PayPoint plc
Preliminary results
Year ended 27 March 2011

	Year ended 27 March 2011	Year ended 28 March 2010	Increase / (decrease) %
Revenue	**£193.2m**	£196.6m	(1.7)
Net revenue[1]	**£82.7m**	£77.4m	6.9
Gross margin	**36.6%**	32.3%	4.3ppts
Operating profit	**£36.1m**	£34.1m	5.8
Profit before tax	**£34.5m**	£32.6m	5.5
Diluted earnings per share	**35.1p**	32.7p	7.5
Dividend per share	**23.4p**	21.8p	7.3

- Record group transaction volume (590 million), with growth in all channels
- UK retail services continued strong growth, net revenue up 25%
- 12 million Romanian bill payment transactions, up 118%
- 59 million internet transactions processed, up 34%
- PayByPhone transaction volumes of 14 million
- Collect+ transaction volumes increased to over 1 million, up over 4 times on last year
- Developed new virtual terminal which is currently being rolled out to selected multiple retailers' till systems
- Debt repaid and year end net cash was £26.5 million

Enquiries

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A presentation for analysts is being held at 11.45 am today at Finsbury, Tenter House, Moorfields, London, EC2.

This announcement is available on the PayPoint plc website:http//www.paypoint.com

1. Net revenue is revenue less the cost of mobile top-ups and SIM cards where PayPoint is principal and costs incurred by PayPoint which are recharged to clients and merchants. These costs include retail agent commission, merchant service charges levied by card scheme sponsors and costs for the provision of call centres for PayByPhone clients.

CHAIRMAN'S STATEMENT

I am pleased to report the return to growth in earnings as a result of good performance by our UK retail network, excellent internet payment growth and substantial progress in our Romanian network and Collect+. We have increased resources and improved infrastructure at PayByPhone. We have made strong progress in technology, completing the development and starting the roll out of our virtual terminal, developing a broadband communications solution for faster transactions and introduced new services for our terminal network, including cash out and money transfer.

In the UK retail network, retail services delivered healthy growth, although mobile top-ups continued to decline. I am particularly delighted with the recent announcement that we have won the tender to provide the retail network for the Department for Work and Pensions' replacement of giro cheques for benefit payments, the contract for which is under negotiation. Currently, over 20 million giro cheques are issued annually to pay benefits. We have already demonstrated that our retailers can make payments to consumers (in addition to our traditional strength in collecting money from them). This will substantially increase the flow of money out, reducing banking charges to retailers and delivering more commission and footfall to them.

Internet net revenues have increased 20% and the business had notable success in winning gaming merchants, including Stan James, 32 Red and Sportingbet. We are continuing to win gaming business because of our robust and resilient platform, innovation, advanced fraud and risk management capabilities, and real-time enterprise level reporting.

We have continued to invest in our Romanian retail network by increasing our full service terminal estate by more than 1,100, whilst removing all the old mobile top-up only sites. We accept bill payment for 27 clients and transaction volumes have more than doubled to over 12.1 million transactions. Under a new contract with Western Union, we will roll out money transfer this year.

We have extended our parcels service through Collect+, our joint venture with Yodel, selectively across our UK retail network. Momentum is strong, with considerable interest among major internet retailers and internet marketplaces. We have over 3,700 sites handling Collect+ parcels and 30 home shopping retailers live, including some of the most respected customer service leaders, including ASOS, New Look, Boden and Very. During the year, we handled over 1 million parcels.

In PayByPhone, we have increased the resources in sales, marketing and delivery more than we planned. We have upgraded the infrastructure to provide disaster recovery and introduced a new consumer friendly mobile web parking registration and payment system for the UK and North America. We will continue to invest to stay at the leading edge of this fast moving market.

The combination of sound, profitable growth in both the UK retail network and our internet business, substantive progress towards profitability in our Romania retail network, gathering momentum in Collect+ and proper resourcing of PayByPhone, mark an important year in re-establishing the group for substantial growth. We are proposing a final dividend of 15.6 pence per share, making a total for the year of 23.4 pence, an increase of 7.3 per cent.

For the current financial year, trading is in line with the company's expectations. Our established business streams (UK and Irish retail networks and internet payments) are strong, with further opportunities to enhance retail yield through the introduction of new technology and services. In addition, improvements in our service offering to online merchants will provide opportunities for growth. We will benefit from rolling out services in our developing business streams (Collect+, PayByPhone and Romanian retail network), growing our market share and improving profitability. Together, our businesses provide a solid foundation to deliver value for our shareholders.

David Newlands
26 May 2011

CHIEF EXECUTIVE'S REVIEW

PayPoint has had another good year, in which we have delivered profits in line with market expectations and our strategic plans. Our UK retail network and internet payments have continued to be highly profitable and cash generative. Collect+, PayByPhone and our Romanian retail network, which are important to the creation of value, have all made good progress during the year.

Our strategy:
Since the flotation of the original UK retail network business in 2004, PayPoint has evolved into a specialist payments company. Our strategy has four key elements:

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

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

In our retail channels, differentiation is achieved through providing retailers with a broad range of retail services, including ATMs, parcels, SIM cards and international money transfer through Western Union®.

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

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

The extension of our geographic reach is progressing.

Growth and prospects:

Technology
We use technology to drive value through the introduction of new payment types and related services. These, in turn, add new revenue opportunities to our proven recurring payment methods.

In our UK retail network, we are rolling out a new virtual terminal to multiple retailers - a software variant of our terminal which is integrated into the retailers' till systems, in conjunction with a bespoke PayPoint plug-in reader to provide the full functionality of the physical terminal more efficiently and at lower cost. In store, this allows our service to be available at every check-out lane and eliminates the need for reconciliation with the main till system. As we free UK network terminals, we will deploy them in Romania.

An increasing number of our terminals are being connected through broadband connectivity rather than dial-up, dramatically improving the speed of online transactions.

In Romania and the UK, a development to enable money transfer on our terminal will eliminate the expense and complication of a separate personal computer, significantly reducing the entry cost for retailers and expanding the eligibility criteria for the service. Development work for cash out services will make our retailer settlement systems more streamlined and allow the cash balances we generate through bill payment to be recycled back to consumers, saving retailers bank charges and increasing in-store spend.

In the internet channel, we are developing substantial improvements to our services to online merchants. These include new transaction optimisation, an advanced management and reporting solution, a PCI compliance offering and additional payment methods, which should provide significant competitive advantage.

PayByPhone is introducing a new, consumer friendly mobile web parking registration and payment system and has utilised one of the group's data centres as a back-up for business continuity.

UK retail network
We are focussed on selling retail services to our retail networks. Net revenues from these services have increased 25% in the year. These services include parcels, ATMs, SIM cards, debit and credit card acceptance, receipt advertising and money transfer. Our retail network in the UK has provided energy clients with a service to rebate cash to consumers, which reverses the traditional flow of money in our retailers. We are currently negotiating the contract following our success in winning the DWP's tender for a service to replace giro cheque benefits which provides us with a scale opportunity to extend cash out.

Romanian retail network
Increasing bill payment volumes have continued to provide growth in Romania and we will launch money transfer services this year. In addition, we are adding new sites to cover more neighbourhoods and optimising existing sites to improve their profitability. This business should break even in the current year.

Internet
Alongside the introduction of new systems referred to above, we expect to sign up further new merchants and to benefit from the introduction of new card scheme sponsors, including HSBC International for 38 countries and BNP for France, driving growth in profits. These activities will increasingly position PayPoint.net as an international provider and will add profitable growth.

PayByPhone
PayByPhone, one of the worldwide leaders in mobile phone parking, has the potential to replace traditional parking meters in many major cities around the world. We have added significant sales and development resources and we are currently tendering to several large parking authorities as well as a large number of smaller opportunities in the UK, France and North America. Sales lead times are extended in this market, but our momentum is encouraging. We have spent more heavily than anticipated and a further loss will result in the current year. We expect it to turn to profit in the year ending March 2013.

Collect+
Our parcels joint venture (50:50) with Yodel has progressed strongly, with substantial endorsement from the online retailing community and resulting growth in transaction volumes. We expect them to grow further this year as we sign more home shopping clients for returns and deliveries. A recently introduced consumer to consumer service is being extended to smaller packets and is expected to grow significantly this year, as we target online traders. This joint venture processes around two million transactions per annum (based on transaction volumes in March 2011) and is making good progress towards its breakeven volume of 6-8 million parcels, which we expect to reach in the year ending March 2013.

Our plans for the current year
We will continue to make further progress in the four elements of our strategy to increase shareholder value: more payment/channel options, specialism in vertical markets, value added services and geographic reach. We plan to make good progress in both the established and developing business streams, notably through continuing growth in retail services and internet payments, by turning the Romanian retail network profitable through an increase in bill payment market share, and by adding new customers in Collect+ and PayByPhone.

We are increasingly benefiting from the synergy between our various business streams, with more clients taking multi-channel services. We aim to push this dynamic more strongly over time, as newer business areas bed in and system platforms can be developed across the group. We are strengthening the management in our UK retail network to ensure senior management attention is directed proportionately to the developing business streams.

PayPoint is one of the best placed companies to make further gains in the fast moving payment industry and has a market leading position in retail services, on which we intend to build.

Dominic Taylor
26 May 2011

KEY PERFORMANCE INDICATORS

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

Measuring our performance

Strategic focus	KPI	Description	2011	2010
Shareholder return	Earnings per share (basic)	Profit after tax attributable to equity holders of the parent divided by the weighted average number of ordinary shares in issue during the year.	**35.2p**	32.9p
	Dividends per share	Proposed final dividend and interim dividend divided by the number of fully paid shares at the end of the year.	**23.4p**	21.8p
	Economic profit	Operating profit after tax and a charge for capital employed based upon the group's cost of capital.	**£17.4 million**	£18.5 million
Growth	Retail networks transactions	Number of PayPoint transactions processed in the year on our terminals, ATMs and on our retailers' EPoS systems.	**517 million**	507 million
	Internet transactions	Number of transactions processed in the year by PayPoint.net.	**59 million**	44 million
	PayByPhone	Number of PayByPhone transactions processed in the year (2010: since acquisition).	**14 million**	1 million
	Transaction value	The value of transactions processed via our terminals, retailers' EPoS systems, internet merchants, ATMs, PayByPhone and the sale of other retail services.	**£10.6 billion**	£9.7 billion
	Net revenue	Revenue less the cost of mobile top-ups and SIM cards where PayPoint is principal and costs incurred by PayPoint which are recharged to clients and merchants. These costs include retail agent commission, merchant service charges levied by card scheme sponsors and costs for the provision of call centres for PayByPhone clients.	**£83 million**	£77 million
	Operating margin	Operating profit including our share of joint venture losses as a percentage of net revenue.	**42%**	42%
Asset optimisation	Return on capital employed	Total operating profit for the year divided by monthly average capital employed excluding cash.	**53%**	88%
People	Labour turnover	Number of permanent employees who left during the year divided by average total permanent employees.		
		UK & Ireland	**25%**	20%
		Rest of the world	**18%**	49%

BUSINESS REVIEW

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

Our key performance indicators are shown on page 5.

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

In addition, we have analysed our results by channel as follows:

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

Internet (transactions between consumers and merchants,
pre-authorisations and Fraudguard, where separately charged)

PayByPhone (parking and bicycle rental transactions)

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

Growth opportunities include retail services in the UK retail network; new merchants for internet payments; the expansion of the retail network and new retail services in Romania; new parking contracts and driving consumer adoption for PayByPhone and building and developing Collect+.

OPERATING REVIEW

Transactions have increased to 590 million (2010: 552 million), up 4% in the established business streams and 155% in the developing business streams.

Transaction value increased to £10.6 billion (2010: £9.7 billion), up 8% in the established business streams and up 123% in the developing business streams, including the impact of PayByPhone for a whole year and the reduction in mobile top-ups in Romania.

Revenue in developing business streams was up 7% as a result of a full year trading of PayByPhone, offset by a 19% decrease in mobile revenue in Romania. Established business stream revenue was down 2% as a result of the reduction in mobile top-ups and the change of card scheme sponsor, where merchant service charges are no longer included in revenue as they are now charged direct to merchants.

Net revenue in the developing business streams was up 119%, with strong growth in Romanian bill payment and Collect+ and as a consequence of the inclusion of PayByPhone. Established business stream net revenue was up 3%, held back by the decline in mobile volumes.

Operating profit in the established business streams was £38.4 million (2010: £36.2 million) and the operating loss, including our share of Collect+, in the developing business streams was £3.9 million (2010: £3.8 million), an increase of £0.1 million. The small increase in the loss in developing businesses is as a result of a better performance in Romania offsetting the impact of the inclusion of the PayByPhone business, which was loss making in the year, as expected.

	Established business streams[1]	**Developing business streams**[2]	**Total**	**Adjust Collect+**[3]	**As reported**
Transactions					
million					
2011	**559**	**31**	**590**	**-**	**590**
2010	540	12	552	-	552
Transaction value					
£million					
2011	**10,316**	**285**	**10,601**	**-**	**10,601**
2010	9,560	128	9,688	-	9,688
Revenue					
£000					
2011	**167,700**	**26,535**	**194,235**	**(1,002)**	**193,233**
2010	171,933	24,875	196,808	(205)	196,603
Net revenue[4]					
£000					
2011	**76,811**	**6,539**	**83,350**	**(627)**	**82,723**
2010	74,589	2,981	77,570	(164)	77,406

1. Established business streams include the UK and Irish retail networks and the internet payment channel
2. Developing business streams includes Romania, PayByPhone and for Collect+, revenue and net revenue only.
3. Collect+ revenue and net revenue is included in developing business stream's revenue and net revenue, but as Collect+ is reported in the Consolidated Income Statement on a profit before tax only basis, revenue and net revenue needs to be eliminated to reconcile to reported revenue and net revenue.
4. Net revenue is revenue less the cost of mobile top-ups and SIM cards where PayPoint is principal and costs incurred by PayPoint which are recharged to clients and merchants. These costs include retail agent commission, merchant service charges levied by card scheme sponsors and costs for the provision of call centres for PayByPhone clients.

Analysis of transactions

There has been growth in transaction volumes across most services, with the exception of mobile top-ups where, in all territories, there has been a decrease.. Mobile operators are offering more value for the same or lower cost per top-up to consumers, resulting in fewer transactions and, in the UK in particular, mobile operators promote monthly contracts over prepay thereby migrating prepaid consumers to contracts.

	Year ended 27 March 2011 million	Year ended 28 March 2010 million	Increase / (decrease) %
Retail networks			
Bill and general	**350,970**	339,801	3.3
Top-ups	**117,670**	128,887	(8.7)
Retail services	**48,425**	38,901	24.5
Internet payments	**58,544**	43,536	34.5
PayByPhone	**14,059**	762	n/a
Total	**589,668**	551,887	6.8

Prepaid energy volumes (included in bill and general) in the UK have increased by 4% on last year. The cold weather before Christmas and increases in domestic energy tariffs have helped volumes in the second half of the year.

Bill payments in Romania have continued to grow as more terminal sites are rolled out and consumers become aware of the service. In the year, we have processed over 12 million bill payment transactions, an increase of 118% on the previous year and our run rate, based on transactions in March 2011, is c.16 million transactions per annum.

Mobile top-ups in UK, Ireland and Romania were down 10% overall, against an 11% decline this time last year. E-money volumes, which are included in top-ups, were up 21% to 4 million.

Retail service transaction volumes have increased across all products, ATMs, debit/credit, parcels, money transfer and SIMs. Debit/credit card transactions are up more than 30% on last year. We have sold almost 700,000 SIMs in the year (2010: 300,000). Parcel volumes continue to grow and have increased over four times on last year to just over 1 million transactions.

Internet transactions of 59 million were up 34% on last year as we continued to add new merchants and existing merchants grew organically. New merchants in the last 12 months include Stan James, 32Red, Sportingbet, Funky Pigeon and Links of London.

PayByPhone transactions are for a full year compared to 19 days last year. Towards the end of the year, PayByPhone saw the number of tenders issued by councils and parking authorities increase as they looked for a more cost effective method for collecting parking charges.

During the year, we produced 70 million receipts (2010: 10 million) containing an advertising message. These are not counted as additional transactions.

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

	Year ended 27 March 2011 £000	Year ended 28 March 2010 £000	Increase/ (decrease) %
Retail networks			
Bill and general	**6,198,171**	5,925,249	4.6
Top-ups	**1,114,809**	1,166,507	(4.4)
Retail services	**394,727**	377,271	4.6
Internet payments	**2,838,147**	2,216,319	28.1
PayByPhone	**55,020**	3,077	n/a
Total	**10,600,874**	9,688,423	9.4

Growth in bill and general transaction value reflected the increase in transactions and in their average value. There continues to be strong growth in higher value transactions for local authority and housing authority payments and a small rise in the average value for energy prepayments.

The reduction in top-ups transaction value reflected the overall decline in the pre-pay mobile market. An increase in e-money transaction value off-set the overall reduction and average transaction values were up 5%.

Retail services transaction value is relatively small as SIM sales have low value and debit/credit transactions (where the merchant acquirer settles direct with our retailer), parcel transactions and terminal advertising have no associated transaction value.

Internet transaction value has increased by 28% but transactions have a lower average value of £48.47 (2010: £50.91). Part of the decline in average value was due to over 1 million energy pre-payment gas and electricity transactions, where consumers topped-up via the internet at home, at lower values. The signing of three large gaming merchants during the year also reduced the average transaction value as gaming tends to be at lower transaction value than other sectors.

PayByPhone value reflects a full year of the value of consumers' parking transactions and bicycle rentals against a period of 19 days from the acquisition of the business in the prior period.

Revenue analysis

	Year ended 27 March 2011 £000	Year ended 28 March 2010 £000	Increase/ (decrease) %
Retail networks			
Bill and general	**57,889**	58,564	(1.2)
Top-ups	**98,843**	108,508	(8.9)
Retail services	**19,602**	16,168	21.2
Internet payments	**8,939**	9,968	(10.3)
PayByPhone	**4,501**	283	n/a
Other	**3,459**	3,112	11.1
Total	**193,233**	196,603	(1.7)

Bill and general payments revenue was slightly lower than last year, as some clients elected to work on a more exclusive basis to secure lower commission rates for more volume.

In Romania and Ireland, PayPoint acts as principal for mobile phone top-ups and, as a result, the sales value of the top-up is recorded as revenue, with the purchase cost of the top-up recorded in cost of sales. In the UK, PayPoint acts as an agent and only the commission income is recorded as revenue. The decline in mobile volumes, therefore, affects revenue arising in Romania and Ireland more than in the UK.

Retail services revenue increased strongly across several products as a result of growth in the number of sites processing credit and debit transactions to 5,948 at the year end (2010: 4,998); growth in revenues from parcels; a full year of SIM card sales; advertising on till receipts; and money transfer.

Retail services also include ATMs, where revenue is derived from cash withdrawals, balance enquiries and rental income. Whilst ATM revenue has grown, the average revenue per ATM decreased as a consequence of lower cash withdrawal revenues on more recently installed ATMs and lower rental income, as five year term rental agreements expire and fully depreciated machines are rolled over on lower rentals.

Internet payment revenues were lower because merchant service charges, which were formerly included in revenue and cost of sales, were £nil this period (2010: £2.5 million), as a consequence of a change in card scheme sponsor.

PayByPhone revenues of £4.5 million were for the full year compared to only 19 days last year and included costs that are recharged to clients for the provision of call centres.

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

Net revenue analysis
Net revenue is revenue less retail agent commission, merchant service charges levied by card scheme sponsors, costs of SIM card stock, recharges for the provision of call centres for PayByPhone clients and the purchase value of Romanian and Irish mobile top-ups for which we act as principal.

Net revenue is a measure which the directors believe assists with a better understanding of the underlying performance of the group and is shown in the table below.

	Year ended 27 March 2011 £000	Year ended 28 March 2010 £000	Increase / (decrease) %
Retail networks			
Bill and general	**33,806**	33,586	0.6
Top-ups	**22,683**	24,272	(6.5)
Retail services	**10,827**	8,684	24.7
Internet payments	**8,939**	7,469	19.7
PayByPhone	**3,009**	283	n/a
Other	**3,459**	3,112	11.1
Total	**82,723**	77,406	6.9

Bill and general net revenue increased mainly as a result of the growth in Romanian bill payment net revenue, which was up 94% on last year.

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

Retail services net revenue has a greater percentage increase than revenue as there is no commission payable on some services, including debit and credit card transactions.

Internet net revenue was up 20%, primarily as a result of the increase in transaction volumes and value and the better margins from our new card scheme sponsor. Net revenue is the same as revenue as a result of merchant service charges now being charged directly to our bureau merchants by the card scheme sponsor.

Collect+
During the year, we processed over 1 million transactions for 30 clients (2010: 0.2 million transactions for 13 clients). Transaction volumes continue to grow and our annual run rate, based on March 2011, is now over 2 million transactions. In the year, we added a store to home delivery service, where customers can take a parcel to a Collect+ store and have it delivered to the recipient's home address. More recently, we launched a packet delivery service for parcels less than 2kg in weight.

Network growth
Terminal sites overall have increased by 7% to 29,508.

In the UK and Ireland, sites have increased by 870, an increase of 4%. During the second half of the year, we introduced our new EPoS integrated solution to multiple retailers, which combines a virtual terminal through software in the retailer's till system with plug in reader to provide full functionality at lower costs. As well as enhancing our service to multiple retailers, this frees terminals for use in Romania. We expect to roll this out further.

In Romania, we installed over 1,100 net new full service terminals in the year and have removed all the remaining old mobile top-up only terminals.

In our internet channel, we added over 1,400 new merchants during the year but churn of low value merchants, in particular from the change of credit card scheme sponsor at the start of the year, led to a net reduction of 405 merchants. Since the half year, the merchant estate has grown by a net 201 merchants. Despite the decrease in merchant numbers, transaction volume, value and net revenue all increased.

We continued to add more Collect+ sites as transaction volumes increased and as retailers recognised the benefits of offering this service.

Analysis of sites	**27 March 2011**	28 March 2010	Increase/ (decrease) %
UK & Ireland terminal sites	**23,513**	22,643	3.8
Romania terminal sites	**5,995**	4,816	24.5
Total terminal sites	**29,508**	27,459	7.5
Internet merchants	**5,213**	5,618	(7.2)
Collect+ sites	**3,668**	3,418	7.3

FINANCIAL REVIEW

Income statement
Revenue for the year was 1.7% lower at £193 million (2010: £197 million). The reduction results from a decrease in mobile top-ups and from the impact of merchant service charges on card transactions being charged direct to merchants rather than through PayPoint.net. This revenue reduction is also reflected in cost of sales which, at £122 million (2010: £133 million), was down 8.2%. Agents' commission decreased to £71 million (2010: £73 million) due to fewer mobile top-up transactions, which pay a higher than average commission, and reductions in the amount paid for commission by the mobile operators. The cost of mobile top-ups in Ireland and Romania[1] has fallen to £39 million (2010: £44 million).

Net revenue[2] of £83 million (2010: £77 million) was up 6.9%.

Operating costs (administrative expenses) were 17.7% higher at £35 million (2010: £29 million) as a result of the inclusion of a whole year's worth of trading of PayByPhone. Excluding PayByPhone, operating costs were up 5.4%.

The increase in operating costs resulted in part from the one-off costs including the legal costs, of successfully defending against Camelot's bid to provide services in bill and general payments, mobile top-ups and debit/credit processing.

Operating margin[3] was flat at 42% as a consequence of the increase in operating costs.

1. In Ireland and Romania, PayPoint is principal in the sale of mobile top-ups and, accordingly, the face value of the top-up is included in sales and the corresponding costs in cost of sales.
2. Net revenue is revenue less the cost of mobile top-ups and SIM cards where PayPoint is principal and costs incurred by PayPoint which are recharged to clients and merchants. These costs include retail agent commission, merchant service charges levied by card scheme sponsors and costs for the provision of call centres for PayByPhone clients.
3. Operating margin is calculated as operating profit, including our share of Collect+ losses, as a percentage of net revenue.

Our share of the loss in developing Collect+ was £1.5 million as expected (2010: loss of £1.6 million).

Profit before tax was £34.5 million (2010: £32.6 million) an increase of 5.5%. The tax charge of £10.6 million (2010: £10.5 million) represents an effective rate of 30.8% (2010: 32.2%). The tax charge was higher than the UK nominal rate of 28% because of unrelieved losses in Romania and Canada and the write off of the deferred tax asset relating to tax relief for share based payments.

Balance sheet
The short-term borrowing of £6 million was repaid in full in March.

Cash flow
Cash generated by operations was £42.2 million (2010: £38.7 million), reflecting strong conversion of profit to cash. Corporation tax of £11.0 million (2010: £13.7 million) was paid. Capital expenditure of £3.2 million (2010: £2.7 million) reflected spend on new terminals, ATMs and IT equipment. Net interest paid was £0.1 million (2010: £0.2 million receipt) as a result of the loan that was drawn down at the end of last year. Equity dividends paid were £15.0 million (2010: £12.9 million). During the year the company repaid the £6 million loan. Cash and cash equivalents were £26.5 million (including client cash of £6.1 million) up from £20.8 million (including client cash of £6.8 million but excluding the bank loan of £6 million).

Economic profit
PayPoint's economic profit (operating profit less tax and capital charge) was £17.4 million (2010: £18.5 million), lower than last year because of the acquisition of PayByPhone, which is loss making as expected.

Dividend
We propose to pay a final dividend of 15.6p per share on 22 July 2011 (2010: 14.4p) to shareholders on the register on 24 June 2011, subject to the approval of the shareholders at the annual general meeting. An interim dividend of 7.8p (2010: 7.4p) per share was paid on 21 December 2010, making a total dividend for the year of 23.4p (2010: 21.8p) up 7.3%, broadly in line with earnings.

Liquidity and going concern
The group has cash of £26.5 million (including client cash of £6.1 million) and had, at the year end, an unsecured loan facility of £35 million, which was due to expire in August 2011. A new replacement £35 million, five year facility has been agreed with our bankers since the year end. Cash and borrowing capacity is adequate to meet the foreseeable needs of the group, taking account of any risks (page 15). The financial statements have therefore been prepared on a going concern basis.

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

Charitable donations
During the year, the group made charitable donations of £19,400 (2010: £15,000) to charities serving the communities in which the group operates. We encourage employees to raise funds for charity and the company matches funds raised by the employees, subject to certain limits.

During the year, we collected money for the Disasters Emergency Committee (DEC) for the Pakistan flood appeal and for the BBC's Children in Need telethon.

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

Strategy and risks
Details of the company's strategy is included in the Chief Executive's review on page 3. The company's analysis of risks facing the company is set out in separate statements on pages 15 and 16.

Economic climate
The company's bill and general payments sector, which accounts for 41% (2010: 43%) of our net revenue, has continued to be resilient, as consumers' discretion in expenditure is limited for essential services and our service continues to be popular. Utility providers continue to install new prepay gas and electricity meters, which will have a beneficial impact on our transaction volumes. The internet payment market continues to grow substantially. There has been an adverse impact on our mobile top-ups as mobile operators continue to offer more airtime at lower cost and to promote prepay less than contract. PayByPhone is able to offer parking authorities a more cost effective collection system for parking compared to pay and display machines. This has led to an increase in the number of tenders being issued as parking authorities try to reduce their costs.

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

National Lottery Commission
On the 2 March 2011, following a lengthy process, the National Lottery Commission refused consent for Camelot's application to provide ancillary services, including bill payment and mobile top-ups, on competition law grounds.

Outlook
For the current financial year, trading is in line with the company's expectations. Our established business streams (UK and Irish retail networks and internet payments) are strong, with further opportunities to enhance retail yield, through the introduction of new technology and services. In addition, improvements in our service offering to online merchants will provide opportunities for growth. We will benefit from rolling out services in our developing business streams (Collect+, PayByPhone and Romanian retail network), growing our market share and improving profitability. Together, our businesses provide a solid foundation to deliver value for our 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 the crystallisation of some or all of such risks.

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

Risk area	Potential impact	Mitigation strategies
Exposure to materially adverse litigation	The group contracts with a number of large service organisations for which it provides services essential to their customers. Failure to perform in accordance with contractual terms could give rise to litigation.	The group seeks to limit exposure in its contracts. Mitigating actions are taken where contractual exposures are above the norm, including insurance coverage, where appropriate and economically sustainable.
Exposure to country and regional risk (political, financial, economic, social) in North America, United Kingdom, Romania, France and Ireland	The group's geographic footprint subjects its businesses to economic, political and other risks associated with international sales and operations. A variety of factors, including changes in a specific country's or region's political, economic or regulatory requirements, as well as the potential for geopolitical turmoil, including terrorism and war, could result in loss of services, prevent our ability to respond to agreed service levels or fulfil other obligations. These risks are generally outside the control of the group.	The group's portfolio is diversified by geography, by product, by sector and by client in order to protect itself against many of these fluctuations, especially those that are restricted to individual territories and market sectors, although the bulk of its operations and revenues are UK based.
Exposure to consolidation among clients and markets	Consolidation of retailers and clients could result in reductions in the group's revenue and profits through price compression from combined service agreements or through a reduced number of clients.	No single client accounts for more than 9% of the group's net revenue, and no single retailer accounts for more than 8% of the group's net revenue, which reduces the probability of this potential risk having a significant impact on the group's business. In addition, the group continues to expand in its developing businesses, and in cash out (reversing the flow of money through its retail networks).
Acquisitions may not meet expectations	The group's acquisitions, strategic alliances and joint ventures may result in financial outcomes that are different than expected.	The group assesses all acquisitions rigorously, using both in-house experts and professional advisers. In addition, the group conducts extensive post-acquisition reviews to ensure, as far as it possible, that performance remains consistent with the acquisition business plan.
Exposure to the unpredictability of financial markets (foreign exchange, interest rate and other financial risks)	As the group operates on an international basis, it is exposed to the risk of currency fluctuations and the unpredictability of financial markets in which it operates.	The group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the group's financial performance.
Exposure to increasing competition	The group operates in a number of geographic, product and service markets that are highly competitive and subject to technological developments. Competitors may develop products and services that are superior to ours or that achieve greater market acceptance than our products and services, which could result in the loss of clients or reduction in revenue.	The group is committed to continued research and investment in new data sources, people, technology and products to support its strategic plan.
Loss or infringement of intellectual property rights	The group's success depends, in part, upon proprietary technology and related intellectual property rights. Some protection can be achieved but in many cases, little protection can be secured. Third parties may claim that the group is infringing their intellectual property rights or our intellectual property rights could be infringed by third parties. If we do not enforce the group's intellectual property rights successfully, our competitive position may suffer, which could harm our operating results.	The group, where appropriate and feasible, relies upon a combination of patent, copyright, trademark and trade secret laws, as well as various contractual restrictions, to protect our proprietary technology and continues to monitor this situation. The group also vigorously defends all third party infringement claims.
Data centre security breaches	The group is highly dependent on information technology networks and systems to process, transmit and store electronic information. Security breaches of our data centres could create system disruptions, shutdowns or unauthorised disclosure of confidential information.	The group's data centres are protected against physical break-ins. The group has strict standards and procedures for security.

CONSOLIDATED INCOME STATEMENT

	Note	**Year ended 27 March 2011 £000**	Year ended 28 March 2010 £000
Continuing operations			
Revenue	2	**193,233**	196,603
Cost of sales		**(122,567)**	(133,110)
Gross profit		**70,666**	63,493
Administrative expenses		**(34,614)**	(29,421)
Operating profit		**36,052**	34,072
Share of loss of joint venture		**(1,541)**	(1,601)
Investment income		**88**	224
Finance costs		**(143)**	(50)
Profit before tax		**34,456**	32,645
Tax	3	**(10,614)**	(10,513)
Profit for the year	12	**23,842**	22,132
Attributable to:			
Equity holders of the parent		**23,883**	22,132
Non-controlling interests		**(41)**	-
		23,842	22,132
Earnings per share			
Basic	5	**35.2p**	32.9p
Diluted	5	**35.1p**	32.7p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Year ended 27 March 2011 £000**	Year ended 28 March 2010 £000
Exchange differences on translation of foreign operations	12	**(72)**	35
Net income recognised directly in equity		**(72)**	35
Profit for the year		**23,842**	22,132
Total recognised income and expenses for the year		**23,770**	22,167
Attributable to:			
Equity holders of the parent		**23,811**	22,167
Non-controlling interests		**(41)**	-
		23,770	22,167

CONSOLIDATED BALANCE SHEET

	Note	27 March 2011 £000	28 March 2010 £000
Non current assets			
Goodwill	6	**57,133**	56,872
Other intangible assets		**1,329**	1,400
Property, plant and equipment		**14,520**	14,767
Investment in joint venture	7	**135**	326
Deferred tax asset	8	**1,116**	1,167
Investments		**435**	405
		74,668	74,937
Current assets			
Inventories		**915**	1,567
Trade and other receivables		**17,103**	23,482
Cash and cash equivalents	9	**26,464**	20,769
		44,482	45,818
Total assets		**119,150**	120,755
Current liabilities			
Trade and other payables		**32,996**	37,926
Current tax liabilities		**5,287**	5,684
Short-term borrowings	10	**-**	6,000
Obligations under finance leases		**32**	22
		38,315	49,632
Non-current liabilities			
Other liabilities		**240**	379
		240	379
Total liabilities		**38,555**	50,011
Net assets		**80,595**	70,744
Equity			
Share capital	12	**226**	226
Investment in own shares	12	**(216)**	(370)
Share premium	12	**25**	25
Share based payment reserve	12	**3,005**	2,684
Translation reserve	12	**471**	543
Retained earnings	12	**77,125**	67,636
Total equity attributable to equity holders of the parent company		**80,636**	70,744
Non-controlling interest		**(41)**	-
Total equity		**80,595**	70,744

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Year ended 27 March 2011 £000	Year ended 28 March 2010 £000
Opening equity		**70,744**	60,967
Profit for the year		**23,842**	22,132
Dividends paid		**(15,041)**	(12,856)
Movement in investment in own shares	12	**154**	556
Exchange differences on translation of foreign operations	12	**(72)**	35
Movement in share based payment reserve	12	**321**	195
Adjustment in share scheme vesting	12	**647**	(285)
Closing equity		**80,595**	70,744

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 27 March 2011 £000	Year ended 28 March 2010 £000
Net cash flow from operating activities	14	**31,137**	24,986
Investing activities			
Investment income		**70**	224
Purchases of property, plant and equipment		**(3,160)**	(2,700)
Proceeds from disposal of property, plant and equipment		**61**	93
Acquisition of subsidiaries	11	**-**	(28,942)
Investment		**(30)**	(30)
Purchase of own shares	12	**-**	(490)
Loan to joint venture	7	**(1,350)**	(1,750)
Net cash used in investing activities		**(4,409)**	(33,595)
Financing activities			
Repayments of obligations under finance leases		**(22)**	(8)
Dividends paid	4	**(15,041)**	(12,856)
(Repayment) / receipt of short-term borrowings	10	**(6,000)**	6,000
Net cash used in financing activities		**(21,063)**	(6,864)
Net increase / (decrease) in cash and cash equivalents		**5,665**	(15,473)
Cash and cash equivalents at beginning of year		**20,769**	36,345
Effect of foreign exchange rate changes		**30**	(103)
Cash and cash equivalents at end of year		**26,464**	20,769

NOTES TO THE FINANCIAL INFORMATION

1. Accounting policies

This financial information has been prepared on an historical cost basis and on the basis of the policies set out below.

Basis of preparation
While the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The company expects to publish full financial statements that comply with IFRS in due course.

The financial information set out above does not constitute the company's statutory accounts for the years ended 27 March 2011 or 28 March 2010, but is derived from those accounts. Statutory accounts for 2010 have been delivered to the Registrar of Companies and those for 2011 will be delivered following the company's annual general meeting.

The auditors have reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006 or equivalent preceding legislation.

The financial information complies with the recognition and measurement criteria of IFRS, and with the accounting policies of the group which were set out on pages 33 to 35 of the 2010 annual report and accounts. No subsequent material changes have been made to the group’s accounting policies.

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

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

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

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

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

(ii) Revenue, net revenue and cost of sales

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

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

Net revenue	**Year ended 27 March 2011 £000**	Year ended 28 March 2010 £000
Revenue – transaction processing	**191,742**	195,008
– rental income from ATMs	**1,491**	1,595
	193,233	196,603
less:		
Commission payable to retail agents	**(71,322)**	(73,178)
Cost of mobile top-ups and SIM cards as principal	**(37,696)**	(43,520)
Card scheme sponsor's charges and call centre charges	**(1,492)**	(2,499)
Net revenue	**82,723**	77,406

Cost of sales		
Commission payable to retail agents	**71,322**	73,178
Cost of mobile top-ups and SIM cards as principal	**37,696**	43,520
Card scheme sponsor's charges and call centre charges	**1,492**	2,499
Depreciation and amortisation	**3,612**	4,820
Other	**8,445**	9,093
Total cost of sales	**122,567**	133,110

Geographical information

Revenue		
UK	**148,737**	147,658
Ireland	**22,475**	24,476
Romania	**21,036**	24,386
North America	**985**	83
Total	**193,233**	196,603

Non-current assets		
UK	**71,850**	73,290
Ireland	**-**	14
Romania	**2,329**	1,422
North America	**489**	211
Total	**74,668**	74,937

3. Tax

	Year ended 27 March 2011 £000	Year ended 28 March 2010 £000
Current tax		
Charge for current year	**10,869**	10,178
Adjustment in respect of prior years	**(304)**	394
Current tax charge	**10,565**	10,572
Deferred tax		
Credit for current year	**(51)**	(110)
Adjustment in respect of prior years	**100**	51
Deferred tax charge / (credit)	**49**	(59)
Total income tax		
Income tax charge	**10,614**	10,513
The income tax charge is based on the United Kingdom statutory rate of corporation tax for the year of 28% (2010: 28%)		
The charge for the year can be reconciled to the profit before tax as set out in the consolidated income statement		
Profit before tax	**34,456**	32,645
Tax at the UK corporation tax rate of 28% (2010: 28%)	**9,648**	9,141
Tax effects of:		
Losses in countries where the tax rate is different to the UK	**109**	304
Disallowable expenses / (non-taxable income)	**61**	(6)
Utilisation of tax losses not previously recognised	**(85)**	-
Losses in companies where a deferred tax asset is not recognised	**652**	408
Adjustments in respect of prior years	**(204)**	445
Deferred tax impact of share based payments	**393**	221
Revaluation of deferred tax asset from 28% to 27%	**40**	-
Actual amount of tax charge	**10,614**	10,513

4. Dividends on equity shares

	Year ended 27 March 2011 £000	Year ended 28 March 2010 £000
Equity dividends on ordinary shares:		
Interim dividend paid of 7.8p per share (2010: 7.4p)	**5,276**	5,008
Proposed final dividend of 15.6p per share (2010: paid 14.4p per share)	**10,576**	9,756
Total dividends paid and recommended 23.4p per share (2010: 21.8p per share)	**15,852**	14,764
Amounts distributed to equity holders in the year:		
Final dividend for the prior year	**9,765**	7,848
Interim dividend for the current year	**5,276**	5,008
	15,041	12,856

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

5. Earnings per share

Basic earnings per share

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

	Year ended 27 March 2011 £000	Year ended 28 March 2010 £000
Profit for basic and diluted earnings per share is the net profit attributable to equity holders of the parent	**23,842**	22,132

	27 March 2011 Number of shares	28 March 2010 Number of shares
Weighted average number of ordinary shares in issue (for basic earnings per share)	**67,721,190**	67,170,830
Potential dilutive ordinary shares:		
Long-term incentive plan	**-**	427,415
Deferred share bonus	**157,914**	133,313
Diluted basis	**67,879,104**	67,731,558

6. Goodwill

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

The group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next four years and extends cash flows to perpetuity. Terminal values are based on growth rates that do not exceed three per cent. The post tax rate used to discount the forecast cash flows is based on the group's estimated weighted average cost of capital of 8.5%, adjusted for country or business specific risk premiums of up to 1.5%. Equivalent pre-tax rates would be 12% for the UK and 11% for Romania.

	Total £000
Cost	
At 28 March 2010	56,872
Adjustment (see note 11)	446
Exchange rate adjustment	(185)
At 27 March 2011	**57,133**
Accumulated impairment losses	
At 28 March 2010	-
Impairment losses for the year	
At 27 March 2011	**-**
Carrying amount	
At 27 March 2011	**57,133**
At 28 March 2010	**56,872**

	Total £000
Cost	
At 29 March 2009	27,628
Recognised on acquisition of subsidiary	29,168
Exchange rate adjustment	76
At 28 March 2010	56,872
Accumulated impairment losses	
At 28 March 2010	-
Impairment losses for the year	-
At 28 March 2010	-
Carrying amount	
At 28 March 2010	56,872
At 29 March 2009	27,628

6. Goodwill continued

Goodwill arising on acquisition:

	27 March 2011 £000	28 March 2010 £000
PayPoint.net	**18,207**	18,207
PayPoint Romania	**9,312**	9,497
PayByPhone	**29,614**	29,168
Total	**57,133**	56,872

For PayPoint Romania, the difference between the recoverable amount and the carrying amount at year end was £6.2 million. Headroom would reduce to £nil if either the forecast average growth in revenue for the next four years of 19.5% reduced to 16% per annum or if the discount rate applied to the forecast cash flows were to increase from 10% to 13.4%.

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

7. Investment in joint venture

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

PayPoint's share of aggregated amounts relating to joint ventures	**27 March 2011 £000**	28 March 2010 £000
Total assets	**644**	545
Total liabilities	**(3,609)**	(1,969)
Share of net assets	**(2,965)**	(1,424)
Loan to joint venture (note 13)	**3,100**	1,750
Investment in joint venture	**135**	326

	Year ended 27 March 2011 £000	Year ended 28 March 2010 £000
Revenues	**1,002**	205
Loss for year	**(1,541)**	(1,601)

8. Deferred tax asset

	28 March 2010 £000	Credit / (charge) to income statement £000	Debit to equity £000	**27 March 2011 £000**
Tax depreciation	1,320	(16)	-	**1,304**
Share based payments	239	(132)	-	**107**
Tax losses	-	-	-	**-**
Intangibles	(392)	99	-	**(293)**
Short term temporary differences	-	(2)	-	**(2)**
Total	1,167	(51)	-	**1,116**

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

At the balance sheet date a deferred tax asset of £1.1 million (2010: £1.2 million) is recognised on the basis that there will be sufficient future taxable profits against which the deferred tax asset can be recovered, based on management forecasts.

At the balance sheet date, the group has unused tax losses of £7.6 million (2010: £5.1 million) available for offset against future profits for which no deferred tax asset is recognised. Included in unrecognised tax losses are losses of £2.0 million which will expire in less than three years, £3.2 million that will expire within four to seven years. Other losses may be carried forward indefinitely.

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

The government has announced a further reduction in the main rate of corporation tax from 28% to 26% effective from 1 April 2011, which was substantially enacted after 27 March 2011. The government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 23% by 1 April 2014. The future 1% main tax rate reductions are expected to have a similar impact as for 2011; however, the actual impact will be dependent on the deferred tax position at that time.

9. Cash and cash equivalents

Included within group cash and cash equivalents is £6,132,000 (2010: £6,818,000) relating to monies collected on behalf of clients where the group has title to the funds (client cash). An equivalent balance is included within trade payables.

The group operates cash pooling amongst its various bank accounts in the UK and therefore individual accounts can be overdrawn without penalties being incurred so long as the overall position is in credit. At 27 March 2011, the group's cash was £26,464,000 (2010: £20,769,000).

10. Short-term borrowings

	Group	
	27 March 2011 £000	28 March 2010 £000
Bank loan	-	6,000

During the year, the £6 million loan was repaid and the balance outstanding at the end of the year was £nil.

11. Acquisition of subsidiary

On 9 March 2010, the group acquired 100 per cent of the issued share capital of Verrus Mobile Technologies Inc. and Verrus UK Limited (together known as PayByPhone) for cash consideration of £29 million. In addition, there was potential for a further £4 million dependent on financial results until March 2013, which has subsequently been waived by the beneficiaries.

On acquisition of Verrus Mobile Technologies Inc. and Verrus UK Limited the group recognised £29.2 million of goodwill. During the year it became apparent that the group would be unlikely to receive £0.4 million from a debtor and its fair value was reduced and the goodwill increased, accordingly.

12. Equity

	2011 £000	2010 £000
Authorised share capital		
4,365,352,200 ordinary shares of 1/3p each (2010 4,365,352,200: ordinary shares of 1/3p each)	**14,551**	14,551
	14,551	14,551
Called up, allotted and fully paid share capital		
67,795,702 ordinary shares of 1/3p each (2010: 67,754,202 ordinary shares of 1/3p each)	**226**	226
	226	226
Called up share capital		
At start of year	**226**	226
At end of year	**226**	226
Investment in own shares		
At start of year	**(370)**	(926)
Acquired in year	**-**	(490)
Used on share scheme vesting	**154**	1,046
At end of year	**(216)**	(370)
Share premium		
At start of year	**25**	25
Arising on issue of shares	**-**	-
At end of year	**25**	25
Share based payment reserve		
At start of year	**2,684**	2,489
Additions in year	**1,088**	942
Released in year	**(801)**	(761)
Current tax on awards	**-**	34
Other adjustments	**34**	(20)
At end of year	**3,005**	2,684
Translation reserve		
At start of year	**543**	508
Movement during year	**(72)**	35
At end of year	**471**	543
Retained earnings		
At start of year	**67,636**	58,645
Profit for year	**23,842**	22,132
Non-controlling interest loss for year included in above	**41**	-
Dividends paid	**(15,041)**	(12,856)
Adjustment on share scheme vesting	**647**	(285)
At end of year	**77,125**	67,636

The long term incentive plan tranche did not vest on 11 June 2010 because the group did not meet the performance measure. Under IFRS 2, the fair value charges of £647,000 relating to this tranche, which had been previously charged to the income statement, are reversed through equity. The deferred share bonus vested in June 2010 and accordingly the group used £154,000 of its investment in own shares to satisfy the award.

13. Related party transactions

PayPoint has entered into a loan agreement with its 50:50 joint venture Drop and Collect Limited (trading as Collect+) and during the year it has lent Drop and Collect Limited an additional £1.4 million bringing the total loan to £3.1 million.

The terms of the loan are:

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

The company and its subsidiaries, in the ordinary course of business, enter into various sales, purchase and service transactions with joint ventures and others in which the group has a material interest. These transactions are under terms that are no less favourable than those arranged with third parties. These transactions are not considered to be significant.

PayPoint has a small investment in OB10, a company that specialises in electronic invoicing. During the year, PayPoint subscribed for a further £30,125 of shares under a rights issue, resulting in a shareholding at 27 March 2011 of 1.02% (28 March 2010: 1.04%).

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

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

Directors' shareholding in OB10	**Year ended 27 March 2011 £000**	Year ended 28 March 2010 £000
	%	%
David Newlands	2.87	4.73
Dominic Taylor	1.44	1.42
George Earle	0.40	0.42
Nick Wiles	1.02	1.04
Eric Anstee	0.08	0.08

14. Notes to the cash flow statement

	Group	
	Year ended 27 March 2011 £000	Year ended 28 March 2010 £000
Profit before tax	**34,456**	32,645
Adjustments for:		
Depreciation of property, plant and equipment	**3,295**	4,286
Amortisation of intangible assets	**317**	534
Share of losses in joint venture	**1,541**	1,601
Net interest expense / (income)	**55**	(174)
Share based payment charge	**1,088**	942
Operating cash flows before movements in working capital	**40,752**	39,834
Decrease / (increase) in inventories	**209**	(373)
Decrease in receivables	**6,337**	2,385
Decrease in payables		
– client cash	**(686)**	(729)
– other payables	**(4,476)**	(2,386)
Cash generated by operations	**42,136**	38,731
Corporation tax paid	**(10,950)**	(13,702)
Interest and bank charges paid	**(49)**	(43)
Net cash from operating activities	**31,137**	24,986

ABOUT PAYPOINT

PayPoint is a leading international provider of convenient payments and value added services to major consumer service organisations in the utility, telecoms, media, financial services, transport, retail, gaming and public sectors.

We handle over £10 billion from 590 million transactions annually for more than 6,000 clients and merchants. We deliver payments and services through a uniquely strong combination of local shops, internet and mobile distribution channels.

Retail networks
PayPoint operates branded retail networks in the UK, Ireland and Romania. The network in the UK numbers 23,000 terminals in local shops (including Co-op, Spar, McColls, Costcutter, Sainsburys Local, One Stop, Londis and thousands of independents) in all parts of the UK. Our terminals process energy meter prepayments, cash bill payments, mobile phone top-ups, transport tickets, BBC TV licences and a wide variety of other payment types for most leading utilities and many telecoms and consumer service companies.

In Romania, the branded retail network numbers 6,000 terminals located in local shops across the country and is expanding. Our terminals process cash bill payments for utilities and mobile phone top-ups. In the Republic of Ireland, we have over 500 terminals in shops and Credit Unions processing mobile top-ups and bill payments.

We also supply added value services to our retail agents to improve the yield from our network. In the UK, we have a consumer parcel drop off and collection service using PayPoint's retail network through Collect+, a joint venture with Yodel (formerly Home Delivery Network). This service is already available in 3,700 of our convenience retail agents. Clients include ASOS, Littlewoods, Woolworths, New Look, Very, Boden, Mobile Phone Xchange and Great Universal. In addition, in the UK, we have over 2,500 LINK branded ATMs, mainly in the same sites as our terminals.

Internet payments
PayPoint.net is an internet payment service provider, linking into all major UK acquiring banks to deliver secure online credit and debit card payments for over 5,500 web merchants, including Stan James, 32Red, Sportingbet, PKR, Betsson, Moonpig, Moneysupermarket.com, Severn Trent Water, Ann Summers, Links of London, Funky Pigeon, Mr & Mrs Smith and British Gas Home Vend. We offer a comprehensive set of products ranging from a transaction gateway through to a bureau service, in which we take the merchant credit risk and manage settlement for the merchants. We offer real-time reporting for merchant transactions and Fraudguard, an advanced service to mitigate the risk of fraud for card not present transactions.

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

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

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