the auditor providing certain services which might impair its independence. The committee monitors compliance with the policy safeguarding the independence of the external auditor. The policy also prescribes that any non-audit services to be performed by the auditor in any one year (excluding tax) are to be provisionally capped at an aggregate total equivalent to the level of the annual audit fee. Any proposal to use the auditor for non-audit services exceeding this will be subject to the prior approval of the audit committee. In determining the most appropriate provider of non-audit services, the committee will consider the knowledge and expertise of the potential providers and the proposed costs. Non-audit services will only be undertaken by the auditor where it is deemed to be the preferred provider and the provision of services poses no threat to its independence. Details of the remuneration paid to the auditor for the statutory audit and non-audit services, which normally are limited to assurance and tax advice, are set out in note 5.

**Risk management and internal control**

The directors are responsible for establishing and maintaining the group's system of internal control and for regularly reviewing its effectiveness. Procedures have been designed to meet the particular needs of the group and its risks, safeguarding shareholders' investments and the company's assets. 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. There is an ongoing process of identifying, evaluating and managing the significant risks faced by the group.

All procedures necessary to comply with the FRC's 'Internal Control: Revised Guidance for Directors on the Combined Code' have been in place throughout the period under review and up to the date of approval of the annual report and financial statements. The directors have conducted a formal review of the effectiveness of the group's system of internal control during the period. No significant failings or weaknesses were identified during the review.

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 covering all parts of the group's business activities, including financial risks. The group evaluates and prioritises the identified key operational risks. In order to ensure that this process is managed effectively, responsibility for each key risk area is assigned to a member of senior management, who must confirm in writing that the potential threats in each area have been properly identified and recorded and the appropriate action taken to mitigate risks so far as possible. This process has been fully embedded into the operations of the business. The audit committee receives regular updates on the ongoing risk management, control systems and processes which are discussed at their meetings.

**Internal audit**

The audit committee is responsible for approving a rigorous internal audit programme covering all the group's key business areas. The current programme was approved in March 2011 and, each year, the programme is reviewed to ensure that account is taken, where necessary, of any change. During the period, KPMG LLP provided internal audit services to the company as directed by the audit committee, in accordance with the approved internal audit plan. It executed a programme of testing designed to assess and report on the adequacy, reliability and effectiveness of the design and operation of the relevant accounting, financial and business control systems implemented by management and reported the results to the audit committee.

During the year, the internal audit service was subject to tender. As part of the selection process, the audit committee met with a shortlist of firms, during which Grant Thornton LLP was identified as the strongest candidate firm, culminating in its appointment to provide internal audit services to the company.

**Remuneration committee**

The role and composition of the remuneration committee and details of how the company applies the principles of the Code in respect of directors' remuneration are set out in the remuneration committee report on pages 25 to 41.

## BOARD OF DIRECTORS

### **David Newlands, non-executive Chairman (aged 67), appointed 4 August 1998**

David has been Chairman of PayPoint since 1998. He was previously Finance Director of The General Electric Company plc, non-executive Chairman of Britax International plc, Darty plc, Tomkins plc, deputy Chairman of The Standard Life Assurance Company plc and is currently Chairman of HellermannTyton Group PLC, and a non-executive director of a number of other unlisted companies. David will retire from board at the close of the annual general meeting in July 2014.

### **Dominic Taylor, Chief Executive (aged 55), 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 telecommunications products into the hotel and leisure sectors.

### **George Earle, ACA, Group Finance Director (aged 60), 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 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 The General Electric Company 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 51), 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 1988 and Head of Business Planning and Director of Consulting with Nexus (later Sligos and now Atos) from 1989. He is an Associate of the Chartered Institute of Bankers.

### **David Morrison, non-executive director (aged 55), appointed 12 January 1999**

David has been Chief Executive of Prospect Investment Management (Prospect) 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 non-executive director of Record plc and also Chairman of Snoozebox Holdings plc (AIM listed), and several private companies.

### **Andrew Robb, non-executive director (aged 71), 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 and remained an Executive Director until 2003. Andrew is a Fellow of the Chartered Institute of Cost and Management Accountants. He is currently a non-executive director of Tata Steel Limited, a company quoted in India, Chairman of its wholly-owned subsidiary Tata Steel Europe Limited and a non-executive director and chairman of the audit committee of Jaguar Land Rover Automotive plc.

### **Eric Anstee, non-executive director (aged 63), appointed 16 September 2008**

Eric is also a non-executive director of Sun Life Financial of Canada (UK) Limited, a subsidiary of the Canadian listed Life Assurance Company, and Insight Asset Management, the institutional investment arm of Bank of New York Mellon. He is also a member of the UK Takeover Panel Appeals Board. His former non-executive positions have included: The Financial Reporting Council; Chairman of Mansell Plc; and Severn Trent plc, where he was Chairman of the treasury and audit committees. His former executive appointments include Chief Executive of City of London Group plc, The Institute of Chartered Accountants in England & Wales, Old Mutual Financial Services, and Group Finance Director at Old Mutual plc, The Energy Group plc and Eastern Electricity plc.

### **Stephen Rowley, non-executive director (aged 55), appointed 16 September 2008**

Steve is Chairman of IHS, a global provider of services to the hospitality industry and is a non-executive director of Metapack. Previously he was Chief Executive of Torex, leading its turnaround and eventual sale to Micros in 2012. He was formerly Chief Executive of Anite plc and his other executive appointments include Senior Vice President Corporate Business Development for 3Com Corporation, Marketing and Sales Director of Cellnet (now O2) and Director at IBM UK, where he also held a variety of other senior positions.

### **Nick Wiles, non-executive director (aged 52), appointed 22 October 2009**

Nick Wiles retired as Chairman of UK investment banking at Nomura in 2012. He has worked in banking for more than 20 years, with the majority of this time at Cazenove & Co, where he was a partner prior to incorporation. He is a non-executive director of Strutt & Parker.

### **Warren Tucker, non-executive Chairman (designate) (aged 51), appointed 4 February 2014**

Warren will, subject to his election to the board by shareholders, be appointed Chairman of PayPoint plc at the annual general meeting in July 2014. He was the Chief Financial Officer of Cobham plc from 2003 to 2013, having qualified as a Chartered Accountant and held senior positions with British Airways Plc and Cable & Wireless PLC. He has been a non-executive director of Reckitt Benckiser Group PLC since February 2010 and is a non-executive director and Chairman of the Remuneration Committee of Thomas Cook Group plc.

## 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 auditor's report, for the year ended 31 March 2014.

This annual report has been prepared for, and only for, the members of the company, as a body, and no other persons. The company, its directors, employees, agents or advisers do not accept or assume responsibility to any other person to whom this document is shown or into whose hands it may come and any such responsibility or liability is expressly disclaimed. By their nature, the statements concerning the risks and uncertainties facing the company and the group in this annual report involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this annual report and the company undertakes no obligation to update these forward-looking statements. Nothing in this annual report should be construed as a profit forecast.

### Strategic report

The strategic report is on pages 1 to 16. The company has chosen to set out certain matters in this strategic report that would otherwise be required to be disclosed in the directors' report. These matters include disclosures concerning: greenhouse gas emissions (page 14); use of financial instruments (pages 10 and 66); credit risk and price risk (page 67); employment of disabled persons (page 16); employee involvement (pages 14 and 15); and likely future developments in the business (page 10).

### Principal activity

The company is a holding company and its subsidiaries are engaged in providing clients with specialist consumer payment and other services and products, transaction processing and settlement.

PayPoint UK & Ireland processes transactions for payment products and services and collects payments on behalf of the UK and Ireland's leading utility and customer service organisations, and, at 31 March 2014, there were 27,242 convenience retail outlets using PayPoint's terminals. On average, over 11 million consumer transactions were processed weekly by PayPoint UK & Ireland. 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 other services to retail outlets.

PayPoint Romania provides electronic mobile top-ups, scratch cards, money transfer and a bill payment service to consumers.

Mobile and Online provides secure credit and debit card payments services for web merchants and allows consumers to pay for their car parking by credit or debit card from their mobile phones and provides other services such as text reminders to consumers to warn them of parking session expiry, permit payments, bike rental and toll payments.

PayPoint has a 50% interest in Drop and Collect Limited, which trades as Collect+, a joint venture with Yodel, which provides a parcel service through selected PayPoint outlets.

### Substantial shareholdings

On 31 March 2014, 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 FCA's Disclosure and Transparency Rules:

| Name of holder                                     | No. of ordinary shares | Percentage of issued capital |
|--|------------------------|------------------------------|
| Invesco Limited <sup>1</sup>                       | 17,852,089             | 26.29                        |
| Liontrust Asset Management PLC                     | 6,052,041              | 8.91                         |
| Standard Life                                      | 4,567,654              | 6.73                         |
| BlackRock Inc                                      | 3,719,734              | 5.48                         |
| Legal & General Investment Management Limited (UK) | 3,168,674              | 4.67                         |
| Kames Capital                                      | 3,040,329              | 4.48                         |
| Threadneedle Asset Management                      | 2,826,146              | 4.16                         |
| LJ Athene Investment Advisors                      | 2,464,008              | 3.63                         |
| Capital Research & Management                      | 2,320,506              | 3.42                         |
| T. Rowe Price International Inc                    | 2,138,002              | 3.15                         |

1. 200,206 of Invesco Limited's shareholding is held indirectly via its holdings in the BBC Pension Trust

On 29 May 2014, 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 FCA's Disclosure and Transparency Rules:

| Name of holder                                     | No. of ordinary shares | Percentage of issued capital |
|--|------------------------|------------------------------|
| Invesco Limited <sup>1</sup>                       | 15,598,438             | 22.97                        |
| Liontrust Asset Management PLC                     | 6,057,775              | 8.92                         |
| Standard Life                                      | 4,567,654              | 6.73                         |
| BlackRock Inc                                      | 4,065,277              | 5.99                         |
| Legal & General Investment Management Limited (UK) | 3,170,521              | 4.67                         |
| Kames Capital                                      | 3,061,605              | 4.51                         |
| Threadneedle Asset Management                      | 2,281,862              | 3.36                         |
| LJ Athene Investment Advisors                      | 2,464,008              | 3.63                         |
| Capital Research & Management                      | 2,320,506              | 3.42                         |
| T. Rowe Price International Inc                    | 2,083,518              | 3.07                         |

1. 200,206 of Invesco Limited's shareholding is held indirectly via its holdings in the BBC Pension Trust

There is no shareholder with a controlling interest.

### Share Capital

As at the date of this report, 67,899,699 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 31 March 2014, 19,465 ordinary shares were issued under the company's share 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 are 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

## DIRECTORS' REPORT *continued*

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.

It is proposed in resolution 22 to adopt new articles of association (the New Articles) in order to update the Company's current articles of association (the Current Articles), primarily to take account of changes made to the Code since the articles were last updated in 2008, and also to take account of certain developments in market practice.

The principal changes introduced in the New Articles are summarised on pages 81 to 82. Other changes, which are of a minor, technical or clarifying nature, and also some more minor changes, which merely reflect changes made to the Companies Act 2006, have not been noted. A copy of the proposed New Articles and a copy of the Memorandum and Current Articles, marked to show all the changes proposed, will be available for inspection at the Company's registered office and at the offices of Allen & Overy LLP, One Bishops Square, London E1 6AD during normal business hours from the date that notice of the annual general meeting is given, and at the place of the annual general meeting from at least 15 minutes prior to the meeting and until the conclusion of the meeting.

At the annual general meeting on 24 July 2013, the directors were given authority to purchase 14.99% of its issued share capital, allot relevant securities up to an aggregate nominal amount of £67,881 and to disapply pre-emption rights in respect of allotments of relevant securities up to an aggregate nominal amount of £10,182. Resolutions to renew these authorities will be proposed at the 2014 annual general meeting, details of which are set out in the notice of meeting on pages 69 to 82.

The company's authorised share capital is referred to in its articles of association and its issued share capital as at 31 March 2014, together with details of purchases of own shares during the period, are set out in note 24.

### Directors

The names of the directors at the date of this report and their biographical details are given on page 21 and their interests in the ordinary shares of the company are given on page 32.

### Results for the period

The consolidated income statement, statement of financial position and cash flow statement for the year ended 31 March 2014 are set out on pages 46 to 49. An analysis of risk is set out on pages 11 to 12 and of risk management on page 20. The statement of financial position and cash flow statement of the holding company for the year ended 31 March 2014 are set out on pages 50 and 52. Since 1 April 2014, there have been no material events likely to impact the future development of the company.

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

Under sections 236 (1) (a) and (b) of the Companies Act 2006, companies are obliged 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 and will be available at the venue of the annual general meeting from 15 minutes before the meeting until it ends.

### Change of control

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

The company has a revolving term credit facility for £35 million with a remaining term of over two years. The terms of the facility allow for termination on a change of control, subject to certain conditions. With the exception of the Simple Payment service contract, which allows for termination on change of control, there are no other significant contracts in place that would take effect, alter or terminate on the change of control of the company, including compensation for loss of office as a result of a takeover bid.

### Suppliers' payment policy

Terms of payment are agreed with individual suppliers prior to supply. The group aims to pay its creditors promptly, in accordance with terms agreed for payment, provided the supplier has provided the goods or services in accordance with the agreed terms and conditions. The group had 40 days' purchases outstanding at 31 March 2014 (2013: 32 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 (2013: £nil). Details of the charitable donations policy can be found within the strategic report on page 10.

### Employee matters and environmental issues

Employee matters and environmental issues are discussed in the strategic report on pages 13 to 16.

### Future developments

An indication of likely future developments in the business of the company and details of research and development activities are included in the strategic report on pages 1 to 16.

### Dividends

The directors recommend the payment of a final dividend of 23.9p (2013: 20.2p) per ordinary share, amounting to £16,205,000 (2013: £23,893,000, which included an additional special dividend of 15.0p per ordinary share, which amounted to £10,182,000) to be paid on 24 July 2014 to members on the register on 27 June 2014. An interim dividend was declared and paid during the period of 11.4p per share (2013: 10.2p per share) amounting to £7,739,000 (2013: £6,906,000).

### Related party transactions

Related party transactions that took place during the period can be found in note 28.

### Going concern

At the end of the period, the group had cash of £41.6 million, and had an undrawn, unsecured loan facility of £35.0 million, expiring in May 2016, the extension of which is under negotiation. The company's cash and borrowing capacity is adequate to meet the foreseeable needs of the group, taking into account any risks (see pages 11 to 12). 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 a going concern basis.

The group's liquidity review and commentary on the current economic climate are shown on page 10 of the strategic report and commentary on financial risk management is shown in note 27.

## DIRECTORS' REPORT *continued*

### Independent auditor

Deloitte LLP has expressed its willingness to continue as the company's auditor and a resolution for its re-appointment will be proposed at the forthcoming annual general meeting. The notice of the annual general meeting can be found on pages 69 to 82.

### Corporate governance statement

The information that fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure and Transparency Rules can be found in this directors' report and in the governance section on pages 17 to 20 (which is incorporated into this directors' report by reference).

### Statement as to disclosure of information to auditor

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 auditor is unaware; and
2. the director has taken all the steps that he ought reasonably to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S.418 of the Companies Act 2006.

### Annual general meeting

The annual general meeting will be held at the offices of Canaccord Genuity, 88 Wood Street, London EC2V 7QR, on 23 July 2014. The notice of meeting and explanatory information on the resolutions to be passed at the annual general meeting can be found on pages 69 to 82 of the annual report.

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

Susan Court  
Company Secretary  
29 May 2014

# REMUNERATION COMMITTEE REPORT

## STATEMENT BY CHAIR OF THE REMUNERATION COMMITTEE

I report on the activities of the remuneration committee in the light of the recent changes to remuneration reporting regulations. This report complies with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and also the Listing Rules of the UK Listing Authority. As such, this report is divided into two main sections. The annual report on remuneration sets out the details of how our remuneration policy was implemented for the year ended 31 March 2014. The directors' remuneration policy report contains details of the remuneration policy that we propose to apply from the 2014 annual general meeting, subject to obtaining shareholder approval at that meeting.

The remuneration committee, whose membership and responsibilities are set out on page 26 of this report, has continued to strive to ensure that executive directors' remuneration provides an appropriate incentive for executives to create shareholder value and ensure that the company's remuneration policy is aligned with the interests of shareholders. The remuneration committee believes that shareholders' interests are best served by focussing a greater proportion of total potential remuneration on compensation which varies with performance.

Short and long-term incentives are structured to align directors' interests with shareholders by rewarding them for enhancing shareholder value. The value received by executive directors under the share incentive arrangements depends on the degree to which the associated performance conditions are satisfied at the end of the three year performance period and the share price of the company at that time. This ensures that substantial rewards are only received when substantial value has been created for shareholders.

As we committed to you last year, the committee has undertaken a comprehensive review of PayPoint's remuneration, with the following objectives:

- motivate senior management to maximise economic value for shareholders;
- improve compliance with new regulatory and governance requirements and respond to shareholder feedback; and
- ensure no increase in cost to the company.

Following this review, we are proposing several changes to our remuneration policy intended to simplify our incentive structure, closely align it with our business strategy, and take account of evolving market practice and the latest institutional shareholder guidelines.

To reflect feedback from our shareholders and to simplify our incentive arrangements, the committee has decided to discontinue the matching opportunity on bonuses earned for 2014/15 onwards. Instead, 25% of any bonus earned will be mandatorily deferred into nil-cost options or conditional share awards. Options will be capable of exercise after three years, subject to continued employment and no financial misstatement or participant misconduct. Conditional share awards would be subject to vesting after a three year holding period. These arrangements differ from the current Deferred Share Bonus Plan (DSB) whereby participants can withdraw deferred shares at any time (albeit the awards would lose their entitlement to a match). The change in service requirements is intended to support retention, while the introduction of cancellation/recovery is intended to bring our plan into line with best practice.

For the Long Term Incentive Plan (LTIP), the committee continues to believe that Total Shareholder Return, TSR (the increase in share price plus dividends paid to shareholders), remains the best measure of long-term performance over time, and that the FTSE 250 (excluding investment trusts) remains the most appropriate benchmark, given the lack of sufficient comparable listed peers for PayPoint. The only change being proposed to the performance measurement is a reduction in the vesting at threshold (median performance) from 30% to 25% to address shareholder feedback that the current level is high relative to market practice. The committee is also proposing to introduce recovery by the company of unvested LTIP shares for financial misstatement or participant misconduct.

To compensate for the removal of the matching opportunity, the committee is proposing an increase in annual bonus opportunities for 2014/15, together with an increase in LTIP opportunities. The target annual bonus opportunity is proposed to increase from 80% to 85% for executive directors, with 125% of target payable at maximum (i.e. the maximum opportunity would increase from 100% to c.106% of salary), while LTIP opportunities are proposed to increase from 120% to 145% of salary for the Chief Executive, and from 100% to 125% for the Group Finance Director and Business Development Director. Overall this will result in a reduction in the maximum incentive opportunity of c.20% of salary but will broadly maintain the fair value.

The committee is also proposing to introduce shareholding requirements, such that executive directors are required to hold shares equivalent in value to 100% of salary. Until the guideline is met, executive directors will be obliged to retain 50% of vested shares (from bonus and LTIP) net of tax. No changes are proposed to our policy for fixed pay.

Bonuses for the year under review were 91.4% of maximum, reflecting growth in economic profit of 17.0%. Based on our three year earnings per share growth to 31 March 2014 of 50.3%, the 2011 DSB awards will vest in full. 2011 LTIP awards will be performance-tested in May 2014, and based on our TSR performance to date of above upper quartile relative to FTSE 250 index (excluding investment trusts), we expect these awards to vest in full, subject to the committee's satisfaction that this is a genuine reflection of the underlying financial performance of the company.

At the annual general meeting in July 2014, the directors' remuneration policy report will be put to a binding shareholder vote, and the annual report on remuneration to an advisory vote. We will also be seeking shareholder approval for the 2014 Long Term Incentive Plan, 2014 Deferred Bonus Plan and 2014 Share Incentive Plan.

Andrew Robb  
Chairman, remuneration committee

# REMUNERATION COMMITTEE REPORT *continued*

## ANNUAL REPORT ON REMUNERATION

The following section provides details of how PayPoint's remuneration policy was implemented during the financial year ended 31 March 2014. The following pages contain information that is required to be audited in compliance with the Directors' Remuneration requirements of the Companies Act 2006. All narrative and quantitative tables are unaudited unless otherwise stated.

### Remuneration committee membership in 2013/2014

The remuneration committee is responsible for developing policy on remuneration for executive directors and senior managers and for determining specific remuneration packages for each of the executive directors. The committee members are all independent directors. Andrew Robb is Chairman of the committee, with Eric Anstee, Stephen Rowley and Nick Wiles as members.

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 at the registered office. The terms of reference are also available on the company's website at [www.paypoint.com](http://www.paypoint.com). The remuneration committee met six times during the year and all members were in attendance with the exception of Andrew Robb and Eric Anstee who were each unable to attend one meeting.

During the year, the committee sought internal support from the Chief Executive and Group Finance Director, who attended committee meetings by invitation from the Chairman, to advise on specific questions raised by the committee and on matters relating to the performance and remuneration of senior managers. The Chief Executive and Group Finance Director were not present for any discussions that related directly to their own remuneration. The Company Secretary attended each meeting as Secretary to the committee.

In undertaking its responsibilities, the committee seeks independent external advice as necessary. To this end, for the year under review, the committee continued to retain the services of Kepler Associates as the principal external adviser to the committee. The committee evaluates the support provided by its advisers annually and is comfortable that the Kepler team provides independent remuneration advice to the committee and does not have any connections with PayPoint that may impair its independence. Kepler Associates is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). During the year, Kepler Associates provided independent advice on a wide range of remuneration matters, including current market practice, benchmarking of executive pay, incentive design and remuneration reporting and provides no other services to the company. The fees paid to Kepler Associates (on the basis of time and materials) in respect of work carried out for the year under review were £71,000.

### Summary of shareholder voting at the 2013 AGM

The following table shows the results of the advisory shareholder vote on the 2013 remuneration report at the 2013 AGM on 24 July 2013:

|   | Total number of votes | % of votes cast |
|---|-----------------------|-----------------|
| For (including discretionary)               | 54,639,357            | 99.6%           |
| Against                                     | 229,289               | 0.4%            |
| Total votes cast (excluding withheld votes) | 54,868,646            |                 |
| Total votes withheld <sup>1</sup>           | 1,523                 |                 |
| Total votes cast (including withheld votes) | 54,870,169            |                 |

1. A withheld vote is not a vote in law and is not counted in the calculation of the proportion of votes cast for and against a resolution.

## REMUNERATION COMMITTEE REPORT *continued*

### Single total figure of remuneration for executive directors (audited)

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 31 March 2014 and the prior period:

|                                   | Dominic Taylor<br>(£000) |              | George Earle<br>(£000) |              | Tim Watkin-Rees<br>(£000) |              |
|-----------------------------------|--------------------------|--------------|------------------------|--------------|---------------------------|--------------|
|                                   | 2014                     | 2013         | 2014                   | 2013         | 2014                      | 2013         |
| Base salary                       | 425                      | 409          | 320                    | 310          | 300                       | 284          |
| Taxable benefits <sup>1</sup>     | 24                       | 24           | 22                     | 21           | 21                        | 21           |
| Pension <sup>2</sup>              | 68                       | 49           | 85                     | 78           | 42                        | 34           |
| Annual bonus <sup>3</sup>         | 389                      | 352          | 293                    | 267          | 274                       | 245          |
| Long-term incentives <sup>4</sup> | 1,335                    | 1,802        | 873                    | 1,171        | 787                       | 1,000        |
| Other <sup>5</sup>                | 6                        | 3            | 5                      | 3            | 6                         | 3            |
| <b>Total</b>                      | <b>2,247</b>             | <b>2,639</b> | <b>1,598</b>           | <b>1,850</b> | <b>1,430</b>              | <b>1,587</b> |

1. Taxable value of benefits received in the year by executives include car allowance, petrol, health insurance, life assurance and permanent health insurance.
2. Pension: during the year, the company made contributions of 16% of salary to Dominic Taylor and 14% of salary to the other executive directors (the remuneration committee has agreed that G Earle's pension contributions will be paid direct to him, grossed up for tax).
3. Annual bonus: this is the total bonus earned in respect of performance during the relevant year, including deferred amounts. 25% of the annual bonus was mandatorily deferred in shares under the DSB and directors were entitled to voluntarily invest up to a further 25% of the bonus. Further details of annual bonus awards for 2014 can be found in the annual report on remuneration on page 28.
4. Long-term incentives: for 2014, this is the market value of LTIP shares granted on 27 May 2011 that vested on performance to 27 May 2014 plus the market value of matching DSB shares granted on 2 June 2011, based on performance to 31 March 2014 and which will vest on 2 June 2014. The share price used to calculate market value is the trailing three month average on 31 March 2014 of £11.24. Further details can be found in the annual report on remuneration on pages 28 and 29. For 2013, the long-term incentive figures have been re-stated based on the value at vesting of LTIP and DSB awards granted in 2010 and vesting in 2013.
5. SIP matching and dividend shares awarded in the period valued at the average share price calculated over three months to 31 March 2014 of £11.24 (2013: £8.58). The SIP is an HMRC approved plan that allows participants to purchase shares using gross salary and receive a matching award from the company. There are no performance conditions.

### Single total figure of remuneration for non-executive directors (audited)

The table below sets out a single figure for the total remuneration received by each non-executive director for the year ended 31 March 2014 and the prior period:

|                | Base fee<br>£000 |            | Committee fees<br>£000 |           | Chairman fees<br>£000 |           | Total<br>£000 |            |
|----------------|------------------|------------|------------------------|-----------|-----------------------|-----------|---------------|------------|
|                | 2014             | 2013       | 2014                   | 2013      | 2014                  | 2013      | 2014          | 2013       |
| Eric Anstee    | 42               | 40         | 7                      | 7         | -                     | -         | 49            | 47         |
| David Morrison | 42               | 40         | -                      | -         | -                     | -         | 42            | 40         |
| David Newlands | 42               | 40         | -                      | -         | 98                    | 85        | 140           | 125        |
| Andrew Robb    | 42               | 40         | 7                      | 7         | -                     | -         | 49            | 47         |
| Stephen Rowley | 42               | 40         | -                      | -         | -                     | -         | 42            | 40         |
| Warren Tucker  | 11               | -          | -                      | -         | -                     | -         | 11            | -          |
| Nick Wiles     | 42               | 40         | -                      | -         | -                     | -         | 42            | 40         |
| <b>Total</b>   | <b>258</b>       | <b>240</b> | <b>14</b>              | <b>14</b> | <b>103</b>            | <b>85</b> | <b>375</b>    | <b>339</b> |

# REMUNERATION COMMITTEE REPORT *continued*

## Incentive outcomes for the year ended 31 March 2014

### Annual bonus in respect of 2013/14 performance

The annual bonus for the year ended 31 March 2014 was based on economic profit (group operating profit including PayPoint's share of the results of Collect+ after tax but excluding the costs of the acquisition of Adaptis Solutions Limited, and after deducting a charge for capital employed based on the company's cost of capital). Based upon the actual results for the year, 91.4% of the maximum bonus was payable.

Further details, including the targets set and performance against these, are provided in the table below:

| Measure  | Weighting | Threshold<br>(70% of salary)<br>£000 | Target<br>(80% of salary)<br>£000 | Stretch<br>(100% of salary)<br>£000 | Actual achieved<br>£000 | Bonus earned (% of salary) |              |                 |
|----------|-----------|--------------------------------------|-----------------------------------|-------------------------------------|-------------------------|----------------------------|--------------|-----------------|
|          |           |                                      |                                   |                                     |                         | Dominic Taylor             | George Earle | Tim Watkin-Rees |
| Group EP | 100%      | 25,210<br>(95% of plan)              | 26,540<br>(100% of plan)          | 29,201<br>(110% of plan)            | 28,058                  | 91.4%                      | 91.4%        | 91.4%           |

Bonuses were subject to a 25% compulsory, and a maximum additional 25% voluntary, deferral. The deferred bonus will be utilised for the acquisition of shares (bonus shares), with the opportunity to earn matching shares equal to the gross bonus deferred (i.e. up to 50% of salary).

### 2011 DSB vesting

With respect to the DSB matching awards granted on 2 June 2011, vesting was based on earnings per share growth. The three-year performance period for these awards ended on 31 March 2014, with vesting on the third anniversary of the date of grant. Further details relating to these awards are provided in the table below:

| Measure | Weighting | Targets   | Outcome <sup>1</sup>                 | % vest |
|---------|-----------|---|--------------------------------------|--------|
| EPS     | 100%      | 0% vesting below RPI+3% p.a.<br>100% vesting at RPI+3% p.a. | EPS growth of 50.3%<br>Target: 18.6% | 100%   |

1. Based on 2014 EPS of 52.9p, 2011 EPS of 35.2p and RPI growth over the 3 year period of 9.6%.

Further details of the vesting for each individual director are as follows:

| Director        | Interests held | Vesting % | Number of shares vesting | Date of vesting | Market price on vesting <sup>1</sup> | Value £000 |
|-----------------|----------------|-----------|--------------------------|-----------------|--------------------------------------|------------|
| Dominic Taylor  | 22,469         | 100.0%    | 22,469                   | 2 June 2014     | £11.24                               | 253        |
| George Earle    | 17,007         | 100.0%    | 17,007                   | 2 June 2014     | £11.24                               | 191        |
| Tim Watkin-Rees | 14,528         | 100.0%    | 14,528                   | 2 June 2014     | £11.24                               | 163        |

1. As the price on the date of vesting is unknown, the value of an award is calculated by multiplying the number of shares which vested by the average share price calculated over three months to 31 March 2014 of £11.24.

### 2011 LTIP vesting

With respect to the LTIP awards granted on 27 May 2011, vesting is based 100% on TSR. The three-year performance period for these awards ended on 27 May 2014 with vesting on the third anniversary of the date of grant. Further details relating to these awards are provided in the table below:

| Measure  | Weighting | Targets  | Outcome (to 30 September 2013)                              | Implied % vesting |
|--|-----------|--|---|-------------------|
| Relative TSR vs FTSE 250 index (excluding investment trusts) | 100%      | 0% vesting below median<br>30% vesting at median<br>100% vesting at upper quartile<br>Straight-line vesting between these points | 5th position out of 196 companies, equating to 97.9 centile | 100%              |

Further details of the vesting for each individual director are as follows:

| Director        | Interests held | Implied % vesting | Number of shares vesting | Date of vesting | Market price on vesting <sup>1</sup> | Value £000 |
|-----------------|----------------|-------------------|--------------------------|-----------------|--------------------------------------|------------|
| Dominic Taylor  | 96,266         | 100.0%            | 96,266                   | 27 May 2014     | £11.24                               | 1,082      |
| George Earle    | 60,720         | 100.0%            | 60,720                   | 27 May 2014     | £11.24                               | 682        |
| Tim Watkin-Rees | 55,555         | 100.0%            | 55,555                   | 27 May 2014     | £11.24                               | 624        |

1. As the price on the date of vesting is unknown, the value of an award is calculated by multiplying the number of shares which vested by the average three month share price to 31 March 2014 of £11.24.

## REMUNERATION COMMITTEE REPORT *continued*

These awards will only vest subject to the committee's satisfaction that this is a genuine reflection of the underlying financial performance of the company.

### Scheme interests awarded in the year ended 31 March 2014

#### DSB matching awards

In the year under review, executive directors deferred 50% of their bonuses and, therefore, were granted matching awards under the 2009 DSB Plan on a 1:1 basis as detailed below. The awards will vest on the third anniversary of the date of grant, 6 June 2016. The performance condition is based solely on earnings per share growth. The three year performance period over which earnings per share performance will be measured began on 1 April 2013 and will end on 31 March 2016.

| Executive Director | Basis of award                | Face value <sup>1</sup> £000 | Potential award for minimum performance | End of performance period | Performance measures   |
|--------------------|-------------------------------|------------------------------|---|---------------------------|--|
| Dominic Taylor     | 1:1 match on deferred amounts | 176                          | 100% of face value                      | 31 March 2016             | 100% based on EPS growth:<br>– 0% vesting below RPI+3% p.a.<br>– 100% vesting at RPI+3% p.a. |
| George Earle       |                               | 134                          |   |                           |  |
| Tim Watkin-Rees    |                               | 122                          |   |                           |  |

1. Face value is based on the middle market quotation of a share in the capital of the company on the date of award, 6 June 2013, of £9.61.

#### LTIP

In the year under review, LTIP awards were granted under the 2009 LTIP with a face value of 120% of salary for the Chief Executive and 100% of salary for other executive directors. The awards will vest on the third anniversary of the date of grant, 31 May 2016. The performance condition is based 100% on relative TSR vs. the FTSE 250 index (excluding investment trusts). The three year performance period over which TSR performance will be measured began on the grant date of 31 May 2013 and will end on 31 May 2016.

| Executive Director | Basis of award   | Face value <sup>1</sup> £000 | Potential award for minimum performance | End of performance period | Performance measures   |
|--------------------|--|------------------------------|---|---------------------------|--|
| Dominic Taylor     | As a % of salary in line with stated remuneration policy | 120% of salary               | 30% of face value                       | 31 May 2016               | 100% on TSR relative vs. FTSE 250 (excluding investment trusts):<br>– 0% vesting below median<br>– 30% vesting at median<br>– 100% vesting at upper quartile<br>– Straight line vesting in between |
| George Earle       |  | 100% of salary               |   |                           |  |
| Tim Watkin-Rees    |  | 100% of salary               |   |                           |  |

1. Face value is based on the middle market quotation of a share in the capital of the company on the date of award, 31 May 2013, of £9.70.

### Payments for loss of office

No such payments were made during the year under review.

### Payments to past Directors

No such payments were made during the year under review.

### Implementation of remuneration policy for 2014/2015

#### Base salary

Executive directors received the following salary increases with effect from 1 April 2014:

|                 | From 1 April 2013 | From 1 April 2014 | % increase |
|-----------------|-------------------|-------------------|------------|
| Dominic Taylor  | 425,000           | 450,000           | 5.9%       |
| George Earle    | 320,000           | 330,000           | 3.1%       |
| Tim Watkin-Rees | 300,000           | 310,000           | 3.3%       |

# REMUNERATION COMMITTEE REPORT *continued*

## Pension

There will be no change to the pension contributions for 2014/15. Dominic Taylor will receive 16% of salary and George Earle and Tim Watkin-Rees will receive 14% of salary (compared to the maximum allowable under our remuneration policy of 20% of salary).

## Annual bonus

The annual bonus for the year ending 31 March 2015 will operate on the same basis as in the policy table. As part of the review of remuneration during the year ended 31 March 2014, it was noted that the existing pay out at threshold of 87.5% of target (equivalent to 70% of maximum) was high relative to market practice. The committee therefore decided to reduce the threshold pay out to 25% of the target opportunity (equivalent to 20% of maximum). Achievement of budget will continue to deliver a target pay out, with a maximum pay out for delivering stretch performance of 125% of target.

To compensate for the removal of the matching entitlement under the DSB, the committee has approved a target annual bonus opportunity for the 2015 financial year of 85% of salary for the executive directors, again based 100% on economic profit. The maximum opportunity will be 125% of target (106% of salary) and 20% of maximum (21% of salary) will be paid for threshold performance. 25% of any bonus earned will be mandatorily deferred into shares vesting or granted as nil cost options, exercisable after three years, subject to both continued employment and recovery by the company for financial misstatement or misconduct.

Economic profit targets for 2014/15 have been set to be challenging relative to the business plan. These are deemed to be commercially sensitive on a prospective basis, but will be disclosed in next year's annual report on remuneration.

## DSB

The final awards under the 2009 DSB plan will be made in June 2014, based on bonuses payable for the year ended 31 March 2014. No further awards will be made under this plan.

## LTIP

The LTIP to be granted in June 2015 will operate on the same basis as in the policy table in the remuneration policy report. Following a review of remuneration during the year ended 31 March 2014, the committee reduced the LTIP pay out at threshold from 30% of salary to 25% of salary to reflect shareholder feedback.

The Chief Executive will receive an LTIP award in FY 2015 of 145% of salary and other executive directors will receive an award of 125% of salary. Final vesting will be dependent on the achievement of three year TSR relative to the FTSE 250 Index (excluding investment trusts), as follows:

| Measure   | Weighting | Targets  |
|---|-----------|--|
| Relative TSR<br>vs. FTSE 250<br>(excluding investment trusts) | 100%      | 0% vesting below median<br>25% vesting at median<br>100% vesting at upper quartile<br>Straight-line vesting between these points |

Additionally, the committee must satisfy itself that the recorded TSR is a genuine reflection of the underlying financial performance of the company. If events occur which cause the committee to consider that this performance requirement has become unfair or impractical, it may, in its discretion, amend the performance requirement so that it is no more or less difficult to satisfy than when it was originally imposed.

Recovery by the company will apply to unvested LTIP shares in the event of misstatement and/or participant misconduct.

## Non-executive director fees

In April 2014, the board undertook its annual review of non-executive directors fees. Following consideration of general non-executive director fee increases across the market and current market fee levels, the board determined that a modest increase in the base fee was appropriate. A summary of the fee increases, which are effective 1 April 2014, is set out in the table below.

|                                  | From 1 April 2013 | From 1 April 2014 |
|----------------------------------|-------------------|-------------------|
| <b>Base fees</b>                 |                   |                   |
| Non-executive director           | £42,000           | £45,000           |
| <b>Additional fees</b>           |                   |                   |
| Chairman, audit committee        | £7,000            | £8,000            |
| Chairman, remuneration committee | £7,000            | £8,000            |

The new Chairman will receive a fee of £190,000, effective from the annual general meeting.

## REMUNERATION COMMITTEE REPORT *continued*

### Percentage change in Chief Executive remuneration

The table below shows the percentage change in Chief Executive remuneration, comprising salary, taxable benefits and annual bonus, and comparable data for the average of all employees within the company.

|                         | Change in remuneration from 2013 to 2014 |            |             | Average % change for other employees <sup>1</sup> |
|-------------------------|--|------------|-------------|---|
|                         | Chief Executive                          |            |             |   |
|                         | 2014                                     | 2013       | % change    |   |
| Salary (£000)           | 425                                      | 409        | 3.9%        | 4.1%  |
| Taxable benefits (£000) | 24                                       | 24         | 0.0%        | 0.0%  |
| Annual bonus (£000)     | 386                                      | 352        | 9.7%        | 32.2% <sup>2</sup>                                |
| <b>Total (£000)</b>     | <b>835</b>                               | <b>785</b> | <b>6.4%</b> |   |

1. Increase in salary is for UK based employees who were employed by PayPoint for the entirety of both financial years, but excludes those who were promoted to a new role.
2. Increase is for UK based employees who earned a bonus pay out in both financial years. The growth rate is impacted by the award of only small discretionary bonuses to some Mobile and Online employees in 2013.

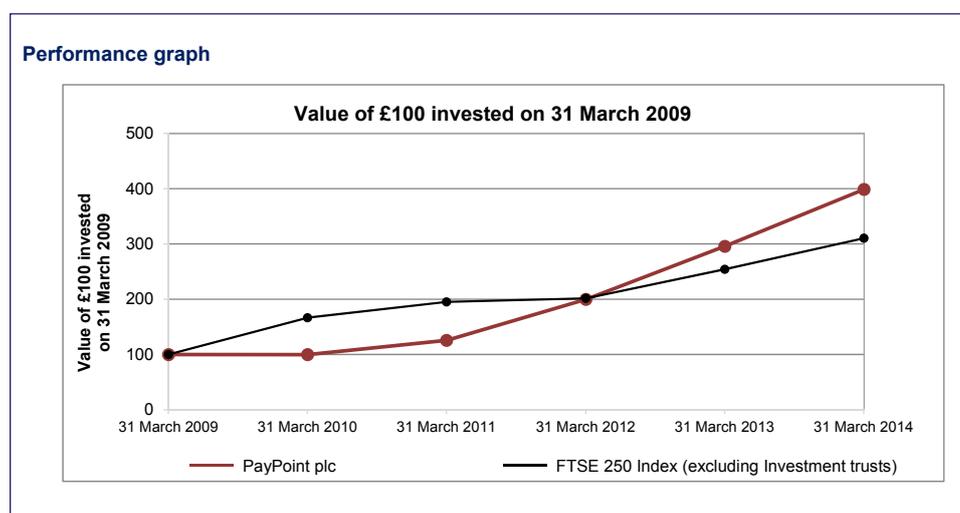
### Relative importance of spend on pay

The table below shows the company's actual expenditure on shareholder distributions (including dividends and share buybacks) and total employee pay expenditure for the financial years ending 31 March 2013 and ending 31 March 2014.

|                 | Total employee pay expenditure<br>£000 | Distributions to shareholders<br>£000 |
|-----------------|--|---------------------------------------|
| 2014            | 33,295                                 | 31,632                                |
| 2013            | 30,159                                 | 18,957                                |
| <b>% change</b> | <b>10.40%</b>                          | <b>66.86%</b>                         |

### Pay for performance

The graph below compares the value of £100 invested in PayPoint shares, including re-invested dividends, with the FTSE 250 index (excluding investment trusts) over the last five years. This index was selected because it is considered to be the most appropriate against which the total shareholder return of PayPoint should be measured.



|  | 2010   | 2011   | 2012   | 2013    | 2014    |
|--|--------|--------|--------|---------|---------|
| Chief Executive single figure of remuneration (£000) | 637    | 677    | 1,067  | 2,639   | 2,247   |
| Annual bonus pay-out (as % of maximum)               | 84.50% | 80.90% | 88.70% | 86.20%  | 91.43%  |
| LTIP vesting (as % of maximum)                       | 0.00%  | 0.00%  | 40.10% | 100.00% | 100.00% |

# REMUNERATION COMMITTEE REPORT *continued*

## Directors' shareholdings (audited)

The shareholdings of the directors and their families in the ordinary shares of the company against their respective shareholding requirement as at 31 March 2014:

|                              | Shares held                           |  |  | Options held              |  |   | Current shareholding <sup>5</sup> | Shareholding guideline <sup>6</sup> |
|------------------------------|---------------------------------------|--|--|---------------------------|--|---|-----------------------------------|-------------------------------------|
|                              | Owned outright or vested <sup>5</sup> | Unvested and subject to holding period | Unvested and subject to performance conditions | Vested, but not exercised | Unvested and subject to performance conditions | Unvested, but not subject to performance conditions |                                   |                                     |
| Dominic Taylor               | 1,743,633                             | 627                                    | 297,635  | -                         | -  | -   | 1,743,633                         | 40,037                              |
| George Earle <sup>1</sup>    | 270,697                               | 628                                    | 196,348  | -                         | -  | -   | 270,697                           | 29,361                              |
| Tim Watkin-Rees <sup>2</sup> | 483,031                               | 628                                    | 179,435  | -                         | -  | -   | 483,031                           | 27,581                              |
| David Newlands <sup>3</sup>  | 236,599                               | -                                      | -  | -                         | -  | -   |                                   |                                     |
| Eric Anstee                  | 7,700                                 | -                                      | -  | -                         | -  | -   |                                   |                                     |
| David Morrison <sup>4</sup>  | 35,000                                | -                                      | -  | -                         | -  | -   |                                   |                                     |
| Andrew Robb                  | 6,000                                 | -                                      | -  | -                         | -  | -   |                                   |                                     |
| Stephen Rowley               | 5,000                                 | -                                      | -  | -                         | -  | -   |                                   |                                     |
| Warren Tucker                | -                                     | -                                      | -  | -                         | -  | -   |                                   |                                     |
| Nick Wiles                   | 25,000                                | -                                      | -  | -                         | -  | -   |                                   |                                     |

1. Includes 238,405 shares held by Mrs C Earle.

2. Includes 240,074 shares held by Mrs E Watkin-Rees.

3. D Newlands holds a non-beneficial interest in a further 300,000 shares held in various trusts of which he is a trustee (2013: 600,000).

4. Held by Prospect Investment Management Limited, which is wholly-owned by David Morrison and his connected persons.

5. Current shareholding includes DSB bonus and SIP shares other than SIP matching shares subject to a holding period.

6. Shareholding guidelines apply to executive directors with immediate effect. Executive directors are required to hold shares of a value equivalent to 100% of their salaries as at 1 April 2014. An average three month share price to 31 March 2014 of £11.24 has been used to calculate this guideline.

The market price of the company's shares on 31 March 2014 was £11.45 (31 March 2013: £8.87) per share and the low and high share prices during the period were £8.15 and £11.85 respectively.

## Directors' interests in shares in PayPoint long-term incentive plans and all-employee plans

### Long Term Incentive Plan<sup>1</sup> (audited)

|               | Number of shares at 31 March 2013 | Number of shares awarded during the period <sup>3</sup> | Number of shares released during the period | Number of shares lapsed during the period | Number of shares at 31 March 2014 | Value of shares awarded | Date of grant | Release date |
|---------------|-----------------------------------|---|---|---|-----------------------------------|-------------------------|---------------|--------------|
| D Taylor      | 162,857 <sup>2</sup>              |   | (162,857)                                   |   | -                                 | £456,000                | 28.05.10      | 28.05.13     |
|               | 96,266 <sup>3</sup>               |   |   |   | <b>96,266</b>                     | £476,517                | 27.05.11      | 27.05.14     |
|               | 79,807 <sup>4</sup>               |   |   |   | <b>79,807</b>                     | £490,813                | 25.05.12      | 25.05.15     |
|               | -                                 | 52,577 <sup>5</sup>                                     |   |   | <b>52,577</b>                     | £509,997                | 31.05.13      | 31.05.16     |
| G Earle       | 102,723 <sup>2</sup>              |   | (102,723)                                   |   | -                                 | £287,624                | 28.05.10      | 28.05.13     |
|               | 60,720 <sup>3</sup>               |   |   |   | <b>60,720</b>                     | £300,564                | 27.05.11      | 27.05.14     |
|               | 50,406 <sup>4</sup>               |   |   |   | <b>50,406</b>                     | £309,997                | 25.05.12      | 25.05.15     |
|               | -                                 | 32,989 <sup>5</sup>                                     |   |   | <b>32,989</b>                     | £319,993                | 31.05.13      | 31.05.16     |
| T Watkin-Rees | 87,750 <sup>2</sup>               |   | (87,750)                                    |   | -                                 | £245,700                | 28.05.10      | 28.05.13     |
|               | 55,555 <sup>3</sup>               |   |   |   | <b>55,555</b>                     | £274,997                | 27.05.11      | 27.05.14     |
|               | 46,178 <sup>4</sup>               |   |   |   | <b>46,178</b>                     | £283,995                | 25.05.12      | 25.05.15     |
|               | -                                 | 30,927 <sup>5</sup>                                     |   |   | <b>30,927</b>                     | £299,992                | 31.05.13      | 31.05.16     |

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).

Awards were granted at the following closing prices on the preceding day:

2. £2.80 per share

3. £4.95 per share

4. £6.15 per share

5. £9.70 per share

# REMUNERATION COMMITTEE REPORT *continued*

## Deferred Share Bonus Plan (audited)

|               | Number of Bonus Shares purchased at 31 March 2013 <sup>1</sup> | Number of Matching Shares awarded at 31 March 2013 <sup>2</sup> | Number of Bonus Shares purchased/ (released) during the period | Number of Matching Shares awarded during the period | Number of Matching Shares (lapsed) during the period | Number of Bonus Shares purchased at 31 March 2014 | Number of Matching Shares awarded at 31 March 2014 | Value of Matching Shares awarded | Date of grant | Date lapsed/ release date <sup>3</sup> |
|---------------|--|---|--|---|--|---|--|----------------------------------|---------------|--|
| D Taylor      | 16,150 <sup>4</sup>  | 27,905 <sup>4</sup>   | (16,150)   | (27,905)  |  | -   | -  | £80,273                          | 01.06.10      | 02.06.13                               |
|               | 10,785 <sup>5</sup>  | 22,469 <sup>5</sup>   |  |   |  | 10,785 <sup>5</sup>                               | 22,469 <sup>5</sup>                                | £115,282                         | 02.06.11      | 02.06.14                               |
|               | 13,525 <sup>6</sup>  | 28,178 <sup>6</sup>   |  |   |  | 13,525 <sup>6</sup>                               | 28,178 <sup>6</sup>                                | £176,113                         | 25.05.12      | 25.05.15                               |
|               | -  | -   | 9,719 <sup>7</sup>   | 18,338 <sup>7</sup>                                 |  | 9,719 <sup>7</sup>                                | 18,338 <sup>7</sup>                                | £176,201                         | 06.06.13      | 06.06.16                               |
|               | <b>40,460</b>  | <b>78,552</b>   | <b>(6,431)</b>   | <b>(9,567)</b>                                      | -  | <b>34,029</b>                                     | <b>68,985</b>                                      |                                  |               |  |
| G Earle       | 12,224 <sup>4</sup>  | 21,122 <sup>4</sup>   | (12,224)   | (21,122)  |  | -   | -  | £60,761                          | 01.06.10      | 02.06.13                               |
|               | 8,163 <sup>5</sup>   | 17,007 <sup>5</sup>   |  |   |  | 8,163 <sup>5</sup>                                | 17,007 <sup>5</sup>                                | £87,258                          | 02.06.11      | 02.06.14                               |
|               | 10,237 <sup>6</sup>  | 21,328 <sup>6</sup>   |  |   |  | 10,237 <sup>6</sup>                               | 21,328 <sup>6</sup>                                | £133,300                         | 25.05.12      | 25.05.15                               |
|               | -  | -   | 7,366 <sup>7</sup>   | 13,898 <sup>7</sup>                                 |  | 7,366 <sup>7</sup>                                | 13,898 <sup>7</sup>                                | £133,539                         | 06.06.13      | 06.06.16                               |
|               | <b>30,624</b>  | <b>59,457</b>   | <b>(4,858)</b>   | <b>(7,224)</b>                                      | -  | <b>25,766</b>                                     | <b>52,233</b>                                      |                                  |               |  |
| T Watkin-Rees | 10,442 <sup>4</sup>  | 18,043 <sup>4</sup>   | (10,442)   | (18,043)  |  | -   | -  | £51,903                          | 01.06.10      | 02.06.13                               |
|               | 6,973 <sup>5</sup>   | 14,528 <sup>5</sup>   |  |   |  | 6,973 <sup>5</sup>                                | 14,528 <sup>5</sup>                                | £74,539                          | 02.06.11      | 02.06.14                               |
|               | 9,366 <sup>6</sup>   | 19,514 <sup>6</sup>   |  |   |  | 9,366 <sup>6</sup>                                | 19,514 <sup>6</sup>                                | £121,963                         | 25.05.12      | 25.05.15                               |
|               | -  | -   | 6,748 <sup>7</sup>   | 12,733 <sup>7</sup>                                 |  | 6,748 <sup>7</sup>                                | 12,733 <sup>7</sup>                                | £122,345                         | 06.06.13      | 06.06.16                               |
|               | <b>26,781</b>  | <b>52,085</b>   | <b>(3,694)</b>   | <b>(5,310)</b>                                      | -  | <b>23,087</b>                                     | <b>46,775</b>                                      |                                  |               |  |

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

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

3. 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. The bonus shares were purchased and the matching share awarded at share prices of:

4. £2.88 per share

5. £5.13 per share

6. £6.25 per share

7. £9.61 per share

## Share Incentive Plan (audited)

|               | Number of Partnership Shares purchased at 31 March 2013 | Number of Matching Shares awarded at 31 March 2013 | Number of Free Shares <sup>1</sup> awarded at 31 March 2013 | Dividend Shares <sup>2</sup> acquired at 31 March 2013 | Total shares at 31 March 2013 | Number of Partnership Shares <sup>3</sup> purchased during the period | Matching Shares <sup>4</sup> awarded during the period | Dividend Shares acquired during the period | Dates of release of Matching and Free Dividend Shares | Total shares at 31 March 2014 |
|---------------|---|--|---|--|-------------------------------|---|--|--|---|-------------------------------|
| D Taylor      | 2,744   | 2,744  | 1,562   | 1,431  | 8,481                         | 142   | 142  | 369  | 15.04.13 – 15.03.16                                   | <b>9,134</b>                  |
| G Earle       | 2,767   | 2,767  | -   | 1,047  | 6,581                         | 143   | 143  | 287  | 15.04.13 – 15.03.16                                   | <b>7,154</b>                  |
| T Watkin-Rees | 2,767   | 2,767  | 1,562   | 1,435  | 8,531                         | 143   | 143  | 371  | 15.04.13 – 15.03.16                                   | <b>9,188</b>                  |

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

2. 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.

3. Partnership Shares are ordinary shares of the company purchased on a monthly basis during the period (at prices from £8.80 to £11.80).

4. Matching Shares are ordinary shares of the company awarded conditionally on a monthly basis during the period (at prices from £8.80 to £11.80) in conjunction with two share purchases.

# REMUNERATION COMMITTEE REPORT *continued*

## REMUNERATION POLICY REPORT

### Executive directors' remuneration

This section of the report sets out the policy for executive directors which shareholders are asked to approve at the 2014 annual general meeting, immediately after which, the policy will come into effect.

The table below summarises our policy on each element of the remuneration package for executive directors.

|       | Element and link to strategy  | Operation  | Opportunity   | Performance metrics  |
|-------|---|--|---|--|
| Fixed | <b>Base salary</b><br>Takes account of personal contribution and performance against company strategy | Reviewed annually, with account taken of responsibility and skills, the individual director's performance and experience, pay for comparable roles and pay and conditions throughout the company.  | Any base salary increases are applied in line with the outcome of the annual review. Salaries are generally positioned broadly around median, but may fall within the second and third quartiles. In respect of existing executive directors, it is anticipated that salary increases will have regard to those of salaried employees as a whole.<br><br>In exceptional circumstances (including, but not limited to, a material increase in job size or complexity), the committee has discretion to make appropriate adjustments to salary levels to ensure they remain market competitive. | The salary review takes into account individual and company performance. |
|       | <b>Pension</b><br>Provides market appropriate benefits  | The company makes contributions to personal pension plans.   | Executive directors may receive a contribution of up to 20% of salary.  | None   |
|       | <b>Benefits</b><br>Provides appropriate market benefits   | Benefits may include, but are not limited to, car allowance, health insurance and employee share plans.<br><br>In certain circumstances, the committee may also approve the provision of additional allowances relating to the relocation of an executive director and other expatriate benefits to perform his or her role. | Benefits vary by role and individual circumstances and are reviewed periodically. Benefits will not normally exceed 15% of salary.<br><br>The committee retains discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the company's control have changed materially (e.g. increases in insurance premiums).  | None   |

# REMUNERATION COMMITTEE REPORT *continued*

|          | Element and link to strategy   | Operation  | Opportunity   | Performance metrics  |
|----------|--|--|---|--|
| Variable | <p><b>Annual bonus and Deferred Annual Bonus Scheme (DABS)</b><br/>Rewards delivery of the group's annual financial and strategic goals and supports retention</p>         | <p>The remuneration committee reviews and agrees measures, targets and weightings at the beginning of each financial year.</p> <p>At the end of the year, the remuneration committee determines the extent to which targets have been achieved.</p> <p>Under the DABS, at least 25% of any annual bonus award is deferred into conditional share awards, deferred cash or nil-cost options for at least three years, subject to continued employment and the company has a right to cancel DABS awards in the event of material misstatement and/or gross misconduct or other similar circumstances.</p> <p>Dividends accrue on deferred awards as additional share entitlements over the deferral period but would only vest on awards that vest.</p>   | <p>For executive directors, the target annual bonus opportunity is 85% of salary.</p> <p>The maximum opportunity is currently 125% of target (106% of salary).</p> <p>For threshold level of performance, the bonus pays out at 25% of target (21% of salary).</p> <p>The committee retains discretion to increase the maximum opportunity to 150% of salary. Targets will be commensurately more stretching.</p> | <p>The bonus is currently based 100% on group economic profit vs. the budget agreed by PayPoint's board. The committee has the discretion to add performance measures and determine appropriate weightings to ensure they continue to be linked to the delivery of company strategy. However, if other measures were incorporated, at least 50% of the bonus would continue to be tied to economic profit.</p> <p>The range for threshold to maximum performance is calibrated with reference to the target.</p> <p>The remuneration committee reviews and agrees targets at the beginning of each financial year and may subsequently adjust those targets as detailed in the notes to this table.</p> <p>The committee also has the discretion to adjust the formulaic bonus outcomes, both upwards (within the plan limits) and downwards, to ensure that payments are a true reflection of performance of the company over the performance period, e.g. in the event of unforeseen circumstances outside management control.</p> |
|          | <p><b>Long Term Incentive Plan (LTIP)</b><br/>Drives sustained long-term performance, aids retention and aligns the interests of executive directors with shareholders</p> | <p>Annual awards of conditional share awards or nil cost options vesting subject to performance and continued employment over at least three years.</p> <p>Award levels and performance conditions are reviewed by the committee in advance of grant to ensure they remain appropriate.</p> <p>The company has the right to cancel LTIP awards in the event of material misstatement and/or gross misconduct or other similar circumstances.</p> <p>The committee may decide at the time of grant that the shares acquired on vesting may be required to be retained, for a period of up to three years following the end of the performance period, during which time they would be subject to cancellation.</p> <p>Dividends accrue as additional share entitlements over the vesting period but would only be paid on awards that vest.</p> | <p>Annual awards of performance shares of up to 200% of salary for executive directors.</p> <p>The proposed awards for 2014 are 145% of salary for the Chief Executive and 125% of salary for other executive directors.</p> <p>Achievement of threshold level of performance results in 25% of maximum vesting.</p>  | <p>The LTIP is based on Total Shareholder Return (increase in the share price plus dividends paid per share) (TSR) relative to an appropriate benchmark. The committee has the discretion to determine the appropriate benchmark prior to each grant, and to add performance measures and determine appropriate weightings to ensure they continue to be linked to the delivery of company strategy. At least 50% of the LTIP will be based on TSR.</p> <p>The remuneration committee will satisfy itself that the recorded TSR is a genuine reflection of the underlying financial performance of the company.</p> <p>In addition, the committee has the discretion to adjust the formulaic outcomes to ensure alignment of pay with performance, i.e. to ensure the outcome is a true reflection of the performance of the company, e.g. in the event of unforeseen circumstances outside management control.</p>  |

# REMUNERATION COMMITTEE REPORT *continued*

|          | Element and link to strategy  | Operation  | Opportunity  | Performance metrics |
|----------|---|--|--|---------------------|
| Variable | <b>Share Incentive Plan (SIP)</b><br>Encourage share ownership across all employees | <p>Opportunity to purchase shares out of pre-tax salary and receive a matching award. The PayPoint SIP is an HMRC approved plan open to all UK tax resident employees of participating group companies. Executive directors are eligible to participate.</p> <p>The plan is an HMRC approved plan that allows an employee to purchase shares using gross salary and receive a matching award from the company. Matching shares are subject to continued employment for three years.</p> <p>Dividends may accrue on purchased and matching shares and be paid either in cash or rolled up into additional shares.</p> | <p>Participants can purchase shares up to the prevailing HMRC approved limit at the time employees are invited to participate. The company currently offers to match purchases made through the plan at the rate of one free matching share for every one share purchased.</p> | None                |

## Notes to the policy table

### Payments from previous awards

The company will honour any commitments entered into prior to the approval and implementation of the remuneration policy as detailed in this report, and executive directors will be eligible to receive payment from any historical awards made. This includes outstanding awards made under the 2009 LTIP and 2009 DSB Plan, as detailed in the annual report on remuneration. The differences between the 2009 LTIP and DSB and the plans in the policy table above are detailed below and in the annual report on remuneration.

In 2014, the remuneration committee undertook a comprehensive review of executive incentive arrangements to simplify the long-term incentive structure and align it with the business strategy, to motivate senior management to maximise economic value for shareholders and to improve compliance with new regulatory and governance requirements. As a result of the review, the following changes were made to the 2009 LTIP and DSB plans:

The payout at threshold in the annual bonus was reduced from 70% to 25% of maximum to be in line with best practice. The matching plan was removed and a small offsetting increase made to the annual bonus and LTIP opportunities so that the fair value of long-term incentive awards would be broadly maintained. The requirement to mandatorily defer 25% of the bonus into shares was maintained but deferred shares were made subject to continued employment and cancellation. Under the LTIP, the level of vesting at threshold was reduced from 30% to 25% to be in line with best practice and unvested awards were made subject to cancellation.

### Use of discretion

The remuneration committee may exercise discretion in two broad areas for each element of remuneration:

- To ensure fairness and align executive director remuneration with underlying individual and company performance, the committee may adjust upwards or downwards the outcome of any short- or long-term incentive plan payment within the limits of the relevant plan rules. Any adjustments in light of corporate events will be made on a neutral basis, i.e. the intention of any adjustment will be that the event is not to the benefit or detriment of participants. Adjustments to underlying performance may be made in exceptional circumstances to ensure outcomes are fair both to shareholders and participants.
- In the case of a non-regular event occurring, the committee may apply its discretion to ensure fairness and seek alignment with business objectives. Non-regular events in this context include, but are not limited to: corporate transactions, changes in the company's accounting policies, minor or administrative matters, internal promotions, external recruitment and terminations.

Any use of discretion by the committee during the financial year will be detailed in the relevant annual report on remuneration.

### Performance measure selection

Economic profit has been selected as the measure for the annual bonus plan, as it captures growth, returns and risk. The use of a single measure provides simplicity and focus. Economic profit is defined as operating profit after deducting the actual tax charge and a capital charge based on the weighted average cost of capital applied to the average capital employed. The operating profit is the profit before any goodwill impairment, interest and tax. Average capital employed is based on a 12 month average starting on 1 April, including cumulative goodwill but excluding net cash/indebtedness. At the sole discretion of the remuneration committee, exceptional items may be removed from operating profit where the inclusion of such items would be inconsistent with fair measurement, and actual tax may be adjusted to normalised rates if they are considered unsustainable. Performance targets relating

## REMUNERATION COMMITTEE REPORT *continued*

to the annual bonus plan are set from the company's annual budget, which is reviewed and signed off by the company's board prior to the start of each financial year.

Relative TSR has been selected as the measure for the LTIP as it is considered the best measure of long-term performance for PayPoint, is directly aligned with shareholder interests and rewards management for outperformance of the company's peers. The FTSE 250 (excluding investment trusts) is currently considered to be the most appropriate benchmark, being representative of PayPoint's size and PayPoint's lack of listed sector peers. TSR is calculated using the three month average share price preceding the start and end of the performance period.

The target for economic profit applying to the annual bonus is set annually, based on a number of internal and external reference points. The target is set to be stretching but achievable, with regard to the particular strategic priorities and economic environment in a given year.

### Remuneration policy for other employees

PayPoint's approach to annual salary reviews is consistent across the group, with consideration given to the level of experience, responsibility, individual performance and salary levels in comparable companies. All UK employees are eligible to participate in the company's SIP and senior managers participate in the annual bonus scheme with the same measure at the appropriate business level as is set for the executive directors at group level, but each with personal targets in addition. Senior managers (c.25 individuals) are eligible to participate in the LTIP. Performance conditions are consistent for all participants, while award sizes vary by organisational level.

### Shareholding guidelines

The committee recognises the importance of executive directors aligning their interests with shareholders through building up a significant shareholding in the company. Shareholding guidelines are in place, which require executive directors to acquire a holding, equivalent to at least 100% of their salaries. Executive directors are required to retain 50% of any LTIP and deferred bonus shares acquired on vesting (net of tax) until the guideline level is achieved. Acquired holdings may be held by spouses or dependent family members.

### Non-executive director remuneration

The remuneration of the non-executive directors 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.

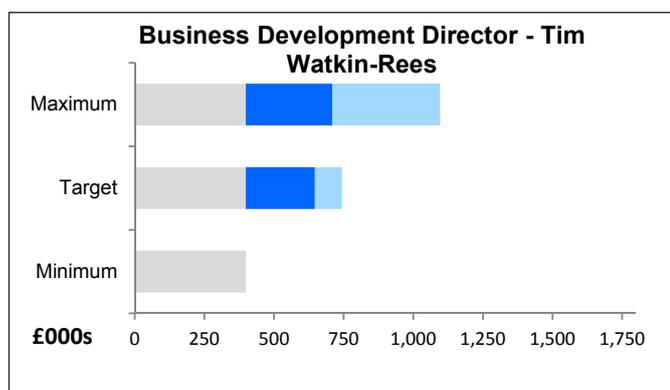
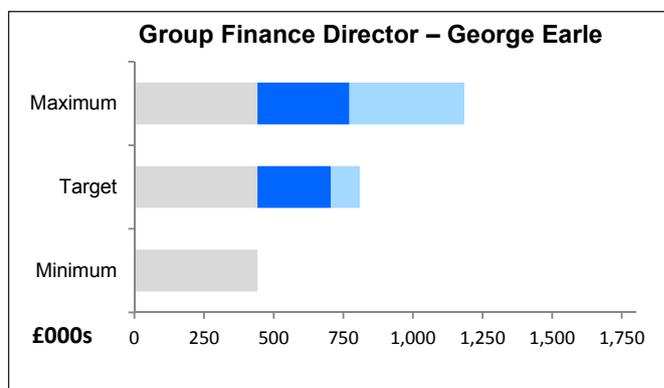
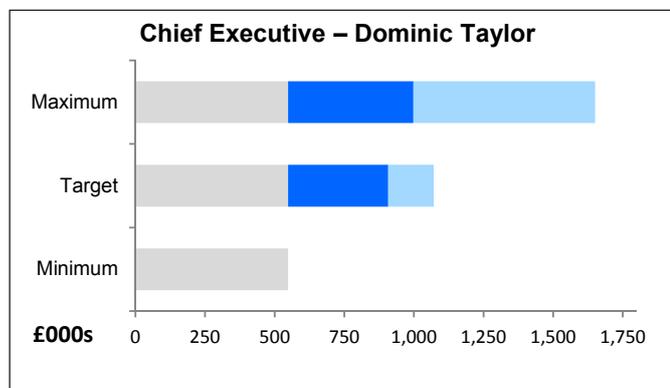
Details of the policy on fees paid to our non-executive directors are set out in the table below:

| Element and link to strategy   | Operation   | Opportunity   | Performance metrics                         |
|--|---|---|---|
| <b>Fees</b><br>To attract and retain non-executive directors of the highest calibre with broad commercial and other experience relevant to the company | <p>Fee levels are reviewed annually, with any adjustments effective 1 April in the year following review.</p> <p>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).</p> <p>Additional fees are payable for roles with additional responsibilities including, but not limited to, the SID and the Chairman of the audit and remuneration committees.</p> <p>Fee levels are benchmarked against sector comparators and companies of similar size and complexity. Time commitment and responsibility are taken into account when reviewing fee levels.</p> | <p>Non-executive director fee increases are applied in line with the outcome of the annual fee review. Fees paid in respect of the year under review (and for the following year) are disclosed in the annual report on remuneration.</p> <p>It is expected that non-executive director fee levels will generally be positioned around median but may fall within the second and third quartiles, and any increases will also have regard to general increases in non-executive directors' fees across the market. In the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil a non-executive director role, or specific recruitment needs, the board has discretion to make an appropriate adjustment to fee levels.</p> <p>Aggregate fees are also limited by the cap contained in the company's articles of association.</p> | Continued strong and objective contribution |

# REMUNERATION COMMITTEE REPORT *continued*

## Pay scenario charts

The charts below provide an illustration of the potential future reward opportunities for the executive directors, and the potential split between the different elements of remuneration under three different performance scenarios: minimum, target and maximum. Potential reward opportunities are based on PayPoint's remuneration policy, applied to base salaries as at 1 April 2014. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for the year ending 31 March 2015. For the LTIP, the award opportunities are based on those LTIP awards that are expected to be granted in June 2015. Note that LTIP awards granted in the year do not normally vest until the third anniversary of the date of grant, and the projected value is based on the face value at award rather than vesting (i.e. the scenarios exclude the impact of any share price movement over the period).



In illustrating potential reward opportunities, the following assumptions have been made:

|   | Component      | Minimum  | Target                             | Maximum         |
|---|----------------|--|------------------------------------|-----------------|
| <b>Fixed</b>  | Base salary    | Salary as at 1 April 2014                                  |                                    |                 |
|   | Pension        | Current contribution rate applied to latest known salary   |                                    |                 |
|   | Other benefits | Benefits as provided in the single figure table on page 27 |                                    |                 |
| <b>Annual Bonus</b>   |                | No bonus payable   | Target bonus (80% of max)          | Maximum bonus   |
| <b>LTIP</b><br>(2014 awards of 145% of salary for the Chief Executive and 125% of salary for the other executive directors) |                | No LTIP vesting  | Threshold vesting (25% of maximum) | Maximum vesting |

# REMUNERATION COMMITTEE REPORT *continued*

## Approach to recruitment remuneration

### External appointment

In the cases of hiring or appointing a new executive director from outside the company, the remuneration committee may make use of all the existing components of remuneration, as follows:

| Component           | Approach   | Maximum        |
|---------------------|--|----------------|
| <b>Base salary</b>  | The base salaries of new appointees will be determined by reference to similar positions with comparative status, responsibility and skills in parallel with the individual director's performance, experience and responsibilities, and pay and conditions throughout the company. Where new appointees have initial basic salaries set below market, any shortfall may be managed with phased increases over a period of two to three years subject to the individual's development in the role. | N/A            |
| <b>Pension</b>      | New appointees will receive contributions to personal pension plans in line with existing policy.  |                |
| <b>Benefits</b>     | New appointees will be eligible to receive benefits in line with existing policy.  |                |
| <b>SIP</b>          | New appointees will be eligible to participate in the SIP in line with existing policy.  |                |
| <b>Annual bonus</b> | The structure described in the policy table will apply to new appointees with the relevant maximum being pro-rated to reflect the proportion of employment over the year. Targets for the personal objectives element will be tailored to the executive.   | 150% of salary |
| <b>LTIP</b>         | New appointees will be granted awards under the LTIP on the same terms as other executives, as described in the policy table. The normal limit of 200% of salary will apply, save in exceptional circumstances when awards of up to 300% of salary may be made.  | 300% of salary |

In determining appropriate remuneration, the remuneration committee will take into consideration all relevant factors (including quantum, nature of remuneration and the jurisdiction from which the candidate was recruited) to ensure that arrangements are in the best interests of both PayPoint and its shareholders. In addition to the above elements of remuneration, the committee may consider it appropriate to grant an award under a different structure in order to facilitate the recruitment of an individual, exercising the discretion available under the relevant Listing Rule (LR 9.4.2 R) to replace incentive arrangements forfeited on leaving a previous employer. Such buyout awards would have a fair value no higher than that of the awards forfeited. In doing so, the committee will consider relevant factors, including any performance conditions attached to these awards, the likelihood of those conditions being met and the proportion of the vesting period remaining.

### Internal appointment

In cases of appointing a new executive director by way of internal promotion, the remuneration committee and board will be consistent with the policy for external appointees detailed above. Where an individual has contractual commitments made prior to their promotion to the board, the company will continue to honour these arrangements.

### Non-executive directors

In recruiting a new non-executive director, the remuneration committee will utilise the policy as set out in the table on page 37.

## Service contracts and exit policy

### Executive directors

Executive director service contracts, including arrangements for early termination, are carefully considered by the committee. In accordance with general market practice, each of the executive directors has a rolling service contract requiring 12 months' notice of termination on either side. Executive director service contracts are available to view at the company's registered office. Details of the service contracts of the executive directors of the company are as follows:

| Name            | Company notice period | Contract date     |
|-----------------|-----------------------|-------------------|
| Dominic Taylor  | 12 months             | 13 September 2004 |
| George Earle    | 12 months             | 30 September 2004 |
| Tim 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 are no unjustified payments for failure. Under normal circumstances, executive directors may receive termination payments in lieu of notice equal to pay and benefits for the length of their contractual notice period.

## REMUNERATION COMMITTEE REPORT *continued*

When considering exit payments, the committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants. The table below summarises how the awards under the annual bonus and LTIP are typically treated in specific circumstances. Whilst the committee retains overall discretion on determining good leaver status, it typically defines a good leaver in circumstances such as death, ill health, injury or disability, retirement with the company's consent, redundancy or any other reason that the committee determines. Bad leavers include those leaving employment due to resignation or misconduct, and retirement without agreement of the company. Final treatment is subject to the committee's discretion:

| Event               | Timing/vesting of award  | Calculation of vesting/payment  |
|---------------------|--|---|
| <b>Annual bonus</b> |  |   |
| Good leaver         | Paid at the same time as continuing employees  | Eligible for an award to the extent that performance targets are satisfied and the award is pro-rated for the proportion of the financial year served   |
| Bad leaver          | No annual bonus payable  | Not applicable  |
| Change of control   | Paid immediately on the effective date of change of control  | Eligible for an award to the extent that performance targets are satisfied up to the change of control and the award is pro-rated for the proportion of the financial year served to the effective date of change of control  |
| <b>DABS</b>         |  |   |
| Good leaver         | Continue until the normal vesting date. In the event of death of a participant, the award would vest immediately | Outstanding awards vest on a time pro-rated basis to reflect the length of the vesting period served unless the board decides otherwise   |
| Bad leaver          | Outstanding awards lapse   | Not applicable  |
| Change of control   | Paid immediately on the effective date of change of control  | Eligible for an award pro-rated for the proportion of the financial year served to the effective date of change of control  |
| <b>LTIP</b>         |  |   |
| Good leaver         | Continue until the normal vesting date or vest immediately, at the discretion of the committee.                  | Outstanding awards vest to the extent the performance conditions are satisfied and the awards are pro-rated to reflect the length of the vesting period served unless the board decides otherwise   |
| Bad leaver          | Outstanding awards lapse   | Not applicable  |
| Change of control   | Vest immediately on the effective date of change of control  | Outstanding awards vest subject to the satisfaction of performance conditions as at the effective date of change of control, and the award is pro-rated for the proportion of the vesting period served to the effective date of change of control unless the board decides otherwise |

Outstanding matching awards under the 2009 DSB Plan will be treated in the same way as awards under the LTIP. Mandatorily deferred (and voluntarily invested) shares under this plan are simply held on trust for participants and therefore would be released immediately on cessation or a change of control.

### Non-executive directors

The non-executive directors do not have service contracts; rather, they have letters of appointment which are subject to a three year term. Details of the terms of appointment of the non-executive directors are set out in the table below:

| Name           | Date of letter  | Unexpired term as at 31 March 2014 | Date of appointment | Notice period |
|----------------|-----------------|------------------------------------|---------------------|---------------|
| David Morrison | 24 July 2013    | 846 days                           | 10 August 2004      | 1 month       |
| David Newlands | 24 July 2013    | 846 days                           | 10 August 2004      | 1 month       |
| Andrew Robb    | 24 July 2013    | 846 days                           | 10 August 2004      | 1 month       |
| Eric Anstee    | 24 July 2013    | 846 days                           | 16 September 2008   | 1 month       |
| Stephen Rowley | 24 July 2013    | 846 days                           | 16 September 2008   | 1 month       |
| Nick Wiles     | 24 July 2013    | 846 days                           | 22 October 2009     | 1 month       |
| Warren Tucker  | 5 February 2014 | 1,042 days                         | 5 February 2014     | 3 months      |

Under the company's articles of association, all directors are required to submit themselves for re-election every three years. However, in order to comply with the Code and as reported last year, all directors will be subject to annual re-election. Non-executive directors' letters of appointment are available to view at the company's registered office.

## REMUNERATION COMMITTEE REPORT *continued*

### Consideration of conditions elsewhere in the company

When making decisions on executive director remuneration, the committee considers pay and conditions across PayPoint. In particular, it is anticipated that salary increases for senior executives will have regard to those of salaried employees as a whole. Employee engagement surveys are carried out annually across the group, with questions which seek the employees' views on these matters. Participation in these surveys is generally in excess of 80% of all employees.

### Consideration of shareholder views

The remuneration committee maintains a regular dialogue with its major shareholders and when determining remuneration, takes into account the guidelines of investor bodies and shareholder views. The committee continues to monitor trends and developments in corporate governance and market practice to ensure the structure of the executive remuneration remains appropriate and commits to undergo a shareholder consultation in advance of any material changes to remuneration policy.

This report covers the remuneration of all directors that served during the period.

This report has been approved by the remuneration committee.

Andrew Robb  
Chairman, remuneration committee  
29 May 2014

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRS as adopted by the EU. Under company law, the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- 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; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs, 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;
- the strategic 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 that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

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

Dominic Taylor  
Chief Executive  
29 May 2014

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PAYPOINT PLC

## Opinion on financial statements of PayPoint plc

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company statements of financial position, the consolidated and parent company statements of changes in equity, the consolidated and parent cash flow statements and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and IFRS as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

## Going concern

As required by the Listing Rules, we have reviewed the directors' statement contained within the directors' report on page 23 that the group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

| Risk   | How the scope of our audit responded to the risk   |
|--|--|
| <p><b>The assessment of carrying value of goodwill and other non-current assets</b></p> <p>Management is required to carry out an annual impairment test on goodwill and other indefinite lived assets which incorporates judgments based on assumptions about future profitability.</p> | <p>We assessed the assumptions used in the impairment model for goodwill and other non-current assets, described in note 10, specifically including the cash flow projections, discount rates, perpetuity growth rates and the sensitivities applied.</p> <p>Our procedures included reviewing forecast cash flows with reference to historical trading performance, consulting with our valuation specialists and benchmarking assumptions such as the perpetual growth rate and discount rate to external macro-economic and market data. Having ascertained the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired by performing sensitivity analysis on the key assumptions, we considered the likelihood of such a movement in those assumptions arising and the adequacy of the disclosures made in note 10 to the financial statements.</p> |
| <p><b>Revenue recognition</b></p> <p>The majority of revenue streams are based on fees per transaction. Significant management judgment is required in the accounting for other revenue streams.</p>   | <p>We tested the appropriateness of the accounting treatment of non-transaction-based revenue streams requiring management judgment. Where such revenue streams exist, we have reviewed customer contracts and performed recalculations of the revenue recognised, accrued and deferred to assess whether the revenue recognised is consistent with the contract terms and IFRS.</p> <p>For transaction-based revenue streams, we performed testing over the relevant computer systems and the operating effectiveness of the controls, as well as substantive audit procedures.</p>   |
| <p><b>Taxation</b></p> <p>The recognition of deferred tax, in particular on carried forward tax losses and share-based payments, requires management judgment.</p>   | <p>We tested the appropriateness of the assumptions and estimates in relation to the likelihood of generating future taxable profits to support the recognition of deferred tax assets as described in note 14 to the financial statements. We considered those assumptions and supporting forecasts and estimates as well as the appropriateness of the tax disclosures.</p> <p>We worked with our tax audit specialists in relation to the recognition of deferred tax assets and to appraise the likely outcome of technical tax treatments, including the review of correspondence with the revenue authorities to assess the reasonableness of the provisions made.</p>   |

The audit committee's consideration of these risks is set out on page 19.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PAYPOINT PLC

### *continued*

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above and we do not express an opinion on these individual matters.

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the group to be £2.3 million, which is below 5% of pre-tax profit and below 3% of equity.

We agreed with the audit committee that we would report to the committee all audit differences in excess of £50,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the audit committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our group audit scope focused primarily on eleven entities. Ten of these were subject to a full audit. This includes PayPoint Romania, where a full scope audit was performed on the statutory year ended 31 December 2013, with review procedures then performed on the three month period to 31 March 2014. The remaining one entity was subject to audit procedures on specified account balances. The extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the group's business operations at those locations. These eleven entities represent the principal business units within the group and account for 99% of the group's net assets, 99% of the group's revenue and 99% of the group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work on the eleven entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality.

At the parent entity level, we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit procedures on specified account balances.

The group audit team continued to follow a programme of planned visits that has been designed so that a senior member of the audit team visits each of the locations where the group audit scope was focused every year.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

|   |   |
|---|---|
| <b>Adequacy of explanations received and accounting records</b> | Under the Companies Act 2006, we are required to report to you if, in our opinion: <ul style="list-style-type: none"> <li>• we have not received all the information and explanations we require for our audit; or</li> <li>• adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or</li> <li>• the parent company financial statements are not in agreement with the accounting records and returns.</li> </ul> We have nothing to report in respect of these matters.   |
| <b>Directors' remuneration</b>                                  | Under the Companies Act 2006, we are also required to report if, in our opinion, certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.   |
| <b>Corporate Governance Statement</b>                           | Under the Listing Rules, we are also required to review the part of the corporate governance statement relating to the company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.  |
| <b>Our duty to read other information in the annual report</b>  | Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is: <ul style="list-style-type: none"> <li>• materially inconsistent with the information in the audited financial statements; or</li> <li>• apparently materially incorrect, based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or</li> <li>• otherwise misleading.</li> </ul> <p>In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee, which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.</p> |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PAYPOINT PLC

*continued*

## Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, strategically focused second partner reviews and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Edward Hanson, ACA (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
29 May 2014

# CONSOLIDATED INCOME STATEMENT

|   | Note | 52 weeks ended<br>31 March<br>2014<br>£000 | 53 weeks ended<br>31 March<br>2013<br>£000 |
|---|------|--|--|
| <b>Continuing operations</b>            |      |  |  |
| <b>Revenue</b>                          | 2    | <b>212,158</b>                             | 208,526                                    |
| Cost of sales                           |      | <b>(115,184)</b>                           | (118,876)                                  |
| <b>Gross profit</b>                     |      | <b>96,974</b>                              | 89,650                                     |
| Administrative expenses                 |      | <b>(52,696)</b>                            | (47,670)                                   |
| <b>Operating profit</b>                 | 5    | <b>44,278</b>                              | 41,980                                     |
| Share of profit/(loss) of joint venture | 13   | <b>892</b>                                 | (965)                                      |
| Investment income                       | 6    | <b>231</b>                                 | 314  |
| Finance costs                           | 6    | <b>(84)</b>                                | (62)                                       |
| Other gains and losses                  | 6    | <b>691</b>                                 | -  |
| <b>Profit before tax</b>                |      | <b>46,008</b>                              | 41,267                                     |
| Tax                                     | 7    | <b>(10,092)</b>                            | (10,316)                                   |
| <b>Profit for the period</b>            | 24   | <b>35,916</b>                              | 30,951                                     |
| <b>Attributable to:</b>                 |      |  |  |
| Equity holders of the parent            |      | <b>35,938</b>                              | 30,979                                     |
| Non-controlling interests               | 25   | <b>(22)</b>                                | (28)                                       |
|   |      | <b>35,916</b>                              | 30,951                                     |
| <b>Earnings per share</b>               |      |  |  |
| Basic                                   | 9    | <b>52.9p</b>                               | 45.7p                                      |
| Diluted                                 | 9    | <b>52.6p</b>                               | 45.3p                                      |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|  | Note | 52 weeks ended<br>31 March<br>2014<br>£000 | 53 weeks ended<br>31 March<br>2013<br>£000 |
|--|------|--|--|
| <b>Items that may subsequently be reclassified to the consolidated income statement:</b> |      |  |  |
| Exchange differences on translation of foreign operations                                | 24   | <b>(3,307)</b>                             | 1,054                                      |
| Tax effect thereof   |      | -  | -  |
| Other comprehensive (loss)/income for the period   |      | <b>(3,307)</b>                             | 1,054                                      |
| Profit for the period  |      | <b>35,916</b>                              | 30,951                                     |
| <b>Total recognised income and expenses for the period</b>                               |      | <b>32,609</b>                              | 32,005                                     |
| <b>Attributable to:</b>  |      |  |  |
| Equity holders of the parent   |      | <b>32,631</b>                              | 32,033                                     |
| Non-controlling interests  |      | <b>(22)</b>                                | (28)                                       |
|  |      | <b>32,609</b>                              | 32,005                                     |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  | Note | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 |
|--|------|--------------------------|--------------------------|
| <b>Non-current assets</b>  |      |                          |                          |
| Goodwill   | 10   | 57,717                   | 56,570                   |
| Other intangible assets  | 11   | 6,252                    | 4,637                    |
| Property, plant and equipment  | 12   | 21,956                   | 17,729                   |
| Investment in joint venture  | 13   | 686                      | 43                       |
| Deferred tax asset   | 14   | 2,191                    | 2,208                    |
| Investments  | 15   | -                        | 435                      |
|  |      | <b>88,802</b>            | 81,622                   |
| <b>Current assets</b>  |      |                          |                          |
| Inventories  | 17   | 731                      | 1,161                    |
| Trade and other receivables  | 18   | 162,653                  | 198,803                  |
| Cash and cash equivalents  | 19   | 41,600                   | 46,618                   |
|  |      | <b>204,984</b>           | 246,582                  |
| <b>Total assets</b>  |      | <b>293,786</b>           | 328,204                  |
| <b>Current liabilities</b>   |      |                          |                          |
| Trade and other payables   | 20   | 186,291                  | 216,821                  |
| Current tax liabilities  |      | 3,845                    | 5,339                    |
|  |      | <b>190,136</b>           | 222,160                  |
| <b>Non-current liabilities</b>   |      |                          |                          |
| Other liabilities  | 22   | 79                       | 169                      |
|  |      | <b>79</b>                | 169                      |
| <b>Total liabilities</b>   |      | <b>190,215</b>           | 222,329                  |
| <b>Net assets</b>  |      | <b>103,571</b>           | 105,875                  |
| <b>Equity</b>  |      |                          |                          |
| Share capital  | 24   | 226                      | 226                      |
| Share premium  | 24   | 408                      | 297                      |
| Share-based payment reserve  | 24   | 3,682                    | 3,265                    |
| Translation reserve  | 24   | (2,613)                  | 694                      |
| Retained earnings  | 24   | 101,995                  | 101,498                  |
| <b>Total equity attributable to equity holders of the parent company</b> |      | <b>103,698</b>           | 105,980                  |
| Non-controlling interest   | 25   | (127)                    | (105)                    |
| <b>Total equity</b>  |      | <b>103,571</b>           | 105,875                  |

These financial statements were approved by the board of directors and authorised for issue on 29 May 2014 and signed on behalf of the board of directors.

Dominic Taylor  
Chief Executive  
29 May 2014

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|   | Note | Share capital<br>£000 | Share premium<br>£000 | Investment<br>in own<br>shares<br>£000 | Share-<br>based<br>payment<br>reserve<br>£000 | Translation<br>reserve<br>£000 | Retained<br>earnings<br>£000 | Total equity<br>attributable<br>to equity<br>holders of<br>the parent<br>company<br>£000 | Non-<br>controlling<br>interest<br>(note 25)<br>£000 | Total<br>equity<br>£000 |
|---|------|-----------------------|-----------------------|--|---|--------------------------------|------------------------------|--|--|-------------------------|
| <b>Opening equity<br/>26 March 2012</b>                               |      | <b>226</b>            | <b>25</b>             | <b>(216)</b>                           | <b>3,138</b>                                  | <b>(360)</b>                   | <b>88,629</b>                | <b>91,442</b>  | <b>(77)</b>  | <b>91,365</b>           |
| Profit for the period   |      | -                     | -                     | -                                      | -   | -                              | 30,979                       | 30,979   | (28)   | 30,951                  |
| Dividends paid  | 8    | -                     | -                     | -                                      | -   | -                              | (18,957)                     | (18,957)   | -  | (18,957)                |
| Movement in investment in own shares                                  | 24   | -                     | -                     | 216                                    | -   | -                              | -                            | 216  | -  | 216                     |
| Exchange differences on translation of foreign operations             | 24   | -                     | -                     | -                                      | -   | 1,054                          | -                            | 1,054  | -  | 1,054                   |
| Movement in share-based payment reserve                               | 24   | -                     | -                     | -                                      | 127   | -                              | -                            | 127  | -  | 127                     |
| Share premium arising on issue of shares                              | 24   | -                     | 272                   | -                                      | -   | -                              | -                            | 272  | -  | 272                     |
| Adjustment on share scheme vesting                                    | 24   | -                     | -                     | -                                      | -   | -                              | (58)                         | (58)   | -  | (58)                    |
| Deferred tax on share-based payments                                  | 14   | -                     | -                     | -                                      | -   | -                              | 905                          | 905  | -  | 905                     |
| <b>Closing equity<br/>31 March 2013</b>                               |      | <b>226</b>            | <b>297</b>            | <b>-</b>                               | <b>3,265</b>                                  | <b>694</b>                     | <b>101,498</b>               | <b>105,980</b>   | <b>(105)</b>   | <b>105,875</b>          |
| Profit for the period   |      | -                     | -                     | -                                      | -   | -                              | 35,938                       | 35,938   | (22)   | 35,916                  |
| Dividends paid  | 8    | -                     | -                     | -                                      | -   | -                              | (31,632)                     | (31,632)   | -  | (31,632)                |
| Exchange differences on translation of foreign operations             | 24   | -                     | -                     | -                                      | -   | (3,307)                        | -                            | (3,307)  | -  | (3,307)                 |
| Movement in share-based payment reserve                               | 24   | -                     | -                     | -                                      | 417   | -                              | -                            | 417  | -  | 417                     |
| Share premium arising on issue of shares                              | 24   | -                     | 111                   | -                                      | -   | -                              | -                            | 111  | -  | 111                     |
| Adjustment on share scheme vesting (net of tax benefit of £1,053,000) | 24   | -                     | -                     | -                                      | -   | -                              | (3,548)                      | (3,548)  | -  | (3,548)                 |
| Deferred tax on share-based payments                                  | 14   | -                     | -                     | -                                      | -   | -                              | (261)                        | (261)  | -  | (261)                   |
| <b>Closing equity<br/>31 March 2014</b>                               |      | <b>226</b>            | <b>408</b>            | <b>-</b>                               | <b>3,682</b>                                  | <b>(2,613)</b>                 | <b>101,995</b>               | <b>103,698</b>   | <b>(127)</b>   | <b>103,571</b>          |

# CONSOLIDATED CASH FLOW STATEMENT

|   | Note | 52 weeks<br>ended<br>31 March<br>2014<br>£000 | 53 weeks<br>ended<br>31 March<br>2013<br>£000 |
|---|------|---|---|
| <b>Net cash inflow from operating activities</b>            | 29   | <b>45,434</b>                                 | 40,060  |
| <b>Investing activities</b>                                 |      |   |   |
| Investment income   |      | 231   | 187   |
| Proceeds on disposal of investments                         |      | 1,127   | -   |
| Purchases of property, plant and equipment and technology   |      | (11,343)                                      | (9,700)                                       |
| Proceeds from disposal of property, plant and equipment     |      | 211   | 54  |
| Loan to joint venture                                       | 15   | (225)   | (950)   |
| Repayment of loan by joint venture                          | 15   | 475   | -   |
| Acquisition of subsidiary                                   | 16   | (3,214)                                       | -   |
| <b>Net cash used in investing activities</b>                |      | <b>(12,738)</b>                               | (10,409)                                      |
| <b>Financing activities</b>                                 |      |   |   |
| Cash settled share-based remuneration                       |      | (5,334)                                       | -   |
| Dividends paid:   |      |   |   |
| - Final and interim   | 8    | (21,450)                                      | (18,957)                                      |
| - Special   | 8    | (10,182)                                      | -   |
| <b>Net cash used in financing activities</b>                |      | <b>(36,966)</b>                               | (18,957)                                      |
| <b>Net (decrease)/increase in cash and cash equivalents</b> |      | <b>(4,270)</b>                                | 10,694  |
| Cash and cash equivalents at beginning of period            |      | 46,618  | 35,487  |
| Effect of foreign exchange rate changes                     |      | (748)   | 437   |
| <b>Cash and cash equivalents at end of period</b>           |      | <b>41,600</b>                                 | 46,618  |

## COMPANY STATEMENT OF FINANCIAL POSITION

|                                | Note | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 |
|--------------------------------|------|--------------------------|--------------------------|
| <b>Non-current assets</b>      |      |                          |                          |
| Investments                    | 15   | 124,180                  | 118,325                  |
|                                |      | <b>124,180</b>           | 118,325                  |
| <b>Current assets</b>          |      |                          |                          |
| Trade and other receivables    | 18   | 11,361                   | 498                      |
| Cash and cash equivalents      |      | 50                       | 20                       |
|                                |      | <b>11,411</b>            | 518                      |
| <b>Total assets</b>            |      | <b>135,591</b>           | 118,843                  |
| <b>Current liabilities</b>     |      |                          |                          |
| Trade and other payables       | 20   | 582                      | -                        |
| Current tax liabilities        |      | 498                      | 881                      |
|                                |      | <b>1,080</b>             | 881                      |
| <b>Non-current liabilities</b> |      |                          |                          |
| Other liabilities              | 22   | 64,765                   | 21,137                   |
| <b>Total liabilities</b>       |      | <b>65,845</b>            | 22,018                   |
| <b>Net assets</b>              |      | <b>69,746</b>            | 96,825                   |
| <b>Equity</b>                  |      |                          |                          |
| Share capital                  | 24   | 226                      | 226                      |
| Share premium                  | 24   | 408                      | 297                      |
| Share-based payment reserve    | 24   | 3,682                    | 3,265                    |
| Retained earnings              | 24   | 65,430                   | 93,037                   |
| <b>Total equity</b>            |      | <b>69,746</b>            | 96,825                   |

These financial statements were approved by the board of directors and authorised for issue on 29 May 2014 and signed on behalf of the board of directors.

Dominic Taylor  
Chief Executive  
29 May 2014

# COMPANY STATEMENT OF CHANGES IN EQUITY

|  | Note | Share capital<br>£000 | Share premium<br>£000 | Investment in<br>own shares<br>£000 | Share-based<br>payment<br>reserve<br>£000 | Retained<br>earnings<br>£000 | Total<br>equity<br>£000 |
|--|------|-----------------------|-----------------------|-------------------------------------|---|------------------------------|-------------------------|
| <b>Opening equity<br/>26 March 2012</b>  |      | <b>226</b>            | <b>25</b>             | <b>(216)</b>                        | <b>3,138</b>                              | <b>108,676</b>               | <b>111,849</b>          |
| Profit for the period  |      | -                     | -                     | -                                   | -   | 3,006                        | 3,006                   |
| Dividends paid   | 8    | -                     | -                     | -                                   | -   | (18,957)                     | (18,957)                |
| Movement in<br>investment in own<br>shares                                     | 24   | -                     | -                     | 216                                 | -   | -                            | 216                     |
| Movement in<br>share-based payment<br>reserve                                  | 24   | -                     | -                     | -                                   | 127                                       | -                            | 127                     |
| Share premium<br>arising on issue of<br>shares                                 | 24   | -                     | 272                   | -                                   | -   | -                            | 272                     |
| Adjustment on share<br>scheme vesting  | 24   | -                     | -                     | -                                   | -   | 312                          | 312                     |
| <b>Closing equity<br/>31 March 2013</b>  |      | <b>226</b>            | <b>297</b>            | <b>-</b>                            | <b>3,265</b>                              | <b>93,037</b>                | <b>96,825</b>           |
| Profit for the period  |      | -                     | -                     | -                                   | -   | 7,573                        | 7,573                   |
| Dividends paid   | 8    | -                     | -                     | -                                   | -   | (31,632)                     | (31,632)                |
| Movement in<br>share-based payment<br>reserve                                  | 24   | -                     | -                     | -                                   | 417                                       | -                            | 417                     |
| Share premium<br>arising on issue of<br>shares                                 | 24   | -                     | 111                   | -                                   | -   | -                            | 111                     |
| Adjustment on share<br>scheme vesting (net<br>of tax benefit of<br>£1,053,000) | 24   | -                     | -                     | -                                   | -   | (3,548)                      | (3,548)                 |
| <b>Closing equity<br/>31 March 2014</b>  |      | <b>226</b>            | <b>408</b>            | <b>-</b>                            | <b>3,682</b>                              | <b>65,430</b>                | <b>69,746</b>           |

## COMPANY CASH FLOW STATEMENT

|  | Note | 52 weeks<br>ended<br>31 March<br>2014<br>£000 | 53 weeks<br>ended<br>31 March<br>2013<br>£000 |
|--|------|---|---|
| <b>Net cash flow from operating activities</b>       | 29   | <b>30,274</b>                                 | 22,568  |
| <b>Investing activities</b>                          |      |   |   |
| Dividends received from subsidiaries                 |      | <b>6,199</b>                                  | -   |
| Proceeds on disposal of investments                  |      | <b>1,127</b>                                  | -   |
| Loan to joint venture                                | 15   | <b>(225)</b>                                  | (950)   |
| Repayment of loan by joint venture                   | 15   | <b>475</b>                                    | -   |
| Acquisition of subsidiary                            | 16   | <b>(3,214)</b>                                | -   |
| Investment in group companies                        | 15   | <b>(2,974)</b>                                | (2,686)                                       |
| <b>Net cash used in investing activities</b>         |      | <b>1,388</b>                                  | (3,636)                                       |
| <b>Financing activities</b>                          |      |   |   |
| Dividends paid                                       | 8    | <b>(31,632)</b>                               | (18,957)                                      |
| <b>Net cash used in financing activities</b>         |      | <b>(31,632)</b>                               | (18,957)                                      |
| Net increase/(decrease) in cash and cash equivalents |      | <b>30</b>                                     | (25)  |
| Cash and cash equivalents at beginning of period     |      | <b>20</b>                                     | 45  |
| <b>Cash and cash equivalents at end of period</b>    |      | <b>50</b>                                     | 20  |

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting policies

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

### Basis of preparation

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

The directors are satisfied that the group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. The group's liquidity review can be found in the strategic report on page 10. The group's going concern position is further discussed in the directors' report on page 23. The financial statements are prepared on a going concern basis.

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements, but may impact the accounting for future transactions and arrangements:

#### Early adoption of IAS 36 (amended): Impairment of assets

The amendment to IAS 36 removes a requirement to disclose the recoverable amount of a cash-generating unit whether or not an impairment loss has been recognised in respect of that unit in the current period. The amendment instead requires the disclosure of the determined recoverable amount only where an impairment loss has been recognised during the reporting period. The group has elected to early adopt this amendment for the current year.

**IAS 1:** Presentation of financial statements

**IFRS 7 (amended):** Disclosures – offsetting financial assets and financial liabilities

**IFRS 13:** Fair value measurement

New Standards and Interpretations in issue but not yet effective:

**IAS 32 (amended):** Offsetting financial assets and financial liabilities

**IAS 27 (revised):** Separate financial statements

**IAS 28 (revised):** Investments in associates and joint ventures

**IFRS 10, IFRS 12 and IAS 27 (amended):** Investment entities

**IFRS 9:** Financial instruments

**IFRS 10:** Consolidated financial statements

**IFRS 11:** Joint arrangements

**IFRS 12:** Disclosure of interest in other entities

**IAS 39 (amended):** Novation of derivatives and continuation of hedge accounting

**IAS 19 (amended):** Employee contributions

**Annual Improvements to IFRSs:** 2010-12 Cycle

**Annual Improvements to IFRSs:** 2011-13 Cycle

The group does not consider that these Standards and Interpretations will have a material impact on the financial statements of the group when the respective Standards or Interpretations 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 intergroup transactions, balances, income and expenses are eliminated on consolidation except for joint ventures.

### Business combinations

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. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 revised 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 at the date of acquisition. Goodwill, which has an indefinite useful economic life, 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. Any impairment loss for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent year.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## Impairment of tangible and intangible assets other than goodwill

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 and intangible assets not available for use are 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 (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

The reversal of any impairment loss is limited by the net book value to which the relevant asset would have been reduced, had no impairment occurred. A reversal of an impairment loss is recognised as income immediately.

## Revenue

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

Revenue is deferred when cash has been received for the provision of the contracted service to the extent that the service has not been rendered, such as the set-up of a new service for a client.

Revenue and cost of sales are recorded according to the actual transactions that occur in a given period. In Ireland and Romania, PayPoint is contracted as principal in the supply of prepaid 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. In the UK, PayPoint is contracted as agent in the supply of prepaid mobile top-ups and, accordingly, only the commission receivable from mobile operators is included in revenue.

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 and SIM cards where PayPoint acts as principal in their purchase and sale, consumables, communications, maintenance, depreciation, amortisation and field service costs and any external processing charges levied by credit card scheme sponsors. All other costs are allocated to administrative expenses.

## 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 statement of financial position.

## 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 independent advice that the shares 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 group operates in a number of different tax jurisdictions which leads to some complexity in tax matters. This requires a degree of estimation of liabilities and delays resolution of issues. The final resolution of tax issues may give rise to variances in profit and loss and cash. The group's policy is to pay tax when due but to minimise tax payments where practically possible, without engaging in aggressive tax schemes.

The tax expense represents the sum of the payable in respect of the period under review based on the taxable profit for the period and deferred tax. 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 substantively 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 substantively 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-

## NOTES TO THE FINANCIAL STATEMENTS *continued*

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

#### Recognised on acquisition:

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

Contracts with merchants are amortised on a straight line basis, generally between one and five years, and acquired systems are amortised over their estimated useful economic life of ten 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. Software development costs recognised as an intangible asset are amortised on a straight line basis over its useful life, which is between 5 and 10 years. Other software costs are recognised in administrative expenses when incurred.

### 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 and are reviewed on an annual basis:

- freehold building – 50 years;
- leasehold improvements – over the life of the lease;
- terminals – 5 years;
- automatic teller machines – 4 years; and
- other classes of assets – 3 to 5 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.

### Trade and other receivables

Trade receivables represent the amount of commission due from clients for which payment has not been received, less an allowance for doubtful accounts that is estimated based on factors such as the credit rating of the customer, historical trends, the current economic environment and other information.

Items in the course of collection represent gross transaction values received by retail agents that have not yet been collected by PayPoint.

### Trade and other payables

Trade payables represent the amount of invoices received from suppliers for purchases of goods and services for which payment has not been made.

Settlement payables represent gross transaction values received by retail agents that have not yet been settled to clients.

### Joint ventures

A joint venture entity is an entity in which the group holds a long term interest and shares joint control over the strategic, financial and operating decisions with one or more other ventures under a contractual arrangement. The group's share of net assets, post-tax profit and loss and dividends are accounted for using the equity method of accounting.

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

### Bank and other loans

Bank and other loans are initially measured at fair value, net of any attributable transaction costs, if any, and are subsequently measured at amortised cost using the effective interest rate method.

### Dividends

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

### Own shares

PayPoint purchases its own shares for the purpose of employee share-based payment 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 with original maturity of less than three months and are subject to insignificant risk of changes in value.

### Critical accounting judgments and key sources of estimation uncertainty

In the application of the group's accounting policies, which are described in note 1, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The critical accounting judgments at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next year

NOTES TO THE FINANCIAL STATEMENTS *continued*

and key sources of estimation uncertainty in the business are the valuation of goodwill of £57.7 million at 31 March 2014 (2013: £56.6 million) and other intangible assets of £6.3 million at 31 March 2014 (2013: £4.6 million). Management reviews goodwill and intangible assets not available for use for any impairment on an annual basis (notes 10 and 11). Intangible assets are amortised over their economic useful life (note 11). The accounting policies for goodwill and intangible assets are included above in this note 1.

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

### (i) Segmental information

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

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

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

### (ii) Revenue, net revenue and cost of sales

Revenue comprises the value of sales (excluding sales taxes) of services in the normal course of business.

Revenue performance of the business is measured by net revenue, which is calculated as the total revenue from clients less commissions paid to retail agents, the cost of mobile top-ups and SIM cards where PayPoint is principal and costs incurred by PayPoint which are recharged to clients and merchants. These costs include retail agent commission, merchant service charges levied by card scheme sponsors and costs for the provision of call centres for mobile parking clients.

|   | <b>52 weeks ended<br/>31 March<br/>2014<br/>£000</b> | 53 weeks ended<br>31 March<br>2013<br>£000 |
|---|--|--|
| Revenue   |  |  |
| – transaction processing                          | <b>211,196</b>                                       | 207,437                                    |
| – service charge income from ATMs                 | <b>962</b>   | 1,089                                      |
|   | <b>212,158</b>                                       | 208,526                                    |
| less:   |  |  |
| Commission payable to retail agents               | <b>(64,925)</b>                                      | (69,099)                                   |
| Cost of mobile top-ups and SIM cards as principal | <b>(31,331)</b>                                      | (32,004)                                   |
| Card scheme sponsors' charges                     | <b>(2,162)</b>                                       | (1,766)                                    |
| <b>Net revenue</b>                                | <b>113,740</b>                                       | 105,657                                    |

|   | <b>52 weeks ended<br/>31 March<br/>2014<br/>£000</b> | 53 weeks ended<br>31 March<br>2013<br>£000 |
|---|--|--|
| <b>Cost of sales</b>                              |  |  |
| Commission payable to retail agents               | <b>64,925</b>  | 69,099                                     |
| Cost of mobile top-ups and SIM cards as principal | <b>31,331</b>  | 32,004                                     |
| Card scheme sponsors' charges                     | <b>2,162</b>   | 1,766                                      |
| Depreciation and amortisation                     | <b>5,166</b>   | 4,071                                      |
| Other   | <b>11,600</b>  | 11,936                                     |
| <b>Total cost of sales</b>                        | <b>115,184</b>                                       | 118,876                                    |

## Geographical information

| <b>Revenue</b> |                |         |
|----------------|----------------|---------|
| UK             | <b>168,181</b> | 167,294 |
| Ireland        | <b>11,672</b>  | 14,880  |
| Romania        | <b>28,258</b>  | 24,288  |
| North America  | <b>4,047</b>   | 2,064   |
| <b>Total</b>   | <b>212,158</b> | 208,526 |

| <b>Non-current assets (excluding deferred tax)</b> |               |        |
|--|---------------|--------|
| UK   | <b>84,706</b> | 77,660 |
| Romania  | <b>1,373</b>  | 1,450  |
| North America                                      | <b>532</b>    | 304    |
| <b>Total</b>                                       | <b>86,611</b> | 79,414 |

## 3. Employee information

|  | <b>52 weeks ended<br/>31 March<br/>2014</b> | 53 weeks ended<br>31 March<br>2013 |
|--|---|------------------------------------|
| <b>Average number of persons employed</b>                  |   |                                    |
| Sales, distribution and marketing                          | <b>223</b>                                  | 173                                |
| Operations and administration                              | <b>464</b>                                  | 447                                |
|  | <b>687</b>                                  | 620                                |
| <b>Staff costs during the period (including directors)</b> | <b>£000</b>                                 | £000                               |
| Wages and salaries   | <b>29,399</b>                               | 27,210                             |
| Social security costs                                      | <b>3,004</b>                                | 2,243                              |
| Pension costs (note 26)                                    | <b>892</b>                                  | 706                                |
|  | <b>33,295</b>                               | 30,159                             |

Directors' emoluments, pension contributions and share options are disclosed in the remuneration committee report on pages 25 to 41. Included within staff costs is a share-based payment charge (note 24) of £1,324,000 (2013: £1,332,000).



NOTES TO THE FINANCIAL STATEMENTS *continued*

## 7. Tax

|   | 52 weeks<br>ended<br>31 March<br>2014<br>£000 | 53 weeks<br>ended<br>31 March<br>2013<br>£000 |
|---|---|---|
| <b>Current tax</b>  |   |   |
| Charge for current period   | 10,773  | 10,756  |
| Adjustment in respect of prior periods  | (437)   | (38)  |
| Current tax charge  | 10,336  | 10,718  |
| <b>Deferred tax</b>   |   |   |
| Credit for current period   | (244)   | (425)   |
| Adjustment in respect of prior periods  | -   | 23  |
| Deferred tax credit (note 14)   | (244)   | (402)   |
| <b>Total income tax</b>   |   |   |
| Income tax charge   | 10,092  | 10,316  |
| The income tax charge is based on the United Kingdom statutory rate of corporation tax for the period of 23% (2013: 24%). |   |   |
| The charge for the period can be reconciled to the profit before tax as set out in the consolidated income statement.     |   |   |
| Profit before tax   | 46,008  | 41,267  |
| Tax at the UK corporation tax rate of 23% (2013: 24%)   | 10,582  | 9,904   |
| <b>Tax effects of:</b>  |   |   |
| Losses in countries where the tax rate is different to the UK   | (189)   | (110)   |
| Disallowable expenses   | 106   | 307   |
| Utilisation of tax losses not previously recognised   | (222)   | (117)   |
| Losses in companies where a deferred tax asset was not recognised   | 492   | 523   |
| Adjustments in respect of prior periods   | (437)   | (15)  |
| Research and development allowance  | (132)   | (133)   |
| Tax impact of share-based payments  | 56  | (122)   |
| Revaluation of deferred tax asset from 23% to 21%   | 156   | 79  |
| Deferred tax asset recognised for past losses in subsidiary   | (320)   | -   |
| <b>Actual amount of tax charge</b>  | <b>10,092</b>                                 | <b>10,316</b>                                 |

## 8. Dividends on equity shares

|   | 52 weeks<br>ended<br>31 March<br>2014<br>£000 | 53 weeks<br>ended<br>31 March<br>2013<br>£000 |
|---|---|---|
| <b>Equity dividends on ordinary shares:</b>                                     |   |   |
| Interim dividend paid of 11.4p per share (2013: 10.2p)                          | 7,739   | 6,906   |
| Proposed final dividend of 23.9p per share (2013: paid 20.2p per share)         | 16,205  | 13,728  |
| Proposed special dividend of nil pence per share (2013: 15.0p per share)        | -   | 10,182  |
| Total dividends paid and recommended of 35.3p per share (2013: 45.4p per share) | 23,944  | 30,816  |
| Amounts distributed to equity holders in the period:                            |   |   |
| Final dividend for the prior period   | 13,711  | 12,051  |
| Special dividend for the prior period   | 10,182  | -   |
| Interim dividend for the current period   | 7,739   | 6,906   |
|   | <b>31,632</b>                                 | <b>18,957</b>                                 |

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

## 9. Earnings per share

**Basic earnings per share**

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

|  | 52 weeks<br>ended<br>31 March<br>2014<br>£000     | 53 weeks<br>ended<br>31 March<br>2013<br>£000 |
|--|---|---|
| Profit for basic and diluted earnings per share is the net profit attributable to equity holders of the parent | 35,938  | 30,979  |
|  | <b>31 March<br/>2014<br/>Number of<br/>shares</b> | 31 March<br>2013<br>Number of<br>shares       |
| Weighted average number of ordinary shares in issue (for basic earnings per share)                             | 67,895,495  | 67,847,512                                    |
| <b>Potential dilutive ordinary shares:</b>   |   |   |
| Long-term incentive plan   | 312,532   | 488,772                                       |
| Deferred share bonus   | 89,337  | 82,787  |
| <b>Diluted basis</b>   | <b>68,297,364</b>                                 | <b>68,419,071</b>                             |

## NOTES TO THE FINANCIAL STATEMENTS *continued*

### 10. Goodwill

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

During the year, PayPoint.net, PayByPhone and Adaptis were combined into one cash generating unit, Mobile and Online. A cash generating unit is defined by IAS 36.6 as 'the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets'. As the cash inflows of these previously individual cash generating units will no longer be separable, management will be testing Mobile and Online in total for goodwill impairment going forward.

The group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years for Mobile and Online, four years for Romania and extends cash flows to perpetuity. Terminal values are based on nominal growth rates that do not exceed 3% (2013: 3%). The pre-tax rates used to discount the forecast cash flows are based on the group's estimated weighted average cost of capital, adjusted for country or business specific risk premiums. The pre-tax rates used were 12.5% (2013: 13.0%) for Mobile and Online, and 14.9% (2013: 11.9%) for PayPoint Romania.

|   | Total<br>£000 |
|---|---------------|
| <b>Cost</b>                             |               |
| At 31 March 2013                        | 56,570        |
| Additions (note 16)                     | 3,814         |
| Exchange rate adjustment                | (2,667)       |
| <b>At 31 March 2014</b>                 | <b>57,717</b> |
| <b>Accumulated impairment losses</b>    |               |
| At 31 March 2013                        | -             |
| <b>Impairment losses for the period</b> |               |
| <b>At 31 March 2014</b>                 | -             |
| <b>Carrying amount</b>                  |               |
| <b>At 31 March 2014</b>                 | <b>57,717</b> |
| At 25 March 2013                        | 56,570        |

|                                       | Total<br>£000 |
|---------------------------------------|---------------|
| <b>Cost</b>                           |               |
| At 25 March 2012                      | 56,076        |
| Exchange rate adjustment              | 494           |
| At 31 March 2013                      | 56,570        |
| <b>Accumulated impairment losses</b>  |               |
| At 25 March 2012                      | -             |
| <b>Impairment losses for the year</b> |               |
| At 31 March 2013                      | -             |
| <b>Carrying amount</b>                |               |
| At 31 March 2013                      | 56,570        |
| At 25 March 2012                      | 56,076        |

Goodwill arising on acquisition:

|                   | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 |
|-------------------|--------------------------|--------------------------|
| PayPoint.net      | 18,207                   | 18,207                   |
| PayByPhone        | 27,350                   | 29,659                   |
| Adaptis           | 3,814                    | -                        |
| Mobile and Online | 49,371                   | 47,866                   |
| PayPoint Romania  | 8,346                    | 8,704                    |
| <b>Total</b>      | <b>57,717</b>            | 56,570                   |

For PayPoint Romania, the difference between the recoverable amount and the carrying amount at period end was £30.2 million. Headroom would reduce to £nil if the forecast average annual growth in net revenue for the next four years of 16.7% reduced to 4.7% per annum.

For Mobile and Online, the difference between the recoverable amount and the carrying amount at period end was £90.7 million. Headroom would reduce to £nil if the forecast average annual growth in net revenue for the next four years of 21.0% reduced to 14.9% per annum.

NOTES TO THE FINANCIAL STATEMENTS *continued*

## 11. Other intangible assets

|                         | Acquired systems<br>£000 | Development costs<br>£000 | Acquired contracts with merchants<br>£000 | Total<br>£000 |
|-------------------------|--------------------------|---------------------------|---|---------------|
| <b>Cost</b>             |                          |                           |   |               |
| At 31 March 2013        | 1,800                    | 3,982                     | 2,052                                     | 7,834         |
| Additions               | -                        | 2,230                     | -   | 2,230         |
| <b>At 31 March 2014</b> | <b>1,800</b>             | <b>6,212</b>              | <b>2,052</b>                              | <b>10,064</b> |
| <b>Amortisation</b>     |                          |                           |   |               |
| At 31 March 2013        | 1,145                    | -                         | 2,052                                     | 3,197         |
| Charge for the year     | 180                      | 435                       | -   | 615           |
| <b>At 31 March 2014</b> | <b>1,325</b>             | <b>435</b>                | <b>2,052</b>                              | <b>3,812</b>  |
| <b>Carrying amount</b>  |                          |                           |   |               |
| At 31 March 2013        | 655                      | 3,982                     | -   | 4,637         |
| At 31 March 2014        | 475                      | 5,777                     | -   | 6,252         |

The amortisation period for acquired systems and development costs incurred is dependent upon their useful economic life and is between 5 years and 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. Amortisation is charged to cost of sales.

At 31 March 2014, the group had not entered into any material contractual commitments for other intangible assets.

|                        | Acquired systems<br>£000 | Development costs<br>£000 | Acquired contracts with merchants<br>£000 | Total<br>£000 |
|------------------------|--------------------------|---------------------------|---|---------------|
| <b>Cost</b>            |                          |                           |   |               |
| At 25 March 2012       | 1,800                    | 1,469                     | 2,052                                     | 5,321         |
| Additions              | -                        | 2,513                     | -   | 2,513         |
| At 31 March 2013       | 1,800                    | 3,982                     | 2,052                                     | 7,834         |
| <b>Amortisation</b>    |                          |                           |   |               |
| At 25 March 2012       | 965                      | -                         | 2,052                                     | 3,017         |
| Charge for the year    | 180                      | -                         | -   | 180           |
| At 31 March 2013       | 1,145                    | -                         | 2,052                                     | 3,197         |
| <b>Carrying amount</b> |                          |                           |   |               |
| At 31 March 2013       | 655                      | 3,982                     | -   | 4,637         |
| At 25 March 2012       | 835                      | 1,469                     | -   | 2,304         |

## 12. Property, plant and equipment

| Group                           | Terminals and ATMs<br>£000 | Fixtures, fittings and equipment<br>£000 | Land and buildings<br>£000 | Total<br>£000 |
|---------------------------------|----------------------------|--|----------------------------|---------------|
| <b>Cost</b>                     |                            |  |                            |               |
| At 31 March 2013                | 41,203                     | 7,481                                    | 6,412                      | 55,096        |
| Additions                       | 8,087                      | 985                                      | -                          | 9,072         |
| Disposals                       | (2,121)                    | (1,735)                                  | -                          | (3,856)       |
| Exchange rate adjustment        | (209)                      | (223)                                    | -                          | (432)         |
| <b>At 31 March 2014</b>         | <b>46,960</b>              | <b>6,508</b>                             | <b>6,412</b>               | <b>59,880</b> |
| <b>Accumulated depreciation</b> |                            |  |                            |               |
| At 31 March 2013                | 32,788                     | 4,204                                    | 375                        | 37,367        |
| Charge for the period           | 3,827                      | 636                                      | 88                         | 4,551         |
| Disposals                       | (1,935)                    | (1,725)                                  | -                          | (3,660)       |
| Exchange rate adjustment        | (155)                      | (179)                                    | -                          | (334)         |
| <b>At 31 March 2014</b>         | <b>34,525</b>              | <b>2,936</b>                             | <b>463</b>                 | <b>37,924</b> |
| <b>Net book value</b>           |                            |  |                            |               |
| At 31 March 2014                | 12,435                     | 3,572                                    | 5,949                      | 21,956        |
| At 31 March 2013                | 8,415                      | 3,277                                    | 6,037                      | 17,729        |

The cost of ATMs provided to retail agents under operating leases is £12.0 million (2013: £10.0 million) and the accumulated depreciation is £7.9 million (2013: £7.3 million). At 31 March 2014, the group had entered into contractual commitments for the acquisition of terminals and ATMs amounting to £0.4 million (2013: £0.6 million).

| Group                           | Terminals and ATMs<br>£000 | Fixtures, fittings and equipment<br>£000 | Land and buildings<br>£000 | Total<br>£000 |
|---------------------------------|----------------------------|--|----------------------------|---------------|
| <b>Cost</b>                     |                            |  |                            |               |
| At 25 March 2012                | 35,879                     | 6,495                                    | 6,412                      | 48,786        |
| Additions                       | 5,264                      | 1,180                                    | -                          | 6,444         |
| Disposals                       | (26)                       | (230)                                    | -                          | (256)         |
| Exchange rate adjustment        | 86                         | 36                                       | -                          | 122           |
| At 31 March 2013                | 41,203                     | 7,481                                    | 6,412                      | 55,096        |
| <b>Accumulated depreciation</b> |                            |  |                            |               |
| At 25 March 2012                | 29,660                     | 3,627                                    | 287                        | 33,574        |
| Charge for the year             | 3,098                      | 705                                      | 88                         | 3,891         |
| Disposals                       | (17)                       | (154)                                    | -                          | (171)         |
| Exchange rate adjustment        | 47                         | 26                                       | -                          | 73            |
| At 31 March 2013                | 32,788                     | 4,204                                    | 375                        | 37,367        |
| <b>Net book value</b>           |                            |  |                            |               |
| At 31 March 2013                | 8,415                      | 3,277                                    | 6,037                      | 17,729        |
| At 25 March 2012                | 6,219                      | 2,868                                    | 6,125                      | 15,212        |

## NOTES TO THE FINANCIAL STATEMENTS *continued*

### 13. Investment in joint venture

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

|   | <b>31 March<br/>2014<br/>£000</b> | 31 March<br>2013<br>£000 |
|---|-----------------------------------|--------------------------|
| PayPoint's share of aggregated amounts relating to joint ventures |                                   |                          |
| Total assets  | <b>4,212</b>                      | <b>1,877</b>             |
| Total liabilities   | <b>(9,076)</b>                    | <b>(7,634)</b>           |
| Share of net assets   | <b>(4,864)</b>                    | <b>(5,757)</b>           |
| Loan to joint venture (note 15)                                   | <b>5,550</b>                      | <b>5,800</b>             |
| Investment in joint venture                                       | <b>686</b>                        | <b>43</b>                |

|   | <b>52 weeks<br/>ended<br/>31 March<br/>2014<br/>£000</b> | 52 weeks<br>ended<br>31 March<br>2013<br>£000 |
|---|--|---|
| PayPoint's share of aggregated amounts relating to joint ventures |  |   |
| Revenues  | <b>17,046</b>  | 8,876   |
| Profit/(loss) for period  | <b>892</b>   | (965)   |

### 14. Deferred tax asset

|                                  | 31 March<br>2013<br>£000 | (Debt)/<br>credit to<br>income<br>statement<br>£000 | Credit to<br>equity<br>£000 | <b>31 March<br/>2014<br/>£000</b> |
|----------------------------------|--------------------------|---|-----------------------------|-----------------------------------|
| Tax depreciation                 | 1,231                    | (144)   | -                           | <b>1,087</b>                      |
| Share-based payments             | 1,104                    | 43  | (261)                       | <b>886</b>                        |
| Tax losses                       | -                        | 320   | -                           | <b>320</b>                        |
| Intangibles                      | (125)                    | 25  | -                           | <b>(100)</b>                      |
| Short-term temporary differences | (2)                      | -   | -                           | <b>(2)</b>                        |
| <b>Total</b>                     | <b>2,208</b>             | <b>244</b>  | <b>(261)</b>                | <b>2,191</b>                      |

|                                  | 25 March<br>2012<br>£000 | Credit to<br>income<br>statement<br>£000 | Credit to<br>equity<br>£000 | 31 March<br>2013<br>£000 |
|----------------------------------|--------------------------|--|-----------------------------|--------------------------|
| Tax depreciation                 | 1,112                    | 119                                      | -                           | 1,231                    |
| Share-based payments             | -                        | 199                                      | 905                         | 1,104                    |
| Intangibles                      | (209)                    | 84                                       | -                           | (125)                    |
| Short-term temporary differences | (2)                      | -  | -                           | (2)                      |
| <b>Total</b>                     | <b>901</b>               | <b>402</b>                               | <b>905</b>                  | <b>2,208</b>             |

At the balance sheet date, a deferred tax asset of £2.2 million (2013: £2.2 million) was recognised on the basis that there will be sufficient future taxable profits against which the deferred tax asset can be recovered, based on management forecasts.

At the balance sheet date, the group had unused tax losses of £8.4 million (2013: £9.9 million) available for offset against future profits for which no deferred tax asset is recognised. Included in unrecognised tax losses were no losses which will expire in less than three years, and £0.5 million that will expire within four to seven years. Other losses may be carried forward indefinitely.

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

During the period, reductions in the main rate of corporation tax were enacted from 23% to 21%, effective from 1 April 2014, and to 20% from 1 April 2015. Deferred tax has been calculated using the 20% corporation tax rate. These future reductions in the main tax rate are expected to have a similar impact as for 2013; however, the actual impact will be dependent on the deferred tax position at that time.

NOTES TO THE FINANCIAL STATEMENTS *continued*

## 15. Investments

## Subsidiary undertakings

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

| Subsidiary of the company                   | Principal activity  | Country of registration |
|---|---|-------------------------|
| <b>PayPoint Network Limited</b>             | Management of an electronic payment service                           | England and Wales       |
| <b>PayPoint Collections Limited</b>         | Provision of a payment collection service                             | England and Wales       |
| <b>PayPoint Retail Solutions Limited</b>    | Provision of retail services  | England and Wales       |
| <b>PayPoint Ireland Limited</b>             | Holding company in Ireland  | Ireland                 |
| <b>PayPoint Network Ireland Limited</b>     | Management of an electronic payment service in Ireland                | Ireland                 |
| <b>PayPoint Collections Ireland Limited</b> | Provision of a payment collection service in Ireland                  | Ireland                 |
| <b>PayPoint Services Romania SRL</b>        | Management of an electronic payment and collection service in Romania | Romania                 |
| <b>Metacharge Limited</b>                   | Online payment service provider                                       | England and Wales       |
| <b>PayPoint.net Limited</b>                 | Online payment service provider                                       | England and Wales       |
| <b>Counter Payment Managers Limited</b>     | ESOP scheme   | Isle of Man             |
| <b>PayByPhone Limited</b>                   | Provision of a payment by phone service                               | England and Wales       |
| <b>PayByPhone Mobile Technologies Inc.</b>  | Provision of a payment by phone service                               | Canada                  |
| <b>PayPoint Technologies Canada Inc.</b>    | Holding Company in Canada   | Canada                  |
| <b>Mobile Payment Services SAS</b>          | Provision of a payment by phone service                               | France                  |
| <b>PayPoint Pty Limited</b>                 | Provision of an online payment service                                | Australia               |
| <b>Adaptis Solutions Limited</b>            | Provision of a payment by phone service                               | England and Wales       |

The company holds 100% of the issued share capital of the above companies except Mobile Payment Services SAS, where it holds 86% of the issued ordinary share capital. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

|   | Group                 |                       | Company               |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 31 March 2014<br>£000 | 31 March 2013<br>£000 | 31 March 2014<br>£000 | 31 March 2013<br>£000 |
| <b>Investments carried at cost:</b>           |                       |                       |                       |                       |
| Investment in OB10 Limited (note 28)          | -                     | 435                   | -                     | 435                   |
| Investments in subsidiaries and joint venture | -                     | -                     | <b>124,180</b>        | 117,890               |
|   | -                     | 435                   | <b>124,180</b>        | 118,325               |

During the period, the company sold its interest in OB10 and the shares in Tungsten Corporation it received in part payment, realising a profit of £0.7 million. The company also received £0.475 million (2013: nil) of loan repayments from Collect+ (note 13) and made a loan payment of £0.225 million (2013: £0.95 million) to Collect+. The company also subscribed for additional share capital in PayByPhone Mobile Technologies Inc. for £2.1 million and £0.7 million in PayByPhone Limited (2013: £2.7 million to PayByPhone Mobile Technologies Inc.).

## 16. Acquisition of subsidiary

On 3 February 2014 the group acquired 100% of the issued share capital of Adaptis Solutions Limited (Adaptis), a business that specialises in providing a range of parking services, including electronic parking permits, automatic number plate recognition systems for car parks and penalty charge notices.

Initial consideration of £3.4 million was paid in cash, with the potential for a further £0.25 million, retained for any net asset adjustment on finalisation of completion accounts, £0.4 million consideration, deferred for two years, and £0.7 million dependent upon continued employment of executive management for two years following the acquisition.

PayPoint does not believe that the £0.25 million future payment is likely, based on the finalisation of completion accounts after the year end and has, therefore, not included it in the total consideration.

The £0.7 million dependent upon continued employment of executive management for two years will be recognised in the profit and loss account as remuneration expense over the period of deferral rather than as consideration as defined in IFRS 3 paragraph B55(a).

Costs related to the acquisition were £0.2 million. These costs have been treated as an administrative expense.

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

NOTES TO THE FINANCIAL STATEMENTS *continued*

|   | Fair value<br>£000 |
|---|--------------------|
| <b>Net assets acquired:</b>                     |                    |
| Property, plant and equipment                   | 6                  |
| Trade and other receivables                     | 158                |
| Cash and cash equivalents                       | 213                |
| Trade and other payables                        | (412)              |
| Non-current liabilities                         | -                  |
| Total net assets acquired                       | (35)               |
| Goodwill  | 3,814              |
| <b>Total consideration</b>                      | <b>3,779</b>       |
| <b>Satisfied by:</b>                            |                    |
| Cash  | 3,427              |
| Liability for deferred consideration            | 352                |
|   | <b>3,779</b>       |
| <b>Net cash outflow arising on acquisition:</b> |                    |
| Cash consideration                              | 3,427              |
| Cash and cash equivalents acquired              | (213)              |
|   | <b>3,214</b>       |

The goodwill of £3.8 million has arisen primarily from the opportunity to strengthen Mobile and Online's position in the parking payments industry, expanding its range of parking products into off-street locations, fines and permits, and improving the capability to bid for bundled contracts.

The total gross contractual amounts receivable at the date of acquisition were £0.34 million. The best estimate at acquisition date of the contractual cash flows not to be collected is £0.18 million.

Adaptis contributed £92,627 to revenue and a loss of £88,333 to profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of Adaptis had been completed on the first day of the financial year, it would have contributed £0.7 million to revenue and a loss of £0.4 million attributable to equity holders of the business.

## 17. Inventories

In Ireland and Romania, PayPoint trades as principal for the processing and sale of mobile phone top-ups. In addition, PayPoint Romania purchases and sells mobile scratch cards and SIM cards. In the UK, PayPoint purchases SIM cards. Stocks of e-vouchers, scratch cards and SIM cards are held at cost.

## 18. Trade and other receivables

|  | Group                    |                          | Company                  |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
|  | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 |
| Trade receivables <sup>1</sup>                 | 15,808                   | 21,111                   | -                        | -                        |
| Allowance for doubtful debts                   | (1,313)                  | (1,552)                  | -                        | -                        |
|  | 14,495                   | 19,559                   | -                        | -                        |
| Items in the course of collection <sup>2</sup> | 137,043                  | 171,982                  | -                        | -                        |
| Amounts owed by group companies                | -                        | -                        | 11,175                   | 485                      |
| Other receivables                              | 1,717                    | 2,573                    | 13                       | 11                       |
| Prepayments and accrued income                 | 9,398                    | 4,689                    | 173                      | 2                        |
|  | <b>162,653</b>           | <b>198,803</b>           | <b>11,361</b>            | <b>498</b>               |

- The average credit period on the sale of goods is 27 days (2013: 32 days).
- Items in the course of collection represent amounts collected for clients by retail agents, of which PayPoint bears credit risk and will have title to the cash collected on only £28,053,000 of this balance at 31 March 2014 (2013: £39,477,000). Credit risk is mitigated by daily direct debiting and the suspension of terminals where direct debits fail. At the date of this report, all but £9,000 has been collected from retailers.

The group's exposure to the credit risk inherent in its trade receivables is discussed in note 27. The concentration of credit risk is limited due to the spread of the retail agent, merchant and client bases. Clients, retailers 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 historical level of customer default is low and, as a result, the credit quality of period end trade receivables is considered to be high. The group reviews trade receivables past due but not impaired on a regular basis and in determining the recoverability of the trade receivables, the group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date.

Included in the group's trade receivable balance are debtors with a carrying amount of £3,552,419 (2013: £8,076,502), 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 recoverable. The average age of these receivables is 48 days (2013: 33 days) and, of the total balance, £2,879,659 is past due by fewer than 30 days.

|  | Trade receivables past due by   |                       |                       |                                  | Total<br>£000 |
|--|---------------------------------|-----------------------|-----------------------|----------------------------------|---------------|
|  | Less<br>than 1<br>month<br>£000 | 1-2<br>months<br>£000 | 2-3<br>months<br>£000 | More<br>than 3<br>months<br>£000 |               |
| <b>Carrying value at 31 March 2014</b> | 2,880                           | 354                   | 147                   | 171                              | <b>3,552</b>  |

NOTES TO THE FINANCIAL STATEMENTS *continued*18. Trade and other receivables *continued*

Movement in the allowance for doubtful debts:

|   | Group                    |                          | Company                  |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
|   | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 |
| <b>Balance at the beginning of the period</b> | <b>1,552</b>             | 1,331                    | -                        | -                        |
| Amounts utilised in the period                | (263)                    | (80)                     | -                        | -                        |
| Increase in allowance                         | 24                       | 301                      | -                        | -                        |
| <b>Balance at end of the period</b>           | <b>1,313</b>             | 1,552                    | -                        | -                        |

## Age of allowance for doubtful debts

|  | Less than 1 month | 1-2 months | 2-3 months | More than 3 months | Total<br>£000 |
|--|-------------------|------------|------------|--------------------|---------------|
|  | £000              | £000       | £000       | £000               |               |
| <b>Carrying value at 31 March 2014</b> | <b>2</b>          | 38         | 91         | 1,182              | <b>1,313</b>  |

## 19. Cash and cash equivalents

Included within group cash and cash equivalents is £6,459,000 (2013: £6,951,000) relating to monies collected on behalf of clients where PayPoint has title to the funds (client cash). An equivalent balance is included within trade payables (note 20).

The group operates cash pooling amongst its various bank accounts in the UK and, therefore, individual accounts can be overdrawn without penalties being incurred so long as the overall position is in credit. At 31 March 2014, the group's cash was £41,600,000 (2013: £46,618,000).

## 20. Trade and other payables

|   | Group                    |                          | Company                  |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
|   | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 |
| Amounts owed in respect of client cash <sup>1</sup> | <b>6,459</b>             | 6,951                    | -                        | -                        |
| Other trade payables <sup>2</sup>                   | <b>25,491</b>            | 20,872                   | -                        | -                        |
| Trade payables                                      | <b>31,950</b>            | 27,823                   | -                        | -                        |
| Settlement payable <sup>3</sup>                     | <b>137,043</b>           | 171,982                  | -                        | -                        |
| Other taxes and social security                     | <b>1,836</b>             | 1,999                    | -                        | -                        |
| Other payables                                      | <b>4,875</b>             | 2,722                    | <b>539</b>               | -                        |
| Accruals  | <b>9,709</b>             | 9,593                    | <b>43</b>                | -                        |
| Deferred income                                     | <b>878</b>               | 2,702                    | -                        | -                        |
|   | <b>186,291</b>           | 216,821                  | <b>582</b>               | -                        |

1. Included within trade payables is £6,459,000 (2013: £6,951,000) 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 19).
2. The group aims to pay its creditors promptly, in accordance with terms agreed for payment. The group had 40 days purchases outstanding at 31 March 2014 (2013: 32 days) based on the average daily amount invoiced by suppliers during the period.
3. Payable in respect of amounts collected for clients by retail agents.

## 21. Operating lease receivables

|  | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 |
|--|--------------------------|--------------------------|
| Amounts receivable under operating leases: |                          |                          |
| Within one year                            | <b>410</b>               | 606                      |
| Within two to five years                   | <b>556</b>               | 920                      |
|  | <b>966</b>               | 1,526                    |

The group enters into operating leases with some of its retail agents for the supply of ATMs. The average term of each lease entered into is five years.

## 22. Other non-current liabilities

|                                 | Group        |              | Company       |              |
|---------------------------------|--------------|--------------|---------------|--------------|
|                                 | 2014<br>£000 | 2013<br>£000 | 2014<br>£000  | 2013<br>£000 |
| Deferred income                 | <b>79</b>    | 169          | -             | -            |
| Amounts owed to group companies | -            | -            | <b>64,765</b> | 21,137       |
|                                 | <b>79</b>    | 169          | <b>64,765</b> | 21,137       |

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 23. Financial commitments

### Operating lease commitments

|                          | 31 March 2014              |               | 31 March 2013              |               |
|--------------------------|----------------------------|---------------|----------------------------|---------------|
|                          | Land and buildings<br>£000 | Other<br>£000 | Land and buildings<br>£000 | Other<br>£000 |
| Leases which expire:     |                            |               |                            |               |
| Within one year          | 463                        | -             | 808                        | -             |
| Within two to five years | 867                        | -             | 1,523                      | -             |

## 24. Equity

### Share-based payments equity settled share scheme

The group's share schemes are described in the remuneration committee report on pages 25 to 41. The vesting period for all awards is three years and they are forfeited if the employee leaves the group before shares vest. All awards made are free shares. The amount charged to the income statement in the period was £1,324,000 (2013: £1,332,000).

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

|   | Number of shares<br>2014 | Number of shares<br>2013 |
|---|--------------------------|--------------------------|
| Outstanding at the beginning of the period                  | 1,254,920                | 1,216,224                |
| Granted during the period – Long-Term Incentive Plan (LTIP) | 221,978                  | 305,559                  |
| Granted during the period – Deferred Share Bonus (DSB)      | 64,513                   | 91,893                   |
| Lapsed during the period                                    | -                        | (198,942)                |
| Forfeited during the period                                 | -                        | (1,831)                  |
| Released during the period                                  | (506,173)                | (157,983)                |
| <b>Outstanding at end of the period</b>                     | <b>1,035,238</b>         | <b>1,254,920</b>         |

| Awards granted   | Number of shares | Vesting date |
|------------------|------------------|--------------|
| LTIP 27 May 2011 | 312,532          | 28 May 2014  |
| DSB 2 June 2011  | 89,337           | 1 June 2014  |
| LTIP 25 May 2012 | 305,559          | 25 May 2015  |
| DSB 25 May 2012  | 91,893           | 25 May 2015  |
| LTIP 31 May 2013 | 221,978          | 31 May 2016  |
| DSB 6 June 2013  | 64,513           | 6 June 2016  |

The Long-Term Incentive Plan tranche fully vested in June 2013. Under IFRS 2, the fair value charges of £709,000 relating to this tranche, that had been previously charged to the income statement, are reversed through equity. The Deferred Share Bonus also fully vested in June 2013 and, accordingly, the fair value charge of £198,000 was also released through equity.

The inputs into the Black Scholes model for the DSB and Monte Carlo model for LTIP and DSB awards during the period are as follows:

|                                  | 2014    |         | 2013    |         |
|----------------------------------|---------|---------|---------|---------|
|                                  | LTIP    | DSB     | LTIP    | DSB     |
| Weighted average share price     | 4.91    | 3.70    | 3.70    | 5.43    |
| Expected volatility <sup>1</sup> | 36%     |         | 43%     |         |
| Expected life                    | 3 years | 3 years | 3 years | 3 years |
| Risk free rate                   | 0.50%   |         | 0.34%   |         |
| Expected dividend yield          | 3.40%   | 3.40%   | 4.40%   | 4.40%   |

1. The expected volatility for PayPoint has been calculated using historical daily data over a term equal to the expected life of each conditional award.

### 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 (or employees can opt to purchase 12 months at the start of each year) and are placed in the employee share savings plan for a three to five year period.

NOTES TO THE FINANCIAL STATEMENTS *continued*24. Equity *continued*

|   | Group          |              | Company       |              |
|---|----------------|--------------|---------------|--------------|
|   | 2014<br>£000   | 2013<br>£000 | 2014<br>£000  | 2013<br>£000 |
| <b>Authorised share capital</b>   |                |              |               |              |
| 4,365,352,200 ordinary shares of 1/3p each (2013: 4,365,352,200 ordinary shares of 1/3p each) | 14,551         | 14,551       | 14,551        | 14,551       |
|   | <b>14,551</b>  | 14,551       | <b>14,551</b> | 14,551       |
| <b>Called up, allotted and fully paid share capital</b>                                       |                |              |               |              |
| 67,899,699 ordinary shares of 1/3p each (2013: 67,880,234 ordinary shares of 1/3p each)       | 226            | 226          | 226           | 226          |
|   | <b>226</b>     | 226          | <b>226</b>    | 226          |
| <b>Called up share capital</b>  |                |              |               |              |
| At start of period  | 226            | 226          | 226           | 226          |
| <b>At end of period</b>   | <b>226</b>     | 226          | <b>226</b>    | 226          |
| <b>Investment in own shares</b>   |                |              |               |              |
| At start of period  | -              | (216)        | -             | (216)        |
| Used on share scheme vesting  | -              | 216          | -             | 216          |
| <b>At end of period</b>   | <b>-</b>       | -            | <b>-</b>      | -            |
| <b>Share premium</b>  |                |              |               |              |
| At start of period  | 297            | 25           | 297           | 25           |
| Arising on issue of shares  | 111            | 272          | 111           | 272          |
| <b>At end of period</b>   | <b>408</b>     | 297          | <b>408</b>    | 297          |
| <b>Share-based payment reserve</b>  |                |              |               |              |
| At start of period  | 3,265          | 3,138        | 3,265         | 3,138        |
| Additions in period   | 1,324          | 1,332        | 1,324         | 1,332        |
| Released in period  | (907)          | (1,205)      | (907)         | (1,205)      |
| <b>At end of period</b>   | <b>3,682</b>   | 3,265        | <b>3,682</b>  | 3,265        |
| <b>Translation reserve</b>  |                |              |               |              |
| At start of period  | 694            | (360)        | -             | -            |
| Movement during period  | (3,307)        | 1,054        | -             | -            |
| <b>At end of period</b>   | <b>(2,613)</b> | 694          | <b>-</b>      | -            |
| <b>Retained earnings</b>  |                |              |               |              |
| At start of period  | 101,498        | 88,629       | 93,037        | 108,676      |
| Profit for period   | 35,916         | 30,951       | 7,573         | 3,006        |
| Non-controlling interest loss for period included in above (note 25)                          | 22             | 28           | -             | -            |
| Dividends paid  | (31,632)       | (18,957)     | (31,632)      | (18,957)     |
| Adjustment on share scheme vesting (net of tax benefit of £1,053,000)                         | (3,548)        | (58)         | (3,548)       | 312          |
| Deferred tax on share-based payments  | (261)          | 905          | -             | -            |
| <b>At end of period</b>   | <b>101,995</b> | 101,498      | <b>65,430</b> | 93,037       |

## 25. Non-controlling interest

|                          | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 |
|--------------------------|--------------------------|--------------------------|
| At start of period       | 105                      | 77                       |
| Share of loss for period | 22                       | 28                       |
| <b>At end of period</b>  | <b>127</b>               | 105                      |

## 26. Pension arrangements

The group administers a non-contributory defined contribution scheme for executive directors and employees. The amount charged in the consolidated income statement for the period for pension costs of the group under the scheme was £892,000 (2013: £706,000). There is no accrual for pension contributions at the balance sheet date (2013: £nil).

## 27. Derivatives and other financial instruments

The group's financial instruments comprise cash and various items such as trade receivables, trade payables, other payables, bank loans and accruals, which arise directly from the group's operations. The group's policy is not to undertake speculative trading in financial instruments.

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 which are summarised below. These policies have remained unchanged during the period. The group has not used derivative instruments to manage its foreign exchange exposure.

## (a) Interest rate risk

The group had no interest bearing financial assets at 31 March 2014 other than sterling, euro, Romanian lei, US dollars and Canadian dollars deposits of £41,600,000 (2013: £46,618,000). Of these deposits, £6,459,000 (2013: £6,951,000) relates to monies held on behalf of clients where PayPoint has title to the funds for periods of up to seven days.

All sterling funds earn interest at the prevailing rate. The funds are deposited on short-term deposits (normally weekly or monthly) or held in current accounts in cash. The group seeks to maximise interest receipts within these parameters.

## (b) Liquidity risk

The group's policy throughout the period ended 31 March 2014 regarding liquidity has been to maximise the return on funds placed on deposit whilst minimising the associated risk.

The group had no financial liabilities at 31 March 2014 other than short-term payables such as trade payables and accruals.

## (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 hedging 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 31 March 2014, these exposures were £nil (2013: £nil).

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## (d) Borrowing facilities

At the period end, the group had an undrawn, unsecured five year £35 million revolving loan facility from May 2011.

## (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 31 March 2014.

## (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 period.

## (g) Capital risk management

The group's objectives when managing capital (the definition of which is consistent with last year and is the group's assets and liabilities including cash) 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 financial assets are cash, trade and other receivables and investments. The group's credit risk is primarily attributable to its trade receivables and retailer debt to the extent that PayPoint bears the credit risk. Clients, retailers 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 31 March 2014, was £45,578,000 (2013: £63,161,000).

## (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.

## 28. Related party transactions

Remuneration of the directors, who are the key management of the group, was as follows during the period:

|  | 52 weeks<br>ended<br>31 March<br>2014<br>£000 | 53 weeks<br>ended<br>31 March<br>2013<br>£000 |
|--|---|---|
| Short-term benefits and bonus <sup>1</sup> | 2,443   | 2,272   |
| Pension costs <sup>2</sup>                 | 195   | 161   |
| Long-term incentives <sup>3</sup>          | 2,995   | 3,973   |
| Other <sup>4</sup>                         | 17  | 9   |
| <b>Total</b>                               | <b>5,650</b>                                  | <b>6,415</b>                                  |

1. Includes salary, fees, benefits in kind and annual bonus
2. Defined contribution pension scheme, of which two current directors are members.
3. Includes the value of 2011 DSB and LTIP awards expected to vest after the period end (2013: 2010 DSB and LTIP awards)
4. SIP matching and dividend shares awarded in the year

The remuneration of directors and key executives is determined by the remuneration committee, having regard to the performance of individuals and market trends. The directors' remuneration is disclosed in the remuneration committee report on pages 25 to 41.

PayPoint has entered into a loan agreement with its 50:50 joint venture Drop and Collect Limited (trading as Collect+) and during the period it has received net repayments of £0.25 million from Drop and Collect Limited (additional loan of £0.225 million made followed by repayments of £0.475 million), bringing the total loan to £5.55 million.

The terms of the loan are:

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

The company and its subsidiaries, in the ordinary course of business, enter into various sales, purchase and service transactions with Collect+. These transactions are under terms that are no less favourable than those arranged with third parties. Amounts received from Collect+ during the year totalled £9.5 million (2013: £5.4 million) and PayPoint held a trade debt at year end for Collect+ of £0.3 million (2013: £0.4 million).

PayPoint had a small investment in OB10, a company that specialises in electronic invoicing, which was fully disposed in the year for a profit on disposal of £0.7 million.

David Newlands, Dominic Taylor, George Earle, Eric Anstee and Nick Wiles all held shareholdings in OB10 as follows:

|                                 | 31 March<br>2014<br>% | 31 March<br>2013<br>% |
|---------------------------------|-----------------------|-----------------------|
| Directors' shareholding in OB10 |                       |                       |
| David Newlands                  | -                     | 2.87                  |
| Dominic Taylor                  | -                     | 1.44                  |
| George Earle                    | -                     | 0.40                  |
| Nick Wiles                      | -                     | 1.02                  |
| Eric Anstee                     | -                     | 0.08                  |

NOTES TO THE FINANCIAL STATEMENTS *continued*

## 29. Notes to the cash flow statement

|   | Group                                      |  | Company                                    |  |
|---|--|--|--|--|
|   | 52 weeks ended<br>31 March<br>2014<br>£000 | 53 weeks ended<br>31 March<br>2013<br>£000 | 52 weeks ended<br>31 March<br>2014<br>£000 | 53 weeks ended<br>31 March<br>2013<br>£000 |
| Profit before tax   | 46,008                                     | 41,267                                     | 8,405                                      | 3,885                                      |
| <b>Adjustments for:</b>   |  |  |  |  |
| Depreciation of property, plant and equipment                   | 4,551                                      | 3,891                                      | -  | -  |
| Amortisation of intangible assets                               | 615  | 180  | -  | -  |
| Share of (profits)/losses in joint venture                      | (892)                                      | 965  | -  | -  |
| Gain on disposal of investment                                  | (691)                                      | -  | (691)                                      | -  |
| Profit on disposal of fixed assets                              | (15)                                       | -  | -  | -  |
| Investment revenues   | -  | -  | (6,199)                                    | -  |
| Net interest income   | (147)                                      | (252)                                      | (2,452)                                    | -  |
| Share-based payment charge                                      | 1,324                                      | 1,332                                      | 1,324                                      | 1,332                                      |
| <b>Operating cash flows before movements in working capital</b> | <b>50,753</b>                              | <b>47,383</b>                              | <b>387</b>                                 | <b>5,217</b>                               |
| Decrease in inventories   | 390  | 123  | -  | -  |
| Decrease/(increase) in receivables                              | 718  | (5,378)                                    | (10,863)                                   | (11)                                       |
| (Decrease)/increase in payables                                 |  |  | -  |  |
| – client cash   | (492)                                      | 1,878                                      | -  | -  |
| – other payables  | 4,448                                      | 6,662                                      | 41,970                                     | 17,362                                     |
| <b>Cash generated by operations</b>                             | <b>55,817</b>                              | <b>50,668</b>                              | <b>31,494</b>                              | <b>22,568</b>                              |
| Corporation tax paid  | (10,301)                                   | (10,559)                                   | (1,220)                                    | -  |
| Bank charges paid   | (82)                                       | (49)                                       | -  | -  |
| <b>Net cash from operating activities</b>                       | <b>45,434</b>                              | <b>40,060</b>                              | <b>30,274</b>                              | <b>22,568</b>                              |

Movements in items in the course of collection (see note 18) and settlement payables (see note 20) have not been included in this reconciliation as the directors do not consider them to be operating working capital balances.

## Trading history

|   | Period ended March |             |             |             |             |             |             |             |             |             |
|---|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   | 2005<br>£m         | 2006<br>£m  | 2007<br>£m  | 2008<br>£m  | 2009<br>£m  | 2010<br>£m  | 2011<br>£m  | 2012<br>£m  | 2013<br>£m  | 2014<br>£m  |
| Revenue   | 89.1               | 120.0       | 157.1       | 212.1       | 224.4       | 196.6       | 193.2       | 200.0       | 208.5       | 212.2       |
| Net revenue   | 36.9               | 46.1        | 57.7        | 69.9        | 77.4        | 77.4        | 82.7        | 90.4        | 105.7       | 113.7       |
| <b>Profit before tax</b>                            | <b>8.1</b>         | <b>20.3</b> | <b>26.6</b> | <b>30.4</b> | <b>34.6</b> | <b>32.6</b> | <b>34.5</b> | <b>37.2</b> | <b>41.3</b> | <b>46.0</b> |
| Tax   | 2.2                | 3.4         | 7.9         | 9.4         | 10.8        | 10.5        | 10.6        | 10.3        | 10.3        | 10.1        |
| <b>Profit after tax</b>                             | <b>5.8</b>         | <b>16.9</b> | <b>18.7</b> | <b>21.0</b> | <b>23.8</b> | <b>22.1</b> | <b>23.8</b> | <b>26.9</b> | <b>31.0</b> | <b>35.9</b> |
| <b>Earnings per share</b>                           |                    |             |             |             |             |             |             |             |             |             |
| Basic   | 8.7p               | 25.0p       | 27.7p       | 31.1p       | 35.6p       | 32.9p       | 35.2p       | 39.8p       | 45.7p       | 52.9p       |
| Diluted   | 8.7p               | 24.7p       | 27.3p       | 30.8p       | 35.3p       | 32.7p       | 35.1p       | 39.8p       | 45.3p       | 52.6p       |
| Dividend per share<br>(excluding special dividends) | 5.2p               | 7.5p        | 9.1p        | 10.4p       | 11.6p       | 21.8p       | 23.4p       | 26.5p       | 30.4p       | 35.3p       |

This table does not form part of the audited financial statements or notes (as listed in the Independent Auditor's Report on pages 43 to 45). All numbers quoted are reported under IFRS.

## **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 2014 annual general meeting of PayPoint plc will be held at the offices of Canaccord Genuity, 88 Wood Street, London EC2V 7QR, on Wednesday 23 July at 12 noon. You will be asked to consider and pass the resolutions below. Resolutions 18, 19, 20 and 24 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

##### **ORDINARY BUSINESS**

1. To receive the annual accounts and reports for the financial year ended 31 March 2014.
2. To approve the directors' remuneration report (excluding the directors' remuneration policy set out on pages 34 to 37 of the report) for the financial year ended 31 March 2014, as set out on pages 25 to 41 of the company's annual report and accounts for the year ended 31 March 2014.
3. To approve the directors' remuneration policy, the full text of which is contained in the directors' remuneration report for the financial year ended 31 March 2014, as set out on pages 25 to 41 of the company's annual report and accounts.
4. To declare a final dividend of 23.9 pence per ordinary share of the company.
5. To elect Mr Warren Tucker as a director.
6. To re-elect Mr Eric Anstee as a director.
7. To re-elect Mr George Earle as a director.
8. To re-elect Mr David Morrison as a director.
9. To re-elect Mr Stephen Rowley as a director.
10. To re-elect Mr Dominic Taylor as a director.
11. To re-elect Mr Tim Watkin-Rees as a director.
12. To re-elect Mr Nick Wiles as a director.
13. To re-appoint Deloitte LLP as auditor of the company.
14. To authorise the directors to determine the auditor's remuneration until the conclusion of the next annual general meeting of the company at which the accounts are laid.

##### **SPECIAL BUSINESS**

15. That the directors are authorised in accordance with section 551 of the Companies Act 2006 (the Act) to exercise all the powers of the company to allot shares in the company or grant rights to subscribe for, or convert any security into, shares in the company up to an aggregate nominal amount of £67,899.70, provided that this authority shall expire on the conclusion of the annual general meeting of the company to be held in 2015 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 shares to be allotted or rights to be granted after such expiry and the directors shall be entitled to allot shares or grant rights pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors under section 1 of the Act are revoked (save to the extent that the same are exercisable pursuant to section 551(7) of the Act by reason of any offer or agreement made prior to the date of this resolution, which would or might require shares to be allotted or rights to be granted on or after that date).

16. That the directors are empowered in accordance with sections 570 and 573 of the Act to allot equity securities (as defined in section 560 of the Act) for cash (under the authority conferred by resolution 15 above) or by way of a sale of treasury shares as if section 561(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 to or in favour of
  - (i) 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), and (ii) the holders of other equity securities if this is required by the rights of those securities or, if the directors consider it necessary, as permitted by the rights of those securities and 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 under sub-paragraph (a) above) to any person or persons of equity securities up to an aggregate nominal amount of £10,184.96

and shall expire upon the expiry of the general authority conferred by resolution 15 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.

17. That subject to, and in accordance with the company's articles of association and pursuant to section 701 of the Act, the company is authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of one penny of the company provided that:

- (a) the maximum number of ordinary shares that may be purchased under this authority is 10,178,165;
- (b) the minimum price (exclusive of expenses) which may be paid for an ordinary share is the nominal value of such share;
- (c) the maximum price (exclusive of expenses) 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) this authority shall expire on the conclusion of the annual general meeting of the company to be held in 2015 or, if earlier, on the date which is 15 months from the date of this resolution; and
- (e) the company may make any purchase of its ordinary shares under a contract concluded before this authority expires and which will or may be executed wholly or partly after the expiry of such authority.

All shares purchased 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.

18. That any general meeting of the company that is not an annual general meeting may be called on not less than 14 clear days' notice.

19. That the company's Long-Term Incentive Plan (the LTIP), the principal terms of which are set out in the explanatory notes on pages 76 to 78 (inclusive) of this notice and the rules of which are produced to the annual general meeting and initialled by the Chairman for the purposes of identification, be and is hereby approved and the directors be and are hereby authorised to adopt the LTIP and to take any action necessary or appropriate to implement the LTIP (including making any minor amendments to the rules of the LTIP they consider to be necessary or expedient).

20. That the company's Deferred Annual Bonus Plan (the DABP), the principal terms of which are set out in the explanatory notes on pages 76 to 78 (inclusive) of this notice and the rules of which are produced to the annual general meeting and initialled by the Chairman for the purposes of identification, be and is hereby approved and the directors be and are hereby authorised to adopt the DABP and to take any action necessary or appropriate to implement the DABP (including making any minor amendments to the rules of the DABP they consider to be necessary or expedient).

21. That the company's Share Incentive Plan (the SIP) be amended and approved in the form of the rules of the SIP which are produced to the annual general meeting and initialled by the Chairman for the purposes of identification and the SIP, the principal terms of which, as amended, are set out in the explanatory notes on pages 79 to 80 (inclusive) of this notice, be and is hereby approved to continue to operate for a further 10 years and the board be and is hereby authorised to take any action necessary or expedient to effect the same.

22. That, with effect from the conclusion of the annual general meeting:

- (a) the articles of association of the company be amended by deleting all the provisions of the company's memorandum of association which, by virtue of section 28 of the Companies Act 2006, are to be treated as provisions of the company's articles of association; and
- (b) the articles of association produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the articles of association of the company in substitution for, and to the exclusion of, the existing articles of association.

BY ORDER OF THE BOARD

Susan Court  
Company Secretary  
29 May 2014

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 with this notice for use by shareholders. To be valid, a proxy must be received by the company's registrar, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF not less than 48 hours before the time of the annual general meeting. Completion and return of a form of 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 a proxy (who need not be a member of the company) to exercise all or any of his or her rights to attend and to speak and vote on his or her behalf. A member may appoint more than one proxy in relation to a meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him or her. To appoint more than one proxy, you may photocopy the proxy 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.

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 registrar, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; 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.

You must inform the company's registrar in writing of any termination of the authorities of a proxy.

3. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a Nominated Person) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the annual general meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
4. The statement of the rights of shareholders to appoint a proxy in paragraphs one and two above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the company. Nominated Persons are reminded that they should contact the registered holder of their shares (and not the company) on matters relating to their investments in the company.
5. 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.
6. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
7. To be entitled 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 6.00pm on 21 July 2014 (or 6.00pm on the date being two 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.

8. Biographical details of the directors of the company are shown on page 21 of the 2014 annual report.
9. Each member attending the meeting has the right to ask questions relating to the business being dealt with at the meeting which, in accordance with section 319A of the Companies Act 2006 and subject to some exceptions, the company must cause such questions to be answered. However, no such answer need be given if:
  - (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
  - (b) the answer has already been given on a website in the form of an answer to a question; or
  - (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.
10. Information relating to the meeting which the company is required by section 311A of the Companies Act 2006 to publish on a website in advance of the meeting may be viewed at [www.paypoint.com](http://www.paypoint.com). A member may not use any electronic address provided by the company in this document or with any proxy appointment form or in any website for communicating with the company for any purpose in relation to the meeting other than as expressly stated in it.
11. It is possible that, pursuant to members' requests made in accordance with section 527 of the Companies Act 2006, the company will be required to publish on a website a statement in accordance with section 528 of that Act setting out any matter that the members concerned propose to raise at the meeting relating to: (i) the audit of the company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the annual general meeting; or (ii) any circumstances connected with an auditor of the company ceasing to hold office since the previous meeting at which annual accounts and reports were laid. The company cannot require the members concerned to pay its expenses in complying with those sections. The company must forward any such statement to its auditor by the time it makes the statement available on the website. The business which may be dealt with at the meeting includes any such statement.
12. The issued share capital of the company as at 29 May 2014 was 67,899,699 ordinary shares of 1/3 pence each, carrying one vote each. The company holds no treasury shares or unallocated shares for the purpose of employee share schemes; therefore, the total number of voting rights in the company on 29 May 2014 is 67,899,699.
13. The following documents are available for inspection at the registered office of the company and at the PayPoint office situated at 1 Finsbury Square, London EC2A 1AE 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;
  - Copies of the current and proposed articles of association of the company;
  - The draft rules of the LTIP;
  - The draft rules of the DAB; and
  - The draft rules of the SIP

A copy of the proposed new articles and a copy of the Memorandum and current articles will also be available for inspection at the offices of Allen & Overy LLP, One Bishops Square, London, E1 6AD.

### **Recommendation and voting intentions**

With respect to resolution 5, the board recommends Warren Tucker be elected as director. This opinion is based on the recommendation of the nomination committee following the external search that was commissioned. The board considers that Warren Tucker meets the desired criteria for the role of director and Chairman of the board.

With respect to resolutions 6 to 12 (inclusive), the Chairman confirms that, based on the performance valuation undertaken during the period, each of the retiring directors' performance continues to be effective and demonstrates commitment to the role. The board has considered this and recommends that each director who wishes to serve again be proposed for re-election. This opinion is based on an assessment of each director's relevant knowledge and experience and the conclusion that, in each case, their informed opinions are of significant value and contribute greatly to board discussions. The directors' biographies can be found on page 21 of the 2014 annual report.

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 2: Directors' remuneration report

Shareholders are asked to approve the directors' remuneration report that appears on pages 25 to 41 of the annual report and accounts. This vote is advisory and the directors' entitlement to remuneration is not conditional on it.

### Resolution 3: Directors' remuneration policy

Shareholders are asked to approve the directors' remuneration policy which is set out in full in the remuneration report that appears on pages 25 to 41 of the annual report and accounts. The remuneration policy sets out the company's future policy on directors' remuneration and is subject to a binding shareholder vote by ordinary resolution at least every three years. If resolution three is approved, the remuneration policy will take effect from the end of the annual general meeting, with the intention that it will remain in place for three years. If the company wishes to change the remuneration policy within that three year period, it will submit a revised remuneration policy to shareholders for approval. Once the directors' remuneration policy is approved the company will not be able to make a remuneration payment to a current or prospective director or a payment for loss of office to a current or past director, unless that payment is consistent with the policy or has been approved by a resolution of the members of the company.

### Resolution 15: Directors' authority to allot shares

By virtue of section 551 of the Companies Act 2006 (the Act), the directors require the authority of shareholders of the company to allot shares or grant rights to subscribe for or convert any security into shares. The resolution numbered 15 authorises the directors to make allotments of up to 22,633,233 ordinary shares (representing approximately one-third (33.33%) of the issued share capital of the company (excluding treasury shares) as at the date of this document). 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 2015, whichever is the sooner. The directors have no present intention of exercising the authority proposed to be conferred pursuant to resolution 15.

### Resolution 16: Authority for disapplication of statutory pre-emption rights

By virtue of section 561 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 sections 570 and 573 of the Act. The resolution numbered 16 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 3,394,985 ordinary shares (representing approximately five per cent) of the issued share capital of the company (excluding treasury shares) 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 2015, whichever is the sooner.

### Resolution 17: Authority to make market purchases of ordinary shares

By virtue of section 701 of the Act, the company may make market purchases of its own ordinary shares if authorised to do so by shareholders. Under resolution 17, 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 under this authority is 10,178,165, being 14.99 per cent of the issued share capital of the company (excluding treasury shares) 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 2015, whichever is the sooner.

Resolution 18: Authority to allow any general meeting of the company that is not an annual general meeting to be called on not less than 14 clear days' notice.

Further to the implementation of the shareholder rights regulations, the directors seek authority to hold general meetings, other than annual general meetings, on 14 rather than 21 days notice. If approved at the forthcoming annual general meeting, the authority will expire at the company's next annual general meeting, when it is currently intended that a similar resolution will be proposed, or on the conclusion of the annual general meeting of the company to be held in 2015, whichever is the sooner.

#### Resolutions 19 and 20: Adoption of the LTIP and DABP

These resolutions propose the introduction of a new Long-Term Incentive Plan (LTIP) and new Deferred Annual Bonus Plan (DABP) for employees of PayPoint group to replace the existing LTIP and DSB. These are being introduced as part of a comprehensive review and refresh of PayPoint's incentive arrangements, and are designed to:

- simplify the long-term incentive structure and align it with the business strategy;
- motivate senior management to maximise economic value for shareholders;
- improve compliance with new regulatory and governance requirements and respond to shareholder feedback; and
- ensure no material increase in the expected cost to the company.

In summary, the matching opportunity has been removed from the DABP with a corresponding increase in annual bonus and LTIP opportunities, such that the fair value of long-term incentive awards is broadly maintained. Under the new DABP, 25 per cent of the annual bonus will be mandatorily deferred for three years subject to continued employment and cancellation. Under the new LTIP, the level of vesting at threshold has been reduced from 30 per cent to 25 per cent to be in line with market practice, and unvested awards are subject to cancellation. The new LTIP and DABP plans will ensure that the executive remuneration structure continues to provide an appropriate incentive to create shareholder value, as well as reflect both specific shareholder feedback received over the last couple of years and developments in remuneration best practice. The key terms of the LTIP and DABP and the remuneration committee's current intention as to the operation of both plans are summarised in appendix 1 on pages 76 to 78.

#### Resolution 21: Adoption of the SIP

The rules of the company's existing SIP will expire on 13 September 2014 (the Existing SIP). The terms of the SIP are materially similar to those of the Existing SIP. The key terms of the SIP and the remuneration committee's current intention as to the operation of the SIP are summarised in appendix 2 on pages 79 to 80.

#### Resolution 22: Adoption of new articles of association

We are also asking shareholders to approve a number of amendments to our articles of association, primarily to reflect changes that have been made to the Companies Act 2006 and the Code since the articles were last updated in 2008. An explanation of the main changes between the proposed and the existing articles is set out in appendix 3 on pages 81 to 82.

## APPENDIX 1

### Summary of the principal terms of the proposed new PayPoint plc Long-Term Incentive Plan and the PayPoint plc Deferred Annual Bonus Plan

#### 1. Introduction

- 1.1 The main terms of the new PayPoint plc Long-Term Incentive Plan (the **LTIP**) and the PayPoint plc Deferred Annual Bonus Plan (the **DABP**) (together, the **New Plans**) are summarised in this Appendix 1.
- 1.2 The LTIP will provide benefits in the form of free shares subject to challenging performance conditions and conditional on the participant remaining in service with the group for a minimum period of three years.
- 1.3 The DABP is designed to operate in conjunction with the annual bonus arrangements operated by the company and provide that a proportion of a participant's annual bonus is deferred into a share award subject to continuing service of at least three years.
- 1.4 Awards under both the LTIP (the **LTIP Awards**) and the DABP (the **DABP Awards**) will be structured as either conditional share awards which are capable of vesting on a pre-determined date or nil-cost options exercisable for a fixed period for a nominal exercise price (together, the **Awards**).
- 1.5 The remuneration committee currently intends to structure all Awards as nil-cost options.
- 1.6 The following terms are applicable to all Awards granted under the New Plans unless otherwise stated.

#### 2. Operation and administration

- 2.1 The New Plans shall be administered and operated by the board provided that the terms of Awards granted to directors and the exercise of any discretion in relation to a director's Awards must be determined and approved by the remuneration committee.
- 2.2 The remuneration committee will oversee the New Plans having regard to market practice within the company's business sector and the need to incentivise and retain the best people whilst aligning their interests with those of the company's shareholders.

#### 3. Eligibility and grant

- 3.1 Employees and executive directors of the group will be eligible but not entitled to participate in, and be granted, Awards under, the New Plans. Participation will be at the board's and, in the case of directors, the remuneration committee's discretion.

##### LTIP

- 3.2 Eligible employees may be granted LTIP Awards, during the period of 42 days following:
  - (a) the date of shareholder approval of the LTIP; and
  - (b) the announcement of the company's results, for any period; and
  - (c) at any other time the remuneration committee determines exceptional circumstances have arisen.

##### DABP

- 3.3 Eligible employees may be granted DABP Awards during the period of 42 days following:
  - (a) the date of shareholder approval of the DABP; and
  - (b) the announcement of the company's results for the period to which the company's bonus arrangements relate; or, if later,
  - (c) the determination of a participant's annual bonus for the relevant period.

#### 4. Cancellation or reduction of unvested Awards and retention requirement

- 4.1 The remuneration committee may grant an Award on the condition that the number of shares to which the Award relates shall be reduced or cancelled if the following circumstances arise:
  - (a) a material misstatement of the company's audited financial results;
  - (b) serious misconduct by the participant; and/or
  - (c) any other circumstances which the remuneration committee consider similar in nature or outcome to the above.

In relation to LTIP Awards, the remuneration committee may determine that Awards shall be granted on the condition that shares acquired on vesting or on exercise of an option must be held by the participant for a period of up to three years measured from the vesting date or the date on which an option first becomes exercisable (as appropriate).

#### 5. Dilution limits

- 5.1 Awards granted under the New Plans may be satisfied by the allotment of new shares, the transfer of existing shares, by the issue of treasury shares or settlement in cash at the company's option.
- 5.2 At any time, in the case of each of the New Plans, the total number of shares which have been issued or remain issuable pursuant to the New Plans and options and awards granted in the previous ten years under all other employees' share schemes established by the company may not exceed ten per cent (10%) of the shares in issue at that time.
- 5.3 At any time, in the case of each of the New Plans, the number of shares which have been issued or remain issuable pursuant to the New Plans and any options or awards granted in the previous ten years under any other executive (discretionary) share scheme established by the company may not exceed five per cent (5%) of the shares in issue at that time.

- 5.4 For the purposes of the above limits, treasury shares will be treated as issued and shares which are the subject of lapsed options or awards or long-term share awards granted prior to the admission of the company's shares to trading on the London Stock Exchange, shall be excluded.

## **6. Individual limit**

### **LTIP**

- 6.1 LTIP Awards may not be granted over shares with an aggregate value (measured at the time of grant) of more than two hundred per cent (200%) of the participant's basic salary.
- 6.2 However, in exceptional circumstances (such as the recruitment or retention of a key individual), this limit may be exceeded but grant levels will be subject to acceptable market practice.

### **DABP**

- 6.3 It is intended that in respect of each financial year of the company, the board may invite or require an eligible employee to defer up to 100 per cent of the annual bonus (before tax) which he/she becomes eligible to receive pursuant to the company's annual bonus arrangements.
- 6.4 It is currently intended that up to 25 per cent of a participant's annual bonus will be deferred.

## **7. LTIP performance condition**

- 7.1 Details of the performance conditions pertaining to the LTIP Awards are subject to the company's approved remuneration policy, and will be detailed in full in the company's annual report on remuneration.
- 7.2 If an event occurs which causes the remuneration committee to consider that a performance condition applicable to a subsisting Award has become unfair or impractical, it may, in its discretion (provided that such discretion is exercised fairly and reasonably) amend the performance condition so that in the reasonable opinion of the remuneration committee it shall be no more and no less difficult to abide by or satisfy as when it was originally imposed or last amended.
- 7.3 The remuneration committee may grant an LTIP Award on condition that the number of shares subject to an Award shall be reduced if the financial performance of the company or the relevant business unit does not justify the extent to which the Award would otherwise vest, based on the satisfaction of the applicable performance conditions.

## **8. Dividends**

The number of shares subject to Awards may be increased to reflect any dividends declared by the company from the date of grant and until the Award vests or first becomes exercisable. The number of additional shares will reflect the net dividends which would have been received by the participant if he/she had been the owner of the shares subject to the Award to the extent such shares vest and will be determined using the ex-dividend value of the shares.

## **9. Voting and other rights**

- 9.1 Prior to the exercise or vesting of Awards (as appropriate), participants will have no voting rights in respect of the shares subject to their Award.
- 9.2 On the exercise or vesting of Awards (as appropriate), application will be made to the UK Listing Authority for all such shares to be listed.
- 9.3 All Awards are non-transferable and non-pensionable.

## **10. Variation of share capital and special dividends**

In the event of any variation in the ordinary share capital of the company or any capitalisation of profits or reserves by way of any consolidation, sub-division or reduction of the share capital of the company and in respect of any discount element in any rights issue or any other variation in the share capital of the company or upon payment of a special dividend, the number of shares subject to an Award may be varied in such manner as the board considers appropriate.

## **11. Cessation of employment**

- 11.1 If the participant's employment ceases due to death, injury, ill-health, disability proved to the satisfaction of the remuneration committee, retirement, or on a sale of the participant's business or employing subsidiary out of the group or for any other reason specifically permitted by the board, shares subject to Awards shall vest in due course in accordance with the terms of the relevant New Plan or, at the absolute discretion of the board, earlier, and provided that the number of shares capable of vesting shall be pro-rated down to reflect the reduced service period and, in the case of LTIP Awards, based on the extent to which the performance conditions have been met or are determined to be likely to be met at the end of the performance period, unless the remuneration committee determines that Awards shall vest to a greater or lesser extent.
- 11.2 If a participant's employment with the group ceases for any other reason, his/her Award shall immediately lapse in full on his/her cessation.

## 12. Takeover, change of control and winding-up

- 12.1 In the event of a takeover, change of control or winding-up, Awards shall become exercisable or vest (as appropriate) provided that the number of shares capable of vesting shall be pro-rated down to reflect the reduced service period and, in the case of LTIP Awards, based on the extent to which the performance conditions have been met or are determined to be likely to be met at the end of the performance period, unless the remuneration committee determines that Awards shall vest to a greater or lesser extent. Alternatively, Awards may, by agreement with the acquiring company, be exchanged for awards over shares in the acquiring company.
- 12.2 In the event of an internal reorganisation of the company, all Awards will either vest or become exercisable as above or be automatically exchanged for Awards subject to the terms of the LTIP or DABP (as relevant) over an appropriate number of new securities.

## 13. Amendments

- 13.1 The New Plans may be amended in any respect by the remuneration committee provided that the prior approval of the company in general meeting is required before amendments may be made to the material advantage of participants to any provisions relating to:
  - (a) the persons who may be invited to participate in or be granted Awards under the New Plans;
  - (b) the overall and the individual limits on the number of shares in respect of which Awards may be granted;
  - (c) the basis for determining participants' entitlements to, and the material terms of, Awards to be provided under the New Plans;
  - (d) the adjustment of Awards in the event of a variation of capital; and
  - (e) the rules relating to amendments to the New Plans.
- 13.2 However, where amendments relating to the matters set out in paragraph 13.1 above are required to reflect a change to the company's remuneration policy which has been approved by the company in general meeting, such amendments may be made to the rules of the New Plans without the need for separate shareholder approval.
- 13.3 No amendment may be made to the rules of either of the New Plans if it would adversely affect the rights of participants without the approval of participants holding Awards over the majority of shares subject to the Awards so affected.
- 13.4 Notwithstanding the limits set out above, minor amendments to the benefit of the administration of the New Plans, to take account of changes in legislation, to obtain or maintain favourable tax, exchange control, or regulatory treatment or to take account of a corporate transaction, may be made without the need for either of the approvals set out above where such amendments do not alter the basic principles of the New Plans.

## 14. International

When granting Awards, or issuing invitations to participate in the New Plans, to employees resident outside the United Kingdom, the board may modify the terms of the New Plans to take account of tax laws or other legal or regulatory requirements in the relevant country and, if considered necessary and expedient, adopt additional plans suitable for operation in the relevant country, provided that neither the terms of participation of, or grant of Awards to, such employees shall not be more favourable overall than the terms of participation of, or Awards granted to, employees resident in the United Kingdom and the New Plans' limits are not exceeded.

## APPENDIX 2

### Summary of the principal terms of the PayPoint plc Share Incentive Plan (the SIP)

#### 15. Introduction

The SIP will be governed by a trust deed and rules, and may be used to deliver shares to all employees of each participating company on a tax beneficial basis.

#### 16. Eligibility

Participation in the SIP must be offered to all UK-resident employees (including executive directors) of each participating company who have completed such minimum period of service, not exceeding 18 months, as the board may determine are eligible to join the SIP.

#### 17. Basis for participation

The SIP provides for the acquisition of shares on one or more of four bases. The board shall determine in any year whether the SIP will be operated and, if so, on what basis or bases.

#### 18. Allocations of shares

- 18.1 Allocations of Free Shares may be made to participating employees on a date set by the board following the announcement of the company's results for its previous accounting period.
- 18.2 The value of Free Shares allocated to employees may be made conditional on performance targets, determined by the board, being met.
- 18.3 Each participant in the SIP must contract with the company or a subsidiary company to allow the Free Shares to be held by the trustee of the SIP (the **Trustee**) for five years or such shorter period, being no less than three years, as the board determines. Free Shares may be removed from the trust after three years but, if removed before the fifth anniversary of allocation, income tax and national insurance contributions must be paid (the taxable amount being dependent on how long they have been held by the trust prior to removal).
- 18.4 Employees may be invited to buy Partnership Shares from time to time. The board determines the terms for the acquisition of Partnership Shares on either of the following bases:
  - (a) Participants in the SIP will agree with the company to buy Partnership Shares by deductions from salary, which will be deducted each month and/or as a lump sum once per tax year and transferred directly to the Trustee. Within 30 days of the pay deduction, the Trustee will acquire Partnership Shares and then hold them on each participant's behalf; or
  - (b) Participants will agree with the company to buy Partnership Shares by deductions from salary, which will be accumulated each month and held in an account until the end of an accumulation period not exceeding 12 months. At the end of the accumulation period, the salary saved will be transferred to the Trustee, who will acquire Partnership Shares and then hold them on each participant's behalf.
- 18.5 The participant may ask the Trustee to transfer his/her Partnership Shares to him/her at any time, subject to the payment of income tax and national insurance contributions where they are removed before the fifth anniversary of allocation (the taxable value being dependent on how long they have been held by the trust prior to removal).
- 18.6 If the company decides to offer Partnership Shares, it may also offer Matching Shares to those participants who elect to buy Partnership Shares. Allocations of Matching Shares will be made on the same day as Partnership Shares are acquired on behalf of participants by the Trustee. Allocations of Matching Shares will be made to all participants on the same basis.
- 18.7 The terms on which Matching Shares will be allocated are the same as the terms for Free Shares, save that, if a participant withdraws Partnership Shares, he/she will forfeit the related Matching Shares.

#### 19. Dividends

Participants will be entitled to dividends paid on their Free Shares, Partnership Shares and Matching Shares while they are held in trust. The company will determine whether the Trustee:

- (a) transfers the dividends to participants; or
- (b) applies the dividends in the acquisition of further shares (**Dividend Shares**) on behalf of the participants.

Dividend Shares must be held in trust for at least three years.

#### 20. Dilution limit

In any ten year period, the total number of shares which have been issued or remain issuable under the SIP and any other employee share plan adopted by the company may not exceed ten per cent of the shares in issue at that time and for the purposes of this limit, treasury shares will be treated as issued and shares which are the subject of lapsed options or awards or options granted prior to the admission of the company's shares to trading on the London Stock Exchange, shall be excluded.

## **21. Individual limits**

- 21.1 The maximum value of Free Shares which can be given to an employee in any tax year is currently £3,600.
- 21.2 The maximum amount which an employee can have deducted from salary for the purpose of buying Partnership Shares is currently the lower of 10 per cent of salary and £1,800 per tax year.
- 21.3 The directors will decide the basis on which Matching Shares are allocated up to a maximum of two Matching Shares for every Partnership Share.
- 21.4 There is no limit on the amount of dividends that can be reinvested.

## **22. Cessation of employment and compulsory sale**

- 22.1 If a participant ceases to be an employee by reason of death, injury, disability, redundancy, retirement, or by reason of the fact that his/her employing company or the part of the business in which he/she is employed is transferred out of the PayPoint group, any Free Shares and/or Matching Shares will be transferred to the participant (or to his/her personal representatives).
- 22.2 If a participant ceases to be an employee within three years of the allocation of Free Shares and/or Matching Shares for any other reason, the Free Shares and Matching Shares will be forfeited.
- 22.3 If a participant ceases to be an employee at least three years after Free and/or Matching Shares are allocated, the Trustee will transfer the shares to the participant, subject to the payment of any income tax and national insurance contributions.
- 22.4 Subject to paragraph 22.5 below, if a participant ceases to be an employee at any time and for any reason, Partnership Shares and Dividend Shares will be transferred to him/her, subject to the payment of any income tax and national insurance contributions.
- 22.5 The company may direct that Partnership Shares and/or Dividend Shares are to be offered for sale for consideration equal to the amount paid by the participant in acquiring the Partnership Shares or the amount of dividends applied in acquiring the Dividend Shares (as appropriate) or the market value of the Partnership Shares or Dividend Shares at the time of sale, if lower.

## **23. Pension implications**

Benefits under the SIP will not be pensionable emoluments.

## **24. Takeover, change of control and winding-up**

In the event of a takeover, change of control or winding-up of the company, participants may instruct the Trustee to receive any form of consideration in respect of any shares held under the SIP. Any shares which are received as consideration will be held in trust on the same terms as the existing Free Shares, Partnership Shares, Matching Shares or Dividend Shares to which they relate.

## APPENDIX 3

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

### 1. The company's objects

Prior to 1 October 2009, the provisions regulating the operations of the company were set out in the company's memorandum and articles of association. The company's memorandum contained, among other things, the objects clause which sets out the scope of the activities the company is authorised to undertake. This is drafted to give a wide scope. The Companies Act 2006 (CA 2006) significantly reduced the constitutional significance of a company's memorandum, providing that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the CA 2006, the objects clause and all other provisions which are contained in a company's memorandum are deemed to be contained in the company's articles of association, but the company can remove these provisions by special resolution.

Further, the CA 2006 states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason, and in line with market practice, the company is proposing to remove its objects clause, together with all other provisions of its memorandum which, by virtue of the CA 2006, are now treated as forming part of its articles of association. Resolution 22 confirms the removal of these provisions although, where appropriate, to preserve the status quo, certain directors' powers that were previously dealt with in the memorandum have been reflected in the new articles. As the effect of resolution 22 will also be to remove the statement currently in the company's memorandum of association regarding limited liability, the new articles also contain an express statement regarding the limited liability of shareholders.

### 2. Authorised share capital and unissued shares

The CA 2006 abolished the requirement for a company to have an authorised share capital, and the new articles reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the CA 2006, save in respect of employees' share schemes.

### 3. Change of name

Prior to 1 October 2009, a company could only change its name by special resolution, but now, under the CA 2006, a company is able to change its name by other means provided for by its articles. To take advantage of this provision, the new articles enable the directors to pass a resolution to change the company's name.

### 4. Redeemable shares

Under the old Companies Act 1985, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption, whereas the CA 2006 enables directors to determine such matters themselves, provided that they are authorised to do so by the articles. The new articles contain such an authorisation for the directors. The company has no plans to issue redeemable shares but, if it did so, the directors would need shareholders' authority to issue new shares in the usual way.

### 5. Purchase of own shares

The new articles include a provision, in line with market practice, clarifying that the company may, subject to relevant laws and regulations, purchase its own shares. Under the CA 2006, shareholder authority is required for the company to purchase its own shares, and the company must also comply with relevant provisions in the Financial Conduct Authority's Listing Rules.

### 6. Suspension of registration of share transfers

The current articles permit the directors to suspend the registration of share transfers. This power has been removed in the new articles because it is inconsistent with the CA 2006, which requires share transfers to be registered as soon as practicable.

### 7. Notice of and proceedings at general meetings

The Companies (Shareholders' Rights) Regulations 2009 (**Shareholders' Rights Regulations**) amended the CA 2006 to require the Company to give 21 clear days' notice of general meetings unless the company offers members an electronic voting facility and a special resolution reducing the period of notice to not less than 14 days has been passed. Annual general meetings must be held on 21 clear days' notice. The new articles amend the provisions of the current articles to be consistent with the new requirements. The new articles also reflect modern market practice in that they no longer specify the business that will be deemed to be special business at a general meeting of the company. The new articles further include provisions, in line with market practice, allowing for a general meeting to be held in more than one place where the Chairman is satisfied that adequate facilities are available to enable each person present at each place to participate in the business of the meeting.

### 8. Chairman's casting vote

The new articles remove the provision in the current articles giving the Chairman a casting vote in the event of an equality of votes, as this is no longer permitted under the CA 2006.

## **9. Voting by proxies on a show of hands**

The Shareholders' Rights Regulations amended the CA 2006 so that it now provides that, subject to a company's articles, each proxy appointed by a member has one vote on a show of hands, unless the proxy is appointed by more than one member, in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The new articles amend the provisions of the current articles to reflect these changes, and to clarify the procedure to be followed if a proxy is appointed by more than one member and is given discretion as to how to vote by one or more of those members.

## **10. Administration of proxy appointments**

In line with market practice, the new articles allow the board some flexibility to treat as valid a proxy appointment that does not comply with all technical requirements of the articles.

## **11. Voting record date**

Under the CA 2006, as amended by the Shareholders' Rights Regulations, the company must determine the right of members to vote at a general meeting by reference to the register not more than 48 hours before the time for the holding of the meeting, not taking account of days that are not working days. The new articles amend the current articles to reflect these provisions.

## **12. Voting in accordance with instructions**

Under the Shareholders' Rights Regulations, proxies are expressly required to vote in accordance with instructions given to them by members. For the avoidance of doubt, the new articles contain a provision stating that the Company is not obliged to check whether a proxy or corporate representative has voted in accordance with the members' instructions.

## **13. Number of directors**

In line with institutional guidelines, the new articles include a limit on the maximum number of directors. This has been set at 12 directors, increased from 10 directors under the current articles, to provide sufficient flexibility for future additional board appointments, should the need arise. The minimum number of directors under the new articles is two.

## **14. Shareholding qualification**

Provisions in the current articles stating that no shareholding qualification for directors shall be required have been deleted in the new articles, to ensure flexibility for relevant policies to be considered, where appropriate.

## **15. Directors' fees**

The new articles provide for directors' fees up to an aggregate of £750,000 per annum (subject to an ordinary resolution of the company determining a larger sum), whereas the current aggregate limit is £500,000. The increase is intended to provide sufficient flexibility in setting the level of directors' fees and the number of directors appointed in the future.

## **16. Vacation of office of director**

The new articles include updated wording regarding the circumstances in which a director must vacate office where the director has become physically or mentally ill, subject to a resolution of the board. The change applies a test of whether, in the opinion of a medical practitioner, the director is rendered incapable by his illness of acting as a director for more than three months.

## **17. Retirement of directors**

The new articles update the current articles to reflect the company's established practice, in line with the recommendations of the UK Corporate Governance Code, that all directors be subject to annual re-election by shareholders. The new articles provide that at each annual general meeting, every director who held office on the date seven days before the date of the notice of annual general meeting shall retire from office, and each director wishing to serve again shall submit himself for re-election by shareholders. Provisions in the current articles referring to the appointment process for directors who have attained the age of 70 have been deleted in the new articles, since such provisions are no longer required.

## **18. General**

Generally, the opportunity has been taken to bring clearer language into the new articles and, in some areas, to conform the language of the new articles to the language used in the CA 2006.

# 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/our rights to attend, speak and vote in respect of my/our voting entitlement of ..... shares on my/our behalf at the annual general meeting of the company to be held at 12 noon on 23 July 2014 at the offices of Canaccord Genuity, 88 Wood Street, London EC2V 7QR and at any adjournment thereof.

I/We would like my/our proxy to vote on the resolutions proposed at the meeting as specified below. Unless otherwise instructed the proxy may vote as he or she sees fit or abstain in relation to any business of the meeting. On any other business arising at the meeting (including any motion to amend a resolution or to adjourn the meeting) my/our proxy will act at his or her discretion.

Please indicate by ticking the box opposite 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).

Items 1 to 14 are items of ordinary business, items 15 to 22 are items of special business

| RESOLUTION: ORDINARY BUSINESS   | FOR | AGAINST | WITHHELD |
|---|-----|---------|----------|
| 1 To receive the annual accounts and reports for the year ended 31 March 2014.  |     |         |          |
| 2 To approve the directors' remuneration report for the year ended 31 March 2014.   |     |         |          |
| 3 To approve the directors' remuneration policy   |     |         |          |
| 4 To declare a final dividend of 23.9p per ordinary share of the company.   |     |         |          |
| 5 To elect Mr Warren Tucker as a director of the company.   |     |         |          |
| 6 To re-elect Mr Eric Anstee as a director of the company.  |     |         |          |
| 7 To re-elect Mr George Earle as a director of the company.   |     |         |          |
| 8 To re-elect Mr David Morrison as a director of the company.   |     |         |          |
| 9 To re-elect Mr Stephen Rowley as a director of the company.   |     |         |          |
| 10 To re-elect Mr Dominic Taylor as a director of the company.  |     |         |          |
| 11 To re-elect Mr Tim Watkin-Rees as a director of the company.   |     |         |          |
| 12 To re-elect Mr Nick Wiles as a director of the company.  |     |         |          |
| 13 To re-appoint Deloitte LLP as auditor of the company.  |     |         |          |
| 14 To authorise the directors to determine the auditor's remuneration.  |     |         |          |
| <b>SPECIAL BUSINESS</b>   |     |         |          |
| 15 ORDINARY RESOLUTION: To authorise the directors to allot shares in accordance with Section 551 of the Companies Act 2006.              |     |         |          |
| 16 SPECIAL RESOLUTION: To disapply statutory pre-emption rights in accordance with Section 570 of the Companies Act 2006.                 |     |         |          |
| 17 SPECIAL RESOLUTION: To authorise the company to make market purchases of its ordinary shares up to 14.99% of the issued share capital. |     |         |          |
| 18 SPECIAL RESOLUTION: To allow any general meeting (other than an annual general meeting) to be called on 14 days' notice.               |     |         |          |
| 19 ORDINARY RESOLUTION: To adopt the LTIP.  |     |         |          |
| 20 ORDINARY RESOLUTION: To adopt the DABP.  |     |         |          |
| 21 ORDINARY RESOLUTION: To adopt the SIP.   |     |         |          |
| 22 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.....2014

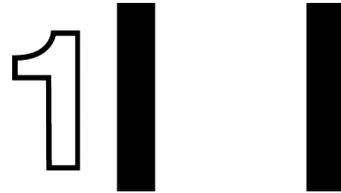
In the case of a corporation, this proxy must be given under its common seal or signed on its behalf by an officer duly authorised, stating their capacity (e.g. director, company secretary).

### Explanatory notes

- Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his or her proxy to exercise all or any of his or her 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. 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 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).
- 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, may 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.
- The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who has 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.
- The vote withheld option above 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.
- 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.
- 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.
- 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.
- 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 registrar at: Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF.
- 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 Asset Services accept no liability for any instruction that does not comply with these conditions.

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34 Beckenham Road  
Beckenham  
BR3 4TU

2nd FOLD

1st FOLD



## Officers and professional advisers

### Directors

E Anstee\*  
G Earle  
D Morrison\*  
D Newlands (Chairman)\*  
A Robb\*  
S Rowley\*  
D Taylor  
W Tucker\*  
T Watkin-Rees  
N Wiles\*

\* Non-executive directors

### Company Secretary

S Court

### Registered office

1 The Boulevard  
Shire Park  
Welwyn Garden City  
Hertfordshire, AL7 1EL  
United Kingdom

Registered in England and Wales number  
3581541

### Independent auditor

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

### Brokers

J. P. Morgan Cazenove  
25 Bank Street  
London, E14 5JP  
United Kingdom

Cannacord Genuity  
88 Wood Street  
London, EC2V 7QR  
United Kingdom

Jefferies/Hoare Govett  
Vintners Place  
68 Upper Thames Street  
London, EC4V 3BJ  
United Kingdom

### Registrar

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



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ISO 14001 – A pattern of control for an environmental management system against which an organisation can be credited by a third party.

Carbon Balancing by the World Land Trust tackles climate change through projects that both offset carbon dioxide (CO<sub>2</sub>) emissions and conserve biodiversity.



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