



# Annual Report

For the 53 weeks ended 31 March 2013





## OUR BUSINESS

PayPoint is a leading international service provider of convenient payments and value added services to major consumer service organisations in the utility, telecoms, media, financial services, transport, retail, gaming and public sectors. We handle over £14 billion from 739 million transactions annually for more than 6,000 clients and merchants. We deliver payments and services through a unique combination of local shops, internet and mobile distribution channels.

### Retail networks

PayPoint operates branded retail networks in the UK, Ireland and Romania. The network in the UK numbers over 25,000 terminal sites in local shops (including Co-op, Spar, McColls, Costcutter, Sainsbury's Local, Tesco Express, One Stop, Asda, Londis and thousands of independent outlets) and is growing. Our terminals process energy meter prepayments, bill payments, mobile phone top-ups, transport tickets, BBC TV licences, cash withdrawals and a wide variety of other payments for most leading utilities and many telecoms and consumer service companies.

In Romania, the branded retail network numbers over 7,300 terminals located in local shops across the country and is expanding. Our terminals process cash bill payments for utilities, money transfers and mobile phone top-ups. In the Republic of Ireland, we have over 500 terminals in shops and Credit Unions processing mobile top-ups and bill payments.

We also supply added value services to our retail agents to improve the yield from our network. In the UK, we have a consumer parcel drop off and collection service using PayPoint's retail network through Collect+, a joint venture with Yodel. This service is available in over 5,250 of our convenience retail agents. Clients include Amazon, eBay, ASOS, New Look, Boden, John Lewis, House of Fraser, Asda Direct and Very. In addition, in the UK, we have over 2,800 LINK branded ATMs, mainly located in the same sites as our terminals, and over 7,000 of our terminals provide debit and credit card acceptance for our retailers.

### e&m commerce

PayPoint.net is an internet payment service provider, linking into 16 major acquiring banks in the UK, Europe and North America, delivering secure online credit and debit card payments for over 5,500 web merchants, including Stan James, Hungry House, Moonpig, WHSmith, Lovestruck, London and Zurich Insurance, Moneysupermarket.com and British Gas. We offer a comprehensive set of products ranging from a bureau service, in which we take the merchant credit risk and manage settlement for the merchants, to a transaction gateway. We offer real-time reporting for merchant transactions and FraudGuard, an advanced service to mitigate the risk of fraud for card not present transactions. We are introducing real-time transaction management and optimisation products for sale to our merchants.

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

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

PayPoint maintains its competitive differentiation by serving a range of clients' needs, through a wide spectrum of payments, products and services that span different channels. For example, PayCash enables cash payment for internet transactions at PayPoint retail agents and our home vending solutions allow consumers to pay across the internet as well as through our retail network.

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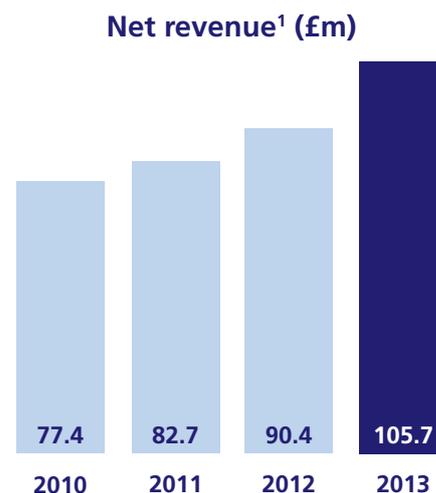
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# HIGHLIGHTS

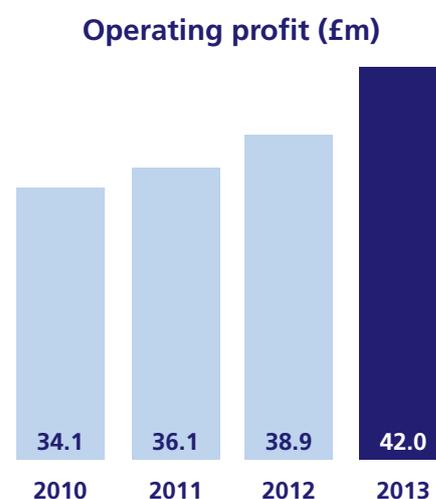
|  | 53 weeks ended<br>31 March<br>2013 | 52 weeks ended<br>25 March<br>2012 | Increase <sup>2</sup> |
|--|------------------------------------|------------------------------------|-----------------------|
| Revenue  | <b>£208.5m</b>                     | £200.0m                            | 4.2%                  |
| Net revenue <sup>1</sup>                         | <b>£105.7m</b>                     | £90.4m                             | 16.8%                 |
| Gross margin                                     | <b>43.0%</b>                       | 39.1%                              | 3.9ppts               |
| Operating profit                                 | <b>£42.0m</b>                      | £38.9m                             | 8.0%                  |
| Profit before tax                                | <b>£41.3m</b>                      | £37.2m                             | 10.9%                 |
| Diluted earnings<br>per share                    | <b>45.3p</b>                       | 39.8p                              | 13.8%                 |
| Dividend per share<br>(full period) <sup>3</sup> | <b>30.4p</b>                       | 26.5p                              | 14.7%                 |



- Record group transaction volume at 739 million, up 12%, with growth in all channels
- Period end cash of £46.6 million (2012: £35.5 million) with no debt
- Proposed final dividend of 20.2p, up 13% on prior year, plus a special dividend of 15p per share

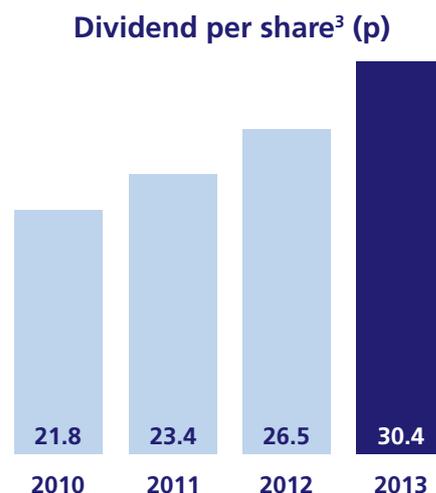
## Retail

- UK & Ireland retail network transactions increased 9%, with strong growth of 22% in retail services
- Over 25 million Romanian bill payment transactions in the period, up 35%, and continued profitable growth in the network
- Collect+ has more than doubled transactions to 7.7 million from 3.8 million and is now available nationwide in over 5,250 sites



## e&m commerce (PayPoint.net and PayByPhone)

- Internet transactions have grown by 26%
- PayByPhone increased transactions to over 22 million, up 29%



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, merchant service charges for card payments and costs for the provision of call centres for PayByPhone 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 26 March 2012 to 31 March 2013 contains 53 weeks. Comparative data is given for the 52 week period reported last year (i.e. 28 March 2011 to 25 March 2012). Percentage increases on a pro-rata basis are lower than those shown.

3. Excludes special dividend in 2013.

# CHAIRMAN'S STATEMENT

## Consumer satisfaction with PayPoint

*Consumer satisfaction is vital to any company, especially one like PayPoint, which serves millions of people every week. Consumer satisfaction with PayPoint UK retail, which is independently measured each year, has remained constant at the exceptional level of 97%-98% for six years, with 86% very satisfied. The majority of customers choose to use PayPoint because it is convenient for their lifestyle, close to where they live and because they can pay almost all of their household bills in the one place.*

*The breadth and variety of payments that can be made at PayPoint is an important factor in maintaining customer satisfaction. As new schemes and services are added to the PayPoint portfolio, some customers are carrying out three or four transactions at the same time – and an even higher proportion (91%) of these heavy users are very satisfied with PayPoint.*

## Collect+ adding value for consumers

*Research conducted on behalf of Collect+ in 2013 reinforced the importance of convenient delivery. With most Collect+ stores open early until late, seven days a week and 40% of all transactions taking place outside traditional opening hours, the service solves this long-term problem for consumers. Alternative collection points to a retailer's own stores appeals to online shoppers, with 66% saying they would use the service. Over half said that they would be more likely to shop online with a retailer that offered delivery to a convenient collection point, thereby removing the risk of missed delivery.*

*Redesigning the customer experience and making it as convenient as possible is key and Collect+ works with over 210 retail brands to enable them to do this via its Click&Collect+ and returns service. With a focus on growing its Click&Collect+ client list, Collect+ has acted as a third party collection point for more than 2 million customer orders in the past 12 months.*

I am pleased to report strong growth in transactions, net revenue and earnings per share for the period under review. We are proposing a final dividend of 20.2p per share, together with a special dividend of 15p per share, making a total for the period of 45.4p, an increase, excluding the special dividend, of 14.7%. The special dividend reflects the stronger than expected cash position at March 2013 and our confidence in the company's ability to generate cash and does not impinge upon the company's ability to invest in growth.

Our retail networks in the UK and Romania delivered profitable growth based on our strong client base and breadth of services. We continue to innovate and invest in technology and new services to maintain the premium quality of these retail networks and their competitive advantages. In the UK, growth in prepaid energy transactions resulted from increases in the number of prepaid meters and tariffs. Retail services delivered healthy growth, but mobile top-ups continued to decline. The introduction of the Simple Payment service for the DWP has contributed to growth, but the number of transactions has been lower than expected, as a proportion of the cheque volume it was intended to replace has migrated to other payment methods. We have continued to expand our Romanian retail terminal estate (by 609 sites) and transaction volume has increased by 28%. In Romania, national television advertising helped to improve brand awareness and drive increases in market share. Western Union money transfer has also contributed to Romanian growth.

Our parcels service<sup>1</sup> has been increasingly profitable. Parcel transactions have more than doubled to 7.7 million (2012: 3.8 million), driven by consumers' appetite for click and collect. Collect+ has increased the number of clients it serves to 212, from 126 at 25 March 2012. Transaction numbers have grown in all services, including consumer deliveries, sold through the Collect+ website, Amazon, eBay and resellers. We now have contracts with Amazon for deliveries and returns and with Amazon Marketplace. We have added more retailers, such as John Lewis, to our list of clients. We continue to spend money on service improvements, which should help to deliver revenue growth that outstrips the growth in costs.

In our e&m commerce channels (internet, trading as PayPoint.net, and mobile, trading as PayByPhone), transaction growth was 27% and net revenue growth 8%. Transaction growth in large internet merchants, which generate lower net revenues, dominated and a one off receipt in the prior year caused net revenue growth to be lower than transaction growth. Through PayByPhone, we gain valuable insight into the development of mobile commerce but this remains an early stage venture. We have continued to win new clients. Although conversion into revenue of business won remains slow, the potential market for services delivered through mobile phones is large. Extension to other mobile commerce areas offers further potential, but will require expenditure in development and marketing. We have also sought to improve efficiency first by concentrating sales efforts on larger opportunities and second, by addressing telecommunications costs. Further cost reduction opportunities exist, including the migration of payments to our internet channel, the technical integration of which is now complete. Since the period end, we have brought these two channels under common management to accelerate the synergies in both revenue and efficiency.

We have continued to invest in technology. We have signed contracts with two new data centre operators. We will introduce single daily settlement with our retailers, reducing retailer banking costs and our exposure to retail agent debt. In e&m commerce, we are planning to replace and upgrade our internet platform. In PayByPhone, we are developing our technology to open the platform to services other than parking and reducing our cost to serve.

For the current financial year, trading is in line with the company's expectations. Our retail networks are strong and developing well. We intend to pursue further opportunities to grow the retail network, thereby increasing market share in bill payment and retail services, including ATMs, in the UK, Ireland and Romania. We expect continued progress in the internet and mobile payment channels. Together, our businesses provide a strong foundation to deliver value for our shareholders.

David Newlands  
23 May 2013

1. Our parcels service comprises the net revenue less direct costs in the UK retail network, less our share of the losses of Collect+.

# CHIEF EXECUTIVE'S REVIEW

PayPoint has delivered earnings growth in line with market expectations. Our retail businesses (UK & Ireland, Romania and Collect+) have grown and remain highly profitable and cash generative. Our e&m business (PayPoint.net and PayByPhone) has made good progress.

The essence of the group's capability is the processing of high volume consumer transactions, whether payments or value added services (like parcels) through a flexible platform, adding value to clients in selected vertical markets. Payment transactions are generally low value and embrace retail, internet and mobile technologies and include money flowing both to and from the consumer. We add value by providing relevant additional services to retailers and online merchants across different geographies. Providing greater consumer convenience is core to our proposition. We are able to grow the business through selling to more clients in vertical markets, by addressing more verticals, by engaging more retailers and more merchants, driving more consumers to use our services.

## Strategy

Our strategy, which remains unchanged, has four key elements:

- **Breadth of payments capability**  
The acceptance of a broad range of payments (cash, cards, e-money, etc.) through multiple channels (retail, internet and mobile phone)
- **Strength in vertical markets**  
Targeting sectors with high volume, recurring consumer payments
- **Value added content/services**  
Providing additional content or services to the payment channels and chosen vertical markets to create differentiation
- **Geographic reach**  
Identifying regions with attractive payment dynamics to create value through exporting our know-how

PayPoint has succeeded in introducing this broad payment hub capability to clients in key vertical markets (energy, telecoms and media, financial services, parking/transport, public sector/social housing, retail and gaming/leisure), with the ability to process payments using the consumer's preferred method of payment and channel. The delivery of payments between consumers and our clients encompasses transaction authorisation, processing, clearing and settlement and interfacing to banks, card schemes/networks and other financial intermediaries. PayPoint also provides value added content and services within each channel, to differentiate the PayPoint proposition from those of its competitors.

In our retail channels, differentiation is achieved through providing retailers with a broad range of retail services, including ATMs, credit and debit card processing, parcel collections and returns service, SIM cards and international money transfer. The high quality of service delivery to retailers is also critical to differentiation.

In the internet channel, differentiation to merchants is driven through a widening base of acquiring bank relationships (increasingly in different geographies) and payment types, together with the quality of our fraud screening and reporting products.

Our mobile channel, delivered through PayByPhone, will similarly drive differentiation through its ability to leverage our cash retail payment capability and internet payment services, combined with improving the consumer experience.

## Technology

Technology is at the heart of our service delivery and differentiation in all our businesses and we plan to continue to increase spending in this area. We see opportunities to integrate our payment channel technologies to provide better, more efficient and complete solutions to our clients across a common platform, irrespective of whether their customer has paid in a store, online or on their phone. Improving reporting to merchants and upgrading retailer management systems will enhance our ability to provide customers with a unique service and will contribute to growth. The reporting system under development for online merchants offers opportunity for extension to other clients across all distribution channels. As we invest in this more integrated solution, we also plan to consolidate our data centres in two hosted sites.

## Growth and prospects

PayPoint is well positioned, in attractive markets, to benefit from its strength in multi-channel payments and retail services. The growth in convenience retailing, online and mobile commerce is expected to continue for the foreseeable future. Our position within vertical markets, including energy, telecoms/media, financial services, parking/transport, gaming/leisure and public sector/social housing, provides us with a platform to benefit from the investments being made by our clients and prospects. As businesses seek to serve their customers across a wider variety of distribution channels, offering many payment options, we are well placed, with the breadth of our payment services and Collect+, to serve their needs.

## CashOut schemes grow

*Traditional PayPoint payment transactions, energy prepayment, utility payments and mobile top-ups involve consumers paying cash in at retailers. PayPoint can now offer clients the ability to pay cash out to their customers. This is used for the DWP Simple Payment service for benefit and pension payments, utilities (including British Gas and EDF Energy) and most recently by local authorities for emergency benefit payments, for which they have taken responsibility from central government. Retailers earn commission on these schemes and, with the introduction of single daily settlement, will benefit from more convenient cash management as CashOut sums will be deducted from direct debits taken for other transactions. In addition, consumers are likely to spend some of the money they get in store.*

*"PayPoint's CashOut scheme has been a real success for us in previous years and has proven to be the most convenient way for our customers to receive their rebates."  
Jackie Kelly, Value Delivery Manager at British Gas*

## PayPoint Romania expands payment schemes

*PayPoint in Romania is now working with the majority of the national utility companies in the country and, as their customers have become accustomed to paying their bills at PayPoint, many of the country's regional water and sanitation service providers have signed up with PayPoint to enable them to pay their water bills at the same time. Nova ApaServ Company in Botoşani county, SC VITAL SA in Maramures county, S.C. Salubris S.A., which provides public sanitation services in Iasi, and The Targoviste Dambovita Water Company, a regional operator of water systems and sanitation in Dambovita county, have all introduced the PayPoint option to their customers during the year.*

*"As well as providing high quality services, we also wanted to reduce the time people in Maramures spend paying bills, so being able to pay them in local neighbourhood stores safely and quickly is definitely a great advantage for them."  
Geza Gasparik, General Manager of SC VITAL SA*

# CHIEF EXECUTIVE'S REVIEW *continued*

## Online support for The Grand National

*The Grand National is watched by an estimated 500 million people worldwide. In the UK alone, as much as two-thirds of the adult population places a bet, with an estimated £150m in total being wagered on the result. Therefore, the event is business-critical for PayPoint.net's online gaming clients. In the hour before the event, PayPoint saw an uplift in its total transactions from the whole gaming industry of over 91% compared to the same hour on a usual Saturday. At peak, we were processing more than four transactions a second.*

*Online gaming is one of the most demanding sectors for a payment gateway. A highly global business, it requires a very high level of security and fraud management, a wide range of payment methods and the ability to manage the outflow of winnings as well as the inflow of deposits. Our clients value enormously the reliability of our operation during this critical period for them:*

*"The Grand National is one of the most important events of the year for us, so we rely on PayPoint.net to provide us with flawless service, capable of handling the huge spike in volumes while maintaining the high level of security and fraud management that we enjoy during the rest of the year."*  
Denis Kelly, CEO, Stan James

## Leading the way with contactless payments

*Having been the first cash payments network in the UK to introduce contactless credit and debit card payments, PayPoint now operates more than 4,000 contactless payment terminals, the largest private sector retail network in the UK.*

*The number of contactless debit and credit cards in the UK passed 32 million at the end of 2012. Retailers carry no financial risk and benefit from a transaction fee that is lower than for debit cards, whilst consumers benefit from a faster transaction, the convenience of not having to enter their PIN and from not having to carry cash.*

*As the range of locations where customers can use them grows – in taxis, restaurants, coffee shops, sports centres, buses, car parks and on vending machines – customers are not only getting used to using their contactless cards but are increasingly expecting to be able to use them almost anywhere they spend their money. Because of the low value limit for contactless transactions, they are ideal for purchases in convenience stores.*

## Vertical markets

Our clients are a Who's Who of consumer services companies in the countries we serve. Their needs to innovate and use new delivery channels should continue to drive opportunities for us in future. In the UK, the energy sector continues to grow its prepayment base and is now investing in next generation smart meters that should further strengthen the demand to serve prepayment customers, not just for cash in store, but also across our web and mobile channels. Government is mandating that all domestic gas and electricity meters should be smart by 2020.

In recent years, PayPoint UK has added public sector capability to its portfolio. Welfare reform, such as the Universal Credit and the related devolution of some benefits to the local authority level, is likely to have a major impact on the requirements of central government, local authorities and social housing associations, where we are already active. Parking and transport authorities and operators are also keen to adopt smart technology, mobility and multi-channel delivery, the very areas in which we deliver.

## Retail

PayPoint's market leadership in retail payments and services remains at the core of its success. We continue to be strongly differentiated through the unique quality and breadth of our client base and retail coverage. We 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, securing their continuing commitment.

Convenience retailing is evolving from its former guise as a secondary top-up shopping destination into a principal choice for many busy consumers looking for quality products and services as conveniently as possible. The sector has benefitted from substantial investment in premises and upgraded ranges of local shops as a result of the entry of the major grocery multiples and symbol groups. PayPoint has been at the core of this transformation by being the principal innovator of in-store payments and services, helping local stores to become community hubs where consumers visit more often and for a greater range of activities. We intend to build further on our contribution to the breadth and value of the convenience retail offer to local communities.

An important recent retail service innovation builds on PayPoint's success in providing cash to consumers in-store for government disbursements and service rebates, in addition to the ATM cash withdrawals which we have provided for much longer. Not only does CashOut provide a further service offering by retailers to their local community, it also reduces the amount of cash held in store. With the proposed introduction of single daily settlement, where daily direct debits on retailers are reduced by the amount of CashOut and ATM withdrawals, retailers will benefit from reduced cash banking and transaction costs, further differentiating our services to them. We do not just seek to serve consumers through our retailers, we also support our retailers with a broad range of services that support their own trading, including card payments, cash machines, international money transfer, promotional offers and SIM card distribution.

These retail services boost the bottom line of our retail partners and improve our retail yield. We have increased our field sales force by half since the latter part of the prior year. They will help us find further retail sites, which by virtue of improved uptake of retail services, should not dilute our retail yield. There is substantial opportunity to increase the retailer base, including ATMs. This will require more capital expenditure than previously expected and, taken together with other capital plans, will result in higher capital spend in the current year.

## International

In Romania, we have made good progress in growing profitability. Cash payment is dominant across all demographics and we have nearly all the major consumer service companies as our clients. Our market share in clients we serve (c.12%) is increasing but, encouragingly for future growth, is still at relatively low levels. We aim to extend our client relationships to become the preferred and more exclusive supplier. Recently, we displaced the Post Office in the county of Iasi, in the Moldova region, from the provision of bill payment for EON GAZ, which we will seek to replicate across the region and with other clients.

The retail services opportunity in Romania is at an earlier stage, with international money transfer progressing well. We expect new retail services to come to market in the medium term and to continue to grow our outlet numbers and retail yield.

The potential for further international expansion will be reviewed this year.

# CHIEF EXECUTIVE'S REVIEW *continued*

## Collect+

Our most exciting new retail service in recent years has been Collect+, a 50:50 joint venture with Yodel. This service enables consumers to collect and return their home shopping parcels from any of over 5,250 stores within the PayPoint network. The service is now in its fourth year and has an annual parcel run rate of over 9 million, with significant growth potential. The service has recently attracted new competition, but we have a lead over our new competitors, none of which come close to the breadth of coverage or volume of parcels that Collect+ provides through a convenience retail channel. Collect+ continues our successful strategy of providing consumers and clients with more convenient and cost effective alternatives to the Post Office. This year should see a substantial expansion in our consumer send volumes with the launch of a faster service delivery option as an enhancement to the existing 3-5 day service. Collect+ is already proving attractive to consumers and small traders and is integrated into the Amazon and eBay platforms.

## e&m commerce

Our e&m commerce businesses, PayPoint.net in the internet channel and PayByPhone in the mobile channel, operate in highly competitive markets which have attracted heavy investment from a wide range of market players ranging from global giants all the way down the scale to many innovative small start-ups. In this context, PayPoint has handled tens of millions of payments annually across both web and mobile channels, and is still growing. However, margin erosion in PayPoint.net and the continuing need to invest in PayByPhone in advance of revenues, have adversely affected profitability in the period under review. In order to realise the full potential that these businesses present, we have now put them under single management to position better our capability in this fast changing market place and to benefit from potential cost synergies. Both internet and mobile continue to be the highest growth areas of retail, displacing and complementing traditional high street retailers. PayPoint is applying focus to key vertical markets as we aim to build successful capabilities, where we should be well rewarded and maintain a loyal client and merchant base.

PayByPhone parking will continue to concentrate on metropolitan opportunities in the UK, France, USA, Canada and selected other big cities. We have had recent success in Seattle, Paris suburbs, London and in New York with a trial, showing that this approach is helping us to secure the biggest available opportunities. Our Westminster service is still amongst the most successful phone parking services in the world and we are the market leader in our core markets of the UK and North America.

PayPoint.net will continue to promote and develop its range of payment services, including connections to a broad range of acquirers, support of international gateways, sophisticated fraud screening, payment card industry data security standard compliance and enhanced management reporting and control systems. These support our positioning as a well-respected payment service provider. We have a comprehensive service portfolio in the market and recognised strength in gaming and general e-commerce. As PayPoint.net merchants and prospects look to add mobile payment capability, the closer integration with PayByPhone should enable us to be distinctively positioned with proven high volume products.

## Consumers

PayPoint has traditionally served consumers through our business to business (B2B) relationships and we have remained a B2B, or B2B2C (consumer), company in our approach. However, our innovation is taking us deeper into services which have a direct relationship with the consumer. For example, both Collect+ and PayByPhone have substantial consumer bases.

In addition, the footfall from more than 11 million weekly transactions in PayPoint retail outlets provides opportunity for enhanced consumer relationships. PayPoint achieved an 82% brand awareness in our most recent BMRB survey and a 98% consumer satisfaction result surveyed by Ipsos MORI – a level in excess of most consumer service organisations. Our recently launched social networking activities have attracted bigger followings in a few months than many big name consumer service organisations have achieved in several years. These are strong foundations on which to build our consumer brand more directly.

As we build our group capability going forward, we will be looking to extend our consumer base and to develop more value added propositions to increase our consumer yield, as well as our client and retailer yields. In doing this, we should benefit from the strong consumer brand we have already developed. PayPoint is one of the companies best placed to make further gains in the fast moving payment industry, particularly in e&m commerce, and has a market leading position in retail services, on which we intend to build.

Dominic Taylor  
Chief Executive  
23 May 2013

## PayByPhone reaches out to New York

*Following the recent introduction of PayByPhone in Seattle and New Castle, NJ, New York City has launched a PayByPhone cashless parking pilot in the Bronx. The pilot allows motorists to pay for parking via the PayByPhone app, the internet or by telephone along 18 blocks and at the Belmont Municipal Parking Field. There are no additional fees or changes to parking rates, while motorists will also be warned via email or text message when their time is about to expire, enabling them to pay for additional time. PayByPhone is also working with the New York Police Department, whose traffic enforcement agents use handheld scanners to enter license plate numbers, which are instantly cross-checked against received payments.*

*"You can purchase parking time ... you will receive a text message or email confirming your purchase. You also get text or email warnings before your meter time expires and you can use PayByPhone to extend your meter time without ever going back to your car. So it really is everything you can think of to make your life better."*  
Mayor Michael R. Bloomberg of New York City

## Collect+ adding value for stores

*By offering Collect+, retailers in the PayPoint network gain significant recurring footfall and commercial benefit as well as a valuable edge over their local competitors. The service provides additional opportunities to raise customer loyalty and generate incremental sales over and above the commission earned from Collect+.*

*Research in 2013 showed that the average Collect+ store earns additional annual revenue of £2,712 as a direct result of offering the service. Collect+ contributes £673 per annum, on average, in commission, with an additional £2,039 of income generated from in-store purchases by Collect+ customers.*

*Almost two thirds (64%) of customers had not used the store before using Collect+. With 63% of customers stating that they would use the store again for other purchases in addition to using Collect+, and nearly 50% of customers purchasing other items from the store, there are instant and lasting benefits for participating stores. Over a third of customers are using a mixture of Collect+ services, demonstrating the broad appeal of the Collect+ product range.*

# 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  | 2013                 | 2012          |
|---------------------------|------------------------------|--|----------------------|---------------|
| <b>Shareholder return</b> | 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). | <b>45.3p</b>         | 39.8p         |
|                           | 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).  | <b>30.4p</b>         | 26.5p         |
|                           | Economic profit              | Operating profit (including PayPoint's share of joint venture results) after tax and a charge for capital employed, excluding cash, based upon the group's cost of capital.  | <b>£24.0 million</b> | £20.4 million |
| <b>Growth</b>             | Retail networks transactions | Number of transactions processed in the period on our terminals, ATMs and on our retailers' EPOS systems.  | <b>625 million</b>   | 569 million   |
|                           | Internet transactions        | Number of transactions processed in the period by PayPoint.net.  | <b>92 million</b>    | 73 million    |
|                           | PayByPhone                   | Number of PayByPhone transactions processed in the period.   | <b>22 million</b>    | 17 million    |
|                           | Transaction value            | The value of transactions processed via our terminals, retailers' EPOS systems, internet merchants, ATMs, PayByPhone and the sale of other retail services.  | <b>£14.1 billion</b> | £12.1 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.  | <b>£106 million</b>  | £90 million   |
|                           | Operating margin             | Operating profit including our share of joint venture results as a percentage of net revenue.  | <b>38.8%</b>         | 41.0%         |
| <b>Asset optimisation</b> | Return on capital employed   | Total operating profit for the period divided by average month end capital employed (net assets excluding cash).   | <b>61%</b>           | 58%           |
| <b>People</b>             | Labour turnover              | Number of permanent employees who left during the period divided by average total permanent employees:   |                      |               |
|                           |                              | UK & Ireland   | <b>23%</b>           | 26%           |
|                           |                              | Rest of world  | <b>17%</b>           | 28%           |

# OPERATING AND FINANCIAL REVIEW

The operating and financial review complies with the guidance set out in the Accounting Standards Board's Reporting Statement: Operating and Financial Review and is prepared solely to provide additional information to shareholders as a body to assess PayPoint's strategies and their potential to succeed. It should not be relied upon for any other purpose. It contains forward looking statements that have been made by the directors in good faith, based on the information available at the time of approval of the annual report and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

Key performance indicators are shown on page 6.

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 retail services, new clients and the development of clients in the UK retail network; the expansion of the retail network and new retail services in Romania; building and developing Collect+; new merchants and new services for internet payments; new parking contracts and driving consumer adoption and the development of other services for PayByPhone.

The results cover a period of 53 weeks (2012: 52 weeks) and as a consequence, percentage increases are flattered by an additional week of trading. Pro-rata increases would be less, generally between 1 to 3 percentage points. PayPoint will report on a calendar year basis from the current year.

The channel and product analysis is as follows:

## Retail networks:

Bill and general (prepaid energy, bills and CashOut services)  
Top-ups (mobile, e-money vouchers, prepaid debit cards and The Health Lottery)  
Retail services (ATM, debit/credit, parcels, money transfer, SIMs and receipt advertising)

## e&m commerce:

Internet (consumer transactions with merchants, pre-authorisations and FraudGuard, where separately charged) PayByPhone (parking, tolling, ticketing and bicycle rental transactions)

## Other:

Fees, software development, configuration and settlement of claims

Formerly, we disclosed separately: transaction numbers and value; revenue and net revenue by established businesses (UK retail network and internet) and developing businesses (Romanian retail network, PayByPhone and Collect+). Given that the Romanian retail network continues to be profitable and our parcels service (net revenue from parcels in UK retail less direct costs and our share of the loss in Collect+) is also profitable, we have dispensed with the distinction between established and developing businesses.

## OPERATING REVIEW

|                          |      | 53 weeks ended<br>31 March<br>2013 | 52 weeks ended<br>25 March<br>2012 | Increase<br>% |
|--------------------------|------|------------------------------------|------------------------------------|---------------|
| Transactions             | '000 | 738,991                            | 659,115                            | 12.1          |
| Transaction value        | £000 | 14,095,423                         | 12,119,894                         | 16.3          |
| Revenue                  | £000 | 208,526                            | 200,029                            | 4.2           |
| Net revenue <sup>1</sup> | £000 | 105,657                            | 90,442                             | 16.8          |

Transactions have increased to 739 million (2012: 659 million), up 10% in the retail networks and 27% in e&m commerce.

Transaction value increased to £14.1 billion (2012: £12.1 billion), up 12% in the retail networks and 25% in e&m commerce.

Revenue has increased to £209 million (2012: £200 million), up 4% in the retail networks and 9% in e&m commerce. Revenue growth is lower than transaction volume and value in retail networks because of the decline in top-ups and in e&m commerce because of one off receipts in the prior year.

Net revenue has increased to £106 million (2012: £90 million), up 18% in the retail networks and 8% in e&m commerce. Net revenue growth is higher than revenue in retail networks because mobile top-up decline, particularly where PayPoint is principal, has a lesser impact on net revenue than revenue and because of the inclusion of set up fees for the DWP Simple Payment service.

Operating profit, including our share of Collect+, was £41.0 million (2012: £37.0 million), an increase of 11%. The increase in the operating profit is the result of the strong growth in the retail networks and the reduced loss in the period in Collect+.

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, merchant service charges for card payments and costs for the provision of call centres for PayByPhone clients. Net revenue is a measure which the directors believe assists with a better understanding of the underlying performance of the group.

# OPERATING AND FINANCIAL REVIEW *continued*

## Bill and general

|                          |      | <b>53 weeks ended<br/>31 March<br/>2013</b> | 52 weeks ended<br>25 March<br>2012 | Increase<br>% |
|--------------------------|------|---|------------------------------------|---------------|
| Transactions             | '000 | <b>432,793</b>                              | 383,332                            | 12.9          |
| Transaction value        | £000 | <b>7,751,965</b>                            | 6,757,902                          | 14.7          |
| Revenue                  | £000 | <b>79,783</b>                               | 64,001                             | 24.7          |
| Net revenue <sup>1</sup> | £000 | <b>48,104</b>                               | 37,390                             | 28.7          |

Bill and general payment transactions were ahead of the prior year as a result of a 15% increase in prepaid energy volumes. The rise in prepaid volumes was driven by an increase in the number of new prepay meters installed, higher energy use in colder weather, the introduction of our service for npower in the West Midlands and higher energy tariffs. There was also strong growth in Romania, where we processed over 25.5 million transactions (2012: 18.9 million).

The Simple Payment service has now been launched in selected locations across the UK, although volumes have not been material in the reported period.

Revenue and net revenue growth in excess of transactions was caused mainly by Simple Payment service set up and management fees.

## Top-ups

|                          |      | <b>53 weeks ended<br/>31 March<br/>2013</b> | 52 weeks ended<br>25 March<br>2012 | Decrease<br>% |
|--------------------------|------|---|------------------------------------|---------------|
| Transactions             | '000 | <b>118,270</b>                              | 125,163                            | (5.5)         |
| Transaction value        | £000 | <b>1,006,234</b>                            | 1,071,947                          | (6.1)         |
| Revenue                  | £000 | <b>80,390</b>                               | 94,450                             | (14.9)        |
| Net revenue <sup>1</sup> | £000 | <b>21,855</b>                               | 22,756                             | (4.0)         |

Top-up transactions decreased over last year due to the continued decline in mobile top-up volumes in the UK and Ireland of 12%. The UK and Irish mobile transaction decline was partly offset by the introduction of The Health Lottery, e-money loads and a small increase in Romanian mobile top-ups, where the impact of a larger network has offset market decline similar to that experienced in the UK.

The reduction in top-up transaction value primarily resulted from prepay mobile market decline. The Health Lottery average transaction values are relatively low, resulting in a slightly larger decrease in transaction value than in transactions. In Romania and Ireland, PayPoint acts as principal for mobile phone top-ups for which the sales value is recorded as revenue and the purchase cost is recorded in cost of sales.

In the UK, PayPoint acts as an agent and only the commission income is recorded as revenue. Therefore, the decline in the mobile top-up market in Romania and Ireland has a larger impact on revenue than net revenue. Notwithstanding this, top-up net revenue decreased less than the fall from mobile as a result of the introduction of The Health Lottery.

## Retail services

|                   |      | <b>53 weeks ended<br/>31 March<br/>2013</b> | 52 weeks ended<br>25 March<br>2012 | Increase<br>% |
|-------------------|------|---|------------------------------------|---------------|
| Transactions      | '000 | <b>73,785</b>                               | 60,493                             | 22.0          |
| Transaction value | £000 | <b>522,929</b>                              | 426,527                            | 22.6          |
| Revenue           | £000 | <b>27,707</b>                               | 23,659                             | 17.1          |
| Net revenue       | £000 | <b>16,817</b>                               | 13,844                             | 21.5          |

Retail services volumes increased across all products. ATM transactions increased by 14%, credit and debit transactions by 17%, SIM card sales by 24% and parcels more than doubled over the prior year. Money transfer transactions more than doubled, following the launch of the service in Romania during the period.

Transaction value growth was driven by the increases in ATM cash withdrawals and money transfer transactions (which are higher value transactions). Debit/credit transactions (where the card sponsor settles direct with our retailer), parcel transactions and terminal advertising have no associated transaction value and SIM sales are low value transactions.

Retail services revenue grew strongly through sales success with retailers. Net revenue had a larger percentage increase than revenue as retail agent commission is not paid for credit and debit card transactions and receipt advertising.

## 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 loss of the joint venture in its consolidated income statement, after operating profit.

|                  |      | <b>53 weeks ended<br/>31 March<br/>2013</b> | 52 weeks ended<br>25 March<br>2012 | Increase/<br>(decrease)<br>% |
|------------------|------|---|------------------------------------|------------------------------|
| Collect+ at 100% |      |   |                                    |                              |
| Transactions     | '000 | <b>7,686</b>                                | 3,810                              | 101.7                        |
| Revenue          | £000 | <b>17,753</b>                               | 8,029                              | 121.1                        |
| Loss             | £000 | <b>1,929</b>                                | 3,658                              | (47.3)                       |

Transactions more than doubled, driving an increase in revenue ahead of transactions as a result of a richer mix of consumer parcels. The loss has reduced and substantial further improvement in the results is expected this year.

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, merchant service charges for card payments and costs for the provision of call centres for PayByPhone clients. Net revenue is a measure which the directors believe assists with a better understanding of the underlying performance of the group.

# OPERATING AND FINANCIAL REVIEW *continued*

## Internet payments

|                   |      | <b>53 weeks ended<br/>31 March<br/>2013</b> | 52 weeks ended<br>25 March<br>2012 | Increase<br>% |
|-------------------|------|---|------------------------------------|---------------|
| Transactions      | '000 | <b>91,739</b>                               | 72,820                             | 26.0          |
| Transaction value | £000 | <b>4,733,078</b>                            | 3,796,569                          | 24.7          |
| Revenue           | £000 | <b>9,933</b>                                | 9,670                              | 2.7           |
| Net revenue       | £000 | <b>9,933</b>                                | 9,670                              | 2.7           |

Internet transactions of 92 million were up 26% on prior year as PayPoint.net continues to add large merchants and grow existing merchants organically.

Average internet transaction value has decreased by 1% to £51.59 (2012: £52.14).

Revenue growth was less than transaction and value growth predominantly due to higher transaction growth in some larger merchants who benefit from lower pricing and a one off receipt in the prior year.

## PayByPhone

|                   |      | <b>53 weeks ended<br/>31 March<br/>2013</b> | 52 weeks ended<br>25 March<br>2012 | Increase<br>% |
|-------------------|------|---|------------------------------------|---------------|
| Transactions      | '000 | <b>22,404</b>                               | 17,307                             | 29.5          |
| Transaction value | £000 | <b>81,217</b>                               | 66,949                             | 21.3          |
| Revenue           | £000 | <b>5,846</b>                                | 4,751                              | 23.0          |
| Net revenue       | £000 | <b>4,081</b>                                | 3,284                              | 24.3          |

Transactions increased by 29%. PayByPhone continues to win key contracts with councils and parking authorities across the UK, North America and France as they provide a more convenient and cost effective method for collecting parking charges.

PayByPhone transaction values have increased by less than volume growth, with average transaction value down over the prior year as new clients' parking charges were lower than existing clients.

PayByPhone revenues have grown at a slower rate than transactions primarily as a result of a one off receipt in the prior year and reduced call centre income where, for some clients, call centre costs are recharged to the clients. We have reduced the number and length of calls made, leading to decreased costs. Further migration towards mobile web and mobile applications is expected to continue this trend.

## Other

|                   |      | <b>53 weeks ended<br/>31 March<br/>2013</b> | 52 weeks ended<br>25 March<br>2012 | Increase<br>% |
|-------------------|------|---|------------------------------------|---------------|
| Transactions      | '000 | -   | -                                  | -             |
| Transaction value | £000 | -   | -                                  | -             |
| Revenue           | £000 | <b>4,867</b>                                | 3,498                              | 39.1          |
| Net revenue       | £000 | <b>4,867</b>                                | 3,498                              | 39.1          |

Other revenue includes the recharge of development costs and other fees and has risen predominantly due to an increase in fees charged to retailers for administrative services.

## Network growth

Terminal sites overall have increased by 4% to 32,409.

In the UK and Ireland, sites have increased by 683, an increase of 3%. In 7,179 sites, we provide debit and credit card acceptance, increasing retailer capability to accept convenient contactless card transactions. During the period, 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 full functionality at lower cost. As well as enhancing our service to retailers, this releases terminals for use in Romania. In addition to these 2,225 PPOS solutions, there were 4,196 broadband enabled terminals.

In Romania, we increased the number of terminal sites by 609 in the period.

In our internet channel, we added over 737 new merchants during the period and the overall reduction in merchants, since 25 March 2012, is largely the result of the removal of low volume merchants.

We added Collect+ sites as transaction volumes increased and as retailers recognised the benefits of offering this service.

|                             | <b>31 March<br/>2013</b> | 25 March<br>2012 | Increase /<br>(decrease)<br>% |
|-----------------------------|--------------------------|------------------|-------------------------------|
| <b>Analysis of sites</b>    |                          |                  |                               |
| UK & Ireland terminal sites | <b>25,070</b>            | 24,387           | 2.8                           |
| Romania terminal sites      | <b>7,339</b>             | 6,730            | 9.0                           |
| Total terminal sites        | <b>32,409</b>            | 31,117           | 4.2                           |
| Internet merchants          | <b>5,511</b>             | 5,670            | (2.8)                         |
| Collect+ sites              | <b>5,255</b>             | 4,721            | 11.3                          |

# OPERATING AND FINANCIAL REVIEW *continued*

## FINANCIAL REVIEW

### Income statement

Revenue for the period was 4% higher, at £209 million (2012: £200 million), from growth across the majority of services. Cost of sales reduced to £119 million (2012: £122 million). The cost of mobile top-ups in Ireland and Romania<sup>1</sup> has fallen to £32 million (2012: £38 million). Retailers' commission decreased to £69 million (2012: £70 million) as a result of lower mobile top-up commission. These reductions in cost were offset by higher depreciation (on increased capital expenditure) and the UK retail field force, where we increased headcount by 50% during the previous year. Gross profit margin improved to 43.0% (2012: 39.1%) mainly as a consequence of the reduction in the cost of sales.

Net revenue<sup>2</sup> of £106 million (2012: £90 million) was up 17% from the growth in energy prepayment, bill payment, Simple Payment service set up and management fees, The Health Lottery, retail services, internet payments and PayByPhone.

Operating costs (administrative expenses) increased 21% to £48 million (2012: £39 million) reflecting:

- step changes in the UK retail channel of the running costs arising from the separation from group and for the DWP's Simple Payment service;
- the increasing cost of IT operations and development to support the necessary capacity to introduce new products and improve the efficiency of IT delivery; and
- continuing investment in our e&m commerce channel to support revenue growth in these fast moving markets.

We plan to continue the increase in expenditure for IT and e&m commerce in the current year.

Operating margin<sup>3</sup> fell to 38.8% (2012: 41.0%) as a consequence of higher operating costs.

Our share of the loss in developing Collect+ was £1.0 million (2012: £1.8 million). The integration of new merchants, heightened consumer awareness and improvements in service levels for peak trading all helped to drive up revenues, which led to the decrease in the loss.

Profit before tax was £41.3 million (2012: £37.2 million), an increase of 10.9%. The tax charge of £10.3 million (2012: £10.3 million) represents an effective rate of 25.0% (2012: 27.6%). The reduction in the rate reflects the decrease in the UK corporate tax rate, the use of losses in Romania and relief for shares vesting in the period on which no deferred tax had been recognised. The reduction in UK corporation tax nominal rate to 23% became effective after the period end.

### Statement of financial position

Net assets of £105.9 million (2012: £91.4 million) reflect a strong financial position, including cash of £46.6 million (2012: £35.5 million) and no debt.

### Restatement of 2012 and 2011 consolidated statements of financial position

Following the conclusion of recent correspondence with the Financial Reporting Council's Conduct Committee (FRCCC), the directors concluded that the accounting policy in respect of client settlement amounts should be amended, together with a restatement of the comparative consolidated statements of financial position, to reflect the obligation to pay clients, which arises as soon as retailers collect cash from consumers, giving rise to a financial liability and a corresponding asset as set out in IAS 32.

The re-presentation of these items has had no effect on the consolidated income, net assets, earnings per share or total cash flows as previously reported in the 2012 or 2011 annual reports.

Historically, the group has not recognised a receivable in respect of amounts collected by retail agents and, correspondingly, has not recognised a liability for the associated amounts payable to clients. The rationale for not recognising these balances in the consolidated statement of financial position was that PayPoint acts as a disclosed agent in the transaction, transferring cash between the retail agents and clients. PayPoint does not bear credit risk for the majority of this cash flow, nor does the majority of the cash pass through accounts to which PayPoint has title.

Further details are included in note 1 to the financial statements.

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, merchant service charges for card payments and costs for the provision of call centres for PayByPhone clients. Net revenue is a measure which the directors believe assists with a better understanding of the underlying performance of the group.  
3. Operating margin is calculated as operating profit, including our share of Collect+ losses as a percentage of net revenue.

# OPERATING AND FINANCIAL REVIEW *continued*

## Cash flow

Cash generated by operations was £50.7 million (2012: £43.3 million), reflecting strong conversion of profit to cash. Corporation tax of £10.6 million (2012: £10.4 million) was paid. Capital expenditure of £9.7 million (2012: £5.3 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 retail till systems). Net interest received was £0.3 million (2012: £0.2 million net expense). Equity dividends paid were £19.0 million (2012: £16.4 million). Cash and cash equivalents were £46.6 million (including client cash of £7.0 million) up from £35.5 million (including client cash of £5.1 million). We expect the usual outflow of cash in the first half of the current year to be exacerbated by increased capital spend, increased working capital and the special dividend.

## Economic profit

PayPoint's economic profit (operating profit less tax and capital charge) was £24.0 million (2012: £20.4 million), an increase of 17%.

## Dividend

We propose to pay a final dividend of 20.2p per share on 25 July 2013 (2012: 17.8p) to shareholders on the register on 28 June 2013 together with a special dividend of 15p per share, subject to the approval of the shareholders at the annual general meeting. An interim dividend of 10.2p (2012: 8.7p) was paid on 20 December 2012, making a total dividend for the period of 45.4p or, excluding the special dividend, 30.4p (2012: 26.5p), up 15%, broadly in line with earnings.

## Liquidity and going concern

The group has cash of £46.6 million (including client cash of £7.0 million) and had, at the period end, an undrawn, unsecured loan facility of £35 million, which was agreed at the start of the previous financial year and has an unexpired term of three years. Cash and borrowing capacity is adequate to meet the foreseeable needs of the group, taking account of risks (pages 12 and 13). 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 period, the group made charitable donations of £23,808 (2012: £23,075) 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.

During the period, 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.

## Strategy, risks and corporate social responsibility

Details of the company's strategy are included in the Chief Executive's review on page 3. An analysis of risks facing the company is set out on pages 12 and 13. The company's approach to corporate social responsibility is set out in a separate statement on pages 14 to 16.

## Economic climate

The company's bill and general payments service, which accounts for 46% (2012: 40%) 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 internet 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. PayByPhone is able to offer parking authorities a more cost-effective collection system for parking compared to pay and display machines. This has led to an increase in the number of tenders being issued as parking authorities try to reduce their costs.

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 PayPoint.net, exposure is limited to receivables from merchants for fees, except in the case of bureau internet merchants, where PayPoint.net retains credit risk on merchant default for credit card charge backs, a risk mitigated in part by cash retention. In PayByPhone, exposure is limited to receivables from parking authorities.

## Outlook

For the current financial year, trading is in line with the company's expectations. Our retail networks are strong and developing well. We intend to pursue further opportunities to grow the retail network, thereby increasing market share in bill payment and retail services, including ATMs, in the UK, Ireland and Romania. We expect continued progress in the internet and mobile payment channels. Together, our businesses provide a strong foundation to deliver value for our shareholders.

23 May 2013

# RISKS

PayPoint's business, financial condition or operations could be materially and adversely affected by the risks summarised below. Although management takes steps to mitigate risks where possible or where the cost of doing so is reasonable in relation to the probability and seriousness of the risk, it may not be possible to avoid the 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 19.

| 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 it is planned to seek Payment Institution status for prefunded cash payments to consumers and to allow the internet 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 internet and mobile phone distribution channels are 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 lawmakers, 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 *continued*

| Risk area   | Potential impact   | Mitigation strategies  |
|---|--|--|
| <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 8% 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.  |

# CORPORATE SOCIAL RESPONSIBILITY

PayPoint is committed to dealing fairly and with a high level of integrity with all its stakeholders, including clients, retailers, merchants, consumers, local communities 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. The corporate social responsibility 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 32,000 retailers in three countries and provide a service to millions of consumers.   | Where our employees live and work.   | 582 shareholders at 31 March 2013.  |
| <b>Impact</b>                                       | Provision of convenient services for consumer payments.   | To provide a stable and reliable service and generate consumer footfall for retailers.   | 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 £23,808 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>25% 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. |

# CORPORATE SOCIAL RESPONSIBILITY *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 using 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. During the period we have promoted a cycle to work scheme for our UK employees. Whilst not generating a huge saving, our monthly board reports are now sent electronically to the board rather than via the post.

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 57% of all waste generated (2012: 48%).

|                    | CO <sub>2</sub> Tonnes       |                              | Consumption measure per employee |                              |
|--------------------|------------------------------|------------------------------|----------------------------------|------------------------------|
|                    | 53 weeks ended 31 March 2013 | 52 weeks ended 25 March 2012 | 53 weeks ended 31 March 2013     | 52 weeks ended 25 March 2012 |
| Business travel    | 1,087                        | 1,059                        | 5,399km                          | 7,113km                      |
| Energy purchased   | 1,236                        | 1,130                        | 3,995kwh                         | 4,395kwh                     |
| Water consumed     | 1                            | 2                            | 7.17 m <sup>3</sup>              | 8.59 m <sup>3</sup>          |
| Waste <sup>1</sup> | 56                           | 56                           |                                  |                              |
| <b>Total</b>       | <b>2,380</b>                 | <b>2,247</b>                 |                                  |                              |

|                   | 53 weeks ended 31 March 2013<br>Tonnes | 52 weeks ended 25 March 2012<br>Tonnes | Change %        |
|-------------------|--|--|-----------------|
| <b>Waste</b>      |  |  |                 |
| Landfill          | 11.8                                   | 14.4                                   | (18.3)          |
| Recycled          | 15.6                                   | 13.1                                   | 19.2            |
| <b>Total</b>      | <b>27.4</b>                            | <b>27.5</b>                            | <b>(0.4)</b>    |
| <b>% recycled</b> | <b>57.1%</b>                           | <b>47.7%</b>                           | <b>9.4 ppts</b> |

## Employees

PayPoint employed, on average, 620 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. In addition, regular staff meetings 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 have 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.

All employees across the group participate in an annual employee engagement survey which covers a wide range of subjects, including job satisfaction, employee involvement, learning and development, reward and recognition 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;

**whistleblowing** - 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;

1. PayPoint has adopted the GHG Protocol in Romania, CGGI in Canada and Defra 12 in the UK for the calculation of CO<sub>2</sub> waste and restated the comparative figures on the same basis.

## CORPORATE SOCIAL RESPONSIBILITY *continued*

**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>2</sup>     |                                    |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
|  | 53 weeks ended<br>31 March<br>2013 | 52 weeks ended<br>25 March<br>2012 | 53 weeks ended<br>31 March<br>2013 | 52 weeks ended<br>25 March<br>2012 |
| <b>General<sup>1</sup></b>                         |                                    |                                    |                                    |                                    |
| Average number of staff employed during the period | 464                                | 432                                | 156                                | 148                                |
| Average length of service                          | 5 years                            | 4 years                            | 2 years                            | 3 years                            |
| Average staff turnover during the period           | 23%                                | 26%                                | 17%                                | 28%                                |
| Sickness absence rate                              | 1.5%                               | 1.3%                               | 1.1%                               | 2.0%                               |
| % working part-time                                | 9%                                 | 10%                                | 2%                                 | 2%                                 |
| <b>Women<sup>1</sup></b>                           |                                    |                                    |                                    |                                    |
| Number of women employed                           | 198                                | 200                                | 59                                 | 54                                 |
| % of all employees                                 | 43%                                | 43%                                | 38%                                | 37%                                |
| % of management grades                             | 20%                                | 13%                                | 26%                                | 14%                                |
| <b>Ethnic minorities<sup>1</sup></b>               |                                    |                                    |                                    |                                    |
| % of all employees                                 | 24%                                | 16%                                | 8%                                 | 4%                                 |
| % of management grades                             | 3%                                 | 3%                                 | 6%                                 | 1%                                 |
| <b>Disabled employees<sup>1</sup></b>              |                                    |                                    |                                    |                                    |
| % of all employees                                 | 0%                                 | 1%                                 | 0%                                 | 1%                                 |
| <b>Age profile<sup>1</sup></b>                     |                                    |                                    |                                    |                                    |
| employees under 25                                 | 54                                 | 46                                 | 12                                 | 12                                 |
| employees 25 to 29                                 | 90                                 | 103                                | 36                                 | 31                                 |
| employees 30 to 49                                 | 262                                | 224                                | 107                                | 101                                |
| employees 50 and over                              | 66                                 | 63                                 | 3                                  | 4                                  |

1. Numbers based on employees employed at the end of the relevant period  
2. Rest of the world includes Ireland, Romania, Canada and France

# GOVERNANCE

The directors recognise the importance of sound corporate governance, whilst taking into account the size and nature of the company. The company has fully complied with the provisions set out in the Financial Reporting Council's UK Corporate Governance (the Code) for the 53 weeks ended 31 March 2013, a copy of which can be found at [www.frc.org.uk/corporate/ukcgcode.cfm](http://www.frc.org.uk/corporate/ukcgcode.cfm).

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

## The board

The board comprises nine directors: David Newlands, the non-executive Chairman, 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.

The board considers that David Newlands, Eric Anstee, Andrew Robb, Stephen Rowley and Nick Wiles are independent for the purposes of the Code. Given the size of the company and its ownership structure, the board has concluded that the proportion of independent non-executive directors is appropriate.

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.

Biographical details of each of the current serving directors are set out on page 20. 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 20. 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 except for Andrew Robb who was 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.

A formal performance evaluation of the board, its committees and individual directors took place during the period. The performance of individual executive directors is appraised annually by the Chief Executive, to whom they report. The performance of the Chairman is reviewed by the non-executive directors, led by Andrew Robb, Senior Independent Director, taking into account the views of the executive directors.

The performance review of the Chief Executive is conducted by the Chairman, taking into account the views of other directors. Non-executive directors' performance is reviewed by the Chairman, taking into account the views of other directors. The performance evaluation confirmed that the members of the board were satisfied with the board's overall performance and 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.

An external performance evaluation of the board will take place next year in line with the requirements of the Code.

Every member of the board will offer himself for re-election at the 2013 annual general meeting, including Andrew Robb, the Senior Independent Director. A new Senior Independent Director will be appointed following an evaluation of internal and external candidates. Andrew Robb has agreed to continue as Senior Independent Director until that appointment. The board's recommendations in respect of the re-election of each director can be found in the notice of meeting on pages 60 to 64.

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*

## 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).

### 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. The committee met six times during the period. All members were in attendance with the exception of Andrew Robb, who was unable to attend one of the meetings.

The audit committee is primarily responsible for monitoring that the financial performance of the group is properly measured and reported and appropriate financial control systems and procedures are in place. During the 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 auditor and other independent audits by clients, LINK and BSI.

One of the committee's roles during the period has been to consider correspondence with the Financial Reporting Council's Conduct Committee (FRCCC), which requested some information and clarification relating to certain items in the group's 2012 financial statements. Following that, the directors concluded that certain items in the group's 2012 consolidated statement of financial position should be re-stated. Details of these items are set out in note 1 to the financial statements. The discussions with the FRCCC in respect of the group's 2012 financial statements have now been concluded. The committee reviewed and approved all of the group's correspondence with the FRCCC.

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 the auditor's 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 they are 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.

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, which is provided with the minutes of all committee meetings.

The appointment of Deloitte LLP as external auditor is kept under annual review. Rather than adopt a policy on tendering frequency, an annual review of the effectiveness of the external audit is undertaken by the committee. 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. 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 60 to 64.

### Remuneration committee

The role, composition and activities 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 23 to 35.

### Nomination committee

The nomination committee comprises Eric Anstee, Andrew Robb, Stephen Rowley, David Morrison, Nick Wiles and David Newlands, who is its Chairman. It met once during the period and all members were in attendance.

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.

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

### 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.

## GOVERNANCE *continued*

### **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.

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. KPMG LLP provides internal audit services to the company as directed by the audit committee, in accordance with the approved internal audit plan. They execute 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 report the results to the audit committee.

### **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.

# BOARD OF DIRECTORS

## **David Newlands, non-executive Chairman (aged 66), 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 companies.

## **Dominic Taylor, Chief Executive (aged 54), 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 59), 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 GEC in 1989, where, until 2001, he fulfilled the role of Financial Services Director. George left Marconi (formerly GEC) in 2001 to work as Group Director, Chief Executive's Office at Centrica plc, and in 2003 was appointed as Director of Financial Control.

## **Tim Watkin-Rees, Business Development Director (aged 50), 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 54), 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 70), 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 62), appointed 16 September 2008**

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

## **Stephen Rowley, non-executive director (aged 54), appointed 16 September 2008**

Stephen was Chief Executive of Torex, leading its turnaround and eventual sale to Micros in 2012. He was formerly Chief Executive of Anite plc, a FTSE250 technology firm. His former 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 51), appointed 22 October 2009**

Nick 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.

# 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 53 weeks ended 31 March 2013.

The Chairman's statement, Chief Executive's review, operating and financial review and corporate governance statement form part of this directors' report.

## 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 payments products and services and collects payments on behalf of the UK and Ireland's leading utility and customer service organisations, and there are 25,070 convenience retail outlets using PayPoint's terminals. On average, over 11 million consumer transactions are processed weekly by PayPoint. At a PayPoint outlet, consumers are provided with a one stop shop for making cash payments for the wide range of PayPoint's clients. In addition, PayPoint provides other services to retail outlets.

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

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

PayByPhone 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, 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 2013, the company had been notified of the following disclosable interests in the voting rights of the company as required by provision 5.1.2 of the FSA's Disclosure and Transparency Rules:

| Name of holder                                     | No. of ordinary shares | Percentage of issued capital |
|--|------------------------|------------------------------|
| Invesco Limited                                    | 19,109,440             | 28.15%                       |
| Liontrust Asset Management Plc                     | 4,614,362              | 6.80%                        |
| Troy Asset Management (UK)                         | 4,514,008              | 6.65%                        |
| Standard Life                                      | 4,488,183              | 6.61%                        |
| Legal & General Investment Management Limited (UK) | 3,457,341              | 5.09%                        |
| RIT Capital Partners Plc                           | 2,896,057              | 4.27%                        |

## Share Capital

As at the date of this report, 67,881,683 ordinary shares of 1/3p each have been issued and fully paid up and are quoted on the London Stock Exchange. During the 53 weeks ended 31 March 2013, 59,886 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 that may result in restrictions on the transfer of securities or on voting rights. Unless expressly specified to the contrary in the articles of association of the company, the company's articles of association may be amended by a special resolution of the company's shareholders.

At the annual general meeting on 27 July 2012, the directors were given authority to purchase 14.99% of its issued share capital, allot relevant securities up to an aggregate nominal amount of £67,824 and to disapply pre-emption rights in respect of allotments of relevant securities up to an aggregate nominal amount of £10,174. Resolutions to renew these authorities will be proposed at the 2013 annual general meeting, details of which are set out in the notice of meeting on pages 60 to 64.

The company's authorised and issued share capital as at 31 March 2013, together with details of purchases of own shares during the period, are set out in note 23.

## Directors

The names of the directors at the date of this report and their biographical details are given on page 20 and their interests in the ordinary shares of the company are given on page 35.

## Results for the period

The consolidated income statement, statement of financial position and cash flow statement for the 53 weeks ended 31 March 2013 are set out on pages 38 to 41. The business review of the group for the 53 weeks ended 31 March 2013, which complies with the Accounting Standards Board's 2006 Statement on Operating and Financial Reviews, including an analysis of the group's key performance indicators and financing and treasury policy, is set out on pages 6 to 11 and forms part of the directors' report. An analysis of risk is set out on pages 12 to 13 and of risk management on page 19. The statement of financial position and cash flow statement of the holding company for the 53 weeks ended 31 March 2013 are set out on pages 42 and 43. Since 1 April 2013, 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.

# DIRECTORS' REPORT *continued*

## 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 three 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 32 days' purchases outstanding at 31 March 2013 (2012: 33 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 (2012: £nil). Details of the charitable donations policy can be found within the operating and financial review on page 11.

## Employee matters and environmental issues

Employee matters and environmental issues are discussed in the corporate social responsibility report on pages 14 to 16.

## Future developments

Future developments are discussed in the operating and financial review on pages 7 to 11.

## Dividends

The directors recommend the payment of a final dividend of 20.2p (2012: 17.8p) together with a special dividend of 15p (2012: nil) per ordinary share amounting to £23,910,000 (2012: £12,074,000) to be paid on 25 July 2013 to members on the register on 28 June 2013. An interim dividend was declared and paid during the period of 10.2p per share (2011: 8.7p per share) amounting to £6,906,000 (2011: £5,885,000).

## Related party transactions

Related party transactions that took place during the period can be found in note 27.

## Going concern

At the end of the period, the group had cash of £46.6 million, and had an undrawn, unsecured loan facility of £35.0 million, expiring in May 2016. The company's cash and borrowing capacity is adequate to meet the foreseeable needs of the group, taking into account any risks (see pages 12 to 13). 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 11 of the operating and financial review and commentary on financial risk management is shown in note 26.

## 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 60 to 64.

## Directors' report

Pages 2 to 22, inclusive, of this annual report comprise a report of the directors that has been drawn up and presented in accordance with English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law. In particular, directors would be liable to the company (but not to any third party) if the directors' report contains errors as a result of recklessness or knowing misstatement or dishonest concealment of a material fact, but would not otherwise be liable.

## Statement as to disclosure of information to 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 PayPoint, 1 The Boulevard, Shire Park, Welwyn Garden City, AL7 1EL, on 24 July 2013. The notice of meeting and explanatory information on the resolutions to be passed at the annual general meeting can be found on pages 60 to 64 of the annual report.

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

Susan Court  
Company Secretary  
23 May 2013

# REMUNERATION COMMITTEE REPORT

## STATEMENT BY CHAIR OF THE REMUNERATION COMMITTEE

I report on the activities of the remuneration committee in the light of the draft regulatory changes published by the Department of Business, Innovation and Skills (BIS), which are likely to become mandatory for annual reports published in 2014. This remuneration committee report, which will be put to shareholders for approval at the annual general meeting, complies with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and also the Listing Rules of the UK Listing Authority. In addition, the committee has decided to adopt a number of the BIS proposals early and, as such, this report is divided into three sections. The first is a forward-looking policy report, which details PayPoint's remuneration policies and links to strategy as well as projected pay outcomes under various performance scenarios. The second section is the implementation report, which focuses on the remuneration arrangements and outcomes for the period under review, including the total actual remuneration paid to each director and details of performance against targets. The final section is the audited information required under the existing regulations.

The remuneration committee, whose membership and responsibilities are set out on page 28 of this report, has continued to strive to ensure that executive directors' remuneration provides an appropriate incentive to directors to create shareholder value and 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 this time. This ensures that substantial rewards are only received when substantial value has been created for shareholders.

Highlights of the results for the period under review are shown on page 1. The group's performance was strong, with growth in profits and cash, enabling an increase in the dividend for shareholders.

No major changes have been made to remuneration during the period. For 2013, the committee has agreed salary increases for the executive directors of between 3.2% and 5.6%, taking into account individual and company performance as well as salary increases across the rest of the group. Bonuses for the period under review were 86.2% of maximum, reflecting growth in economic profit of 18%. The bonus structure will remain unchanged for 2013/14. Based on our earnings per share growth for the three years ended 31 March 2013 of 39%, the 2010 deferred share bonus awards will vest in full. 2010 long term incentive plan awards will be performance-tested in June 2013, and based on our total shareholder return performance to date of above upper quartile relative to the FTSE250 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.

The structure of PayPoint's long term incentives (the deferred share bonus plan (DSB) and long term incentive plan (LTIP)) will remain unchanged for 2013 awards, being the last year of application of these plans. These plans will expire in 2014 and the committee has commissioned a full review of incentives with the intention of submitting new proposals to the 2014 annual general meeting. The remuneration committee is aware of recent updates to institutional shareholder guidelines asking companies to consider simpler incentive structures and will be consulting with our major shareholders as part of this review.

Andrew Robb  
Chairman, remuneration committee

# REMUNERATION COMMITTEE REPORT *continued*

## POLICY REPORT

### Executive directors' remuneration

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

| Elements | Purpose and link to strategy           | Operation   | Opportunity   | Performance metrics  | Changes for 2013/14  |  |
|----------|--|---|---|--|--|--|
| Fixed    | <b>Base salary</b>                     | Takes account of personal contribution and performance against company strategy         | Reviewed annually, with account taken of similar positions with comparable status, responsibility and skills in parallel with the individual director's performance, experience and responsibilities, and pay and conditions throughout the company                     | Set broadly around median level  | None   | From 1 April 2013, base salaries were: D Taylor £425,000 (3.9% increase), G Earle £320,000 (3.2% increase), T Watkin-Rees £300,000 (5.6% increase)   |
|          | <b>Pension</b>                         | Provides market appropriate benefits  | Company contribution to personal pension plans  | Set broadly around median level  | None   | From 1 April 2013, pension contributions were increased from 12% to 16% of salary in respect of D Taylor and from 12% to 14% of salary in respect of G Earle and T Watkin-Rees to align better with market norms |
|          | <b>Benefits</b>                        | Provides market appropriate benefits  | Car allowance, health insurance, employee share plans   | D Taylor £23,629<br>G Earle £21,407<br>T Watkin-Rees £20,938   | None   | Increased from 1 April 2013 as follows to align better with market norms:<br>D Taylor £25,300<br>G Earle £22,600<br>T Watkin-Rees £22,100  |
| Variable | <b>Annual bonus</b>                    | Rewards achievement of stretching performance targets for profit and capital efficiency | The remuneration committee reviews and agrees targets at the beginning of each financial year and may subsequently adjust those targets as appropriate for investments and start-up costs that are approved after the targets have been set and changes in rates of tax | Maximum cash bonus of 100% of salary<br><br>70% payment at threshold (95% of plan)<br><br>80% payment at target (100% of plan)<br><br>100% payment at maximum (110% of plan) | 1-year economic profit, i.e. operating profit (including share of joint ventures), less a capital charge (monthly net asset less cash multiplied by the cost of capital) and the actual tax charge | None   |
|          | <b>Deferred Share Bonus Plan (DSB)</b> | Encourages executives to hold equity and rewards earnings growth                        | Mandatory deferral of 25% of annual bonus (and voluntary deferral of up to a further 25%) into shares, which are matched on the third anniversary subject to three year earnings per share performance and continued employment   | 1:1 match on up to 50% of earned bonus (i.e. up to 50% of salary)  | 2013 awards will vest subject to minimum earnings per share growth of RPI+3% p.a. over a three year period   | None   |

## REMUNERATION COMMITTEE REPORT *continued*

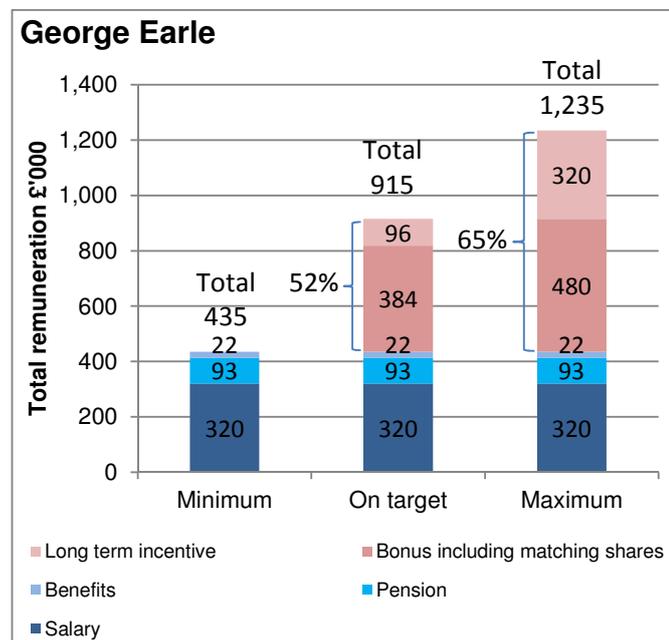
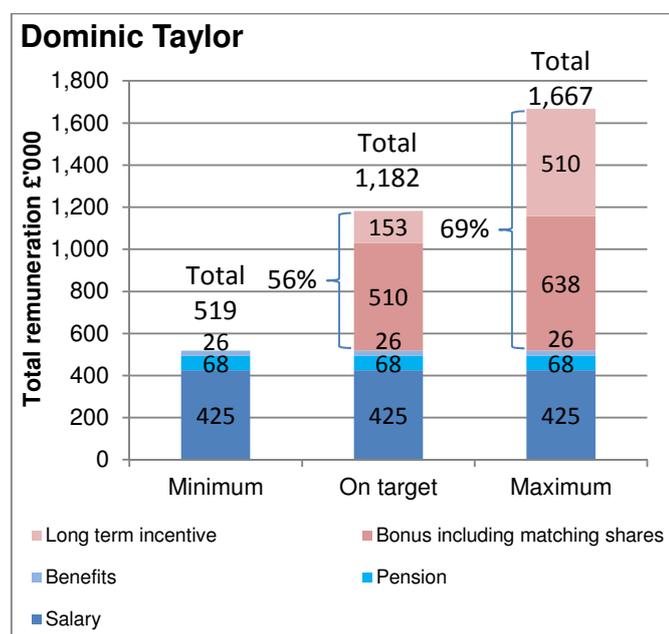
| Elements |  | Purpose and link to strategy  | Operation   | Opportunity  | Performance metrics  | Changes for 2013/14 |
|----------|--|---|---|--|--|---------------------|
| Variable | <b>Long Term Incentive Plan (LTIP)</b> | Links long term variable pay to strategy and driving shareholder returns<br><br>Encourages long-term performance and commitment from participants | Awards of shares, vesting on three year performance and continued employment  | Maximum annual award of 150% of salary (other than in exceptional circumstances)<br><br>2012 awards were 120% of salary for the Chief Executive and 100% of salary for the other executive directors | 2013 awards will vest subject to PayPoint's 3-year TSR relative to the FTSE250 (excluding investment trusts)<br><br>Vesting 30% at median, rising on a straight line basis to 100% at upper quartile | None                |
|          | <b>Share Incentive Plan (SIP)</b>      | Encourage share ownership across all employees  | Opportunity to purchase shares out of pre-tax salary and receive a matching award. The PayPoint SIP is a HMRC approved plan | £1,500 (1:1 match on investment of up to £1,500)   | Continued employment over three years  | None                |

# REMUNERATION COMMITTEE REPORT *continued*

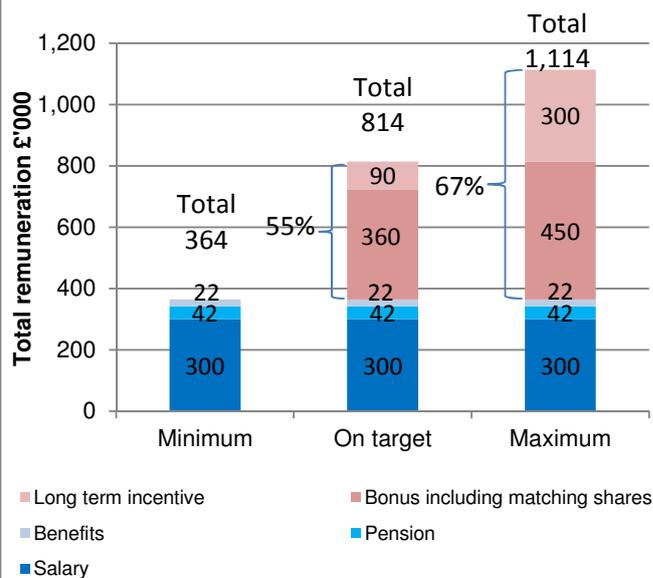
The remuneration committee uses the same cost of living award for directors as is used for the annual management and staff salary reviews. Appropriate account is taken of salary and benefit benchmarking, which is carried out widely throughout the company in each of the annual reviews (at the end of March for directors and management and the end of December for other employees).

## Scenarios

In line with the policy to make a substantial part of total remuneration dependent on performance, 56% and 69% of total remuneration is performance related at target and maximum respectively for the Chief Executive, Dominic Taylor. Similarly, performance-related pay from 1 April 2013 accounts for 52% and 65% at target and maximum respectively for the Group Finance Director, George Earle, and 55% and 67% for the Business Development Director, Tim Watkin-Rees, as shown in the charts below:



### Tim Watkin-Rees



Long term incentives are included on the basis of zero for minimum, 30% of the award for on target (median) and 100% for reaching maximum. Bonuses are included at 80% for achieving target and 100% for achieving maximum (110% of target economic profit). Matching shares are included at 50% of the bonus.

No adjustments in value are made to reflect fair value, or any change in the value of the shares between award and vesting.

## Service contracts and exit policy

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

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

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

Under normal circumstances, executive directors may receive termination payments in lieu of notice equal to fixed pay and benefits for the length of their contractual notice period. In the event an executive director leaves for reasons of death, ill-health, redundancy, retirement, or any other reason which the remuneration committee may, in its absolute discretion, permit, any outstanding long term incentive awards will be pro-rated for time and performance and will either vest at the end of the performance period or immediately, at the committee's discretion. For all other circumstances, outstanding long term incentive awards will lapse. Upon a change of control of the company, awards will be pro-rated for time and vest immediately based on the extent to which the committee determines that the performance conditions have been met or are likely to be met. The committee retains discretion to alter these provisions on a case-by-case basis following a review of circumstances and to ensure fairness for both shareholders and participants.

# REMUNERATION COMMITTEE REPORT *continued*

## Non-executive directors

The remuneration of the non-executive directors is determined by the board based upon recommendations from the Chairman and Chief Executive (or, in the case of the Chairman, based on recommendations from the Senior Independent Director and the Chief Executive) and is within the limits set by the articles of association. Non-executive directors do not participate in any bonus plan or share incentive programme operated by the company and are not entitled to pension contributions or other benefits provided by the company.

| Fees:      | <b>2013</b> | 2012 |
|------------|-------------|------|
|            | <b>£000</b> | £000 |
| D Newlands | <b>125</b>  | 125  |
| A Robb     | <b>47</b>   | 45   |
| D Morrison | <b>40</b>   | 38   |
| E Anstee   | <b>47</b>   | 45   |
| S Rowley   | <b>40</b>   | 38   |
| N Wiles    | <b>40</b>   | 38   |

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:

| <b>Name</b> | <b>Date of appointment</b> | <b>Expiry date</b> |
|-------------|----------------------------|--------------------|
| D Newlands  | 10 August 2004             | 10 August 2013     |
| A Robb      | 10 August 2004             | 10 August 2013     |
| D Morrison  | 10 August 2004             | 10 August 2013     |
| E Anstee    | 16 September 2008          | 10 August 2013     |
| S Rowley    | 16 September 2008          | 10 August 2013     |
| N Wiles     | 22 October 2009            | 10 August 2013     |

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.

## Consideration of conditions elsewhere in the company

Salaries are reviewed annually for all employees, generally with effect from 1 April for senior managers and directors and 1 January for other employees. Appropriate benchmarking is applied across all employee groups when required. Senior managers participate in the group's bonus and long term incentive schemes along with the directors. All UK employees are able to participate in the company's Share Incentive Plan. 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

When determining remuneration, the committee takes into account the guidelines of investor bodies and shareholder views. In light of the high level of support for the 2012 remuneration committee report, and the fact that no significant changes have been made to remuneration for 2013/14, the committee did not carry out a formal shareholder consultation exercise in 2012/13, although it remains open to feedback from shareholders on remuneration policy and arrangements, and commits to undergoing a shareholder consultation in advance of any material changes to remuneration policy. As noted previously, a full review of incentives will be carried out, including consultation with major shareholders, with a view to submitting new proposals for approval at the 2014 annual general meeting. Further detail on the votes received on the 2012 remuneration committee report and the committee's response are provided in the implementation report.

# REMUNERATION COMMITTEE REPORT *continued*

## IMPLEMENTATION REPORT Remuneration in 2012/13

### The remuneration committee

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, and other committee members are Eric Anstee, Stephen Rowley and Nick Wiles.

The remuneration committee received wholly independent advice on executive compensation and incentives from Kepler Associates during the period. No other services were provided to the company by Kepler Associates during the year. The remuneration committee is formally constituted with written terms of reference which set out the full remit of the committee. A copy of the terms of reference is available to shareholders by writing to the Company Secretary 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 twice during the period and all members were in attendance.

Kepler Associates was paid £19,140 for advice received by the remuneration committee and received no other fees from the company.

### Single total figure of remuneration

To aid transparency for our shareholders, the table below sets out the total actual remuneration received by each executive director for the 53 weeks ended 31 March 2013.

| Executive director | Base salary <sup>1</sup><br>£000 | Benefits <sup>2</sup><br>£000 | Pension <sup>3</sup><br>£000 | Annual bonus <sup>4</sup><br>£000 | Long term incentives <sup>5</sup><br>£000 | Total remuneration<br>£000 |
|--------------------|----------------------------------|-------------------------------|------------------------------|-----------------------------------|---|----------------------------|
| D Taylor           | 409                              | 24                            | 49                           | 352                               | 244                                       | 1,078                      |
| G Earle            | 310                              | 21                            | 78                           | 267                               | 154                                       | 830                        |
| T Watkin-Rees      | 284                              | 21                            | 34                           | 245                               | 131                                       | 715                        |

| Non-executive director | Total remuneration <sup>6</sup><br>£000 |
|------------------------|---|
| D Newlands             | 125                                     |
| A Robb                 | 47                                      |
| D Morrison             | 40                                      |
| E Anstee               | 47                                      |
| S Rowley               | 40                                      |
| N Wiles                | 40                                      |

The figures have been calculated as follows:

1. Base salary: amount earned for the period
2. Benefits: the taxable value of annual benefits received in the period
3. Pension: the value of the company's contribution during the period. The audit committee has agreed that G Earle's pension contributions will be paid direct to him (grossed up for tax).
4. Annual bonus: the value of the annual incentive payable for performance in the period to March 2013, including any deferral amounts
5. Long term incentives: includes the value of 2009 DSB and LTIP awards vested during the period
6. As previously stated, non-executive directors do not participate in any bonus plan or share incentive programme and are not entitled to pension contributions or other benefits provided by the company

### Basic salary

The salaries for 2012 and 2013 are set out in the table below, together with the average increases across the company.

| Name                              | 1 April 2011 | 1 April 2012             | 1 April 2013             |
|-----------------------------------|--------------|--------------------------|--------------------------|
| D Taylor                          | £397,000     | £409,013 (3.0% increase) | £425,000 (3.9% increase) |
| G Earle                           | £301,000     | £310,000 (3.0% increase) | £320,000 (3.2% increase) |
| T Watkin-Rees                     | £275,000     | £284,000 (3.3% increase) | £300,000 (5.6% increase) |
| Average increase across the group |              | 3.6% increase            | 3.2% increase            |

# REMUNERATION COMMITTEE REPORT *continued*

## Annual performance-related bonus

The company's bonus plan for the 53 weeks ended 31 March 2013 was based on the achievement of an economic profit (operating profit after tax and a charge for capital employed based on the company's cost of capital) target. Based upon the actual results for the period, 86.2% of the maximum bonus was payable.

The results are set out below:

|                        | 70% payment threshold for 95% of plan delivery<br>£000 | 80% payment threshold for plan delivery<br>£000 | 100% payment threshold for 110% of plan delivery<br>£000 | <b>53 weeks ended<br/>31 March 2013<br/>£000</b> | 52 weeks ended<br>25 March 2012<br>£000 |
|------------------------|--|---|--|--|---|
| <b>Economic profit</b> | 22,105   | 23,268  | 25,595   | <b>23,985</b>                                    | 20,415                                  |

Bonuses are subject to a 25% compulsory, and a possible additional 25% voluntary, deferral. The deferred bonus will be utilised for the acquisition of shares (bonus shares), with the opportunity of earning an additional award of matching shares of an equivalent value to the gross bonus deferred (i.e. up to 50% of salary).

## Deferred Share Bonus Plan (DSB)

### Awards made during the period

The current DSB was adopted by shareholders at the 2009 annual general meeting. In the year under review, executive directors deferred 50% of their bonuses and, therefore, were granted matching awards as detailed below:

|                                  |  |
|----------------------------------|--|
| <b>Type of award</b>             | Matching award   |
| <b>Basis of award</b>            | 1:1 match on deferred amounts  |
| <b>Face value of awards made</b> | D Taylor: £176,112 (28,178 shares)<br>G Earle: £133,300 (21,328 shares)<br>T Watkin-Rees: £121,962 (19,514 shares) |
| <b>Performance period</b>        | 3 financial years (1 April 2012 – 31 March 2015)   |
| <b>Performance threshold</b>     | Earnings per share (EPS) growth of RPI+3% p.a.   |
| <b>% vesting at threshold</b>    | 100% of award  |

If a participant disposes of any of their deferred shares during the three year deferral period, a corresponding proportion of matching shares is forfeited. The committee also has discretion to increase or decrease award sizes under the annual bonus and deferred bonus plan, taking into account the appropriate level of total compensation of executives of the company.

### Vesting awards

DSB awards were made on the same basis as described above in 2010. These awards will vest in full in June 2013 based on performance to 31 March 2013. Details of awards vesting to executive directors are shown in the table below.

|               | Matching shares held | Performance period            | Vesting date | EPS growth <sup>1</sup>        | % vesting | Share price at vesting <sup>2</sup> | Value (£000) |
|---------------|----------------------|-------------------------------|--------------|--------------------------------|-----------|-------------------------------------|--------------|
| D Taylor      | 27,905               | 28 March 2010 – 31 March 2013 | 1 June 2013  | Target: 21.7%<br>Actual: 38.9% | 100%      | £8.58                               | 239          |
| G Earle       | 21,122               |                               |              |                                |           |                                     | 181          |
| T Watkin-Rees | 18,043               |                               |              |                                |           |                                     | 155          |

1. Based on 2013 EPS of 45.7p, 2010 EPS of 32.9p, and RPI growth over the 3 year period of 12.7%

2. Based on the average share price from 1 January 2013 – 31 March 2013

In calculating EPS growth, the remuneration committee will use the principles behind the audited figures disclosed in the company's financial statements and may take advice from independent advisers as to whether any adjustments are required to ensure consistency in accordance with the terms of the performance conditions.

# REMUNERATION COMMITTEE REPORT *continued*

## Long Term Incentive Plan (LTIP)

### Awards made during the period

The current LTIP was adopted at the 2009 annual general meeting. During the year under review, executive directors were made the following awards:

|                                  |  |
|----------------------------------|--|
| <b>Type of award</b>             | Conditional performance vesting shares   |
| <b>Basis of award</b>            | 120% of salary for the Chief Executive, 100% of salary for the other executive directors   |
| <b>Face value of awards made</b> | D Taylor: £490,813 (79,807 shares)<br>G Earle: £309,997 (50,406 shares)<br>T Watkin-Rees: £283,995 (46,178 shares)   |
| <b>Performance period</b>        | 3 years from the date of grant (i.e. 25 May 2012 – 25 May 2015)  |
| <b>Performance conditions</b>    | Total Shareholder Return (TSR) relative to the constituents of the FTSE250 index (excluding investment trusts)<br>Below median - 0% vesting<br>Median - 30% vesting*<br>Upper quartile - 100% vesting*<br><br>*with proportionate vesting between these points<br><br>The remuneration committee will, in any event, also need to satisfy itself that the recorded TSR is a genuine reflection of the underlying financial performance of the company before releasing any share awards under the LTIP |

Relative TSR was selected as the performance condition for LTIP awards by the remuneration committee, as it ensures that the executives will have outperformed their peers in the comparator group over the measurement period in delivering shareholder value, before being entitled to receive any value from their awards, irrespective of general market conditions. TSR will be calculated by the remuneration committee's independent advisers.

### Vesting awards

LTIP awards were made on the same basis as described above in 2010. If TSR performance to 28 May 2013 matches the performance to date, and the committee is satisfied that this is a genuine reflection of the underlying financial performance of the company, the award will vest in full in June 2013 as shown below.

|               | Shares held | Performance period              | Vesting date | TSR ranking  | % vesting        | Share price <sup>1</sup> | Value (£000) |
|---------------|-------------|---------------------------------|--------------|--|------------------|--------------------------|--------------|
| D Taylor      | 162,857     | 28 May 2010<br>– 28 May<br>2013 | 28 May 2013  | 6 <sup>th</sup> position out<br>of 182 (top<br>quartile) | 100%<br>expected | £8.58                    | 1,397        |
| G Earle       | 102,723     |                                 |              |  |                  |                          | 881          |
| T Watkin-Rees | 87,750      |                                 |              |  |                  |                          | 753          |

1. Based on the average share price from 1 January 2013 – 31 March 2013

### Share Incentive Plan (SIP)

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

A key board objective is to give employees the opportunity to:

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

The company is currently offering eligible employees, including executive directors and senior managers, the opportunity to purchase £1,500 of shares a year out of pre-tax salary and provide additional matching shares on the basis of one matching share for every share purchased. These matching shares will normally be released three years after they have been awarded, provided that the associated shares purchased by the employee have been retained and provided the employee is still employed by a group company at the time. Details of shares held in the SIP by executive directors are set out on page 31.

# REMUNERATION COMMITTEE REPORT *continued*

## Directors' shareholdings

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

|                            | Ordinary shares of 1/3p each 31 March 2013 | Shares in bonus trust beneficially owned | Matching shares awarded but not vested <sup>5</sup> | Long term incentive shares awarded but not vested <sup>5</sup> | Share incentive plan <sup>6</sup> |
|----------------------------|--|--|---|--|-----------------------------------|
| E Anstee                   | 7,700                                      |  |   |  |                                   |
| G Earle <sup>1</sup>       | 226,181                                    | 30,624                                   | 59,457  | 213,849  | 6,581                             |
| D Morrison <sup>2</sup>    | 35,000                                     |  |   |  |                                   |
| D Newlands <sup>3</sup>    | 236,599                                    |  |   |  |                                   |
| A Robb                     | 16,000                                     |  |   |  |                                   |
| S Rowley                   | 21,116                                     |  |   |  |                                   |
| D Taylor                   | 1,684,947                                  | 40,460                                   | 78,552  | 338,930  | 8,481                             |
| T Watkin-Rees <sup>4</sup> | 741,542                                    | 26,781                                   | 52,085  | 189,483  | 8,531                             |
| N Wiles                    | 25,000                                     |  |   |  |                                   |

1. Includes 226,181 shares held by Mrs C Earle

2. Held by Prospect Investment Management Limited in which David Morrison has a 74% beneficial interest

3. D Newlands holds a non-beneficial interest in a further 600,000 shares held in various trusts of which he is a trustee (2012: 900,000)

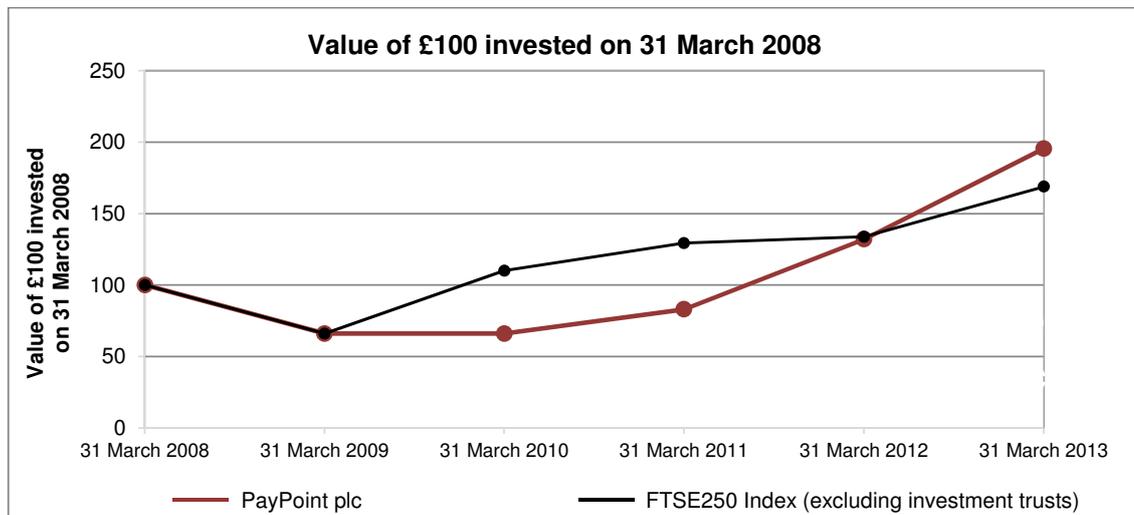
4. Includes 531,422 shares held by Mrs E Watkin-Rees

5. All shares that have not yet vested are subject to performance conditions

6. Includes partnership, matching and dividend shares purchased, awarded and acquired during the year

Directors are not required to own shares in the company.

## Performance graph



## Chief Executive - D Taylor

| Financial period ending March | Single figure total remuneration (£000) | Annual bonus outcome (% of max.) | LTIP vesting outcome (% of max.) |
|-------------------------------|---|----------------------------------|----------------------------------|
| 2013                          | 1,080                                   | 86.2%                            | 40.1%                            |
| 2012                          | 819                                     | 88.7%                            | 0.0%                             |
| 2011                          | 701                                     | 80.9%                            | 0.0%                             |
| 2010                          | 883                                     | 84.5%                            | 100.0%                           |
| 2009                          | 1,326                                   | 94.2%                            | 100.0%                           |

# REMUNERATION COMMITTEE REPORT *continued*

## Statement of shareholder voting

The table below shows the advisory vote on the 2012 remuneration committee report at the 2012 annual general meeting. It is the committee's policy to consult with major shareholders prior to any major changes.

|       | <b>For</b>            | <b>Against</b>    | <b>Abstentions</b> |
|-------|-----------------------|-------------------|--------------------|
| Votes | 51,086,519<br>(99.3%) | 196,599<br>(0.4%) | 164,271<br>(0.3%)  |

## Dilution

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

## Loss of office payments

There were no exit payments made to directors in the period under review.

# REMUNERATION COMMITTEE REPORT *continued*

## AUDITED INFORMATION

### Directors' emoluments

|                      | Salary <sup>1</sup> |              | Bonus        |              | Benefits in kind <sup>2</sup> |              | Total        |              | Pension <sup>3</sup> |              | Total        |              |
|----------------------|---------------------|--------------|--------------|--------------|-------------------------------|--------------|--------------|--------------|----------------------|--------------|--------------|--------------|
|                      | 2013<br>£000        | 2012<br>£000 | 2013<br>£000 | 2012<br>£000 | 2013<br>£000                  | 2012<br>£000 | 2013<br>£000 | 2012<br>£000 | 2013<br>£000         | 2012<br>£000 | 2013<br>£000 | 2012<br>£000 |
| <b>Executive</b>     |                     |              |              |              |                               |              |              |              |                      |              |              |              |
| D Taylor             | 409                 | 397          | 352          | 352          | 24                            | 22           | 785          | 771          | 49                   | 48           | 834          | 819          |
| G Earle              | 310                 | 301          | 267          | 267          | 21                            | 27           | 598          | 595          | 78                   | 75           | 676          | 670          |
| T Watkin-Rees        | 284                 | 275          | 245          | 244          | 21                            | 20           | 550          | 539          | 34                   | 33           | 584          | 572          |
| <b>Non-executive</b> |                     |              |              |              |                               |              |              |              |                      |              |              |              |
| D Newlands           | 125                 | 125          | -            | -            | -                             | -            | 125          | 125          | -                    | -            | 125          | 125          |
| A Robb               | 47                  | 45           | -            | -            | -                             | -            | 47           | 45           | -                    | -            | 47           | 45           |
| D Morrison           | 40                  | 38           | -            | -            | -                             | -            | 40           | 38           | -                    | -            | 40           | 38           |
| E Anstee             | 47                  | 45           | -            | -            | -                             | -            | 47           | 45           | -                    | -            | 47           | 45           |
| S Rowley             | 40                  | 38           | -            | -            | -                             | -            | 40           | 38           | -                    | -            | 40           | 38           |
| N Wiles              | 40                  | 38           | -            | -            | -                             | -            | 40           | 38           | -                    | -            | 40           | 38           |
| <b>Total</b>         | <b>1,342</b>        | <b>1,302</b> | <b>864</b>   | <b>863</b>   | <b>66</b>                     | <b>69</b>    | <b>2,272</b> | <b>2,234</b> | <b>161</b>           | <b>156</b>   | <b>2,433</b> | <b>2,390</b> |

1. Salary is the total salary paid during the period. From 1 April 2013, executive directors' base salaries were: D Taylor £425,000, G Earle £320,000, T Watkin-Rees £300,000.

2. Benefits include: car allowance, private medical cover, permanent health insurance and life assurance.

3. Defined contribution pension scheme, of which two current directors are members. The remuneration committee has agreed that G Earle's pension contributions will be paid direct to him (grossed up for tax).

### Long Term Incentive Plan<sup>1</sup>

|               | Number of shares at 25 March 2012 | 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 2013 | Value of shares awarded | Date of grant | Date lapsed | Release date |
|---------------|-----------------------------------|---|---|---|-----------------------------------|-------------------------|---------------|-------------|--------------|
| D Taylor      | 86,445 <sup>2</sup>               |   | (34,664)                                    | (51,781)                                  | -                                 | £455,997                | 04.06.09      | 04.06.12    | 28.06.12     |
|               | 162,857 <sup>3</sup>              |   |   |   | 162,857                           | £456,000                | 28.05.10      |             | 28.05.13     |
|               | 96,266 <sup>4</sup>               |   |   |   | 96,266                            | £476,517                | 27.05.11      |             | 27.05.14     |
|               | -                                 | 79,807 <sup>5</sup>                                     |   |   | 79,807                            | £490,813                | 25.05.12      |             | 25.05.15     |
| G Earle       | 54,526 <sup>2</sup>               |   | (21,864)                                    | (32,662)                                  | -                                 | £287,625                | 04.06.09      | 04.06.12    | 28.06.12     |
|               | 102,723 <sup>3</sup>              |   |   |   | 102,723                           | £287,624                | 28.05.10      |             | 28.05.13     |
|               | 60,720 <sup>4</sup>               |   |   |   | 60,720                            | £300,564                | 27.05.11      |             | 27.05.14     |
|               | -                                 | 50,406 <sup>5</sup>                                     |   |   | 50,406                            | £309,997                | 25.05.12      |             | 25.05.15     |
| T Watkin-Rees | 46,578 <sup>2</sup>               |   | (18,677)                                    | (27,901)                                  | -                                 | £245,699                | 04.06.09      | 04.06.12    | 28.06.12     |
|               | 87,750 <sup>3</sup>               |   |   |   | 87,750                            | £245,700                | 28.05.10      |             | 28.05.13     |
|               | 55,555 <sup>4</sup>               |   |   |   | 55,555                            | £274,997                | 27.05.11      |             | 27.05.14     |
|               | -                                 | 46,178 <sup>5</sup>                                     |   |   | 46,178                            | £283,995                | 25.05.12      |             | 25.05.15     |

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. £5.28 per share
3. £2.80 per share
4. £4.95 per share
5. £6.15 per share

# REMUNERATION COMMITTEE REPORT *continued*

## Deferred Share Bonus Plan

|               | Number of Bonus Shares purchased at 25 March 2012 <sup>2</sup> | Number of Matching Shares awarded at 25 March 2012 <sup>3</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 2013 | Number of Matching Shares awarded at 31 March 2013 | Value of Matching Shares awarded | Date of grant | Date lapsed/ release date <sup>4</sup> |
|---------------|--|---|--|---|--|---|--|----------------------------------|---------------|--|
| D Taylor      | 9,241 <sup>1</sup>   | 15,663 <sup>1</sup>   | (9,241)  |   | (15,663)   | -   | -  | £83,014                          | 04.06.09      | 06.06.12                               |
|               | 16,150 <sup>5</sup>  | 27,905 <sup>5</sup>   |  |   |  | 16,150 <sup>5</sup>                               | 27,905 <sup>5</sup>                                | £80,273                          | 01.06.10      | 01.06.13                               |
|               | 10,785 <sup>6</sup>  | 22,469 <sup>6</sup>   |  |   |  | 10,785 <sup>6</sup>                               | 22,469 <sup>6</sup>                                | £115,282                         | 02.06.11      | 02.06.14                               |
|               | -  | -   | 13,525 <sup>7</sup>  | 28,178 <sup>7</sup>                                 |  | 13,525 <sup>7</sup>                               | 28,178 <sup>7</sup>                                | £176,113                         | 25.05.12      | 25.05.15                               |
|               | 36,176   | 66,037  | 4,284  | 28,178  | (15,663)   | 40,460  | 78,552   |                                  |               |  |
| G Earle       | 7,097 <sup>1</sup>   | 12,029 <sup>1</sup>   | (7,097)  |   | (12,029)   | -   | -  | £63,754                          | 04.06.09      | 06.06.12                               |
|               | 12,224 <sup>5</sup>  | 21,122 <sup>5</sup>   |  |   |  | 12,224 <sup>5</sup>                               | 21,122 <sup>5</sup>                                | £60,761                          | 01.06.10      | 01.06.13                               |
|               | 8,163 <sup>6</sup>   | 17,007 <sup>6</sup>   |  |   |  | 8,163 <sup>6</sup>                                | 17,007 <sup>6</sup>                                | £87,258                          | 02.06.11      | 02.06.14                               |
|               | -  | -   | 10,237 <sup>7</sup>  | 21,328 <sup>7</sup>                                 |  | 10,237 <sup>7</sup>                               | 21,328 <sup>7</sup>                                | £133,300                         | 25.05.12      | 25.05.15                               |
|               | 27,484   | 50,158  | 3,140  | 21,328  | (12,029)   | 30,624  | 59,457   |                                  |               |  |
| T Watkin-Rees | 6,035 <sup>1</sup>   | 10,228 <sup>1</sup>   | (6,035)  |   | (10,228)   | -   | -  | £54,208                          | 04.06.09      | 06.06.12                               |
|               | 10,442 <sup>5</sup>  | 18,043 <sup>5</sup>   |  |   |  | 10,442 <sup>5</sup>                               | 18,043 <sup>5</sup>                                | £51,903                          | 01.06.10      | 01.06.13                               |
|               | 6,973 <sup>6</sup>   | 14,528 <sup>6</sup>   |  |   |  | 6,973 <sup>6</sup>                                | 14,528 <sup>6</sup>                                | £74,539                          | 02.06.11      | 02.06.14                               |
|               | -  | -   | 9,366 <sup>7</sup>   | 19,514 <sup>7</sup>                                 |  | 9,366 <sup>7</sup>                                | 19,514 <sup>7</sup>                                | £121,963                         | 25.05.12      | 25.05.15                               |
|               | 23,450   | 42,799  | 3,331  | 19,514  | (10,228)   | 26,781  | 52,085   |                                  |               |  |

- The Bonus Shares were purchased and the Matching Shares awarded at a share price of £5.30.
- Bonus Shares are purchased with the bonus deferred after the deduction of tax.
- Matching Shares are awarded based on the value of the gross bonus deferred.
- 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 Shares awarded at share prices of:
- £2.88 per share
- £5.13 per share
- £6.25 per share

## Share Incentive Plan

|               | Number of Partnership Shares purchased at 25 March 2012 | Number of Matching Shares awarded at 25 March 2012 | Number of Free Shares <sup>1</sup> awarded at 25 March 2012 | Dividend Shares <sup>2</sup> acquired at 25 March 2012 | Total shares at 25 March 2012 | 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 2013 |
|---------------|---|--|---|--|-------------------------------|---|--|--|---|-------------------------------|
| D Taylor      | 2,547   | 2,547  | 1,562   | 1,226  | 7,882                         | 197   | 197  | 205  | 15.04.12 – 15.03.15                                   | 8,481                         |
| G Earle       | 2,570   | 2,570  | -   | 849  | 5,989                         | 197   | 197  | 198  | 15.04.12 – 15.03.15                                   | 6,581                         |
| T Watkin-Rees | 2,570   | 2,570  | 1,562   | 1,229  | 7,931                         | 197   | 197  | 206  | 15.04.12 – 15.03.15                                   | 8,531                         |

- Free Shares are ordinary shares of the company awarded conditionally on 24 September 2004 based on the share price on admission of £1.92.
- 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.
- Partnership Shares are ordinary shares of the company purchased on a monthly basis during the period (at prices from £6.28 to £8.88).
- Matching Shares are ordinary shares of the company awarded conditionally on a monthly basis during the period (at prices from £6.28 to £8.88) in conjunction with two share purchases.

# REMUNERATION COMMITTEE REPORT *continued*

## Directors' shareholdings

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

|                            | <b>Ordinary shares<sup>5</sup><br/>at<br/>31 March<br/>2013</b> |
|----------------------------|---|
| E Anstee                   | <b>7,700</b>  |
| G Earle <sup>1</sup>       | <b>226,181</b>  |
| D Morrison <sup>2</sup>    | <b>35,000</b>   |
| D Newlands <sup>3</sup>    | <b>236,599</b>  |
| A Robb                     | <b>16,000</b>   |
| S Rowley                   | <b>21,116</b>   |
| D Taylor                   | <b>1,684,947</b>  |
| T Watkin-Rees <sup>4</sup> | <b>741,542</b>  |
| N Wiles                    | <b>25,000</b>   |

1. Includes 226,181 shares held by Mrs C Earle
2. Held by Prospect Investment Management Limited in which David Morrison has a 74% beneficial interest
3. D Newlands holds a non-beneficial interest in a further 600,000 shares held in various trusts of which he is a trustee (2012: 900,000)
4. Includes 531,422 shares held by Mrs E Watkin-Rees
5. This holding excludes shares under the company SIP and bonus shares under the DSB plan owned by the executive directors

Between the end of the period and 23 May 2013, D Taylor, G Earle and T Watkin-Rees each acquired 84 Partnership and Matching Shares.

The market price of the company's shares on 31 March 2013 was £8.87 (25 March 2012: £6.04) per share and the low and high share prices during the period were £5.97 and £9.01 respectively.

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  
23 May 2013

# 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 European Union. 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 IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Dominic Taylor  
Chief Executive  
23 May 2013

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

We have audited the financial statements of PayPoint plc for the 53 week period ended 31 March 2013, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and parent company statements of financial position, consolidated and parent company statements of changes in equity, consolidated and parent company cash flow statements and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (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.

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.

## 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.

## 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.

## Opinion on financial statements

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 2013 and of the group's profit for the 53 week period then ended;
- the group financial statements have been properly prepared in accordance with 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.

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

In our opinion:

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

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

We have nothing to report in respect of the following:

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- 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
- the parent company financial statements and the part of the remuneration committee report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, contained within the directors' report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Edward Hanson ACA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, UK

23 May 2013

## CONSOLIDATED INCOME STATEMENT

|                                | Note | 53 weeks ended<br>31 March<br>2013<br>£000 | 52 weeks ended<br>25 March<br>2012<br>£000 |
|--------------------------------|------|--|--|
| <b>Continuing operations</b>   |      |  |  |
| <b>Revenue</b>                 | 2    | <b>208,526</b>                             | 200,029                                    |
| Cost of sales                  |      | <b>(118,876)</b>                           | (121,778)                                  |
| <b>Gross profit</b>            |      | <b>89,650</b>                              | 78,251                                     |
| Administrative expenses        |      | <b>(47,670)</b>                            | (39,385)                                   |
| <b>Operating profit</b>        | 5    | <b>41,980</b>                              | 38,866                                     |
| Share of loss of joint venture | 13   | <b>(965)</b>                               | (1,828)                                    |
| Investment income              | 6    | <b>314</b>                                 | 195  |
| Finance costs                  | 6    | <b>(62)</b>                                | (32)                                       |
| <b>Profit before tax</b>       |      | <b>41,267</b>                              | 37,201                                     |
| Tax                            | 7    | <b>(10,316)</b>                            | (10,262)                                   |
| <b>Profit for the period</b>   | 24   | <b>30,951</b>                              | 26,939                                     |
| <b>Attributable to:</b>        |      |  |  |
| Equity holders of the parent   |      | <b>30,979</b>                              | 26,975                                     |
| Non-controlling interests      | 25   | <b>(28)</b>                                | (36)                                       |
|                                |      | <b>30,951</b>                              | 26,939                                     |
| <b>Earnings per share</b>      |      |  |  |
| Basic                          | 9    | <b>45.7p</b>                               | 39.8p                                      |
| Diluted                        | 9    | <b>45.3p</b>                               | 39.8p                                      |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

|  | Note | 53 weeks ended<br>31 March<br>2013<br>£000 | 52 weeks ended<br>25 March<br>2012<br>£000 |
|--|------|--|--|
| Exchange differences on translation of foreign operations  | 23   | <b>1,054</b>                               | (831)                                      |
| Net income recognised directly in equity                   |      | <b>1,054</b>                               | (831)                                      |
| Profit for the period                                      |      | <b>30,951</b>                              | 26,939                                     |
| <b>Total recognised income and expenses for the period</b> |      | <b>32,005</b>                              | 26,108                                     |
| <b>Attributable to:</b>                                    |      |  |  |
| Equity holders of the parent                               |      | <b>32,033</b>                              | 26,144                                     |
| Non-controlling interests                                  |      | <b>(28)</b>                                | (36)                                       |
|  |      | <b>32,005</b>                              | 26,108                                     |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

|  | Note | 31 March<br>2013<br>£000 | 25 March<br>2012<br>£000<br>(restated)* | 27 March<br>2011<br>£000<br>(restated)* |
|--|------|--------------------------|---|---|
| <b>Non-current assets</b>  |      |                          |   |   |
| Goodwill   | 10   | 56,570                   | 56,076                                  | 57,133                                  |
| Other intangible assets  | 11   | 4,637                    | 2,304                                   | 1,329                                   |
| Property, plant and equipment  | 12   | 17,729                   | 15,212                                  | 14,520                                  |
| Investment in joint venture  | 13   | 43                       | 58                                      | 135                                     |
| Deferred tax asset   | 14   | 2,208                    | 901                                     | 1,116                                   |
| Investments  | 15   | 435                      | 435                                     | 435                                     |
|  |      | <b>81,622</b>            | 74,986                                  | 74,668                                  |
| <b>Current assets</b>  |      |                          |   |   |
| Inventories  | 16   | 1,161                    | 1,284                                   | 915                                     |
| Trade and other receivables  | 17   | 198,803                  | 118,492                                 | 112,390                                 |
| Cash and cash equivalents  | 18   | 46,618                   | 35,487                                  | 26,464                                  |
|  |      | <b>246,582</b>           | 155,263                                 | 139,769                                 |
| <b>Total assets</b>  |      | <b>328,204</b>           | 230,249                                 | 214,437                                 |
| <b>Current liabilities</b>   |      |                          |   |   |
| Trade and other payables   | 19   | 216,821                  | 133,699                                 | 128,283                                 |
| Current tax liabilities  |      | 5,339                    | 4,938                                   | 5,287                                   |
| Obligations under finance leases   |      | -                        | -                                       | 32                                      |
|  |      | <b>222,160</b>           | 138,637                                 | 133,602                                 |
| <b>Non-current liabilities</b>   |      |                          |   |   |
| Other liabilities  | 21   | 169                      | 247                                     | 240                                     |
|  |      | <b>169</b>               | 247                                     | 240                                     |
| <b>Total liabilities</b>   |      | <b>222,329</b>           | 138,884                                 | 133,842                                 |
| <b>Net assets</b>  |      | <b>105,875</b>           | 91,365                                  | 80,595                                  |
| <b>Equity</b>  |      |                          |   |   |
| Share capital  | 23   | 226                      | 226                                     | 226                                     |
| Share premium  | 23   | 297                      | 25                                      | 25                                      |
| Investment in own shares   | 23   | -                        | (216)                                   | (216)                                   |
| Share-based payment reserve  | 23   | 3,265                    | 3,138                                   | 3,005                                   |
| Translation reserve  | 23   | 694                      | (360)                                   | 471                                     |
| Retained earnings  | 23   | 101,498                  | 88,629                                  | 77,125                                  |
| <b>Total equity attributable to equity holders of the parent company</b> |      | <b>105,980</b>           | 91,442                                  | 80,636                                  |
| Non-controlling interest   | 24   | (105)                    | (77)                                    | (41)                                    |
| <b>Total equity</b>  |      | <b>105,875</b>           | 91,365                                  | 80,595                                  |

\* The 2012 and 2011 consolidated statements of financial position have been restated. Details of the restatement are explained in note 1, Accounting Policies – Restatement of 2012 and 2011 consolidated statements of financial position.

These financial statements were approved by the board of directors and authorised for issue on 23 May 2013 and signed on behalf of the board of directors.

Dominic Taylor  
Chief Executive  
23 May 2013

# 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 24)<br>£000 | Total<br>equity<br>£000 |
|---|------|-----------------------|-----------------------|--|---|--------------------------------|------------------------------|--|--|-------------------------|
| <b>Opening equity<br/>28 March 2011</b>                   |      | <b>226</b>            | <b>25</b>             | <b>(216)</b>                           | <b>3,005</b>                                  | <b>471</b>                     | <b>77,125</b>                | <b>80,636</b>  | <b>(41)</b>  | <b>80,595</b>           |
| Profit for the period                                     |      | -                     | -                     | -                                      | -   | -                              | 26,975                       | 26,975   | (36)   | 26,939                  |
| Dividends paid  | 8    | -                     | -                     | -                                      | -   | -                              | (16,450)                     | (16,450)   | -  | (16,450)                |
| Exchange differences on translation of foreign operations | 23   | -                     | -                     | -                                      | -   | (831)                          | -                            | (831)  | -  | (831)                   |
| Movement in share-based payment reserve                   | 23   | -                     | -                     | -                                      | 133   | -                              | -                            | 133  | -  | 133                     |
| Adjustment on share scheme vesting                        | 23   | -                     | -                     | -                                      | -   | -                              | 979                          | 979  | -  | 979                     |
| <b>Closing equity<br/>25 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                      | 23   | -                     | -                     | 216                                    | -   | -                              | -                            | 216  | -  | 216                     |
| Exchange differences on translation of foreign operations | 23   | -                     | -                     | -                                      | -   | 1,054                          | -                            | 1,054  | -  | 1,054                   |
| Movement in share-based payment reserve                   | 23   | -                     | -                     | -                                      | 127   | -                              | -                            | 127  | -  | 127                     |
| Share premium arising on issue of shares                  | 23   | -                     | 272                   | -                                      | -   | -                              | -                            | 272  | -  | 272                     |
| Adjustment on share scheme vesting                        | 23   | -                     | -                     | -                                      | -   | -                              | (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>          |

# CONSOLIDATED CASH FLOW STATEMENT

|   | Note | 53 weeks ended<br>31 March<br>2013<br>£000 | 52 weeks ended<br>25 March<br>2012<br>£000 |
|---|------|--|--|
| <b>Net cash flow from operating activities</b>            | 28   | <b>40,060</b>                              | 32,868                                     |
| <b>Investing activities</b>                               |      |  |  |
| Investment income   |      | 187  | -  |
| Purchases of property, plant and equipment and technology |      | (9,700)                                    | (5,263)                                    |
| Proceeds from disposal of property, plant and equipment   |      | 54   | 20   |
| Loan to joint venture                                     | 15   | (950)                                      | (1,750)                                    |
| <b>Net cash used in investing activities</b>              |      | <b>(10,409)</b>                            | (6,993)                                    |
| <b>Financing activities</b>                               |      |  |  |
| Repayments of obligations under finance leases            |      | -  | (32)                                       |
| Dividends paid  | 8    | (18,957)                                   | (16,450)                                   |
| <b>Net cash used in financing activities</b>              |      | <b>(18,957)</b>                            | (16,482)                                   |
| <b>Net increase in cash and cash equivalents</b>          |      | <b>10,694</b>                              | 9,393                                      |
| Cash and cash equivalents at beginning of period          |      | 35,487                                     | 26,464                                     |
| Effect of foreign exchange rate changes                   |      | 437  | (370)                                      |
| <b>Cash and cash equivalents at end of period</b>         |      | <b>46,618</b>                              | 35,487                                     |

# COMPANY STATEMENT OF FINANCIAL POSITION

|                                | Note | 31 March<br>2013<br>£000 | 25 March<br>2012<br>£000 |
|--------------------------------|------|--------------------------|--------------------------|
| <b>Non-current assets</b>      |      |                          |                          |
| Investments                    | 15   | 118,325                  | 114,689                  |
|                                |      | <b>118,325</b>           | 114,689                  |
| <b>Current assets</b>          |      |                          |                          |
| Trade and other receivables    | 17   | 498                      | 487                      |
| Cash and cash equivalents      |      | 20                       | 45                       |
|                                |      | <b>518</b>               | 532                      |
| <b>Total assets</b>            |      | <b>118,843</b>           | 115,221                  |
| <b>Current liabilities</b>     |      |                          |                          |
| Current tax liabilities        |      | 881                      | -                        |
| <b>Non-current liabilities</b> |      |                          |                          |
| Other liabilities              | 21   | 21,137                   | 3,372                    |
| <b>Total liabilities</b>       |      | <b>22,018</b>            | 3,372                    |
| <b>Net assets</b>              |      | <b>96,825</b>            | 111,849                  |
| <b>Equity</b>                  |      |                          |                          |
| Share capital                  | 23   | 226                      | 226                      |
| Share premium                  | 23   | 297                      | 25                       |
| Investment in own shares       | 23   | -                        | (216)                    |
| Share-based payment reserve    | 23   | 3,265                    | 3,138                    |
| Retained earnings              | 23   | 93,037                   | 108,676                  |
| <b>Total equity</b>            |      | <b>96,825</b>            | 111,849                  |

These financial statements were approved by the board of directors and authorised for issue on 23 May 2013 and signed on behalf of the board of directors.

Dominic Taylor  
Chief Executive  
23 May 2013

## 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/>28 March 2011</b>        |      | <b>226</b>            | <b>25</b>             | <b>(216)</b>                        | <b>3,005</b>                              | <b>19,616</b>                | <b>22,656</b>           |
| Profit for the period                          |      | -                     | -                     | -                                   | -   | (469)                        | (469)                   |
| Dividends paid                                 | 8    | -                     | -                     | -                                   | -   | (16,450)                     | (16,450)                |
| Dividends receivable                           |      | -                     | -                     | -                                   | -   | 105,000                      | 105,000                 |
| Movement in share-<br>based payment<br>reserve | 23   | -                     | -                     | -                                   | 133                                       | -                            | 133                     |
| Adjustment on share<br>scheme vesting          | 23   | -                     | -                     | -                                   | -   | 979                          | 979                     |
| <b>Closing equity<br/>25 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     | 23   | -                     | -                     | 216                                 | -   | -                            | 216                     |
| Movement in share-<br>based payment<br>reserve | 23   | -                     | -                     | -                                   | 127                                       | -                            | 127                     |
| Share premium<br>arising on issue of<br>shares | 23   | -                     | 272                   | -                                   | -   | -                            | 272                     |
| Adjustment on share<br>scheme vesting          | 23   | -                     | -                     | -                                   | -   | 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>           |

## COMPANY CASH FLOW STATEMENT

|  | Note | <b>53 weeks<br/>ended<br/>31 March<br/>2013<br/>£000</b> | 52 weeks<br>ended<br>25 March<br>2012<br>£000 |
|--|------|--|---|
| <b>Net cash flow from operating activities</b>       | 28   | <b>22,568</b>  | 21,358  |
| <b>Investing activities</b>                          |      |  |   |
| Loan to joint venture                                | 15   | <b>(950)</b>   | (1,750)                                       |
| Investment in group companies                        | 15   | <b>(2,686)</b>   | (3,132)                                       |
| <b>Net cash used in investing activities</b>         |      | <b>(3,636)</b>   | (4,882)                                       |
| <b>Financing activities</b>                          |      |  |   |
| Dividends paid                                       | 8    | <b>(18,957)</b>  | (16,450)                                      |
| <b>Net cash used in financing activities</b>         |      | <b>(18,957)</b>  | (16,450)                                      |
| Net (decrease)/increase in cash and cash equivalents |      | <b>(25)</b>  | 26  |
| Cash and cash equivalents at beginning of period     |      | <b>45</b>  | 19  |
| <b>Cash and cash equivalents at end of period</b>    |      | <b>20</b>  | 45  |

# 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.

### Restatement of 2012 and 2011 consolidated statements of financial position

Following the conclusion of recent correspondence with the Financial Reporting Council's Conduct Committee (FRCCC), the directors concluded that the accounting policy in respect of client settlement amounts should be amended, together with a restatement of the comparative consolidated statements of financial position, to reflect the obligation to pay clients, which arises as soon as retailers collect cash from consumers, giving rise to a financial liability and a corresponding asset as set out in IAS 32.

The representation of these items has had no effect on the consolidated income, net assets, earnings per share or total cash flows as previously reported in the 2012 or 2011 annual reports.

Historically, the group has not recognised a receivable in respect of amounts collected by retail agents and, correspondingly, has not recognised a liability for the associated amounts payable to the client. The rationale for not recognising these balances in the consolidated statement of financial position was that PayPoint acts as a disclosed agent in the transaction, transferring cash, between the retail agents and clients. PayPoint does not bear credit risk for the majority of this cash flow, nor does the majority of the cash pass through accounts to which PayPoint has title.

The affected balances are as follows:

|                             | Year ended<br>25 March 2012 |                                    | Year ended<br>27 March 2011 |                                    |
|-----------------------------|-----------------------------|------------------------------------|-----------------------------|------------------------------------|
|                             | Restated<br>£000            | As<br>originally<br>stated<br>£000 | Restated<br>£000            | As<br>originally<br>stated<br>£000 |
| Trade and other receivables | 118,492                     | 21,443                             | 112,390                     | 17,103                             |
| Trade and other payables    | 133,699                     | 36,650                             | 128,283                     | 32,996                             |

In addition, as the group is making a prior year restatement, in accordance with IAS 1, the consolidated statement of financial position at 27 March 2011 is also being presented.

### 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 operating and financial review on page 11. The group's going concern position is further discussed in the directors' report on page 22. The financial statements are prepared on a going concern basis.

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

|  |  |
|--|--|
| Amendments to IFRS 10, IFRS 12 and IAS 27 (Oct 2012)     | Investment Entities  |
| Annual Improvements to IFRSs: 2009-2011 Cycle (May 2012) | Annual Improvements to IFRSs: 2009-2011 Cycle9                           |
| Amendments to IFRS 1 (March 2012)                        | Government Loans   |
| Amendments to IAS 32 (Dec 2011)                          | Offsetting Financial Assets and Financial Liabilities                    |
| Amendments to IFRS 7 (Dec 2011)                          | Disclosures – Offsetting Financial Assets and Financial Liabilities      |
| IFRS 9   | Financial Instruments  |
| Amendments to IAS 1 (June 2011)                          | Presentation of Items of Other Comprehensive Income                      |
| IAS 19 (revised June 2011)                               | Employee Benefits  |
| IFRS 13  | Fair Value Measurement   |
| IFRS 12  | Disclosure of Interests in Other Entities                                |
| IFRS 11  | Joint Arrangements   |
| IFRS 10  | Consolidated Financial Statements  |
| IAS 28 (revised May 2011)                                | Investments in Associates and Joint Ventures                             |
| IAS 27 (revised May 2011)                                | Separate Financial Statements  |
| Amendments to IAS 12 (Dec 2010)                          | Deferred Tax: Recovery of Underlying Assets                              |
| Amendments to IFRS 1 (Dec 2010)                          | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters |
| IFRIC 20   | Stripping Costs in the Production Phase of a Surface Mine                |

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.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## **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 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.

## **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 is tested for impairment annually and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (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.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 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 amount 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-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

### (i) 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.

### (ii) 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
- 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.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 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. Service charge income 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

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 and key sources of estimation uncertainty in the business are the valuation of goodwill of £56.6 million at 31 March 2013 (2012: £56.1 million) and other intangible assets of £4.6 million at 31 March 2013 (2012: £2.3 million). Management reviews goodwill for any impairment on an annual basis (note 10). 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.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 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 PayByPhone clients.

|   | <b>53 weeks ended<br/>31 March<br/>2013<br/>£000</b> | 52 weeks ended<br>25 March<br>2012<br>£000 |
|---|--|--|
| Revenue   |  |  |
| – transaction processing                          | <b>207,437</b>                                       | 198,699                                    |
| – service charge income from ATMs                 | <b>1,089</b>   | 1,330                                      |
|   | <b>208,526</b>                                       | 200,029                                    |
| less:   |  |  |
| Commission payable to retail agents               | <b>(69,099)</b>                                      | (69,541)                                   |
| Cost of mobile top-ups and SIM cards as principal | <b>(32,004)</b>                                      | (38,579)                                   |
| Card scheme sponsors' charges                     | <b>(1,766)</b>                                       | (1,467)                                    |
| Net revenue                                       | <b>105,657</b>                                       | 90,442                                     |

|   | <b>53 weeks ended<br/>31 March<br/>2013<br/>£000</b> | 52 weeks ended<br>25 March<br>2012<br>£000 |
|---|--|--|
| <b>Cost of sales</b>                              |  |  |
| Commission payable to retail agents               | <b>69,099</b>  | 69,541                                     |
| Cost of mobile top-ups and SIM cards as principal | <b>32,004</b>  | 38,579                                     |
| Card scheme sponsors' charges                     | <b>1,766</b>   | 1,467                                      |
| Depreciation and amortisation                     | <b>4,071</b>   | 3,333                                      |
| Other   | <b>11,936</b>  | 8,858                                      |
| <b>Total cost of sales</b>                        | <b>118,876</b>                                       | 121,778                                    |

### Geographical information

|                | <b>53 weeks ended<br/>31 March<br/>2013<br/>£000</b> | 52 weeks ended<br>25 March<br>2012<br>£000 |
|----------------|--|--|
| <b>Revenue</b> |  |  |
| UK             | <b>167,294</b>                                       | 153,734                                    |
| Ireland        | <b>14,880</b>  | 20,537                                     |
| Romania        | <b>24,288</b>  | 24,275                                     |
| North America  | <b>2,064</b>   | 1,483                                      |
| <b>Total</b>   | <b>208,526</b>                                       | 200,029                                    |

|  | <b>53 weeks ended<br/>31 March<br/>2013<br/>£000</b> | 52 weeks ended<br>25 March<br>2012<br>£000 |
|--|--|--|
| <b>Non-current assets (excluding deferred tax)</b> |  |  |
| UK   | <b>77,660</b>  | 71,864                                     |
| Romania  | <b>1,450</b>   | 1,766                                      |
| North America                                      | <b>304</b>   | 455  |
| <b>Total</b>                                       | <b>79,414</b>  | 74,085                                     |

## 3. Employee information

|  | <b>Group</b>  |        | <b>Company</b> |      |
|--|---------------|--------|----------------|------|
|  | <b>2013</b>   | 2012   | <b>2013</b>    | 2012 |
| <b>Average number of persons employed</b>                |               |        |                |      |
| Sales, distribution and marketing                        | <b>173</b>    | 205    | -              | -    |
| Operations and administration                            | <b>447</b>    | 375    | <b>6</b>       | 6    |
|  | <b>620</b>    | 580    | <b>6</b>       | 6    |
| <b>Staff costs during the year (including directors)</b> | <b>£000</b>   | £000   | <b>£000</b>    | £000 |
| Wages and salaries                                       | <b>27,210</b> | 22,888 | <b>339</b>     | 625  |
| Social security costs                                    | <b>2,243</b>  | 2,304  | <b>41</b>      | 47   |
| Pension costs (note 25)                                  | <b>706</b>    | 713    | -              | 21   |
|  | <b>30,159</b> | 25,905 | <b>380</b>     | 693  |

Directors' emoluments, pension contributions and share options are disclosed in the remuneration committee report on pages 23 to 35. Included within staff costs is a share-based payment charge (note 23) of £1,332,000 (2012: £1,112,000).



# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 7. Tax

|  | <b>53 weeks<br/>ended<br/>31 March<br/>2013<br/>£000</b> | 52 weeks<br>ended<br>25 March<br>2012<br>£000 |
|--|--|---|
| <b>Current tax</b>   |  |   |
| Charge for current period  | <b>10,756</b>  | 10,270  |
| Adjustment in respect of prior periods   | <b>(38)</b>  | (223)   |
| Current tax charge   | <b>10,718</b>  | 10,047  |
| <b>Deferred tax</b>  |  |   |
| (Credit)/charge for current period   | <b>(425)</b>   | 153   |
| Adjustment in respect of prior periods   | <b>23</b>  | 62  |
| Deferred tax (credit)/charge (note 14)   | <b>(402)</b>   | 215   |
| <b>Total income tax</b>  |  |   |
| Income tax charge  | <b>10,316</b>  | 10,262  |
| The income tax charge is based on the United Kingdom statutory rate of corporation tax for the period of 24% (2012: 26%) |  |   |
| The charge for the period can be reconciled to the profit before tax as set out in the consolidated income statement     |  |   |
| Profit before tax  | <b>41,267</b>  | 37,201  |
| Tax at the UK corporation tax rate of 24% (2012: 26%)  | <b>9,904</b>   | 9,672   |
| <b>Tax effects of:</b>   |  |   |
| Losses in countries where the tax rate is different to the UK  | <b>(110)</b>   | (17)  |
| Disallowable expenses  | <b>307</b>   | 28  |
| Utilisation of tax losses not previously recognised  | <b>(117)</b>   | -   |
| Losses in companies where a deferred tax asset was not recognised  | <b>523</b>   | 576   |
| Adjustments in respect of prior years  | <b>(15)</b>  | (161)   |
| Research and development allowance   | <b>(133)</b>   | (291)   |
| Tax impact of share-based payments   | <b>(122)</b>   | 396   |
| Revaluation of deferred tax asset from 25% to 23%  | <b>79</b>  | 59  |
| <b>Actual amount of tax charge</b>   | <b>10,316</b>  | 10,262  |

## 8. Dividends on equity shares

|   | <b>53 weeks<br/>ended<br/>31 March<br/>2013<br/>£000</b> | 52 weeks<br>ended<br>25 March<br>2012<br>£000 |
|---|--|---|
| <b>Equity dividends on ordinary shares:</b>                                     |  |   |
| Interim dividend paid of 10.2p per share (2012: 8.7p)                           | <b>6,906</b>   | 5,885   |
| Proposed final dividend of 20.2p per share (2012: paid 17.8p per share)         | <b>13,728</b>  | 12,074  |
| Proposed special dividend of 15.0p per share (2012: nil)                        | <b>10,182</b>  | -   |
| Total dividends paid and recommended of 45.4p per share (2012: 26.5p per share) | <b>30,816</b>  | 17,959  |
| Amounts distributed to equity holders in the period:                            |  |   |
| Final dividend for the prior year   | <b>12,051</b>  | 10,565  |
| Interim dividend for the current period   | <b>6,906</b>   | 5,885   |
|   | <b>18,957</b>  | 16,450  |

The proposed final and special dividends are subject to approval by shareholders at the annual general meeting and have not been included as a liability in these financial statements.

## 9. Earnings per share

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

|  | <b>53 weeks<br/>ended<br/>31 March<br/>2013<br/>£000</b> | 52 weeks<br>ended<br>25 March<br>2012<br>£000 |
|--|--|---|
| Profit for basic and diluted earnings per share is the net profit attributable to equity holders of the parent | <b>30,979</b>  | 26,975  |
|  | <b>31 March<br/>2013<br/>Number of<br/>shares</b>        | 25 March<br>2012<br>Number of<br>shares       |
| Weighted average number of ordinary shares in issue (for basic earnings per share)                             | <b>67,847,512</b>  | 67,766,430                                    |
| <b>Potential dilutive ordinary shares:</b>   |  |   |
| Long-term incentive plan   | <b>488,772</b>   | -   |
| Deferred share bonus   | <b>82,787</b>  | -   |
| <b>Diluted basis</b>   | <b>68,419,071</b>  | 67,766,430                                    |

# 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.

The group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next four years for PayPoint.net, four years for PayPoint Romania and five years for PayByPhone and extends cash flows to perpetuity. Terminal values are based on growth rates that do not exceed 3% (2012: 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 13.0% (2012: 13.2%) for PayPoint.net, 11.9% (2012: 11.9%) for PayPoint Romania and 13.2% (2012: 13.3%) for PayByPhone.

|   | Total<br>£000 |
|---|---------------|
| <b>Cost</b>                             |               |
| At 25 March 2012                        | 56,076        |
| Exchange rate adjustment                | 494           |
| <b>At 31 March 2013</b>                 | <b>56,570</b> |
| <b>Accumulated impairment losses</b>    |               |
| At 25 March 2012                        | -             |
| <b>Impairment losses for the period</b> |               |
| <b>At 31 March 2013</b>                 | <b>-</b>      |
| <b>Carrying amount</b>                  |               |
| <b>At 31 March 2013</b>                 | <b>56,570</b> |
| At 25 March 2012                        | 56,076        |
|   | Total<br>£000 |
| <b>Cost</b>                             |               |
| At 27 March 2011                        | 57,133        |
| Exchange rate adjustment                | (1,057)       |
| At 25 March 2012                        | 56,076        |
| <b>Accumulated impairment losses</b>    |               |
| At 27 March 2011                        | -             |
| <b>Impairment losses for the year</b>   |               |
| At 25 March 2012                        | -             |
| <b>Carrying amount</b>                  |               |
| At 25 March 2012                        | 56,076        |
| At 27 March 2011                        | 57,133        |

Goodwill arising on acquisition:

|                  | 31 March<br>2013<br>£000 | 25 March<br>2012<br>£000 |
|------------------|--------------------------|--------------------------|
| PayPoint.net     | 18,207                   | 18,207                   |
| PayPoint Romania | 8,704                    | 8,547                    |
| PayByPhone       | 29,659                   | 29,322                   |
| <b>Total</b>     | <b>56,570</b>            | 56,076                   |

For PayPoint Romania, the difference between the recoverable amount and the carrying amount at period end was £20.5 million. Headroom would reduce to £nil if either the forecast average growth in net revenue for the next four years of 12.1% reduced to 4.7% per annum.

For PayByPhone, the difference between the recoverable amount and the carrying amount at period end was £19.2 million. Headroom would reduce to £nil if either the forecast average growth in revenue for the next five years of 30.3% reduced to 26.0% per annum or if the discount rate applied to the forecast cash flows were to increase from 13.2% to 18.4%.

Management does not consider that a reasonably possible change in one or more key assumptions during the next year could cause the recoverable amount of the other cash generating unit to fall below their carrying amount.

## 11. Other intangible assets

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

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. Amortisation of merchant contracts is between 1.9 years and 4.6 years, depending upon the merchant churn in the relevant acquired company.

At 31 March 2013, the group had not entered into any material contractual commitments for other intangible assets.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

|                          | Acquired systems<br>£000 | Development costs<br>£000 | Contracts with merchants<br>£000 | Total<br>£000 |
|--------------------------|--------------------------|---------------------------|----------------------------------|---------------|
| <b>Cost</b>              |                          |                           |                                  |               |
| At 27 March 2011         | 1,800                    | 218                       | 2,080                            | 4,098         |
| Additions                | -                        | 1,251                     | -                                | 1,251         |
| Exchange rate adjustment | -                        | -                         | (28)                             | (28)          |
| At 25 March 2012         | 1,800                    | 1,469                     | 2,052                            | 5,321         |
| <b>Amortisation</b>      |                          |                           |                                  |               |
| At 27 March 2011         | 785                      | -                         | 1,984                            | 2,769         |
| Charge for the year      | 180                      | -                         | 68                               | 248           |
| At 25 March 2012         | 965                      | -                         | 2,052                            | 3,017         |
| <b>Carrying amount</b>   |                          |                           |                                  |               |
| At 25 March 2012         | 835                      | 1,469                     | -                                | 2,304         |
| At 27 March 2011         | 1,015                    | 218                       | 96                               | 1,329         |

## 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 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           |
| <b>At 31 March 2013</b>         | <b>41,203</b>              | <b>7,481</b>                             | <b>6,412</b>               | <b>55,096</b> |
| <b>Accumulated depreciation</b> |                            |  |                            |               |
| At 25 March 2012                | 29,660                     | 3,627                                    | 287                        | 33,574        |
| Charge for the period           | 3,098                      | 705                                      | 88                         | 3,891         |
| Disposals                       | (17)                       | (154)                                    | -                          | (171)         |
| Exchange rate adjustment        | 47                         | 26                                       | -                          | 73            |
| <b>At 31 March 2013</b>         | <b>32,788</b>              | <b>4,204</b>                             | <b>375</b>                 | <b>37,367</b> |
| <b>Net book value</b>           |                            |  |                            |               |
| <b>At 31 March 2013</b>         | <b>8,415</b>               | <b>3,277</b>                             | <b>6,037</b>               | <b>17,729</b> |
| At 25 March 2012                | 6,219                      | 2,868                                    | 6,125                      | 15,212        |

The cost of ATMs provided to retail agents under operating leases is £10.0 million (2012: £7.7 million) and the accumulated depreciation is £7.3 million (2012: £6.2 million). At 31 March 2013, the group had entered into contractual commitments for the acquisition of terminals and ATMs amounting to £0.6 million (2012: £1.6 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 27 March 2011                | 33,071                     | 6,072                                    | 6,412                      | 45,555        |
| Additions                       | 3,510                      | 554                                      | -                          | 4,064         |
| Disposals                       | (271)                      | (51)                                     | -                          | (322)         |
| Exchange rate adjustment        | (431)                      | (80)                                     | -                          | (511)         |
| At 25 March 2012                | 35,879                     | 6,495                                    | 6,412                      | 48,786        |
| <b>Accumulated depreciation</b> |                            |  |                            |               |
| At 27 March 2011                | 27,632                     | 3,204                                    | 199                        | 31,035        |
| Charge for the year             | 2,479                      | 518                                      | 88                         | 3,085         |
| Disposals                       | (244)                      | (42)                                     | -                          | (286)         |
| Exchange rate adjustment        | (207)                      | (53)                                     | -                          | (260)         |
| At 25 March 2012                | 29,660                     | 3,627                                    | 287                        | 33,574        |

### Net book value

|                  |       |       |       |        |
|------------------|-------|-------|-------|--------|
| At 25 March 2012 | 6,219 | 2,868 | 6,125 | 15,212 |
| At 27 March 2011 | 5,439 | 2,868 | 6,213 | 14,520 |

## 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.

|   | 31 March 2013<br>£000 | 25 March 2012<br>£000        |
|---|-----------------------|------------------------------|
| PayPoint's share of aggregated amounts relating to joint ventures |                       |                              |
| Total assets  | 1,877                 | 1,223                        |
| Total liabilities   | (7,634)               | (6,015)                      |
| Share of net assets   | (5,757)               | (4,792)                      |
| Loan to joint venture (note 15)                                   | 5,800                 | 4,850                        |
| Investment in joint venture                                       | 43                    | 58                           |
| <b>53 weeks ended 31 March 2013</b>                               |                       |                              |
| PayPoint's share of aggregated amounts relating to joint ventures |                       | 52 weeks ended 25 March 2012 |
| Revenues  | 8,876                 | 4,015                        |
| Loss for period   | (965)                 | (1,828)                      |

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 14. Deferred tax asset

|                                  | 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>                     | 901                      | 402                                      | 905                         | <b>2,208</b>             |

|                                  | 27 March<br>2011<br>£000 | (Charge)/<br>credit to<br>income<br>statement<br>£000 | 25 March<br>2012<br>£000 |
|----------------------------------|--------------------------|---|--------------------------|
| Tax depreciation                 | 1,304                    | (192)   | 1,112                    |
| Share-based payments             | 107                      | (107)   | -                        |
| Tax losses                       | -                        | -   | -                        |
| Intangibles                      | (293)                    | 84  | (209)                    |
| Short-term temporary differences | (2)                      | -   | (2)                      |
| <b>Total</b>                     | 1,116                    | (215)   | 901                      |

At the balance sheet date, a deferred tax asset of £2.2 million (2012: £0.9 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 £9.9 million (2012: £9.5 million) available for offset against future profits for which no deferred tax asset is recognised. Included in unrecognised tax losses were losses of £1.0 million, which will expire in less than three years, and £2.8 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 was not material at the balance sheet date.

During the period, a reduction in the main rate of corporation tax from 24% to 23% was enacted, effective from 1 April 2013. Deferred tax has been calculated using the 23% corporation tax rate. The government has announced that future reductions in the main rate of corporation tax to 21% from 1 April 2014 and to 20% from 1 April 2015 will be enacted in July 2013. 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.

## 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> | 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>                   | Internet payment service provider                                     | England and Wales       |
| <b>PayPoint.net Limited</b>                 | Internet 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                  |

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.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 15. Investments continued

|   | Group                 |                       | Company               |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 31 March 2013<br>£000 | 25 March 2012<br>£000 | 31 March 2013<br>£000 | 25 March 2012<br>£000 |
| <b>Investments carried at cost:</b>           |                       |                       |                       |                       |
| Investment in OB10 Limited (note 27)          | 435                   | 435                   | 435                   | 435                   |
| Investments in subsidiaries and joint venture | -                     | -                     | 117,890               | 114,254               |
|   | <b>435</b>            | <b>435</b>            | <b>118,325</b>        | <b>114,689</b>        |

During the period, the company loaned Collect+ (note 13) £0.95 million (2012: £1.75 million). The company also subscribed for additional share capital in PayByPhone Mobile Technologies Inc. for £2.7million (2012: £3.1 million to PayByPhone Mobile Technologies Inc.).

## 16. 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.

## 17. Trade and other receivables

|  | Group                 |  |  | Company               |                       |
|--|-----------------------|--|--|-----------------------|-----------------------|
|  | 31 March 2013<br>£000 | 25 March 2012<br>£000<br>(restated) <sup>3</sup> | 27 March 2011<br>£000<br>(restated) <sup>3</sup> | 31 March 2013<br>£000 | 25 March 2012<br>£000 |
| Trade receivables <sup>1</sup>                 | 21,111                | 19,184   | 14,572   | -                     | -                     |
| Allowance for doubtful debts                   | (1,552)               | (1,331)  | (1,850)  | -                     | -                     |
|  | <b>19,559</b>         | <b>17,853</b>                                    | <b>12,722</b>                                    | <b>-</b>              | <b>-</b>              |
| Items in the course of collection <sup>2</sup> | 171,982               | 97,049   | 95,287   | -                     | -                     |
| Other receivables                              | 2,573                 | 743  | 1,024  | 496                   | 485                   |
| Prepayments and accrued income                 | 4,689                 | 2,847  | 3,357  | 2                     | 2                     |
|  | <b>198,803</b>        | <b>118,492</b>                                   | <b>112,390</b>                                   | <b>498</b>            | <b>487</b>            |

- The average credit period on the sale of goods is 32 days (2012: 34 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 £39,477,000 of this balance at 31 March 2013 (2012: £29,875,000). 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 £41,000 has been collected from retailers.
- The 2012 and 2011 comparatives have been restated. Details of the restatement are explained in note 1, Accounting Policies – Restatement of 2011 and 2012 consolidated statements of financial position.

The group's exposure to the credit risk inherent in its trade receivables is discussed in note 26. 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 £8,076,502 (2012: £6,678,275), 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 33 days (2012: 34 days) and of the total balance, £5,905,367 is past due by fewer than 30 days.

### Trade receivables past due by

|  | Less than 1 month<br>£000 | 1-2 months<br>£000 | 2-3 months<br>£000 | More than 3 months<br>£000 | Total<br>£000 |
|--|---------------------------|--------------------|--------------------|----------------------------|---------------|
| <b>Carrying value at 31 March 2013</b> | 5,905                     | 183                | 322                | 1,667                      | <b>8,077</b>  |

Movement in the allowance for doubtful debts:

|   | Group                 |                       | Company               |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 31 March 2013<br>£000 | 25 March 2012<br>£000 | 31 March 2013<br>£000 | 25 March 2012<br>£000 |
| <b>Balance at the beginning of the year</b> | <b>1,331</b>          | 1,850                 | -                     | -                     |
| Amounts utilised in the period              | (80)                  | (607)                 | -                     | -                     |
| Increase in allowance                       | 301                   | 88                    | -                     | -                     |
| <b>Balance at end of the year</b>           | <b>1,552</b>          | <b>1,331</b>          | <b>-</b>              | <b>-</b>              |

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 18. Cash and cash equivalents

Included within group cash and cash equivalents is £6,951,000 (2012: £5,073,000) relating to monies collected on behalf of clients where the group has title to the funds (client cash). An equivalent balance is included within trade payables (note 19).

The group operates cash pooling amongst its various bank accounts 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 2013, the group's cash was £46,618,000 (2012: £35,487,000).

## 19. Trade and other payables

|   | 31 March<br>2013<br>£000 | Group   |   |
|---|--------------------------|---|---|
|   |                          | 25 March<br>2012<br>£000<br>(restated) <sup>4</sup> | 27 March<br>2011<br>£000<br>(restated) <sup>4</sup> |
| Amounts owed in respect of client cash <sup>1</sup> | 6,951                    | 5,073   | 6,132   |
| Other trade payables <sup>2</sup>                   | 20,872                   | 17,034  | 14,891  |
| Trade payables                                      | 27,823                   | 22,107  | 21,023  |
| Settlement payable <sup>3</sup>                     | 171,982                  | 97,049  | 95,287  |
| Other taxes and social security                     | 1,999                    | 2,673   | 2,916   |
| Other payables                                      | 2,722                    | 1,574   | 1,405   |
| Accruals  | 9,593                    | 6,189   | 7,110   |
| Deferred income                                     | 2,702                    | 4,107   | 542   |
|   | <b>216,821</b>           | 133,699   | 128,283   |

- Included within trade payables is £6,951,000 (2012: £5,073,000) relating to monies collected on behalf of clients where the group has title to the funds (client cash). An equivalent balance is included within cash and cash equivalents (note 18).
- The group aims to pay its creditors promptly, in accordance with terms agreed for payment. The group had 32 days purchases outstanding at 31 March 2013 (2012: 33 days) based on the average daily amount invoiced by suppliers during the period.
- Payable in respect of amounts collected for clients by retail agents.
- The 2012 and 2011 comparatives have been restated. Details of the restatement are explained in note 1, Accounting Policies – Restatement of 2011 and 2012 consolidated statements of financial position.

## 20. Operating lease receivables

|  | 31 March<br>2013<br>£000 | 25 March<br>2012<br>£000 |
|--|--------------------------|--------------------------|
| Amounts receivable under operating leases: |                          |                          |
| Within one year                            | 606                      | 883                      |
| Within two to five years                   | 920                      | 1,475                    |
|  | <b>1,525</b>             | 2,358                    |

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.

## 21. Other non-current liabilities

|                                 | Group        |              | Company       |              |
|---------------------------------|--------------|--------------|---------------|--------------|
|                                 | 2013<br>£000 | 2012<br>£000 | 2013<br>£000  | 2012<br>£000 |
| Deferred income                 | 169          | 247          | -             | -            |
| Amounts owed to group companies | -            | -            | 21,137        | 3,372        |
|                                 | <b>169</b>   | 247          | <b>21,137</b> | 3,372        |

## 22. Financial commitments

### Operating lease commitments

|                          | 31 March 2013              |               | 25 March 2012              |               |
|--------------------------|----------------------------|---------------|----------------------------|---------------|
|                          | Land and buildings<br>£000 | Other<br>£000 | Land and buildings<br>£000 | Other<br>£000 |
| Leases which expire:     |                            |               |                            |               |
| Within one year          | 808                        | -             | 608                        | -             |
| Within two to five years | 1,523                      | -             | 1,105                      | -             |

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 23. Equity

### Share-based payments equity settled share scheme

The group's share schemes are described in the remuneration committee report on pages 23 to 35. 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 £1,332,000 (2012: £1,112,000).

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

|   | Number of shares<br>2013 | Number of shares<br>2012 |
|---|--------------------------|--------------------------|
| Outstanding at the beginning of the period:                 | 1,216,224                | 1,114,103                |
| Granted during the period – Long Term Incentive Plan (LTIP) | 305,559                  | 312,532                  |
| Granted during the period – Deferred Share Bonus (DSB)      | 91,893                   | 73,075                   |
| Lapsed during the period                                    | (198,942)                | (237,263)                |
| Forfeited during the period                                 | (1,831)                  | (46,223)                 |
| Released during the period                                  | (157,983)                | -                        |
| <b>Outstanding at end of the period</b>                     | <b>1,254,920</b>         | <b>1,216,224</b>         |

|                       | Number of shares | Vesting date |
|-----------------------|------------------|--------------|
| <b>Awards granted</b> |                  |              |
| LTIP 28 May 2010      | 488,772          | 28 May 2013  |
| DSB 1 June 2010       | 82,787           | 1 June 2013  |
| LTIP 27 May 2011      | 312,532          | 28 May 2014  |
| DSB 2 June 2011       | 73,075           | 1 June 2014  |
| LTIP 25 May 2012      | 305,559          | 25 May 2015  |
| DSB 25 May 2012       | 91,893           | 25 May 2015  |

The Long Term Incentive Plan tranche partially vested on 4 June 2012. Under IFRS 2, the fair value charges of £952,000 relating to this tranche, that had been previously charged to the income statement, are reversed through equity. The Deferred Share Bonus did not vest in June 2012 and, accordingly, the fair value charge of £242,000 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:

|                              | 2013    |         | 2012    |         |
|------------------------------|---------|---------|---------|---------|
|                              | LTIP    | DSB     | LTIP    | DSB     |
| Weighted average share price | 3.70    | 5.43    | 3.03    | 4.24    |
| Expected volatility          | 43%     |         | 51%     |         |
| Expected life                | 3 years | 3 years | 3 years | 3 years |
| Risk free rate               | 0.34%   |         | 1.49%   |         |
| Expected dividend yield      | 4.40%   | 4.40%   | 6.90%   | 6.80%   |

### 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.

|   | Group          |               | Company       |                |
|---|----------------|---------------|---------------|----------------|
|   | 2013<br>£000   | 2012<br>£000  | 2013<br>£000  | 2012<br>£000   |
| <b>Authorised share capital</b>   |                |               |               |                |
| 4,365,352,200 ordinary shares of 1/3p each (2012: 4,365,352,200 ordinary shares of 1/3p each) | 14,551         | 14,551        | 14,551        | 14,551         |
|   | <b>14,551</b>  | <b>14,551</b> | <b>14,551</b> | <b>14,551</b>  |
| <b>Called up, allotted and fully paid share capital</b>                                       |                |               |               |                |
| 67,880,234 ordinary shares of 1/3p each (2012: 67,815,819 ordinary shares of 1/3p each)       | 226            | 226           | 226           | 226            |
|   | <b>226</b>     | <b>226</b>    | <b>226</b>    | <b>226</b>     |
| <b>Called up share capital</b>  |                |               |               |                |
| At start of period  | 226            | 226           | 226           | 226            |
| <b>At end of period</b>   | <b>226</b>     | <b>226</b>    | <b>226</b>    | <b>226</b>     |
| <b>Investment in own shares</b>   |                |               |               |                |
| At start of period  | (216)          | (216)         | (216)         | (216)          |
| Used on share scheme vesting  | 216            | -             | 216           | -              |
| <b>At end of period</b>   | <b>-</b>       | <b>(216)</b>  | <b>-</b>      | <b>(216)</b>   |
| <b>Share premium</b>  |                |               |               |                |
| At start of period  | 25             | 25            | 25            | 25             |
| Arising on issue of shares  | 272            | -             | 272           | -              |
| <b>At end of period</b>   | <b>297</b>     | <b>25</b>     | <b>297</b>    | <b>25</b>      |
| <b>Share-based payment reserve</b>  |                |               |               |                |
| At start of period  | 3,138          | 3,005         | 3,138         | 3,005          |
| Additions in period   | 1,332          | 1,112         | 1,332         | 1,112          |
| Released in period  | (1,205)        | (979)         | (1,205)       | (979)          |
| <b>At end of period</b>   | <b>3,265</b>   | <b>3,138</b>  | <b>3,265</b>  | <b>3,138</b>   |
| <b>Translation reserve</b>  |                |               |               |                |
| At start of period  | (360)          | 471           | -             | -              |
| Movement during period  | 1,054          | (831)         | -             | -              |
| <b>At end of period</b>   | <b>694</b>     | <b>(360)</b>  | <b>-</b>      | <b>-</b>       |
| <b>Retained earnings</b>  |                |               |               |                |
| At start of period  | 88,629         | 77,125        | 108,676       | 19,616         |
| Profit/(loss) for period  | 30,951         | 26,939        | 3,006         | (469)          |
| Non-controlling interest loss for period included in above (note 24)                          | 28             | 36            | -             | -              |
| Dividends paid  | (18,957)       | (16,450)      | (18,957)      | (16,450)       |
| Dividends received  | -              | -             | -             | 105,000        |
| Adjustment on share scheme vesting  | (58)           | 979           | 312           | 979            |
| Deferred tax on share-based payments  | 905            | -             | -             | -              |
| <b>At end of period</b>   | <b>101,498</b> | <b>88,629</b> | <b>93,037</b> | <b>108,676</b> |

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 24. Non-controlling interest

|                          | 31 March<br>2013<br>£000 | 25 March<br>2012<br>£000 |
|--------------------------|--------------------------|--------------------------|
| At start of period       | 77                       | 41                       |
| Share of loss for period | 28                       | 36                       |
| <b>At end of period</b>  | <b>105</b>               | <b>77</b>                |

## 25. 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 £706,000 (2012: £713,000). There is no accrual for pension contributions at the balance sheet date (2012: £nil).

## 26. 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 2013 other than sterling, euro, Romanian lei, US dollars and Canadian dollars deposits of £46,618,000 (2012: £35,487,000). Of these deposits, £6,951,000 (2012: £5,073,000) 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.

Finance lease interest is charged on leases at fixed contractual rates.

### (b) Liquidity risk

The group's policy throughout the period ended 31 March 2013 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 2013 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 2013, these exposures were £nil (2012: £nil).

### (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 2013.

### (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 2013, was £63,161,000 (2012: £54,002,000).

### (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.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 27. Related party transactions

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

|  | 53 weeks<br>ended<br>31 March<br>2013<br>£000 | 52 weeks<br>ended<br>25 March<br>2012<br>£000 |
|--|---|---|
| Short term benefits and bonus <sup>1</sup> | 2,272   | 2,234   |
| Pension costs <sup>2</sup>                 | 161   | 156   |
| Long term incentives <sup>3</sup>          | 529   | -   |
| <b>Total</b>                               | <b>2,962</b>                                  | <b>2,390</b>                                  |

1. Includes salary, fees, benefits in kind and annual bonus
2. Defined contribution pension scheme, of which two current directors are members. The remuneration committee has agreed that G Earle's pension contributions will be paid direct to him (grossed up for tax)
3. Long term incentives include the value of 2009 DSB and LTIP awards vested during the period (2012: 2008 DSB and LTIP awards)

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 23 to 35.

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 lent Drop and Collect Limited an additional £0.95 million, bringing the total loan to £5.80 million.

The terms of the loan are:

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

The company and its subsidiaries, in the ordinary course of business, enter into various sales, purchase and service transactions with Collect+. These transactions are under terms that are no less favourable than those arranged with third parties. These transactions are not considered to be significant.

PayPoint has a small investment in OB10, a company that specialises in electronic invoicing.

In the view of the directors, the aggregate cost of £435,000 represents the fair value of the investment in the shares.

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

|                                 | 31 March<br>2013<br>% | 25 March<br>2012<br>% |
|---------------------------------|-----------------------|-----------------------|
| Directors' shareholding in OB10 |                       |                       |
| D Newlands                      | 2.87                  | 2.87                  |
| D Taylor                        | 1.44                  | 1.44                  |
| G Earle                         | 0.40                  | 0.40                  |
| N Wiles                         | 1.02                  | 1.02                  |
| E Anstee                        | 0.08                  | 0.08                  |

## 28. Notes to the cash flow statement

|   | Group   |   | Company                                       |   |
|---|---|---|---|---|
|   | 53 weeks<br>ended<br>31 March<br>2013<br>£000 | 52 weeks<br>ended<br>25 March<br>2012<br>£000 | 53 weeks<br>ended<br>31 March<br>2013<br>£000 | 52 weeks<br>ended<br>25 March<br>2012<br>£000 |
| Profit/(loss) before tax  | 41,267  | 37,201  | 3,885   | (469)   |
| <b>Adjustments for:</b>   |   |   |   |   |
| Depreciation of property, plant and equipment                   | 3,891   | 3,085   | -   | -   |
| Amortisation of intangible assets                               | 180   | 248   | -   | -   |
| Share of losses in joint venture                                | 965   | 1,828   | -   | -   |
| Net interest income   | (252)   | (163)   | -   | -   |
| Share-based payment charge                                      | 1,332   | 1,112   | 1,332   | 1,112   |
| <b>Operating cash flows before movements in working capital</b> | <b>47,383</b>                                 | <b>43,311</b>                                 | <b>5,217</b>                                  | <b>643</b>                                    |
| Decrease/(increase) in inventories                              | 123   | (369)   | -   | -   |
| (Increase)/decrease in receivables                              | (5,378)                                       | (4,545)                                       | (11)  | 22  |
| Increase/(decrease) in payables                                 |   |   |   |   |
| – client cash   | 1,878   | (1,059)                                       | -   | -   |
| – other payables  | 6,662   | 6,010   | 17,362  | 20,693  |
| <b>Cash generated by operations</b>                             | <b>50,668</b>                                 | <b>43,348</b>                                 | <b>22,568</b>                                 | <b>21,358</b>                                 |
| Corporation tax paid  | (10,559)                                      | (10,448)                                      | -   | -   |
| Bank charges paid   | (49)  | (32)  | -   | -   |
| <b>Net cash from operating activities</b>                       | <b>40,060</b>                                 | <b>32,868</b>                                 | <b>22,568</b>                                 | <b>21,358</b>                                 |

Movements in items in the course of collection (see note 17) and settlement payables (see note 19) have not been included in this reconciliation as the directors do not consider them to be operating working capital balances.

# NOTES TO THE FINANCIAL STATEMENTS *continued*

## 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  |
| Revenue   | 89.1               | 120.0       | 157.1       | 212.1       | 224.4       | 196.6       | 193.2       | 200.0       | 208.5       |
| Net Revenue   | 36.9               | 46.1        | 57.7        | 69.9        | 77.4        | 77.4        | 82.7        | 90.4        | 105.7       |
| <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> |
| Tax   | 2.2                | 3.4         | 7.9         | 9.4         | 10.8        | 10.5        | 10.6        | 10.3        | 10.3        |
| <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>Earnings per share</b>                           |                    |             |             |             |             |             |             |             |             |
| Basic   | 8.7p               | 25.0p       | 27.7p       | 31.1p       | 35.6p       | 32.9p       | 35.2p       | 39.8p       | 45.7p       |
| Diluted   | 8.7p               | 24.7p       | 27.3p       | 30.8p       | 35.3p       | 32.7p       | 35.1p       | 39.8p       | 45.3p       |
| 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       |

*This table does not form part of the audited financial statements or notes (as listed in the independent auditor's report on page 37). 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 2013 annual general meeting of PayPoint plc will be held at the offices of PayPoint, 1 The Boulevard, Shire Park, Welwyn Garden City, AL7 1EL, on Wednesday 24 July at 15:00. You will be asked to consider and pass the resolutions below. Resolutions 17, 18 and 19 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

##### ORDINARY BUSINESS

1. To receive the financial statements and the reports of the directors and the auditor thereon for the 53 weeks ended 31 March 2013.
2. To receive the remuneration committee report for the 53 weeks ended 31 March 2013.
3. To declare a final dividend of 20.2p per ordinary share of the company.
4. To declare a special dividend of 15.0p per ordinary share of the company.
5. To re-elect Mr Eric Anstee as a director.
6. To re-elect Mr George Earle as a director.
7. To re-elect Mr David Morrison as a director.
8. To re-elect Mr David Newlands as a director.
9. To re-elect Mr Andrew Robb as a director.
10. To re-elect Mr Stephen Rowley as a director.
11. To re-elect Mr Dominic Taylor as a director.
12. To re-elect Mr Tim Watkin-Rees as a director.
13. To re-elect Mr Nick Wiles as a director.
14. To re-appoint Deloitte LLP as auditor of the company.
15. To authorise the directors to determine the auditor's remuneration.

##### SPECIAL BUSINESS

16. 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 relevant securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £67,881.68 (representing approximately one-third of the issued share capital of the company (excluding treasury shares) as at the date of this document) provided that this authority shall expire on the conclusion of the annual general meeting of the company to be held in 2014 or, if earlier, on the date which is 15 months from the date of this resolution, save that the company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors to allot relevant securities are revoked.
17. 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 16 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 in favour of the holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on any such record date(s), subject to such exclusions or other

arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever; and

- (b) the allotment (otherwise than under sub-paragraph (a) above) to any person or persons of equity securities up to an aggregate nominal amount of £10,182.25 (representing approximately 5% of the issued share capital of the company (excluding treasury shares) as at the date of this document).

and shall expire upon the expiry of the general authority conferred by resolution 16 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.

18. 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 1/3 of one penny of the company, provided that:
- (a) the maximum number of ordinary shares to be acquired is 10,175,464 (representing approximately 14.99% of the issued share capital of the company (excluding treasury shares) as at the date of this document);
  - (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 2014 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.

19. 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.

BY ORDER OF THE BOARD  
Susan Court  
Company Secretary  
23 May 2013

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 Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU not less than 48 hours before the time of the annual general meeting. Appointment of a proxy does not preclude a shareholder from attending the annual general meeting and voting in person.
2. A member entitled to attend, speak and vote at the annual general meeting may appoint one or more proxies (who need not be a member of the company) to attend and, on a poll, to vote on his or her behalf. 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 Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or
- in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below,

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

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.
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. 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 22 July 2013 (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.
7. Biographical details of the directors of the company are shown on page 20 of the 2013 annual report.
8. 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 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.

9. 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.
10. 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 the audit of the company's latest audited accounts. 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.
11. The issued share capital of the company as at 23 May 2013 was 67,881,683 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 23 May 2013 was 67,881,683.
12. The following documents are available for inspection at the registered office of the company during normal business hours on any weekday and will be available at the place of the annual general meeting from 15 minutes before the meeting until it ends:
  - the directors' service agreements and letters of appointment; and
  - copies of the current articles of association of the company.

### **Recommendation and voting intentions**

With respect to resolutions 5 to 13 (inclusive), the board has considered the retiring directors' performance and recommends that each director 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 20 of the 2013 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 16: 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 other relevant securities. The resolution numbered 16 authorises the directors to make allotments of up to 22,627,228 ordinary shares (representing approximately one-third of the issued share capital of the company (excluding treasury shares) as at the date of this document). This amount is in line with ABI guidelines. If approved at the forthcoming annual general meeting, the authority will expire no later than 15 months from the date on which the resolution is passed or on the conclusion of the annual general meeting of the company to be held in 2014, whichever is the sooner. The directors have no present intention of exercising the authority proposed to be conferred pursuant to resolution 16.

### Resolution 17: 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 17 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 3,394,084 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 2014, whichever is the sooner.

### Resolution 18: 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 18, 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 10,175,464, 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 2014, whichever is the sooner.

Resolution 19: Authority to allow any general meeting of the company that is not an annual general 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 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 2014, whichever is the sooner.

# 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 15:00 on 24 July 2013 at the offices of PayPoint plc, 1 The Boulevard, Shire Park, Welwyn Garden City, Hertfordshire AL7 1EL and at any adjournment thereof.

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 15 are items of ordinary business, items 16 to 19 are items of special business.

| RESOLUTION               | FOR   | AGAINST | WITHHELD |
|--------------------------|---|---------|----------|
| <b>ORDINARY BUSINESS</b> |   |         |          |
| 1                        | To receive the directors' report and the financial statements for the 53 weeks ended 31 March 2013, together with the auditor's report. |         |          |
| 2                        | To approve the remuneration committee report for the 53 weeks ended 31 March 2013.  |         |          |
| 3                        | To declare a final dividend of 20.2p per ordinary share of the company.   |         |          |
| 4                        | To declare a special dividend of 15.0p per ordinary share of the company.   |         |          |
| 5                        | To re-elect Mr Eric Anstee as a director of the company.  |         |          |
| 6                        | To re-elect Mr George Earle as a director of the company.   |         |          |
| 7                        | To re-elect Mr David Morrison as a director of the company.   |         |          |
| 8                        | To re-elect Mr David Newlands as a director of the company.   |         |          |
| 9                        | To re-elect Mr Andrew Robb as a director of the company.  |         |          |
| 10                       | To re-elect Mr Stephen Rowley as a director of the company.   |         |          |
| 11                       | To re-elect Mr Dominic Taylor as a director of the company.   |         |          |
| 12                       | To re-elect Mr Tim Watkin-Rees as a director of the company.  |         |          |
| 13                       | To re-elect Mr Nick Wiles as a director of the company.   |         |          |
| 14                       | To re-appoint Deloitte LLP as auditor of the company.   |         |          |
| 15                       | To authorise the directors to determine the auditor's remuneration.   |         |          |
| <b>SPECIAL BUSINESS</b>  |   |         |          |
| 16                       | ORDINARY RESOLUTION: To authorise the directors to allot shares pursuant to Section 551 of the Companies Act 2006.                      |         |          |
| 17                       | SPECIAL RESOLUTION: To disapply statutory pre-emption rights pursuant to Section 570 of the Companies Act 2006.                         |         |          |
| 18                       | SPECIAL RESOLUTION: To authorise the company to make market purchases of its ordinary shares up to 14.99% of the issued share capital.  |         |          |
| 19                       | SPECIAL RESOLUTION: To allow any general meeting (other than an annual general meeting) to be called on 14 days' notice                 |         |          |

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

Signature.....Date.....2013

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 (see below). If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name (see below) 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 have been nominated to receive communication from the company in accordance with section 146 of the Companies Act 2006 (nominated persons). Nominated persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
- 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 Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
- This form is issued only to the addressee(s) and is specific to the unique designated account printed hereon. This personalised form is not transferable between different (i) account holders or (ii) uniquely designated accounts. The company and Capita Registrars accept no liability for any instruction that does not comply with these conditions.

3rd FOLD and TUCK IN

BUSINESS REPLY  
Licence No. RSBH-UXKS-LRBC



PXS  
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  
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

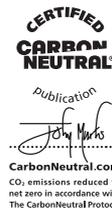
J. P. Morgan Cazenove  
25 Bank Street  
London, E14 5JP  
United Kingdom

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

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

### Registrar

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



This annual report has been produced using ISO 14001 and FSC certified environmental print technology, together with vegetable based inks. Furthermore, we have worked in partnership with the CarbonNeutral Company to carbon offset the entire production and distribution of this document.



PayPoint plc

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