



Embedding PayPoint at the heart of convenience retail

Annual Report 2018

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Champions of convenience

At PayPoint, we're all about convenience. Through our network of 50,000 stores and with a 43% share of the UK convenience market, we make life easier for everyone through pioneering retail technology, services and omni-channel payment solutions serving millions of customers every day.

Summary results

Returns to shareholders

| Earnings per share | Ordinary dividend per share | Additional dividend per share |
|-------------------------------|-------------------------------|-------------------------------|
| 63.0p (2017: 87.5p) | 45.9p (2017: 45.0p) | 36.6p (2017: 36.7p) |
| (28.0)% | +2.0% | (<0.1)% |

Continuing retail network highlights¹

| Revenue | Net revenue ² | Gross margin ³ |
|-----------------------------------|-----------------------------------|-------------------------------|
| £213.5m (2017: £203.4m) | £119.6m (2017: £117.5m) | 46.8% (2017: 49.5%) |
| +5.0% | +1.8% | (2.7)ppts |
| Operating profit | Profit before tax | |
| £53.5m (2017: £53.3m) | £52.9m (2017: £53.3m) | |
| +0.4% | (0.8)% | |

Financial highlights

| Revenue | Net revenue ² | Gross margin ³ |
|---|-----------------------------------|--------------------------------|
| £213.5m (2017: £211.9m) | £119.6m (2017: £123.9m) | 46.8% (2017: 50.0%) |
| +0.8% | (3.5%) | (3.2)ppts |
| Operating profit before impairments and business disposal | Profit before tax | Cash generation ⁴ |
| £53.5m (2017: £52.3m) | £52.9m (2017: £69.1m) | 65.1m (2017: £61.1m) |
| +2.3% | (23.4)% | +6.5% |

1. Retail networks consists of our UK, Ireland and Romanian retail businesses. A reconciliation, for each measure, from the statutory results to Retail networks is included in note 4 to the financial statements.

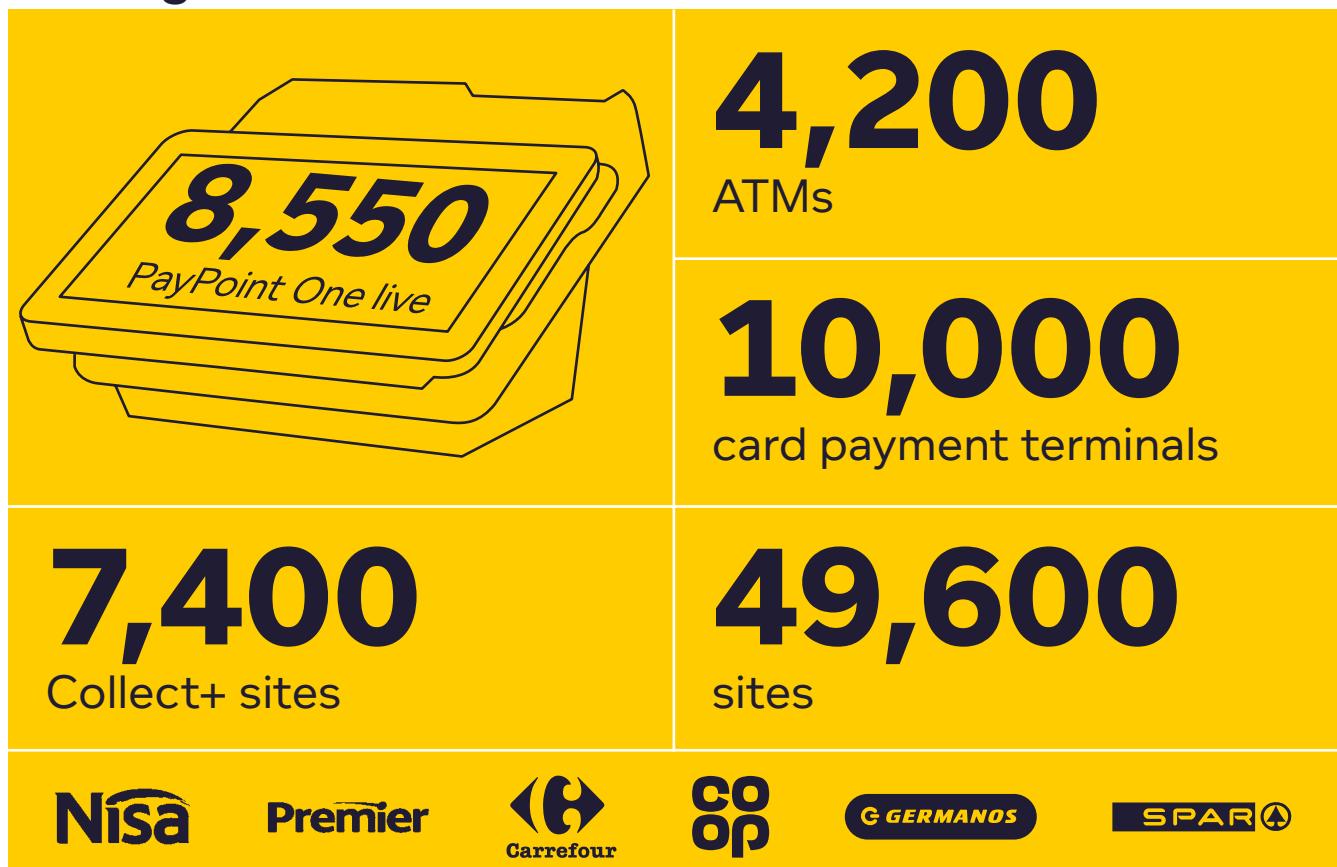
2. Net revenue is an alternative performance measure. Refer to note 3 to the financial statement for a reconciliation to revenue.

3. Gross margin % is an alternative performance measure and is calculated by dividing gross profit by revenue.

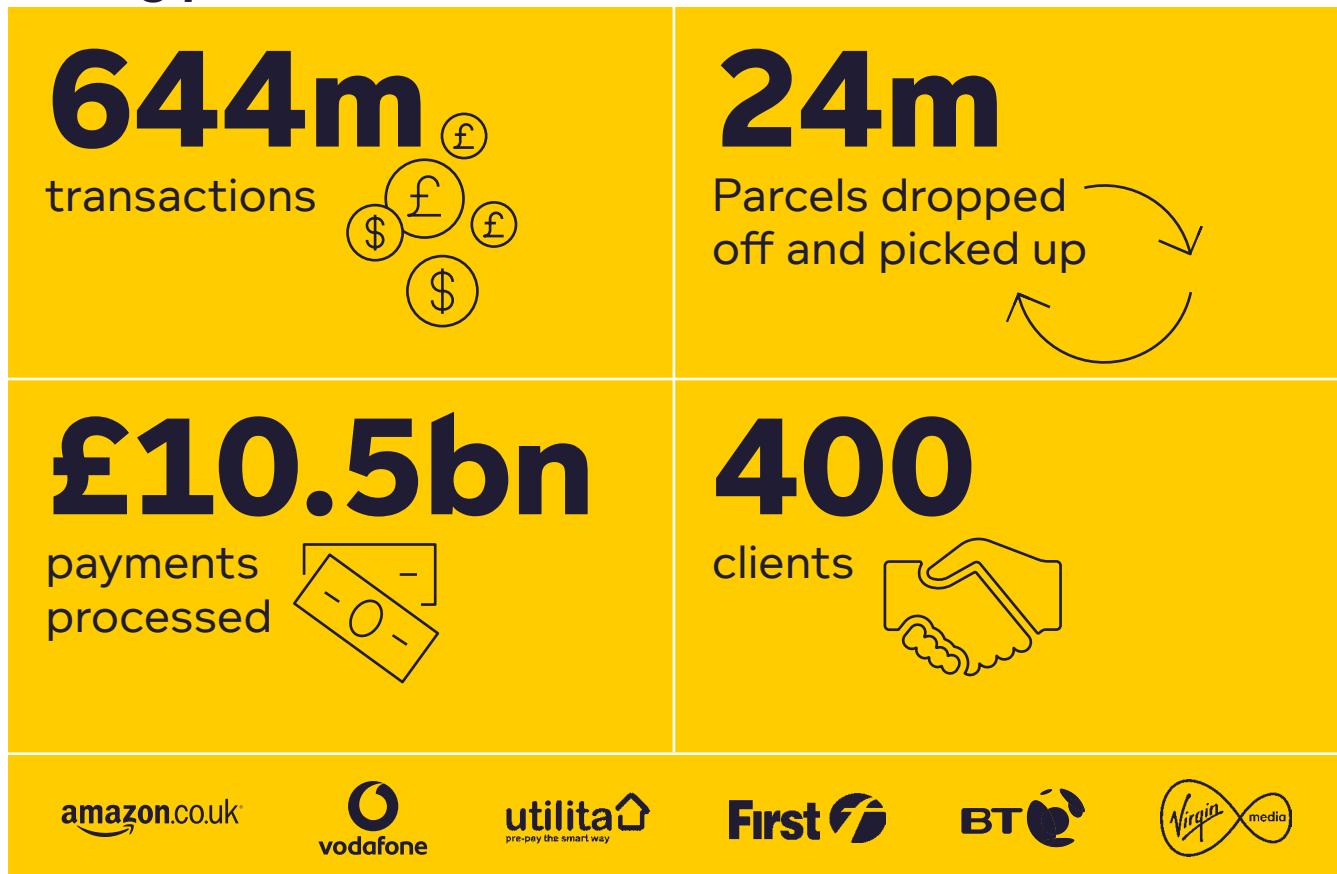
4. Cash generation is operating cash flows before movements in working capital from note 29 to the financial statements.

Strong breadth and depth in convenience retail

Leading network



Strong portfolio of clients



Chairman's statement



Delivering our strategy

This year was a successful one for PayPoint in which we continued to make progress against our strategy of embedding PayPoint at the heart of convenience retail.

In 2016/17 we simplified our business with the sale of Mobile and the restructuring of the Collect+ arrangement, enabling us to drive value from the strength of our established Retail networks. This positioned us well in 2017/18 to be able to proactively respond to the expected challenging external factors in UK cash payments and ATMs whilst continuing to deliver growth in our UK retail services and Romanian businesses, which included the Payzone acquisition.

In our last annual report, we set out five priorities for 2017/18 and this report sets out the progress we have made against each of those priorities. It also sets out our objectives for the future, building on the platform we have created from our focus on the simplification and reshaping of our business to deliver future growth and returns for shareholders through the continued disciplined implementation of our PayPoint One, Parcels, Romanian and MultiPay growth drivers. Considerable progress has also been made on upgrading the skills within the business, improving efficiency and the service delivery to our retailers and we have renewed our financing facility.

The Board is confident in the strong business platform from which we can resume earnings growth and continue to drive strong cash flows and shareholder returns. Our additional dividend programme of £25 million per annum continues until 2021 alongside our ordinary dividend policy. For both our ordinary and additional dividend, we will transition from 1 April 2019 to a programme of four equal dividends payments in July, September, December and March in order to more effectively manage working capital.

Our stakeholders

The Board recognises the need for effective engagement with all stakeholders and we have surveyed our employees, retailers and shareholders to better understand their perspectives on PayPoint and its relative strengths and weaknesses. We have formulated clear action plans to address this feedback. For employees we will set up an employee forum, chaired by Katy Wilde, our HR Director, and we have widened the talent pool within PayPoint to drive greater accountability to the Executive Board and key operational managers. For retailers we now have a full programme underway to deepen our interaction and to improve our retailers' experience of PayPoint. The Board is grateful for the feedback our shareholders shared with us through the independently conducted perception audit.

Board changes

Tim Watkin-Rees, Business Development Director, stepped down as an executive director of the Company on 31 March 2018. I would like to thank Tim for his dedicated service on the Board where he has played a significant role in the development and growth of PayPoint since its inception in 1996. I am also grateful that Tim will continue his services as a valuable employee taking on the title of Founder, focusing on driving new product and service innovation.

Conclusion

We are now a significantly more focused and efficient business. We have a clear roadmap against which to implement our strategy and a strong and motivated management team. The Board is confident in the prospects for the business and the value creation opportunity for all our shareholders.

Nick Wiles,
Chairman
24 May 2018

Reshaping phases complete, now set for growth

| | |
|---|--------------------------|
| 1 | |
| Mobile and Online sale | |
| Refocus on core markets of UK and Romania | |
| 2015 – 2016 | Simplify business |

| | |
|--------------------------------|--------------------------|
| 2 | |
| Launched MultiPay | |
| Launched PayPoint One | |
| Parcels agreement renegotiated | |
| 2016 – 2017 | Invest for growth |

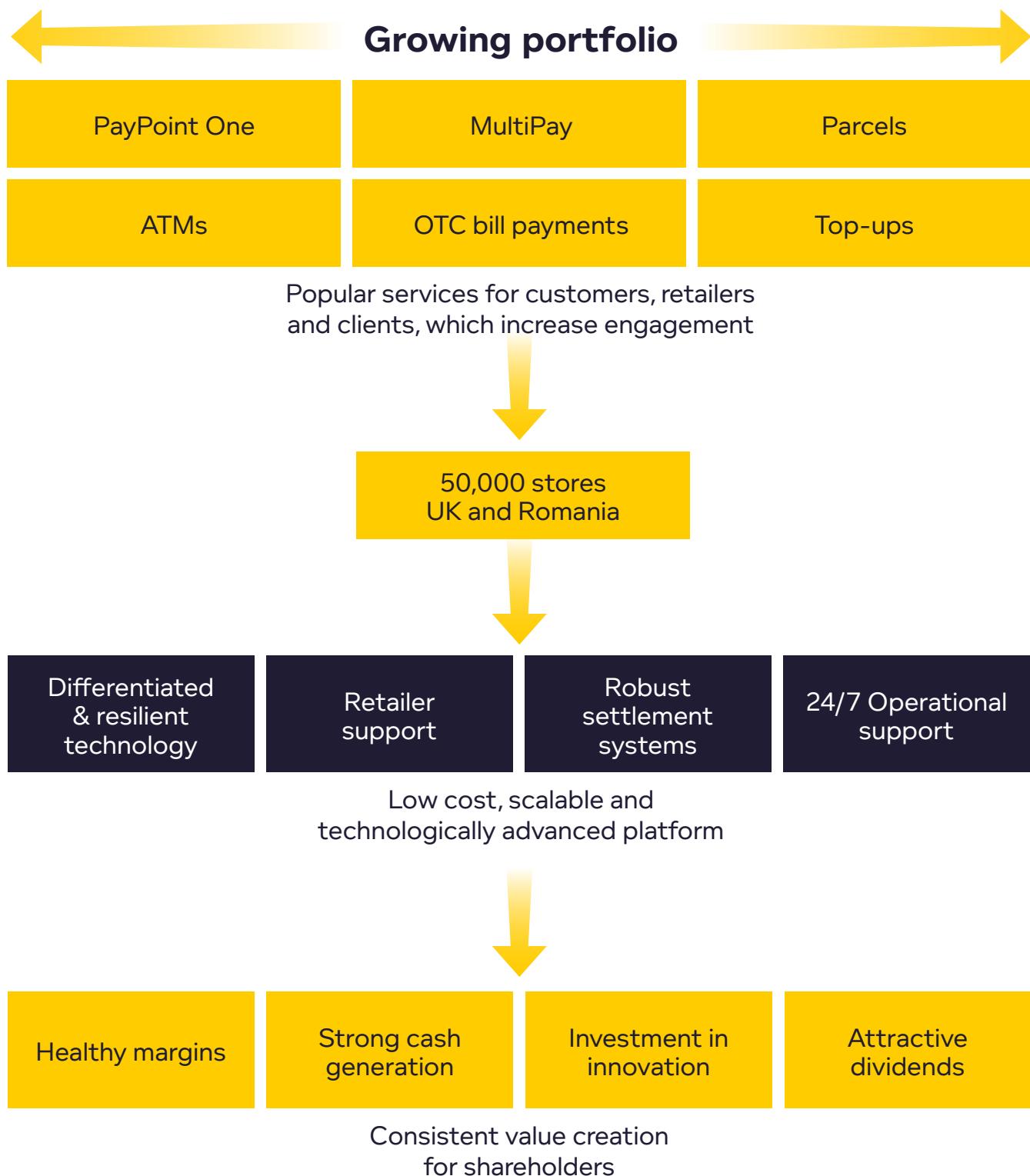
| | |
|----------------------------------|---------------------------------|
| 3 | |
| 8,500 PayPoint One live | |
| Launched EPoS Pro and Mobile App | |
| 19m transactions on MultiPay | |
| Payzone Romania acquired | |
| 2017 – 2018 | Deploy new growth levers |

| | |
|---|--|
| 4 | |
| Future | |
| Grow PayPoint One ecosystem | |
| Launch new parcel carriers | |
| Continued strong cash-flows from UK bill payments and top-ups | |
| Integrate Payzone and grow Romanian business | |
| Future | |
| Sustainable delivery and growth | |

Our business model

Champions of convenience

At PayPoint, we're all about convenience. Through our network of 50,000 stores and with a 43% share of the UK convenience market, we make life easier for everyone through pioneering retail technology, services and omni-channel payments solutions serving millions of customers every day.



Chief Executive's review



We have made good progress in the year as we continue to embed PayPoint at the heart of convenience retail. Through the deployment of PayPoint One in the UK we are able, from a single device, to bring together our leadership in bill payment solutions with a wide range of retail services, creating an evolving ecosystem which will benefit retailers and serve millions of consumers in the UK and in time Romania, whether they are paying a household bill or collecting a parcel.

Performance over the past year has been good across our retail businesses with net revenue increasing by £2.1 million to £119.6 million, up 1.8% from the same period last year, with underlying net revenue growth of £6.3 million driven by service fee revenue and Romania with improved margins in bill payment & top-ups overcoming the reduced transaction volumes from UK energy and mobile top-ups. Profit before tax of £52.9 million was delivered slightly ahead of expectations and there was strong control of costs in the second half of the year.

The three areas covered in this report are:

- A. Our achievements in 2017/18: showing our good progress against our 2017/18 priorities.**
- B. Embedding PayPoint in the heart of convenience retail: covering our business model and the markets within which we operate.**
- C. Our strategic roadmap: setting our priorities for future years.**

A. ACHIEVEMENTS IN 2017/18

In our full year results for 2016/17 we set out five priorities for the year ended 31 March 2018 as follows:

- 1. Drive profitable growth in UK retail services.**
- 2. Deliver parcels volume growth in the UK.**
- 3. Optimise profits in UK bill payments and top-ups.**
- 4. Drive continued organic growth in Romania.**
- 5. Business optimisation.**

We are proud of the progress made against these priorities despite some challenges faced during the year. We have set out our progress against each of these below:

1. Drive profitable growth in UK retail services

Core to this priority has been the deployment of PayPoint One, in 8,550 sites at 31 March 2018, an increase of 4,949 resulting in PayPoint One being the largest EPoS capable estate in the UK convenience sector. This growing estate will increasingly be the platform through which we can drive service fee revenue from EPoS solutions in future years. In this regard, we are pleased with our launch of EPoS Pro, providing stock management capability to complete our product suite, along with our EPoS mobile app which allows our retailers to manage their EPoS system from any device anywhere. We have also signed agreements with Booker and Nisa to integrate EPoS Pro into their fulfilment systems, enabling their members to benefit from PayPoint One.

Card payments processed across our retail platform have grown by 4.9% to 94.5 million payments, driven significantly by contactless. Our card payment rebate net revenue has increased by 7.4% driven by the increase in transactions and the full year benefit of improved margins.

We have replaced over 500 legacy ATMs with broadband connected machines which are faster, more reliable and improve the consumer experience. Following planned reductions in the LINK interchange rate, we have adjusted our network plans to enhance site performance and maintain revenue levels.

2. Deliver parcels volume growth in the UK

Collect+ remains the clear market leader in parcel shop services as demonstrated by a Trust Pilot rating of 9.2 and our network of 7,436 sites remains the largest of its type outside that of the traditional Post Office. In the year we processed 23.4 million parcels, an increase of 2.0%. Since renegotiating our Collect+ arrangements in December 2016 we have been transitioning to a multi-carrier proposition. We have a strong pipeline of parcel opportunities and contract discussions underway with the intention to have at least one live before Christmas, the peak season for parcels.

Chief Executive's review continued

3. Optimise profits in UK bill payment and top-ups

UK bill payment and top-up net revenue was slightly ahead of last year at £70.0 million (2017: £69.3 million) helped by a combination of cold weather in the final quarter, a delay in the rollout of smart meters due to the late commissioning by the Data Communications Company and the lack of deployable SMETS2 meters. The growth from improvements to client mix, renegotiation of symbol performance incentives, increased average top-up values and increased eMoney volumes which have a higher margin per transaction, was partially offset by a 9.1% reduction in transaction volume. Our MultiPay proposition has performed well, with transactions up 88% to 19.4 million, now serving 22 client brands.

We have renewed or extended contracts with eight bill payment clients, including the BBC and AllPay and launched Amazon Top Up as Amazon's exclusive partner in the UK. The Department of Work and Pensions Simple Payment Service was extended to 31 March 2018. We have now implemented a replacement service, albeit at a significantly lower value than the previous contract. The annual value of the previous contract was c.£4.0 million net revenue per year.

4. Drive continued organic growth in Romania

Romania has had a good year of organic growth, supplemented by the acquisition of Payzone in October 2017.

Transaction volume grew by 21.4 million (28.6%) to 96.4 million, with Payzone adding 17.0 million transactions. Overall net revenue of £11.9 million (2017: £9.2 million) increased by £2.7 million (29.8%) driven largely by transaction volume growth. Our integration of Payzone is progressing with the Payzone people now co-located in PayPoint's office and further sustainable cost efficiencies have been identified. The acquisition has expanded our client base to more than 160, increased our network to over 20,000 sites and has increased our share of bill payments issued by our clients to 33% (2017: 23.6%).

Our network in Romania is extensive across cities, towns and villages from which we will benefit as new services are demanded in Romania from the government or consumers, as is the case with card payments, mandated in shops by government, where we have recently extended a commercial trial to over 400 sites.

5. Business optimisation

With our focus on driving value to retailers and on providing them with first class service, there are a number of key actions we have taken during the course of the year including:

- Delivery of CRM for client management where we have made good progress in preparing for the deployment of CRM into our operations and sales functions – this is essential to provide a single view of the customer.
- Reorganising our technology development structure to bring our product and development teams closer to each other in the recently renovated unit 2 building. This will deliver faster, more agile and efficient innovation.
- Commencing the implementation of an agile development workstream focusing initially on PayPoint One and MultiPay.
- Launching the 'Operations Management Group' consisting of senior functional managers to take ownership of reviewing and resolving operations processes to improve effectiveness, efficiency and customer service.

B. EMBEDDING PAYPOINT IN THE HEART OF CONVENIENCE RETAIL

PayPoint is well positioned for growth through the combination of its business model, market opportunity and the execution of its strategic roadmap.

Business model

We provide a wide range of revenue generative products and services for consumers, retailers and clients leveraging our scalable, broadly fixed cost technology platform. This platform consists of differentiated and resilient technology that we deploy in stores, such as PayPoint One, combined with robust financial settlement systems, through which we process £10 billion per annum, 24/7 operational technology support and comprehensive support for our retailers, either through our call centre or via our field sales representatives. We are able to launch complementary products and services, such as Parcels and ATMs, that leverage this platform without the need to create bespoke platforms as single product competitors do. As a result, our business model delivers strong margins and is highly cash generative which allows us to pay a superior dividend and continue to invest in the business.

Critical to this model is the need to support and provide excellent customer service to our retailers. Progress in this is a high priority over the coming years and will attract significant investment in systems. During the year we paid £49.1 million in commissions to our retailers.

Market opportunity

Payments & top-up business (Payments) market

Cash bill payments has traditionally been PayPoint's key driver for growth for which we have developed a market leading position in payment collection through our convenience Retail network. Our UK and Ireland network of 29,000 stores handles over 380 million bill payments and top-up transactions per annum with a value of £7.3 billion, whilst our Romanian network of 20,000 stores handles over 95 million transactions with a value of over £1.8 billion.

In the UK, the market is undergoing significant levels of change:

- Cash payments relative to all other payment methods is in steady decline. In 2006, 62% of all payments were cash; in 2016 this reduced to 40% and by 2026, it is predicted this will fall to 21%¹.
- Energy transactions which account for 70% of our bill payment & top-up transactions have also been impacted by:
 - Continuous review of energy prices.
 - Improving efficiencies in household energy consumption.
 - Rollout of smart meters – smart meters now represent 20%² of all domestic energy meters.
 - Delays by the Data Communications Company and the lack of deployable SMETS2 meters.
 - Level of switching from the Big Six energy providers to challenger operators.

In contrast, Romania cash bill payment remains a mass market proposition with local utility cash offices closing and the local post office losing its largest clients. We process on average 33% of our clients' payments.

Given our strategic focus on our UK and Romanian operations where we have market leadership, we will be winding down our small Ireland network of 450 sites.

In the UK and Romania we will continue to sustain our leadership as a bill payment & top-up service provider with our comprehensive geographic coverage in convenience stores. Our MultiPay product is designed to recapture part of the volume that will likely migrate to digital channels through the rollout of smart meters.

Retail services business market

In the UK, we operate within a retail sector of approximately 66,000 stores comprising 56,000 convenience retailers (including forecourts, specialist and Confectionary, Tobacconist, News (CTN) stores) and 10,000 large format supermarket sites². Within the convenience retail sector, independents and symbol groups make up 44,000 stores with multiples accounting for the remaining share of 12,000.

The convenience market is growing but is also becoming more competitive:

- Convenience sector sales increased to £40 billion³ in 2017 up 7% in the year and is forecast to grow by £7 billion by 2022.
- Consumers habits are changing to using smaller local stores entailing more frequent visits.
- Large multiple brands such as Sainsburys, Tesco and Co-op are increasing their presence in convenience.

With competition growing, combined with increased consumer demands, independent retailers must adapt to remain relevant in this modern age. Our service offering will help retailers benefit from footfall driven from payments and parcels. Our retail services, centred on PayPoint One and its associated EPoS solutions, will enable retailers not only to become more efficient, but also to transition from a shopkeeper to a business person, providing solutions to support consumers in their local communities.

We provide many services in the UK that span many markets. Key services are:

ATMs – PayPoint is the fourth largest non-bank ATM provider on the LINK network with approximately 4,200 ATMs:

- In 2017 LINK's ATM transactions declined 2.0% from 3,170 million to 3,102 million transactions⁴.
- LINK's ATMs sites reduced from 70,020 in 2016 to 69,610 in 2017⁴ with non-surcharge machines increasing their share of all ATMs.
- Interchange fee reduction of 5% for the half year from July 2018 with a further three annual reductions of 5% starting January 2019 affecting non- surcharge machines – 45% of our estate.

Card payments – We have over 10,000 sites using our card payments service:

- Contactless payments are growing in importance, accounting for 38% of volumes in 2017, up from 24% in 2016⁵. Average transaction values are trending downwards but are offset by transaction volume growth.
- Highly competitive market with many offers from merchant acquirers and other intermediaries.

Parcels – Collect+ remains the largest parcel point network with 7,400 local convenience stores, excluding the Post Office:

- The UK parcel market is estimated to be 2.5 billion deliveries per annum, growing strongly by 14.2%⁶ in the 12 months to February 2018.

EPoS – This solution is highly beneficial for symbol groups and independent retailers who need a cloud based EPoS solution:

- The target universe represents approximately 38,000 stores in the UK – equating to 74% of the convenience market (excluding CTNs and specialist stores).
- Retailers have a low investment base of £6,000 to £8,000 per annum, with many competing priorities (fridge, lighting, building maintenance shelving, signage, etc) creating a barrier for EPoS adoption. Our recurring service fee, with no up-front cost to the retailer, eliminates the initial investment barrier.
- Only 30-40% of independents and 60-70% of symbol group retailers have EPoS³.

1. According to figures from UK Finance.org

2. William Reed IGD – Grocery Retail Structure 2017

3. ACS – The local shop report 2017

4. www.link.co.uk/about/statistics-and-trends

5. UK Finance Card expenditure statistics – October 2017

6. IMRG MetaPack UK Delivery Index Report March 2018

Strategic focus

Embed PayPoint at the heart of convenience retail



1 Embed PayPoint at the heart of convenience retail



2 Become the definitive parcel point solution



3 Sustain leadership in 'pay-as-you-go' and grow digital bill payments



4 Innovate for future growth and profits

C. STRATEGIC ROADMAP

We have a clear roadmap to realise the opportunity available to PayPoint, built around four key strategic priorities listed below. These build on last year's priorities and are the foundation of our Company plan by which we will measure our progress over the coming years.

- 1. Embed PayPoint at the heart of convenience retail (in the UK and Romania).**
- 2. PayPoint becomes the definitive parcel point solution.**
- 3. Sustain leadership in 'pay-as-you-go' and grow digital bill payments.**
- 4. Innovate for future growth and profits.**

Underpinning our four priorities we will continue to develop and invest in our people and organisation including:

- The successful implementation of Salesforce as our CRM system and a new billing system.
- Delivering our new agile technology implementation, working closely with our product organisation.
- Continuing to develop a performance based culture; with focus on empowerment and customer service.

Priority 1: Embed PayPoint at the heart of convenience retail

In the UK and Romania we will continue to provide and develop new products and services which enhance the retailer's offer to their customers. We will also seek to support retailers with innovation and first-class customer service to allow them to evolve their stores to achieve their full potential.

In the **UK**, PayPoint One is critical to this evolution and so it is a strategic priority to embed this technology across our retail base as a platform to drive value to retailers. We are very pleased with the speed with which we have been able to rollout our PayPoint One estate to date and therefore we intend to grow our estate to 12,400 sites by March 2019. We consider our T2 (second generation) terminal as legacy and we will stop supporting it in the UK sometime from the end of 2019. As the PayPoint One estate continues to grow we will seek to connect this platform to other symbol operators and wholesalers and move our retailers through the EPoS product range to provide them with more value and increase our average weekly service fee per site. We believe this platform will provide for further revenue generative solutions as its ecosystem evolves. ATMs allow retailers to recycle cash received from bill payments thereby creating additional revenue and footfall opportunities and simultaneously reducing retailers' banking costs. We will explore with LINK the possibility of adopting an over the counter cash dispensing model to reduce the amount of capital required to support cash withdrawals. Our card payments business will continue to grow with the rollout of PayPoint One and will additionally benefit from the launch of net settlement for cards later this year. Our priority is the continuing development of new products and services which leverage off the existing services we provide and building on the existing retail service ecosystem.

Romania is a market that is likely to benefit from new opportunities as consumers seek to align with the rest of Europe. This will include, over time, growth in eCommerce, parcel deliveries and card payment solutions all of which PayPoint with its unique network strength and brand recognition is ideally placed to deliver. Cash bill payment remains a mass market proposition and is expected to be the dominant bill payment method for the medium term during which time PayPoint Romania will exceed net revenue of £20 million.

In Romania we intend to launch a new Android terminal, appropriate for the Romanian market that will in time replace the existing second generation terminal and provide an integrated card payments solution to meet the Romanian government's requirement for all stores to be able to transact cards as well as replace the Payzone in-store technology that will soon be out of support.

We expect to invest in our systems across both countries, to facilitate first class service to our retailers as well as improve the efficiency our internal processes to speed up the administration of retailers, such as when we sign them up and fulfil products and services to them. We will continue to reward our retailers for the services they provide us by way of commission.

Priority 2: PayPoint becomes the definitive parcel point solution

Online retail shopping will continue its robust growth, increasing the demand for convenient delivery solutions for consumers. Carriers are operating in a low-margin competitive market with difficulties in the "last mile" of delivery. With our extensive network covering over 98% of the UK population, within one mile in urban areas and five miles in rural, our parcel solution brings carriers and retailers together for the benefit of their consumers. Our priority over the coming years is to:

- Grow our parcels business to over 60 million parcels through the addition of new carriers and partners.
- Extend our network and operational processes to support multi-carriers in store.
- Maintain a compliance rate of 99% – a measure of the effectiveness of our service in store.
- Develop a range of service enhancements including a retailer app allowing them to scan parcels away from the checkout.
- Work with retailers to enhance the consumer experience to maintain a Trust Pilot score of over 9.0.
- Increase the Collect+ network reach driving extra footfall into our convenience retailers.

Chief Executive's review continued

Priority 3: Sustain leadership in 'pay-as-you-go' and grow digital bill payments

The slowdown in the energy sector and mobile top-ups together with the general decline in cash as a payment method in the UK economy means that we anticipate reducing transaction volumes. However, cash payments will remain a mainstay of the UK economy for many years to come and we will continue to retain our leadership in this market. This business is highly cash generative and enables us to invest in future growth and innovation.

With our MultiPay product, we will remain a key service provider to our clients as the digital payment world grows. We intend to evolve the product to include a Direct Debit payment solution as well as provide an ability to integrate to other Payment Service Providers, for resilience and commercial flexibility. We believe this will not only make our proposition more attractive in our current markets, but also allow us to extend our offer into new sectors. We will continue to be very focused on the challenger energy providers and we intend to win at least one additional Big Six client.

Priority 4: Innovate for future growth and profits

Innovation has been a key to our success since the Company started over 20 years ago and we will continue to innovate to maintain our competitive advantage, drive new products and services, improve our retailer experience and increase efficiency. In the near term we will focus on the following:

- A new Android retail terminal to service the Romanian market, leveraging our retail platform.
- Launch of a new data analytics capability in support of the PayPoint One eco system, providing value to retailers and the supply chain.
- Trialling in association with LINK a new ability for the consumer to withdraw cash from a shopkeeper rather than from a physical ATM, thereby reducing the capital required to support declining cash volumes.

Outlook

There is now strong momentum across PayPoint One, MultiPay and Romania and a compelling Parcel proposition reflected in a strong pipeline of client deals, all of which will underpin the future growth of our business. Non-recurring items which will impact our operating profit performance in the financial year ending 31 March 2019 include the closure by the Department for Work and Pensions of their Simple Payment Service worth c.£4.0 million per annum in net revenue and the second-year impact of £1.0 million reduction in net revenue from the agreement to lower Yodel parcel fees.

Despite these headwinds and whilst the final outcome for the forthcoming financial year will be influenced by the timing of and volumes from new parcel contracts, the Board anticipates a progression in profit before tax in this financial year as the growth drivers in our business continue to develop.

Dominic Taylor

Chief Executive

24 May 2018

Case studies



Muhammad Rana

Premier Poplar Stores, Huddersfield

"I've owned my store in Huddersfield for the past two years, but I've worked in retail for 10 years now and my family has a thirty-year history in the sector. I studied for a pharmaceutical degree, but I prefer retail as it is much more hands on.

I'm always looking for innovative solutions for my store and I chose PayPoint One EPoS Pro as the features were good and it has saved me time and money. My two favourite things are that it is an all-in-one system and the mobile app. The fact I have the flexibility to access my information anywhere in the cloud has freed up my time by about 25-30% since I've had it in store. I've even stopped using a pen and paper for my cash and carry shopping list and I now use the mobile app to manage it.

Real-time access to my sales data is great – I only have to click once and I can see how things are going, what stock is selling and what I should be ordering. I've used PayPoint One to analyse my range and improve margins – I used to stock high, mid and value range coffees but, after analysing my data, I saw that the mid-range wasn't selling. I removed that range and my sales have improved and margins have gone up from 18% to 32%.

Speed of service is critical, so the fact that PayPoint One has fully integrated card payments has helped me improve my customer experience and reduce our time to serve. If customers see queues, they leave or go elsewhere so this has really helped us maintain an advantage.

PayPoint One is the easiest system I've ever used and I like the fact that it is Android based and always evolving.

It's saved me time, money and space so I can now spend more time on my business and with my family."

Case studies



Raj Aggarwal Spar, Sheffield

"My Spar store employs 18 members of staff who are all trained to carry out every service and aspect of the day-to-day running of the store. We have been offering the Collect+ parcel service for over two and a half years now and both my team and I have found it very easy to run since it launched.

As one of the biggest PayPoint sites in the local area, it made sense to add the Collect+ parcel service to my offering and it was absolutely the right decision. It is one of the only Collect+ locations in the area which means I offer something unique to the local community and makes my store an attractive place to shop.

More and more customers are now shopping online, so Collect+ is a great way to tap into this mass market.

As the world of retail keeps changing I think it's extremely important to offer a full range of services in-store, as it's those services that appeal to new and existing customers. Convenience retail is especially challenging so offering variety is key to retaining customers and with any additional service, if it's relevant to your customers, it makes sense to have. The bottom line is that you must be able to offer various services to appeal and stand out from similar businesses – and Collect+ does just that.

Services alone won't transform your sales and repeat custom – that's down to the retailer and their store. Customers want to come into a nice, clean store with a good product range, friendly staff and enticing offers. If you've got those things covered, and can offer services that can't be found everywhere else, you're likely to be more successful.

Case studies



Ana Macovei Ana Minimarket, Bucharest

"I have been working in retail for 16 years now and have been managing Ana Minimarket store since 2008. This is a family business and we are open 7 days a week with long opening hours. Despite growing competition and the expansion of modern retailers, we are one urban store that has managed to keep a loyal customer base through diversification and the services/products we offer.

I have been working with PayPoint for ten years, since 2008, the year they launched the bill payment service in Romania. We started this partnership by collecting a few types of bills (the ones available on the terminal at that time) and offering top-up services. I now have an extremely broad portfolio of services through PayPoint, including money transfer, parcels, road tax and card payments.

My customers really appreciate the availability of PayPoint in store because they can save time and pay their bills while doing their shopping, without having to go far from their house or wait in long queues.

I am happy with the partnership I have with PayPoint: it offers me the opportunity to make existing customers even more loyal and to attract new customers to my store, thanks to the convenience of the service. What I appreciate the most in my relationship with PayPoint is the diversity it brings in terms of customers: I had the opportunity to meet so many different people.

I am confident about the future of this partnership and the fact that PayPoint will prove to be, as always, extremely dedicated in partnering with customers."

Retailer Engagement

Our national retailer forum brings together influential retailers from across the country three times a year. The forum members are a cross section of symbol and independent retailers drawn from different trade associations, such as the Association of Convenience Stores and the National Federation of Retail Newsagents.

Each forum provides an opportunity to update retailers on business priorities, gain feedback on new product developments, collaborate on initiatives that make it easier to do business with us and to meet members of our management team.

Our current forum members are:

Dee Sedani

One Stop Franchise, Etwall and Derby

Steve Bassett

Londis, Weymouth

Raj Aggarwal

Spar, Wigston and Sheffield

Bay Bashir

Lifestyle Express, Middlebrough

Muhammad Rana

Premier, Huddersfield

Linda Sood

Premier, Portsmouth

Sunder Sandher

One Stop Franchise, Leamington Spa

Ken Singh

Mill Hill Store, Pontefract

Ray Monelle

Orchard News, Weston-super-mare

Ralph Patel

Look In News, Woodmansterne

John McGowan

Icon Stores, Aberdeen

In addition to our national forum, we are now rolling out a regular series of regional forums to provide an informal opportunity to engage with more retailers and showcase PayPoint One, as well as active participation at symbol trade shows, trade association meetings and industry events to stay close to our retailers and their needs.

Retailer pledge

We will:

- ✓ support and respect you and deliver first class service
- ✓ listen and communicate openly so we can understand and respond to your needs
- ✓ always innovate to improve our products and services and the value we bring to your business
- ✓ champion the importance of convenience retailers and the challenges you face



Retailer Connect

Key performance indicators (KPIs)

To realise its strategic aims, PayPoint has identified areas of strategic focus and records a number of KPIs to measure progress against them. The KPIs presented this year are consistent with prior year. 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.

| Strategic focus | KPI | Description and purpose | 2018 | 2017 |
|---|---|--|-----------------------|----------------|
| Maximise shareholder return | Earnings per share (Retail networks) ¹ | Retail network earnings (see note 4) divided by the weighted average number of ordinary shares in issue during the year (including potential dilutive ordinary shares). Earnings per share is a measure of the profit of the continuing business attributable to each share. | 63.0p | 64.3p |
| | Reported dividends per share | Proposed final dividend and interim dividend divided by the number of fully paid shares at the end of the year. Dividend per share provides a measure of the return to our shareholders. | 45.9p | 45.0p |
| | Economic profit ¹ | Operating profit before impairments and profit on business disposals after tax and a charge for capital employed, excluding net cash or net debt, based upon the Group's cost of capital. Economic profit provides a consistent measure of the profit aligned to the remuneration of management. | £38.8 million | £39.2 million |
| Embed PayPoint at the heart of convenience retail and sustain leadership in 'pay-as-you-go' and grow digital bill payments | Retail networks' transactions | Number of transactions processed in the year on our MultiPay platform, terminals (including card payments) and ATMs. Transaction volume provides a measure of the source of revenue which is earned on a per transaction basis. | 643.5 million | 654.8 million |
| | Retail networks' transaction value | The value of transactions processed via our terminals and ATMs where PayPoint also provides the collection and settlement of funds. Transaction value provides a measure of the source of revenue which is earned on a percentage of the transaction value. | £10.5 billion | £10.4 billion |
| | Retail networks' net revenue ¹ | Revenue less commissions paid to retail agents and the cost of mobile top-ups and SIM cards where PayPoint is principal. Net revenue reflects the benefit attributable to PayPoint's performance eliminating pass-through costs and is a reliable indication of contribution from business operations. | £119.6 million | £117.5 million |
| | PayPoint One sites | The number of sites with our PayPoint One platform. This provides a measure of the source of service fee revenue from PayPoint One terminals and EPoS | 8,550 | 3,601 |
| Business optimisation and innovation | Retail networks' operating margin ¹ | Operating profit before impairments and profit on business disposals as a percentage of net revenue. Operating margin provides a broad overview of the efficient and effective management of the cost base. | 44.3% | 45.3% |
| | Return on capital employed ¹ | Operating profit before impairments and business disposal including our share of joint venture result for the year divided by average month end capital employed (net assets excluding cash). Return on capital employed provides a broad overview of the efficient and effective use of capital in our business. | 178.9% | 184.3% |
| | (Decline)/growth in Retail networks yield per site ¹ | (Decline)/growth in net revenue from Retail networks divided by the average number of sites in the year. Network yield provides a broad overview of the efficient and effective use of our network. | (10.0)% | 2.2% |
| People | Labour turnover | Number of permanent employees who left during the year divided by average total permanent employees. Labour turnover provides an indication of employee job satisfaction. | 26.8% | 29.0% |

1. These KPIs are alternative performance measures and are not directly comparable to statutory measures.

Financial review



Overview

Our profit before tax of £52.9 million reflects the successful execution of our strategy. In December 2016, we completed the simplification of our business with the sale of the mobile payments business and the Collect+ reorganisation. Consequently the prior year comparatives where profit before tax was £69.1 million included £15.6 million profit on the disposal of the Mobile and Drop and Collect businesses. Excluding the impact of last year's simplification, and looking exclusively at our continuing Retail networks, prior year profits were £53.5 million.

The results ended 31 March 2018 reflect the investments we have made in reshaping the business for future profitable growth including:

- The successful Payzone Romania acquisition (for a net consideration of £2.5 million) which contributed £0.3m to profit before tax in the year.
- The second-year impact from the Yodel renegotiation allowing us to extend the network to other carriers and partners. Net revenue from parcels reduced by £1.8 million due to the revised commercial terms.
- The rollout of PayPoint One, which at 31 March 2018 was in 8,550 sites.

Looking at the underlying trading performance, UK bill payments and top-up businesses delivered increased net revenue of £0.7 million to reach £70.0 million (2017: £69.3 million). The expected decline in transaction volumes was mitigated by improved margins as a result of client mix (increase in smaller but higher yielding clients) and the full year impact of renegotiations of performance incentives with symbol groups. MultiPay continued to grow robustly, with transactions increasing 88% to 19.4 million.

UK retail services delivered a good performance with underlying net revenue growth of £2.9 million (8.3%) to £37.7 million after adjustment of £1.8 million impact in the current year from the Yodel renegotiation and the one-off benefit of £2.4 million in relation to the change in VAT treatment of card revenue rebate included in prior year results. The growth was driven by increased service fee revenue following the successful rollout of PayPoint One to a further 4,949 sites.

Romania transaction volume grew by 21.4 million (28.6%) to 96.4 million, of which Payzone added 17.0 million transactions, leading to net revenue growth of 29.8% to reach £11.9 million (2017: £9.2 million). Organic net revenue growth was £1.0 million (11.5%) with Payzone adding £1.7 million for the six months since its acquisition.

The investment from prior years in MultiPay and PayPoint One development and the rollout of PayPoint One has increased our depreciation and amortisation charges in the current year by £2.3 million. We also undertook a review of the useful lives of some of our intangible assets in the current year which has increased amortisation by a further £0.8 million.

We were also successful at tribunal with our challenge to an HMRC VAT ruling issued in 2015. The ruling required certain revenue streams to be treated as VAT exempt which reduced VAT recovery and increased our cost base. Following the tribunal outcome, we have commenced with recovery of the VAT element of invoices previously issued to clients and reviewing our input VAT recovery, the finalisation of which will be concluded in the first quarter of the 2018/19 financial year. As a consequence, included in the current year cost base is an estimated benefit (reduction of costs) of £2.4 million of which £1.5 million relates to years prior to 2017/18. The final recovery is subject to finalisation of a notification to the HMRC and their agreement, however we do not expect the recovery to be less than the amount already included in our results.

Costs increased by £2.4 million to £66.6 million due to acquisition of Payzone increasing costs by £1.2 million, underlying costs increasing by £3.4 million reflecting investments in CRM Salesforce and PayPoint One, one-off reorganisation and asset useful life adjustments of £1.2 million, offset by the VAT tribunal result described above and £0.7 million of sustainable cost efficiencies.

We continued to have strong cash generation¹, which increased by £4.0 million from 2016/17 to £65.1 million. Working capital improved by £3.4 million but includes a temporary benefit of £3.6 million from the VAT tribunal ruling for receipts from clients being received in advance of the net payment to HMRC. This will reverse in 2018/19.

Finally, we also secured a new financing facility for £75 million with an accordion of £20 million at margin rates lower than the previous £45 million facility. The new facility expires in March 2023 and provides PayPoint with the necessary financial headroom required to execute our strategy. During the year we utilised the previous facility to fund short term financing needs and together with costs of renewing the facility our net financing costs increased to £0.5 million (2017: £ nil).

Sector analysis

This year we have enhanced our disclosure by extending each of our sectors to show UK and Ireland separately from Romania and provide further detail on net revenue for each of our key UK retail services, a key growth area for our business. As in prior years, we have disclosed the transaction volumes, transaction values, revenue and net revenue which are briefly described below.

Transaction volumes: The number of transactions processed through our MultiPay platform, terminals (including card payments) and ATMs. Transaction volume provide a measure of the source of revenue where it is earned on a per transaction basis.

Transaction value: The value of transactions processed via our network and where PayPoint also provides the collection and settlement of funds. Transaction value provides a measure of the source of revenue where it is earned on a percentage of the transaction value.

1. Cash generation is operating cash flows before movements in working capital from note 29 to the financial statements.

Revenue: The value of services and goods delivered or sold to clients and retailers.

Net revenue: An alternative performance measure reflecting the benefit attributable to our performance eliminating pass-through and retailer commission costs. This assists with comparability of performance where we act as a principal for some clients and as an agent for others. A reconciliation from revenue to net revenue is presented in note 3 to the financial statements.

Network sites: A retailer site which has a PayPoint terminal and provides bill payment services.

Retail network sites¹

| | Year ended 31 March 2018 | Year ended 31 March 2017 | Change % |
|-----------------------------|--------------------------------|--------------------------------|-------------|
| UK & Ireland Retail network | 29,114 | 29,176 | (0.2) |
| PayPoint One ² | 8,550 | 3,601 | 137.4 |
| Legacy terminal | 11,980 | 17,088 | (29.9) |
| PPoS ³ | 8,584 | 8,487 | 1.1 |
| Romania Retail network | 20,514 | 11,302 | 81.5 |
| Total sites | 49,628 | 40,478 | 22.6 |

UK retail service sites

| | Year ended 31 March 2018 | Year ended 31 March 2017 | Change % |
|---------------|--------------------------------|--------------------------------|-------------|
| PayPoint One | 8,550 | 3,601 | >100 |
| Collect+ | 7,436 | 6,167 | 20.6 |
| Card payments | 10,252 | 10,024 | (2.3) |
| ATM | 4,146 | 4,165 | (0.5) |

We have established retail networks in the UK, Ireland and Romania which grew by 22.6% to 49,628 sites. In Ireland we have a network of 450 sites. Given our strategic focus on our UK and Romanian operations, we have decided to wind-down the bill payment services in Ireland, which generates c.£0.5 million net revenue per annum.

In the UK the network size was broadly level at 28,664 sites with focus on deploying PayPoint One into our existing network. New retailer sites acquired in the second half of the year offset the expected small churn of 1.9% following the implementation of a standardised service fee for legacy terminals in the first half of the year.

In Romania, sites increased by 9,212 in the year, this includes 8,376 Payzone sites. We have assessed the performance of the Payzone network and have already commenced a rationalisation to reduce overlap between the existing network and unprofitable sites.

Retail networks' overall trading performance

| | Year ended 31 March 2018 | Year ended 31 March 2017 | Change % |
|-------------------------|--------------------------------|--------------------------------|-------------|
| Total | | | |
| Transactions (millions) | 643.5 | 654.8 | (1.7) |
| Transaction value (£m) | 10,450.3 | 10,409.6 | 0.4 |
| Revenue (£m) | 213.5 | 203.4 | 5.0 |
| Net revenue (£m) | 119.6 | 117.5 | 1.8 |
| UK and Ireland | | | |
| Transactions (millions) | 547.1 | 579.8 | (5.6) |
| Transaction value (£m) | 8,537.4 | 8,993.6 | (5.1) |
| Revenue (£m) | 155.9 | 163.7 | (4.7) |
| Net revenue (£m) | 107.7 | 108.3 | (0.6) |
| Romania | | | |
| Transactions (millions) | 96.4 | 75.0 | 28.6 |
| Transaction value (£m) | 1,912.9 | 1,416.0 | 35.1 |
| Revenue (£m) | 57.6 | 39.7 | 45.3 |
| Net revenue (£m) | 11.9 | 9.2 | 29.8 |

Retail networks' net revenue increased £2.1 million from £117.5 million to £119.6 million driven by £2.7 million growth in Romania which includes six months of Payzone (contributing net revenue of £1.7 million), underlying growth in UK retail services driven from delivering our strategy to drive PayPoint One into our UK Retail network and maintaining net revenue in UK bill payments and top-ups despite the decline in transaction volumes. Included in net revenue in the current year is the impact of the new commercial terms with Yodel of £1.8 million and last year's net revenue included a one-off VAT recovery of £2.4 million. Excluding these two items, like-for-like net revenue increased by £6.3 million.

Overall Retail networks transaction volume reduced, as expected, by 1.7% to 643.5 million transactions due to lower UK bill and general volumes partially offset by strong volume growth in Romania.

Revenue increased disproportionately to transactions as Payzone's revenue mix is weighted towards mobile top-ups where it acts as principal.

Retail networks' trading performance by sector

Bill and general

Bill and general is our most established category and consists of prepaid energy, bill payments and cash out services.

| | Year ended 31 March 2018 | Year ended 31 March 2017 | Change % |
|-------------------------|--------------------------------|--------------------------------|-------------|
| Total | | | |
| Transactions (millions) | 419.5 | 430.5 | (2.6) |
| Transaction value (£m) | 8,502.9 | 8,489.9 | 0.2 |
| Revenue (£m) | 82.5 | 82.5 | (0.1) |
| Net revenue (£m) | 60.0 | 58.5 | 2.5 |
| UK and Ireland | | | |
| Transactions (millions) | 334.2 | 363.3 | (8.0) |
| Transaction value (£m) | 6,717.6 | 7,165.2 | (6.2) |
| Revenue (£m) | 70.9 | 73.6 | (3.7) |
| Net revenue (£m) | 52.3 | 52.4 | (0.1) |
| Romania | | | |
| Transactions (millions) | 85.3 | 67.2 | 26.9 |
| Transaction value (£m) | 1,785.3 | 1,324.7 | 34.8 |
| Revenue (£m) | 11.5 | 8.9 | 28.3 |
| Net revenue (£m) | 7.7 | 6.1 | 26.8 |

1. Retail networks consists of our UK, Ireland and Romanian retail businesses. A reconciliation, for each measure, from the statutory results to Retail networks is included in note 4 to the financial statements.
2. PayPoint One will replace the legacy terminal and is the platform from which we can grow our retail services by offering additional products and services.
3. PPoS is a plug-in device and virtual PayPoint terminal used on larger retailers' own EPoS systems who still want to use PayPoint services.

Financial review continued

UK bill and general net revenue £52.3 million was broadly flat as an improved mix of smaller but higher yielding clients continues to offset the expected reduction in transaction volumes. MultiPay continued to grow robustly with transactions increasing 88% to 19.4 million and net revenue by £1.2 million to £2.4 million. Included in net revenue is c.£4.0 million (2017: c.£2.0 million) from Department for Work and Pensions Simple Payment Service which ended in March 2018.

In Romania, cash bill payments remains a mass market proposition and the acquisition of Payzone created a step change for our Romanian business. Net revenue grew by £1.6 million (28.3%). Total transactions increased by 18.1 million to 85.3 million with our current share of the bill payments issued by our clients increased to 33% (2017: 23.6%).

Top-ups

Top-ups include transactions where consumers can top up their mobiles and prepaid debit cards. They can also purchase eMoney vouchers and lottery tickets. 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 revenue and the corresponding costs deducted when deriving net revenue.

| | Year ended 31 March 2018 | Year ended 31 March 2017 | Change % |
|-------------------------|--------------------------------|--------------------------------|-------------|
| Total | | | |
| Transactions (millions) | 62.6 | 68.9 | (9.1) |
| Transaction value (£m) | 698.3 | 731.6 | (4.5) |
| Revenue (£m) | 75.3 | 63.6 | 18.5 |
| Net revenue (£m) | 20.8 | 19.1 | 8.9 |
| UK and Ireland | | | |
| Transactions (millions) | 52.2 | 61.6 | (15.3) |
| Transaction value (£m) | 639.1 | 689.4 | (7.3) |
| Revenue (£m) | 30.8 | 34.0 | (9.4) |
| Net revenue (£m) | 17.7 | 16.9 | 4.6 |
| Romania | | | |
| Transactions (millions) | 10.4 | 7.3 | 42.8 |
| Transaction value (£m) | 59.2 | 42.2 | 40.3 |
| Revenue (£m) | 44.5 | 29.6 | 50.5 |
| Net revenue (£m) | 3.1 | 2.2 | 41.9 |

UK top-ups continued to be affected by market trends whereby UK prepay mobile transactions are being displaced by Direct Debit pay monthly options. UK top-up transactions reduced by 9.4 million to 52.2 million. Despite this however, net revenue increased £0.8 million following the full year impact of our renegotiations of performance incentives with symbol groups completed in the second half of last year and increased average top-up values. We also achieved 6.8% growth in eMoney transactions where the net revenue rate per transaction is substantially higher than for mobile top-up transactions.

In Romania the increase in transactions was driven by the acquisition of Payzone where its revenue mix was weighted more towards top-ups.

Retail services

Retail services are those we provide to retailers which form part of PayPoint's networks. Services include providing the PayPoint One platform, which has a basic till application, EPoS, ATMs, card payments, parcels, money transfer and SIMs.

| | Year ended 31 March 2018 | Year ended 31 March 2017 | Change % |
|------------------------------|--------------------------------|--------------------------------|-------------|
| Total | | | |
| Transactions (millions) | 161.4 | 155.4 | 3.9 |
| Transaction value (£m) | 1,249.1 | 1,188.1 | 5.1 |
| Revenue (£m) | 55.7 | 57.3 | (2.8) |
| Net revenue (£m) | 38.8 | 39.9 | (3.0) |
| UK and Ireland | | | |
| Transactions (millions) | 160.7 | 154.9 | 3.7 |
| Transaction value (£m) | 1,180.7 | 1,139.0 | 3.7 |
| Revenue (£m) | 54.1 | 56.1 | (3.6) |
| Net revenue (£m) | 37.7 | 39.0 | (3.5) |
| Services fees (£m) | 7.7 | 4.0 | 89.5 |
| ATM (£m) | 12.8 | 13.1 | (2.0) |
| Card payments rebate (£m) | 7.5 | 7.0 | 7.4 |
| Parcels and other (£m) | 9.7 | 14.9 | (35.0) |
| Romania | | | |
| Transactions (millions) | 0.7 | 0.5 | 50.5 |
| Transaction value (£m) | 68.4 | 49.1 | 39.2 |
| Revenue (£m) | 1.6 | 1.2 | 25.3 |
| Net revenue (£m) | 1.1 | 0.9 | 31.6 |

UK retail services net revenue decreased by £1.3 million reflecting the revised commercial terms with Yodel and the card payments £2.4 million VAT recovery included in the prior year. Excluding these items, underlying net revenue increased £2.9 million. In the current year we have extended our disclosure to include the net revenue of each of our key products. Each is addressed below:

Service fees: Service fees comprise the fees earned from PayPoint One and our legacy terminal. This is a core growth area and as we continue to execute our strategy of deploying PayPoint One into our existing network this will become a significant revenue item. In the current year service fee revenue increased £3.7 million to £7.7 million driven by rollout of PayPoint One which was in 8,550 sites at 31 March 2018. The average weekly fee per site improved to £14.68 up c.70 pence from 31 March 2017. Our EPoS Pro solution, launched in January 2018, was in 154 sites as at 31 March 2018.

ATMs: Transactions increased by 2.9% however net revenue in ATMs reduced by £0.3 million to £12.8 million in part driven by an increased share of non-surchARGE machines in our estate from which there is a lower net revenue rate per transaction. Considering LINK's proposals to reduce the interchange rate, we have commenced an initiative to reallocate a portion of our ATM estate to better performing locations.

Card payments rebate: Card payments transaction volumes grew by 4.9%. The increase in transactions together with the full year impact of margin improvement achieved in the second half of last year resulted in net revenue increasing 7.4% to £7.5 million. Excluding the margin improvements, net revenue growth was in line with transaction volume growth.

Parcels and other: Collect+ parcel service volumes grew by 2.0% to 23.4 million parcels. However, the strong growth experienced in the first half of the year was offset by reduced volumes in the second half. This highlights the importance of our strategy to expand the parcel service to other carriers and partners, which we did with the Yodel renegotiation. The impact of Yodel renegotiation in the current year was £1.8 million, which after excluding net revenue growth was in line with transaction growth. Collect+ was in c. 7,400 sites.

Other services provided include SIMs, money transfer services and other adhoc items. Prior year includes the card payments £2.4 million VAT recovery.

Gross profit margin and network yield

Retail networks' gross margin reduced 2.7 ppts from 49.5% to 46.8% driven by:

- Inclusion of the Payzone acquisition which has a very low gross margin due to its high level of top-up business.
- Prior year including £2.4 million VAT rebate following the change in VAT treatment on card payments.
- Increased depreciation and amortisation charge of £3.0 million in the current year driven by our investments in the growth drivers of MultiPay and PayPoint One and reassessment of the useful lives of some intangible assets.

The inclusion of Payzone has also resulted in our average yield per site (calculated as net revenue from Retail networks divided by the average number of sites in the year) reducing by 10% for the year ended 31 March 2018.

Network costs

Network costs of £66.6 million¹ were £5.0 million lower than last year of £71.6 million² as a result a £7.3 million reduction in costs following the sale of the mobile payments business offset partially by increased Retail networks' costs of £2.4 million.

Retail networks' costs increased £2.4 million from £64.2 million in 2016/17 to £66.6 million in 2017/18 driven by our strategic objectives to invest in profitable growth and improve our systems and processes to enhance our services provided to retailers specifically:

- Additional costs of £1.2 million from the acquisition and integration of Payzone Romania.
- Increased depreciation and amortisation of £2.2 million primarily from prior year investments in PayPoint One and MultiPay.
- PayPoint One deployment costs of £0.4 million.
- CRM Salesforce development costs of £0.8 million.
- Reorganisation costs of £0.4 million following our restructure of the development team in order to implement the new agile development process.

Other cost increases include:

- Increased amortisation of £0.8 million from a reassessment of the useful lives of some intangible assets.
- Increased net financing costs of £0.5 million from utilisation of the finance facility and its renewal on 29 March 2018.

Offsetting the above increases include:

- A £2.4 million benefit relating to a net VAT adjustment from the tribunal overturning the HMRC's ruling, £1.5 million relates to years prior to 2017/18.
- Sustainable cost efficiencies of £1.2 million allowing for the reduction of third party expenditure including signage and facilities costs.

Adjusted operating margin³

Adjusted operating margin of 44.4% improved 2.2 ppts (2017: 42.2%) primarily as a result of no longer including Mobile's losses.

Retail networks' operating margin has reduced by 0.6 ppts to 44.7% (2017: 45.3%) because of increased costs of £2.4 million exceeding net revenue growth of £2.0 million.

Payzone acquisition

Payzone SA in Romania was successfully acquired in October 2017 for an initial cash consideration of £1.4 million for the entire share capital and £0.9 million for an existing shareholder loan. This presents a step change opportunity for the Romanian business where both businesses can leverage from each other clients and integrate which will generate operational efficiencies. The integration is progressing with the Payzone employees operating from the Romanian head office and the data centre has been migrated with merging of the networks underway.

Following the fair value assessment of Payzone assets and liabilities, a net liability of £1.7 million was acquired and as a result, goodwill of £3.9 million was recognised. For the period since its acquisition to 31 March 2018 Payzone contributed £13.7 million revenue, £1.7 million net revenue and profit before tax of £0.3 million to the Group's results. Details of the acquisition are included in note 9 to the financial statements.

Profit before tax and taxation

The tax charge of £10.0 million (2017: £9.5 million) on profit before tax of £52.9 million (2017: £69.1 million) represents an effective tax rate⁴ of 18.9% (2017: 17.8%). This is marginally lower than the UK statutory rate due to overseas profits being taxed at local rates which are lower than the UK rate offset marginally by adjustment in relation to estimates made in prior years and disallowable expenditure. In the current year the statutory tax rate is the same as the effective tax rate at 18.9%. Last year's statutory tax rate was 13.8% with the profit on disposal of businesses not being taxable.

Statement of financial position and capital expenditure

Non-current assets of £54.2 million (2017: £47.6 million) increased by £6.6 million from last year driven by capital expenditure (£13.4 million) and the Payzone acquisition goodwill of £3.9 million. Current assets increased to £208.3 million from £152.2 million due to funds in the course of collection increasing £59.3 million due to year end falling over Easter weekend adding an extra two days of funds held by retailers. There is a corresponding increase in trade and other payables.

1. Comprising of £19.6 million other costs of revenue (see note 5 to the financial statements), administrative expenses £46.5 million and net financing costs of £0.5 million.

2. Comprising of £17.9 million other costs of revenue and administrative expenses £53.7 million.

3. Adjusted operating margin is calculated by dividing operating profits by the net revenue.

4. Effective tax rate is the tax cost as a percentage of operating profit before impairments and profits and losses on business disposals.

Financial review continued

Cash flow and liquidity

Cash generated by operations¹ before working capital movements was £65.1 million (2017: £61.1 million), reflecting strong conversion of profit to cash.

Net movement of working capital was an inflow of £8.8 million made up as follows:

- £5.4 million inflow from increased client funds.
- £3.6 million from the VAT tribunal ruling for receipts from clients being received in advance of the net payment to HMRC, this will reverse in the 2018/19 year.
- Underlying working capital in UK and Romania broadly flat.

Corporation tax of £10.3 million (2017: £8.6 million) represents payments on account and is in line with our current tax charge for the year. Capital expenditure of £13.4 million (2017: £17.5 million) consists of PayPoint One terminals, ATMs, EPoS, MultiPay and CRM developments.

Share incentive schemes which vested during the year absorbed £0.3 million (2017: £0.4 million). Dividends paid were £55.9 million (2017: £78.5 million) details of which are included in note 24 to the financial statements.

We have cash of £46.0 million (2017: £53.1 million) of which £27.5 million (2017: £20.2 million) is client cash. PayPoint successfully renewed its financing facility and increased it to £75 million which will expire on 29 March 2023. The facility was unutilised at year end.

The additional dividend and final dividend, if approved by shareholders, will utilise £37.5 million cash. The financial statements have been prepared on a going concern basis having regard to the identified risks and viability statement on pages 21 and 23. The Group's cash and borrowing capacity provides sufficient funds to meet the foreseeable needs of the Group including dividends.

Economic profit

PayPoint's own measure of economic profit (defined as operating profit excluding impairment and profit on disposals of businesses, less tax and a 10% capital charge on capital employed, excluding net cash or net debt), was £38.8 million (2017: £39.2 million).

Dividend

We propose to pay a final dividend of 30.6p per share on 30 July 2018 (2017: 30.0p) to shareholders on the register on 22 June 2018, subject to the approval of the shareholders at the annual general meeting together with the additional dividend of 24.5p per share. An interim dividend of 15.3p (2017: 15.0p) was paid on 21 December 2017, making a total ordinary dividend for the year of 45.9p per share (2017: 45.0p), up 2.0%. Dividends are paid from the standalone balance sheet of the Company which, as at 31 March 2018, had approximately £80.0 million of distributable reserves.

The current dividend payment profile of a one third payment in January and the final two thirds payment in July creates undue fluctuations of net cash balances during the year and so to more efficiently manage our working capital we will transition from 1 April 2019 to a programme of four equal dividends payable in July, September, December and March. This change will not alter the quantum of dividend that will be paid to shareholders within a financial year.

Rachel Kentleton

Finance Director

24 May 2018

1. Cash generation is operating cash flows before movements in working capital in note 29 to the financial statements

Principal risks and uncertainties

Since publication of the annual report last year, the Executive team has completed a thorough review of the key risks that could prevent PayPoint meeting its strategic objectives, its risk appetite, the risk management framework and the format for managing these risks and reporting to the Board. The Group's level of risk remains broadly the same as last year however, PayPoint's business, financial condition or operations could be materially and adversely affected by the risks summarised in the sections below.

| Risk area | Potential impact | Mitigation strategies |
|---|--|--|
| Business | | |
| Innovation and market changes | The Group could fail to adapt to changes in consumer behaviour or to commercialise and develop innovation that is scalable and meets the requirements of clients and retailers. The inability to implement new products and services effectively may impact PayPoint's ability to drive growth and profitability. | The Group monitors external technological and consumer trends through its monthly strategy committee and twice yearly Board strategy reviews. The Group is committed to continued research and investment in technology and products to support its continued growth. Our product portfolio and the progress of new initiatives are reviewed at the monthly product committee that contains representatives from commercial, product, technology, finance and legal. |
| Culture | The strategic objectives and values of the Group are focused on retailer and consumer-centric products and services. If employees are not aligned with these objectives or empowered to realise opportunities, deliver performance or mitigate risks this could lead to poor service quality, a loss in revenue, increased cost or failure by employees to escalate concerns or issues to senior management and the Executive Board. | The PayPoint strategic objectives and values are defined and advocated by the Executive Board. These values are linked to strategic, team and individual employee objectives and performance appraisals. The Group's ethical principles are published on its website and intranet. A whistleblowing policy and procedures are published and a third-party service if available for employees to report wrongdoing. The Retailer Pledge is published and all employees made aware of its requirements. |
| Dependence on key clients and retailers | The consolidation of major clients or multiple retailers could adversely affect revenue. Insolvency, liquidation, administration or receivership of retailers could lead to PayPoint being unable to recover some or all of the client monies processed by the retailer. PayPoint would be liable to account to those clients where PayPoint bears the risk of collection. | The Group monitors client and retailer concentration risk to ensure that no one client or retailer accounts for a disproportionate share of the Group's net revenue. In addition, the Group continues to acquire new clients and retailers to reduce reliance on existing sources of revenue. All major clients are covered by specific contracts or agreements. Contract end dates and start of notice periods are scheduled and regularly reviewed by client management teams. Retail teams maintain and develop the relationship with retailers. |
| Partners & suppliers | Reliance on third parties for the provision of key parts of the PayPoint services (e.g. Payment Service Providers) could lead to extended outages if the supplier fails to meet required SLAs or goes into administration. | The Group selects and negotiates agreements with strategic suppliers and agents based on criteria such as delivery assurance and reliability. Single points of failure are avoided, where practicable and economically feasible. Specifically, for our MultiPay product we are adding a second payment service provider which will enhance the resilience of the service. Controls are regularly reviewed and improved to minimise risk of retailer churn caused by financial loss to retailers through fraudulent third-party activity. Suppliers are selected on merit following tendering, procurement and due diligence processes. |

Principal risks and uncertainties continued

| Risk area | Potential impact | Mitigation strategies |
|--|--|---|
| Interruptions in processes and systems | <p>The Group's ability to provide reliable services largely depends on the efficient and uninterrupted operation of our computer network systems, financial settlement systems, data and call centres, as well as maintaining sufficient staffing levels. System or network interruptions, recovery from fraud or security incidents or the unavailability of key staff or management resulting from a pandemic outbreak could delay and disrupt our ability to develop, deliver or maintain our products and services, causing harm to our business and reputation and resulting in loss of customers or revenue.</p> | <p>Resilience is built into systems and contingency plans are in place should systems fail. These plans are exercised regularly. Programmes are in place to remove technical debt and to automate manual processes. Payment files are automatically imported into settlement systems. All payments are checked / authorised by nominated signatories. There is segregation of duties maintained between settlement & corporate accounts. Invoices are recorded and approved by authorised managers. Daily reconciliation of client settlement accounts and weekly reconciliation of PayPoint corporate accounts is carried out. Audited controls for supplier and client account set-up are in place.</p> |

Financial

| | | |
|---------------------|--|--|
| Liquidity & funding | <p>Capital might be required to finance investment, fixed assets, working capital, acquisitions or losses. If PayPoint does not perform to expectation or finance is not available from the market it may be necessary to reduce the scope of the Group's operations or anticipated expansion.</p> | <p>The Finance and Treasury policy sets borrowing limits with headroom allowed. A five-year revolving credit facility is in place. Cash resources are available but will be depleted by additional annual dividends of £25 million for five years. The ability to raise new funding is available via the stock market. Investor relations programme communicates company strategy, opportunities and results to the market and investors. Monthly business reviews and quarterly forecasts highlight any change in cash requirements. Cash flow reporting has been improved.</p> |
|---------------------|--|--|

Operational

| | | |
|---|--|--|
| Legislation or regulatory reforms and risk of non-compliance | <p>PayPoint is required to comply with relevant legal and regulatory requirements. Any breach of these obligations could lead to costly and damaging legal or corrective actions to return to compliance e.g. Health & Safety at Work Act, Data Protection Act / GDPR, Stock Market listing rules, Financial Conduct Authority requirements, anti-money laundering legislation, employment law etc. It could also lead to the prosecution of individual company officers or employees.</p> | <p>The Group's legal department works closely with senior managers to adopt strategies to educate legislature, regulators, consumer and privacy advocates and other stakeholders to support the public policy debate, where appropriate, to ensure regulation does not have unintended consequences over the Group's services. A central compliance department co-ordinates all compliance monitoring and reporting. Subsidiary managing and finance directors are required to sign annual compliance statements. A plan is in place to ensure that the Group is compliant with the requirements of the General Data Protection Regulations prior to the 25 May 2018 deadline.</p> |
| Cyber security, data protection, resilience and business continuity | <p>System or network interruptions, recovery from fraud or cyber security incidents or poorly implemented change 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. PayPoint's ability to provide reliable and secure services largely depends on the availability and uninterrupted operation of its network of retailer terminals, computer systems, financial settlement and key business processes.</p> | <p>Service delivery is constantly monitored with technical support teams in place to address service outages or errors. Contact Centre, Service Management and Technical Services Helpdesk are in place to assist with and resolve issues. Client Management and Retail Management teams are in place to interface with clients and retailers. Resilient systems are in place across the Group. Disaster recovery and business continuity plans are maintained and exercised regularly to ensure contingencies are in place in the case of failure.</p> |

| Risk area | Potential impact | Mitigation strategies |
|-------------------------------------|--|--|
| Attracting and retaining key talent | <p>Future success is substantially dependent on the continued services and performance of executive directors, senior management, competent and qualified personnel. The failure to attract the right candidates, loss of key personnel or failure to adequately train employees could damage the Group's business or lead to non-compliance with legal and regulatory requirements.</p> | <p>Effective recruitment programmes are on-going across all business areas, as well as personal and career development initiatives. The executive management reviews talent potential twice a year and retention plans are put in place for individuals identified at risk of leaving. Compensation and benefits programmes are competitive and reviewed regularly.</p> |
| Brexit | <p>The effect on inter-company transactions and the Group's international expansion plans may be adversely affected by the outcomes of the negotiations between the UK government and the other member countries during the UK's exit from the European Union.</p> | <p>Due to the current uncertainties with the Brexit negotiations the Group is still considering appropriate mitigation strategies. However, the bulk of the Group's operations and revenues are UK-based. Romania and Ireland will remain within the EU and are unlikely to be significantly affected by Brexit. Where issues are identified appropriate mitigations are being put in place.</p> |

Viability and going concern statements

As part of the risk monitoring programme the directors consider, annually, the Group's viability over a three-year period. The three-year period aligns with the Group's financial planning cycle and considering dynamics of the markets in which the business operates is an appropriate time horizon to use. The business activities, its performance, future development and market conditions described in the Chief Executive's review on pages 5 to 7 together with the principal risks set out above are considered in determining the Group's viability. The Group's viability is based on business plans with several different, but plausible, principal risks crystallising. These include:

- Business risk: Dependence on key clients and retailers – of the loss of large clients and retailers.
- Business risk: Innovation and market changes – slower than anticipated growth in retail services and a quicker than expected decline in the cash payments business.
- Operational risk: Impact of a technical event resulting in the temporary disturbance of usual operations.
- Financial: Liquidity & funding – impact on cash or financing facilities as a result of viability assessment scenarios.

In making the assessment, the directors have also considered the Group's robust capital position, its cash-generative nature and mitigating actions in the unlikely event of the above scenario materialising.

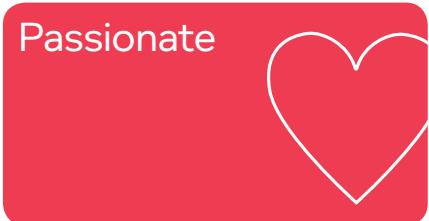
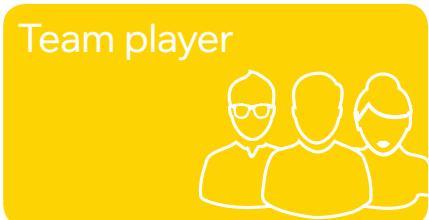
From this assessment, the directors have concluded the Company is a viable operation and therefore have prepared the financial statements on a going concern basis and they have a reasonable expectation that the Group will remain viable over the assessment period.

Environmental and social review

Our values

Our mission is to lead the market in the provision of products to consumer service companies and retailers, through innovative solutions and first class service.

We do this by living our six values, which together form the DNA of our culture. They guide our behaviour and interactions with all of our customers.



In addition to our twice yearly appraisal of our people against these values, we also recognise individuals who role model our values via our Annual Awards event and Monthly Values Award programme. Each month we reward an employee with a trophy, £200 worth of vouchers and the use of a premium car parking space.



Beth Hamilton & Reza Hotee

Beth and Reza were joint winners in July 2017, nominated for the Customer Focussed value for their work on the Amazon Top-Up project. Both received glowing feedback from the customer and internal colleagues. Beth for her management of the project where she ensured that the customer's requirements were at the heart of all decisions taken (and that any issues encountered along the way were quickly resolved and clearly communicated). Reza for his solutions-based approach which enabled him to clearly understand and navigate the customer's technical requirements (and quickly built trust as a technical partner).



Louise Pugh

Louise won in October 2017 and was nominated for the Team Player, Customer Focussed and Passionate values. Louise works in our parcels team and played a key role locating expired parcels for our clients. She is a positive role model to colleagues, ensuring that everyone is aware of correct procedures and encouraging everyone in the team to recover as many parcels as possible. She always tries to deliver her best and is a great asset to the team.

As the UK's leading bill payments and retail service provider we are aware of the impact we can have in society and on the environment. Our actions are guided by our six values which remind us of the positive impact we can have on retailer's clients, employees and wider society by being "customer focussed" and "accountable" for our actions. We are committed to dealing fairly and with a high level of integrity with all our employees, retailers, clients, stakeholders and local communities. This report sets out our approach and the way we measure our success in dealing with each group of stakeholders.

Our employees

PayPoint employed, on average, 638 members of staff during the period. We aim to create a positive working environment that enables us to attract and retain a talented workforce. Employee turnover in the UK continued to decrease year on year as changes implemented in previous years were embedded. Turnover in Romania increased in the year, reflecting local market conditions and the evolution of the business following the acquisition of Payzone. Actions have been implemented to reduce regretted attrition.

Human rights

PayPoint supports fundamental human rights, such as the right to privacy, safety and to be treated fairly, with dignity and respect. Our employment standard sets out our commitment to good employment practices and the principles to govern the practices adopted in each of our businesses. All employees have a right to safe conditions of work, consideration of their welfare, fair terms of employment, reward and treatment, clarity and openness about what is expected.

Culture

PayPoint's culture of openness, honesty and accountability is an essential part of our success. Our values reinforce the culture and behaviours that we believe will enable us to continue to deliver innovative solutions and provide first class service to our customers. We are actively engaging with our people to bring the values to life in the work that we do. See our case study on page 24.

Engagement

PayPoint recognises that all our employees play a part in delivering the Group's performance. We are paying a one-off employee bonus in June 2018 in order to show appreciation for our employee's efforts over the last year.

We keep our people informed of company performance and new developments via formal business update meetings, staff briefings, regular team meetings and company newsletters. All employees are invited to participate in two meetings a year where the directors present the performance of the group. We are also establishing an employee forum to provide a communication platform for consultation on relevant business related issues and selected Board matters.

PayPoint invites employees to complete an annual engagement survey in order to encourage two-way communication and co-create action plans to enable the business to continually improve. 88% of UK employees participated in the 2017 survey and we achieved an overall engagement score of 67%, compared with 68% in 2016, a solid result as we continue to transform our business.

| | UK | Rest of the world | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | Year ended 31 March 2018 | Year ended 31 March 2017 | Year ended 31 March 2018 | Year ended 31 March 2017 |
| General | | | | |
| Number of staff employed during the period | 462 | 469 | 176 | 191 |
| Length of service | 5 years | 5 years | 4 years | 4 years |
| Staff turnover during period | 23% | 29% | 47% | 27% |
| Sickness absence rate | 2.01% | 2.5% | 1.5% | 2.0% |
| % working part-time | 9.25% | 10% | 12% | 6% |
| Gender diversity | | | | |
| Number of women employed | 183 | 198 | 94 | 87 |
| % of all employees | 40% | 42% | 53% | 46% |
| Number of men employed | 279 | 271 | 83 | 104 |
| % of all employees | 60% | 58% | 47% | 54% |
| PayPoint plc directors | | | | |
| Number of women employed at 31 March 2018 | 2 | 2 | — | — |
| % of PayPoint plc directors | 29% | 22% | 0% | 0% |
| Number of men employed at 31 March 2018 | 5 | 7 | — | — |
| % of PayPoint plc directors | 71% | 78% | 0% | 0% |
| Senior management¹ | | | | |
| Number of women employed | 3 | 2 | — | — |
| % of senior management | 43% | 27% | 0% | 0% |
| Number of men employed | 4 | 6 | 1 | 1 |
| % of senior management | 57% | 73% | 100% | 100% |
| Ethnic minorities² | | | | |
| % of all employees | 31% | 31% | N/A | 11% |
| % of management grades | 21% | 18% | N/A | 5% |
| Disabled employees | | | | |
| % of all employees | 1% | 1% | 0% | 0% |
| Age profile | | | | |
| Employees under 25 | 51 | 47 | 20 | 22 |
| Employees 25 to 29 | 78 | 79 | 26 | 28 |
| Employees 30 to 49 | 262 | 269 | 122 | 133 |
| Employees 50 and over | 71 | 74 | 8 | 9 |

1. Senior management includes the Group Executives and Managing Director, PayPoint Romania

2. Data not recorded by Romanian business

Environmental and social review continued

We are currently upgrading our buildings in Welwyn to provide better facilities, including quiet spaces and the gym, to improve productivity and wellbeing, addressing feedback received in the survey. Romania employees did not participate in the survey in 2017 due to the timing of the Payzone acquisition.

PayPoint operates a Share Incentive Plan to enable all UK employees to share in the success of the Company. 43% of employees actively participate in this plan, an increase from 40% in the prior year.

People development

Performance and talent management processes are in place to ensure a continued focus on high performance and people development. All employees formally discuss their performance and development with their manager twice a year and individual performance has a direct influence on pay review and bonus outcomes. We hold consistency meetings to ensure that employees are rated fairly and that the overall spread of ratings reflects the performance of the Company. Training is undertaken locally based on individual and business needs. Managers attend a two day Management Development Workshop to ensure that they develop the skills that they need to manage their people effectively, and in 2017 we supplemented this with change management training to support managers as we continue to transform the business. 50% of our annual training budget is reserved exclusively for IT training to ensure that our IT employees continue to develop the technical skills that they need to develop and maintain PayPoint's innovative retail technology solutions.

PayPoint is committed to supporting the development of entry level talent via apprenticeships and increased the number of apprentices in our IT function during the year.

Diversity

PayPoint values diversity and offers an environment where all are treated equally and which is free from discrimination in respect of gender, ethnicity, religion, sexual orientation, age or disability.

43% of our employees are female and the representation on the Executive Board is 43% with three women on a board of seven members. We published our first gender pay report in March which can be found on our website www.corporate.paypoint.com¹

PayPoint is committed to treating applicants with disabilities equally and supporting people who become disabled during their career with the Company. This includes making reasonable adjustments both to the recruitment process for applicants and to the working environment for employees, in order that they can achieve their full potential.

PayPoint has the following policies in place:

Equal opportunities

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

Whistleblowing

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

1. <http://corporate.paypoint.com/investor-centre/csr/about-our-people>

Health and safety

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

Disciplinary and grievance procedures – we provide a fair and consistent method of dealing with disciplinary problems and treat misconduct with appropriate action. We ensure that we treat any grievance an employee may have relating to their employment in a fair and reasonable manner.

Bullying and harassment – we promote a working environment free of harassment and individuals who believe that they are being subjected to any form of harassment are encouraged to come forward to have the issue resolved.

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

Our retailer and consumers

We have approximately 50,000 retailers in UK, Ireland and Romania and provide a service to millions of consumers.

We seek to provide an unparalleled service to our retailers and consumers which is achieved by the use of our stable, reliable technology and the broad range of services to help retailers run their businesses more efficiently and generate consumer footfall in communities they serve

In the UK, terminal availability is over 99% and when a terminal needs to be replaced, it is achieved within four hours across the UK in 98% of cases. The breadth of products offered by PayPoint is greater than any other network. We also carry out regular surveys with our retailers, via a third party to understand how we can improve our service and hold regular forums with our independent retailers on a national and regional level several times a year. Major multiple retailers have regular review meetings with dedicated account managers.

Our clients

We have over 400 end user clients including those via reselling arrangements.

We can assist clients by providing convenient services for consumer payments with a high standard of service and open communication. Our contracts with client contain clear obligations with respect to the services being provided underpinned by measurable service levels which are set to ensure a high standard of service provision. Specific performance is measured for key elements, including system and service availability, file delivery and funds settlement.

We have dedicated account managers for major clients who undertake regular review meetings.

Local communities

We support the communities where our employees live and work by providing them with the financial support they need to serve their causes.

PayPoint has a charity committee made up of employee volunteers which provides support, funded by the Company, to fundraising activities carried out by our employees for charities which are important to them. During the year, PayPoint donated £16,000 to over 20 local and national charities, which was supplemented by funds raised by employees themselves.

PayPoint is an Enterprise Advisor to a local secondary school to support their students with the transition from school to the workplace. During the year we supported a number of activities including interview practise, career fairs and work shadowing.

We offer our network to collect for certain charities free of charge, including the BBC's Children in Need telethon. 85% of PayPoint's ATM network is 'speech-enabled', the largest proportion of an independent network in the UK.

Shareholders

We had 622 shareholders as at 31 March 2018. We aim to maximise shareholder return by setting the appropriate internal targets for management which is to focus on maximising economic profit.

We publish results twice each year and provide two interim management statements, complying with reporting and disclosure obligations. Shareholders are invited to attend the annual general meeting and executive directors meet with major shareholders twice a year to discuss the Group's results.

Environment

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

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

The two primary sources of PayPoint's carbon emissions are energy consumption and business travel. We visit existing and prospective retailers in the UK, Ireland and Romania. Routes are pre-planned to ensure efficiency where possible. Management regularly visits our businesses to review and improve performance but aim to avoid unnecessary travel. Energy consumption arises from our offices in the UK and Romania. We have a cycle to work scheme to encourage less motor vehicles and encourage electronic documents to reduce unnecessary printing, including our board papers.

PayPoint's services help consumers to reduce the number of unnecessary car journeys through the convenience of our outlets which are usually available within a short walking distance.

We recycle wherever possible, including paper, cans, plastic cups, cardboard, toners, print cartridges and computer equipment.

We have also improved our approach to waste management with the following initiatives undertaken during the year:

- Installation of LED lights throughout our head office which will reduce energy consumption.
- The replacement of drink vending machines from all sites which has eliminated a significant portion of single-use plastic cups waste. These were replaced with efficient hot water fountains and reusable cups, mugs and drinking glasses.
- Reducing waste to landfill with more office mixed recycle collection points throughout the offices. extending our recycling to include waste food and improved signage around collection points to encourage better recycling.

GHG emissions and waste

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

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

The methodology used to calculate our emissions is based upon the Environmental Reporting Guidelines: including mandatory greenhouse gas emissions reporting guidance (June 2013) issued by DEFRA which make it clear that, in most cases, whether an operation is controlled by the organisation or not does not vary based on whether the financial control or operational control approach is used. The 2013 UK Government GHG Conversion Factors for Company Global GHG emissions in the year reduced to 1,884 tCO₂ from 2,173 tCO₂ in 2017/18. Key drivers of the reduction:

- Mobile business greenhouse gas emission no longer part of the Group, offset by including Payzone.
- Transition of our Hatfield and head office data centres to hosted sites.
- The initiatives described above (LED lighting and drinks vending machines).

| Impact | Units | Year ended 31 March 2018 | Year ended 31 March 2017 |
|--|--------------------------|--------------------------------|--------------------------------|
| Scope 1 (direct emissions from fuel combustion) | tonnes CO ₂ e | 435 | 373 |
| Scope 2 (indirect emissions from purchased electricity, heat and cooling) | tonnes CO ₂ e | 922 | 1,120 |
| Scope 3 (business travel, waste ² and water) | tonnes CO ₂ e | 527 | 680 |
| Total | | 1,884 | 2,173 |
| Intensity measurement: Total tonnes of CO ₂ e per employee ¹ | | 3.0 | 3.3 |

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

2. Includes waste from UK and Ireland. Romania does not track waste.

| Waste | Year ended 31 March 2018 (tonnes) | Year ended 31 March 2017 (tonnes) |
|-------------------|--|--|
| Landfill | 21.6 | 23.0 |
| Recycled | 21.1 | 17.4 |
| Total | 42.7 | 40.4 |
| % recycled | 49.5% | 43.1% |

Renovation of our unit 2 building has increased our overall waste tonnage however internal initiatives have improved our ratio of recycled to landfill waste.

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

Dominic Taylor
Chief Executive
24 May 2018

Corporate governance report

Chairman's statement on governance



Dear Shareholder,

Overview

During the year one of the key priorities of the Board was to monitor progress made in reshaping the PayPoint business to focus on growth opportunities in retail services. The aim was to ensure that in accordance with the Board approved restructuring programme, the agreed strategic objectives remained on course for delivery. This effective and coordinated oversight of the strategic direction of the business is made possible by the high standard of governance applied by the Board in this area and in all aspects of its remit, and which in turn is embedded across the PayPoint organisation. Therefore I am pleased to present this corporate governance report on behalf of the Board which describes the Board's activities during the year and shows how it remains committed to good governance that enhances performance and protects shareholders and other stakeholders.

Stakeholders

We as a board are aware and are in support of the FRC's proposed refresh of the UK Corporate Governance Code around improved stakeholder engagement, and the Board continually seeks to foster a corporate culture within PayPoint that positively impacts on its stakeholders. An example of this is the system put in place by management to measure retailer sentiment in order to create a customer-centric environment and better engage with retailers. In recognising that the retailers are key stakeholders of PayPoint, the Board at its recent strategy session endorsed the programme of engagement with retailers and the defined actions for improvement of retailer relationships.

Employees are at the 'heart' of the business in the role they play in delivering the Group's performance, and the Board oversees the continuous drive towards a positive working environment that is free from all forms of discrimination and in which diversity is valued. In accordance with regulatory requirements, the Gender Pay Gap Report for PayPoint was recently published. The report identified a pay gap which in itself is reflective of the technology industry and highlights that there are more men than women in higher paid roles across the organisation. Nevertheless commitments have been made and actions will be taken, as set out in the report, to reduce the pay gap in the short term and ultimately close the gap over time. (The full PayPoint Gender Pay Gap report is available on the PayPoint corporate website – www.corporate.paypoint.com¹).

The Board welcomes meaningful engagement with shareholders, and throughout the year receives reports and feedback on investor roadshows carried out by the executive directors (see page 40 for details of such activities). Furthermore, a perception survey of investors was recently commissioned to enhance the Board's understanding of shareholder sentiment and feedback.

The Board remains fully aligned to ongoing engagement with shareholders and other stakeholders and acknowledges the importance of such engagement in ensuring stakeholder views and perspectives are properly understood and taken into consideration in board decisions. This will continue to be a key focus for the Board in the new financial year.

Evaluation

In accordance with the provisions of the UK Corporate Governance Code (the Code), an externally facilitated evaluation of the Board and its formal committees was undertaken in the year. In summary the outcome of the evaluation was positive, with the Board and its committees shown to be operating effectively. There were some areas for improvement highlighted in the evaluation report which the Board discussed and agreed on the actions to be taken. Details of the evaluation are on page 39.

Board changes

Tim Watkin-Rees retired as Business Development Director and board member at the end of the financial year under review. Tim was a founder director of PayPoint and joined the board of PayPoint plc in 1998. He was responsible for business development throughout the history of PayPoint. Having stepped down from the Board, Tim will remain as an employee and will continue to play an important role in the activities of the Group in the role of Founder. On behalf of the Board, I thank Tim for his dedicated service, and the Board is grateful for the continued benefit of Tim's expertise in his ongoing role.

As was reported in last year's annual report, Neil Carson and David Morrison stepped down from the Board and Rakesh Sharma joined the Board during the year. Details of the comprehensive induction program undertaken by Rakesh in the weeks following his appointment to the Board are on page 38.

1. http://corporate.paypoint.com/downloads/csr/gender_pay_report.pdf

It is acknowledged that in the period between Neil Carson stepping down from the Board in May 2017 and David Morrison's retirement in July 2017, the composition of the Board was not compliant with the letter of the Code because the independent non-executive directors made up less than half of the Board. However subsequent to David's retirement the composition of the Board till date remains compliant with the provisions of the Code.

Taking the various changes to the Board's composition during the year into consideration, the Board has determined that the balance of skills, knowledge and experience on the Board are appropriate for the size of the business.

Board committees

This corporate governance report includes reports of the nomination and audit committees on pages 41 and 43. The report of the Remuneration Committee is set out in the remuneration report on page 49. In accordance with the Code, the Board delegates certain roles and responsibilities to these committees as defined in their terms of reference, but continues to retain overall responsibility for these delegated authorities. One of the key areas considered during the year by the Audit Committee under the auspices of the Board, were the risks associated with cyber security. The in depth discussions around these risks led to the establishment of a Cyber Security and Information Technology sub-committee of the Audit Committee. Details of the purpose and responsibilities of this sub-committee are on page 45.

Other key activities of the committees during the year as detailed in the individual committee reports include: Audit Committee – risk management and internal controls, and the audit tender and appointment process (see page 44); Nomination Committee – succession planning (see page 42); and Remuneration Committee – application of the shareholder approved remuneration policy for the year under review (see page 58).

Conclusion

The Corporate Governance Report, the Remuneration Report and the Directors' Report have been written with the aim of providing shareholders with a comprehensive understanding of how the Board and its main committees operate within the governance framework of the organisation, and how the requirements of the Code have been met.

The Board remains committed to maintaining open dialogue with shareholders and we look forward to meeting with shareholders who are able to attend our forthcoming annual general meeting.

Nick Wiles
Chairman
24 May 2018

Corporate governance report continued

Board of directors



1. Nick Wiles

Non-executive Chairman

Appointed to the board 22 October 2009

Appointed as Chairman 8 May 2015

Experience

Nick retired as Chairman of UK Investment banking at Nomura in 2012 after more than 25 years in investment management and banking. His career started as an analyst and fund manager at Mercury Asset Management before moving to Cazenove, where he spent the majority of his career and was a partner prior to incorporation and a vice chairman of JP Morgan Cazenove. He was a non-executive director of Strutt & Parker from 2003-2014, and is currently Senior Independent Director at Primary Health Properties plc.

Key skills and competencies

Investment banking, Corporate Finance, Equity Markets, Investor Sentiment

3. Gill Barr

Independent non-executive director

Appointed 1 June 2015

Experience

Gill has held senior strategy, marketing and business development positions at John Lewis, Kingfisher, MasterCard and KPMG. Most recently she was Group Marketing Director for The Co-operative Group. She was a non-executive director of Morgan Sindall plc for eight years and now has a portfolio of non-executive directorships. She is a non-executive director on the boards of N Brown Group plc and Wincanton plc. In addition, she is a Trustee Director for Willis Towers Watson's master trust, LifeSight Ltd. She is the Chair of the Customer Challenge Group for Severn Trent Water plc.

Key skills and competencies

Marketing, Strategy, Retail

5. Giles Kerr

Senior Independent director

Appointed 20 November 2015

Experience

Giles was formerly National Partner with Arthur Anderson & Co and previously held a number of positions with Amersham plc within finance and corporate development, culminating in his role as Group Finance Director and board member. Giles is Director of Finance of Oxford University and is a non-executive director of BTG plc, Senior plc, Adaptimmune Therapeutics plc and Arix Bioscience plc.

Key skills and competencies

Corporate Finance, Accounting, Risk Management

2. Dominic Taylor

Chief Executive

Appointed 4 August 1998

Experience

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

Key skills and competencies

Strategy, Business Development, Leadership

4. Rakesh Sharma OBE CPhys FREng MInstP

Independent non-executive director

Appointed 12 May 2017

Experience

Rakesh started his career as an electronic design engineer at Marconi in 1983, before moving to Dowty as Chief Engineer in 1989. He was appointed Marketing Director of that business in 1993, when Ultra Electronics (Ultra) was formed. Rakesh managed businesses and divisions across the full range of Ultra's wide portfolio, with consistent success in driving growth in the Ultra group. He became Chief Executive of Ultra in 2011, a position which he held until 2017.

Key skills and competencies

Cyber Security, Information Technology, Executive Management

6. Rachel Kentleton

Finance Director

Appointed 3 January 2017

Experience

Rachel is a qualified accountant and has held a number of finance and investor relations roles at Unilever, NatWest, Diageo and SABMiller. Prior to joining PayPoint, Rachel was Group Director, Strategy & Implementation at easyJet. Rachel is also a non-executive director of Persimmon plc, where she is chair of the Audit Committee and a member of the risk and Nomination Committees.

Key skills and competencies

Finance, Strategy, Investor Relations, Risk Management

Corporate governance report continued

Leadership team



1. Dominic Taylor**Chief Executive**

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

3. Rachel Kentleton**Finance Director**

Rachel joined PayPoint in January 2017. Rachel is a qualified accountant and has held a number of finance and investor relations roles at Unilever, NatWest, Diageo and SABMiller. Rachel's most recent role immediately prior to joining PayPoint was as Group Director, Strategy & Implementation at easyJet. Rachel is also a non-executive director of Persimmon plc, where she is chair of the Audit Committee and a member of the Risk and Nomination Committees.

5. Jon Marchant**Chief Information Officer**

Jon joined PayPoint in early 2011 and is responsible for all aspects of IT management and retail operations within the business. An experienced IT and operations leader and change specialist, he has worked in several bluechip financial services and retail organisations during his career including Halifax, Co-operative Group, Capital One and Scottish Widows.

7. Lewis Alcraft**Commercial Director**

Lewis was appointed to his current role of Commercial Director in 2015 and leads PayPoint's broader commercial agenda, across retail and client partners. On joining the business in 2007, Lewis led PayPoint's relationship with BBC TV Licensing, before moving on to various roles including heading PayPoint's product and client teams.

Prior to PayPoint Lewis was a senior client manager at CPM, a marketing agency within the Omnicom group of companies.

2. Tim Watkin-Rees**Founder**

Tim was a founder director of PayPoint in 1996 and recently stepped down from the plc Board after 22 years as Business Development Director. He continues to drive innovation in PayPoint in his new role as Founder. He previously worked in retail banking and payments with Lloyds Bank, KPMG Management Consultants and Nexus (later Sligos and now Atos). He is an Associate of the Chartered Institute of Bankers.

4. Susan Court**Head of Legal****Company Secretary**

Susan joined PayPoint in 1999 as sole in-house counsel, directly from private practice, and has been responsible for the legal and regulatory aspects of the PayPoint group throughout her tenure.

Having been directly involved in the PayPoint IPO in 2004, Susan has been responsible for establishing an in-house legal team and ensuring its full integration into the PayPoint group in order to service rapid growth and change in the business while taking account of the ever-evolving regulatory payments landscape.

6. Katy Wilde**Human Resources Director**

Katy joined PayPoint as HR Director in 2012 with responsibility for the development and implementation of our people agenda. Prior to joining PayPoint Katy worked for RSA Insurance Group where she held a number of senior business partnering roles in the UK and latterly in the Emerging Markets business where she was responsible for ensuring the delivery of the HR agenda across 22 countries in Central and Eastern Europe, Asia, the Middle East and Latin America.

Prior to that Katy spent seven years at General Electric where she held HR roles in both their consumer finance and insurance businesses. Katy has a degree in International Business and Modern Languages from Aston University and is a Chartered Member of the CIPD.

8. Mugur Dogariu**Managing Director, PayPoint Romania**

Mugur has been Managing Director of PayPoint Romania since August 2008 and has overseen impressive growth in the retail network to over 11,000 stores across Romania, as well as transaction growth from over 1 million in 2008/2009, to 75 million in 2016/17.

Mugur previously held senior management roles in sales and marketing for Nestle, Rhone Poulen, Renania Trade and Interbrands Marketing & Distribution. Mugur holds an Executive MBA from ASEBUSS and The Kennesaw State University, as well as a Professional Certificate in Management from the British Open University and a degree from the University of Agronomic Sciences and Veterinary Medicine of Bucharest.

Corporate governance report continued

Compliance statement

The Board considers that throughout the year under review, it has complied with the principles and provisions of the April 2016 version of the UK Corporate Governance Code (the Code) as issued by the Financial Reporting Council, with the exception of the period between May 2017 and July 2017 where less than half of the Board, excluding the Chairman comprised independent non-executive directors. The reason for the deviation from Code provision B1.2 for the short period during the year under review is as explained on page 29. A copy of the Code can be found at www.frc.org.uk¹

This report describes how the principles of corporate governance in the Code have been applied by the Company.

The Board

The Board is collectively responsible for the long term success of the Company and provides effective leadership by setting the strategic aims of the Company and overseeing the efficient implementation of these aims in order to achieve sustainable growth of the business. The Board delegates certain roles and responsibilities to board committees and to the Chief Executive

Leadership

Corporate governance structure

The Board provides effective leadership to the Group within a wider corporate governance framework with clearly defined roles and responsibilities as illustrated in the chart below. The governance framework supports the rigorous challenge by the Board of strategy, performance and accountability, which encourages the proper implementation of the strategic aims of the Company. This results in the growth of the business, and protection of the interests of shareholders and wider stakeholders.

Audit Committee

- Assists the Board in oversight of financial results, internal control and management of risk and compliance.
- Maintains an appropriate relationship with the external and internal auditors.

Read more on page 43.

Nomination Committee

- Reviews structure, size and composition of the Board and oversees succession planning for the Board.
- Identifies and nominates candidates to the Board taking into account experience, diversity and expertise.

Read more on page 41.

Cyber Security and IT sub-committee

Established during the year as a sub-committee of the Audit Committee. It oversees cyber security and information technology matters pertaining to the Group, and reports to the Audit Committee. Its membership comprises two non-executive directors, the Finance Director and the Chief Information Officer. Read more on page 45.

Chief Executive

The Chief Executive is responsible for running the Group's business and in doing so, he delegates authority to the Executive Board, to the Managing Director and Finance Director of PayPoint Romania and to the Managing Director and Finance Director of PayPoint Payment Services Limited. His roles and responsibilities are on page 37.

PayPoint Romania

PayPoint Romania is headed by a managing director who together with the Finance Director form the management team of the business. They are responsible for the day-to-day operation of PayPoint Romania. The managing director reports to the Chief Executive.

Executive Board

The Executive Board is headed by the Chief Executive and comprises the Finance Director, Chief Information Officer, Commercial Director, HR Director, Company Secretary/Head of Legal and Founder. The Executive Board is responsible for the day-to-day management of the Group's operations (excluding PayPoint Romania and PayPoint Payment Services Limited). Matters overseen by the Executive Board include: risk management; annual budget for the business; strategy proposals and the implementation of strategic plans and other decisions as approved by the Board. The Board oversees the activities of the Executive Board.

Remuneration Committee

- Ensures the remuneration policy supports the strategy by attracting, motivating and retaining the right calibre of people.
- Exercises discretion on remuneration issues in line with policy.

Read more on page 49.

Market Disclosure Committee

Oversees the disclosure of information by the Company to ensure that it meets its obligations under the Market Abuse Regulations. Its members are the Chief Executive, the Finance Director and the Company Secretary.

PayPoint Payment Services Limited (PPSL)

PPSL is the FCA regulated entity of the Group which is authorised as a payment institution to provide regulated payment services (including certain cash-out services) under the Payment Service Regulation 2009. The Managing Director of PPSL reports to the Chief Executive.

1. <https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx>
2. <https://paypoint.com/documents/20170726-delegation-of-authority-v2.pdf>

Meetings

The Board and its committees meet regularly throughout the year with meetings scheduled around key dates in the Company's corporate calendar, and where necessary to consider key corporate transactions or events that may arise. There were eight scheduled meetings during the year under review, six of which were full board meetings and two were held by telephone conference. The meetings held by telephone conference were to consider and approve trading update statements.

In addition, the Board held two strategy sessions during the year. The first was a two-day strategy session which was combined with scheduled board and board committee meetings in September 2017 and held at the PayPoint offices in Romania. Aside from the in depth consideration and

debate of the strategy which was the purpose of this two day session, it was an opportunity for the Board to visit the business in Romania, and to interact with the executive board and senior management who were involved in presenting the strategy. The second strategy session was a half day update session, held in February 2018, and was also combined with scheduled board and committee meetings. The purpose of this session was for the Board to be updated on strategy and to monitor progress against the strategy.

The table below shows directors' attendance of board and committee meetings. Where a director is unable to attend a particular meeting, he or she receives and reads the papers for consideration at that meeting, and provides input through discussion with the Chairman of the Board or the chairman of the relevant committee, in advance of the meeting.

| Directors' meeting attendance 2017/18 | Membership of committees | | | Board | | Audit Committee | | Nomination Committee | | Remuneration Committee | |
|---------------------------------------|--------------------------|------------|--------------|-------------------|----------------------------|-------------------|----------------------------|----------------------|----------------------------|------------------------|----------------------------|
| | Audit | Nomination | Remuneration | Meetings attended | Maximum possible to attend | Meetings attended | Maximum possible to attend | Meetings attended | Maximum possible to attend | Meetings attended | Maximum possible to attend |
| Non-Executive Directors | | | | | | | | | | | |
| Gill Barr | ■ | ■ | ■ | 8 | 8 | 6 | 6 | 2 | 2 | 2 | 2 |
| Neil Carson ¹ | ■ | ■ | ■ | 1 | 1 | 1 | 1 | — | — | 1 | 1 |
| Giles Kerr | ■ | ■ | ■ | 8 | 8 | 6 | 6 | 2 | 2 | 2 | 2 |
| David Morrison ² | | ■ | | 2 | 3 | 1* | 1* | — | — | 1* | 1* |
| Rakesh Sharma ³ | ■ | ■ | ■ | 7 | 8 | 5 | 6 | 2 | 2 | 2 | 2 |
| Nick Wiles | | ■ | ■ | 8 | 8 | 6* | 6* | 2 | 2 | 2 | 2 |
| Executive Directors | | | | | | | | | | | |
| Rachel Kentleton | | | | 8 | 8 | 6* | 6* | — | — | — | — |
| Dominic Taylor | | | | 8 | 8 | 6* | 6* | 2* | 2* | 2* | 2* |
| Tim Watkin-Rees ⁴ | | | | 8 | 8 | 6* | 6* | — | — | — | — |

* By Invitation - The executive directors are not members of any of the Board committees and they attended only the committee meetings to which they were specifically invited.

David Morrison was not a member of the Audit and Remuneration Committees and he only attended meetings of these committees to which he was specifically invited.

1. Neil Carson stepped down from the Board on 26 May 2017.

2. David Morrison stepped down from the Board on 26 July 2017. He was unable to attend a meeting of the Board at which the first quarter trading update was considered.

3. Rakesh Sharma was unable to attend one board meeting and one meeting of the Audit Committee.

4. Tim Watkin-Rees stepped down from the Board on 31 March 2018.

Corporate governance report continued

The Chairman sets the agenda for the Board and ensures that adequate time is available for discussion of all agenda items, including strategic issues. He ensures that informed decisions are reached in an effective manner by facilitating open discussion and debate of agenda items by board members. Consultations with management and with external advisers are held when necessary to aid the Board's decision making process. The table below shows the key areas of board activity during the year.

| | |
|---|--|
| Strategy | <ul style="list-style-type: none"> Two strategy sessions were held in the year: <ul style="list-style-type: none"> A two-day session was held at PayPoint in Romania in September 2017 at which members of the Executive Board and senior UK management team gave presentations to the Board on the following key topics and areas of strategy: 5 year summary plan, cash & energy, retail landscape and Retail Services, PayPoint One and card payments, parcels, innovations, leadership, IT strategy, organisation design and financial resources. A half-year strategy update session was held in February 2018 at which the Board received updates on the progress made in implementation of the strategy including consideration of the outcome of a retailer survey that had been carried out since the last session. <p>At both sessions sufficient time was allocated for challenge and debate of the strategy by the Board.</p> |
| Internal Control and Risk Management | <ul style="list-style-type: none"> Established a Cyber Security and Information Technology sub-committee of the Audit Committee. Approved the renewal of insurance policies for the Group. <p>Risk management and oversight of internal controls are delegated by the Board to the Audit Committee which reports regularly on its activities to the Board (please refer to the Audit Committee report on page 43 for more on the committees' activities on risk management and internal controls).</p> |
| Business performance and Financial Reporting | <ul style="list-style-type: none"> Approved the annual report and preliminary results announcement. Approved the half year financial report. Discussed the 1st and 3rd quarter trading updates and approved these updates for release to the market. Reviewed management presentations to analysts for the full and half year results. Received and discussed proposals for a move to quarterly dividend payments. Considered and approved the plan for financial year 2018/19. Reviewed Group forecasts which were updated for every quarter of the year and scrutinised the risks and opportunities built into these forecasts. Received monthly management accounts ahead of every full board meeting. Received management reports from the Chief Executive at every full board meeting, on general business operations and key strategic progress updates including areas such as: parcels, PayPoint One, client contracts and contract renegotiations, progress updates on the integration of a CRM system and general business trading updates for PayPoint UK & Ireland and Romania. Received updates on the Group's Information Technology systems. |
| Governance | <ul style="list-style-type: none"> Received board committee reports on the committee meetings which were usually held prior to the Board meetings, and included updates and recommendations on matters that had been delegated to the committees, some of which required board approval. Considered and recommended the final dividend for shareholder approval at the annual general meeting. Approved the notice of annual general meeting. Discussed and approved a new revolving credit facility for the Group of up to £75 million with additional £20 million accordion option. Considered and approved updates to the Board's delegated authorities. Considered the recommendation from the Audit Committee to appoint KPMG as external auditors. See page 45 of the Audit Committee report for details of the audit tender and subsequent appointment. Reviewed investor feedback from the full and half year roadshows. Approved the Slavery and Human Trafficking statement of the Board for 2017. Reviewed the directors' conflicts of interest register. Appointed an independent external board evaluator to carry out an evaluation of the Board and its main committees, and subsequently reviewed the evaluation report. Received updated shareholder analysis summary reports ahead of every full board meeting. |
| People | <ul style="list-style-type: none"> Reviewed the Group health and safety report at each full board meeting which covered any health and safety incidents that may have occurred and the actions taken in that respect, including any updates on previous actions. Received and discussed a report on staff turnover across. Approved Rakesh Sharma's appointment to the Board and accepted Neil Carson's and David Morrison's resignations from the Board. Considered and approved Tim Watkin-Rees' stepping down from the Board including his continued employment with the Company in the role of Founder. Reviewed the PayPoint Gender Pay Gap report and approved the commitments and actions therein, prior to publication of the report. |

Division of roles and responsibilities

There is clear and effective division of roles and responsibilities on the Board as shown below.

Board Leadership

Chairman – Nick Wiles

Nick Wiles is responsible for the effective running of the Board and for ensuring that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives. On his appointment, he was considered by the Board to be independent in character and judgment in accordance with the Code. His other main responsibilities include:

- Setting the Board's agenda and ensuring the Board receives accurate, timely and clear information on all matters reserved to its decision and on the Group's performance and operations.
- Ensuring compliance with the Board's approved procedures.
- Arranging informal meetings of the directors, including meetings of the non-executive directors at which the executive directors are not present, as required to ensure that sufficient time and consideration is given to complex, contentious or sensitive issues.
- Chairing the Nomination Committee, and, in that role, initiating change and succession planning to retain and build an effective and complementary board, and to facilitate the appointment of effective and suitable members and chairs of board committees.
- Ensuring effective communication with shareholders led by the Chief Executive and Finance Director, and ensuring that members of the Board develop an understanding of the views of major investors.
- Promoting the highest standards of integrity, probity and corporate governance at board level and throughout the Group.

Running the Business

Chief Executive – Dominic Taylor

Dominic Taylor is responsible for running the Group's business, and for proposing and developing the Group's strategy and overall commercial objectives, which he does in close consultation with the Chairman and the Board. He heads the executive board, the responsibilities of which are set out on page 34. His other main responsibilities include:

- Providing input to the Board's agenda and ensuring that the Executive Board gives appropriate priority to providing reports to the Board which contain accurate, timely and clear information.
- Implementing the agreed strategy with the support of the Executive Board.
- Ensuring that the Chairman is alerted to forthcoming complex, contentious or sensitive issues affecting the Group of which he might not otherwise be aware.
- Providing information and advice on succession planning, to the Chairman, the Nomination Committee, and other members of the Board, in respect of the Executive Board.
- Leading the communication programme with shareholders.

Finance Director – Rachel Kentleton

Rachel Kentleton is responsible for all financial reporting, tax and financial control aspects of the Group. As a member of the executive board she also provides support to the Chief Executive in the development and implementation of the strategy, and in the wider activities of the Group, as required.

Constructive Challenge & Independent Oversight

Senior Independent Director – Giles Kerr

Giles Kerr supports the Chairman in his role by acting as a sounding board for the Chairman and a trusted intermediary for other directors in resolution of any significant issues that may arise. His other main responsibilities include:

- Chairing the Nomination Committee when it is considering succession to the role of Chairman of the Board.
- Meeting with the non-executive directors at least once a year to appraise the Chairman's performance and on such other occasions as are deemed appropriate.
- Being available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.
- Having sufficient contact with major Shareholders and financial analysts to obtain a balanced understanding of the issues and concerns of such shareholders.

Non-Executive Directors – Gill Barr, Rakesh Sharma

The Non-Executive Directors bring a strong independent element to the Board, and provide constructive challenge and support to strategic and other matters addressed by the Board. They are expected to attend all scheduled board and committee meetings, and to devote such time as is necessary for the proper performance of their duties.

During the year, the Chairman held meetings with the non-executive directors without the presence of the executive directors. These meetings were held immediately following a full board meeting. There were no unresolved concerns about the running of the Company.

Board Support

Company Secretary & Head of Legal – Susan Court

Susan Court is the secretary to the Board and all its committees. She provides advice and assistance to the Board on corporate governance practices and development, as well as guidance on the legal and regulatory obligations of the Group. Her other responsibilities include:

- Supporting the Board and committee Chairs in annual agenda plan setting.
- Ensuring information is made available to the Board members in a timely fashion.
- Coordinating training requirements for the non-executive directors.
- Organising internal board and committee evaluations at the request of the Chairman.
- Membership of the Market Disclosure committee of the Board.

Corporate governance report continued

Effectiveness

Composition

The Board is composed of three non-executive directors, two executive directors and a non-executive Chairman. The directors have a broad range of skills, competencies and experience which gives them an understanding of the market in which PayPoint operates and enables them collectively, as a board, to discharge their responsibilities effectively. This balance of skill and independence on the Board creates an environment that encourages the effective challenge and development of the strategic aims of the Company. The biographies, including the key skills and competencies, of each of the directors can be found on page 31.

During the year under review, Rakesh Sharma joined the Board on 12 May 2017, and the following directors resigned from the Board: Neil Carson on 26 May 2017, David Morrison on 26 July 2017 and Tim Watkin-Rees on 31 March 2018. Further information on directors' appointment and resignations can be found in the Nomination Committee report on page 41.

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 made available at the annual general meeting.

The directors have disclosed all their significant external commitments which the Board has considered and is satisfied that all the directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively.

Independence statement

The Board considers its non-executive directors who are identified on page 31 to be independent. The Board has determined that each is independent in character and judgement, and is free from any business or other relationship which could affect the exercise of his/her judgement.

Induction

On joining the Board, all new directors receive a full, formal and tailored induction. Shortly after his appointment, Rakesh Sharma was given a corporate governance pack containing: the corporate structure of PayPoint, delegation of authorities and terms of reference, relevant PayPoint policies and procedures, and access to previous board minutes. Subsequently he received a comprehensive induction the purpose of which was to increase his knowledge of the Group's strategy, business, processes, people and financial control environment.

The induction involved meeting with members of the Executive Board and members of the senior management team in relevant functions across the business as follows:

| Function | Purpose |
|--------------------------|--|
| Finance and Risk | Finance overview and introduction to the teams. |
| Business Development | Overview of PayPoint's Products and introduction to the Product team. |
| Commercial | Overview of the Client, Retail, Sales and New Business functions and introductions to the teams. |
| Human Resources (HR) | HR overview and introduction to the team. |
| IT and Retail Operations | Overview of IT & Retail Operations and introductions to the teams. |

As part of the induction programme, Rakesh Sharma visited a local retailer who is part of the PayPoint network. He also visited PayPoint Romania during the two-day board strategy session, where he was given a tour of the business and met with members of staff. He met with shareholders at the annual general meeting following his appointment.

Training and support

Directors are provided with clear and accurate information on matters to be considered at the Board and its committee meetings. This information is provided in a timely manner to ensure an appropriate level of review by each director ahead of the meetings. In addition to board meetings, directors held board dinners during the year at which relevant items were identified beforehand and discussed in detail.

In the course of the year, the Board is briefed on any significant changes in the law, regulations, governance codes or developments within PayPoint which affect their roles both on the Board and on board committees. Experts and advisers are brought in as necessary to present to the Board or its committees on technical subject matters. For instance, the Remuneration Committee received a tailored briefing from its remuneration adviser, on the proposed changes to the UK Corporate Governance Code with reference to the possible impact on remuneration matters. The Company Secretary also provided updates to the Board and its committees on other governance matters, including regular updates on the processes put in place across the business for compliance with the General Data Protection Regulations.

The non-executive directors are provided with schedules of relevant training by external providers which they are encouraged to attend at their convenience.

The directors have access to the Company Secretary as well as members of the Executive Board and senior management, and they can also seek independent professional advice if this is deemed necessary for the proper performance of their duties.

Board evaluation

The Board carries out an evaluation of its performance and that of its committees every year and the evaluation is carried out by an external provider every third year in compliance with the Code. The actions from the last internal evaluation and the steps taken against the actions are set out below.

Actions from 2016/17 internal evaluation of the board

| Progress/Achievements |
|---|
| <ul style="list-style-type: none"> Proposed non-executive directors' only dinner with the Chairman as an opportunity for increased interaction between these directors. |
| <ul style="list-style-type: none"> Increased oversight of the performance of members of the Executive Board to ensure that they are equipped to deliver on the strategic plan. |

In the year, following a market review, Jon Edis-Bates of Edis-Bates Associates Limited was appointed to carry out an independent evaluation of the Board and its committees. Neither Mr Edis-Bates nor Edis-Bates Associates has any other connection with PayPoint.

Process for the 2017/18 external evaluation of the Board

Preparation:

Mr Edis-Bates held discussions with the Chairman and the Company Secretary to agree on the scope of the evaluation and the timetable of activities. Mr Edis-Bates was given access to board and committee minutes and papers as preparatory work for the evaluation.

Interviews:

Mr Edis-Bates conducted comprehensive interviews with each board director between December 2017 and January 2018. Each director had been sent a detailed questionnaire which they were requested to consider ahead of their interview session. The Company Secretary was also interviewed to gain a broader perspective.

Review:

An initial report on the output of the evaluation was prepared by Mr Edis-Bates and discussed with the Chairman and the Company Secretary.

Subsequently a report containing the outcome of the evaluation including observations and recommendations was prepared by Mr Edis-Bates and was presented to the Board by the Chairman at its meeting in March 2018. The Board considered and discussed the report. Prior to the Board's discussion of the report, the Chairman met with the executive directors and the non-executive directors separately to discuss the outcomes of the evaluation.

Separate reports were compiled by Mr Edis-Bates for individual participants.

Outcome of the external evaluation of the board

In the evaluation report, Mr Edis-Bates found that the Board is operating effectively. The report highlighted the areas of strength for the Board as being:

- The quality, format and regularity of the financial reports to the Board;
- The Board's clear strategy for the Group for the next three financial years;
- The time allocated for board discussion of the strategy, including the quality of the debate;
- The culture of openness and debate at board meetings which allowed for ideas, comments or concerns to be expressed freely by the directors to the board or management;
- The induction given to new board directors;
- The Board's familiarity with the Group's activities;
- The Chairman's handling of the Board agenda and the effectiveness of the company secretarial team; and
- The diversity on the Board.

The observations in the report on the areas for improvement included:

- Need for increased oversight by the Board of the implementation of the strategy;
- Greater involvement by the Board in setting the corporate culture and values; and
- Improvement in the quality of training information and opportunities for non-executive directors.

Actions

Following the Board discussions around the 2017/18 external evaluation report, the actions below were agreed by the Board based on the identified areas for improvement and the observations of Mr Edis-Bates:

Strategy:

- Continued update and development of the financial reporting information received by the Board, including further improvement of the consistency and quality of board strategy papers.
- Improvement of the process for monitoring, by the Board, of strategic implementation during the year, as well as a more detailed assessment along product/business lines such that the Board can clearly identify: performance/delivery against the plan, and the delivery of a greater level of executive ownership and accountability.

Board process:

- Encouragement of greater challenge and openness of board debate, including:
 - more discussions around potential alternative strategies;
 - devotion of greater board time to strategy discussions; and
 - allocation of time to broaden board discussions.
- Addition of one more full board meeting to the Board calendar, in January, to address the specific issues of:
 - business values, diversity and cultural change;
 - executive team development; and
 - formal update of NED training opportunities.

Board engagement:

- Increase in availability of opportunities for the Board to engage with management across the business.

Corporate governance report continued

The outcome of the external evaluation of the main committees of the Board and the agreed actions are set out in the individual committee reports on pages 41, 43 and 49.

Re-election

In accordance with the provisions of the Code all directors submit themselves for election or re-election at each annual general meeting. The Board's recommendations in respect of the re-election of each director can be found in the notice of meeting on pages 96 to 100.

Insurance

The Company maintains appropriate insurance cover in respect of legal action against the directors.

Conflicts of interest

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

A register of conflicts is maintained and is reviewed at least annually to ensure all details are kept up-to-date. Authorisation is sought prior to the appointment of any new director or if any new conflicts arise. No material conflicts were reported by the directors in the financial year under review.

Accountability

Financial and business reporting

Please refer to the following pages of this annual report for information on how the Board has carried out the financial and business reporting obligations as stipulated under the Code:

- Page 69 for the Board's responsibility statement setting out the steps taken to present a fair, balanced and understandable assessment of the Company's position and prospects.
- Pages 3 to 27 for the strategy and business model which explains how the Company generates and preserves value over the longer term and the strategy for delivering the objectives of the Company.
- Page 68 for the statement that the financial statements have been prepared on a going concern basis.

Risk management and internal control

The Board has overall responsibility for establishing and maintaining sound risk management and internal control systems, and for monitoring of these systems to ensure that they are effective and fit for purpose. The Audit Committee provides support to the Board in this regard and oversees the monitoring process. Further information on the risk management and internal control system is set out in the Audit Committee report on page 43.

The Board has carried out a robust assessment of the nature and extent of principal risks facing the Group and how these risks could affect the business, financial condition or operations of the Group. The explanation of these principal risks including how they are being mitigated can be found on pages 23 and 25, and a statement on how the directors have assessed the prospects of the Group taking into account the current position and principal risks is on page 21.

Remuneration

Details of how the principles of the Code have been applied in respect of directors' remuneration are set out in the Remuneration Committee report on pages 49 to 65.

Shareholder relations

The directors consider that the annual report and accounts play an important role in providing shareholders with an evaluation of the Company's position and prospects. The Board aims to achieve clear reporting of financial performance to all shareholders. The Board acknowledges the importance of an open dialogue with its institutional shareholders and welcomes correspondence from private investors. The Senior Independent Director is available to address any unresolved shareholder concerns. Major shareholders were consulted on the tender process for the appointment of new auditors. Further details are in the Audit Committee report on page 43.

In addition to information in the annual report and on the PayPoint website, the annual general meeting is an ideal forum for interaction between the Board and shareholders and this interaction is strongly encouraged.

As done annually, the executive directors held 'roadshows' for institutional investors and analysts twice in the year for two weeks at a time following the release of the full and the half year results. These roadshows took place in May/June and November and were held in: London, Edinburgh and Oxford. This year the shareholder engagement programme was also extended such that the executive directors met regularly with investors and analysts outside of the roadshows throughout the year. The meetings included: executive directors attendance of investor conferences at which they had one-to-one meetings with investors; and a capital markets morning held for investors on the topic of convenience retail, at which presentations were given by members of the Company's senior management team and by PayPoint retailers. The discussions at the roadshows and meetings covered a wide range of issues which had previously been made public including the full/half year results, strategy, performance, management and governance. Feedback from analysts and investors following these meetings were reported to the Board.

Committees of the Board

The Audit, Nomination, Remuneration and Market Disclosure committees are the formally constituted committees of the Board which 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.corporate.paypoint.com¹. Details of the Market Disclosure committee are on page 34 and the reports of the Audit, Nomination and Remuneration Committees are set out on pages 41 to 65.

1. <http://corporate.paypoint.com/>

Nomination Committee report

Chairman's statement on the Nomination Committee



Dear Shareholder,

On behalf of the Nomination Committee I am pleased to present the Nomination Committee report for the year ended 31 March 2018. In light of the changes to the Board's composition during the year, one of the main areas of focus for the committee was the assessment of the balance of skills, experience, independence and knowledge on the Board. This assessment was to ensure that the Board remained effective and of a sufficient size to meet the requirements of the business without undue disruption.

The committee considered succession and role reorganisation with particular reference to the resignation of Tim Watkin-Rees from the Board and the changes to his role as an employee.

An external evaluation of the committee was carried out by Jon Edis-Bates and the overall assessment of the committee was that it continued to operate effectively. Details of the outcome and actions are set out in the committee's report below.

The Nomination Committee comprised Gill Barr, Giles Kerr, Rakesh Sharma and myself, as the committee Chairman. Prior to their resignation from the Board, Neil Carson and David Morrison also served on the committee during the year. The biographies of each committee member is on page 31.

Nick Wiles
Chairman, Nomination Committee
24 May 2018

Responsibilities

The committee is responsible for the regular review of the structure, size and composition (including the skills, knowledge and experience) of the Board and it makes recommendations to the Board with regard to any changes. The committee also gives full consideration to succession planning for directors and the Executive Board in the course of its work, taking into account the challenges and opportunities facing the skills and expertise required. Further details of its responsibilities can be found in the committee's terms of reference, on the Company's website www.corporate.paypoint.com¹

Meetings

Meetings of the committee are generally held around the time of scheduled board meetings. The Committee met twice during the year. Details of meeting attendance are set out on page 35.

Activities during 2017/18

The activities of the committee for the year under review comprised:

Assessment of board composition:

There were changes to the Board composition during the course of the year with the appointment of Rakesh Sharma to the Board, and the stepping down from the Board of Neil Carson, David Morrison and Tim Watkin-Rees at different times in the year. With these changes, the committee considered the composition of the Board by reviewing its structure and size as well as the skills, knowledge, experience and diversity of the directors. It was determined that no further appointment would be required to be made following the changes, because the balance of skills, knowledge and experience on the Board would remain appropriate for the size of the Company. A recommendation was made to the Board accordingly.

1. <http://www.corporate.paypoint.com/investor-centre>

Nomination Committee report continued

Succession planning:

The committee reviewed succession plans for Executive Board roles and the progress of action plans to address any gaps. The Chief Executive proactively manages succession planning for the Executive Board and senior management and keeps the Board updated on developments as necessary.

When Tim Watkin-Rees informed the Board of his intention to retire from the Board and to continue as an employee of the Company in a part-time role, the committee considered executive succession and reviewed the revisions to the organisation structure, as presented by the Chief Executive. The purpose of this succession plan was to ensure that there was sufficient business continuity and that knowledge in the business was not lost. The committee will continue to review progress against this plan on a regular basis.

Prior to Rakesh Sharma's appointment to the Board in May 2017, the committee evaluated the balance of skills, knowledge and experience on the Board. Details of the appointment process for Rakesh Sharma were set out in the Nomination Committee report of the 2017 annual report.

Committee evaluation:

As highlighted in the committee chairman's statement, an external evaluation of the committee was carried out during the year by Jon Edis-Bates. The process for the evaluation was as set out on page 39.

Outcome of the external evaluation of the committee

In the evaluation report, Mr Edis-Bates found that the Nomination Committee is operating effectively. The report highlighted the areas of strength for the committee as being:

- The balance of skill and knowledge on the committee was appropriate.
- All committee members devote sufficient time and energy to the committee's role and work.

The observation in the report on the area for improvement was the irregular circulation of meeting papers to members ahead of committee meetings.

Actions

The actions below were agreed by the committee based on the identified areas for improvement and the observations of Mr Edis-Bates:

- Summary and documentation of the overall board succession plan by the Nomination Committee chair, and institution of a more formal Nomination Committee process which would include improving on the regularity of committee meeting papers.
- Regular review of the engagement of the non-executive directors with the business in order to maximise access to their skills and experience.

Diversity Policy

The diversity policy applied to the Board is the PayPoint Diversity and Equality Policy. The Board has overall responsibility for the effective operation of the policy and for ensuring compliance with the relevant statutory framework. The Board has delegated day-to-day responsibility to the HR Director for operating the policy across the rest of the Group and ensuring its maintenance and review.

Statement on diversity

The Board embraces the supporting principles on diversity enshrined in the UK Corporate Governance Code relating to board diversity, including gender.

The Board is committed to ensuring an appropriate balance of skills, knowledge and experience on its board. Diversity is a vital part of the continued assessment and enhancement of board composition, and the Board recognises the benefits of diversity amongst its members. The Board will take account of all aspects of diversity in its considerations including, but not limited to gender, industry experience, background and race.

All board appointments are made on merit, in the context of balance of the skills, experience, independence and knowledge which the Board as a whole requires to be effective, taking account of diversity in the manner described above.

Progress made against the diversity policy

In compliance with the recommended target set by the Hampton-Alexander Review on Improving gender balance in FTSE leadership, the proportion of female members of the board is currently 33% (i.e. two of the six directors are female).

The committee recognises that diversity is more than just gender-based, and will continue to apply rigorous recruiting practices to ensure the best candidates are nominated for appointment to the Board, based on objective requirements and assessments whilst taking a broad perspective of diversity into account.

The committee puts particular emphasis on the importance of sourcing candidates appropriately widely so that shortlisted candidates reflect the desire for increased diversity, in line with the Board's objectives as stated above. In order to assist the Board in achieving its commitment, the Nomination Committee ensures that only independent executive search firms which subscribe to the Voluntary Code of Conduct for Executive Search Firms, are commissioned in respect of board appointments.

The terms and conditions of appointment of non-executive directors and service contracts of executive directors are made available for inspection at the annual general meeting. Further details on diversity throughout the Group including further information on the diversity and equality policy can be found on page 26.

The Nomination Committee report was approved by the Board on 24 May 2018 and signed on its behalf by:

Nick Wiles
Chairman, Nomination Committee

Audit Committee report

Chairman's statement on the Audit Committee



Dear Shareholder,

I am pleased to present the Audit Committee report for the year ended 31 March 2018 which sets out the activities and focus of the committee for the period.

During the year the Audit Committee continued in its key role of robust risk management, monitoring the integrity of PayPoint's published financial information, assessing the effectiveness of its internal controls and ensuring that a high quality audit was delivered.

As was notified in the last annual report, an audit tender was carried out in 2017 to appoint a new external auditor. Following the successful conclusion of the tender, the Board approved the appointment of KPMG LLP as the external auditor for the financial year ending 31 March 2018, to succeed Deloitte LLP. I would like to thank the audit firms for their professionalism and work in the audit tender process, and also the team at Deloitte who have worked

closely with the committee for many years. Further details of the tender process are on page 45.

The committee was evaluated during the year by an external independent assessor, as described on page 39. The outcome of the evaluation is set out on page 45.

The following Audit Committee report gives an insight into the activities undertaken or overseen by the committee.

Giles Kerr
Chairman, Audit Committee
24 May 2018

Annual report recommendation

The committee assessed the 2018 annual report of the Company and the processes followed in preparing the accounts, and recommended to the Board that, taken as a whole, the annual report is fair, balanced and understandable, and provides sufficient information to enable the shareholders to assess the Group's performance, business model and strategy. In its assessment the committee considered the audit findings and auditor's report including the significant judgements and issues identified in those reports. The committee also took into consideration the following which had been presented to the Board during the year:

- a clear strategy of the Group and the progress updates thereof;
- the Group's monthly management accounts;
- the budget plan for the financial year including the identified risks and opportunities; and
- the quarterly Group forecasts.

Committee composition and meetings

The Audit Committee comprises Gill Barr, Rakesh Sharma and Giles Kerr, as Chairman. The Board considers that Giles Kerr has recent and relevant financial experience in accordance with the Code. Full biographical details of each of the committee members, including their relevant financial experience, are set out on page 31.

The committee met six times during the financial year. The details of meeting attendance are set out on page 35. By invitation, during the year, meetings were also attended

by the Chairman of the Board, the Chief Executive, the Finance Director, the Business Development Director, and the Head of Risk and Compliance. The external auditor and internal auditor, also attended committee meetings as appropriate.

The committee meetings generally take place on the same day as, but prior to, the Company full board meetings. Where all the Board members have not been in attendance at an Audit Committee meeting, either as a member of the committee or by invitation, the Chairman of the committee reports to the Board as part of a separate agenda item, on the activities of the committee.

Key responsibilities

The key responsibilities of the Audit Committee include:

- Monitoring the integrity of the Company's reporting process, including the financial statements of the Company and any formal announcements relating to the Company's financial performance and financial management;
- oversight and monitoring of the effectiveness of the internal control and risk management systems in place;
- in depth review of the full and half year financial statements including key judgements therein, before recommending these to the Board for approval; and
- oversight of the internal and external audit processes, including auditor independence, appointment and effectiveness, as well as the policy on non-audit services.

Audit Committee report continued

Committee activities for 2017/18

In the year under review the work undertaken by the Audit Committee was as follows:

Financial reporting:

- Review of the preliminary and interim results announcements.
- Review of the annual report with particular reference to the significant risks, the Audit Committee report, disclosures relating to performance, business model and strategy and consideration as to whether the annual report is fair, balanced and understandable.
- Recommendation to the Board that the annual report and accounts taken as a whole, is fair balanced and understandable.
- Review of significant accounting judgements (as reported on page 45).
- Consideration of the going concern basis for preparation of the financial statements.
- Consideration of the viability statement. In doing so the committee had regard to an assessment which modelled the possible occurrence of significant risks and events, and which showed that PayPoint would continue to be viable and profitable over the three year period.
- Recommendation of the viability statement and going concern statement to the Board.
- Review of the external auditor reports and the outcomes of the audit process.

External auditor:

- Assessment of external auditor appointment, independence and effectiveness for recommendation to the Board.
- Recommendation of the appointment of KPMG LLP as external auditor following a tender process. See page 45 for details of tender process.
- Review and approval of auditor remuneration.

Internal auditor:

- Review of the internal auditor's engagement and agreement for the extension of the engagement.
- Consideration of internal audit reports presented during the year.

Audit plans:

- Consideration and approval of the internal and external audit plans.

Risk management and internal controls:

- Review of insurance renewal proposals.
- Confirmation at every meeting of the committee, that there were no whistleblowing incidents to report.
- In depth consideration and review of the comprehensive reports produced by the Head of Risk and Compliance on risk management and internal controls within the Group. These reports are presented by the Head of Risk and Compliance at all committee meetings and over the course of the year, covered the following areas:
 - for each risk on the corporate risk register, key findings from risk review that may have been carried out since the last committee meeting, the updated risk register and outstanding risk reviews and audit actions;
 - details of the internal audit plan;
 - fraud monitoring and reporting;
 - report and update on the strategic management risk review (see page 48 for further details on this review);
 - newly identified risks;
 - risk review of PayPoint Romania;
 - report on the transactions and settlements in PayPoint Payment Services Limited; and
 - reports on audits of the business carried out by PayPoint clients.
- Review of BSI assessment reports. BSI carry out independent audits of the PayPoint network operations.
- Review of the corporate risk review register which shows the actions arising from the Group risk review. The corporate risk register comprises seven sections identifying the key risks, and each section was reviewed by the committee at its meetings during the year.

Committee governance:

- Review of reports from the Cyber Security & Information Technology sub-committee. This sub-committee was established during the year, and the details of its purpose and composition are set out below.

External evaluation:

As highlighted in the committee chairman's statement, an external evaluation of the committee was carried out during the year by Jon Edis-Bates. The process for the evaluation is as set out on page 39.

Outcome of the external evaluation of the committee

In the evaluation report, Mr Edis-Bates found that the Audit Committee is operating effectively. In its key findings, the report highlighted the commitment of committee members as the area of strength for the committee. It was found that all committee members devote sufficient time and energy to the committee's role and work.

The area for improvement identified related to the internal audit engagement.

Actions

The actions below were agreed by the committee based on the identified area for improvement and the observations of Mr Edis-Bates:

- Re-invigoration of the internal audit function and its engagement with the committee and the Board.
- Oversight of the implementation plans put in place by management to ensure compliance with the General Data Protection Regulations (GDPR).

Training:

- The committee received a 'teach-in' on transaction and settlement processing within PayPoint, given by the Group Head of Settlement and the Head of UK Finance, who are members of the senior management team.

Significant judgements

The significant issues considered by the committee in relation to the 2018 accounts, and how these were addressed, were:

- Critical estimate: Useful economic lives – The useful life used to amortise intangible assets relates to the expected future performance of the assets and management's judgement of the period over which economic benefit will be derived from the asset. For development costs, the Group has determined the useful life based on historical experience with similar products and platforms controlled by the Group as well as anticipation of future events which may impact their life such as changes in technology. Historically, changes in useful lives have not resulted in material changes to the Group's amortisation charge.
- Revenue recognition: The Committee continued to focus on Revenue recognition during the year due to the level of transactions and the complexity of the systems. The Committee was pleased to note that no errors were found as a result of the auditor's work in this area.

Cyber Security & Information Technology sub-committee

In July 2017, the Board resolved to establish a Cyber Security & Information Technology sub-committee of the Audit Committee. The establishment of the sub-committee was in recognition by the Board of the significance of cyber security and information technology (IT) risks to PayPoint, and the need for increased focus and a structured approach to the oversight of these matters.

The purpose of the sub-committee is to oversee cyber security and IT matters pertaining to the Group in order to report to the Audit Committee. Its key responsibilities include:

- Advice the Audit Committee on current cyber and information security risk exposure of the Group;
- Review the Group's policies established to assess, monitor and mitigate the significant cyber and information security risk exposures;

- Review reports on the Group's cyber and information security breach response plan;
- Review cyber incident reports; and
- Assess the adequacy of the Group's cyber and information security related insurance cover.

The composition of the sub-committee is: two non-executive directors – Rakesh Sharma and Giles Kerr, as Chairman of the sub-committee, the Finance Director, and the Chief Information Officer, Jon Marchant, who is also on the Executive Board (see page 33 for Jon's biography details). The Company Secretary is the secretary to the sub-committee.

The sub-committee met twice during the year and all its members and the secretary were in attendance. The Head of Risk and Compliance attended both meetings by invitation.

External audit tender and appointment of auditor

Deloitte had been the auditor of the Group since their appointment following a formal tender process, for the year ended 31 March 2001. As was stated in the 2017 annual report the committee decided to put the external audit for the Group out to tender with a view that the appointed firm would carry out the audit for the year ended 31 March 2018. Deloitte were not asked to participate in the tender process. However Deloitte were re-appointed as auditor at the 2017 annual general meeting, and held office until the new auditors were appointed.

The tender process was overseen by the Audit Committee and the management of the process was delegated to the Chairman of the committee and the Finance Director. The key objective was to deliver a fair, transparent and successful tender process with minimum disruption to the business. PWC, KPMG and Ernst & Young were approached to tender and were informed that in compliance with Ethics Standards the basis for the appointment of a new external auditor would be that the main focus of their remit would be the provision of audit services.

Audit Committee report continued

The timetable for the audit tender process was as follows:

| | |
|----------------|---|
| April/May 2017 | Review of CVs and meetings held by the committee Chairman and the Finance Director with prospective audit partners. |
| May 2017 | The interested firms put forward their prospective wider audit teams for consideration and selection. |
| May 2017 | Requests for Proposals were issued to the interested firms setting out the Company's scope and requirements for the audit appointment. |
| June 2017 | The committee Chairman wrote to major shareholders of the Company informing them of the tender process, inviting any questions and perspectives on the process that they wished for the Audit Committee to consider in the appointment of a new auditor. There were no questions or concerns raised by the major shareholders contacted. |
| June 2017 | The interested firms visited the PayPoint businesses in the UK and in Romania and met with members of the Executive Board and members of the local finance teams with the aim of understanding the requirements of the role and the complexities of the business. They were also given access to relevant PayPoint information to assist with the preparation of their final proposals. |
| July 2017 | The interested firms submitted their proposals which they presented to the committee Chairman, the Executive Board and members of the senior management team. As a result of the presentations, two of the firms were shortlisted. |
| 26 July 2017 | <p>The shortlisted firms gave presentations of their final proposals to the Audit Committee.</p> <p>The criteria considered by the committee in the evaluation of the firms included: experience of the audit team, approach to audit and transition management. The committee also noted the references that had been taken for each firm by the Finance Director.</p> <p>The committee concluded that KPMG LLP (KPMG) was the preferred firm to conduct the audit engagement because their proposals and presentation had highlighted their capabilities which were better suited to the requirements of the Group.</p> |

The committee recommended to the board that KPMG be selected as the Group's external auditor for the remainder of the year ending 31 March 2018. A resolution to appoint KPMG as auditor will be put to shareholders at the annual general meeting on 26 July 2018.

External audit

The effectiveness of the audit process is underpinned by appropriate audit planning and risk identification at the outset of the audit cycle. The auditor provides a detailed audit plan identifying its assessment of the risks and other key matters for review. For the year ended 31 March 2018, the primary risk identified was: Critical estimate – useful economic lives and Revenue recognition. As part of the audit planning process, the auditor provided a statement of confirmation of independence to the Board and the Audit Committee, which confirmed that in their professional judgment KPMG was independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff remained unimpaired.

The committee reviews and challenges the work undertaken by the auditor to test management's assumptions on these matters. An assessment of the effectiveness of the audit process in addressing these items is based on the auditor's reports for the half-year and year end. The committee seeks feedback from management on the effectiveness of the audit process. No significant issues were raised with respect to the audit process for the period and the quality of the audit process was assessed to be good.

The Audit Committee meets the external auditor without the executive directors being present. Procedures are in place, which allow access at any time to the Audit Committee by both external and internal auditor.

In accordance with its policy on auditor independence and the provision of non-audit services by the external auditor, the committee reviews and monitors the auditor's independence and objectivity. This is done by considering the auditor's statement of confirmation of independence, and discussing any identified threats to independence and the safeguards applied to mitigate those threats. The committee also considers all relationships between the Company and the audit firm, including their network firms and whether those relationships appear to impair the auditor's independence and objectivity.

The committee's assessment of the external auditor's performance and independence was found to be satisfactory and this underpinned its recommendation to the Board to propose to shareholders the appointment of KPMG as external auditor for the year ending 31 March 2019. There are no contractual obligations restricting the committee's choice of auditor. The notice of the annual general meeting at which a resolution for appointment of the auditor will be proposed, can be found on pages 96 to 100.

Non-audit services

In accordance with the FRC Revised Ethical Standard 2016, the committee has a policy on auditor independence and the provision of non-audit services by the external auditor. This policy is a guide to the types of work that it is acceptable for the external auditor to undertake, and provides clarity on the process to be followed for approval of the provision of non-audit services by the external auditor. The policy also covers the 70% cap on non-audit fees as prescribed by the EU audit regulation. It states that the fees for permitted non-audit services provided by the external auditor must not exceed a specified amount and must have a cumulative annual total of less than 23% of that years audit fee before VAT.

The ratio of non-audit fees to audit fees paid to the auditor for the year was 0.2:1, with non-audit services limited to assurance services for the half year review. Details of the auditor's remuneration for the statutory audit and non-audit services, are set out in note 8.

Risk management and internal control

The Board is responsible for establishing and maintaining the Group's system of internal control, and for regularly reviewing its effectiveness. The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. These risks are disclosed on pages 21 to 23 together with how they are being managed or mitigated.

PayPoint has risk management processes in place the purpose of which is to identify, assess, quantify, control, avoid, transfer or accept risk in order to ensure that the business can maximise and protect its value. Risk management is embedded in the organisation and within all projects and operational processes. It is entrenched in the operation of the business at all levels in order to drive improvements and prevent non-compliance in business processes. The risk management system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and therefore can only provide reasonable and not absolute assurance against material misstatement or loss.

The framework for the risk management process applied during the year was as follows:

Head of Risk and Compliance identifies risks through discussions with Executive Board members and senior managers in each business function across PayPoint.



Identified risks are documented in risk registers associated with business functions. Newly identified risks are reported to the Audit Committee prior to their documentation.



The main areas of risk to the group are recorded in the Corporate Risk Register (CRR) which contains a high-level description of risks that fall within seven distinct areas of the business: cyber, technology & process; fraud; legal, regulatory & compliance; clients, agents & other third parties; economic growth; product/project management; and HR/personnel.



Reports on each of the seven risk areas in the CRR are presented by the Head of Risk and Compliance at least once per calendar year for review at every Audit Committee meeting. In addition the Audit Committee receives regular updates on on-going risk management, control systems and processes which are discussed at its meetings.

The key features of the Group's internal control systems that ensure the accuracy and reliability of financial reporting include: clearly defined lines of accountability and delegation of authority; policies and procedures that cover financial planning and reporting; preparation of monthly management accounts, project governance and information security; and review of the disclosures within the annual report and accounts from functional leads to ensure that the disclosures made appropriately reflect the developments within the Group in the year and meet the requirement of being fair, balanced and understandable.

During the year the committee carried on with its robust management of risk whereby it reviewed a different risk area on the risk register at each committee meeting and assessed the management and mitigation of these risk areas. The Head of Risk and Compliance attended all meetings of the committee to present the risk management reports and respond directly to any queries the committee had on the report.

Audit Committee report continued

A strategic risk review workshop organised by the Head of Risk and Compliance was held for the Executive Board and facilitated by the internal auditor, Grant Thornton UK LLP (Grant Thornton). The objectives of the workshop were:

- Overhaul of risk management and reporting
- Identification of an active set of strategic risks owned by the Executive Board
- Review of risk appetite and mitigating controls
- Overhaul of the risk registers to categorise risks into the following tiers:
 - Tier 1 – Strategic risk register – Executive Board / Audit Committee
 - Tier 2 – Corporate risk register – appointed senior managers
 - Tier 3 – Department, product & project risk registers – individual line managers, product or project managers
- Review of outstanding risk review actions to justify, close out or remove as signed off by Executive Board owner.

A progress report on the objectives and timetable of actions was given to the Audit Committee at its meeting in March 2018. The committee noted that fulfilment of the objectives and completion of the actions will occur in the 2018/19 financial year. These will be reported on in the 2019 annual report.

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

Whistleblowing

The Company continuously seeks to prevent malpractice (including criminal offences or activity, fraud, financial mismanagement or corruption, health & safety issues, breach of compliance or legislation, bribery or corruption) in its business. However, if any malpractice is discovered, there are whistleblowing processes in place to ensure that this is properly addressed in accordance with guidance published by the UK Department for Business Innovation & Skill.

Employees who bring information about malpractice to the attention of management through the whistleblowing processes, are protected. In accordance with the policies in place, the Executive Board and senior management have a duty to ensure that they are approachable, welcome disclosure, value communication and that there is no fear of reprisal. Under no circumstances would the informant be subject to victimisation or harassment as a consequence of their disclosure.

The committee has 'whistleblowing' as a standing item on the agenda of all its meetings, and any instances of employee disclosures concerning malpractice are reported to the committee. There were no instances of malpractice reported to the committee during the year.

Anti-bribery and corruption

The Company operates an anti-bribery and corruption policy which was put in place in response to UK Bribery Act 2010. This policy sets out the responsibilities of employees of the Group in observing and maintaining the Group's position on bribery and corruption, which is that PayPoint will uphold all laws relevant to countering bribery and corruption in all the jurisdictions in which it operates. All employees are required to undertake a Bribery Corruption Awareness training programme as part of their induction process upon joining the Group. Subsequent to their induction, employees who are deemed to be at risk by virtue of their roles, are required to attend a tailored anti-bribery and corruption training course which is organised internally on a yearly basis.

Internal audit

The committee is responsible for approving a rigorous internal audit programme (the Programme) covering all the Group's key business areas. The Programme was approved in March 2014 when the current internal auditors, Grant Thornton UK LLP (Grant Thornton), were appointed following a tender process. Each year the Programme is reviewed during the internal audit planning process, to ensure that any changes are taken into account. In addition to reviewing the Programme, Grant Thornton in forming the internal audit plan for the year under review also: consulted with a number of key stakeholders in the business including the Audit Committee chairman, the Finance Director and the Head of Risk and Compliance and reviewed previous internal audit and other assurance work. The committee approved the internal audit plan for the year, and reviewed the audit findings which were presented to it by Grant Thornton following the internal audit. The areas covered by the internal audit in the year included:

- Project assurance – Review of the CRM project.
- Project assurance – Implementation of Navision (a financial accounting platform) in Romania.
- Anti-Money Laundering controls in PayPoint Payment Services Limited.
- Readiness for the General Data Protection Regulations (GDPR) in the Group.

There were changes made to the Grant Thornton supervisory internal audit teams during the year which improved effectiveness and engagement in relation to internal audit. The committee assessed the effectiveness of the Grant Thornton as internal auditors and based on the changes made, concluded they were performing well and were demonstrating continued improvement.

The Audit Committee report was approved on 24 May 2018 and signed on its behalf by:

Giles Kerr
Chairman, Audit Committee

Remuneration Committee report

Annual Statement by the chairman of the Remuneration Committee



Dear Shareholder,

I am pleased to present our Directors' Remuneration Report, prepared by the Remuneration Committee and approved by the Board, for the financial year ended 31 March 2018. This is my first report as the Committee Chairman and I would like to thank Neil Carson, the previous Remuneration Committee Chairman, for his work.

The report has been prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Listing Rules of the UK Listing Authority and the UK Corporate Governance Code (the "Code"). The report is split into two sections being:

- **The Remuneration Policy** – which provides a summary of the Remuneration Policy for which shareholder approval was obtained at the 2017 annual general meeting and which will continue to apply without amendment for the forthcoming year; and
- **The Annual Report on Remuneration** – which discloses the implementation of our Remuneration Policy for the year ended 31 March 2018 and how the policy will be implemented for the year ending 31 March 2019.

As no changes are proposed to the existing policy given that the Remuneration Committee believes that it continues to promote the long-term success of the Company, only one remuneration resolution will be tabled at the 2018 annual general meeting – i.e. the advisory shareholder vote on the Annual Report on Remuneration.

Work of the Committee during the year

The committee met twice during 2017/2018 and details of members' attendance at meetings are provided on page 35. The main committee activities during the year (full details of which are set out in the relevant sections of this report) included:

- agreeing the changes to the Remuneration Policy in advance of the 2017 annual general meeting and consulting on the changes with our largest investors and representative bodies;
- agreeing Executive Director base salary increases from 1 April 2017 and aligning future salary review dates with that for the broader workforce;
- agreeing the performance against the targets and pay-out for the 2016/17 annual bonus awards;
- setting the performance targets for the 2017/18 annual bonus;
- approving the changes to the formal shareholding guidelines in line with the new Remuneration Policy;
- approving the changes to the Long-Term Incentive Plan (LTIP) rules in respect of the introduction of a two-year post vesting period; the introduction of clawback provisions; and strengthening existing malus provisions;
- approving the changes to the Deferred Bonus Plan rules in respect of aligning the malus and clawback provisions with the LTIP rules;
- agreeing the award levels and performance targets for the 2017 LTIP awards (which were delayed so that they could be granted under the new Remuneration Policy and therefore updated plan rules); and
- considering the results and implications and required disclosures of the Gender Pay Gap Reporting.

Remuneration Committee report continued

External evaluation

An external evaluation of the committee was carried out during the year and followed the same process and time frame as the Board evaluation detailed on page 39. The overall outcome of the committee evaluation was positive with the committee shown to be operating effectively. There were no areas for improvement highlighted, and the appointment of the new chairman during the year was welcomed as a positive development by the members of the committee.

Pay & Performance

In accordance with its terms of reference the committee continues to ensure the clear linkage of executive directors' pay and performance to the strategy and enhancement of shareholder value.

In assessing the performance of the 2017/18 annual bonus and the 2015 LTIP award, the committee considered the financial and operational performance of the Group as well as the progress made in the ongoing delivery of Strategy.

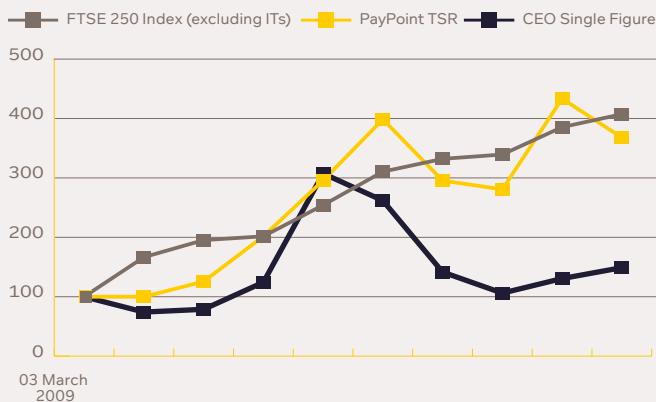
Annual bonuses for the year under review ranged from 62% to 67% of maximum, reflecting economic profit of £38.8 million and the partial achievement of the strategic targets. 50% of the Chief Executive's bonus and 25% of the Finance Director's bonus will be deferred into shares which will vest after three years from grant, subject to continued employment.

The LTIP awards granted in 2015 will be performance-tested at the end of May 2018 and, based on TSR performance to date relative to FTSE 250 index constituents (excluding investment trusts), we expect partial vesting of these awards.

Finally, the deferred annual bonus awards which were granted in 2015 in respect of the 2014/15 annual bonus awards will vest in June 2018.

The committee is comfortable that the Executive Director rewards for the year ended 31 March 2018 are appropriately aligned to the Company's performance that has been delivered over the one year performance period of the annual bonus and three year performance period for the DABS and LTIP awards.

Total Shareholder Return performance and the Chief Executive's reward over the last nine years, rebased to 100, can be seen below.



Board changes

As announced on 22 March 2018, Tim Watkin-Rees, Business Development Director, stepped down as an executive director of the Company on 31 March 2018. No payments for loss of office were or will be made in this regard. As a founding director of PayPoint and having been responsible for group business development, Tim will continue to play a key role in the activities of the Company.

Implementing the Remuneration Policy for 2018/19

The Remuneration Committee intends to operate the Remuneration Policy for executive directors for 2018/19 as follows:

- The Chief Executive's salary will be increased by 2.5% to £502,250 and the Finance Director's salary will be increased by 2.5% to £315,700. The salary increases will be broadly in line with the average increase proposed for the general workforce. As disclosed in last year's Annual Report on Remuneration, in order to align the Executive Director salary review date with that for the general workforce, the increases will be effective from 1 July 2018 (rather than the 1 April 2018) and annually thereafter;
- Annual bonus provision will remain at 150% of salary for the Chief Executive and 106% of salary for the Finance Director and targets will continue to measure economic profit and stretching strategic targets. No changes will be made to the deferral, whereby 50% of the Chief Executive's bonus and 25% of the Finance Director's bonus will be deferred in shares for three years; and
- LTIP awards will be granted in 2018 at 175% of salary for the Chief Executive and 125% of salary for the Finance Director. Targets will continue to measure absolute EPS growth and relative Total Shareholder Return. A two-year post-vesting holding period will apply.

Further details on the implementation of the Remuneration Policy are set out in the Annual Report on Remuneration.

Concluding remarks

I am pleased to state that at our 2017 annual general meeting, our Remuneration Policy and Annual Report on Remuneration received the support of 96.12% and 96.10% of shareholders respectively.

On behalf of the committee I thank shareholders for their continued support and we welcome all shareholder feedback on this report and the Remuneration Policy more generally.

Rakesh Sharma
Chairman, Remuneration Committee
24 May 2018

Remuneration Policy

Policy Scope

The Policy applies to the Chairman, executive directors and non-executive directors.

Policy Duration

This Directors' Remuneration Policy was put to a binding shareholder vote at the annual general meeting on 26 July 2017 and received majority shareholder support. This Policy is intended to remain in place for a maximum of three years from approval.

Consideration of conditions elsewhere in the Company

When making decisions on executive director remuneration, the committee considers pay and conditions across PayPoint. In particular, it is anticipated that salary increases for senior executives will have regard to those of salaried employees as a whole.

Consideration of shareholder views

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

Remuneration Committee report continued

Executive directors' remuneration

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

| Element and link to strategy | Operation | Opportunity | Performance metrics |
|------------------------------|---|---|---|
| Fixed | Base salary Takes account of personal contribution and performance against Company strategy | Reviewed annually, with account taken of responsibility and skills, the individual director's performance and experience, pay for comparable roles and pay and conditions throughout the Company. | Any base salary increases are applied in line with the outcome of the annual review and normal salary increases will have regard to those of salaried employees as a whole. Salary increases will be limited to no more than 15% a year, unless there is an exceptional change in the size or structure of the business which materially changes the scope of responsibilities (there will be no cap on salary levels for new recruits or promotions to the Board, or promotions within the Board). |
| | Pension Provides market appropriate benefits | The Company makes contributions to personal pension plans or cash allowance in lieu of pension. | Executive directors may receive a contribution and/or a cash allowance in lieu of pension, up to 20% of salary. |
| | Benefits Provides appropriate market benefits | Benefits may include, but are not limited to, car allowance, health insurance and employee share plans. In certain circumstances, the committee may also approve the provision of additional allowances relating to the relocation of an executive director and other expatriate benefits to perform his or her role. All reasonable business related expenses will be reimbursed (including any tax due thereon). | Benefits vary by role and individual circumstances and are reviewed periodically. Benefits will not normally exceed 15% of salary. The committee retains discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially (e.g. increases in insurance premiums). |

| Element and link to strategy | Operation | Opportunity | Performance metrics |
|--|---|---|--|
| Annual bonus and Deferred Annual Bonus Scheme (DABS) Rewards delivery of the Group's annual financial and strategic goals and supports retention | <p>The Remuneration Committee reviews and agrees measures, targets and weightings at the beginning of each financial year.</p> <p>At the end of the year, the Remuneration Committee determines the extent to which targets have been achieved.</p> <p>Under the DABS at least 25% of any annual bonus award is deferred into conditional share awards, deferred cash or nil-cost options for at least three years, subject to continued employment.</p> <p>Dividends accrue on deferred awards as additional share entitlements over the deferral period but would only vest on awards that vest.</p> <p>Awards are subject to clawback and malus provisions (see notes to the policy table)</p> | <p>150% of salary.</p> <p>A minority of the bonus would be payable for achieving threshold performance. Where appropriate a sliding scale between threshold and maximum performance will be used to determine the payout under each metric.</p> | <p>The majority of the award will be based on financial targets.</p> <p>A minority of the award may be based on strategic/personal targets.</p> <p>The Remuneration committee reviews and agrees targets at the beginning of each financial year and may subsequently adjust those targets as detailed in the notes to this table.</p> <p>The Remuneration committee also has the discretion to adjust the formulaic bonus outcomes both upwards (within the plan limits) and downwards, to ensure that payments are a true reflection of performance of the Company over the performance period, e.g. in the event of unforeseen circumstances outside of management control. Any use of discretion will be explained in the respective Annual Report on Remuneration.</p> |
| Long Term Incentive Plan (LTIP) Drives sustained long term performance, aids retention and aligns the interests of executive directors with shareholders | <p>Annual awards of conditional share awards or nil-cost options vesting subject to performance and continued employment over at least three years.</p> <p>Subject to shareholder approval, awards granted from 2017 onwards will be subject to a two year holding period, which will continue to apply post cessation.</p> <p>Award levels and performance conditions are reviewed by the committee in advance of grant to ensure they remain appropriate.</p> <p>Awards are subject to clawback and malus provisions (see notes to the policy table). Dividends accrue as additional share entitlements over the vesting period but would only be paid on awards that vest.</p> | <p>Annual awards of performance shares of up to 200% of salary for executive directors.</p> <p>Achievement of threshold level of performance results in no more than 25% of maximum vesting.</p> <p>Where appropriate a sliding scale between threshold and maximum performance will be used to determine the payout under each metric.</p> | <p>Financial performance metrics (e.g. Earnings Per Share) and/or share price related metrics (e.g. Total Shareholder Return).</p> <p>Where TSR is operated, the Remuneration committee will satisfy itself that the recorded TSR is a genuine reflection of the underlying financial performance of the Company.</p> <p>In addition:</p> <ul style="list-style-type: none"> The Remuneration Committee has the discretion to adjust the formulaic outcomes to ensure alignment of pay with performance, i.e. to ensure the outcome is a true reflection of the performance of the Company, e.g. in the event of unforeseen circumstances outside of management control. If events occur which cause the committee to consider that these performance requirements have become unfair or impractical, it may, in its discretion, amend the performance requirements so that they are no more or less difficult to satisfy than when it was originally set. |
| Shareholding Guidelines Encourages a long-term focus and aligns the interests of executive directors with shareholders | <p>Shareholding guidelines require executive directors to acquire a specified shareholding.</p> <p>Executive directors are required to retain 50% of any LTIP and deferred bonus shares acquired on vesting (net of tax) until the guideline level is achieved. Acquired holdings may be held by spouses or dependent family members.</p> | <p>Chief Executive: 200% of salary. Other Directors: 150% of salary.</p> | N/A |
| All employee share plans Encourage share ownership across all employees | <p>Operation of an HMRC favoured all-employee share plan (currently a SIP).</p> <p>Executive directors may participate on the same basis as all other eligible employees.</p> | Up to the prevailing HMRC approved limits. | None. |

Remuneration Committee report continued

Notes to the policy table

Payments from previous awards

The Company will honour any commitments entered into prior to the approval and implementation of the new Remuneration Policy as detailed in this report, and executive directors will be eligible to receive payment from any historical share awards made.

Clawback (aka recovery) and malus (aka withholding) provisions

From the year ended 31 March 2018, all incentive awards, including the cash and deferred element of the annual bonus and the LTIP, are subject to consistent clawback and malus provisions. The committee will be entitled to enact these provisions in the following circumstances:

- Misconduct
- Material misstatement
- Error in calculation
- Serious reputational damage to the Company

These provisions are relevant for a period of up to three years post payment/vesting.

Use of discretion

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

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

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

Performance measure selection

Economic profit has been selected as the primary financial measure for the annual bonus plan, as it captures growth, returns and risk. Economic profit is defined as operating profit after deducting the actual tax charge and a capital charge based on the weighted average cost of capital applied to the average capital employed. The operating profit is the profit before any goodwill impairment, interest and tax. Average capital employed is based on a 12 month average starting on 1 April including cumulative goodwill but excluding net cash/indebtedness. At the sole discretion of the Remuneration Committee, exceptional items may be removed from operating profit where the inclusion of such items would be inconsistent with fair measurement, and actual tax may be adjusted to normalised rates if they are considered unsustainable. Performance targets relating to the annual bonus plan are set from the Company's annual budget, which is reviewed and signed off by the Board prior to the start of each financial year. The target is based on a number of internal and external relevance points. The target is set to be stretching but achievable, with regard to the particular strategic priorities and economic environment in a given year.

Strategic targets for the annual bonus may be set each year based on the Company's prevailing strategic objectives at that time. Targets will be set on a measurable, quantifiable basis where possible, but due to the nature of the objective, may require some subjective assessment.

Absolute EPS and relative TSR have been selected as the current measures for the LTIP as EPS is considered to be an all-encompassing measure of long-term financial performance while TSR is considered the best measure of long-term share price performance for PayPoint, being directly aligned with shareholder interests and rewards management for outperformance of the Company's peers. TSR is calculated using the three month average share price preceding the start and end of the performance period.

The committee retains the discretion to alter the weighting, substitute or use new performance measures for future incentive awards, if they are felt to better support the strategy of the business at that time.

Remuneration Policy for other employees

PayPoint's approach to annual salary reviews is consistent across the Group, with consideration given to the level of experience, responsibility, individual performance and salary levels in comparable companies. All UK employees are eligible to participate in the Company's SIP and senior managers participate in the annual bonus scheme with the same measure at the appropriate business level as is set for the executive directors at Group level, but each with personal targets in addition. Members of the Executive Board and senior managers (c.15 individuals) are eligible to participate in the LTIP. Performance conditions are consistent for all participants, while award sizes vary by organisational level.

Non-executive director remuneration

The remuneration of the non-executive directors is within the limits set by the articles of association. Non-executive directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions or other benefits provided by the Company.

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

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

Pay scenario charts

The charts below provide an illustration of the potential future reward opportunities for the executive directors, and the potential split between the different elements of remuneration under three different performance scenarios: minimum, target and maximum.



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

| | Component | Minimum | Target | Maximum |
|--------------|---|---|---|-----------------|
| Fixed | Base salary | Proposed salary levels effective 1 July 2018 | | |
| | Pension | Current contribution rate applied to relevant 1 July 2018 salary levels | | |
| | Other benefits | Estimated value for year ending 31 March 2019 | | |
| Annual bonus | (Maximum opportunity of 150% of salary for the CEO and 106% of salary for the Finance Director) | No bonus payable | Target bonus: 80% of max for financial targets, 50% of max for strategic/personal targets | Maximum bonus |
| LTIP | (Awards of 175% of salary for the Chief Executive and 125% of salary for the Finance Director) | No LTIP vesting | Threshold vesting 25% of max (20% of max for the CEO) | Maximum vesting |

Note that LTIP awards granted in the year do not normally vest until the third anniversary of the date of grant, and the projected value is based on the face value at award rather than vesting (i.e. the scenarios exclude the impact of any share price movement over the period). For simplicity, the value of any SIP awards are excluded.

Remuneration Committee report continued

Approach to recruitment remuneration

External appointment

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

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

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

Internal appointment

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

Non-executive directors

In recruiting a new non-executive director, the Remuneration Committee will utilise the policy as set out in the table on pages 52 and 53.

Service contracts and exit policy

Executive directors

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

| Name | Company notice period | Contract date |
|------------------|-----------------------|-------------------|
| Dominic Taylor | 12 months | 13 September 2004 |
| Rachel Kentleton | 12 months | 15 July 2016 |

There are no special provisions in service contracts relating to cessation of employment or change of control. The policy on termination is that the Company does not make payments beyond its contractual obligations and executive directors will be expected to mitigate their loss. In addition, the Remuneration Committee ensures that there are no unjustified payments for failure. Under normal circumstances, executive directors may receive termination payments in lieu of notice equal to pay and benefits for the length of their contractual notice period.

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

| Event | Timing/vesting of award | Calculation of vesting/payment |
|---------------------|---|---|
| Annual bonus | | |
| Good leaver | Paid at the same time as continuing employees. | Eligible for an award to the extent that performance targets are satisfied and the award is pro-rated for the proportion of the financial year served. |
| Bad leaver | No annual bonus payable. | Not applicable. |
| Change of control | Paid immediately on the effective date of change of control. | Eligible for an award to the extent that performance targets are satisfied up to the change of control and the award is pro-rated for the proportion of the financial year served to the effective date of change of control. |
| DABS | | |
| Good leaver | Continue until the normal vesting date. In the event of death of a participant, the award would vest immediately. | Outstanding awards normally vest in full at the normal vesting date on a time pro-rated basis to reflect the length of the vesting period served unless the Board decides otherwise. The decision in respect of time pro-rating of deferred bonuses earned will be based on the specific nature of the departure of the executive director. |
| Bad leaver | Outstanding awards lapse. | Not applicable. |
| Change of control | Paid immediately on the effective date of change of control. | Eligible for an award pro-rated for the proportion of the financial year served to the effective date of change of control, unless the Board decides otherwise. |
| LTIP | | |
| Good leaver | Continue until the normal vesting date or vest immediately, at the discretion of the committee. | Outstanding awards vest to the extent the performance conditions are satisfied and the awards are pro-rated to reflect the length of the vesting period served unless the Board decides otherwise. |
| Bad leaver | Outstanding awards lapse | Not applicable. |
| Change of control | Vest immediately on the effective date of change of control. | Outstanding awards vest subject to the satisfaction of performance conditions as at the effective date of change of control, and the award is pro-rated for the proportion of the vesting period served to the effective date of change of control unless the Board decides otherwise. |

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

Non-executive directors

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

| Name | Effective date of letter | Unexpired term as at 31 March 2018 | Date of appointment | Notice period |
|---------------|--------------------------|------------------------------------|---------------------|---------------|
| Nick Wiles | 08 May 2015 | 117 days | 22 October 2009 | 1 month |
| Gill Barr | 01 June 2015 | 117 days | 01 June 2015 | 1 month |
| Giles Kerr | 20 November 2015 | 117 days | 20 November 2015 | 1 month |
| Rakesh Sharma | 12 May 2017 | 848 days | 12 May 2017 | 1 month |

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

Remuneration Committee report continued

Annual report on remuneration

The following section provides details of how PayPoint's Remuneration Policy was implemented during the financial year ended 31 March 2018 and how it will be implemented for the year ending 31 March 2019. The following pages contain information that is required to be audited in compliance with the Directors' Remuneration requirements of the Companies Act 2006. All narrative and quantitative tables are unaudited unless otherwise stated.

Implementation of Remuneration Policy for 2018/2019

Base salary

The Remuneration Committee has determined that the executive directors will receive the following salary increases with effect from 1 July 2018. The proposed increases are in line with the proposed average workforce increase. In order to align executive director base salary review date with that of the general workforce, the executive director base salary review was moved from 1 April 2018 to 1 July 2018 and annually thereafter.

| | From 1 April 2018 | From 1 July 2018 | % increase |
|------------------|----------------------|---------------------|------------|
| Dominic Taylor | £490,000 | £502,250 | 2.5% |
| Rachel Kentleton | £308,000 | £315,700 | 2.5% |

Pension (Policy Limit: 20% of salary)

Pension contributions will remain unchanged with Dominic Taylor's at 16% of salary, and 15% of salary for Rachel Kentleton.

Annual bonus (Policy Limit: 150% of salary)

The Chief Executive's annual bonus potential for the year ending 31 March 2019 will continue to be set at 150% of salary with 106% of salary continuing to be based on economic profit targets and the balance based on stretching strategic targets. The strategic targets will continue to be based on the successful roll out of PayPoint One, as determined by the number of terminals introduced and revenue generated, the timely and successful implementation of a new Customer Relationship Management (CRM) system to improve service delivery and achievement of further benefits once in place and the delivery of an agreed succession plan, aligned to wider talent management activities with clear milestones to be achieved. 50% of the Chief Executive's bonus will be deferred into shares for three years.

Bonus potential for the Finance Director will remain at 106% of salary with 25% deferred and to ensure a collegiate approach across the executive team, 26% of salary will be subject to the PayPoint One and CRM strategic targets set out above, with the remaining 80% of salary continuing to be assessed based on economic profit.

In the event that the threshold Economic Profit target is not achieved, the Remuneration Committee may, at its discretion, adjust the payment of bonus related to strategic targets downwards (including to zero), in order to reflect the underlying performance of the business.

No payments will be made under the strategic bonus targets unless the threshold economic profit target has been achieved.

Full details of the annual bonus targets for the 2018/19 financial year and performance against the targets will be disclosed in next year's Annual Report on Remuneration.

LTIP (Policy Limit: 200% of salary)

As per 2017, LTIP awards will be granted in 2018 at 175% of salary for the Chief Executive and 125% of salary for the Finance Director. Targets will continue to measure absolute EPS growth and relative Total Shareholder Return.

The performance targets, metrics and vesting for the LTIP awards to be granted in 2018 and which are expected to vest in 2021 will be as follows:

| | EPS | | Relative TSR* | |
|-----------------|--------------------------|---------------|--------------------------|--|
| | For 50% of awards | | For 50% of awards | |
| Below Threshold | 0% | Below 4% p.a. | 0% | Below median |
| Threshold | 25% (20% for the CEO) | 4% p.a. | 25% (20% for the CEO) | Median |
| Maximum | 100% | 10% p.a. | 100% | Upper quartile (Upper quintile for the CEO) |

*Constituents of the FTSE 250 excluding Oil & Gas companies, Mining and Utilities.

In setting the performance targets for the EPS part of the 2018 LTIP awards, the committee considered a number of reference points, including internal financial planning forecasts, external market consensus and a broader view of market conditions. The proposed targets were also set in compliance with the Company's overall risk profile. Notwithstanding the reduction in the targets from the 2017 awards, the committee views this EPS target range as realistic at the lower end, but with significant challenge to achieve full vesting.

Additionally, the committee must satisfy itself that the recorded TSR is a genuine reflection of the underlying financial performance of the Company for this part of the award to vest.

In addition, the 2018 LTIP awards will be subject to a two year holding period after vesting (for the net of tax shares), which will continue to apply post cessation.

Non-executive director fees

Current non-executive director fees, which remain unchanged from the prior year, are set out below.

| | From 1 April 2017 | From 1 April 2018 |
|----------------------------------|----------------------|----------------------|
| Base fees | | |
| Non-executive director | £46,625 | £46,625 |
| Additional fees | | |
| Chairman, Audit Committee | £8,700 | £8,700 |
| Chairman, Remuneration Committee | £8,700 | £8,700 |
| Senior Independent Director | £5,100 | £5,100 |

The Chairman's fee in the current year remains unchanged at £165,000.

Remuneration Committee membership in 2017/2018

The Remuneration Committee is responsible for developing policy on remuneration for executive directors, the Executive Board and senior managers, and for determining specific remuneration packages for each of the executive directors. The committee members excluding the Board Chairman, are all independent directors. Rakesh Sharma is currently Chairman of the committee, with Gill Barr, Giles Kerr and Nick Wiles as members. Rakesh Sharma joined the Board and the Remuneration Committee on 12 May 2017. He took over as Chairman of the committee upon Neil Carson stepping down from the Board on 26 May 2017. The Remuneration Committee is formally constituted with written terms of reference which set out the full remit of the committee. The terms of reference are also available on the Company's website at www.corporate.paypoint.com.

During the year, the committee sought internal support from the Chief Executive and the Human Resources Director, who attended committee meetings by invitation from the Chairman, to advise on specific questions raised by the committee and on matters relating to the performance and remuneration of the Executive Board and senior managers. Neither was present for any discussions that related directly to their own remuneration. The Company Secretary attended each meeting as Secretary to the committee.

In undertaking its responsibilities, the committee seeks independent external advice as necessary. To this end, the committee continued to retain the services of FIT Remuneration Consultants LLP as the principal external advisers to the committee during the financial year. The committee is comfortable that the FIT team provides independent remuneration advice to the committee and do not have any other connections with PayPoint that may impair their independence. FIT is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at (www.remunerationconsultantsgroup.com). During the year, FIT provided independent advice on a wide range of remuneration matters including the Remuneration Policy implementation, the Board changes and remuneration benchmarking. FIT provides no other services to the Company. The fees paid to FIT (on the basis of time and materials) in respect of work carried out for the year under review were £39,922 (excluding VAT).

Summary of shareholder voting at the 2017 annual general meeting

The following table shows the results of the binding vote on the Remuneration Policy Report and the shareholder advisory vote on the 2017 Annual Report on Remuneration at the 26 July 2017 annual general meeting:

2017 annual general meeting

| | Remuneration Policy | | Remuneration Report | |
|---|-----------------------|-----------------|-----------------------|-----------------|
| | Total number of votes | % of votes cast | Total number of votes | % of votes cast |
| For (including discretionary) | 56,250,235 | 96.12% | 56,746,603 | 96.10% |
| Against | 2,269,240 | 3.88% | 2,304,030 | 3.90% |
| Total votes cast (excluding withheld votes) | 58,519,475 | | 59,050,633 | |
| Total votes withheld ¹ | | 787,946 | | 256,788 |
| Total votes cast (including withheld votes) | | 59,307,421 | | 59,307,421 |

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

Remuneration Committee report continued

Single total figure of remuneration for executive directors (audited)

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 31 March 2018 and the prior period:

| | Dominic Taylor £000 | | Rachel Kentleton £000 ⁶ | | Tim Watkin-Rees £000 ⁷ | |
|-----------------------------------|------------------------|--------------|---------------------------------------|------------|--------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Base salary | 490 | 490 | 308 | 76 | 326 | 325 |
| Taxable benefits ¹ | 27 | 25 | 21 | 4 | 23 | 22 |
| Pension ² | 78 | 78 | 46 | 11 | 49 | 48 |
| Annual bonus ³ | 490 | 337 | 204 | 51 | 216 | 224 |
| Long-term incentives ⁴ | 185 | 181 | — | — | 107 | 128 |
| Other ⁵ | 10 | 10 | 2 | 1 | 11 | 10 |
| Total | 1,280 | 1,121 | 581 | 143 | 731 | 757 |

1. The value of benefits received in the year by executives relates to a car allowance of £17,500 (2017: £17,500) for Dominic Taylor, £13,200 (2017: £3,226) for Rachel Kentleton and £15,000 (2017: £15,000) for Tim Watkin-Rees, petrol, medical insurance, life assurance and private health insurance.
2. Pension during the year, the Company made contributions of 16% of salary to Dominic Taylor and 15% of salary to the other executive directors.
3. Annual bonus: this is the total bonus earned in respect of performance during the relevant year, including deferred amounts. 25% of the annual bonus (50% for the Chief Executive) is mandatorily deferred in shares under the DABS. Further details of annual bonus awards for 2018 can be found in the Annual Report on Remuneration on pages 60 and 61.
4. Long-term incentives: For 2018, this is the value of LTIP awards granted on 1 June 2015 based on interim performance to 30 April 2018 and which will vest on 1 June 2018. The share price used to calculate the estimated market value is based on the three month average price to 31 March 2018 of 853p. Further details can be found on page 62. For 2017, the long-term incentive figures have been re-stated based on the value at vesting (as opposed to the estimated value used in last year's report) of DABS awards which were granted in 2014 and which vest in 2017 (the 2014 LTIP awards lapsed in full).
5. SIP matching and dividend shares awarded in the period valued at the average share price calculated over three months to 31 March 2018 of £8.53 (2016: £9.84). The SIP is an HMRC approved plan that allows participants to purchase shares using gross salary and receive matching award from the Company. There are no performance conditions.
6. In the year to 31 March 2018 and not included in the table above, Rachel Kentleton also received fees of £75,000 for her service as a non-executive director of Persimmon plc.
7. Tim Watkin-Rees retired from the Board on 31 March 2018.

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

The table below sets out a single figure for the total remuneration received by each non-executive director for the year ended 31 March 2018 and the prior year:

| | Base fee £000 | | Committee Chair fees £000 | | Senior Independent Director fees £000 | | Chairman fees £000 | | Total £000 | |
|--------------------------------|------------------|------------|------------------------------|-----------|---|----------|-----------------------|------------|---------------|------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Chairman | | | | | | | | | | |
| Nick Wiles | — | — | — | — | — | — | 165 | 165 | 165 | 165 |
| Non-Executive Directors | | | | | | | | | | |
| Gill Barr | 47 | 47 | — | — | — | — | — | — | 47 | 47 |
| Giles Kerr | 47 | 47 | 9 | 9 | 4 | — | — | — | 60 | 56 |
| Rakesh Sharma | 41 | — | 8 | — | — | — | — | — | 48 | — |
| Former Directors | | | | | | | | | | |
| Neil Carson | 7 | 47 | 1 | 9 | 1 | 5 | — | — | 9 | 61 |
| David Morrison | 15 | 47 | — | — | — | — | — | — | 14 | 47 |
| Total | 157 | 188 | 18 | 18 | 5 | 5 | 165 | 165 | 343 | 376 |

Incentive outcomes for the year ended 31 March 2018

Annual bonus in respect of 2017/18 performance

The annual bonus for the year ended 31 March 2018 was based on economic profit and strategic targets.

Details of the performance against the economic profit and strategic targets are set out below:

Economic Profit Targets:

| Measure | Maximum Value | Threshold (20% of maximum) £000 | Target (80% of maximum) £000 | Stretch (100% of maximum) £000 | Actual achieved £000 | Dominic Taylor | Rachel Kentleton | Tim Watkin-Rees |
|-----------------------|--|---------------------------------------|------------------------------------|--------------------------------------|-------------------------|------------------|------------------|------------------|
| Group economic profit | 106% of salary (Chief Executive), 80% other directors | 34,564 (90% of plan) | 38,404 (100% of plan) | 42,244 (110% of plan) | 38,781 | 82% of max | 82% of max | 82% of max |
| | | | | | | 87% of salary | 65% of salary | 65% of salary |

Strategic Targets:

Stretching Strategic targets were set by the Remuneration Committee to reflect the increase in the Chief Executive's bonus potential and encourage performance ahead of expectations.

| Target | Performance and bonus earned | | |
|--|------------------------------|------------------|-------------------------------|
| | Chief Executive | Finance Director | Business Development Director |
| Successful roll out of PayPoint One | 14.6% of salary | 13% of salary | 13% of salary |
| Threshold: 8,000 total sites (pay-out 8% of maximum for achievement at threshold and between threshold and maximum) Target: 8,906 total sites generating revenue target by 31 March 2018 (pay-out 80% of maximum) Maximum: 8,906 total sites generating stretch revenue target by 31 March 2018 (pay-out 100% of maximum) Actual: While management achieved 8,550 total sites, which was 550 sites ahead of the externally committed target, this resulted in a pay-out of 8% of maximum which reflects the toughness of the target. | | | |
| Implementation of a Customer Relationship Management (RM) system | 14.6% of salary | 13% of salary | 13% of salary |
| Threshold: n/a Target: Delivery within budget by 31 March 2018 (pay-out 80% of maximum) Maximum: Delivery within budget by 24 December 2017 and planned cost driven benefits realised by 31 March 2018 (pay-out 100% of maximum) Actual: Delivery of CRM for client management and good progress was made in preparing for the deployment of CRM into operations and sales functions. However, full delivery was not achieved resulting in nil pay-out for this part of the bonus. | | | |
| Introduction of a comprehensive succession plan (target only applies to the Chief Executive) | 14.6% of salary | n/a | n/a |
| The succession plan objectives set for the Chief Executive for 2017/18 were in respect of the: Successful transition of Tim Watkin-Rees following his decision to step down from the Board, albeit continuing as an employee Identification of potential internal succession candidates and implementation of agreed development plans Design and implementation of comprehensive Executive Board development programme, including team building and individual coaching Actual: Following a review of the Chief Executive's progress in respect of developing and implementing the comprehensive succession plan, the Remuneration Committee awarded a pay-out of 80% of maximum of this part of the bonus award | | | |
| Maximum Value | 44% of salary | 26% of salary | 26% of salary |
| % of potential award | 29% of max | 4% of max | 4% of max |
| % of salary award | 13% of salary | 1% of salary | 1% of salary |

Total Bonus Awards:

The above performance resulted in the following bonus awards for the year:

| | Maximum | | Outcomes | |
|--------------------------------------|-----------------|--|-----------------------------|--|
| | Chief Executive | Finance Director/Business Development Director | Chief Executive | Finance Director/Business Development Director |
| Financial – % of award (% of salary) | 71% (106%) | 75% (80%) | 82% of max 87% of salary | 82% of max 65% of salary |
| Strategic – % of award (% of salary) | 29% (44%) | 25% (26%) | 29% of max 13% of salary | 4% of max 1% of salary |
| Total (% of salary) | 100% (150%) | 100% (106%) | 100% of salary | 66% of salary |
| Total (% of max) | | | 67% of maximum | 62% of maximum |

The committee considers that the outcomes indicated above are reflective of the performance delivered over the year and therefore has not used any discretion to alter the final bonuses paid.

50% of the Chief Executive's bonus and 25% of the other directors' bonuses will be deferred into PayPoint shares for three years.

2015 Deferred Annual Bonus Scheme (DABS) vesting

With respect to the deferred bonus awards granted on 1 June 2015 under the DABS, vesting was based on continued service only. Further details of the expected vesting for each individual director are as follows:

| Director | Interests held | Expected vesting % | Number of shares vesting | Date of vesting |
|-----------------|----------------|--------------------|--------------------------|-----------------|
| Dominic Taylor | 11,137 | 100% | 11,137 | 1 June 2018 |
| Tim Watkin-Rees | 7,672 | 100% | 7,672 | 1 June 2018 |

Remuneration Committee report continued

2015 LTIP vesting

With respect to the LTIP awards granted on 1 June 2015, vesting is based 100% on TSR. The three-year performance period for these awards will end on 31 May 2018 with vesting on the third anniversary of the date of grant. Further details relating to these awards are provided in the table below, based on TSR calculations ran to 30 April 2018:

| Measure | Weighting | Targets | Outcome (to 30 April 2018) | Estimated % vesting |
|--|-----------|--|-------------------------------|---------------------|
| Relative TSR vs FTSE 250 index (excluding investment trusts) | 100% | 0% vesting below median 25% vesting at median 100% vesting at upper quartile Straight-line vesting between these points | Just above median | 30% |
| Total LTIP vesting | | | | 30% |

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

| Director | Interests held | Implied % vesting | Number of shares vesting | Date of vesting | Value £'000 ¹ |
|-----------------|----------------|-------------------|--------------------------|-----------------|--------------------------|
| Dominic Taylor | 72,423 | 30% | 21,727 | 1 June 2018 | £185,331 |
| Tim Watkin-Rees | 41,985 | 30% | 12,596 | 1 June 2018 | £107,444 |

1. As the price on the date of vesting is unknown, the value of an award is calculated by multiplying the number of shares which vested by the average three month share price to 31 March 2017 of £8.53.

Scheme interests awarded in the year ended 31 March 2018

LTIP

In the year under review, LTIP awards were granted under the Remuneration Policy approved by shareholders at the 2017 annual general meeting. The LTIP awards were granted with a face value of 175% of salary for the Chief Executive and 125% of salary for other executive directors. The awards will vest on the third anniversary of the date of grant, 26 July 2020, and will be subject to a holding period which will end on the fifth anniversary of the date of grant, being 26 July 2022. One half of each award is subject to a performance condition based on relative TSR vs. the FTSE 250 index (excluding companies in the Oil & Gas, Mining and Utilities sectors). The other half of each award is subject to three year EPS growth targets. Details of the awards granted are as follows:

| Executive director | Basis of award | Number of shares | Face value ¹ | Potential award for minimum performance | Performance period | Performance measures |
|--------------------|----------------|---------------------|-------------------------|---|---|---|
| Dominic Taylor | 175% of salary | 99,709 ² | £857,497 | | | 50% on TSR relative vs. FTSE 250 index (excluding companies in the Oil & Gas, Mining and Utilities sectors): – 0% vesting below median – 25% vesting at 5% p.a. – 100% vesting at upper quartile (upper quintile for the Chief Executive) – Straight-line vesting between these points. |
| Rachel Kentleton | | 44,767 | £384,996 | 25% of face value | TSR: 26 July 2017 to 25 July 2020 EPS: 1 April 2017 to 31 March 2020 | 50% on EPS – 0% vesting at less than 5% p.a. – 25% vesting at 5% p.a. (20% for the Chief Executive) – 100% vesting at 12% p.a. or more – Straight line vesting between these points. |
| Tim Watkin-Rees | 125% of salary | 47,339 | £407,115 | | | |

1. Face value is based on the middle market quotation of a share in the capital of the Company on the preceding dealing day of award 25 July 2017, of £8.60.

2. The LTIP award granted to Dominic Taylor in July 2017 was incorrectly stated as 82,616 shares in the regulatory information service announcement released on 26 July 2017. The correct number of shares awarded is 99,709 shares (based on a 175% of salary award, a salary of £490,000 and a grant share price of £8.60) as shown in the table above.

Payments to past directors (audited)

As disclosed in last year's Annual Report on Remuneration, George Earle stepped down from the Board on 31 March 2017 although remained an employee for eight (8) months to complete a number of outstanding projects. No termination payments were made. In his capacity as a below Board employee, George Earle received £295,056 in respect of fixed pay and he received £238,707 in respect of his annual bonus for the year ended 31 March 2017. Full disclosure of the annual bonus was set out on page 59 of last year's annual report. His 2014 LTIPs which were due to vest on a pro-rated basis in 2017 lapsed as a result of three-year relative TSR being below median of the comparator group. Details in respect of his 2015 and 2016 LTIP awards will be disclosed in future Annual Reports on Remuneration.

As announced on 22 March 2018, Tim Watkin-Rees stepped down from his role as Business Development Director and from the Board on 31 March 2018. Tim will remain as an employee of PayPoint and, as a founding director of PayPoint and having been responsible for group business development, will continue to play a key role in the activities of the Company. No termination payments have been or will be made. Tim will receive fixed pay on a monthly basis during his period of employment although he will not be eligible for an annual bonus in respect of 2018/19 or future LTIP awards. Details of his annual bonus for the year ended 31 March 2018 are presented in the single figure table and notes above. Assuming continued employment, unvested deferred share bonus and LTIP awards will continue to vest at the normal vesting date and, where relevant, the extent to which the performance targets are met.

Percentage change in Chief Executive remuneration

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

| | Change in remuneration from 2017 to 2018 | | |
|------------------|--|--------------|----------|
| | Chief Executive | | |
| | 2018 £000 | 2017 £000 | % change |
| Salary | 490 | 490 | 0% |
| Taxable benefits | 27 | 25 | 4.9% |
| Annual bonus | 490 | 337 | 45.4% |
| Total | 1,007 | 852 | 18.08% |

1. Increase in salary is for UK based employees who were employed by PayPoint for the entirety of both financial years, but excludes those who were promoted to a new role.

2. Increase is for UK based employees who earned a bonus pay-out in both financial years.

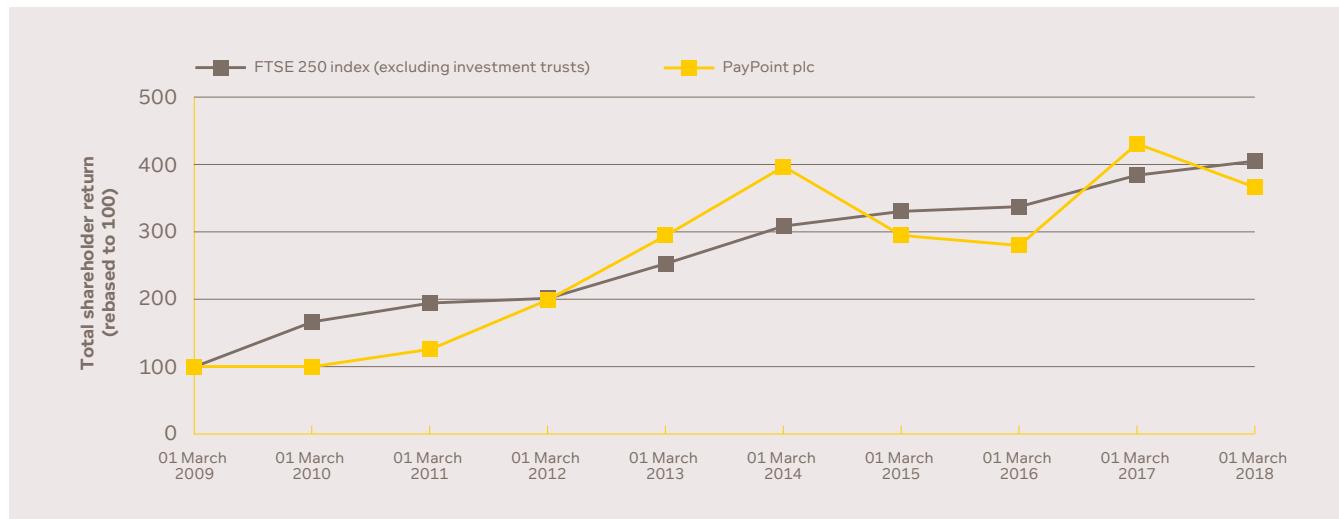
Relative importance of spend on pay

The table below shows the Company's actual expenditure on shareholder distributions (including dividends and share buybacks) and total employee pay expenditure for the financial years ended 31 March 2017 and ended 31 March 2018.

| | Total employee pay expenditure £000 | Distributions to shareholders £000 |
|-----------------|--|---------------------------------------|
| 2018 | 26,683 | 55,898 |
| 2017 | 30,753 | 78,543 |
| % change | (13.3)% | (28.8)% |

Pay for performance

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



| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------|--------|--------|---------|---------|--------|--------|-------|-------|
| Chief Executive single figure of remuneration (£000) | 637 | 677 | 1,067 | 2,639 | 2,247 | 1,215 | 911 | 1,121 | 1,280 |
| Annual bonus pay-out (as % of maximum) | 84.50% | 80.90% | 88.70% | 86.20% | 91.43% | 88.11% | 30.98% | 64.8% | 66.7% |
| LTIP vesting (as % of maximum) | 0% | 0% | 40.10% | 100.00% | 100.00% | 0% | 0% | 0% | 30% |

Remuneration Committee report continued

Directors' shareholdings (audited)

The shareholdings of the directors and their connected persons in the ordinary shares of the Company against their respective shareholding requirement as at 31 March 2018:

| | Shares held | | | Shareholding Guidelines ² | | | |
|------------------------------|---------------------------------------|--|--|--------------------------------------|-------------|---------|------|
| | Owned outright or vested ¹ | Unvested and subject to holding period | Unvested and subject to performance conditions | Current shareholding | % of salary | Shares | Met? |
| Dominic Taylor | 1,852,296 | 26,732 | 230,624 | 1,852,296 | 200% | 114,916 | Yes |
| Rachel Kentleton | 1,561 | 12,450 | 44,767 | 1,561 | 150% | 54,174 | No |
| Tim Watkin-Rees ³ | 553,103 | 18,942 | 132,634 | 553,103 | 150% | 57,287 | Yes |
| Gill Barr | 2,595 | | | | | | |
| Giles Kerr | 7,500 | | | | | | |
| Rakesh Sharma | 2,232 | | | | | | |
| Nick Wiles | 35,000 | | | | | | |

1. Current shareholding includes SIP shares other than SIP matching shares and SIP dividend shares subject to a holding period.

2. Executive directors are required to hold shares of a value equivalent to 150% of their salaries (200% of salary for the Chief Executive) as at 1 April 2018. An average three month share price to 31 March 2018 of £8.53 has been used to calculate this guideline.

3. Includes 332,174 shares held by Persons Closely Associated with Tim Watkin-Rees.

The market price of the Company's shares on 31 March 2018 was £8.07 (31 March 2017: £10.25) per share and the low and high share prices during the period were £7.90 and £10.88 respectively.

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

Long Term Incentive Awards (audited)

| Type of Awards | Number of shares at 31 March 2017 | Number of shares awarded during the period ³ | Number of shares released during the period | Number of shares lapsed during the period | Number of shares at 31 March 2018 | Value of shares awarded | Date of grant | Lapse/Release date |
|------------------|--|---|---|---|-----------------------------------|-------------------------|---------------|--------------------|
| Dominic Taylor | LTIP ¹ 61,848 ⁴ | — | — | (61,848) | — | £nil | 02.06.14 | 02.06.17 |
| | LTIP ¹ 72,423 ⁵ | — | — | — | 72,423 | £685,122 | 01.06.15 | 01.06.18 |
| | LTIP ¹ 75,585 ⁶ | — | — | — | 75,585 | £710,499 | 02.06.16 | 02.06.19 |
| | LTIP ² 99,709 | | | | 99,709 | £857,497 | 26.07.17 | 26.07.20 |
| Rachel Kentleton | 9.4.2 ⁷ 10,741 ⁷ | — | — | — | 10,741 | £110,095 ⁷ | 02.02.17 | 02.02.19-20 |
| | LTIP ² 44,767 | | | | 44,767 | £384,996 | 26.07.17 | 26.07.20 |
| Tim Watkin-Rees | LTIP ¹ 36,729 ⁴ | — | — | (36,729) | — | £nil | 02.06.14 | 02.06.17 |
| | LTIP ¹ 41,985 ⁵ | — | — | — | 41,985 | £397,178 | 01.06.15 | 01.06.18 |
| | LTIP ¹ 43,310 ⁶ | — | — | — | 43,310 | £407,114 | 02.06.16 | 02.06.19 |
| | LTIP ² 47,339 | | | | 47,339 | £407,115 | 26.07.17 | 26.07.20 |

1. LTIP awards 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 performance period, at which point 25% of awards will vest, with full vesting occurring for upper quartile performance with pro-rata vesting between points.

2. 50% of LTIP awards 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 performance period, at which point 25% of awards will vest (20% for the Chief Executive's awards), with full vesting occurring for upper quartile (upper quintile for the Chief Executive's awards) performance with pro-rata vesting between points. 50% of LTIP awards will only vest if the Company's EPS grows by 5% p.a., at which point 25% of awards will vest (20% for the Chief Executive's awards), with full vesting occurring for EPS growth of 12% p.a. with pro-rata vesting between points.

Awards were granted at the following share prices on the preceding day of grant:

3. £8.60 per share.

4. £10.55 per share.

5. £9.46 per share.

6. £9.40 per share.

7. Rachel Kentleton's buyout award was granted under Listing Rule 9.4.2. The share price on 3 January 2017 of £10.25 has been used to calculate the value of the shares awarded to Rachel Kentleton.

Deferred Share Bonus Plan (audited)

| | Number of bonus shares held at 31 March 2017 ¹ | Number of matching shares awarded at 31 March 2017 ² | Number of bonus shares (released)/ purchased during the period | Number of matching shares awarded during the period | Number of matching shares (lapsed) during the period | Number of bonus shares purchased at 31 March 2018 | Number of matching shares awarded at 31 March 2018 | Value of matching shares awarded | Date of grant | Date lapsed/ release date ³ |
|-----------------|---|---|--|---|--|---|--|----------------------------------|---------------|--|
| Dominic Taylor | 9,761 ⁴ | 18,417 ⁴ | 9,761 | (18,417) | — | — | — | £194,299 | 02.06.14 | 02.06.17 |
| Tim Watkin-Rees | 6,890 ⁴ | 13,000 ⁴ | (6,890) | (13,000) | — | — | — | £137,150 | 02.06.14 | 02.06.17 |

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

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

3. No Matching Shares were released unless the Company's earnings per share growth was 3% p.a. in excess of the Retail Prices Index over the three year holding period. The bonus shares were purchased and the matching share awarded at share prices of:

4. £10.55 per share.

Deferred Annual Bonus Scheme (DABS)¹ (audited)

| | Number of shares at 31 March 2017 | Number of shares awarded during the period | Number of shares released during the period | Number of shares lapsed during the period | Number of shares at 31 March 2018 | Value of shares awarded | Date of grant | Release date |
|------------------|-----------------------------------|--|---|---|-----------------------------------|-------------------------|---------------|--------------|
| Dominic Taylor | 11,137 | — | — | — | 11,137 | £105,356 | 01.06.15 | 01.06.18 |
| | 3,921 ² | — | — | — | 3,921 | £38,857 | 07.06.16 | 07.06.19 |
| | — | 9,093 ³ | — | — | 9,093 | £84,341 | 05.06.17 | 05.06.20 |
| Rachel Kentleton | — | 1,378 ³ | — | — | 1,378 | £12,782 | 05.06.17 | 05.06.20 |
| Tim Watkin-Rees | 7,672 | — | — | — | 7,672 | £72,577 | 01.06.15 | 01.06.18 |
| | 2,636 ² | — | — | — | 2,636 | £26,123 | 07.06.16 | 07.06.19 |
| | — | 6,044 ³ | — | — | 6,044 | £56,060 | 05.06.17 | 05.06.20 |

1. The release of shares is dependent upon continuous employment for a period of three years from the date of grant.

2. £9.91 per share.

3. £9.27 per share.

Share Incentive Plan (audited)

| | Number of Partnership Shares purchased at 31 March 2017 | Number of Matching Shares awarded at 31 March 2017 | Number of Free Shares ¹ awarded at 31 March 2017 | Dividend Shares ² acquired at 31 March 2017 | Total shares at 31 March 2017 | Number of Partnership Shares ³ purchased during the period | Matching Shares ⁴ awarded during the period | Dividend Shares acquired during the period | Dates of release of Matching and Free Dividend Shares ⁵ | Total shares at 31 March 2018 |
|------------------|---|--|---|--|-------------------------------|---|--|--|--|-------------------------------|
| Dominic Taylor | 3,357 | 3,357 | 1,562 | 2,979 | 11,255 | 165 | 165 | 1,063 | 21 Apr 2020 – 22 Mar 2021 | 12,648 |
| Rachel Kentleton | 151 | 151 | 0 | 0 | 302 | 165 | 165 | 37 | 21 Apr 2020 – 22 Mar 2021 | 669 |
| Tim Watkin-Rees | 3,380 | 3,380 | 1,562 | 2,989 | 11,311 | 165 | 165 | 1,068 | 21 Apr 2020 – 22 Mar 2021 | 12,709 |

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

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

3. Partnership Shares are ordinary shares of the Company purchased on a monthly basis during the period (at prices from £8.15 to £10.11).

4. Matching Shares are ordinary shares of the Company awarded conditionally on a monthly basis during the period (at prices from £8.15 to £10.11) in conjunction with two share purchases.

5. The dates used are based on the earliest allocation of the matching shares.

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

This report was approved by the Remuneration Committee on 24 May 2018 and signed on its behalf by:

Rakesh Sharma
Chairman, Remuneration Committee

Directors' report

The directors present their annual report on the affairs of the Company and of the Group, together with the financial statements and independent auditor's report, for the year ended 31 March 2018.

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

Strategic report

The strategic report is on pages 3 to 27, and it is incorporated into this directors' report by reference. The Company has chosen to set out certain matters in this strategic report that would otherwise be required to be disclosed in the directors' report. These matters include disclosures concerning: greenhouse gas emissions (page 27); use of financial instruments (pages 19 and 94); credit risk and price risk (page 94); employment of disabled persons (page 26); employee involvement (pages 25 and 26); diversity (page 26) and likely future developments in the business (pages 9 and 10).

Principal activity

The Company is a holding company and its subsidiaries are engaged in providing clients with specialist consumer payment services which includes transaction processing and settlement through an established network of retailers. It also provides an array of services essential to convenience retail.

PayPoint UK and Ireland process transactions for payment products and services and collects payments on behalf of the UK and Ireland's leading utility and customer service organisations in convenience retail outlets using PayPoint's terminals. On average, over 10 million consumer transactions were processed weekly by PayPoint UK and Ireland. At a PayPoint outlet, consumers are provided with a one stop shop for making cash payments for the wide range of PayPoint's clients. In addition, PayPoint provides other services to retail outlets.

PayPoint also offers clients, through its MultiPay product, streamlined consumer payment processing and transaction routing in one seamlessly integrated solution for digital payments. This gives customers the flexibility to pay in the way that best suits them; including mobile app, online, text, phone/IVR and cash in-store.

PayPoint provides its retailer network with services including card payments, EPoS solutions, ATMs and other value add services. It also provides access to a parcel solution generating footfall.

PayPoint Romania including Payzone Romania, acquired on 12 October 2017, provide similar payment product and collection services as PayPoint UK and Ireland but in the Romanian territory.

PayPoint has a 50% interest in Collect+ Holdings Limited, a joint arrangement with Yodel. Collect+ Brand Limited which owns the Collect+ brand is a wholly owned subsidiary of Collect+ Holdings Limited. The Collect+ network offers parcel collection and return services in over 7,400 retailer's outlets.

Substantial shareholdings

The Company had been notified of the following disclosable interests in the voting rights of the Company as required by DTR 5 of the FCA's Disclosure Guidance and Transparency Rules.

As at 31 March 2018:

| Name of holder | Number of ordinary shares | Percentage of issued capital |
|-----------------------------------|---------------------------|------------------------------|
| Woodford Investment Management | 13,704,871 | 20.10 |
| Liontrust Investment Partners LLP | 8,787,518 | 12.89 |
| Fidelity International Limited | 6,814,635 | 10.00 |
| Capital Research & Management | 5,603,400 | 8.22 |
| Wise Investments Limited | 3,126,897 | 4.59 |
| Neptune Investment Management | 3,124,940 | 4.58 |
| Standard Life Aberdeen | 2,793,203 | 4.10 |
| Schroders Plc | 2,639,230 | 3.87 |
| Mawer Investment Management | 2,186,239 | 3.21 |

As at 24 May 2018:

| Name of holder | Number of ordinary shares | Percentage of issued capital |
|-----------------------------------|---------------------------|------------------------------|
| Woodford Investment Management | 13,704,871 | 20.10 |
| Liontrust Investment Partners LLP | 8,787,558 | 12.89 |
| Fidelity International Limited | 6,677,013 | 9.79 |
| Capital Research & Management | 5,399,900 | 7.92 |
| Wise Investments Limited | 3,126,897 | 4.59 |
| Standard Life Aberdeen | 2,793,203 | 4.10 |
| Schroders Plc | 2,647,592 | 3.88 |
| Neptune Investment Management | 2,363,840 | 3.47 |
| Mawer Investment Management | 2,177,563 | 3.19 |

Share capital

As at the date of this report, 68,181,656 ordinary shares of 1/3p each have been issued and fully paid up and are quoted on the London Stock Exchange. During the year ended 31 March 2018, 46,934 ordinary shares were issued under the Company's share schemes. The rights and obligations attaching to the Company's ordinary shares, as well as the powers of the Company's directors are set out in the Company's articles of association, copies of which can be obtained from Companies House or by writing to the Company Secretary.

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

At the annual general meeting on 26 July 2017, the directors were given authority to purchase 10% of its issued share capital, allot relevant securities up to an aggregate nominal amount of £22,712 and to dis-apply pre-emption rights in respect of allotments of relevant securities up to an aggregate nominal amount of £11,356. Resolutions to renew these authorities will be proposed at the 2018 annual general meeting, details of which are set out in the notice of meeting on pages 96 to 100.

The Company's issued share capital as at 31 March 2018, together with details of purchases of own shares during the year, are set out in note 22.

Directors

The names of the directors at the date of this report and their biographical details are on page 33. Their interests in the ordinary shares of the Company are on page 64. During financial year, Neil Carson, David Morrison and Tim Watkin-Rees stepped down from the Board. See page 28 for further information on board changes in the year.

Results for the year

The consolidated income statement, statement of financial position and statement of cash flow for the year ended 31 March 2018 are set out on pages 76 to 79. An analysis of risk is set out on pages 21 to 23 and of risk management on page 47. The statement of financial position and statement of cash flow of the holding company for the year ended 31 March 2018 are set out on pages 80 and 81. Since 1 April 2018, there have been no post balance sheet events that would impact the Company.

Qualifying third party indemnity provisions for the benefits of directors

Under sections 236 (1) (a) and (b) of the Companies Act 2006, companies are obliged to disclose any indemnities which are in force in favour of their directors. The current articles of association of the Company contain an indemnity in favour of the directors of the Company which indemnifies them in respect of certain liabilities and costs that they might incur in the execution of duties as directors. Copies of the articles of association can be obtained from Companies House or by writing to the Company Secretary and will be available at the venue of the annual general meeting from 15 minutes before the meeting until it ends.

Change of control

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

The Company has a revolving term credit facility for £75 million with a remaining term of over five years. The terms of the facility allow for termination on a change of control, subject to certain conditions. The British Gas contract for payments is subject to termination rights for change of control in very limited circumstances. There are no other significant contracts in place that would take effect, alter or terminate on the change of control of the Company, including compensation for loss of office as a result of a takeover bid.

Suppliers' payment policy

Terms of payment are agreed with individual suppliers prior to supply. The Group aims to pay its creditors promptly, in accordance with terms agreed for payment, provided the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group had 23 days' purchases outstanding at 31 March 2018 (2017: 22 days), 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 (2017: nil). Details of the charitable donations policy can be found within the strategic report on page 26.

Employee matters and environmental issues

Employee matters and environmental issues are set out in the strategic report on pages 24 to 27.

Related party transactions

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

Directors' report continued

Future developments

An indication of likely future developments in the business of the Company and details of research and development activities are included in the strategic report on pages 3 to 10.

Dividends

The directors recommend the payment of a final ordinary dividend of 30.6p (2017: 30p) per ordinary share amounting to £20.9 million (2017: £20.4 million) and a final additional dividend of 24.5p (2017: 24.5p) per ordinary share amounting to £16.7 million (2017: £16.6 million) both to be paid, if approved, on 30 July 2018 to members on the register on 22 June 2018.

During the period an interim ordinary dividend of 15.3p per share (2017: 15p per share) amounting to £10.4 million (2017: £10.2 million) and an additional interim dividend of 12.2p (2017: 12.2p) per ordinary share amounting to £8.3 million (2017: £8.3 million) were declared and paid.

The dividend policy including all the dividends declared during the year are set out in the strategic report on page 20.

Going concern

At the end of the year, the Group had cash of £46.0 million, and an undrawn £75.0 million revolving term credit facility with accordion option of £20 million, expiring in March 2023. The Company's cash and borrowing capacity is adequate to meet the foreseeable needs of the Group, taking into account any risks (see pages 21 to 23). The directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. Therefore, the financial statements have been prepared on a going concern basis.

The Group's liquidity review and commentary on the current economic climate are shown on page 20 of the strategic report and commentary on financial risk management is shown in note 26.

Independent auditor

Following an audit tender process, KPMG LLP was appointed as auditor during the year (see page 45 for details of the tender process). KPMG LLP has expressed its willingness to continue as the Company's auditor and a resolution for its re-appointment will be proposed at the forthcoming annual general meeting. The notice of the annual general meeting can be found on pages 96 to 100.

Corporate governance statement

The information that fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules can be found in this Directors' report and in the corporate governance section on pages 28 to 48 (which is incorporated into this directors' report by reference).

Statement as to disclosure of information to auditor

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

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

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

Annual general meeting

The annual general meeting will be held at the offices of Canaccord Genuity, 88 Wood Street, EC2V 7QR on 26 July 2018. The notice of meeting and explanatory information on the resolutions to be passed at the annual general meeting can be found on pages 96 to 100 of the annual report.

The Directors' report was approved by the Board and signed on its behalf by:

Susan Court
Company Secretary
24 May 2018

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

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

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the directors' report which also incorporates the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Dominic Taylor
Chief Executive

24 May 2018

Independent auditor's report

to the members of PayPoint plc

1. Our opinion is unmodified

We have audited the financial statements of PayPoint plc ("the Company") for the year ended 31 March 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows, Company Statement of Financial Position, Company Statement of Changes in Equity, Company Statement of Cash Flows, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 15 August 2017. The period of total uninterrupted engagement is for the one financial year ended 31 March 2018. We have fulfilled our ethical responsibilities under, and we remain independent of, the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

| | |
|--|------------------------------------|
| Materiality: group financial statements as a whole | £2.5m 4.7% of profit before tax |
|--|------------------------------------|

| | |
|-----------------|--------------------------------|
| Coverage | 99% of group profit before tax |
|-----------------|--------------------------------|

Risks of material misstatement

| | |
|------------------------|---------------------|
| Recurring risks | Revenue recognition |
|------------------------|---------------------|

| |
|--|
| Recoverability of parent company's investment in subsidiaries (Parent) |
|--|

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

| | The risk | Our response |
|--|--|--|
| Revenue recognition <i>Refer to page 45 (Audit Committee Report), page 84 (accounting policy) and page 86 (financial disclosures).</i> | Data Capture and Processing Error The risk is that revenue is misstated due to inherent complexities involved in capturing and processing the high volume of low value transactions generated across the company's off-site terminal network. IT systems may not be configured appropriately such that fees and commissions are calculated incorrectly and that data does not correctly flow through the IT systems. | <p>Our procedures included:</p> <ul style="list-style-type: none"> — Control operation: Testing controls over the general IT environment, with the support of IT specialists to assess whether the polling, billing and general ledger systems are appropriately controlled. These procedures included testing access to programs and data, program change and development to address the risk of unauthorised changes being made to the operation of IT application controls. — Control operation: Testing key automated (with the support of IT specialists) and manual controls, including controls that are designed to ensure correct rates are assigned to each customer based on contract terms, reconciliations are performed between invoicing and system reports and systems are configured correctly so that revenue transactions are recorded and recognised in accordance with the Group's accounting policies; — Tests of details: Performing sampling over contract master data, including transaction rates and agree this data to supporting customer contracts — Analytical sampling: Using data analytical tools to test that the other side of revenue journals was not posted to inappropriate accounts; — Expectation vs outcome: Perform analytical procedures to set an expectation of revenue of transaction linked revenue streams, based on prior year rates per stream, increases in transaction price per tested contracts and current year transactions and compare to the actual revenue. <p>Our results</p> <ul style="list-style-type: none"> — The results of our procedures were satisfactory and we considered the amount of revenue to be acceptable. |

2. Key audit matters: our assessment of risks of material misstatement (Continued)

| | The risk | Our response |
|--|---|--|
| Recoverability of Parent Company's investment in subsidiaries (£60.2 million; 2017: £60.1 million) <i>Refer to page 85 (accounting policy) and page 91 (financial disclosures).</i> | <p>Low risk, high value:</p> <p>The carrying amount of the Parent Company's investments in subsidiaries represents 61.8% (2017: 72.0%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall Parent Company audit.</p> | <p>Our procedures included:</p> <ul style="list-style-type: none"> — Tests of detail: Comparing the carrying amount of material investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit making; — Assessing subsidiary audits: Assessing the work performed by the subsidiary audit teams of those subsidiaries where audits are performed and considering the results of that work on those subsidiaries' profits and net assets; and — Our sector experience: For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based upon a discounted cash flow model. <p>Our results</p> <ul style="list-style-type: none"> — The results of our procedures were satisfactory and we found the estimated recoverable amount of investments to be acceptable. |

3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £2.5m, determined with reference to a benchmark of group profit before tax of £52.9m.

Materiality for the parent company financial statements as a whole was set at £2.0m, determined with reference to a benchmark of company total assets, of which it represents 2.1%.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £125k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's ten reporting components, we subjected eight to full scope audits for group purposes and one to statutory audit to 31 December 2017 and specified audit procedures for roll forward. The components within the scope of our work accounted for the percentages illustrated opposite. For the residual component, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within this entity.

The Group team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £2.0m to £1,000, having regard to the mix of size and risk profile of the Group across the components. The work on one of the nine components was performed by component auditor and the rest, including the audit of the parent company, was performed by the Group team.

The Group team visited the overseas component location in Romania on two occasions, to assess the audit risk and strategy and to assess the audit work performed. At this visit and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

Profit before tax

£52.9m (2017: £69.1m)



Group Materiality

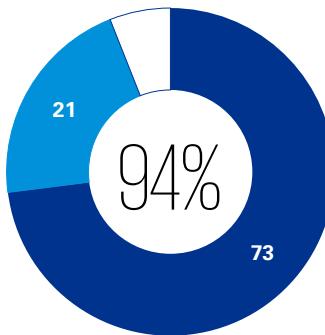
£2.5m

£2.5m
Whole financial statements materiality

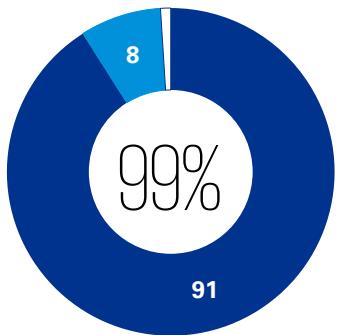
£2.0m
Range of materiality at nine components (£2.0m-£1.0k)

£125k
Misstatements reported to the audit committee

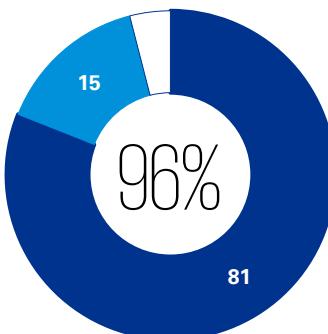
Group revenue



Group profit before tax



Group total assets



■ Full scope for group audit purposes 2018
■ Specified risk-focused audit procedures 2018
■ Residual components

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 68 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 23 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer-term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 23 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 69, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level, with a request to report on any indications of potential existence of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities)/irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Michael Harper (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**
Chartered Accountants
15 Canada Square, Canary Wharf, E14 5GL

24 May 2018

Consolidated income statement

| | Note | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|--|------|--|--|
| Continuing operations¹ | | | |
| Revenue | 2 | 213,515 | 211,924 |
| Cost of revenue | 5 | (113,565) | (106,008) |
| Gross profit | | 99,950 | 105,916 |
| Administrative expenses | 8 | (46,489) | (53,640) |
| Operating profit before business disposal | | 53,461 | 52,276 |
| Disposal of businesses | | — | 15,660 |
| Operating profit after business disposal | | 53,461 | 67,936 |
| Share of joint venture result | | — | 1,193 |
| Investment income | | 95 | 132 |
| Finance costs | | (609) | (120) |
| Profit before tax | | 52,947 | 69,141 |
| Tax | 10 | (10,012) | (9,508) |
| Profit for the year | | 42,935 | 59,633 |
| Attributable to: | | | |
| Equity holders of the parent | | 42,935 | 59,622 |
| Non-controlling interests | | — | 11 |
| | | 42,935 | 59,633 |
| Earnings per share | | | |
| Basic | 11 | 63.0p | 87.5p |
| Diluted | 11 | 62.7p | 87.2p |

Consolidated income statement of comprehensive income

| | | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|--|--|--|--|
| Items that may subsequently be reclassified to the consolidated income statement: | | | |
| Exchange differences on translation of foreign operations | | 67 | 675 |
| Accumulated foreign exchange translation recycled to the income statement (net of nil tax) | | — | 2,047 |
| Other comprehensive income for the year | | 67 | 2,722 |
| Profit for the year | | 42,935 | 59,633 |
| Total comprehensive income for the year | | 43,002 | 62,355 |
| Attributable to: | | | |
| Equity holders of the parent | | 43,002 | 62,344 |
| Non-controlling interests | | — | 11 |
| | | 43,002 | 62,355 |

1. The mobile payments business, which was sold in December 2016 and is therefore included in prior year comparatives, did not meet the definition of a discontinued operation set out in IFRS 5 Non-current assets held for sale and discontinued operations as it did not constitute a separate major line of business.

Consolidated statement of financial position

| | Note | 31 March 2018 £000 | 31 March 2017 £000 |
|--|------|--------------------------|--------------------------|
| Non-current assets | | | |
| Goodwill | 12 | 12,171 | 8,236 |
| Other intangible assets | 13 | 13,586 | 11,867 |
| Property, plant and equipment | 14 | 28,047 | 27,168 |
| Deferred tax asset | 17 | 414 | 354 |
| | | 54,218 | 47,625 |
| Current assets | | | |
| Inventories | | 279 | 357 |
| Trade and other receivables | 18 | 161,987 | 98,771 |
| Cash and cash equivalents | 19 | 46,040 | 53,080 |
| | | 208,306 | 152,208 |
| Total assets | | 262,524 | 199,833 |
| Current liabilities | | | |
| Trade and other payables | 20 | 196,562 | 121,603 |
| Current tax liabilities | | 4,213 | 4,548 |
| | | 200,775 | 126,151 |
| Non-current liabilities | | | |
| Trade and other payables | 20 | 390 | 537 |
| Deferred tax liability | 17 | 66 | — |
| | | 456 | 537 |
| Total liabilities | | 201,231 | 126,688 |
| Net assets | | 61,293 | 73,145 |
| Equity | | | |
| Share capital | 22 | 227 | 227 |
| Share premium | | 2,907 | 2,633 |
| Share-based payment reserve | 23 | 2,771 | 4,404 |
| Translation reserve | | (249) | (316) |
| Retained earnings | | 55,637 | 66,197 |
| Total equity attributable to equity holders of the parent | | 61,293 | 73,145 |
| Non-controlling interest | | — | — |
| Total equity | | 61,293 | 73,145 |

These financial statements were approved by the Board of Directors and authorised for issue on 24 May 2018 and were signed on behalf of the Board of Directors.

Dominic Taylor
Chief Executive
24 May 2018

Consolidated statement of changes in equity

| | Note | Share capital £000 | Share premium £000 | Share based payment reserve £000 | Translation reserve £000 | Retained earnings £000 | Total equity attributable to equity holders of the parent £000 | Non-controlling interest £000 | Total equity £000 |
|---|------|-----------------------|-----------------------|-------------------------------------|-----------------------------|---------------------------|---|----------------------------------|----------------------|
| Opening equity 1 April 2016 | | 227 | 2,365 | 3,956 | (3,038) | 84,467 | 87,977 | (114) | 87,863 |
| Profit for the year | | — | — | — | — | 59,622 | 59,622 | 11 | 59,633 |
| Exchange differences on translation of foreign operations | | — | — | — | 675 | — | 675 | — | 675 |
| FX and sale of business | | — | — | — | 2,047 | — | 2,047 | 103 | 2,150 |
| Equity-settled share-based payment expense | 23 | — | — | 1,552 | — | — | 1,552 | — | 1,552 |
| Vesting of share scheme | 23 | — | 268 | (1,329) | — | 651 | (410) | — | (410) |
| Deferred tax on share-based payments | 17 | — | — | 225 | — | — | 225 | — | 225 |
| Dividends | 24 | — | — | — | — | (78,543) | (78,543) | — | (78,543) |
| Closing equity 31 March 2017 | | 227 | 2,633 | 4,404 | (316) | 66,197 | 73,145 | — | 73,145 |
| Profit for the year | | — | — | — | — | 42,935 | 42,935 | — | 42,935 |
| Exchange differences on translation of foreign operations | | — | — | — | 67 | — | 67 | — | 67 |
| Equity-settled share-based payment expense | 23 | — | — | 1,567 | — | — | 1,567 | — | 1,567 |
| Vesting of share scheme | 23 | — | 274 | (2,999) | — | 2,403 | (322) | — | (322) |
| Deferred tax on share-based payments | 17 | — | — | (201) | — | — | (201) | — | (201) |
| Dividends | 24 | — | — | — | — | (55,898) | (55,898) | — | (55,898) |
| Closing equity 31 March 2018 | | 227 | 2,907 | 2,771 | (249) | 55,637 | 61,293 | — | 61,293 |

Consolidated statement of cash flows

| | Note | Year ended 31 March 2018 £000 | Year ended 31 March 2017 ¹ £000 |
|--|------|--|---|
| Net cash flow from operating activities | 29 | 62,990 | 41,807 |
| Investing activities | | | |
| Investment income | | 95 | 132 |
| Purchases of property, plant and equipment | | (7,112) | (12,116) |
| Purchases of intangible assets | | (6,258) | (5,335) |
| Acquisition of subsidiary | 9 | (2,480) | — |
| Acquisition of subsidiary – client cash | 9 | 1,554 | — |
| Net proceeds on disposal of subsidiary | | — | 22,674 |
| Net cash (used) / generated in investing activities | | (14,201) | 5,355 |
| Financing activities | | | |
| Dividends paid | 24 | (55,898) | (78,543) |
| Net cash used in financing activities | | (55,898) | (78,543) |
| Net decrease in cash and cash equivalents | | (7,109) | (31,381) |
| Cash and cash equivalents at beginning of year | | 53,080 | 83,221 |
| Effect of foreign exchange rate changes | | 69 | 1,240 |
| Cash and cash equivalents at end of year | | 46,040 | 53,080 |

Reconciliation of cash and cash equivalents

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|---|--|--|
| Corporate cash | 18,547 | 32,876 |
| Client cash | 27,493 | 20,204 |
| Cash and cash equivalents on the statement of financial position | 46,040 | 53,080 |

1. 31 March 2017 figures have been restated for the reclassification of the cash settled share based payment from financing activities to operating activities.

Company statement of financial position

| | Note | 31 March 2018 £000 | 31 March 2017 £000 |
|--------------------------------|------|--------------------------|--------------------------|
| Non-current assets | | | |
| Investments | 16 | 60,170 | 60,149 |
| | | 60,170 | 60,149 |
| Current assets | | | |
| Trade and other receivables | 18 | 36,116 | 22,032 |
| Cash and cash equivalents | 19 | 1,064 | 1,409 |
| | | 37,180 | 23,441 |
| Total assets | | 97,350 | 83,590 |
| Current liabilities | | | |
| Trade and other payables | 20 | 12,191 | 6,611 |
| Current tax liability | | 296 | — |
| | | 12,487 | 6,611 |
| Non-current liabilities | | | |
| Deferred tax | | — | 70 |
| Total liabilities | | 12,487 | 6,681 |
| Net assets | | 84,863 | 76,909 |
| Equity | | | |
| Share capital | 22 | 227 | 227 |
| Share premium | | 2,907 | 2,633 |
| Share-based payment reserve | 23 | 2,747 | 4,179 |
| Retained earnings | | 78,982 | 69,870 |
| Total equity | | 84,863 | 76,909 |

The financial statements of PayPoint plc (registered number 03581541) were approved by the Board of Directors and authorised for issue on 24 May 2018 and signed on behalf of the Board of Directors.

Dominic Taylor
Chief Executive
24 May 2018

Company statement of changes in equity

| | Note | Share capital £000 | Share premium £000 | Share-based payment reserve £000 | Retained earnings £000 | Total equity £000 |
|--|------|-----------------------|-----------------------|---|------------------------------|-------------------------|
| Opening equity 1 April 2016 | | 227 | 2,365 | 3,956 | 82,383 | 88,931 |
| Profit for the period | | — | — | — | 65,379 | 65,379 |
| Equity-settled share-based payment expense | 23 | — | — | 1,552 | — | 1,552 |
| Vesting of share scheme | 23 | — | 268 | (1,329) | 651 | (410) |
| Dividends paid | 24 | — | — | — | (78,543) | (78,543) |
| Closing equity 31 March 2017 | | 227 | 2,633 | 4,179 | 69,870 | 76,909 |
| Profit for the period | | — | — | — | 62,607 | 62,607 |
| Equity-settled share-based payment expense | 23 | — | — | 1,567 | — | 1,567 |
| Vesting of share scheme | 23 | — | 274 | (2,999) | 2,403 | (322) |
| Dividends paid | 24 | — | — | — | (55,898) | (55,898) |
| Closing equity 31 March 2018 | | 227 | 2,907 | 2,747 | 78,982 | 84,863 |

Company statement of cash flows

| | Note | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|--|------|--|--|
| Net cash movement from operating activities | 29 | (7,065) | (2,374) |
| Investing activities | | | |
| Dividends and interest received | | 62,639 | 46,021 |
| Proceeds on disposal of investments | | — | 24,808 |
| Investment in group companies | | (21) | (840) |
| Net cash from investing activities | | 62,618 | 69,989 |
| Financing activities | | | |
| Dividends paid | | (55,898) | (78,543) |
| Net cash used in financing activities | | (55,898) | (78,543) |
| Net decrease in cash and cash equivalents | | (345) | (10,928) |
| Cash and cash equivalents at beginning of year | | 1,409 | 12,337 |
| Cash and cash equivalents at end of year | | 1,064 | 1,409 |

Notes to the consolidated financial statements

1. Accounting policies

Statement of compliance with IFRSs and basis of preparation

PayPoint plc is a public limited company and is incorporated in the United Kingdom under the Companies Act. The Company's ordinary shares are traded on the London Stock Exchange. The Group and Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and as such comply with Article 4 of the EU IAS regulation.

These financial statements are presented in pounds sterling rounded to thousands (£000). The pound sterling is the currency of the primary economic environment in which the Group operates.

Adoption of new and revised standards

In the current year, several amendments to IFRS issued by the International Accounting Standards Board (IASB) became mandatorily effective for accounting periods beginning on or after 1 April 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements, these include:

- IAS 7 (amended) Disclosure initiative
- IAS 12 (amended) Recognition of deferred tax assets for unrealised losses

At the date of authorisation of these financial statements new and revised statements issued but not yet effective are set out below. Except for IFRS 15 and 16 separately addressed below, it is anticipated the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group. These have not been adopted in the Group accounting policies:

Effective from 1 April 2018:

- 2014-2016 Cycle of annual improvements to IFRS
- IFRS 2: (amended) Classification and measurement of share-based payment transactions
- IFRS 9: Financial instruments

Effective from 1 April 2019:

- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial instruments
- Amendments to IAS 28 Investments in Associates and Joint Ventures

Effective from 1 April 2021:

- IFRS 17: Insurance contracts

IFRS 15

IFRS 15 is a new standard and is effective for accounting periods commencing on or after 1 January 2018. It is based on a five-step model framework, which replaces all existing revenue standards. The principles of the standard are that revenue is recognised as the Group fulfils its performance obligations. The Group has performed an impact assessment of IFRS 15 considering the current revenue recognition policies set out on page 84. The impact assessment and implementation of IFRS 15 identified key areas of change including:

1. Deferral of setup and development revenue

Current revenue recognition for setup and development revenue is dependent on contracted terms resulting in certain fees being recognised as contractually earned. Under IFRS 15, fees earned in advance of the provided services will initially be deferred and subsequently recognised as the performance obligations are satisfied.

2. Deferral of costs associated to setting up clients and retailers on PayPoint's network

Costs for setting up client and retailers, to the extent they were not capitalised under other accounting policies, are expensed as incurred. The setup costs directly attributable to contracts with clients and retailers incurred prior to providing the services (satisfying the performance obligations) will be capitalised and recognised as an expense as the performance obligation is satisfied.

3. Contracts with tiered pricing structures

Certain contracts contain tiered pricing structures where either the transaction fees vary over the term of the contract or vary after achieving volume thresholds. Under the current accounting policy, the transaction fees are recognised as the transaction is processed at the fee attributable to those transactions. Under IFRS 15, an estimate will be made of the average transaction fee over the life of the contract and revenue recognised according to that average transaction fee. The rate will be subsequently revised for updated estimates at each reporting period.

If the standard had been adopted in the 31 March 2018 financial year, it is estimated deferred costs would increase gross assets by £3.0 million and deferred income would increase total liabilities by £2.0 million. The overall impact on earnings for the 2017 financial year would not be significant, as revenue which would have been deferred by an estimated £1.0 million is broadly similar to deferred costs of £1.0 million.

On transition, the Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 April 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

IFRS 16

IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019 subject to EU endorsement. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. On adoption of IFRS 16 the Group will recognise on the balance sheet a right to use an asset and lease liability for all leases under which it is a lessee. In the income statement depreciation of the asset and interest expense arising from the lease liability will be recognised in place of the operating lease rental expense. This will result in an increase in cost of revenue, finance costs and a decrease in administrative expenses.

The standard will also impact a number of statutory measures such as operating profit and alternative performance measures used by the Group. The impact of IFRS 16 on implementation may change as a result of alterations to existing lease contracts terms or new contracts entered into before the standard's implementation. If the standard was adopted in the current financial year the right to use the asset would increase gross assets by £1.1 million and lease liabilities increasing

total liabilities by £1.1 million. However, the overall impact on earnings would not be significant, as total operating lease charges would broadly be similar to the depreciation and finance costs recognised. The Group does not have any leases where it is a lessor.

Alternative performance measures

Non-IFRS measures or alternative performance measures are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes and have remained consistent with the prior year. These measures are included in these financial statements to provide additional useful information on performance and trends to shareholders.

These measures are not defined terms under IFRS and therefore they may not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, IFRS measures. These measures include net revenue, Retail networks earnings per share, effective tax rate, reported dividends and cash generation.

Net revenue (Non-IFRS measure)

Net revenue is revenue less the cost of mobile top-ups (where PayPoint is principal), SIM cards and other costs incurred by PayPoint which are recharged to clients and merchants. These costs include retail agent commission, card payment merchant service charges and costs for the provision of call centres for the mobile phone business clients.

Net revenue reflects the benefit attributable to PayPoint's performance eliminating pass-through costs and further assists with comparability of performance where PayPoint acts as a principal for some clients and as an agent for others. Net revenue is a reliable indication of contribution on a business sector and product basis and is shown in the operating and financial review. A reconciliation from revenue to net revenue is included in note 3.

Retail networks and ongoing business

(Non-IFRS measure)

Following the sale of Mobile and Online, the ongoing business of the Group is Retail networks. In order to aid users' understanding of the results for the year a reconciliation has been presented of the Group's results for the year to that of Retail networks in note 4.

Effective tax rate (non-IFRS measure)

Effective tax rate is the ongoing tax cost as a percentage of the net profit before tax excluding significant items including profit or loss on business disposals and impairments.

Reported dividends (Non-IFRS measure)

Reported dividends are based on a financial year's results from which the dividend is declared and consist of an interim and final dividend. This is different to statutory dividends as the final dividend on ordinary shares is recognised in the following year when they are approved by the Company's shareholders.

Cash Generation (non-IFRS measure)

Cash generation reflects operating cash flows before movements in working capital as detailed in note 29 to the financial statements.

Significant accounting policies

The accounting policies adopted by the Group are consistent with prior years.

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).

Control is achieved when the Company has the power over an entity, is exposed, or has rights, to variable return from its involvement with it, and has the ability to use its powers to affect its returns. The Company reassesses its control in an entity if facts and circumstances indicate that there is a change to any of the three elements of control listed above.

The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control changed. All intergroup transactions, balances, income and expenses are eliminated on consolidation except for Joint ventures.

All the subsidiaries of the Group, a list of which are provided in note 16 of the financial statements, apply accounting policies which are consistent with those of the Group.

Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. Acquisition-related costs are recognised in profit or loss as incurred. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair value at the acquisition date, except for non-current assets that are classified as held for resale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is not amortised and is measured at the amount initially recognised less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's subsidiaries (cash-generating units). The cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication of impairment. This is done by determining the recoverable amount. If the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised by first allocating the impairment to goodwill and then to the other assets on a pro-rata basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised immediately in profit or loss and is not reversed in subsequent years.

On disposal of a cash generating unit, the related goodwill is included in the determination of the profit or loss on disposal.

Impairment of property, plant and equipment and other intangible assets

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

Notes to the consolidated financial statements continued

annually and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Revenue

Revenue represents the value of services and goods delivered or sold to clients and retailers which is measured using the fair value of the consideration received or receivable, net of value added tax.

Revenue from bill and general payments comprises commissions from clients for processing transactions and providing an over-the-counter payments service. Revenue is recognised at the point in time each transaction is processed. Dependent on the contracted terms, management fees, set-up fees or cash rebates are deferred and recognised on a straight-line basis over the contracted period with the client.

Top-up revenue comprises revenue from top ups for mobile phones, e-vouchers, prepaid debit cards and lottery tickets. Revenue is recognised at the point in time each top-up is sold. Other than as described below, PayPoint is contracted as agent in the supply of top-ups and accordingly the commission earned from clients is recognised as revenue. In Ireland and Romania, PayPoint contracts as principal for mobile top-ups and revenue is recognised at the gross sale price and cost of revenue includes the related cost.

Retail services revenue comprises:

- Services fees from retailers that use our technology to facilitate card payments, PayPoint One and legacy terminals and EPoS, all of which are charged for on a weekly or monthly basis, and recognised on a straight-line basis over the period of the contract.
- Commissions, rebates and fees from card payment, ATM transaction fees, parcel and money transfer transactions are recognised when each transaction is processed.
- Commissions from sale of SIM cards is primarily earned from the mobile operators based on the value of top-ups after the initial activation. This revenue is contingent on the customer actions and is recognised as the consumer top ups the SIM card.
- Fees for receipt advertising and failed direct debits are recognised at the time the transaction occurs.
- The Group's share of royalty income from the Collect+ joint operation (see accounting policy on joint arrangements on page 85).

Cost of revenue

Cost of revenue primarily consists of expenses related to delivering our services and products. These include commissions payable to retailers, cost of mobile top-ups

and SIM cards (where PayPoint is principal), card scheme sponsors' charges, transaction costs, terminal and ATM maintenance costs, telecommunications costs, field service costs, depreciation and amortisation.

Foreign currency

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

The assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Cash flows, profit and loss items are translated at the average exchange rates for the year unless exchange rates fluctuate significantly. Exchange differences arising on consolidation are recorded in separate component of equity titled the translation reserve.

| Exchange rates used for conversion | 31 March 2018 £000 | 31 March 2017 £000 |
|------------------------------------|-----------------------|-----------------------|
| Romania Leu – average | 5.2118 | 5.3485 |
| Romania Leu – year end | 5.2852 | 5.3147 |
| Euro – average | 1.1340 | 1.1904 |
| Euro – year end | 1.1366 | 1.1689 |

On the disposal of a foreign operation accumulated exchange differences in respect of that operation are reclassified to profit or loss.

Pension costs

The Group makes payments to a number of defined contribution pension schemes. Pension costs are recognised as an expense when employees have rendered services entitling them to the contributions. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Share-based payments

Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period adjusted for non-market conditions where they will not vest (i.e. leavers). Fair value for LTIP schemes is measured by use of a Monte Carlo simulation. The fair value of other equity-settled share-based payments where no market vesting conditions exist are based on the share price at the date of the grant.

Share based payment arrangements are either cash-settled or equity-settled at the Group's option. The Group determines whether it has incurred a present obligation to settle in cash (based on past practice and stated policy) and if there is no present obligation, treats the options as equity-settled. If the Group then elects to settle in cash, the cash payment is accounted for as a deduction from equity.

Investment income

Investment income comprises of bank deposit interest received on cash and cash equivalents held at financial institutions. Interest is recognised as earned which reflects the effective interest rate method.

Taxation

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

The tax expense represents the amount payable in respect of the year under review based on the taxable profit for the year and deferred tax. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and items that are not taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts. Deferred tax is calculated using tax rates that have been substantively enacted by the balance sheet date. Deferred tax assets are recognised on deductible temporary differences 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 statement of profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is recorded in equity.

Intangible assets

Recognised on acquisition

The Group has recognised intangible assets at their fair values in accordance with IFRS 3 Business combinations. These assets include brand assets. These intangible assets are amortised over their estimated useful lives of five years.

Development expenditure

The Group develops computer software and other intangible assets for internal use. 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. Development costs recognised as an intangible asset are amortised on a straight-line basis over its useful life, which is between five and ten years. Other software costs are recognised in administrative expenses when incurred.

Property, plant and equipment

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

- Freehold building – 50 years
- Leasehold improvements – over the life of the lease

- PayPoint One terminals – seven years
- Other terminals – five years
- Automatic teller machines – five years
- Other classes of assets – three to five years

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

Investments

Investments in subsidiaries and joint arrangements are stated at cost less accumulated impairments.

Inventories

Inventories comprises stocks of e-vouchers, scratch cards and SIM cards. These are stated at the lower of cost or net realisable value.

In Ireland and Romania, PayPoint trades as principal for the processing and sale of mobile phone top-ups and the cost of these e-vouchers is included in inventories. Where PayPoint acts as an agent, the cost of the e-vouchers is not included in inventories.

Trade and other receivables

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

Items in the course of collection represent gross transaction values received by retail agents that have not yet been collected by PayPoint, less an allowance for doubtful recovery.

Trade and other payables

Trade payables are initially recorded at fair value and represent the value of invoices received from suppliers for purchases of goods and services for which payment has not been made.

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Joint arrangements

A joint arrangement is an arrangement in which two or more parties have contractually agreed to sharing of control of an arrangement which requires the unanimous consent when making decisions about the relevant activities. Joint arrangements are classified as either as a joint venture whereby the Group has the right to net assets through joint control with third parties or a joint operation whereby the Group has rights to the assets and obligations for the liabilities relating to the arrangement. Our investment in Collect+ Holdings Limited is accounted for as a joint operation and is accounted for by recognising, in relation to the interest in the joint operation:

- the assets, including its share of any assets held jointly;
- the liabilities, including its share of any liabilities incurred jointly;
- the revenue from the sale of its share of the output arising from the joint operation;
- the share of the revenue from the sale of the output

Notes to the consolidated financial statements continued

- by the joint operation; and
- the expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Leases

At the inception of finance leases, the leased asset and the corresponding lease liability (net of finance charges) is recognised on the statement of financial position based on the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease 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.

Bank and other loans

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

Cash and cash equivalents

For the purpose of the statement of cash flows and statement of financial position, cash and cash equivalents comprise cash at bank and in hand and short-term deposits with original maturity of less than three months and are subject to insignificant risk of changes in value. Cash consists of both corporate cash and client funds.

Corporate cash consists of cash available to PayPoint for its daily operations. Client funds consists of cash collected on behalf of clients from retailers not yet transferred to clients but is held in PayPoint bank accounts.

Dividends

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

In the Company accounts, dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Critical judgements and estimates

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the recognition and measures of revenue, costs, assets and liabilities. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

Actual results may differ from these estimates.

The following are the critical judgements and estimates with the most significant effect on the amounts recognised and presented in the financial statements.

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

The critical accounting judgements at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next year and key sources of estimation uncertainty in the business is the evaluation of capitalised development expenditure shown in intangible assets of £13.6 million (2017: £11.9 million).

Critical estimate: useful economic lives and intangible assets

The useful life used to amortise intangible assets relates to the expected future performance of the assets and management's judgement of the period over which economic benefit will be derived from the asset. For development costs, the Group has determined the useful life based on historical experience with similar products and platforms controlled by the Group as well as anticipation of future events which may impact their life such as changes in technology.

2. Segment reporting

Segment information

The Group provides a number of different services and products, however these do not meet the definition of different segments under IFRS 8 and the Group has only one operating segment.

Geographical information

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|--|--|--|
| Revenue | | |
| UK | 152,225 | 161,664 |
| Ireland | 3,727 | 5,110 |
| Romania | 57,563 | 39,765 |
| North America | — | 4,459 |
| France | — | 926 |
| Total | 213,515 | 211,924 |
| Non-current assets (excluding deferred tax) | | |
| | 31 March 2018 £000 | 31 March 2017 £000 |
| UK | 39,997 | 38,164 |
| Romania | 13,807 | 9,107 |
| Total | 53,804 | 47,271 |

3. Net revenue (alternative performance measure)

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|---|--|--|
| Service revenue | 164,519 | 173,880 |
| Sale of goods | 47,809 | 37,695 |
| Royalties | 1,187 | 349 |
| Revenue | 213,515 | 211,924 |
| less: | | |
| Retail agent commissions | (49,100) | (53,645) |
| Cost of mobile top-ups and SIM cards as principal | (44,844) | (32,296) |
| Card scheme sponsors' charges (Mobile business) | — | (2,130) |
| Net revenue | 119,571 | 123,853 |

4. Reconciliation from the Group statutory income statement to Retail networks

PayByPhone, our mobile payment business and Drop and Collect were sold in December 2016 and are included in last year's reported statutory results making this year's performance not directly comparable. To make a clear comparison of the ongoing financial performance of retail networks business the reconciliation from reported statutory income statement for 2016/17 to retail networks performance is shown below.

| For the year ended 31 March 2017 | Statutory result £000 | Less Mobile and Online £000 | Less Collect Plus £000 | Retail networks £000 |
|--|-----------------------------|--------------------------------------|---------------------------------|----------------------------|
| Revenue | 211,924 | (8,495) | — | 203,429 |
| Cost of revenue | (106,008) | 3,348 | — | (102,660) |
| Gross profit | 105,916 | (5,147) | — | 100,769 |
| Administrative expenses | (53,640) | 6,131 | — | (47,509) |
| Operating profit before impairments and business disposal | 52,276 | 984 | — | 53,260 |
| Profit on disposal of business | 15,660 | (19,503) | 3,843 | — |
| Operating profit after impairments and business disposal | 67,936 | (18,519) | 3,843 | 53,260 |
| Share of joint venture result | 1,193 | — | (1,193) | — |
| Investment income | 132 | — | — | 132 |
| Finance costs | (120) | 11 | — | (109) |
| Profit before tax | 69,141 | (18,508) | 2,650 | 53,283 |
| Tax | (9,508) | — | — | (9,508) |
| Profit for the year | 59,633 | (18,508) | 2,650 | 43,775 |

5. Cost of revenue

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|---|--|--|
| Commission payable to retail agents | 49,100 | 53,645 |
| Cost of mobile top-ups and SIM cards as principal | 44,844 | 32,296 |
| Card scheme sponsors' charges | — | 2,130 |
| Cost of revenue deducted for net revenue | 93,944 | 88,071 |
| Depreciation and amortisation | 10,195 | 7,473 |
| Other | 9,426 | 10,464 |
| Other cost of revenue | 19,621 | 17,937 |
| Total cost of revenue | 113,565 | 106,008 |

6. Profit of parent company

The Company has taken advantage of the exemption under S.408 of the Companies Act 2006 and consequently the income statement of the parent company is not presented as part of these financial statements. The profit of the parent company for the financial year amounted to £62.6 million (2017: £65.4 million).

7. Employee information

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|--|--|--|
| Average number of employees | | |
| Sales, distribution and marketing | 174 | 190 |
| Operations and administration | 464 | 471 |
| | 638 | 661 |
| Staff costs during the year (including directors) | | |
| Wages and salaries | 22,985 | 26,715 |
| Social security costs | 2,285 | 2,728 |
| Pension costs (note 25) | 1,413 | 1,310 |
| | 26,683 | 30,753 |

Redundancy and termination costs were £0.4 million (2017: £0.6 million).

Directors' emoluments, pension contributions and share options are disclosed in the Remuneration Committee report on pages 49 to 65. Included within staff costs is a share-based payment charge (note 23) of £1.6 million (2017: £1.6 million).

8. Profit for the year

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|--|--|--|
| Profit is after charging / (crediting): | | |
| Inventory expensed – cost of mobile top-ups and SIM cards as principal | 44,844 | 32,182 |
| Write downs of inventories recognised as an expense | — | 114 |
| Depreciation on property, plant and equipment | 6,362 | 5,302 |
| Amortisation of intangible assets | 4,155 | 2,171 |
| Loss on disposal of property, plant and equipment | 52 | 414 |
| Operating leases | 67 | 63 |
| Profit on disposal of business | — | (15,660) |
| Research and development costs | 2,100 | 2,500 |
| Auditor's remuneration: | | |
| Fees payable to the Company's auditor for the audit of the Company's annual accounts | 35 | 85 |
| Fees payable to the Company's auditor for the audit of the Company's subsidiaries | 139 | 105 |
| Total audit fees | 174 | 190 |
| Other audit-related services | — | 28 |
| Fees payable to the Group's auditor for the review of the interim results | 35 | 24 |
| Audit-related assurance services | 35 | 52 |
| Corporate finance services | — | 300 |
| Tax compliance services | — | 53 |
| Tax advisory services | — | 132 |
| Total other services | — | 485 |
| Total auditor's remuneration | 209 | 727 |

Notes to the consolidated financial statements continued

A description of the work of the Audit Committee is set out on pages 43 to 48 and includes an explanation of how auditor independence is safeguarded by limitation of non-audit services.

Current year audit fee payments relate to KPMG LLP whilst prior year are in respect to Deloitte LLP.

9. Business Acquisition

On 12 October 2017 the Group acquired the entire share capital of Payzone SA in Romania for an initial consideration of £1.4 million and £0.9 million for an existing shareholder loan. Prior to the acquisition, Payzone SA operated a network of 10,000 retailers offering similar services to our existing Romanian business of bill payment, mobile top-up services and money transfer services. The Payzone acquisition is a step change in the Romanian business where synergies and opportunities can be leveraged from enhanced cross selling of services between clients and retailers together with migrating the Payzone network, operations and office into PayPoint Romania's existing operations.

The allocation of the purchase price to the fair value of the assets and liabilities, determined provisionally, was as follows:

| | 12 October 2017 £'000 |
|--|-----------------------------|
| Goodwill | 3,947 |
| Trademark | 314 |
| Property plant and equipment | 384 |
| Trade and other receivables | 5,075 |
| Inventory | 61 |
| Cash and cash equivalents – client funds | 1,554 |
| Deferred tax liability | (79) |
| Overdraft | (216) |
| Current tax liability | (27) |
| Trade and other payables | (8,749) |
| Net fair value of business acquired | 2,264 |
| Total consideration | 2,264 |
| Satisfied by: | |
| Gross consideration shares | 1,381 |
| Gross consideration – shareholder loan | 883 |
| Total consideration paid | 2,264 |
| Net overdraft acquired | 216 |
| | 2,480 |

As part of the acquisition, £0.4 million of the consideration was deferred and is subject to recovery of trade receivable balances. Trade receivables balances were reduced to fair value as amounts are highly unlikely to be recovered. Consequently the deferred consideration liability has not been recognised.

Since its acquisition Payzone generated revenue of £1.7 million and profits of £0.3 million. Had Payzone been acquired on 1 April 2017 it would have contributed £3.4 million to revenue and £0.5 million to profits.

Acquisition related costs of £0.2 million related to professional and legal fees have been included in administrative expenses in the income statement.

10. Tax

| | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|---|---|---|
| Current tax | | |
| Charge for current year | 10,224 | 10,596 |
| Adjustment in respect of prior years | 62 | (892) |
| Current tax charge | 10,286 | 9,704 |
| Deferred tax | | |
| Charge for current year | (262) | — |
| Adjustment in respect of prior years | (12) | (196) |
| Deferred tax charge | (274) | (196) |
| Total income tax | | |
| Income tax charge | 10,012 | 9,508 |
| Year ended 31 March 2018 £'000 | | Year ended 31 March 2017 £'000 |
| Profit before tax | 52,947 | 69,141 |
| Profit on disposals | — | (15,660) |
| Profit before tax for purposes of calculating the effective tax rate | 52,947 | 53,481 |

The income tax charge is based primarily on the United Kingdom statutory rate of corporation tax for the year of 19% (2017: 20%). The charge for the year is reconciled below the profit before tax as set out in the consolidated income statement. In the current year, the main rate of UK corporation tax was 19% (2017: 20%). Reductions in the main rate of UK corporation tax from 19% to 17% for the year beginning 1 April 2020 have been substantively enacted at the balance sheet date. Temporary differences have been measured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

The tax charge of £10.0 million (2017: £9.5 million) on profit before tax of £52.9 million (2017: £69.1 million) represents an effective tax rate¹ of 18.9% (2017: 17.8%). This is marginally lower than the UK statutory rate due to overseas profits being taxed at local rates which are lower than the UK rate offset marginally by adjustments in relation to estimates made in prior years and disallowable expenditure. In the current year the reported tax rate is the same as the effective tax rate at 18.9%. Last year's reported tax rate was 13.8% with the profit on disposal of businesses not being taxable. The charge for the year is reconciled below to the profit before tax as set out in the consolidated income statement.

1. Effective tax rate is the tax cost as a percentage of operating profit before impairments and profits and losses on business disposals.

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 | |
|---|--|--|--|
| Profit before tax | 52,947 | 69,141 | |
| Tax at the UK corporation tax rate of 19% (2017: 20%) | 10,059 | 13,828 | |
| Tax effects of: | | | |
| Effect of tax rates in other countries where the rate is different to the UK | (130) | (213) | |
| Disallowable expenses | 49 | 107 | |
| Losses in companies where a deferred tax asset is not recognised | 4 | — | |
| Adjustments in respect of prior years | 50 | (1,088) | |
| Tax impact of share-based payments | (22) | (10) | |
| Revaluation of deferred tax asset | 2 | 16 | |
| Disallowable loss on Collect+ arrangement | — | 769 | |
| Disallowable goodwill impairment and non-taxable profit on disposal of subsidiary | — | (3,901) | |
| Actual amount of tax charge | 10,012 | 9,508 | |

11. Earnings per share

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

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 | |
|---|---|---|--|
| Profit for basic and diluted earnings per share is the net profit attributable to equity holders of the parent | 42,935 | 59,622 | |
| Adjustments: | | | |
| – Profit related to Mobile | — | (18,508) | |
| – Non-controlling interest | — | 11 | |
| – Loss related to Collect+ | — | 2,650 | |
| Profit for the purpose of basic and diluted earnings per share (Retail networks) | 42,935 | 43,775 | |
| | 31 March 2018 Number of shares | 31 March 2017 Number of shares | |
| Weighted average number of ordinary shares in issue (for basic earnings per share) | 68,112,815 | 68,118,438 | |
| Potential dilutive ordinary shares: | | | |
| LTIP | 260,078 | 190,484 | |
| DABS / DSB | 47,795 | 59,725 | |
| SIP and other | 28,719 | 373 | |
| Weighted average number of ordinary shares in issue (for reported and Retail networks diluted earnings per share) | 68,449,407 | 68,369,020 | |
| Earnings per share | | | |
| Basic | 63.0p | 87.5p | |
| Diluted | 62.7p | 87.2p | |

12. Goodwill

| | Total £000 |
|--------------------------|---------------|
| Cost | |
| At 31 March 2016 | 8,068 |
| Exchange rate adjustment | 168 |
| At 31 March 2017 | 8,236 |
| Acquisition | 3,947 |
| Exchange rate adjustment | (12) |
| At 31 March 2018 | 12,171 |

Goodwill arose on the acquisition of PayPoint Romania and Payzone Romania.

The Group tests goodwill annually for impairment as set out in the accounting policy note on page 83. 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 nominal growth rates that do not exceed 3% (2017: 2%). The post-tax rates used of 13.1% (2017: 12.5%) to discount the forecast cash flows are based on the Group's estimated weighted average cost of capital, adjusted for tax, country or business specific risk premiums.

13. Other intangible assets

| | Development costs £000 | Trademark £000 | Total £000 |
|---------------------------------|------------------------------|---|---------------|
| Cost | | | |
| At 31 March 2017 | 16,328 | — | 16,328 |
| Additions | 5,564 | — | 5,564 |
| Disposals | (1,034) | — | (1,034) |
| Acquisitions | 44 | 270 | 314 |
| Exchange rate adjustment | — | (4) | (4) |
| At 31 March 2018 | 20,902 | 266 | 21,168 |
| Accumulated amortisation | | | |
| At 31 March 2017 | 4,461 | — | 4,461 |
| Charge for the year | 4,128 | 27 | 4,155 |
| Disposals | (1,034) | — | (1,034) |
| At 31 March 2018 | 7,555 | 27 | 7,582 |
| Carrying amount | | | |
| At 31 March 2018 | 13,347 | 239 | 13,586 |
| At 31 March 2017 | 11,867 | — | 11,867 |
| | Development costs £000 | Acquired contracts with merchants £000 | Total £000 |
| Cost | | | |
| At 31 March 2016 | 10,328 | 801 | 11,129 |
| Additions | 6,000 | — | 6,000 |
| Disposals | — | (801) | (801) |
| At 31 March 2017 | 16,328 | — | 16,328 |

Notes to the consolidated financial statements continued

Accumulated amortisation

| | | | |
|-------------------------|--------------|----------|--------------|
| At 31 March 2016 | 2,290 | 801 | 3,091 |
| Charge for the year | 2,171 | — | 2,171 |
| Disposals | — | (801) | (801) |
| At 31 March 2017 | 4,461 | — | 4,461 |

Carrying amount

| | | | |
|-------------------------|---------------|----------|---------------|
| At 31 March 2017 | 11,867 | — | 11,867 |
| At 31 March 2016 | 8,038 | — | 8,038 |

At 31 March 2018, the Group had not entered into any material contractual commitments for other intangible assets.

At 31 March 2018, the Group had entered into contractual commitments for the acquisition of terminals and ATMs amounting to £1.7 million (2018: £2.8 million).

| | Terminals and ATMs £000 | Fixtures, fittings and equipment £000 | Land and buildings £000 | Total £000 |
|--------------------------|-------------------------|---------------------------------------|-------------------------|---------------|
| Cost | | | | |
| At 31 March 2016 | 55,041 | 3,949 | 6,412 | 65,402 |
| Additions | 7,322 | 87 | 3,978 | 11,387 |
| Disposals | (1,116) | (108) | — | (1,224) |
| Exchange rate adjustment | 215 | 54 | — | 269 |
| At 31 March 2017 | 61,462 | 3,982 | 10,390 | 75,834 |

14. Property, plant and equipment

| | Terminals and ATMs £000 | Fixtures, fittings and equipment £000 | Land and buildings £000 | Total £000 |
|--------------------------|-------------------------|---------------------------------------|-------------------------|---------------|
| Cost | | | | |
| At 31 March 2017 | 61,462 | 3,982 | 10,390 | 75,834 |
| Additions | 6,402 | 207 | 291 | 6,900 |
| Disposals | (399) | (372) | — | (771) |
| Acquisitions | 281 | 103 | — | 384 |
| Exchange rate adjustment | (13) | — | — | (13) |
| At 31 March 2018 | 67,733 | 3,920 | 10,681 | 82,334 |

Accumulated depreciation

| | | | | |
|--------------------------|---------------|--------------|------------|---------------|
| At 31 March 2016 | 41,840 | 1,471 | 639 | 43,950 |
| Charge for the year | 4,406 | 583 | 313 | 5,302 |
| Disposals | (702) | (108) | — | (810) |
| Exchange rate adjustment | 182 | 42 | — | 224 |
| At 31 March 2017 | 45,726 | 1,988 | 952 | 48,666 |

Net book value

| | | | | |
|-------------------------|---------------|--------------|--------------|---------------|
| At 31 March 2017 | 15,736 | 1,994 | 9,438 | 27,168 |
| At 31 March 2016 | 13,201 | 2,478 | 5,773 | 21,452 |

| | Terminals and ATMs £000 | Fixtures, fittings and equipment £000 | Land and buildings £000 | Total £000 |
|---------------------------------|-------------------------|---------------------------------------|-------------------------|---------------|
| Accumulated depreciation | | | | |
| At 31 March 2017 | 45,726 | 1,988 | 952 | 48,666 |
| Charge for the year | 5,924 | 248 | 190 | 6,362 |
| Disposals | (358) | (372) | — | (730) |
| Exchange rate adjustment | (12) | 1 | — | (11) |
| At 31 March 2018 | 51,280 | 1,865 | 1,142 | 54,287 |

Carrying amount

| | | | | |
|-------------------------|---------------|--------------|--------------|---------------|
| At 31 March 2018 | 16,453 | 2,055 | 9,539 | 28,047 |
| At 31 March 2017 | 15,736 | 1,994 | 9,438 | 27,168 |

15. Joint Operation

The joint operation with the Collect+ Group, has licenced the use of the Collect+ brand to both Drop and Collect Limited (a wholly owned subsidiary of Yodel) and PayPoint. In consideration, PayPoint and Drop and Collect Limited pay royalties to the joint operation for each parcel they introduce to the Collect+ network. The royalties in the arrangement are then distributed equally to Yodel and PayPoint on a regular basis.

The only source of revenue for the Collect+ Group in the period was the royalty income received from licencing the brand to Drop and Collect Limited. The Group's share of £1.2 million (2017: £0.3 million) has been included in revenue. There were insignificant operating costs incurred by the arrangement.

16. Investments

The Company, a holding company, has investments (directly or indirectly) in the following undertakings which are wholly owned unless otherwise stated:

| Company name | Principal activity (registered address) | Country of registration |
|--|--|-------------------------|
| PayPoint Network Limited | Management of an electronic payment service (1 The Boulevard, Shire Park, Welwyn Garden City, Hertfordshire, AL7 1EL) | England and Wales |
| PayPoint Collections Limited | Provision of a payment collection service (1 The Boulevard, Shire Park, Welwyn Garden City, Hertfordshire, AL7 1EL) | England and Wales |
| PayPoint Retail Solutions Limited | Provision of retail services (1 The Boulevard, Shire Park, Welwyn Garden City, Hertfordshire, AL7 1EL) | England and Wales |
| PayPoint Ireland Limited | Holding company (29 Earlsfort Terrace Dublin 2) | Ireland |
| PayPoint Network Ireland Limited | Management of an electronic payment service (29 Earlsfort Terrace Dublin 2) | Ireland |
| PayPoint Collections Ireland Limited | Provision of a payment collection service (29 Earlsfort Terrace Dublin 2) | Ireland |
| PayPoint Services SRL | Management of an electronic payment and collection service (Charles de Gaulle Square, 15 th Floor 8, sector 1, Bucharest, Romania) | Romania |
| Payzone S.A. | Management of an electronic payment service (71-73 Nicolae Caramfil Street, 4 th Floor, District 1, Bucharest Romania) | Romania |
| SC P.P. Network Progresimo SRL | Holding Company (Charles de Gaulle Square, 15 th Floor 8, sector 1, Bucharest, Romania) | Romania |
| PayPoint Payment Services Limited | Provision of regulated payments services (1 The Boulevard, Shire Park, Welwyn Garden City, Hertfordshire, AL7 1EL) | England and Wales |
| Collect+ Holdings Limited ¹ | Holding company (20-22 Wenlock Road, London N1 7GU) | England and Wales |
| Collect+ Brand Limited ¹ | Holder of Collect+ brand (20-22 Wenlock Road, London N1 7GU) | England and Wales |
| PayPoint Trust Managers Limited | Provision of employee benefit trust services (1 The Boulevard, Shire Park, Welwyn Garden City, Hertfordshire, AL7 1EL) | England and Wales |

¹ The Group holds a 50% interest in Collect+ Holdings Limited and Collect+ Brand Limited. The Group has licenced the Collect+ Brand from Collect+ Limited but no royalty charges have been paid or are payable.

Movement of investments

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---------------------------------------|--------------------|--------------------|
| Cost | | |
| Balance at the beginning of the year | 60,149 | 108,800 |
| Additions | 21 | 840 |
| Disposals | — | (49,491) |
| Balance at the end of the year | 60,170 | 60,149 |
| Accumulated impairments | | |
| Balance at the beginning of the year | — | 47,057 |
| Disposals | — | (47,057) |
| Balance at the end of the year | — | — |
| Net book value | 60,170 | 60,149 |

17. Deferred tax asset and liability

| | 31 March 2017 £000 | Credit to income statement £000 | Charge to equity £000 | Acquisition £000 | 31 March 2018 £000 |
|----------------------------------|--------------------|---------------------------------|-----------------------|------------------|--------------------|
| Property, plant and equipment | 736 | 113 | — | (38) | 811 |
| Intangible assets | (933) | 6 | — | (41) | (968) |
| Share-based payments | 592 | 50 | (201) | — | 441 |
| Short-term temporary differences | (41) | 105 | — | — | 64 |
| Total | 354 | 274 | (201) | (79) | 348 |

Disclosed as:

| | |
|-----------------------|-------------|
| Non-current asset | 414 |
| Non-current liability | (66) |
| | 348 |

| | 31 March 2016 £000 | Credit/(Charge) to income statement £000 | Credit to equity £000 | 31 March 2017 £000 |
|----------------------------------|--------------------|--|-----------------------|--------------------|
| Property, plant and equipment | 708 | 28 | — | 736 |
| Intangible assets | (936) | 3 | — | (933) |
| Share-based payments | 161 | 206 | 225 | 592 |
| Short-term temporary differences | — | (41) | — | (41) |
| Total | (67) | 196 | 225 | 354 |

At the balance sheet date and in the prior year, the Group had no unused tax losses.

No deferred tax liability has been recognised in respect of temporary differences associated with investments in subsidiaries because the Group is able 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.

Notes to the consolidated financial statements continued

18. Trade and other receivables

| Group | 31 March 2018 £'000 | 31 March 2017 £'000 |
|--|---------------------|---------------------|
| Trade receivables ¹ | 18,425 | 14,743 |
| Items in the course of collection ² | 139,666 | 78,340 |
| Revenue allowance | (3,862) | (3,640) |
| | 154,229 | 89,443 |
| Other receivables | 1,208 | 1,161 |
| Prepayments and accrued income | 6,550 | 8,167 |
| | 161,987 | 98,771 |

1. The average credit period on the sale of goods is 26 days (2017: 25 days).
 2. Items in the course of collection represent amounts collected for clients by retail agents. PayPoint bears credit risk and will have title to the cash collected on only £27.5 million of this balance at 31 March 2018 (2017: £13.5 million). Credit risk is mitigated by daily direct debiting and the suspension of terminals where direct debits fail. At the date of this report, all but £38,000 has been collected from retailers.

The Group's exposure to the credit risk inherent in its trade receivables is discussed in note 26. The concentration of credit risk is limited due to the spread of the retail agent and client bases. Clients and retailers are credit checked to mitigate credit risk and in all new client contracts, the Group has the right of set-off of monies due against funds collected.

The historical level of customer default is low, and as a result the credit quality of period end trade receivables is considered to be high. The Group reviews trade receivables past due but not impaired on a regular basis and in determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date.

Included in the Group's trade receivable balance are debtors with a carrying amount of £11.6 million (2017: £4.4 million), which are past due, for which the Group has not provided as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable.

The aging of the trade receivables past due is as follows:

| | Less than 1 month £'000 | 1-2 months £'000 | 2-3 months £'000 | More than 3 months £'000 | Total £'000 |
|--|-------------------------|------------------|------------------|--------------------------|---------------|
| Carrying value at 31 March 2018 | 9,564 | 1,048 | 1,010 | 17 | 11,639 |
| Carrying value at 31 March 2017 | 3,938 | 314 | 15 | 86 | 4,353 |

Movement in the revenue allowance

| | 31 March 2018 £'000 | 31 March 2017 £'000 |
|---|---------------------|---------------------|
| Balance at the beginning of the year | 3,640 | 2,803 |
| Amounts utilised in the year | (1,209) | (78) |
| Increase in allowance | 1,424 | 858 |
| Foreign exchange | 7 | 57 |
| Balance at end of the year | 3,862 | 3,640 |

Age of revenue allowance

| | Less than 1 month £'000 | 1-2 months £'000 | 2-3 months £'000 | More than 3 months £'000 | Total £'000 |
|--|-------------------------|---------------------|------------------|--------------------------|--------------|
| Carrying value at 31 March 2018 | 62 | 2 | — | 3,798 | 3,862 |
| Carrying value at 31 March 2017 | 30 | 53 | 72 | 3,485 | 3,640 |
| | | | | | |
| Company | 31 March 2018 £'000 | 31 March 2017 £'000 | | | |
| Amounts owed by Group companies | | | 36,023 | 21,949 | |
| Other receivables | | | 93 | 83 | |
| | | | 36,116 | 22,032 | |

19. Cash and cash equivalents

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.

Included within Group cash and cash equivalents are balances relating to funds collected on behalf of clients where PayPoint has title to the funds (client cash). An equivalent balance is included within trade payables (note 20).

20. Trade and other payables

| Group | 31 March 2018 £'000 | 31 March 2017 £'000 |
|---|---------------------|---------------------|
| Amounts owed in respect of client cash ¹ | 27,493 | 20,204 |
| Settlement payables ² | 139,666 | 78,340 |
| Client payables | 167,159 | 98,544 |
| Trade payables ³ | 8,010 | 6,019 |
| Other taxes and social security | 7,286 | 2,406 |
| Other payables | 2,823 | 2,047 |
| Accruals | 10,953 | 12,383 |
| Deferred income | 721 | 741 |
| | 196,952 | 122,140 |
| Disclosed as: | | |
| Current | 196,562 | 121,603 |
| Non-current | 390 | 537 |
| Total | 196,952 | 122,140 |

1. Relates 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.

2. Payable in respect of amounts collected for clients by retail agents.

3. The Group aims to pay its creditors promptly, in accordance with terms agreed for payment. The Group had 23 days purchases outstanding at 31 March 2018 (2017: 22 days) based on the average daily amount invoiced by suppliers during the year.

| Company | 31 March 2018 £'000 | 31 March 2017 £'000 |
|----------------------------------|---------------------|---------------------|
| Amounts owned by Group companies | 10,187 | 4,181 |
| Other payables | 70 | 468 |
| Accruals | 1,934 | 1,962 |
| | 12,191 | 6,611 |

21. Financial commitments

Operating lease commitments for land and buildings is as follows:

| | 31 March 2018 £'000 | 31 March 2017 £'000 |
|---|---------------------------|---------------------------|
| Amounts payable under operating leases: | | |
| Within one year | 237 | 316 |
| Within two to five years | 947 | 924 |
| After five years | 197 | 404 |
| | 1,381 | 1,644 |

The LTIP granted in 2014 did not vest in June 2017 whereas the DSB granted in June 2014 fully vested in June 2017. Therefore, £2.8 million (2017: £1.4 million) which had been previously charged to the income statement for both schemes has been reclassified to retained earnings.

The inputs into the Monte Carlo model for LTIP awards during the year are as follows:

| | 2017 LTIP TSR | 2017 LTIP EPS |
|----------------------------------|---------------------|---------------------|
| Weighted average share price (£) | 8.43 | 8.43 |
| Expected volatility ¹ | 28% | 28% |
| Expected life | 3 years | 3 years |
| Risk-free rate | 0.25% | 0.25% |
| Fair Value of award | 498p | 843p |

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

Restricted shares and DABS issued during the year have a fair value of 843p being the share price on the date of the grant.

22. Share capital

| | 31 March 2018 £'000 | 31 March 2017 £'000 |
|---|---------------------------|---------------------------|
| Authorised share capital | | |
| 4,365,352,200 ordinary shares of 1/3p each (2017: 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 | | |
| 68,180,545 ordinary shares of 1/3p each (2017: 68,133,611 ordinary shares of 1/3p each) | 227 | 227 |
| | 227 | 227 |

23. Share-based payments

LTIP, DSB, DABS and restricted schemes

The Group's share schemes are described in the Remuneration Committee report on pages 49 to 65 and include LTIP, DSB, DABS and restricted share equity settled share schemes. The vesting period for all awards is three years, apart from 10,741 2-year restricted shares, and they are forfeited if the employee leaves the Group before shares vest. The amount charged to the income statement in the year was £1.5 million (2017: £1.4 million).

Share awards movement during the year

| | Number of shares 2018 | Number of shares 2017 |
|--|-----------------------------|-----------------------------|
| Outstanding at the beginning of the year | 669,828 | 865,131 |
| Granted | 320,714 | 258,386 |
| Lapsed | (207,123) | (221,978) |
| Forfeited | (4,861) | (170,688) |
| Exercised | (63,030) | (61,023) |
| Outstanding at end of the year | 715,528 | 669,828 |

| Awards granted | Number of shares | Vesting date |
|----------------|------------------|----------------------|
| LTIP | 26 July 2017 | 237,070 25 July 2020 |
| Restricted | 26 July 2017 | 11,620 25 July 2020 |
| DABS | 5 June 2017 | 72,024 4 June 2020 |

All awards granted are for free shares and therefore the weighted average exercise price for all outstanding schemes is £nil.

Notes to the consolidated financial statements continued

24. Dividends on equity shares

| | Year ended 31 March 2018 £000 | Year ended 31 March 2017 £000 |
|---|--|--|
| Reported dividends on ordinary shares: | | |
| Interim ordinary dividend of 15.3p (2017: 15.0p) per share | 10,431 | 10,218 |
| Proposed final ordinary dividend of 30.6p (2017: 30.0p) per share | 20,863 | 20,436 |
| Interim additional dividend of 12.2p (2017: 12.2p) per share | 8,316 | 8,333 |
| Proposed additional final dividend 24.5p (2017: 25.5p) per share | 16,636 | 16,667 |
| Disposal dividend 38.9p per share | — | 26,493 |
| Total reported dividends (Non-IFRS measure) | 56,246 | 82,147 |
| Amounts distributed to equity holders in the year: | | |
| Final ordinary dividend for the prior year | 20,450 | 19,199 |
| Interim ordinary dividend for the current year | 10,431 | 10,218 |
| Final additional dividend for the prior year | 16,701 | — |
| Interim additional dividend for the current year | 8,316 | 8,333 |
| Disposal dividend | — | 40,793 |
| Total dividends paid | 55,898 | 78,543 |

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

25. Pension arrangements

The Group administers a non-contributory defined contribution scheme for executive directors and employees. The amount charged in the consolidated income statement for the year for pension costs of the Group under the scheme was £1.4 million (2017: £1.3 million). There is no accrual for pension contributions at the balance sheet date (2017: £nil).

26. Financial instruments and risk

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign exchange. The directors review and agree policies for managing each of these risks which 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) Credit risk

The Group's financial assets are cash, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade receivables and retailer debt to the extent that PayPoint bears the credit risk. Clients and retailers are credit checked to mitigate credit risk and in all new client contracts, we have the right of set-off of monies due against funds collected. The Group's maximum exposure, at 31 March 2018, was £64.3 million (2017: £38.5 million).

The Company, PayPoint plc has issued parental guarantees in favour of clients of its subsidiaries under which it has guaranteed amounts due to clients, by the subsidiaries, for settlement of funds collected by retailers. PayPoint plc has also issued guarantees in favour of Romanian banks amounting to £6.0 million for guarantee facilities used by Romanian subsidiaries also to guarantee settlement of client funds.

(b) Liquidity risk

The Group's policy throughout the year ended 31 March 2018 regarding liquidity has been to maximise the return on funds placed on deposit whilst minimising the associated risk.

The Group had no financial liabilities at 31 March 2018 other than short-term payables such as trade payables and accruals.

(c) Foreign exchange risk

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

The Group's currency exposures comprise those transactional exposures that give rise to the net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating (or functional) currency of the operating unit involved. At 31 March 2018, these exposures were £nil (2017: £nil).

(d) Interest rate risk

The Group had no interest bearing financial assets at 31 March 2018 other than the cash and cash equivalents of £46.0 million (2017: £53.1 million). The Group is also exposed to interest rate risk through use of its financing facility which incurs interest charges based on Libor plus a margin.

All funds earn interest at the prevailing rate. The funds are deposited on short-term deposits (normally weekly or monthly) or held in current accounts. The Group seeks to maximise interest receipts within these parameters. The Group also minimises interest cost by effective central management of cash resources to minimise the need for utilisation of the financing facility.

(e) Borrowing facilities

At year end, the Group had an undrawn, unsecured £75 million revolving loan facility with a £20 million accordion expiring in March 2023.

(f) Fair value of financial assets and liabilities

The directors consider there to be no material difference between the book value and the fair value of the Group's financial instruments at 31 March 2018, or 31 March 2017.

(g) 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.

(h) Capital risk management

The Group's objectives when managing capital (the definition of which is consistent with prior year and is the Group's assets and liabilities including cash) are to safeguard the Group's ability to continue as a going concern to provide returns for shareholders and benefits for other stakeholders. The Group manages its capital by continued focus on free cash flow generation and managing the level of capital investment in the business.

(i) Financial instrument sensitivities

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

27. Related party transactions

Remuneration of the directors, who are the key management of the Group, was as follows during the year:

| | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|--|---|---|
| Short term benefits and bonus ¹ | 2,579 | 2,162 |
| Pension costs ² | 234 | 235 |
| Long term incentives ³ | 445 | 445 |
| Other ⁴ | 29 | 29 |
| Total | 3,287 | 2,871 |

1. Includes salary, fees, benefits in kind and annual bonus.

2. Defined contribution pension scheme.

3. Long term incentives: includes the value of 2015 LTIP and DABS expected to vest after the year end (2017: 2014 DSB and LTIP awards).

4. SIP matching and dividend shares awarded in the year.

Amounts received from Drop and Collect Limited during the year totalled £15.1 million (2017: £17.8 million) and PayPoint held a trade debtor at year end of £0.4 million (2017: £0.6 million).

Directors' remuneration is disclosed on page 60 as part of the Annual Report on Remuneration.

28. Company related party transaction

The following transactions occurred between the Group and its wholly owned subsidiaries

| | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|-------------------------------------|---|---|
| Amounts owed by subsidiaries | 36,023 | 21,949 |
| Amounts owed to subsidiaries | 10,187 | 4,181 |
| Interest paid to subsidiaries | 546 | 661 |
| Interest received from subsidiaries | 698 | 859 |

29. Notes to the cash flow statement

| Group | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 ¹ £'000 |
|---|---|--|
| Profit before tax | 52,947 | 69,141 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 6,362 | 5,302 |
| Amortisation of intangible assets | 4,155 | 2,171 |
| Share of joint venture result | — | (1,193) |
| Research and development credit | (166) | (171) |
| Profit on disposal of investments | — | (15,660) |
| Loss on disposal of fixed assets | 52 | 414 |
| Net interest income | 514 | (12) |
| Share-based payment charge | 1,567 | 1,552 |
| Cash-settled share-based remuneration | (322) | (410) |
| Operating cash flows before movements in working capital¹ | 65,109 | 61,134 |
| Movement in inventories | 148 | 196 |
| Movement in receivables | (424) | (338) |
| Movement in payables | | |
| – client cash | 5,401 | (11,641) |
| – other payables | 3,650 | 1,219 |
| Cash generated by operations | 73,884 | 50,570 |
| Corporation tax paid | (10,285) | (8,643) |
| Financial costs paid | (609) | (120) |
| Net cash from operating activities | 62,990 | 41,807 |

1. Items in the course of collection and settlement payables are included in this reconciliation on a net basis through the client cash line. The directors have included these items on a net basis to best reflect the operating cash flows of the business.

| Company | Year ended 31 March 2018 £'000 | Year ended 31 March 2017 £'000 |
|--|---|---|
| Profit before tax | 62,831 | 65,449 |
| Adjustments for: | | |
| Profit on sale of investments | — | (20,440) |
| Dividends from subsidiaries | (62,639) | (46,010) |
| Net interest income | (32) | 187 |
| Share-based payment charge | 1,567 | 1,552 |
| Cash-settled share-based remuneration | (322) | — |
| Operating cash movement before movements in working capital | 1,405 | 738 |
| Movement in receivables | (13,385) | 19,654 |
| Movement in payables | 5,035 | (22,766) |
| Cash movement from operations | (6,945) | (2,374) |
| Corporation tax paid | — | — |
| Interest and bank charges paid | (120) | — |
| Net cash movement from operating activities | (7,065) | (2,374) |

1. 31 March 2017 figures have been restated for the classification of the cash-settled share-based payment from financing activities to operating activities.

Notice of annual general meeting

This notice of meeting is important and requires your immediate attention.

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

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

PayPoint plc

Notice of annual general meeting

Notice is hereby given that the 2018 annual general meeting of PayPoint plc (the Company) will be held at the offices of Canaccord Genuity, 88 Wood Street, London EC2V 7QR, on Thursday 26 July at 12.00 noon. You will be asked to consider and pass the resolutions below. Resolutions 13, 14 and 15 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

Ordinary business

1. To receive the annual report and accounts for the financial year ended 31 March 2018.
2. To approve the directors' remuneration report (excluding the directors' remuneration policy on pages 51 to 57), as set out in the Company's annual report and accounts for the financial year ended 31 March 2018.
3. To declare a final dividend of 30.6 pence per ordinary share of the Company for the year ended 31 March 2018.
4. To re-elect Ms Gill Barr as a director.
5. To re-elect Ms Rachel Kentleton as a director.
6. To re-elect Mr Giles Kerr as a director.
7. To re-elect Mr Rakesh Sharma as a director.
8. To re-elect Mr Dominic Taylor as a director.
9. To re-elect Mr Nick Wiles as a director.
10. To re-appoint KPMG LLP as auditor of the Company until the conclusion of the next annual general meeting of the Company at which the accounts are laid.
11. To authorise the directors to determine the auditor's remuneration.

Special business

12. That the directors are authorised in accordance with section 551 of the Companies Act 2006 (the Act), to exercise all the powers of the Company to allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company up to an aggregate nominal amount of £75,757 provided that this authority shall expire on the conclusion of the annual general meeting of the Company to be held in 2019 or, on a date which is 15 months from the date of this resolution, whichever is earlier, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require shares to be allotted or rights to be granted after such expiry and the directors shall be entitled to allot shares or grant rights pursuant to any such offer or agreement as if this authority had not expired; and all unexercised authorities previously granted to the directors under section 551 of the Act are revoked (save to the extent that the same are exercisable pursuant to section 551(7) of the Act by reason of any offer or agreement made prior to the date of this resolution which would or might require shares to be allotted or rights to be granted on or after that date).

13. That the directors are empowered in accordance with sections 570 and 573 of the Act to allot equity securities (as defined in section 560 of the Act) for cash (under the authority conferred by resolution 12 above) or by way of a sale of treasury shares as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to:

- (a) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities to or in favour of (i) the holders of ordinary shares on the register of members at such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on any such record date(s), and (ii) the holders of other equity securities if this is required by the rights of those securities or, if the directors consider it necessary, as permitted by the rights of those securities and subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any overseas territory or the requirements of any regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatever; and
- (b) the allotment (otherwise than under sub-paragraph (a) above) to any person or persons of equity securities up to an aggregate nominal amount of £11,364.

and shall expire upon the expiry of the general authority conferred by resolution 14 above, save that the Company shall be entitled to make offers or agreements before the expiry of such power which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

14. That subject to, and in accordance with the Company's articles of association and pursuant to Section 701 of the Act, the Company is authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of ½ of one penny of the Company ("ordinary shares") provided that:-

- (a) the maximum number of ordinary shares that may be purchased under this authority is 6,818,166;
- (b) the minimum price (exclusive of expenses) which may be paid for an ordinary share is the nominal value of such share;
- (c) the maximum price (exclusive of expenses) which may be paid for an ordinary share shall not be more than the higher of: (i) 105 percent of the average of the middle market quotations for an ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid for an ordinary share in the Company on the trading venue where the purchase is carried out;
- (d) this authority shall expire on the conclusion of the annual general meeting of the Company to be held in 2018 or on a date which is 15 months from the date of this resolution, whichever is earlier; and
- (e) the Company may make any purchase of its ordinary shares under a contract concluded before this authority expires and which will or may be executed wholly or partly after the expiry of such authority.

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

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

By order of The Board

Susan Court
Company Secretary
24 May 2018

Registered Office:

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

Notes to the notice of annual general meeting

1. A form of proxy accompanies this notice for use by shareholders. To be valid, a proxy must be received by the Company's registrar, Link Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF not less than 48 hours before the time of the annual general meeting. Completion and return of a form of proxy does not preclude a shareholder from attending the annual general meeting and voting in person.
2. A member entitled to attend, speak and vote at the annual general meeting may appoint a proxy (who need not be a member of the Company) to exercise all or any of his or her rights to attend and to speak and vote on his or her behalf. A member may appoint more than one proxy in relation to a meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him or her. To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. In order to be valid, an appointment of proxy must be returned by one of the following methods:- in hard copy form by post, by courier or by hand to the Company's registrar, Link Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; or in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below, and in each case must be received by the Company not less than 48 hours before the time of the meeting. You must inform the Company's registrar in writing of any termination of the authorities of a proxy.
3. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a Nominated Person) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the annual general meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
4. The statement of the rights of shareholders to appoint a proxy in paragraphs one and two above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company. Nominated person are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.
5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment thereof by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment, or instruction, made by means of CREST to be valid, the appropriate CREST message (a CREST proxy instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of annual general meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedure in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is therefore the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.
6. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
7. To be entitled to attend and vote at the annual general meeting or any adjournment thereof (and also for the purpose of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the Company by close of business on 24 July 2018 (or by close of business on the date being two days before any adjourned meeting). Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
8. Biographical details of the directors of the Company are shown on page 31 of the 2018 annual report.

9. Each member attending the meeting has the right to ask questions relating to the business being dealt with at the meeting which, in accordance with section 319A of the Companies Act 2006 and subject to some exceptions, the Company must cause such questions to be answered. However no such answer need be given if:
 - (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
 - (b) the answer has already been given on a website in the form of an answer to a question; or
 - (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
10. Information relating to the meeting which the Company is required by section 311A of the Companies Act 2006 to publish on a website in advance of the meeting may be viewed at www.paypoint.com. A member may not use any electronic address provided by the Company in this document or with any proxy appointment form or in any website for communicating with the Company for any purpose in relation to the meeting other than as expressly stated in it.
11. It is possible that, pursuant to members' requests made in accordance with section 527 of the Companies Act 2006, the Company will be required to publish on a website a statement in accordance with section 528 of that Act setting out any matter that the members concerned propose to raise at the meeting relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the annual general meeting; or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid. The Company cannot require the members concerned to pay its expenses in complying with those sections. The Company must forward any such statement to its auditor by the time it makes the statement available on the website. The business which may be dealt with at the meeting includes any such statement.
12. The issued share capital of the Company as at 24 May 2018 was 68,181,656 ordinary shares of 1/3 pence each, carrying one vote each. The Company holds no treasury shares or unallocated shares for the purpose of employee share schemes, therefore, the total number of voting rights in the Company on 24 May 2018 is 68,181,656.
13. The directors' service agreements and letters of appointment are available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the place of the annual general meeting from 15 minutes before the meeting until it ends

To further reduce the environmental impact, we will be removing paper from the voting process for future meetings in favour of a quicker and more secure method of voting online via our registrars' website. However you will be able to request a paper proxy if you wish from our registrars at the appropriate time.

Recommendation and voting intentions

With respect to resolutions 4 to 9 (inclusive), the Chairman confirms that, based on the performance evaluation undertaken during the period, each of the retiring director's performance continues to be effective and to demonstrate commitment to the role. The Board has considered this and recommends that each director who wishes to serve again be proposed for re-election. This opinion is based on an assessment of each director's relevant knowledge and experience and the conclusion that, in each case, their informed opinions are of significant value and contribute greatly to board discussions. The directors' biographies can be found on page 31 of the 2018 annual report.

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

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

Resolution 2: Directors' remuneration report

Shareholders are asked to approve the directors' remuneration report that appears on pages 49 to 65 other than the part containing the Directors' Remuneration Policy, of the 2018 annual report and accounts. This vote is advisory, and the directors' entitlement to remuneration is not conditional on it.

Resolution 3: Declaration of final dividend

Shareholders are being asked to approve a final dividend of 30.6p per ordinary share for the year ended 31 March 2018. Subject to approval, the dividend will be paid on 30 July 2018 to the holders of ordinary shares whose names are recorded on the register of members at the close of business on 22 June 2018.

Resolutions 10 and 11: Re-appointment and remuneration of auditor

Following a tender process in the summer of 2017, KPMG LLP was selected as the external auditor of the Company and its subsidiaries. Details of the tender process are on page 45 of the 2018 annual report.

In light of the successful tender and following the audit for the year ended 31 March 2018, the assessment of KPMG's performance and independence was found to be satisfactory. The Board therefore recommends to shareholders that KPMG be re-appointed as auditor and that the board be authorised to determine the auditor's remuneration.

Resolution 12: Directors' authority to allot shares

By virtue of section 551 of the Companies Act 2006 (the Act), the directors require the authority of shareholders of the Company to allot shares or grant rights to subscribe for or convert any security into shares. The resolution numbered 12 authorises the directors to make allotments of up to 22,727,219 ordinary shares, representing approximately one-third of the issued share capital of the Company (excluding treasury shares) as at the date of this document. If approved at the forthcoming annual general meeting, the authority will expire no later than 15 months from the date on which the resolution is passed or on the conclusion of the annual general meeting of the Company to be held in 2019, whichever is the sooner.

Resolution 13: Authority for disapplication of statutory pre-emption rights

By virtue of section 561 of the Act, any issue by the Company of equity capital for cash made otherwise than to existing shareholders on a proportional basis requires the consent of shareholders of the Company unless the Company has obtained their authority under sections 570 and 573 of the Act. The resolution numbered 13 is for that purpose. It authorises the directors to allot shares by way of rights issue or pursuant to an open offer or otherwise than strictly pro rata when the directors consider that it is expedient to do so and also allows them to issue for cash up to 3,409,083 ordinary shares (representing approximately five per cent) of the issued share capital of the Company (excluding treasury shares) as at the date of this document other than on a pre-emptive basis. If approved at the forthcoming annual general meeting, the authority will expire no later than 15 months from the date on which the resolution is passed or on the conclusion of the annual general meeting of the Company to be held in 2018, whichever is the sooner. The directors have no present intention of exercising the authority proposed to be conferred pursuant to resolution 13.

Resolution 14: Authority to make market purchases of ordinary shares

By virtue of section 701 of the Act, the Company may make market purchases of its own ordinary shares if authorised to do so by shareholders. Under resolution 14, the directors seek to renew an annual authority to make market purchases of shares: each year the directors will seek to further renew this authority at the Company's annual general meeting. Any ordinary shares purchased under this authority would either be (i) cancelled immediately on completion of the purchase and the number of ordinary shares in issue reduced accordingly; (ii) held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Act; or (iii) transferred to an employee benefit trust for the satisfaction of awards under the Company's existing share schemes.

The maximum number of ordinary shares which could be purchased under this authority is 6,818,166, being 10 per cent of the issued share capital of the Company (excluding treasury shares) as at the date of this document. Any repurchase of ordinary shares carried out by the Company would be at a maximum price per ordinary share of 105 per cent of the average middle market price of such a share for the five business days immediately preceding the date of the purchase, the price equal to the last independent trade or the highest current independent bid and at a minimum price equal to the nominal value. The authority to repurchase ordinary shares will, if approved by shareholders, only be exercised after careful consideration by the directors and if such exercise would result in an increase in earnings per share and be in the best interests of shareholders generally. If approved at the forthcoming annual general meeting, the authority will expire no later than 15 months from the date on which the resolution is passed, or on the conclusion of the annual general meeting of the Company to be held in 2019, whichever is the sooner.

Resolution 15: Authority to allow any general meeting of the Company that is not an annual general meeting to be called on not less than 14 clear days' notice

The minimum notice period for general meetings of listed companies is 21 days, but companies may reduce this period to 14 days (other than for annual general meetings) provided that:

- the Company offers a facility for shareholders to vote by electronic means. This condition is met if the Company has a facility enabling all shareholders to appoint a proxy by means of a website; and
- on an annual basis, a shareholders' resolution approving the reduction of the minimum notice period from 21 days to 14 days is passed.

The Board is therefore proposing Resolution 15 as a special resolution to approve 14 days as the minimum period of notice for all general meetings of the Company other than annual general meetings. The approval of this resolution will be effective until the end of the 2019 annual general meeting of the Company, when it is intended that the approval will be renewed. The Board intends that the shorter notice period will only be used in limited exceptional circumstances which are time-sensitive, rather than as a matter of routine, and only where the flexibility is merited by the business of the meeting and is thought to be in the interests of shareholders as a whole. The directors do not have any current intention to exercise this authority but consider it appropriate to ensure that the Company has the necessary flexibility to respond to all eventualities.

Officers and professional advisers

Directors

G Barr*
G Kerr*
R Kentleton
R Sharma*
D Taylor
N Wiles (Chairman)*

* Non-executive directors

Company Secretary

S Court

Registered office

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

Registered in England and Wales
Company number 03581541

Independent auditor

KPMG LLP
15 Canada Square
London, E14 5GL
United Kingdom

Brokers

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

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

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

Registrar

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



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

Tel +44 (0)1707 600 300
Fax +44 (0)1707 600 333
www.paypoint.com

