



Annual report

For the year ended 25 March 2007



PayPoint plc

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ABOUT PAYPOINT

PayPoint is the leading cash and internet payments company in the UK and Ireland, handling in excess of £5 billion in over 400 million transactions annually for more than 5,000 clients and merchants. The company operates with several payment networks:

- The PayPoint branded retail network numbers over 17,500 terminals located in local shops (including Co-op, Spar, Costcutter, Sainsburys Local, One Stop, Londis and thousands of independents) in all parts of the UK and Ireland. Terminals handle gas and electricity meter prepayments, cash bill payments, mobile phone top-ups, transport tickets, London Congestion Charges, BBC TV licences and a wide variety of other payment types for all of the leading utilities, telecommunications suppliers and many consumer service companies. This network is used by consumers, free of charge, over 7 million times a week. The network has 97.3% population cover on a 1 mile urban or 5 miles rural measure;
- Additional multiple retailer connections into the electronic till systems of nearly 4,000 outlets including BP, Somerfield and Superdrug for mobile top-ups and selected payments from the PayPoint range;
- The PayPoint ATM network has 1,860 'LINK' branded machines across the UK, also typically in convenience stores;
- PayPoint Internet Payment Services (PIPS), trading as Metacharge and SECPay, provides secure credit and debit card payments for over 4,000 web merchants linking into all the major UK acquiring banks; and
- PayPoint International has recently acquired a Romanian mobile top-up operator to which a bill payment service will be added, emulating the UK branded retail network. PayPoint International also operates Irish bill payment and top-up services.

PayPoint floated on the London Stock Exchange in September 2004 and the company's market capitalisation at 25 March 2007 was £464 million. PayPoint has been awarded the Queen's Award for Enterprise and is widely recognised for its leadership in prepayment systems, smart technology and consumer service.

17 May 2007



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OFFICERS AND PROFESSIONAL ADVISERS

Directors

G D Earle

K J Minton*

D J Morrison*

D B Newlands*

A M Robb*

D C Taylor

T D Watkin-Rees

R N Wood*

* Non-executive directors

Company Secretary

S C Court

Registered office

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Shire Park

Welwyn Garden City

Hertfordshire AL7 1EL

United Kingdom

Registered in England and Wales number 3581541

Independent auditors

Deloitte & Touche LLP

London

United Kingdom

Registrars

Capita Registrars

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

United Kingdom

HIGHLIGHTS

	Year ended		Increase %
	25 March 2007 £m	31 March 2006 £m	
Revenue	157	120	31
Net revenue ^{1,3}	58	46	25
Operating profit	25	19	31
Profit before tax	27	20	31
Basic earnings per share	27.7p	25.0p	11
Proposed final dividend per share	9.1p	7.5p	21

- Strong growth in both revenues and operating profit ahead 31% driven by 29% increase in transactions
- Operating margin^{2,3} increased by 2 percentage points to 44%
- Earnings per share of 27.7p up 11%, notwithstanding an increase in the effective tax rate from 17% to 30% as prior year losses are fully utilized
- Total dividend for the year 13.7p per share, up 30%
- Terminal network expanded by 15% to 17,537
- Bill and general payments transaction growth enhanced by exclusive BBC TV Licensing contract
- Entry into rapidly growing internet payment service market through acquisitions of Metacharge and SECPay
- International expansion through acquisition of Pay Store SRL in Romania since the year end
- Brand continuing to gain traction with prompted consumer awareness⁴ over 70%

David Newlands, Chairman of PayPoint, said "PayPoint continues to deliver strong increases in both revenues and profits, and has opportunities for further growth through market share gains and new initiatives. The Metacharge and SECPay acquisitions during the year are a positive step in generating transactions in new sectors and increasing the range of consumer payments processed by PayPoint. Since the year end we have also announced the acquisition of Pay Store SRL, the leading independent Romanian mobile top-up provider as the first step of our international strategy. Overall we look ahead with confidence for continuing growth supported by an encouraging performance at the start of the new year".

The financial statements have been drawn up to the year ended 25 March 2007 (the last Sunday in the month). The year ending 30 March 2008 will contain 53 weeks.

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

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

3 Net revenue and operating margin² are measures which the directors believe assist with a better understanding of the underlying performance of the group. The reconciliation of net revenue to revenue can be found in note 2.

4 BMRB Omnibus survey April 2007.



Transactions processed have increased by 29% to 414 million

OPERATING AND FINANCIAL REVIEW

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

Our key performance indicators are transaction volume, numbers of sites (terminals and ATMs), net revenue¹, operating margin² and economic profit³. We have met or exceeded all of our targets except for ATM site numbers, where new sites have become harder to find.

Operational overview

We have continued to grow in all sectors and particularly in bill and general payments with the introduction of the exclusive BBC TV Licensing contract. This growth has been achieved through the success of our strategy to:

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

During the financial year, PayPoint processed 414 million transactions (2006: 322 million), an increase of 29%, with a value of £5.2 billion (2006: £3.8 billion) up 38%. Commissions paid to agents of £77 million (2006: £64 million) were up 21%, reflecting lower than average increase in mobile top-ups which carry higher than average agent commission. The average transaction value has increased to £13 (2006: £12) mainly as a result of the TV licence contract, rises in domestic gas and electricity prices, increased volumes in the housing rent and council tax sector and payments via the internet.

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

Transactions by sector	2007 million	2006 million	Increase %
Bill and general payments*	267	205	30
Mobile top-ups	130	108	21
ATMs	13	9	44
Internet payments	4	-	-
Total	414	322	29

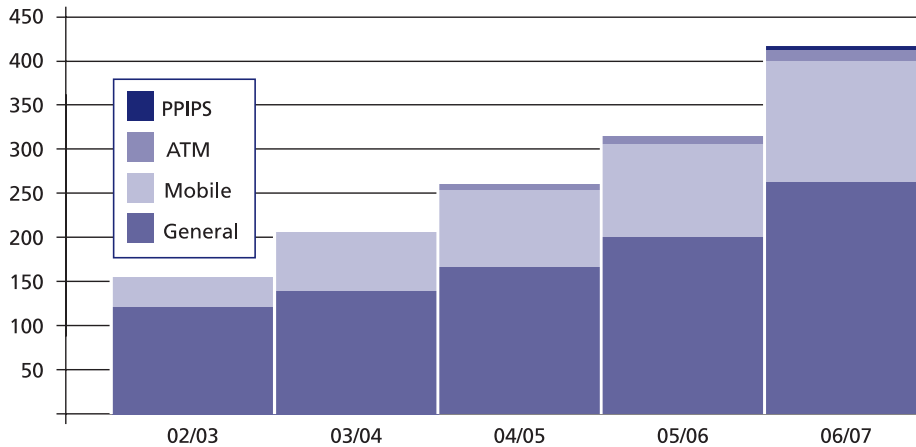
*Including debit/credit transactions.

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

2 Operating margin is calculated as operating profit as a percentage of net revenue¹.

3 Economic profit is operating profit after tax and a charge for capital employed based upon the group's cost of capital (see Remuneration Committee report on page 21).

Transaction volume (million)



Bill and general payments

PayPoint has performed well in this sector with growth stimulated by increased agent numbers, client payment options and brand awareness. Migration of market share away from the Post Office, following its branch closure programme, and the launch of the BBC TV licence payments exclusively in PayPoint agents, have contributed to growth in transactions. The major new contract with BBC TV Licensing will continue to add to transaction volumes next year being its first full year of operation.

In prepaid energy, substantial energy consumer price increases have continued to have a beneficial effect on PayPoint's transaction volumes, offset by an increase in average transaction values. Gas and electricity price reductions have been announced which, in the absence of a reduction in transaction values, will have an adverse effect on volumes in the current year. This adverse impact will be partly mitigated by network growth and increasing market share.

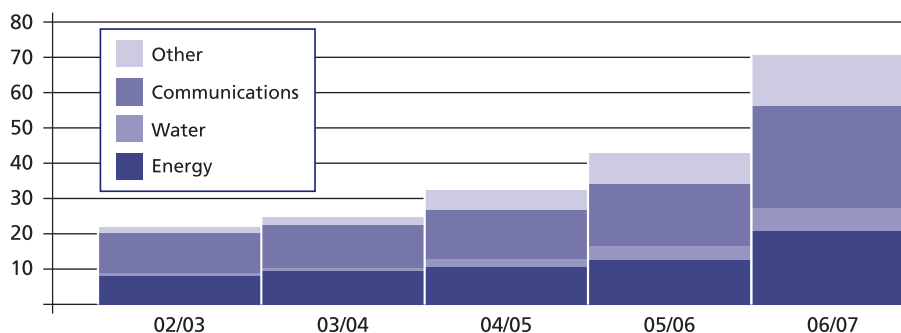
In transport, we have extended our geographical coverage by signing new contracts with, amongst others, regional Go Ahead companies, Ipswich Buses, Reading Transport, Northampton Buzz and Stagecoach Northampton, in addition to our existing contracts with Arriva, National Express, Lothian, First and Greater Manchester Travelcards. Whilst current volumes in transport ticketing are relatively modest, there is considerable potential for long-term growth if transport authorities take steps to move ticket purchasing off buses. We are also discussing contracts with other operators and transport executives.

PayPoint has also achieved strong growth in the rest of the sector (energy bill payments, communications including TV Licensing, water, local authorities, and others).



TV Licensing contract will continue to add to transaction volumes

Bill payment volume (million)





Retail network is now over 17,500 sites

Mobile top-ups

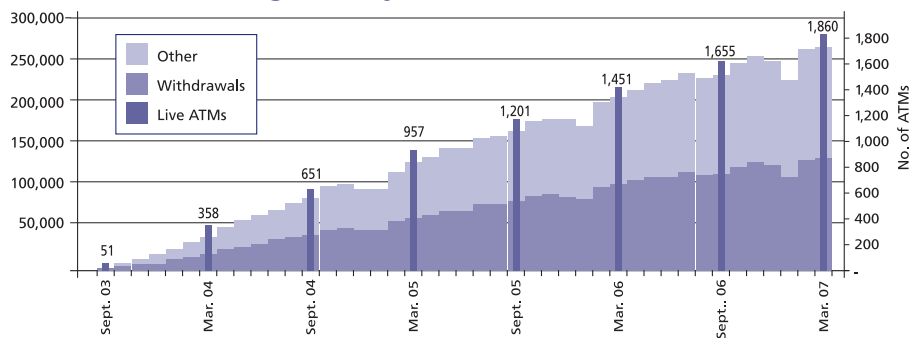
PayPoint's share of the UK mobile cash top-up market is c.30% (2006: c.27%) as a result of extending the retail network and improved outlet branding. Growth in Epos transactions is higher than for mobile top-ups on PayPoint's terminals, partly as a result of the migration of transactions from terminals to two multiple retailers' till systems on which Epos transactions are performed, still not completed and partly on the higher growth in Epos sites than terminal sites.

The re-branding programme has contributed to an improvement in prompted consumer awareness¹ of 34ppts to 70% from 36% last year.

Automatic Teller Machines (ATMs)

New machines have continued to be rolled out, albeit at a slower average rate of 34 per month (2006: 41 per month). The quality of the installed estate has been maintained and average transaction volumes and revenues are higher than last year, with sites averaging over 630 transactions per month (2006: 600 per month), split between cash withdrawals and balance enquiries with the latter representing slightly more than half of the transactions. Installed ATMs have grown to 1,860 at the year end (2006: 1,451).

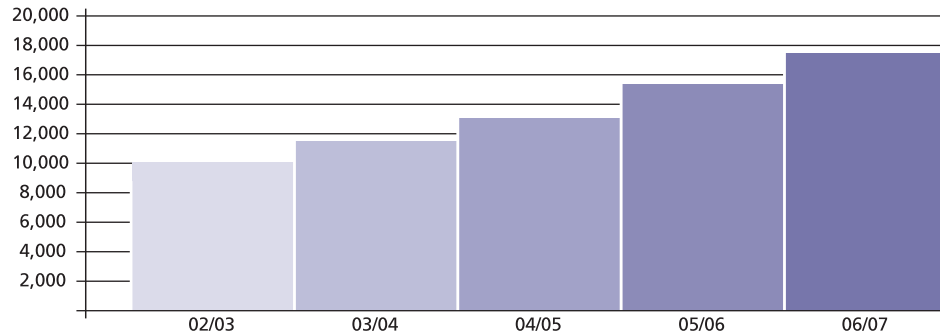
ATM transactions
Average weekly transactions each month



Network growth

Demand remains strong for new PayPoint terminal outlets and the retail network has grown to 17,537 sites at 25 March 2007, a net increase of over 2,200 or 15% on 2006.

Site with terminals



2,488 sites (2006: 2,300) with our terminals also have Epos connections, to allow mobile top-up transactions over the retailers' own till systems and there are a further 3,855 Epos only sites (2006: 2,780).

1. BMRB Omnibus survey April 2007.

Analysis of sites	2007	2006	Increase %
PP terminal only	15,049	12,996	16
PP terminal and Epos	2,488	2,300	8
PP terminal sites	17,537	15,296	15
ATM sites	1,860	1,451	28
Internet merchants	4,249	-	-

Financial overview

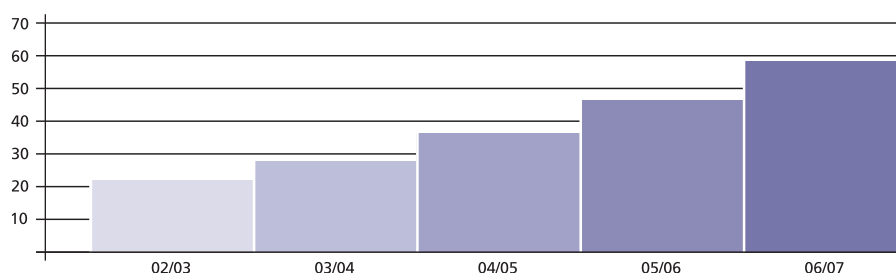
Revenue for the financial year was 31% up at £157 million (2006: £120 million), driven by a 29% increase in transaction volumes and the increase in revenue from the sale of mobile top-ups in Ireland¹. Cost of sales was £111 million (2006: £83 million) an increase of 33%. Cost of sales comprises commission paid to agents, the cost of mobile top-ups in Ireland¹, depreciation and other items including telecommunications costs. Agents' commission increased to £77 million (2006: £64 million), up 21%, lower than volume growth as a result of lower than average growth of mobile top-ups which carry higher than average agent commissions. The cost of mobile top-ups in Ireland has risen to £21 million (2006: £10m). Depreciation and amortisation have increased to £3.8 million (2006: £2.3 million) as a result of the new terminal and ATM deployment and the refurbishment of our operations base in Welwyn Garden City.

Net revenue² of £58 million (2006: £46 million) was up 25%, driven primarily by volume growth. Operating margins³ were 44% (2006: 42%), ahead of last year despite the step change in operating costs resulting from the expansion of the operations base.



**Revenue up 31%
at £157 million,
net revenue up
25% to
£58 million**

Net revenue (£million)



Gross profit improved to £46 million (2006: £37 million), 26% ahead of last year, with a gross margin of 29% (2006: 30%). The rate of increase in mobile top-ups in Ireland¹ is greater than the rate of increase from other sources, which tends to depress gross margin, mitigated by lower rates of increase in other costs. Gross margin, excluding the cost of Irish mobile top-ups¹ where PayPoint is the principal from both revenue and cost of sales, improved to 34% (2006: 33%).

1 In Ireland, PayPoint is principal in the sale of mobile top-ups and accordingly the face value of the top-up is included in sales and the corresponding costs in cost of sales.

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

3 Operating margin is calculated as operating profit as a percentage of net revenue².



Operating profit increased to £25 million

Operating costs (administrative expenses) have risen to £21 million (2006: £17 million), an increase of 21%. The inclusion of Metacharge and SECPay since acquisition has accounted for a 5% increase and the remainder results from the increase in leased space at our operations base, merger and acquisition activity, promotional activity and the expansion of the senior management team. Operating profit was £25 million (2006: £19 million). The operating margin¹ improved to 44% (2006: 42%).

Profit before tax was £27 million (2006: £20 million). The tax charge of £8 million (2006: £3 million) represents an increase in the effective rate to 30% (2006: 17%), mainly as a result of the use last year of the previously unrecognized tax losses from prior years.

Operating cash flow was £28 million (2006: £14 million), reflecting strong conversion of profit to cash and a beneficial timing impact of drawing up the year end to 25 March 2007. Net capital expenditure of £6 million (2006: £7 million) reflected spend on new terminals, ATMs and infrastructure assets and the refurbishment of the operations base. Net interest received was £1 million (2006: £1 million). Equity dividends paid were £8 million (2006: £6 million).

Cash and cash equivalents were £24 million (including client cash of £7 million), down £5 million from £29 million (including client cash of £6 million) at 31 March 2006 following the net cash outflow of £20 million for the acquisitions of Metacharge and SECPay during the financial year.

Economic profit

PayPoint has made an economic profit (operating profit less tax and capital charge) of £16 million (2006: £13 million). Operating profits were £25million (2006: £19 million), up 31%, tax was £8 million (2006: £3 million), sharply increased as a result of the low tax charge last year when the remaining tax losses from prior years were used, and the capital charge of £1 million (2006: £0.5 million), increased as a result of the investment in Metacharge and SECPay, the refurbishment of the operations base and the capital invested in new terminal sites and ATMs.

Dividend

We propose to pay on 9 July 2007 a final dividend of 9.1p per share to shareholders on the register on 22 June 2007, subject to approval of the shareholders at the annual general meeting. An interim dividend of 4.6p per share was paid on 21 December 2006.

PayPoint Internet Payment Services

Metacharge was acquired on 1 November 2006 for £8 million and SECPay for £12 million on 26 February 2007 to form PayPoint Internet Payment Services (PPIPS). Both companies are internet payment service providers (PSP) which contract with small and medium size enterprises to provide a secure payment service for internet shoppers. PPIPS earns revenue from transaction fees or monthly management fees. Both companies are Payment Card Industry (PCI) accredited for both Visa and MasterCard. Following integration, PayPoint's network of agents will be offered as a cash payment solution for online purchases, in addition to the debit and credit card payments currently offered by these companies, and the PSP service is being offered to some of PayPoint's existing clients.

¹ Operating margin is calculated as operating profit as a percentage of net revenue²

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

PayPoint is combining the two businesses creating synergies and economies of scale. The first phase of this integration will deliver a single billing platform, a single extranet and both businesses will share SECPay's hosted hardware platforms. The second phase will permit Metacharge products to be delivered to SECPay's merchant base and vice versa, opening SECPay's electronic interfaces with its wider acquiring bank base to Metacharge. This will enable the introduction of merchants by PPIPS to banks.

Pay Store SRL

Pay Store SRL was acquired on 15 May 2007 for €16 million from the RTC group with potential for a further €1 million payable or recoverable, on the performance of the business in the first year after acquisition. Pay Store is a mobile top-up provider, the largest independent provider in Romania, selling both electronic top-ups and scratch cards, with over 6,000 retail agents, 4,000 of which have electronic terminals provided by Pay Store. Some 97% of Romanians pay bills in cash and are poorly served by a wide variety of payment methods. There is no national branded payment service. We plan to roll out a branded bill payment service using the Pay Store infrastructure, PayPoint terminals, and processing from Welwyn Garden City. Pay Store is well placed to benefit from the migration from scratch cards to electronic top-ups, and to capture a significant share of the bill payment market as privatized utilities look to rationalize current inefficient and costly cash collection channels.

Liquidity

The group has cash of £24 million and an unsecured loan facility of £35 million with a remaining term of 4 years. Cash and borrowing capacity are adequate to meet the foreseeable needs of the group.

Financing and treasury policy

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

Charitable donations

During the year the group made charitable donations of £33,300. including the sponsorship of MacMillan Cancer Relief of £25,000. All other payments were to charities serving the communities in which the group operates.

Employees

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

Strategy, risks and corporate social responsibility

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



PayPoint has acquired Metacharge, SECPay and Pay Store

Outlook

There is further potential to expand the business in the UK. Whilst previous growth in energy prepayment attributed to energy price rises will not be sustained as energy prices fall, bill payment including the full year impact of the BBC TV Licensing contract offers substantial opportunities for increase both in market share of existing business and through new initiatives. The planned installation of a further 2,000 terminal sites will also bring more market share in mobile top-up volumes and other transactions. We will continue to roll out ATMs, taking care to match the existing high quality outlets comprising our estate and this is expected to build total ATM transaction volumes. Our acquisitions, Metacharge, SECPay and more recently Pay Store, although small, are sound platforms for expansion in markets which are increasing rapidly. We are confident of continuing growth and trading in the current year has started well.

David Newlands
Chairman

Dominic Taylor
Chief Executive

17 May 2007

STRATEGY

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

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

Cash payments

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

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

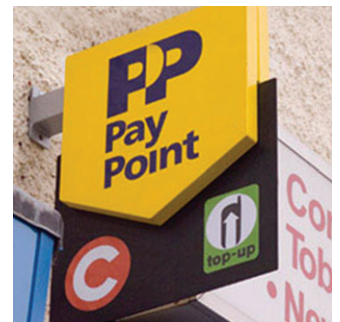
- selectively extend coverage to prospective retail agents and continually optimize the retail agent network, facilitated by the use of the new terminal which is allowing PayPoint to target agents currently using inferior solutions;
- work with clients to increase PayPoint's share of their volumes, notably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

New payment technologies

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

International

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



**PayPoint
aims to
create
economic
value for its
shareholders**

RISKS

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

Risk	Future prospects depend on our ability to:
Managing growth of the business	manage growth through the employment of adequate skilled resources, whilst maintaining financial controls
The loss of a major contract	renew contracts at expiry (over the next six years) on attractive terms
Dependence on key executives	retain and recruit key staff through a mixture of basic salary, short and long-term incentive schemes
Failure of systems	maintain financial controls, defend against natural disasters, terrorist attacks, sabotage, and hacking
Competition	hold and gain market share, particularly in commodity services such as mobile top-ups
Insolvency of a major multiple retail agent	avoid the consequences of insolvency both in terms of the bad debt risk (where we bear it) and the impact of such insolvency on our network coverage
Technological changes	keep pace with technological changes and introduce new developments to compete effectively with our competitors
Reliance on intellectual property	stop third parties from using our products and defend the use of our products from any challenge
The need to raise capital in future	access future capital needs on sufficiently attractive terms to grow the business profitably
Economic, political, legislative, taxation or regulatory changes	to deal with the impact of such changes without adversely affecting the growth or profitability of the business
Taxation	ensure the impact of any adverse changes is mitigated by enhanced performance
Fraudulent or criminal activity	avoid loss of client monies by the rigorous application of controls

CORPORATE SOCIAL RESPONSIBILITY

PayPoint has a set of core corporate social responsibility principles:

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

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

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

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

GOVERNANCE

Corporate governance

The directors recognise the importance of sound corporate governance, whilst taking into account the size and nature of the company. The company has fully complied with the provisions set out in Section 1 of the Combined Code on Corporate Governance (Combined Code) for the year up to 25 March 2007.

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

The board

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

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

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

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

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

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

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

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

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

The board met ten times during the year and all members were in attendance with the exception of Kenneth Minton, David Morrison, Roger Wood and Andrew Robb each of whom were unable to attend one meeting.

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

The various committees carried out self-assessments to assess whether their terms of reference had been satisfactorily fulfilled and how their processes could be improved. The non-executive and executive directors' performance was reviewed by the Chairman and Chief Executive respectively, taking into account the views of other directors. The performance of the Chairman was reviewed by the non-executive directors led by Kenneth Minton, the Senior Independent Director, also taking into account the views of the executive directors.

Directors' and officers' liability insurance is maintained to provide cover should a legal action against the company's directors occur.

Committees of the board

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

Audit Committee

The Audit Committee comprises Andrew Robb, Kenneth Minton and Roger Wood. It met five times during the year. All meetings were chaired by Andrew Robb who the board considers to have recent and relevant financial experience. All members were in attendance with the exception of Kenneth Minton 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. During the year, it: reviewed reports from the auditors relating to the group's accounting and internal controls; advised the board on the appointment, performance, independence and objectivity of the auditors; reviewed the effectiveness of the group's systems of internal control including fraud prevention; and reviewed the appropriateness of the internal audit programme. It also reviewed the operation of the company's whistle blowing policy during the year. The committee considered the level of non-audit fees for services provided by the auditors in order to satisfy itself that the auditors' independence is safeguarded. The group has a policy which prohibits the auditors providing certain services which might impair their independence. Proposals to use the auditors for non-audit services are approved by the Audit Committee Chairman. The Audit Committee regularly meets the external auditors without the executive directors being present and procedures are in place which allows access at any time of both external and internal auditors to the Audit Committee. The Chairman of the committee reports the outcome of each meeting to the board which is provided with the minutes of all meetings.

Remuneration Committee

The role, composition and activities of the Remuneration Committee and details of how the company applies the principles of the Combined Code in respect of directors' remuneration are set out in the Remuneration Committee report on pages 21 to 28.

Nomination Committee

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

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

Risk management and internal control

The directors are responsible for establishing and maintaining the group's system of internal control which has been designed to meet the particular needs of the group and its risks. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. All procedures necessary to comply with Internal Control: Guidance for Directors on the Combined Code have been in place throughout the year and the directors have conducted a formal review of the effectiveness of the group's system of internal control during the year. The operational management of the group is delegated to senior managers who are appointed by the Chief Executive. The responsibilities of the senior management group include the regular review of the main business risks to the group.

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

KPMG are the internal auditors and have planned and proposed to the Audit Committee a rigorous internal audit programme covering all the group's key business areas which has been scheduled to take place between 2005 and 2007. Key risk areas are to be covered each year, with the balance of the programme to be completed over the three years. The internal audit programme for the year to 25 March 2007 has been successfully completed. In addition independent internal audits are conducted for the group's assessment of compliance against ISO/IEC 27001:2005 (information security management), which takes place twice annually and by LINK auditors, on an annual basis, which assesses the group's control over LINK related ATM systems and audits by our clients from time to time.

Shareholder relations

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

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

BOARD OF DIRECTORS

David Newlands, non-executive Chairman (aged 60) - appointed 4 August 1998

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

Dominic Taylor, Chief Executive (aged 48) - appointed 4 August 1998

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

George Earle, ACA, Finance Director (aged 54) - appointed 20 September 2004

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

Tim Watkin-Rees, Business Development Director (aged 44) - appointed 22 September 1998

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

David Morrison, non-executive director (aged 48) - appointed 12 January 1999

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

Andrew Robb, non-executive director (aged 64) - appointed 18 August 2004

Andrew worked for P&O Steam Navigation Co. from 1971 to 1989, initially as Financial Controller and, from 1983, as Group Finance Director. From 1989 to 2001 he was Group Finance Director of Pilkington plc. Andrew has also served on the board of Alfred McAlpine plc as a non-executive director and Chairman of the Audit Committee. Andrew is a Fellow of the Chartered Institute of Cost and Management Accountants and is currently a non-executive director and Chairman of the Audit Committee of Kesa Electricals plc, Corus Group plc and The Laird Group plc. He is also a non-executive director of Northgate Information Solutions plc.

Kenneth Minton, non-executive director (aged 70) - appointed 4 August 2004

Kenneth spent most of his career at Laporte plc and held the position of Chief Executive officer for ten years. Kenneth has held roles as executive Chairman of Arjo Wiggins Appleton plc and non-executive Chairman of John Mowlem & Company plc and SGB Group plc. Kenneth is currently executive Chairman of 4Imprint plc and a non-executive director of Elementis plc.

Roger Wood, non-executive director (aged 64) - appointed 9 September 2004

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

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company and of the group, together with the financial statements and independent auditors' report, for the year ended 25 March 2007.

Principal activity

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

PayPoint collects payments on behalf of the UK and Ireland's leading utility and customer service organisations, and there are over 17,500 convenience retail outlets using PayPoint's terminals. On average, over seven million consumer transactions are processed weekly by PayPoint. At a PayPoint outlet, the wide range of PayPoint's clients provides consumers with a one stop shop for making cash payments. In addition, PayPoint provides ATMs to retail outlets and processes ATM transactions. PayPoint Internet Payment Services provide secure credit and debit card payments for web merchants.

Substantial shareholdings

On 1 May 2007, the company had been notified of the following disclosable interests in the voting rights of the company as required by provision 5.1.2 of the FSA Disclosure and Transparency Rules:

Name of holder	No. of ordinary shares	Percentage of issued capital
Invesco Asset Management	16,290,413	24.1%
Lord Weinstock's Estate*	8,096,183	12.0%
RIT Capital Partners plc	7,308,233	10.8%
Landsdowne Partners LP*	6,215,451	9.2%
AXA Framlington Investment Management	4,905,567	7.3%
Jupiter Asset Management	4,845,683	7.2%
Legal & General Investment Management	2,254,233	3.3%

* Notified in accordance with the Companies Act 1985, prior to the implementation of the Disclosure and Transparency Rules. Consequently, these notifications refer to interests in shares rather than interests in voting rights.

Directors

The names of the directors at the date of this report and their biographical details are given on pages 17 and 18 and their interests in the ordinary shares of the company are given on page 28. There were no changes in directors during the year.

Results for the year

The consolidated income statement, balance sheet and cash flow statement for the year ended 25 March 2007 are set out in pages 32, 33 and 35.

The operating and financial review of the group for the year ended 25 March 2007, 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 in pages 4 to 10. An analysis of risk is set out on page 12 and of risk management on page 16. The balance sheet and cash flow statement of the holding company for the year ended 25 March 2007 are set out on page 34 and 36.

Suppliers' payment policy

The group aims to pay its creditors promptly, in accordance with terms agreed for payment. The group had 18 days' purchases outstanding at 25 March 2007, based on the average daily amount invoiced by suppliers during the year.

Charitable and political donations

The group made no political donations during the year (2006: nil). Details of charitable donations policy can be found within the operating and financial review on page 9.

Employee matters and environmental issues

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

Future developments

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

Dividends

The directors recommend the payment of a final dividend of 9.1p (2006: 7.5p) per ordinary share amounting to £6,159,000 (2006: £5,076,000) to be paid on 9 July 2007 to members on the register on 22 June 2007. An interim dividend was declared and paid during the year of 4.6p per share (2006: 3.0p per share) amounting to £3,113,000 (2006: £2,030,000).

Post-balance sheet event

On the 15 May 2007, PayPoint completed the acquisition of Pay Store for €16 million. Pay Store is a Romanian company which sells mobile top-ups in Romania.

Going concern

The directors are satisfied that the group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Therefore, the financial statements have been prepared on an ongoing basis.

Independent auditors

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

Statement as to disclosure of information to auditors

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

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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

Susan Court
Company Secretary

17 May 2007

REMUNERATION COMMITTEE REPORT

Introduction

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

Unaudited information Remuneration Committee

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

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

The Remuneration Committee is formally constituted with written terms of reference which set out the full remit of the committee. A copy of the terms of reference is available to shareholders by writing to the Company Secretary whose contact details are set out on page 60. The terms of reference are also available on the company's website at www.paypoint.com. The Remuneration Committee met three times during the year and all members were in attendance.

Remuneration policy overview

The Remuneration Committee has adopted a remuneration policy so that total levels of compensation encourage and reward high performance and attract and retain individuals of the right calibre to ensure the company meets its objectives. It is the opinion of the Remuneration Committee that shareholders' interests are best served by focusing a greater proportion of total remuneration on performance related compensation. As such, base salaries are set at around the median level with the balance of remuneration provided through the annual bonus plan and long term share incentives.

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

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

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

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

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

The Remuneration Committee has commenced a review of the remuneration policy with particular focus on the long-term incentive and annual bonus plans. The review is considering the potential for better targeting of long term incentives to those who have the capacity to create value by contributing to the strategic direction of PayPoint in contrast with those who are principally involved in the execution of the strategy for whom the annual bonus may be a more appropriate reward. It also includes a review of the comparator group and consideration of management sharing in an absolute total shareholder return in excess of the cost of equity which may offer a better basis for the long term incentive plan, given the difficulty in choosing an appropriate comparator group.

Basic salary

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

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

Annual performance related bonus

The annual bonus plan for the year ended 25 March 2007 provided for a maximum cash bonus of 50% of salary. Executive directors were also eligible to participate in the PayPoint plc Deferred Share Bonus Plan (DSB). Under the DSB they are able to choose to defer up to 50% of the bonus awarded (i.e. up to 25% of salary) and acquire shares (Bonus Shares), with the opportunity of an additional award of shares (Matching Shares) of an equivalent value to the gross bonus deferred (i.e. up to 25% of salary) which equates to a maximum bonus potential of 75% of salary.

The company's bonus plan for the year ended 25 March 2007 was based on the achievement of growth of economic profit (operating profit after tax and a charge for capital employed based on the company's cost of capital). The targets for growth in economic profit were exceeded and as such maximum bonuses have been earned.

The results are set out below:

	80% payment threshold for on plan delivery £000	100% payment threshold for 110% of plan delivery £000	Actual result £000
Economic profit	£14,777	£16,255	£16,314

The maximum cash bonus potential available for the executive directors for the year ending 25 March 2007 is 50% of salary with a maximum bonus potential of 75% of salary, if they participate in the DSB. The bonus plan for the year ended 25 March 2007 is based on the achievement of growth of economic profit. The Remuneration Committee believes that this will encourage a focus on both profit and capital efficiency which are key to driving shareholder value and which are implicit in the calculation of economic profit.

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

Deferred Share Bonus Plan (DSB)

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

The release of Matching Shares is subject to:

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

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

The executive directors elected to defer 50% of their cash bonus received in respect of the year ending 31 March 2006. During the year Bonus Shares were purchased and Matching Shares awarded under the DSB based on the value of bonus deferred. Details of the awards made under the DSB during the year are set out on page 27.

Since the year end all the executive directors have elected to defer 50% of the bonus earned in the current year in shares. It is intended that Bonus Shares and Matching Shares awards will be made under the DSB in May 2007.

Long term incentives

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

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

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

During the year Dominic Taylor received an LTIP award equivalent to 120% of salary and George Earle and Tim Watkin-Rees received LTIP awards equivalent to 100% of salary. Awards made in the year were granted as conditional awards of shares. Details of the LTIP awards made during the year are set out on page 27. No LTIP awards were released or lapsed during the year.

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

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

*There is proportionate vesting between points

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

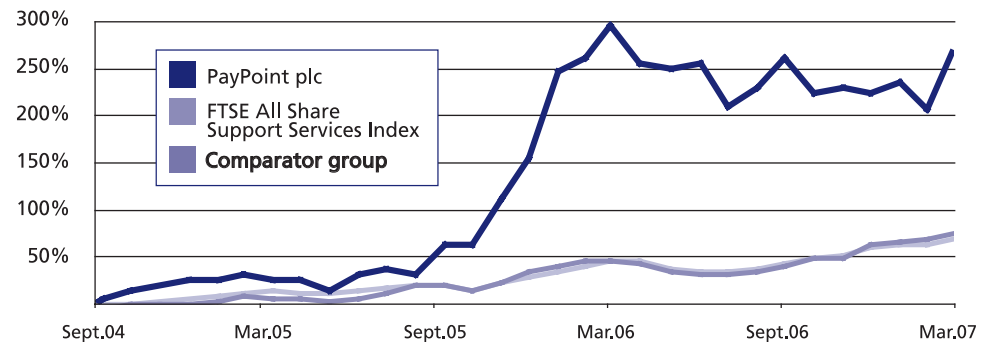
Comparative TSR was selected as the performance condition for LTIP awards by the Remuneration Committee as it ensures that the executives have outperformed their peers in the comparator group over the measurement period in delivering shareholder value before being entitled to receive any of their awards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

Performance measurement

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

Total Shareholder Return (TSR) performance graph

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



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

PayPoint plc Share Incentive Plan (SIP)

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

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

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

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

Details of shares held in the SIP by executive directors are set out on page 27. Approximately 70% of eligible group employees currently participate in the purchase and matching element of the plan.

Dilution

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

Pension

The company pays the equivalent of 12% of the executive director's basic salary into a personal pension plan.

Executive directors' contracts

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

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

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

Non-executive directors

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

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

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

Name	Date of appointment	Expiry date
K Minton	4 August 2004	1 August 2007
D Morrison	10 August 2004	1 August 2007
D Newlands	10 August 2004	1 August 2007
A Robb	10 August 2004	1 August 2007
R Wood	10 September 2004	1 August 2007

Under the company's articles of association each director is required to submit themselves for re-election every three years. The board has determined that the basis of appointment of all non-executive directors will be that they will ordinarily serve two three year terms, but that any additional three year terms may be agreed by the board on a case by case basis. It is proposed that all non-executive directors appointments will be renewed for a second three year term when they expire in August 2007.

Compliance

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

Audited information

Directors' emoluments

	Basic salary ¹		Bonuses		Benefits in kind ²		Total		Pension ³		Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Executive												
D Taylor	249	228	118	108	8	7	375	343	28	26	403	369
G Earle	212	195	100	92	7	4	319	291	24	22	343	313
T Watkin-Rees	179	165	83	77	7	5	269	247	20	18	289	265
Non-executive												
D Newlands	75	68	-	-	-	-	75	68	-	-	75	68
A Robb	42	35	-	-	-	-	42	35	-	-	42	35
K Minton	42	35	-	-	-	-	42	35	-	-	42	35
D Morrison	35	30	-	-	-	-	35	30	-	-	35	30
R Wood	35	30	-	-	-	-	35	30	-	-	35	30
	869	786	301	277	22	16	1,192	1,079	72	66	1,264	1,145

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

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

³ Defined contribution pension scheme, of which three current directors are members.

Long Term Incentive Plan¹

	Number of shares awarded		Value of shares awarded	Date of grant	Release date	Exercise period		
	at 1 April 2006	during the year				at 25 March 2007	From	To
Executive directors								
D Taylor	52,083 ³		52,083	£100,000	24.09.04		24.09.07	23.09.14
	52,083 ⁴		52,083	£100,000	24.09.04	24.09.07		
	103,407 ⁴		103,407	£258,000	13.06.05	13.06.08		
		43,721 ²	43,721	£282,000	05.06.06	05.06.09		
G Earle	52,083 ³		52,083	£100,000	24.09.04		24.09.07	23.09.14
	84,635 ⁴		84,635	£162,500	24.09.04	24.09.07		
	73,747 ⁴		73,747	£184,000	13.06.05	13.06.08		
		31,008 ²	31,008	£200,000	05.06.09	05.06.09		
T Watkin-Rees	52,083 ³		52,083	£100,000	24.09.04		24.09.07	23.09.14
	2,605 ⁴		2,605	£5,000	24.09.04	24.09.07		
	61,723 ⁴		61,723	£154,000	13.06.05	13.06.08		
		25,891 ²	25,891	£167,000	05.06.09	05.06.09		

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

2 Awards were granted at a price of £6.45 per share (the closing price on the preceding dealing day).

3 Granted in the form of an EMI nil cost option

4 Granted as a conditional award of shares.

Deferred Share Bonus Plan¹

	Bonus Shares	Matching Shares ²		Date of grant	Release date
	Number purchased during the year ³	Number awarded during the year ⁴	Value of shares awarded		
Executive directors					
D Taylor	4,841	8,206	£53,750	05.06.06	05.06.09
G Earle	4,144	7,022	£46,000	05.06.06	05.06.09
T Watkin-Rees	3,468	5,877	£38,500	05.06.06	05.06.09

1 The Bonus Shares were purchased and the Matching Shares awarded at a share price of £6.55.

2 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.

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

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

Share Incentive Plan

	Number of Partnership Shares ¹ purchased at 1 April 2006	Number of Matching Shares ² awarded at 1 April 2006	Number of Free Shares ³ awarded at 1 April 2006	Dividend Shares ⁴ acquired at 1 April 2006	Total shares at 1 April 2006	Number of Partnership Shares purchased during the year	Matching Shares awarded during the year	Dividend Shares acquired during the year	Dates of release of Matching/Free Dividend Shares	Total shares at 25 March 2007
Executive Directors										
D Taylor	710	710	1,562	64	3,046	216	216	66	24.09.07-16.03.10	3,544
G Earle	710	710	-	23	1,443	239	239	30	24.09.07-16.03.10	1,951
T Watkin-Rees	710	710	1,562	64	3,046	239	239	61	24.09.07-16.03.10	3,585

1 Partnership Shares are ordinary shares of the company purchased on a monthly basis during the year (at prices from £5.95 to £6.95).

2 Matching Shares are ordinary shares of the company awarded conditionally on a monthly basis during the year (at prices from £5.95 to £6.95) in conjunction with 2 share purchases.

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

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

Directors' shareholdings

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

	Ordinary shares of 1/3p each 25 March 2007	Ordinary shares of 1/3p each 31 March 2006
G Earle	52,083	52,083
K Minton	130,208	130,208
D Newlands ¹	470,243	951,407
A Robb	10,417	10,417
D Taylor	1,771,502	1,773,502
T Watkin-Rees	750,000	864,021
R Wood	52,083	52,083

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

The market price of the company's shares on 25 March 2007 was £6.85 (31 March 2006: £7.60) per share and the high and low share prices during the year were £7.64 and £4.98 respectively.

The remuneration report has been approved by the Remuneration Committee.

Kenneth Minton
Chairman, Remuneration Committee
17 May 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report, Remuneration Committee report and the financial statements. The directors are required to prepare financial statements for the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have also elected to prepare financial statements for the company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PAYPOINT PLC

We have audited the group and parent company financial statements (the financial statements) of PayPoint plc for the year ended 25 March 2007 which comprise consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statements and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the remuneration committee report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

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

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

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

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 25 March 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 25 March 2007;
- the financial statements and the part of the Remuneration Committee report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

17 May 2007

CONSOLIDATED INCOME STATEMENT

	Note	Year ended	
		25 March 2007 £000	31 March 2006 £000
Continuing operations			
Revenue	2	157,068	119,968
Cost of sales		(111,068)	(83,409)
Gross profit		46,000	36,559
Administrative expenses		(20,798)	(17,248)
Operating profit	4	25,202	19,311
Investment income	6	1,470	1,051
Finance costs	6	(75)	(15)
Profit before tax		26,597	20,347
Tax	7	(7,859)	(3,440)
Profit for the financial year attributable to equity holders of the parent		18,738	16,907
Earnings per share			
Basic	9	27.7p	25.0p
Diluted	9	27.3p	24.7p

The results are presented under IFRS.

There have been no gains or losses attributable to the shareholders other than the profit for the current and preceding financial year, and accordingly no Statement of Total Recognised Income and Expense is presented.

CONSOLIDATED BALANCE SHEET

		As at	
		25 March	31 March
		2007	2006
		£000	£000
Note			
Non-current assets			
	Goodwill	18,207	-
	Other intangible assets	2,839	-
	Property, plant and equipment	11,844	8,894
	Deferred tax asset	1,572	1,184
		34,462	10,078
Current assets			
	Inventories	1,651	1,119
	Trade and other receivables	20,671	12,112
	Cash and cash equivalents	24,324	29,295
		46,646	42,526
	Total assets	81,108	52,604
Current liabilities			
	Trade and other payables	36,228	21,371
	Current tax liabilities	4,115	1,972
	Obligations under finance leases	-	67
		40,343	23,410
Non-current liabilities			
	Other liabilities	392	344
		392	344
	Total liabilities	40,735	23,754
	Net assets	40,373	28,850
Equity			
	Share capital	226	226
	Share premium account	-	23,976
	Capital redemption reserve	-	14,193
	Investment in own shares	(1)	(1)
	Share option and SIP reserve	1,712	738
	Retained earnings	38,436	(10,282)
	Total equity attributable to equity holders of the parent company	40,373	28,850

These financial statements were approved by the board of directors on 17 May 2007.
Signed on behalf of the board of directors

Dominic Taylor
Director

COMPANY BALANCE SHEET

		As at	
	Note	25 March 2007 £000	31 March 2006 £000
Non-current assets			
Investments	14	57,646	36,546
		57,646	36,546
Current assets			
Trade and other receivables	17	16,903	16,879
Cash and cash equivalents	18	-	4,008
		16,903	20,887
Total assets		74,549	57,433
Current liabilities			
Trade and other payables	19	18	612
Bank overdraft	18	99	-
Non-current liabilities			
Other liabilities	20	31,759	6,712
Total liabilities		31,876	7,324
Net assets		42,673	50,109
Equity			
Share capital	21	226	226
Share premium account	21	-	23,976
Capital redemption reserve	21	-	14,193
Investment in own shares	21	(1)	(1)
Share option and SIP reserve	21	1,712	738
Retained earnings	21	40,736	10,977
Total equity	22	42,673	50,109

These financial statements were approved by the board of directors on 17 May 2007.

Signed on behalf of the board of directors

Dominic Taylor
Director
17 May 2007

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended	
		25 March 2007 £000	31 March 2006 £000
Net cash flow from operating activities	29	28,181	14,318
Investing activities			
Investment income		1,310	1,051
Purchases of property, plant and equipment		(6,646)	(6,504)
Proceeds on disposal of property, plant and equipment		194	196
Acquisition of subsidiaries	15	(19,754)	-
Net cash used in investing activities		(24,896)	(5,257)
Financing activities			
Repayments of obligations under finance leases		(67)	(213)
Dividends paid		(8,189)	(5,503)
Net cash used in financing activities		(8,256)	(5,716)
Net (decrease)/increase in cash and cash equivalents		(4,971)	3,345
Cash and cash equivalents at beginning of year		29,295	25,950
Cash and cash equivalents at end of year		24,324	29,295

COMPANY CASH FLOW STATEMENT

	Note	Year ended	
		25 March 2007 £000	31 March 2006 £000
Net cash inflow/(outflow) from operating activities	29	25,125	(40)
Investing activities			
Interest received		55	1
Dividends received		-	9,503
Acquisition of subsidiaries	15	(21,098)	-
Net cash (used)/generated from investing activities		(21,043)	9,504
Financing activities			
Dividends paid		(8,189)	(5,503)
Net cash used in financing activities		(8,189)	(5,503)
Net (decrease)/increase in cash and cash equivalents		(4,107)	3,961
Cash and cash equivalents at beginning of year		4,008	47
Cash and cash equivalents at end of year		(99)	4,008

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

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

Basis of preparation

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

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:

IFRS 7: Financial instruments: Disclosures

IFRS 8: Operating Segments

IFRIC 7: Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC 8: Scope of IFRS 2

IFRIC 9: Reassessment of Embedded Derivatives

IFRIC 10: Interim Financial Reporting and Impairment

IFRIC 11 IFRS 2: Group and Treasury Transactions

IFRIC 12: Service Concession Arrangements.

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

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

The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

Goodwill

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

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

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

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

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

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

Revenue

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

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

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

Cost of sales

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

Pension costs

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

Share-based payments

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

Interest income

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

Taxation

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

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

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

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

Foreign currency

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

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

Intangible assets

Contracts with merchants and technology

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

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

Software development expenditure

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

Property, plant and equipment

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

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

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

Inventories

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

Leases

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

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

Dividends

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

Treasury shares

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

Cash and cash equivalents

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

The critical accounting judgements and key sources of estimation uncertainty in the business are valuation of goodwill £18.2 million (2006: Nil) and intangible assets £2.8 million (2006: Nil). Management review goodwill for any impairment on an annual basis see note 10. Intangible assets are amortised over their economic useful life see note 11. The accounting policies for goodwill and intangible assets are included above in this note 1.

2. Segmental reporting, net revenue analysis and gross throughput

(i) Segmental information

(a) Geographical segments

The group operates in both the UK and Republic of Ireland but the group has only one reportable geographical segment as defined in International Accounting Standard 14 Segment Reporting due to the fact that principally all operations occur in the UK.

(b) Classes of business

The group has one class of business, being payment collection and distribution services.

(ii) Analysis of revenues by sector

Group revenue comprises the value of sales (excluding VAT) of services in the normal course of business and includes amounts billed to customers to be passed on to retail agents as commission payable, the face value of mobile top-ups where PayPoint acts as principal and for Metacharge, it includes external processing charges which are amounts billed to merchants that are passed onto the sponsoring bank. Cost of sales includes the cost to the group of the sale, including commission to retail agents and the cost of mobile top-ups where PayPoint is the principal in the supply chain.

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

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

	2007 £000	2006 £000
Revenue - transaction processing	155,659	118,909
- lease rental of ATMs	1,409	1,059
	157,068	119,968
less:		
Commission payable to retail agents	(76,986)	(63,558)
Cost of mobile top-ups as principal	(21,050)	(10,297)
External processing charges	(1,333)	-
Net revenue	57,699	46,113
Net revenue by sector		
Bill payments	25,737	21,428
Mobile top-ups	22,633	18,966
ATMs	5,751	4,124
Internet payments	1,623	-
Other	1,955	1,595
Net revenue	57,699	46,113

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

Commission payable is included within cost of sales as shown below

	2007 £000	2006 £000
Revenue	157,068	119,968
Cost of sales		
Commission payable to retail agents	(76,986)	(63,558)
Cost of mobile top-ups as principal	(21,050)	(10,297)
External processing charges	(1,333)	-
Other	(11,699)	(9,554)
Total cost of sales	(111,068)	(83,409)
Gross profit	46,000	36,559

(iii) Gross throughput

	2007 £000	2006 £000
Collected by PayPoint terminals / Epos	4,826,632	3,581,194
Withdrawals via ATMs	293,287	203,630
Internet transactions	117,180	-
Total throughput	5,237,099	3,784,824

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

3. Employee information

	Group		Company	
	2007	2006	2007	2006
Average number of persons employed				
Sales, distribution and marketing	50	32	-	-
Operations and administration	194	188	5	5
	244	220	5	5
	£000	£000	£000	£000
Staff costs during the year (including directors)				
Wages and salaries	8,261	7,182	229	198
Social security costs	886	746	26	22
Pension costs (note 23)	432	407	-	-
	9,579	8,335	255	220

Directors' emoluments, pension contributions and share options are disclosed in the Remuneration Committee report on pages 21 to 28.

4. Operating profit

	2007 £000	2006 £000
Operating profit is after charging/(crediting):		
Stock expensed – cost of mobile top-ups as principal	21,050	10,297
Depreciation		
Owned assets	3,603	2,231
Leased assets	-	89
(Profit) / loss on disposal of assets	(7)	1
Amortisation of intangible assets	212	-
Rentals under operating leases		
Other operating leases	425	412
Income from rental of ATMs	(1,409)	(1,059)
Auditors' remuneration (see note below)	207	309
Staff costs	9,579	8,335

	2007 £000	2006 £000
Auditors' remuneration		
Fees payable to the company's auditors for the audit of the company's annual accounts	10	10
Fees payable to the group's auditors for the audit of the company's subsidiaries		
The audit of the company's subsidiaries pursuant to legislation	92	79
Total audit fees	102	89
Fees payable to the group's auditors and their associates for other services to the group		
Tax	90	110
Corporate finance services*	165	110
Other	15	-
Total non-audit fees	270	220

*In 2007 corporate finance services costs have been capitalised

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

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

5. Profit of parent company

The company has taken advantage of the exemption under section 230 of the Companies Act 1985 and consequently the income statement of the parent company is not presented as part of these financial statements. The loss of the parent company for the financial year amounted to £221,000 (2006: profit £8,920,000).

6. Investment income and finance costs

Investment income

Investment income comprises interest on current and deposit accounts.

Finance costs

Finance costs comprise of bank charges.

	2007 £000	2006 £000
Bank charges	75	15
	75	15

7. Tax

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

	2007 £000	2006 £000
Current tax	7,935	3,239
Deferred tax	(76)	201
	7,859	3,440

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

Profit before tax	26,597	20,347
Tax at the UK corporation tax rate of 30% (2006: 30%)	7,979	6,104
Tax effects of:		
Expenses not deductible in determining taxable profit	344	181
Capital allowances in excess of depreciation	54	(55)
Utilisation of tax losses not previously recognised	-	(2,392)
Timing differences	(309)	(237)
Prior year adjustments	(167)	-
Other	(42)	(161)
Actual amount of tax charge	7,859	3,440

8. Dividends on equity shares

	2007 £000	2006 £000
Equity dividends on ordinary shares		
Interim dividend paid of 4.6p per share (2006: 3.0p)	3,113	2,030
Proposed final dividend of 9.1p per share (2006: paid 7.5p per share)	6,159	5,076
Total dividends paid and recommended 13.7p per share (2006: 10.5p per share)	9,272	7,106
Amounts distributed to equity holders in the year		
Final dividend for the prior year	5,076	3,473
Interim dividend for the current year	3,113	2,030
	8,189	5,503

9. Earnings per share

Basic earnings per share

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

	2007 £000	2006 £000
Profit for the purposes of basic earnings per share being net profit attributable to equity holders of the parent and for diluted earnings per share	18,738	16,907

	2007 Number of shares	2006 Number of shares
Weighted average number of ordinary shares in issue (for basic earnings per share)	67,678,187	67,671,307
Potential dilutive ordinary shares:		
Long-term incentive plan	974,116	733,347
Deferred share bonus	80,336	51,518
Diluted basis	68,732,639	68,456,172

10. Goodwill

	Total £000
Cost	
At 1 April 2006	-
Recognised on acquisition of subsidiaries (note 15)	18,207
At 25 March 2007	18,207
Accumulated impairment losses	
At 1 April 2006	-
Impairment losses for the year	-
At 25 March 2007	-
Carrying amount	
At 25 March 2007	18,207
At 31 March 2006	-

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units (CGUs) are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

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

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

11. Other intangible assets

	Technology £000	Contracts with merchants £000	Total £000
Cost			
At 1 April 2006	-	-	-
Acquired on acquisition of subsidiaries (note 15)	1,800	1,251	3,051
At 25 March 2007	1,800	1,251	3,051
Amortisation			
At 1 April 2006	-	-	-
Charge for the year	65	147	212
At 25 March 2007	65	147	212
Carrying amount			
At 25 March 2007	1,735	1,104	2,839
At 31 March 2006	-	-	-

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

12. Property, plant and equipment

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

The net book value of assets held under finance leases is £NIL (2006: £160,000). The cost for ATMs that are rented out under operating leases is £4,857,000 (2006: £4,258,000) and the accumulated depreciation £2,326,000 (2006: £1,267,000). At 25 March 2007 the group had entered into contractual commitments for the acquisition of terminals and ATMs amounting to £751,000 (2006: £330,000).

Group	Terminals and ATMs £000	Fixtures, fittings and equipment £000	Total £000
Cost			
At 1 April 2005	14,254	822	15,076
Additions	6,748	46	6,794
Disposals	(385)	-	(385)
At 31 March 2006	20,617	868	21,485
Accumulated depreciation			
At 1 April 2005	9,747	712	10,459
Charge for the year	2,256	64	2,320
Disposals	(188)	-	(188)
At 31 March 2006	11,815	776	12,591
Net book value			
At 31 March 2006	8,802	92	8,894
At 31 March 2005	4,507	110	4,617

13. Deferred tax asset

	2007 £000	2006 £000
Movement on deferred tax asset		
At start of year	1,184	1,385
Acquisition of subsidiary (note 15)	312	-
Charge/(credit) to income statement	76	(201)
At end of year	1,572	1,184
Analysis of deferred tax asset		
Capital allowances in excess of depreciation	807	947
Share based payments	546	237
Short term timing differences	89	-
Losses	130	-
	1,572	1,184

At the balance sheet date:

(i) the group has further unused tax losses of £2,262,600 (2006: £1,792,000) available for offset against future profits in the subsidiaries in which the losses reside. No deferred tax assets have been recognised in respect of these losses due to the unpredictability of future profit streams. All losses may be carried forward indefinitely.

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

14. Investments held as fixed assets

	2007 £000	2006 £000
Investment in subsidiary undertakings	57,646	36,546

Subsidiary undertakings

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

Subsidiary of the company	Principal activity
PayPoint Network Limited	Management of an electronic payment service
PayPoint Collections Limited	Provision of a payment collection service
PayPoint Retail Solutions Limited	Provision of retail services
PayPoint Ireland Limited	Holding company in Ireland
PayPoint Network Ireland Limited	Management of an electronic payment service in Ireland
Metacharge Limited	Internet payment service provider
SECPay Limited	Internet payment service provider
PayPoint Collections Ireland Limited	Payment collection service in Ireland
Counter Payment Managers Limited	ESOP scheme

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

15. Acquisition of subsidiaries

On 1 November 2006, the company acquired 100% of the issued share capital of Metacharge for cash consideration of £8.3 million.

On 26 February 2007, the company acquired 100% of the issued share capital of SECPay for cash consideration of £12.5 million.

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

	Metacharge		SECPay		Total
	Book value	Fair value	Book value	Fair value	Fair value
	£000	£000	£000	£000	£000
Net assets acquired					
Property, plant and equipment	242	54	13	21	75
Deferred tax assets	312	312	-	-	312
Trade and other receivables	9,155	9,155	192	192	9,347
Cash and cash equivalents	611	611	733	733	1,344
Trade and other payables	(10,604)	(10,794)	(294)	(444)	(11,238)
Intangible assets (note 11)	-	2,123	-	928	3,051
	(284)	1,461	644	1,430	2,891
Goodwill		6,981		11,226	18,207
Total consideration		8,442		12,656	21,098
Satisfied by:					
Cash		8,251		12,459	20,710
Directly attributable costs		191		197	388
		8,442		12,656	21,098
Net cash outflow arising on acquisition					
Cash consideration		8,442		12,656	21,098
Cash and cash equivalents acquired		(611)		(733)	(1,344)
		7,831		11,923	19,754

The goodwill arising on the acquisition of Metacharge and SECPay is attributable to the anticipated profitability of the distribution of the group's products in the new markets and the anticipated future operating synergies from the combination.

Metacharge contributed £2,798,000 revenue and £557,000 to the group's profit before tax for the period between the date of acquisition and the balance sheet date.

SECPay contributed £158,000 revenue and £30,000 to the group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of Metacharge and SECPay had been completed on the first day of the financial year, they would have contributed £8,033,000 to revenue and £1,333,000 to profit attributable to equity holders of the parent.

The acquisition of Pay Store on 15 May 2007 has been excluded from the above disclosure as it is impracticable to carry out the acquisition accounting as the acquisition was only 2 days before these accounts were approved and signed.

16. Inventories

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

17. Trade and other receivables

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Trade receivables	20,431	11,075	-	-
Provision for doubtful debt	(1,640)	(139)	-	-
	18,791	10,936	-	-
Other receivables	569	647	28	10
Prepayments and accrued income	1,311	529	-	-
Amounts owed by group companies	-	-	16,385	16,380
Group relief receivable	-	-	490	489
	20,671	12,112	16,903	16,879

18. Cash and cash equivalents

Included within group cash and cash equivalents is £7,290,000 (2006: £5,575,000) relating to monies collected on behalf of clients where the group has title to the funds (client cash). An equivalent balance is included within trade payables (note 19). The group operates cash pooling amongst its various bank accounts and therefore individual accounts can be overdrawn without penalties being incurred so long as the overall gross position is in credit. At the 25 March 2007 the company's bank account was overdrawn by £99,000 (2006: credit £4,008,000), but the group's overall cash position was £24,324,000 (2006: £29,295,000) in credit.

19. Trade and other payables

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Amounts owed in respect of client cash (see note 18)	7,290	5,575	-	-
Other trade payables	15,911	7,650	4	289
Trade payables	23,201	13,225	4	289
Other taxes and social security	2,249	618	-	69
Other payables	75	83	-	-
Accruals	8,980	7,414	14	254
Deferred income	1,723	31	-	-
	36,228	21,371	18	612

Included within trade payables is £7,290,000 (2006: £5,575,000) 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).

20. Other non-current liabilities

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Deferred income	392	344	-	-
Amounts due to group companies	-	-	31,759	6,712
	392	344	31,759	6,712

21. Equity

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Authorised share capital				
4,365,352,200 ordinary shares of 1/3 p each (2006: 4,365,352,200 ordinary shares of 1/3 p each)	14,551	14,551	14,551	14,551
	14,551	14,551	14,551	14,551
Called up, allotted and fully paid share capital				
67,678,702 ordinary shares of 1/3 p each (2006: 67,653,358 ordinary shares of 1/3 p each)	226	226	226	226
	226	226	226	226
Called up share capital				
At start of year	226	226	226	226
At end of year	226	226	226	226
Share premium				
At start of year	23,976	23,976	23,976	23,976
Capital reduction (see over)	(23,976)	-	(23,976)	-
At end of year	-	23,976	-	23,976
Capital redemption reserve				
At start of year	14,193	14,193	14,193	14,193
Deferred shares purchased and cancelled	(14,193)	-	(14,193)	-
At end of year	-	14,193	-	14,193
Investment in own shares				
At start of year	(1)	(1)	(1)	(1)
At end of year	(1)	(1)	(1)	(1)
Share option and SIP reserve				
At start of year	738	219	738	219
Movement	974	519	974	519
At end of year	1,712	738	1,712	738
Retained earnings				
At start of year	(10,282)	(21,686)	10,977	7,560
Profit / (loss) for the year	18,738	16,907	(221)	8,920
Capital reduction (see over)	38,046	-	38,046	-
Undistributable reserves (see over)	123	-	123	-
Dividends paid	(8,189)	(5,503)	(8,189)	(5,503)
At end of year	38,436	(10,282)	40,736	10,977

On 8 November 2006 the company held an extraordinary general meeting to approve a resolution to cancel the entire amount standing to the credit of each of its share premium account and capital redemption reserve. This was approved by the courts in December 2006. At 25 March 2007, £0.1 million of the retained earnings is not distributable as it relates to trade creditors at 8 November 2006 which remained unpaid at 25 March 2007.

Share-based payments

Equity settled share scheme

The group has a number of share schemes as defined in the Remuneration Committee report on pages 21 to 28. The vesting period for all awards is 3 years, and they are forfeited if the employee leaves the group before they vest. All awards made are free shares and do not have an exercise price.

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

	2007		2006	
	Number of shares	Weighted average exercise price (in £)	Number of shares	Weighted average exercise price (in £)
Outstanding at 1 April 2006	879,335	-	424,052	-
Granted during the year - LTIP	176,142	-	400,208	-
Granted during the year - DSB	30,461	-	55,075	-
Outstanding at 25 March 2007	1,085,938	-	879,335	-

Awards granted:		Number of shares	Vesting date
LTIP	24 September 2004	139,323	24 September 2007
EMI	24 September 2004	284,729	24 September 2007*
LTIP	13 June 2005	342,966	13 June 2008
DSB	13 June 2005	55,075	13 June 2008
LTIP	19 September 2005	57,242	19 September 2008
LTIP	5 June 2006	176,142	5 June 2009
DSB	5 June 2006	30,461	5 June 2009

*EMI awards have a 10 year vesting period

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

	2007		2006	
	LTIP	DSB	LTIP	DSB
Weighted average share price	4.02	6.21	1.52	2.27
Expected volatility	38%		44%	
Expected life	3 years	3 years	3 years	3 years
Risk free rate	4.73%		4.3%	
Expected dividend yield	1.8%	1.8%	2.5%	2.5%

Other share-based payment plans

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

22. Statement of changes in equity

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Opening equity	28,850	16,927	50,109	46,173
Profit / (loss) for the year	18,738	16,907	(221)	8,920
Dividends paid	(8,189)	(5,503)	(8,189)	(5,503)
Share option and SIP reserve	974	519	974	519
Closing equity	40,373	28,850	42,673	50,109

23. Pension arrangements

The group administers a non-contributory defined contribution scheme for some directors and employees. The amount charged in the consolidated income statement for the period for pension costs of the group under the scheme was £432,000 (2006: £331,000). There is an accrual of £75,000 for pension contributions at the balance sheet date (2006: £54,000).

24. Financial commitments

Obligations under finance leases

	2007 £000	2006 £000
Minimum lease payments due:		
Within one year	-	67
Within two to five years	-	-
	-	67
Finance charges allocated to future periods	-	6
	-	73

Operating lease commitments

	2007		2006	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Leases which expire:				
Within one year	-	-	-	18
Within two to five years	100	-	100	8
After five years	8,280	-	8,280	-

A 15 year lease on the Welwyn Garden City operations base was signed on 10 March 2006.

25. Operating lease receivables

	2007 £000	2006 £000
Amounts receivable under operating leases		
Within one year	1,582	1,183
Within two to five years	3,863	3,364
After five years	-	-
	5,445	4,547

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

26. Derivatives and other financial instruments

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

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

(a) Interest rate risk

The group has been funded by equity, interests in short-term deposits and finance leases over the period currently under review. The group has no financial assets at 25 March 2007 other than Sterling and Euro deposits of £24,324,000 (2006: £29,295,000). Of these deposits, £7,290,000 (2006: £5,575,000) relates to monies held on behalf of clients where PayPoint has title to the funds for periods of up to 7 days.

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

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

Interest is charged on these leases at fixed contractual rates.

Further analysis of the interest rate profile of the fixed rate financial liabilities as at 25 March 2007 and 31 March 2006 is provided below:

Weighted average interest rate on fixed rate financial liabilities:

	2007 %	2006 %
Finance leases	12	12

Weighted average period for which interest rate is fixed:

	2007 months	2006 months
Finance leases	2	14

(b) Liquidity risk

The group's policy throughout the year ended 25 March 2007 regarding liquidity has been to maximise the return on funds placed on deposit within the constraint of minimising the associated risk.

The group had no financial liabilities at 25 March 2007 other than short-term payables, such as trade payables, accruals and amounts due in more than one year comprising finance leases and deferred income.

(c) Foreign exchange risk

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

The group's currency exposures comprise those transactional exposures that give rise to the net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and monetary liabilities of the group that are not denominated in the operating (or functional) currency of the operating unit involved. At 25 March 2007 these exposures were £292,000 (2006: £342,000).

(d) Borrowing facilities

The group has a £35 million loan facility with Lloyds TSB. £15 million is a revolving loan facility with a term of four years and £20 million is a term loan facility capable of being drawn up to two years from inception, repayable five years from inception.

(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 25 March 2007 and 31 March 2006.

(f) Market price risk

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

(g) Maturity profile of financial liabilities

The group's financial liabilities in the prior year consisted of finance leases. The finance leases matured as follows:

	2007 £000	2006 £000
In one year or less	-	67

27. Related party transactions

Remuneration of the directors, who are the key management of the group, are disclosed in the audited part of the Remuneration Committee report on pages 21 to 28.

28. Events after the balance sheet date

On the 15 May 2007 PayPoint acquired Pay Store SRL for €16 million. Pay Store is a company incorporated in Romania and is a mobile top-up provider, selling both electronic top-ups and scratch cards, with over 6,000 retail agents of which 4,000 have electronic terminals.

29. Notes to the cash flow statement

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Operating profit / (loss)	25,202	19,311	(221)	(1,107)
Adjustments for:				
Depreciation on property, plant and equipment	3,603	2,320	-	-
Amortisation of intangible assets	212	-	-	-
Increase in share option and SIP reserve	974	519	974	519
Operating cash flows before movements in working capital	29,991	22,150	753	(588)
Increase in inventories	(532)	(647)	-	-
Decrease / (increase) in receivables	788	(4,238)	(24)	-
Increase / (decrease) in payables				
- client cash	1,105	(5,524)	-	-
- other payables	2,866	4,008	24,396	548
Cash generated / (used) by operations	34,218	15,749	25,125	(40)
Corporation tax paid	(6,007)	(1,416)	-	-
Interest and bank charges paid	(30)	(15)	-	-
Net cash from operating activities	28,181	14,318	25,125	(40)

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2007 annual general meeting of PayPoint plc will be held at the offices of JPMorgan Cazenove, 20 Moorgate, London EC2R 6DA, on Wednesday 4 July 2007 at 12pm for the transaction of the following business:

ORDINARY BUSINESS

1. To receive the financial statements and the reports of the directors and the auditors thereon for the year ended 25 March 2007.
2. To receive the directors' remuneration and the reports of the directors and the auditors thereon for the year ended 25 March 2007.
3. To declare a final dividend of 9.1p per ordinary share of the company.
4. To re-elect K Minton as a director who retires by rotation in accordance with Article 37.2 of the company's articles of association.
5. To re-elect A Robb as a director who retires by rotation in accordance with Article 37.2 of the company's articles of association.
6. To re-appoint Deloitte & Touche LLP as auditors of the company and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions, as to which resolution 7 and 10 shall be proposed as an ordinary resolution and resolutions 8 and 9 shall be proposed as special resolutions:

7. That the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80(1) of the Companies Act 1985 (the Act) to exercise all the powers of the company to allot relevant securities (as defined in Section 80(2) of the Act) up to an aggregate nominal amount of £75,123 provided that this authority shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution, save that the company shall be entitled to make offers or agreements before the expiry of such authority which would or might require relevant securities to be allotted after such expiry and the directors shall be entitled to allot relevant securities pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors to allot relevant securities be and are hereby revoked.
8. That the directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94(2) of the Act) for cash (pursuant to the authority conferred by resolution 7 above being passed) and for this purpose allotment of equity securities shall include a sale of relevant shares as provided in Section 94(3A) of that Act as if Section 89(1) of that Act did not apply to any such allotment, provided that this power shall be limited to:
 - (a) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of the holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on any such record date(s), subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever; and

- (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) to any person or persons of equity securities up to an aggregate nominal amount of £11,268.
- and shall expire upon the expiry of the general authority conferred by resolution 9 below, 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.
9. That subject to, and in accordance with the company's articles of association, the company be generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of the company provided that:-
- (a) the maximum number of ordinary shares hereby authorised to be acquired is 14.99 per cent;
 - (b) the minimum price which may be paid for an ordinary share is the nominal value of such share;
 - (c) the maximum price which may be paid for any such share is an amount equal to 5 per cent. of the average of the middle market quotations for an ordinary share in the company as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased;
 - (d) the authority hereby conferred shall expire at the conclusion of the annual general meeting of the company held in 2008, or if earlier, on the date which is 15 months from the date of this resolution;
 - (e) the company may make any purchase of its ordinary shares pursuant to a contract concluded before the authority hereby conferred expires and which will or may be executed wholly or partly after the expiry of such authority;
 - (f) all shares purchased pursuant to the said authority shall either: (i) be cancelled immediately on completion of the purchase; or (ii) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act.
10. That subject to and in accordance with the Companies Act 2006, as in force or as amended and re-enacted from time to time:
- (a) the company may supply documents or information to members, or persons nominated by members, by making them available on a website; and
 - (b) a person in relation to whom the following conditions are met is taken to have agreed that the company may send or supply documents or information to him or her in that manner:
 - (1) the person has been asked individually by the company to agree that the company may send or supply documents or information generally, or the documents or information in question, to him or her by means of a website, and
 - (2) the company has not received a response within the period of 28 days beginning with the date on which the company's request was sent.

BY ORDER OF THE BOARD

Susan Court
Company Secretary
17 May 2007

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

Notes to the Notice of annual general meeting:

- (1) A member entitled to attend and vote at the annual general meeting (AGM) may appoint a proxy (who need not be a member of the company) to attend and, on a poll, to vote on his or her behalf. In order to be valid an appointment of proxy must be returned by post, by courier or by hand to the company's registrars, Capita Registrars, Proxy Processing Centre, Telford Road, Bicester OX26 4LD and must be received by the company not less than 48 hours before the time of the meeting.
- (2) A form of proxy is enclosed for use by shareholders and, if appropriate, must be deposited with the company's Registrars, Capita Registrars, Proxy Processing Centre, Telford Road, Bicester OX26 4LD not less than 48 hours before the time of the AGM. Appointment of a proxy does not preclude a shareholder from attending the AGM and voting in person.
- (3) Copies of the directors' service contracts with the company are available for inspection at the registered office of the company during usual business hours (Saturdays, Sundays and public holidays excepted) and will be available at the place of the AGM from 15 minutes prior to and during the AGM.
- (4) In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the company's register of members not later than 12.00 pm on 2 July 2007 or, if the meeting is adjourned, shareholders entered on the company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.

Explanatory notes to certain of the resolutions to be proposed at the annual general meeting

(a) Resolutions 4 and 5 - Re-election of directors

Under the articles of association of the company, the following are required to retire by rotation each year: (i) any director who was a director at the time of the two preceding annual general meetings and who did not retire at either of those meetings; and (ii) such additional directors together with those retiring under (iii) which make one-third (or the nearest to but not exceeding one-third) of the board of directors.

K Minton and A Robb are due to retire by rotation at the AGM and are willing to be reappointed as directors.

Biographical details for those directors seeking election or re-election are shown on page 18 of the 2007 annual report.

(b) Resolution 7 - Renewal of directors' authority to allot shares

By virtue of Section 80 of the Act, the directors require the authority of shareholders of the company to allot shares or other relevant securities in the company. The resolution numbered 7 authorises the directors to make allotments of up to an additional 22,559,573 shares (representing one-third of the issued share capital of the company as at 14 May 2007). The directors have no present intention of exercising the authority proposed to be conferred pursuant to resolution 7.

(c) Resolution 8 - Disapplication of statutory pre-emption rights

By virtue of Section 89 of the Act any issue by the company of equity capital for cash made otherwise than to existing shareholders on a proportional basis requires the consent of shareholders of the company unless the company has obtained the authority of the shareholders under section 95 of the Act. The resolution numbered 8 is for that purpose. It authorises the directors to allot shares by way of rights or pursuant to an open offer or otherwise than strictly pro rata when the directors consider that it is expedient to do so and allows them to issue for cash up to 3,383,936 shares (representing approximately 5% of the issued share capital of the company as at 14 May 2007) other than on a pre-emptive basis.

(d) Resolution 9 — Authority to make market purchases of ordinary shares

By virtue of Section 166 of the Act, the company may make market purchases of its own ordinary shares if authorised to do so by shareholders. Under resolution 9 the directors seek to introduce an annual authority to make market purchases of shares: each year the directors will seek to renew this authority at the company's AGM. Any ordinary shares purchased under this authority would be cancelled and the number of ordinary shares in issue reduced accordingly. The maximum number of ordinary shares which could be purchased pursuant to this authority is 10,145,040, which is 14.99 per cent. of the issued share capital of the company as at 14 May 2007. Any repurchase of ordinary shares carried out by the company pursuant to this authority would be at a maximum price per ordinary share of 105 per cent. of the average middle market price for the company's ordinary shares for the five business days immediately preceding the date of the purchase, and at a minimum price of the nominal value of an ordinary share. 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 would be in the best interests of shareholders generally.

(e) Resolution 10 – Electronic communications

The directors are recommending that you pass resolution 10 authorising website communication by the company. If this resolution is passed, the company will not only have the general ability to communicate through its website with shareholders or other people who are nominated by shareholders to receive information from the company but it will also be able to take advantage of the deemed consent procedure introduced by the Companies Act 2006.

The deemed consent procedure will allow the company to ask an individual whether he or she consents to the company communicating with him or her through publishing information on its website and, if that individual does not respond within 28 days of the request being sent, he or she will be deemed to have consented to the company using its website for the purposes of all communications with him or her in the future.

Shareholders who consent, or are deemed to have consented, to communications by way of the company's website will receive notifications alerting them whenever information is posted on the company's website and these notifications will continue to be sent by post to shareholders who have not also expressly agreed to the receipt of communications by email. Shareholders will also continue to have the right to change to communications by post any time or to request a hard copy of a particular document which has been published on the company's website.

FORM OF PROXY

PAYPOINT PLC (the company)



I/We,(full name*)

of(address*)

being a member/members of the above-named company, hereby appoint the Chairman of the meeting

or ** as my/our proxy to vote in my/our name(s) and on my/our behalf at the annual general meeting of the company, to be held on 4 July 2007 at 12 pm.

My/our proxy is to vote on the resolutions to be proposed at the annual general meeting as follows:

RESOLUTIONS	FOR***	AGAINST***	WITHHELD***
1. To receive the financial statements and the reports of the directors and auditors thereon for the year ended 25 March 2007			
2. To receive the directors' remuneration report for the year ended 25 March 2007			
3. To declare a final dividend of 9.1 pence per ordinary share of the company			
4. To re-elect K Minton as a director who retires by rotation in accordance with Article 37.2 of the company's articles of association			
5. To re-elect A Robb as a director who retires by rotation in accordance with article 37.2 of the company's articles of association			
6. To re-appoint Deloitte & Touche LLP as auditors of the company and to authorise the directors to determine their remuneration			
7. To authorise the directors to allot shares pursuant to Section 80 of the Companies Act 1985			
8. To disapply statutory pre-emption rights pursuant to Section 95 of the Companies Act 1985			
9. To authorise the directors to make market purchases of shares			
10. To permit the company to communicate with its members via its website and to allow the company to treat a failure by a member to respond to a request from the company to consent to website communications as that member's consent to website communications			

The proxy may vote as he/she thinks fit (or abstain) on any resolutions where no specific direction is given or any other business which may properly come before this meeting.

SignatureDate2007

NOTE: To be valid this form of proxy must be deposited at the company's registrars not less than 48 hours before the time for holding the meeting.

Notes:

- 1* Please complete in block capitals with your full name and address.
- 2** If you wish to appoint someone other than the Chairman of the meeting, please cross out these words and insert the full name(s) of the person(s) you wish to appoint. A proxy need not be a member of the company.
- 3***Please indicate, by inserting a cross in the appropriate box, how you wish your votes to be cast on each resolution. If you sign this form of proxy and return it without any specific directions, your proxy will vote or abstain at his discretion. This form of proxy will only be used in the event of a poll being directed or demanded.
- 4 This form of proxy must be deposited at the company's registrars, at Proxy Processing Centre, Telford Road, Bicester OX26 4LD, NOT LATER than 12pm on 2 July 2007, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof. The completion and return of this form of proxy will not, however, preclude (a) holders(s) of Ordinary shares from attending and voting at the meeting if they so wish.
- 5 Any alterations to this form of proxy should be initialled.
- 6 In the case of joint holders, the signature of one holder will be accepted, but the names of all joint holders should be given.
- 7 In the case of a corporation, this form of proxy should be either given under its common seal or signed on its behalf by an officer or attorney duly authorised.



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BUSINESS REPLY SERVICE
Licence No. RRHB-RSXJ-GKCY



Proxy Processing Centre
Telford Road
BICESTER
OX26 4LD

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