Annual Report 2017

PayPoint

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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.

Contents

Statutory highlights[1]

Revenue
£211.9m
(2016: £212.6m)
(0.3%)

Net revenue[2]
£123.9m
(2016: £123.6m)
+0.2%

Gross margin[3]
50.0%
(2016: 49.9%)
0.1ppts

Operating profit before impairments and business disposal
£52.3m
(2016: £50.3m)
+4.0%

Profit before tax
£69.1m
(2016: £8.2m)

Earnings per share
87.5p
(2016: (3.1p))

Ordinary dividend per share
45.0p
(2016: 42.4p)
+6.1%

Disposal proceeds dividend per share
38.9p
(2016: 21.0p)
+85.3%

Additional dividend per share
36.7p
—

Total dividend per share
120.6p
(2016: 63.4p)
+90.2%

1. Mobile and Online are included in our statutory results up to the date of their respective disposals resulting in this year's performance not being directly comparable to last year. To more clearly review our financial performance we have included highlights of our ongoing Retail networks in addition to the reported statutory highlights. Refer to note 4 to the financial statements for a reconciliation of statutory results.
2. Net Revenue is an alternative performance measure. Refer to note 3 to the financial statements for reconciliation to revenue.
3. Gross margin is an alternative performance measure and is calculated by dividing gross profit by revenue.

Strong delivery against our strategic priorities

- PayPoint One, our new retail platform, successfully launched in June, with 3,600 sites at year end
- Sale of Mobile completed in December 2016 for £26.5 million, with gross proceeds of 38.9 pence per share returned to shareholders
- Collect+ arrangement successfully restructured to allow PayPoint to serve other UK carriers; expected to drive a step change in our parcels business over time
- Continued growth in Retail networks of 3.2% to 40,500 sites, including 11,300 in Romania

Financial highlights

- Good growth in core Retail networks
  - Gross revenue grew by 3.6% to £203.4 million
  - Net revenue[2] grew by 6.2% to £117.5 million
  - Operating profit grew by 0.9% to £53.3 million
- Retail services net revenue[2] grew to £39.9 million, an increase of 31.6%
- Profit on the sale of Mobile of £19.5 million. Mobile sale proceeds of £26.5 million returned to shareholders. Mobile goodwill of £30.8 million was fully impaired in 2016.
- Final ordinary dividend of 30.0 pence per share, total ordinary dividend of 45.0 pence per share, an increase of 6.1%
- Additional dividend of 36.7 pence per share paid as part of commitment to return surplus cash to shareholders over a five year period to 2021. Total dividends of 120.6 pence per share paid to shareholders in the year to 31 March 2017
- Cash and cash equivalents at year end of £53.1 million, net cash generated from operating activities of £42.2 million

Retail networks highlights[1]

Revenue[1]
£203.4m
(2016: £196.4m)
+3.6%

Net revenue[2]
£117.5m
(2016: £110.7m)
+6.2%

Gross margin %[3]
49.5%
(2016: 48.2%)
1.3ppts

Operating profit[1]
£53.3m
(2016: £52.8m)
+0.9%

Profit before tax[1]
£53.3m
(2016: £52.8m)
+0.9%

Earnings per share[1]
64.3p
(2016: 62.5p)
+2.9%

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 statements for reconciliation to revenue.
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Highlights in numbers (Retail networks)

655m
transactions

3,600
PayPoint One live

23m
parcels

4,100
ATMs

40,400
stores

6,100
Collect+ sites

300
clients

10,000
card payment terminals

PayPoint One

Our state-of-the-art retail platform launched in 2016

I am pleased to report that the past year has been one of further progress as we seek to simplify and refocus the Group on our Retail network business, in line with our declared strategy.

Delivering our strategy
The sale of our Mobile payments business was completed in December 2016 and concludes our programme of rationalisation. In addition, we have restructured the Collect+ arrangements, enabling us to add new carriers to our UK retail services offering. We also successfully launched PayPoint One, our next generation PayPoint terminal with integrated Electronic Point of Sale Solutions (EPoS), till and card functionality, and had rolled out 3,600 by the end of this financial year. We also continue to drive existing and new retail services while seeking to improve service delivery throughout the network.

The business is now more streamlined and focused on driving value from the strength of our established retail network. Whilst the board recognises there are structural changes in UK cash payments and the energy sector, PayPoint is well positioned to respond to these changes and to deliver continuing growth in its UK retail services and Romanian businesses.

Delivering for our stakeholders
Total dividends declared in the year to 31 March 2017 will deliver a total of £82.1 million or 120.6 pence per share to shareholders. This includes the ordinary dividend of 45.0 pence per share, the first annual instalment of the additional dividend of 36.7 pence per share and the gross proceeds from the sale of Mobile of 38.9 pence per share.

The board recognises that successful execution of the PayPoint strategy is dependent on delivering first class service to our retailers. To ensure we are consistently measuring how we are performing against important key metrics, a new 'Retailer Pledge' has been developed and published.

Our people are critical to the successful execution of the strategy and I would like to thank all colleagues for their hard work and dedication over the past year.

Board appointments
In early 2017, Rachel Kentleton joined the board as Finance Director following George Earle's retirement. I would like to thank George for his significant contribution over his 12 years of service since joining us upon our listing on the London Stock Exchange in 2004. Two of our non-executive directors, Neil Carson and David Morrison, will step down on 26 May 2017 and 26 July 2017 respectively. The board wishes them well and thanks them for their valued contributions. David has served as a director since 1999 and has been instrumental in the development of the Company. We welcome Rakesh Sharma, who was appointed to the board on 12 May 2017 and will chair the Remuneration Committee.

Conclusion
PayPoint is now a significantly more focused business. Looking ahead, our priorities are to continue to drive growth in retail services, manage the decline in cash payments through developing new payment channels, improve our service delivery and to run our business more efficiently. We are also excited by the growth opportunities for our Romanian business as we deepen and extend our presence in a rapidly growing market.

Alongside this, we maintain our commitment to the capital allocation programme outlined in May 2016, to return £125 million of surplus cash to shareholders over five years to 2021 alongside our ordinary dividend. The board remains confident in the prospects for the business and the value creation opportunity for our shareholders.

Nick Wiles
Chairman
25 May 2017

PayPoint One

Our new, state-of-the-art retail platform was launched in June 2016 and has proven popular with independent convenience retailers, with over 3,600 live across the UK. This already makes PayPoint one of the largest EPoS capable platforms in the UK convenience sector in the space of 9 months.

With no upfront cost and a low weekly fee, retailers are able to use the PayPoint One platform to run their whole store, offering EPoS, card payments and traditional PayPoint services in one device. Retailer feedback has been broadly positive since launch.

The Pro version of EPoS will be launching in summer 2017, targeted at more sophisticated retailers who want full stock management, supplier ordering and links to symbol groups and wholesalers. PayPoint has already signed an agreement with Nisa, with others expected to sign up soon.

3,600 live

60% EPoS enabled

37m baskets

"The new PayPoint One is very slick. It's so much faster than the set-up we had before, which is important because we're an extremely busy store with a big footfall. This means we have gained more time and the customers are happy."

Mr. Patel, Magnum News, London

Parcels

Our Collect+ parcel service continues to grow strongly and uniquely delivers a proposition that fuses online and offline for the benefit of online shoppers and our retailers.

The service is available in 6,100 stores across the UK and provides customers the ability to click and collect, return or send parcels easily at a time and location that is convenient to them.

Over 23 million parcels were processed over the last 12 months with a high level of service satisfaction from users (TrustPilot 9.2/10).

With the announcement of our new agreement in December 2016, we see further growth in this area, building our network to 7,000 stores and opening up our service to other carriers to offer further choice and convenience to online shoppers.

23m parcels

9.2/10 TrustPilot score

6,100 stores

"Incredibly useful service for people that work full time. I can now collect items in my own time, at my own convenience, from a store 5mins from where I live - early in the morning, or late in the evening. It's good value and so many brands use them. Brilliant!"

Trust Pilot review of Collect+

MultiPay

MultiPay is our multichannel payment service, offering consumer service providers a ready-made solution for their full range of payments via app, web, phone, text and IVR, complementing our cash in store services.

Clients benefit from streamlining their consumer payment processing and transaction routing in a seamlessly integrated and cost-effective solution. The services are available either as a full portfolio or by the client's choice of preferred channels, including our app which has a 4 star rating on the Google Play and Apple App Stores. Clients can choose to access our services as a full outsourced model or by linking their own digital solutions to our MultiPay payment suite.

MultiPay is particularly targeted to serve the rollout of smart meters within the energy market. For example, our service has helped Utilita to become the fastest growing, challenger prepay energy supplier and we have also signed several other energy companies, including SSE, our first big 6 energy client. Among other relevant sectors, MultiPay is available to the local authority and social housing sectors through a framework with Procurement for Housing.

10m transactions

10 seconds or less to top up

4/5 app rating

"We are committed to delivering the best possible experience and central to this is providing a range of different payment options for customers. PayPoint has enabled us to further enhance our service, bringing convenience and simplicity to our customers."

Marc Brook,
Head of Smart, Economy Energy

Romania

Our business in Romania is now the leading consumer brand for bill payments, with an extensive network of 11,300 stores and a brand awareness of 75%. PayPoint means trust, simplicity and convenience for the everyday needs of consumers.

The strong pull of PayPoint is equally attracting new and deeper relationships with service providers who want to access our expertise and unrivalled network. Over the last 12 months, new relationships have been signed and our Road Tax service continues to be popular, with 72% more payments made compared to the previous year.

More recently, our retail services offering is beginning to expand, particularly our Colet Expres parcel service currently being trialled in Bucharest, working with the leading Romanian carrier, FAN courier.

11,300 stores

88% satisfaction[1]

75% awareness[1]

"We are happy with the results of our PayPoint agreement, especially given that our services cover the needs of millions of Romanians, anywhere in the country"

Dan Ciceu and Dan Alexandru Cobeanu
Scala Assistance founders

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

Multichannel payments

Retail technology and services

Our retail networks

40,400 stores

UK, Romania and Ireland

Dividends to shareholders

Strong cash conversion

Innovation and investment

Strategic priorities

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

The past year has been one of significant strategic progress in reshaping and simplifying the business.

We have restructured the Group, with a new Executive Board in place and a focused single company vision, set of values and culture which together will drive ongoing improvements in effectiveness and customer service. We have rationalised the portfolio of businesses within the Group, with the sale of Online in January 2016 for £14.3 million being followed in the year to 31 March 2017 by the sale of Mobile to VW Financial Services for £26.5 million. We have also concluded our discussions with Yodel, with a new Collect+ arrangement agreed that enables PayPoint to add new carriers to our UK retail services offering.

We continue to focus on the needs of our retail customers. This year we launched our next generation terminal, PayPoint One, which received positive early feedback, and at 31 March 2017 there were 3,600 sites operational. The terminal, with enhanced functionality, changes the proposition we can offer retailers and is a critical milestone for the business. We are excited about the growth potential from the rollout of the new terminal across our retail network alongside the other initiatives underway in the business.

Our financial results reflect the refocusing of the business with reported profit before tax of £69.1 million (2016: £8.2 million), including the profit on the sale of Mobile to VW Financial Services of £19.5 million partially offset by the loss of £3.8 million on the restructure of the Collect+ arrangement with Yodel. The 2016 year included impairment charges on Mobile and Online of £49.0 million.

This financial year also saw several non-recurring items, some of which will impact our operating profit performance in the financial year to 31 March 2018. These include a non-recurring VAT recovery of £2.0 million (included in retail services), the agreement to reduce Yodel parcel fees by £3.0 million over the next 3 years effective from December 2016, and the closure by the Department for Work and Pensions (DWP) of their Simple Payment Service which has been generating over £4.0 million in net revenue per annum.

Our Retail networks business delivered a profit before tax[1] of £53.3 million, an increase of £0.5 million. This was driven by growth in net revenue[2] from retail services of £9.6 million[2], but offset by a decline in bill payments and top-ups of £2.8 million and additional investment costs arising from PayPoint One, EPoS and MultiPay development and deployment.

In total this financial year we paid £78.5 million to shareholders by means of the £29.5 million ordinary dividend, the first instalment of the additional dividend of £8.3 million and the return of £40.7 million from the proceeds of the sale of Online and Mobile. Our business model continues to be highly cash generative with £42.2 million of cash generated from operating activities in the year.

Business model

We have unrivalled strength in convenience retail payments and services with over 40,000 outlets across the UK and Romania. In both markets our business has two highly complementary business streams, payments and retail services. These operate from a common retail servicing capability and secure technology infrastructure. This technology platform and our site network form the foundation from which we will drive future value.

Our first business stream, **payments**, provides convenient bill payment channels for the customers of major utilities and service companies. The PayPoint network supports the broadest range of payment types including bills, energy prepayments, mobile and eMoney top-ups, licences, rents, taxes, transport tickets, debt collection, deposits and repayments. We also pay out cash benefits and rebates. In payments, our retail partners are our distributors, earning commission and benefiting from the hundreds of millions of customer visits we generate. Some customers prefer to pay online and our MultiPay product extends to mobile app, website, IVR and text payments so we can help our clients to help customers pay in the way that suits them best.

Our second business area builds on the strength of our retail networks and our technology, enabling us to provide multiple **retail services** to retailers. These additional services are highly competitive offers to retailers, charging fees for some services and earning commission for others. The range of retail services is already extensive but we continually innovate to generate new revenue streams. Our retail partners, in turn, are able to offer their customers a widening range of convenience payment products and services which keeps them coming into the store. The principal retail services are ATMs, card and other non-cash electronic payment solutions, Western Union agencies, SIM card sales, parcels and EPoS. As noted above, we have recently renegotiated the terms of our parcels joint arrangement with Yodel, to allow PayPoint to

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.
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open the Collect+ network to other carriers. Our intention is to create the definitive industry solution, allowing consumers to pick up and drop off parcels at their local shop irrespective of the carrier. Retail services have continued to grow strongly in recent years and this business area is becoming increasingly significant within our business mix.

In payments, we remain committed to delivering our strategy which is focused on delivering multichannel payments solutions and services to our customers where we have retail networks. In retail services, we see significant growth opportunities for our unique retailer network and our differentiated and established technology platform to benefit from the high street evolution towards convenience.

In order to execute our strategy, we have set out five clear priorities for the year ahead:

1. Drive profitable growth in UK retail services

Market context

PayPoint's services are particularly attractive to the convenience retail sector, which includes newsagents, general convenience stores, off licences and petrol station forecourts. We are also complementary to the convenience offers of larger format supermarkets. We build our relationship with retailers through our field sales force of 50 professionals located throughout the UK and through our contact centre which is situated in Welwyn Garden City. We also hold quarterly Retailer Forums attended by PayPoint retailers and management to ensure open dialogue and communication.

PayPoint has payment relationships extending to over 29,000 UK outlets drawn from an available market of approximately 51,000 stores comprising 37,500 independents (of which 14,000 are symbol-affiliated stores) and 13,500 multiple and managed symbol stores.[1] These 51,000 stores are PayPoint's core marketplace, with growth and any extension beyond the convenience sector also representing an opportunity for our retail services. Historically, PayPoint has restricted supply of its branded payments footfall rather than looking to achieve blanket coverage of the entire convenience retail sector. As a result, PayPoint retailers are typically of good quality, desired by our clients and envied by our competitors. Overall, PayPoint pays our retailers over £50 million annually in commission for their critical role in our payments and retail services delivery.

Our retailers can be segmented into 3 broad sub-groups. We have 8,500 outlets that are in multiple chains, including The Co-op, McColls, One Stop and many other fuel and convenience chains. We also have coverage in all Asda stores, many Sainsbury's Locals and increasingly in Tesco Express, as even the major grocers see the power of our footfall generation. The balance of our network is in independents, who may be unaffiliated or linked to a symbol group such as Spar, Costcutter, Nisa or Booker Premier. We have 11,500 unaffiliated independents, out of 23,500 in the UK and a further 9,000 symbol affiliated outlets out of 15,400 independent and managed symbol stores in the UK.

To serve multiples, we deploy our PPoS solution, a virtual terminal that integrates into the retailer's own EPoS system for maximum operational efficiency.

For independents, we offer a standalone terminal. Most of our retailers have our second generation yellow machine (T2) that has been deployed since 2003. Last year we launched PayPoint One, a transformational terminal platform, with a full range of connectivity options including WiFi and Bluetooth, which we will rollout across our estate over the next few years. With PayPoint One, we have also introduced a new EPoS capability which has seen encouraging uptake to date and that we expect to be a platform for significant future growth. PayPoint One provides our retailers with the ability to serve customers quickly, while providing advanced connectivity and improving business efficiency all within a flexible and fully-supported technology platform.

Each of our retail services has its own market context and competitive dynamics, which are explained briefly here:

ATMs – we provide 4,100 ATMs out of an overall population in the LINK network of 70,000, of which 52,000 are non-bank branch machines[2]. Our machines are typically located in-store and are filled by our retailers using their own cash, including much of the money collected from our bill payments. We offer both free to use and surcharge machines with most new deployments being free to use. In general, cash withdrawal volumes are expected to decline steadily as the use of cash is eroded by contactless payments. However, while this decline is reflected in a rise in bank branch closures, growth in non-bank branch ATMs has continued and PayPoint's position in the market gives us plenty of scope to grow.

Card Payments – we provide 10,000 of our retailers with their in-store card payment solutions including Chip and PIN and contactless cards and mobile schemes such as Apple and Android Pay. We earn a margin on each payment through revenue share arrangements with merchant acquirers. In common with the market generally, we have been experiencing very strong contactless payment growth. These payments have a lower transaction value, earning us slightly less per transaction but for a much greater volume. This is a highly competitive market with many offers from merchant acquirers and intermediaries.

Money Transfer – we provide 1,100 outlets in the UK with Western Union agencies to serve the international money transfer market. This is a value-added, rather than strategic, service and we expect to remain a minor player.

SIM sales – we are selling mobile phone SIMs to 15,000 outlets and have approximately a 6% market share, making a strong net revenue contribution. We earn commissions based on the top-up values on activated SIMs which we share with our retailers, and bonuses for achieving predetermined targets.

EPoS – this is a new market for PayPoint which we entered in June last year, with a price scanning solution built on the Android tablet characteristics of PayPoint One, with its large interactive screen, ergonomic design and advanced scanning capability. PayPoint One provides an integrated all-in-one solution, combining EPoS with card payments, bill payments, proprietary hardware, cloud management, business intelligence, service support and Android applications to support our retailers' businesses. We expect our EPoS solution to be attractive to the independent sector, many of whom may be first time users, but we also expect strong symbol group adoption when we launch our Pro version in summer 2017. The Pro version will have

1. Source: Association of Convenience Stores, Local Shop Report, September 2016
2. www.link.co.uk/about-link/statistics

sophisticated stock management and ordering capability, managed in the cloud, representing a step change in EPoS market technology. We are also currently putting in place the necessary links, to integrate with symbol group wholesalers, to make the product more attractive.

There are numerous EPoS providers in the UK typically serving more than one vertical, such as retail and hospitality. In convenience retailing, EPoS provision is more fragmented outside of the suppliers to the multiple chains. Suppliers service a few thousand locations at most and often working with legacy software sitting on older Microsoft Windows platforms, with localised back office functions which do not take advantage of cloud technology. EPoS products tend to carry an upfront hardware investment, with additional charges for installation and ongoing fees for service, support and licensing. As a consequence take up can be limited. With PayPoint's modern technology and no upfront fees for the hardware, we expect to make inroads into this market and have been encouraged by the early take up.

Overall, the launch of PayPoint One integrates PayPoint's payments stream with card payments and EPoS into a single leading edge hardware device. Our retail services success over many years has built a balanced portfolio of strong and highly competitive products with a good mix of strategic and tactical services across high growth and maturing markets. The market leading qualities of the PayPoint One platform will enable us to significantly increase our revenue over time by charging fees for the platform and its EPoS capabilities.

Progress in year
Overall, retail services accounted for 36% of UK net revenues, generating £39.0 million net revenue which represented growth of 30.9% on the previous year. We enjoyed continued growth in ATMs, card payments and SIMs net revenues. We also secured a VAT recovery of £2.4 million in card payments. The recurring net revenue benefit from the corrected treatment is approximately £1.0 million per annum.

We launched PayPoint One and installed over 3,600 new terminals of which 60% have EPoS activated, with the remainder opting just to upgrade from our second generation terminal to use our Till App. We have also largely completed our EPoS Pro development for testing ahead of launch in a few months' time and have secured our first symbol group integration agreements.

Future Delivery
We expect to achieve a PayPoint One network size of 8,000 sites by March 2018 with high levels of EPoS and card payment attachment. This will include symbol retailers as the Pro version of EPoS is launched and wholesaler links are implemented. Nisa is the first symbol retailer to contract to be integrated with our EPoS Pro platform and we expect to sign others soon. Our card payments volume should continue to grow strongly. We will focus on protecting margins in a fiercely competitive market fuelled by the growth in contactless payments, which has made the convenience sector increasingly attractive. This year we plan to extend our net settlement capability from ATMs to card payments which should be a unique differentiator for PayPoint by off-setting our retailers' banking costs.

We will be investing in our ATM network to continue to expand our presence throughout our retail network and to upgrade legacy hardware.

2. Deliver parcels volume growth in the UK

Market context
We provide 6,100 outlets with our Collect+ service, our joint arrangement with Yodel, a leading carrier. Collect+ was the first successful parcel collections and returns retail network in the UK, launched in 2009. The service has subsequently been copied by several other carriers but has not been matched in scale or customer popularity. This is a large market; IMRG states there are 250 million parcel returns a year and 165 million click & collect parcels, both growing rapidly.

Progress in the year
Collect+ is available in over 6,100 sites and the number of parcels processed in the year was over 23 million. Collect+ has gained a Trust Pilot score of 9.2 out of 10 and is now a trusted and well regarded consumer brand. The restructured terms of the Collect+ joint arrangement are now in place. In return for a reduced transaction fee, PayPoint is no longer exclusively tied to using Yodel and now has the opportunity to extend the network of carriers we work with.

Future delivery
PayPoint has an exciting opportunity to capture a significant share of the market. We have appointed a new Parcel Services Director with a significant track record in the parcels market to lead our efforts to capture new volumes.

In the coming years, we expect strong growth with many more outlets and millions of extra parcels as the new approach beds in, supported by strong continuing delivery from our existing partner, Yodel. The new approach has come at a short-term cost as we have agreed to progressively reduce fees received from Yodel by £3.0 million over three years. On a like-for-like volume basis, this is expected to impact the year to 31 March 2018 by £1.7 million with a further £1.0 million impact in the year to 31 March 2019.

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

Market context
Payments have traditionally been PayPoint's most successful business area and we have developed a market leadership position in payment collection through convenience retail outlets. Our UK network numbers 29,100 sites, meaning that we are in the majority of available convenience retail outlets and we handle approximately 500 million transactions per annum through the network to a value of £9.0 billion.

There are over 4.9 billion regular consumer payments a year[1], but the majority of these are made by direct debit through the banks, which would be the billers' preferred collection method. However, this does not suit all customers. PayPoint's strength is in serving the millions of householders, who prefer to pay their bills in cash over the counter. This has been a resilient sector which has fuelled our growth despite the long-term steady decline in cash as a payment method in the UK economy, relative to electronic and card payments.

PayPoint has always been particularly strong in energy payments as the breadth of our coverage in convenience retail outlets, combined with extended opening hours, provides an ideal solution for those who need to quickly

1. Payments UK: 2016 UK Payments Markets – Summary

Retailer pledge
We will:

✔ support and respect you and deliver first class service

✔ always innovate to improve our products and services and the value we bring to your business

✔ listen and communicate openly so we can understand and respond to your needs

✔ champion the importance of convenience retailers and the challenges you face

and conveniently switch their energy back on. Growth in the prepay energy sector peaked four years ago when a combination of factors including high tariffs, cold weather, high energy debts and high prepay meter installation rates created strong demand. Recently, however, growth has slowed, as the impact of these factors has reduced.

We expect that the introduction of smart meters, which has been subject to delays in commissioning by the Data Communications Company (DCC), will open more digital payment options for consumers, and that payments by app or website will erode some cash volumes in prepay mode. As of 31 December 2016, there was a total of 22.8 million gas meters and 27.5 million electricity meters operated by large and small energy suppliers in domestic properties across Great Britain. Active smart meters[1] (gas and electric) accounted for 4.9 million of the total number of meters, an increase of 2.9 million compared to 2015. In order to address this opportunity, PayPoint has been developing its MultiPay service in recent years and is well placed to serve retail and digital payments through an integrated platform for energy clients.

From 1 April 2017, the Competition and Markets Authority has introduced a price cap for prepayment customers which it estimates will reduce households' heating bills by on average £75 a year[2]. It is too early to fully understand the impact this will have on PayPoint, however we estimate each prepay customer's average top-up value is around £15 a visit.

The slowdown in the energy payments sector and uncertainty around smart meters, combined with the longer term decline in mobile top-ups and in cash as a payment method in the UK economy, means that we anticipate reducing net revenue in PayPoint's traditional sectors. As a result, our focus is on maximising profitability in UK bill payments and top-ups, managing margins and cashflow through both continuing innovation and a relentless focus on business process and cost efficiency.

Progress in year

Bill payment volumes reduced by 6.6% in the year because of softening energy prepay and a reduction in CashOut transactions. CashOut transactions reduced as a consequence of the two year government electricity rebate scheme coming to an end. Top-up transactions declined 15.3% as a result of the continuing long-term decline in UK mobile top-ups. Payments account for 64% of overall UK net revenues. Net revenues held up better than volumes as bigger clients lost share to challengers, benefiting our pricing mix.

MultiPay volumes have been growing strongly and we handled 10.3 million payments, up 4.9 million from last year, through our non-retail digital channels. We have also recently completed the implementation for SSE, our first big 6 energy client for MultiPay. The service is also proving particularly attractive to some of the main challengers in the energy market as well as smaller suppliers. At the end of the financial year, 15 clients had contracted to use the service.

We have had a steady stream of new business and have added 67 new schemes in the year including, for the first time, local authorities deciding to work with us directly and exclusively, having previously split their volumes across the Post Office and PayPoint. We have also added clients for digital voucher services, including a new arrangement with Amazon which is still in its early days.

We also went live with our new FCA regulated Payment Institution, PayPoint Payment Services Limited, which allows us to provide certain regulated payment services and to extend the range of our CashOut services.

Future delivery

The payments business is likely to continue to be affected by the uncertainty relating to smart meters and the general long-term decline of cash and top-ups. However, there is a strong residual demand for cash payment that we will continue to serve successfully and expand where possible, with new schemes and products for our customers. As more challenger businesses take share from the big traditional suppliers, we would also expect to see some margin benefits through less revenue concentration. We have also been able to renegotiate terms with retailers and symbol groups, improving margin, as a result of the diminishing importance of mobile top-up volumes.

1. Department for Business, Energy & Industrial Strategy: Smart Meters Quarterly Report to end December 2016
2. Competition and Markets Authority: Modernising the energy market 24 June 2016

We expect the year ahead to be adversely affected by a recent decision of the DWP to discontinue its Simple Payment Service from this summer, for which we have been the retail partner. Unfortunately, the service has been a victim of its own success in migrating customers away from the traditional girocheque into other methods, giving the DWP the ability to close down the option. This service has generated revenue for PayPoint of over £4 million per annum historically.

PayPoint will continue to handle hundreds of millions of payments for the UK's leading consumer service organisations and payments will remain a critical element in our business mix going forward. Our unique payments portfolio is central to the popularity of our brand with retailers and consumers and provides the platform on which our retail services are thriving. In addition, we are well placed to drive further MultiPay growth with more challengers, our first volumes for a big 6 supplier and the potential to extend into other bill payment sectors, including housing.

4. Drive continued organic growth in Romania

Market context
PayPoint Romania follows a similar business model to the UK, but in a market in which cash bill payment is a mass market proposition. Over 10 years, PayPoint has become one of Romania's most successful and popular financial brands, handling on average 24% of our clients' payments. We expect cash to be the dominant bill payment method well into the future. The range of payments solutions offered by PayPoint is extensive including energy, telecoms and pay TV bills, road tax, eMoney vouchers, insurance premiums and loan repayments. As in the UK, we work with all the leading suppliers.

Romania is also a strong remittance market, mainly as receivers of payments from overseas. As in the UK, we work with the market leaders Western Union in what is still a high growth sector.

Progress in year
We have continued to make strong organic progress in the year growing our net revenues in Romania to £9.1 million, an increase of 28.2% on the prior year. Our retail network has grown to 11,300 sites and includes strong representation from independents and multiples, including Profi, Cora and Carrefour. We enjoyed record volumes of 75 million transactions, including growth in mobile top-ups, not just bill payments.

Future delivery
The Romanian payments market continues to evolve with clients moving away from the local post office creating further opportunities for us. We will continue to expand our market share with existing clients and to add new clients. In the year, we successfully added our first local authority which we will use as a case study to entice other local authorities.

We plan to extend our retailer services offering in Romania. We are trialling a parcels service, Colet Expres, in Bucharest, working with the leading Romanian carrier, FAN courier. The home shopping market in Romania is still developing and is generally based on cash on delivery, but we are excited about the opportunity the parcels service presents. In addition, we are trialling a card payment service for retailers.

We currently have an agreed offer to buy Payzone in Romania, which is subject to competition authority approval.

5. Business optimisation

Our refocus on our retail businesses has highlighted opportunities for us to invest in tools and capabilities to enable our client and field teams to more effectively sell a portfolio of products.

In conjunction with the rollout of PayPoint One, we have also publicly pledged to our UK retailers that we intend to deliver first class servicing of their requirements through the entire lifecycle of on-boarding, operational support and status changes. This will require us to invest in efficient workflow and billing systems with accurate and timely supporting information, for our retailers and ourselves, so we can serve them effectively.

We are making a considerable investment of £4.0 million over 18 months in these tools and capabilities but are expecting significant improvements in sales and operational efficiencies.

We are also reviewing our processes to ensure we are innovating efficiently and driving maximum return for our investments in product and technology.

Outlook
We have made good progress in reshaping the business, including the disposal of Mobile and Online. This enables greater focus on our retail network specifically by providing EPoS solutions to our retailers and on pursuing a multi-carrier strategy for parcels, both of which are exciting prospects going forward. In time I believe there will be opportunities to further extend our geographic footprint, leveraging the scale and capability of our platform, however international expansion will be a lower priority for the immediate future.

To support our growth agenda, we are making incremental investment in capabilities and tools to improve our sales productivity, foster continued innovation, accelerate commercial deployment and deliver greater operational efficiencies.

For the current financial year, we expect robust net revenue growth in UK retail services and Romania. This will broadly offset the impact of our additional investments, the reduced fees earned from Yodel and the expected continuing net revenue reduction in UK cash payments, including the ending of the Simple Payment Scheme and the changing energy market dynamics.

We are confident that PayPoint is well positioned to continue to drive sustainable medium-term earnings growth, generate cash and support superior returns to shareholders.

Dominic Taylor
Chief Executive
25 May 2017

Key performance indicators (KPIs)

In order to realise its strategic aims, PayPoint has identified areas of strategic focus and records a number of KPIs to measure progress against them. The KPIs presented this year have changed in that they exclude the disposed activities of Mobile and Online. 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	2017	2016
Maximise shareholder return (see page 23)	Earnings per share (Retail networks)[1]	Retail earnings (see note 11) 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 ongoing business attributable to each share.	**64.3p**	62.5p
	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.	**45.0p**	42.4p
	Economic profit[1]	Operating profit before impairments and profit on business disposals after tax and a charge for capital employed, excluding cash, based upon the Group's cost of capital. Economic profit provides a consistent measure of the profit aligned to the remuneration of management.	**£39.2 million**	£32.8 million
Drive profitable growth in UK retail services and continued organic growth in Romania (see pages 11 and 14)	Retail networks transactions	Number of transactions processed in the year on our terminals and ATMs. Transaction volume provides a measure of the source of revenue which is earned on a per transaction basis.	**654.8 million**	668.2 million
	Retail networks transaction value	The value of transactions processed via our terminals and ATMs. Transaction value provides a measure of the source of revenue which is earned on a percentage of the transaction value.	**£10.4 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.	**£117.5 million**	£110.7 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.	**3,601**	38
Business optimisation (see page 14)	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.	**45.3%**	47.7%
	Return on capital employed[1]	Operating profit before impairments and business disposals 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.	**184.3%**	70.4%
	Growth/(decline) in Retail networks yield per site[1]	Growth/(decline) 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.	**2.2%**	(2.9%)
People (see pages 25 to 27)	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.	**29.0%**	33.0%

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

Review of business

The review of business presented includes highlights on page 1, the Chairman's statement on page 3 and the Chief Executive's review on pages 10 to 14.

Operating review

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

The application of technology is directed on a Group basis by the Group's Executive Board to develop products across the business, prioritised on an economic value basis (generally by product), rather than on a subsidiary by subsidiary basis and therefore the Group has only one operating segment.

We have however, included an analysis of the number and value of consumer transactions, revenue and net revenue distinguishing between our Retail networks and Mobile and Online.

Retail networks

The Group has established retail networks in the UK, Ireland and Romania which continued to grow by 3.2% to 40,478 sites.

	Year ended 31 March 2017	Year ended 31 March 2016	Change %
UK & Ireland Retail network	**29,176**	29,087	0.3
Romania Retail network	**11,302**	10,141	11.4
Total sites	**40,478**	39,228	3.2

In the first half of the year our focus was on the rollout of PayPoint One terminals with 3,601 terminals installed at sites by 31 March 2017. Our focus on rollout of PayPoint One to our existing sites resulted in low growth in the total number of UK sites of 0.3%. PayPoint One will replace the previous version of our terminal and is a platform from which we can launch and offer new services to retailers.

We continue to rollout PPoS to symbol groups who want to provide PayPoint services, but have their own till and EPoS applications and do not take our PayPoint One platform. At year end there were 8,487 PPoS sites (2016: 8,101 PPoS).

In Romania, we increased the number of terminal sites by 1,161 in the year, an increase of 11.4%.

Within Retail networks we distinguish between three business categories, namely bill and general, top-ups and retail services and each is reviewed separately below. Overall transactions declined by 13.4 million to 654.8 million (2016: 668.2 million), with UK declining by 3.6% offset by robust growth in Romania of 12.1%. Average transaction values in prepaid energy and UK mobile top-ups continue to increase which has offset the declining transaction volume. Transaction value of £10.4 billion (2016: £10.4 billion) was broadly in line with last year.

	Year ended 31 March 2017	Year ended 31 March 2016	Change %
UK transactions (million)	**579.8**	601.3	(3.6)
Romania transactions (million)	**75.0**	66.9	12.1
Total transactions (million)	**654.8**	668.2	(2.0)
Transaction value (£m)	**10,409.6**	10,390.8	0.2
Revenue (£m)[1]	**203.4**	196.4	3.6
Net revenue (£m)[2]	**117.5**	110.7	6.2

Despite the decline in transactions, revenue[1] increased £7.0 million to £203.4 million (2016: £196.4 million) due to card payment VAT (discussed below), change in mix of clients and growth in setup and service fees.

In prior years, card payment revenue was treated as standard rated for VAT purposes with the VAT element deducted from revenue. To bring our treatment in line with the industry practice, this was changed to be VAT exempt, resulting in a VAT recovery from HMRC of £2.4 million relating to prior years. We expect that on an annualised basis revenue will be approximately £1.0 million higher than when treated as standard rated. As a result of the change in VAT treatment, irrecoverable VAT, which is included as a cost in administrative expenses, increased by £1.2 million including £0.4 million related to prior years.

Net revenue has increased by £6.8 million to £117.5 million (2016: £110.7 million) for the same reasons as revenue set out above, plus a reduction of retailer commission (£1.3 million).

1. Retail networks consists of our UK, Ireland and Romanian businesses. A reconciliation 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 statements for reconciliation to revenue.

Bill and general

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

	Year ended 31 March 2017	Year ended 31 March 2016	Change %
Transactions (million)	**430.5**	449.2	(4.2)
Transaction value (£m)	**8,489.9**	8,557.7	(0.8)
Revenue (£m)[1]	**82.5**	85.8	(3.7)
Net revenue (£m)[2]	**58.5**	59.5	(1.7)

Bill and general transactions were lower than the previous year by 4.2%. UK and Irish bill and general transactions were down 6.6% due to lower prepaid and CashOut energy transactions. MultiPay continued to grow strongly with transactions for the year ended 31 March 2017 reaching 10.3 million (2016: 5.4 million).

Growth in Romanian bill payment transactions continued with an increase of 11.6% to 67.2 million (2016: 60.2 million). Romania continued to expand its market share with existing clients to 23.8% in March (2016: 21.8%) and also continued to add new clients across new sectors, including its first local authority.

Net revenue of £58.5 million was 1.7% down on last year's £59.5 million, the mix of clients (increase in smaller but higher yielding clients) and changes to our retail commission terms reduced the impact from the decline in transaction volume.

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 2017	Year ended 31 March 2016	Change %
Transactions (million)	**68.9**	79.0	(12.8)
Transaction value (£m)	**731.6**	767.4	(4.7)
Revenue (£m)[1]	**63.6**	63.3	0.4
Net revenue (£m)[2]	**19.1**	20.9	(8.4)

Top-up transactions decreased 12.8% to 68.9 million. The reduction in UK mobile top-up transactions and The Health Lottery was only partly offset by an increase in other UK and Romanian top-up transactions. Romania increased its top-up transactions by 16% to 7.3 million.

The average value of UK mobile top-ups continued to increase which mitigated the reduction in net revenue, which declined 8.4% to £19.1 million.

Retail services

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

	Year ended 31 March 2017	Year ended 31 March 2016	Change %
Transactions (million)	**155.4**	140.0	11.0
Transaction value (£m)	**1,188.1**	1,065.7	11.5
Revenue (£m)[1]	**57.3**	47.3	21.0
Net revenue (£m)[2]	**39.9**	30.3	31.6

Retail services transaction volume has increased across all major products: ATM transactions increased by 8.0%, card payment transactions by 12.2% and parcels by 12.6% over last year.

Net revenue growth of 31.6% to £39.9 million exceeded the growth in transactions as a result of the benefit from the change in VAT rating in card payments (see page 16 for further details) the growth of service fees from PayPoint One, a reduction in the card payment wholesale rate and bonuses earned on our SIM activations.

The number of sites in the UK with retail services is as follows:

	Year ended 31 March 2017	Year ended 31 March 2016	Change %
PayPoint One	**3,601**	38	-
Collect+	**6,167**	5,936	3.9
Card payment	**10,024**	10,111	(0.9)
ATM	**4,165**	4,120	1.1

1. Retail networks consists of our UK, Ireland and Romanian businesses. A reconciliation 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 statements for reconciliation to revenue.

Mobile and Online

The Group disposed of its online payments business on 8 January 2016 and its mobile payments business on 23 December 2016. The results below reflect the trading of these businesses up to the date of their respective disposals.

	Year ended 31 March 2017	Year ended 31 March 2016	Change %
Transactions (million)	**40.3**	150.5	(73.2)
Transaction value (£m)	**136.0**	3,650.9	(96.3)
Revenue (£m)[1]	**8.5**	16.2	(47.4)
Net revenue (£m)[2]	**6.4**	13.0	(50.9)

Financial Review

Mobile and Online are included in our statutory results up to the date of their respective disposals resulting in this year's performance not being directly comparable to last year. In order to assist users to more clearly review our financial performance for the year we have provided an analysis of our reported statutory results split between the ongoing Retail networks and the now disposed of Mobile and Online.

Revenue

Revenue for the year was £211.9 million (2016: £212.6 million) and consists of Retail networks revenue of £203.4 million (2016: £196.4 million) and Mobile and Online revenue of £8.5 million (2016: £16.2 million) up to the date of their respective disposals. Revenue and net revenue analysis is included in the operating review on pages 16 to 18.

Cost of revenue

In the current year 'cost of sales' was renamed 'cost of revenue' to better reflect the nature of the costs included in this category. The costs allocated to this category are consistent with the prior year's allocations.

Statutory

Cost of revenue reduced by £0.5 million to £106.0 million (2016: £106.5 million), with a reduction from Mobile and Online of £1.5 million offset by an increase in Retail networks of £1.0 million.

Retail networks

Cost of revenue in Retail networks increased to £102.7 million (2016: £101.7 million). The revenue growth achieved in Romanian top-ups, where PayPoint acts as principal, increased the cost of top-ups by £4.2 million to £32.3 million (2016: £28.1 million). Depreciation and amortisation increased by £1.7 million principally due to the launch and rollout of PayPoint One. The above increases were partially offset by a reduction in transaction costs from the lower level of energy CashOut schemes and commissions paid to retailers reducing to £53.7million. Retailer commissions reduced as a result of the decline in UK bill payments and top-up transactions and revenue and changes to the level of commission share with symbol retailers.

Statutory gross profit margin remained broadly similar to last year at 50.0% (2016: 49.9%), with Retail networks gross margins increasing from 48.2% to 49.5% driven by the £2.4 million VAT recovery and changes to the level of commission share.

Operating costs

Statutory

Operating costs (administrative expenses) decreased £2.1 million (3.8%) to £53.6 million (2016: £55.7 million) caused by a £7.6 million reduction from Mobile and Online with Retail networks increasing £5.5 million.

Retail networks

Retail networks' operating costs increased by £5.5 million to £47.5 million as a result of:

- lower VAT input recovery resulting from the VAT treatment change for card payments;
- the rollout of PayPoint One;
- an increase in IT people costs; and
- an increase in LTIP and DABS bonus scheme costs.

Share of profit in joint venture

The accounting policy for joint arrangements and details of the arrangement with Yodel are included in note 1 and 15 to the notes to the financial statements. Our share of the Drop and Collect Limited profit up to the date it was disposed of as part of the arrangement was £1.2 million (2016: loss of £0.2 million). A loss on disposal of £3.8 million was recorded at the date of sale.

The new Collect+ joint arrangement has been accounted for as a joint operation with the Group's share of the royalty fee included in revenue. Our share of income from 16 December 2016 to 31 March 2017 was £0.3 million.

1. Retail networks consists of our UK, Ireland and Romanian businesses. A reconciliation 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 statements for reconciliation to revenue.

Operating margin

Statutory

The improved operating margin of 1.5ppts to 42.2% (2016: 40.7%) includes the benefit of reduced losses in the Group results from Mobile and Online and the improved result from the Drop and Collect joint venture.

Retail networks

Operating margin in retail networks declined by 2.4ppts to 45.3% (2016: 47.7%), as a result of increased operating costs.

Profit on sale of Mobile

Mobile was sold to Volkswagen Financial Services AG for £26.5 million. After deducting sale costs, a profit on sale of £19.5 million was recorded, details of which are included in note 9 to the financial statements. The gross proceeds of £26.5 million from the sale were distributed to shareholders on 11 January 2017.

Profit before tax and taxation

The tax charge of £9.5 million (2016: £10.2 million) on profit before tax of £69.1 million (2016: £8.2 million) represents an effective tax rate[1] of 17.8% (2016: 20.5%). The effective tax rate reduced due to an adjustment to prior year taxes following finalisation of those tax returns (£1.1 million, effective tax rate reduced by 2.0%), reduction in Mobile losses for which there was no tax relief and the increase of a deferred tax asset for share based payments, taking into account the increased likelihood of share schemes vesting and related tax relief. The statutory tax rate reduced to 13.8% (2016: 125.7%) primarily as a result of no goodwill impairments being recognised in the current year (2016: £49.0 million).

Statement of financial position and capital expenditure

Non-current assets of £47.6 million were £8.4 million higher than last year driven by substantially higher capital expenditure (£17.5 million). Working capital increased by £7.4 million caused by reduced client funds within trade and other payables. Prior year client funds held were higher than in previous years and this year due to the early Easter holiday delaying transfers to clients.

Cash flow and liquidity

Cash generated by operations was £51.0 million (2016: £69.0 million), reflecting strong conversion of profit to cash and the reduction in client funds from last year.

Corporation tax of £8.6 million (2016: £9.9 million) was paid in the current year and was net of refunds for over payments made in prior years. Capital expenditure of £17.5 million (2016: £8.2 million) comprised the purchase of the freehold of the adjacent building at Welwyn Garden City for £3.6 million, which we already partly occupied, PayPoint One terminals, EPoS and MultiPay development, data centre development and purchase of ATMs.

Share incentive schemes settled in cash absorbed £0.4 million (2016: £0.6 million). Dividends paid were £78.5 million (2016: £27.4 million) details of which are included in note 24 to the financial statements.

The Group has cash of £53.1 million, and has an undrawn £45.0 million revolving term credit facility expiring in May 2019. Cash includes amounts held to settle short-term client settlement obligations, which at the year end, amounted to £20.2 million.

The additional dividend and final dividend, if approved by shareholders, will utilise £37.1 million cash. The financial statements have been prepared on a going concern basis having regard to the identified risks and viability statement on pages 20 to 22. The Group's cash and borrowing capacity provide 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 nominal capital charge of 10%) was £39.2 million (2016: £32.8 million), an increase of 19.6%.

Dividend

We propose to pay a final dividend of 30p per share on 31 July 2017 (2016: 28.2p) to shareholders on the register on 23 June 2017, 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 15.0p (2016: 14.2p) was paid on 15 December 2016, making a total ordinary dividend for the year of 45.0p per share (2016: 42.4p), up 6.1%.

Rachel Kentleton
Finance Director
25 May 2017

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

Risks

PayPoint's business, financial condition or operations could be materially and adversely affected by the risks summarised below. Although management takes steps to mitigate risks where possible or where the cost of doing so is reasonable in relation to the probability and seriousness of the risk, it may not be possible to avoid the occurrence of some or all of such risks. The Group's level of risk in each area remains broadly the same as last year except for exposure to country and regional risk which has been reduced due to the sale of the Mobile business, together with the risk of acquisitions not meeting expectations and the addition of the risk associated with Brexit. The Group's risk management policies and procedures are also discussed in the governance statement on page 43.

Risk area	Potential impact	Mitigation strategies
Cyber, technology & process and Fraud		
Loss or inappropriate usage of data	The Group's business requires the appropriate and secure use of consumer and other sensitive information. Electronic commerce requires the secure transmission of confidential information over public networks. Increasingly, internal systems make use of third party hosted services (cloud services) and several of our products are accessed through the internet. Fraudulent activity, cyber-crime or security breaches in connection with maintaining data and the delivery of our products and services could harm our reputation, business and operating results.	The Group has established physical security controls at its data centres and rigorous cyber security, anti-fraud and whistleblowing standards, procedures, and recruitment and training schemes, which are embedded throughout its business operations. The Group also screens new employees carefully. Continued investments are made in cyber security, including the significant use of data and communications encryption technology, improvements in e-mail and web filtering and testing and removal of system vulnerabilities. We have also developed plans for responding to a breach of security.
Interruptions in business processes or systems	The Group's ability to provide reliable services largely depends on the efficient and uninterrupted operation of our computer network systems, financial settlement systems, data and call centres, as well as maintaining sufficient staffing levels. System or network interruptions, recovery from fraud or security incidents or the unavailability of key staff or management resulting from a pandemic outbreak could delay and disrupt our ability to develop, deliver or maintain our products and services, causing harm to our business and reputation and resulting in loss of customers or revenue.	Comprehensive business continuity plans and incident management programmes are maintained to minimise business and operational disruptions, including fraudulent activity, system failure or pandemic incidents. Support arrangements have been established with third party vendors and there are strict standards, procedures and training schemes for business continuity.
Clients, agents & other third parties		
Dependence upon third parties to provide data and certain operational services	The Group's business model is dependent upon third parties to provide operational services, the loss of which could significantly impact the quality of our services. Similarly, if one of our outsource providers, including third parties with whom we have strategic relationships, were to experience financial or operational difficulties, their services to us would suffer or they may no longer be able to provide services to us at all, significantly impacting delivery of our products or services.	The Group selects and negotiates agreements with strategic suppliers and agents based on criteria such as delivery assurance and reliability. Single points of failure are avoided, where practicable and economically feasible. Controls are regularly reviewed and improved to minimise risk of retailer churn caused by financial loss to retailers through fraudulent third party activity.

Risk area	Potential impact	Mitigation strategies
Consolidation among clients and markets	Consolidation of retailers and clients could result in reductions in the Group's revenue and profits through price compression from combined service agreements or through a reduced number of clients.	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.

Legal, regulatory & compliance

Legislation or regulatory reforms and risk of non-compliance	The Group is largely unregulated by financial services regulations, although in the UK we have Payment Institution status (through PayPoint Payment Services Limited), which enables the provision of regulated payment services, under the Payment Services Regulations 2009, including certain CashOut services. The Group's agents which offer money transfer on behalf of third party clients are licensed as Money Service Businesses by HMRC. We are subject to Payment Card Industry Data Security Standards regulated by the card schemes. Regulatory reform could increase the cost of the Group's operations or deny access to certain territories in the provision of certain services. Non-compliance with law, regulation, privacy or information security laws could have serious implications in cost and reputational damage to the Group.	The Group's legal department works closely with senior management to adopt strategies to educate legislature, regulators, consumer and privacy advocates and other stakeholders to support the public policy debate, where appropriate, to ensure regulation does not have unintended consequences over the Group's services. The Group has in place a business ethics policy which requires compliance with local legislation in all the territories in which the Group operates. A central compliance department co-ordinates all compliance monitoring and reporting. Subsidiary managing and finance directors are required to sign annual compliance statements. A review is underway to ensure that the Group is compliant with the requirements of the General Data Protection Regulations prior to the May 2018 deadline.
Materially adverse litigation	The Group contracts with a number of large service organisations for which it provides services essential to their customers. Failure to perform in accordance with contractual terms could give rise to litigation.	The Group seeks to limit exposure in its contracts. Mitigating actions are taken where contractual exposures are above the norm, including insurance coverage, where appropriate and economically sustainable.
Loss or infringement of intellectual property rights	The Group's success depends, in part, upon proprietary technology and related intellectual property rights. Some protection can be achieved but in many cases, little protection can be secured. Third parties may claim that the Group is infringing their intellectual property rights or our intellectual property rights could be infringed by third parties. If we do not enforce or defend the Group's intellectual property rights successfully, our competitive position may suffer, which could harm our operating results.	The Group, where appropriate and feasible, relies upon a combination of patent, copyright, trademark and trade secret laws, as well as various contractual restrictions, to protect our proprietary technology and continues to monitor this situation. The Group also defends vigorously all third party infringement claims.

HR/Personnel

Dependence on recruitment and retention of highly skilled personnel	The ability of the Group to meet the demands of the market and compete effectively is, to a large extent, dependent on the skills, experience and performance of its personnel. Demand is high for individuals with appropriate knowledge and experience in payments, IT and support services. The inability to attract, motivate or retain key talent could have a serious consequence on the Group's ability to service client commitments and grow our business.	Effective recruitment programmes are 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 also reviewed regularly.

Principal risks and uncertainties continued

Risk area	Potential impact	Mitigation strategies
Economic Growth		
Brexit	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.	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.
Foreign exchange fluctuations	As the Group operates in Romania and Ireland, it is exposed to the risk of currency fluctuations and the unpredictability of financial markets in which it operates.	The Group's financial risk management seeks to minimise potentially adverse effects on the Group's financial performance.
Product/project management		
Technological changes and increasing competition	The Group operates in a number of geographic, product and service markets that are highly competitive and subject to rapid technological changes, for example the introduction of smart meters, new payment solutions and the movement of UK consumers away from cash payments. Competitors may develop products and services that are superior to ours or that achieve greater market acceptance than our products and services, which could result in the loss of clients, merchants and retailers or a reduction in revenue.	The Group is committed to continued research and investment in new data sources, people, technology and products to support its strategic plan. IT development resource is directed at a Group level and developments are in hand to ensure the Group has relevant products in place to meet the demands brought about by changing technology. For smart meters, MultiPay has been launched.

Viability and going concern statements

The Directors consider the Group's viability over a three year period, on an annual basis, as part of their risk monitoring programme. The three year period is considered appropriate as it aligns with the Group's financial planning cycle. In determining the Group's viability its business activities together with factors likely to affect its future development and performance described in the Chief Executive's review on pages 10 to 14 (in particular, changes to the Group's structure, strategy and priorities) and the principal risks and uncertainties set out on pages 20 to 22 were considered. It was determined that none of the individual risks in isolation would compromise the Group's viability and therefore a number of different severe but plausible principal risk combinations were considered. These included the downside scenario of the loss of a large clients, slower than anticipated growth in retail services and a quicker than expected decline in the cash payments business.

In making the assessment, the Directors have also considered the Group's robust capital position, the cash-generative nature of the business, the ability of the company to reduce costs and the access to available credit.

The financial statements have, therefore, been prepared on a going concern basis and the Directors have a reasonable expectation that the Group will remain viable over the three year assessment period.

Environmental matters, employees, social, community and human rights

PayPoint is committed to dealing fairly and with a high level of integrity with all its stakeholders, including clients, retailers, merchants, consumers, local communities, shareholders and our people. We comply with statutory obligations in all areas and subject our practices to high levels of scrutiny. We publish results twice each year and provide two interim management statements, complying with reporting and disclosure obligations. This report sets out our approach and the way we measure our success in dealing with each group of stakeholders. Information about the approach we take with our employees can be found on pages 25 to 27.

	Clients	Retailers and consumers	Local communities	Shareholders
Information on stakeholders	Over 300 clients including those via reselling arrangements.	Over 40,000 retailers in UK, Ireland and Romania and provide a service to millions of consumers.	Where our employees live and work.	601 shareholders at 31 March 2017.
Impact	Provision of convenient services for consumer payments.	To provide stable, reliable and a broad range of services to help generate consumer footfall for retailers who serve their communities.	Financial support to local charities.	Maximise shareholder return.
Engagement	Provision of a high standard of service to our clients and open communication. Client contracts contain service level agreements, which are set to a high standard. Specific performance is measured for key elements, including system availability and file delivery.	We seek to provide an unparalleled service to our retailers and consumers.	PayPoint has a charity committee made up of employee volunteers which provides support, funded by the Company, to fundraising activities carried out by its employees for charities which are important to them. These include local charities in the communities in which its employees live and work. In September 2016 PayPoint was appointed as an Enterprise Advisor to a local secondary school in order to support their students with the transition from school to the workplace.	Please see page 39
How we interact and support the stakeholders	Communication - major clients have regular review meetings with dedicated Strategic Account Managers	In the UK, terminal availability is over 99% and when a terminal needs to be replaced, it is achieved within four hours across the UK in 98% of cases. The breadth of products offered by PayPoint is greater than any other network. An annual retailer survey is carried out to understand how we can improve our service. We also invite retailers to attend an annual forum to discuss new products and obtain regular retailer feedback. Major multiple retailers have regular review meetings with dedicated account managers.	During the year, PayPoint donated £25,000 to over 20 local and national charities, which was supplemented by funds raised by employees themselves. We offer our network to collect for certain charities free of charge, including the BBC's Children in Need telethon. 58% of PayPoint's ATM network is 'speech-enabled', the largest proportion of an independent network in the UK.	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.

Environmental matters, employees, social, community and human rights continued

Environment

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

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

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

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

Our approach to waste management remains unchanged year on year. Reported landfill waste has increased as a result of new technology deployed by our waste collection supplier which accurately measures the weight of waste collected. Previously estimations were made based on the volume of waste collected. The total volume of waste collected in the year was similar to last year. As a result, the total reported waste has increased and the proportion of waste recycled has fallen. Plans are in place to reduce total waste and increase recycling over the coming year.

	Year ended 31 March 2017 (tonnes)	Year ended 31 March 2016 (tonnes)	Change %
Waste			
Landfill	**23.0**	13.5	70.4%
Recycled	**17.4**	18.6	(6.5%)
Total	**40.4**	32.1	25.9%
% recycled	**43.07%**	57.94%	

GHG emissions

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

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

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

Global GHG emissions data for the year is as follows:

Impact	Units	**Year ended 31 March 2017**	Year ended 31 March 2016
Scope 1 (direct emissions from fuel combustion)	tonnes CO^2e	**373**	346
Scope 2 (indirect emissions from purchased electricity, heat and cooling)	tonnes CO^2e	**1,120**	1,322
Scope 3 (business travel, waste and water)	tonnes CO^2e	**680**	764
Total		**2,173**	2,432
Intensity measurement: Total tonnes of CO^2e per employee[1]		**3.3**	3.4

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

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

People
PayPoint employed, on average, 660 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 decreased during the year as changes implemented in the previous year were embedded. One third of UK turnover was instigated by the business as part of our programme of transformation and we expect turnover to remain at similar levels as we continue to transform and ensure that we have the shape and size of organisation needed to deliver our future plans.

Culture
PayPoint's culture of openness, honesty and accountability is an essential part of our success. We communicated a new set of values in 2016 to 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 six values on the following page.

Engagement
PayPoint recognises that all of our employees play a part in delivering the Group's performance. We keep our people informed of company performance and new developments via formal business update meetings, staff briefings, regular team meetings and company newsletter. All employees are invited to participate in two meetings a year where the directors present the performance of the Group. Overseas offices participate by webcam.

PayPoint invites all 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. We launched a new survey in 2016 in which 89% of employees participated and we achieved an overall engagement score of 71%. This is below the 78% achieved in the prior year although the results are not directly comparable due to the change in survey provider.

PayPoint operates a Share Incentive Plan to enable all UK employees to share in the success of the Company. 40% of employees actively participate in this plan, an increase from 36% 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 2016 we supplemented this with the introduction of management skills workshops running throughout the year. 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. Three apprentices are currently employed within our IT function and we plan to expand the programme over the course of the next 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.

42% of our employees are female and the representation on the Executive Board is 43% with three women on a board of seven members.

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.

Environmental matters, employees, social, community and human rights continued

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.

Reece Jones

Retail Operations

January 2017 Values Award Winner

Reece was nominated for the Customer focused value for his positive, helpful attitude and support given to many different people in the business. In particular, Reece guides our Territory Development Managers through contract completion and once took contracts home on a Friday evening, for a TDM to collect on Saturday in order to secure sales first thing on Monday.

James King

Finance Operations

November 2016 Values Award Winner

James was nominated for the Customer focused value for the excellent work he delivers on reconciling and processing client settlement payments. This vital area requires exemplary customer communications and an ability to work under pressure, which James constantly delivers. He has received excellent feedback from internal and external clients for his work to ensure payments are delivered accurately and on time.

PayPoint has the following policies in place:

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

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

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

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

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

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

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

	UK		Rest of the world	
PayPoint's employees (Numbers are average unless otherwise stated)	**Year ended 31 March 2017**	Year ended 31 March 2016	**Year ended 31 March 2017**	Year ended 31 March 2016
General				
Number of staff employed during the period	**469**	507	**191**	206
Length of service	**5 years**	5 years	**4 years**	4 years
Staff turnover during period	**29%**	33%	**27%**	30%
Sickness absence rate	**2.5%**	2.4%	**2.0%**	1.0%
% working part-time	**10%**	10%	**6%**	7%
Gender diversity				
Number of women employed	**198**	214	**87**	84
% of all employees	**42%**	42%	**46%**	41%
Number of men employed	**271**	293	**104**	122
% of all employees	**58%**	58%	**54%**	59%
PayPoint plc directors				
Number of women employed at 31 March 2017	**2**	1	**-**	-
% of PayPoint plc directors	**22%**	10%	**0%**	0%
Number of men employed at 31 March 2017	**7**	7	**-**	-
% of PayPoint plc directors	**78%**	90%	**0%**	0%
Senior management[1]				
Number of women employed	**2**	2	**-**	-
% of senior management	**27%**	26%	**0%**	0%
Number of men employed	**6**	6	**1**	1
% of senior management	**73%**	74%	**100%**	100%
Ethnic minorities				
% of all employees	**31%**	29%	**11%**	13%
% of management grades	**18%**	24%	**5%**	7%
Disabled employees				
% of all employees	**1%**	1%	**0%**	0%
Age profile				
Employees under 25	**47**	43	**22**	23
Employees 25 to 29	**79**	87	**28**	32
Employees 30 to 49	**269**	301	**133**	142
Employees 50 and over	**74**	76	**9**	9

1. Senior management includes the Group Executives and managing director

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

Dominic Taylor
Chief Executive
25 May 2017

Board of directors


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1. Nick Wiles

Non-executive Chairman

Appointed to the board 22 Oct 2009

Appointed as Chairman 8 May 2015

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

2. Gill Barr

Non-executive director

Appointed 1 Jun 2015

Gill has held senior strategy and marketing 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 Trustee Director for Willis Towers Watson's master trust pension fund LifeSight. She is the Chair of the Customer Challenge Group for Severn Trent Water plc. She was recently appointed Advisory Board Member, Wiltshire Farm Foods.

3. Neil Carson OBE

Non-executive director

Appointed 23 July 2014

Neil worked for 34 years for Johnson Matthey (JM), the FTSE 100 chemical company. Starting as an engineering graduate trainee, he worked in each of the divisions in a number of different roles serving global markets. He joined the board of JM in 1999 as Division Director of the Autocatalyst division and became the CEO in 2004, standing down in 2014. Neil was a founder member of the Prince of Wales Corporate Leaders Group on Climate Change. Neil is currently Chairman of TT Electronics. He is also Honorary President of the Society for the Chemical Industry. He was awarded an OBE for services to the Chemical Industry in 2016.

4. Giles Kerr

Non-executive director

Appointed 20 Nov 2016

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. Giles is Director of Finance of Oxford University and is a non-executive director of BTG plc, Senior plc and Adaptimune Therapeutics plc.

5. Rachel Kentleton

Finance Director

Appointed 3 January 2017

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.

6. David Morrison

Non-executive director

Appointed 12 Jan 1999

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

7. Rakesh Sharma

Non-executive director

Appointed 12 May 2017

Rakesh was appointed to the PayPoint board in May 2017. 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 has 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 holds to date.

8. Dominic Taylor

Chief Executive

Appointed 4 Aug 1998

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

9. Tim Watkin-Rees

Business Development Director

Appointed 22 Sept 1998

Tim was a founder director of PayPoint in 1996 and has been responsible for group business development throughout the company's history. 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.

Leadership team bios


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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.

2. Tim Watkin-Rees

Business Development Director

Tim was a founder director of PayPoint in 1996 and has been responsible for group business development throughout the company's history. 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.

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.

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.

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 experience 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.

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.

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.

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 Poulenc, 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.

Chairman's statement on governance

Dear Shareholder,

I am pleased to present the Corporate Governance report on behalf of the PayPoint plc board. This report gives insight into the corporate governance workings of the board as well as details of how the principles of the UK Corporate Governance Code (the Code) have been applied during the year under review.

Culture and values
The board continues to set the right tone from the top by providing entrepreneurial leadership through good governance and accountability for the benefit and protection of our shareholders, and the sustainable growth of the business as a whole. One of the key developments in the culture of PayPoint during the year, which was endorsed by the board, was the establishment and implementation of formal corporate values to underpin operations of the day-to-day activities and overall business. The values adopted which are: Accountable, Enquiring, Team player, Customer focused, Ambitious and Passionate, reinforce the culture of good governance across the organisation and demonstrate the willingness within PayPoint to work in a positive manner with our clients, retailers, employees and other stakeholders. Further details of the PayPoint values are on page 26.

Board changes and succession
As I stated in my Chairman's statement at the beginning of this annual report on page 3, George Earle retired as Finance Director and board member at the end of the financial year under review. George had served on the board for 12 years in which time he made a significant contribution to the Company in his robust and prudent management of its financial affairs. On behalf of the board, I would like to thank George for his personal commitment and service to PayPoint. The board was delighted to welcome Rachel Kentleton as successor to George Earle. Rachel joined PayPoint and the board on 3 January 2017. Rachel brings considerable financial and operational experience together with a wide knowledge of investor relations and strategy.

Neil Carson also notified the board, during the year, of his intention to step down as a director, due to his other external commitments. An extensive and rigorous search process was initiated to identify a new non-executive director and the board was unanimous in supporting the appointment of Rakesh Sharma on 12 May 2017. Rakesh brings valuable experience to the board and his appointment strengthens the board's composition in terms of relevant experience, knowledge and skills. Upon his appointment, Rakesh became a member of the Audit, Remuneration and Nomination Committees, and he will take over the chairmanship of the Remuneration Committee when Neil steps down. On behalf of the board, I thank Neil for his service and welcome Rakesh with whom the board looks forward to working closely.

As was reported in last year's annual report, David Morrison is due to retire from the board at the 2017 annual general meeting, however the board has decided that in view of the recent appointment of a new independent non-executive director, there would be no further appointment made to replace David on the board at this time. However, the board will continue to keep its composition under review, and make any directorate changes as it deems necessary or required. Taking into consideration the size and the business of the Company, the board determined that it has the appropriate balance of skills, experience, independence and knowledge to enable the discharge of its responsibilities effectively, and that it will continue to do so after the departure of David Morrison.

In light of the various changes to the board's composition, succession planning remained at the forefront of the board's agenda throughout the year, with the Nomination Committee leading the process to ensure that it was formal, rigorous and transparent, and making recommendations for board appointments. Details of succession planning and the process by which the new directors were appointed are set out in the Nomination Committee report on page 40.

The board acknowledges that its composition during the year did not comply with the Code in that the independent non-executive directors made up less than half of the board, however, as was detailed in the 2016 annual report, this composition will remain as is to ensure continuity in light of the number of changes to the board's membership, until the retirement of David Morrison at the 2017 annual general meeting, at which time the composition of the board will become compliant with the Code.

Oversight
In February 2017, the board held a strategy session at which the strategic plan of the Company (which had been approved by the board in 2016) was reviewed to ascertain that the general direction of the business continued to be in line with the strategic plan. Throughout the year the board continuously monitored progress in the business and against strategy with reference to the KPIs which are set out on page 15.

The board devoted sufficient time to consider in depth the key activities and transactions that occurred during the year, including, the launch of the PayPoint One terminal, the sale of the Mobile payments business and the new arrangement with respect to Collect+. In each case the board determined that there were strong governance processes in place to ensure their proper implementation.

Effectiveness
The board conducted an internal evaluation during the year, the overall conclusion of which was that all the board members were very satisfied with the performance of the board and each of the committees. The details of this evaluation process including the suggestions for improvements therein, are set out on page 38.

With the constant change in the regulatory environment the board considers it of utmost importance to keep abreast, either through specific training or general briefings, of changes in regulations that would have a significant impact on the organisation. For instance, the board received targeted training on the new Market Abuse Regulations that came into effect during the year under review.

All directors are given the opportunity of going out on field visits to retailers, in order to give them a broader view of the Group's operations.

Board committees
In this corporate governance section of the annual report, the board committees, of Audit, Nomination and Remuneration, have reported on their activities for the year under review (see pages 42, 40 and 46). These activities comprise the roles and responsibilities delegated by the board to each committee, but for which the board retains overall responsibility. Some of the key activities undertaken and reported on for each committee include: the Audit Committee - risk management and external audit tender (see page 42); Nomination Committee – succession planning and director appointment (see page 41); Remuneration Committee - consultation with major investors on the directors' remuneration policy (see page 46).

In conclusion, the board remains confident of the strategic plan and of the governance processes in place to bring about its delivery in order to ensure sustainable growth of the business. We hope that this Governance Report serves its purpose of providing you with insight into the corporate governance of PayPoint plc.

Nick Wiles
Chairman
25 May 2017

Compliance statement

The board considers that throughout the year under review, it has complied with the provisions of the September 2014 version of UK Corporate Governance Code (the Code) as issued by the Financial Reporting Council, with the exception that for the financial year under review only three of the four non-executive directors were determined by the board to be independent. The independent non-executive directors were Neil Carson[1], Gill Barr and Giles Kerr. David Morrison is the non-executive director who was not considered to be independent. Therefore throughout the year, less than half of the board were independent non-executive directors, excluding the Chairman, and the reason for this deviation from Code provision B1.2 is addressed on page 32.

A copy of the Code can be found at https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx

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

Leadership

Corporate governance structure

The board has in place, a sound corporate governance structure with clearly defined roles and responsibilities as shown in the chart below. This governance structure enables the proper implementation of the strategic aims of the Company resulting in the growth of the business, and ensuring that the interests of the shareholders and wider stakeholders are protected in the process.

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 current board members are as shown on page 28. The board delegates certain roles and responsibilities to board committees and to the Chief Executive but still retains overall responsibility and has a schedule of matters reserved for its approval which is contained in the delegated authorities document. This allows for in depth review and insight into applicable matters by the committees before they report back to the board. The delegated authorities including the roles and responsibilities of each of the committees can be found at https://www.paypoint.com/en-gb/about/investor-relations/corporate-governance

Audit Committee

Summary of responsibilities include:
- Monitoring the statutory audit of the financial statements and financial reporting process
- Monitoring the effectiveness of internal controls and risk management
- Establishing and overseeing the relationships with the Company's auditors

More information can be found on pages 42.

Nomination Committee

Summary of responsibilities include:
- Review structure, size and composition of the board
- Consider succession planning for directors
- Identify and nominate candidates to fill board vacancies

More information can be found on pages 40.

Remuneration Committee

Summary of responsibilities include:
- Determining the policy (for board approval) on remuneration of the Chairman and executive directors
- Exercising discretion on remuneration issues in line with policy
- Establishing the relationship with remuneration consultants

More information can be found on pages 46.

Market disclosure Committee

This committee was established by the board during the year under review. Its main responsibility is overseeing the disclosure of information by the Company to ensure that it meets its obligations under the new Market Abuse Regulation. Its members are the Chief Executive, the Finance Director and the Company Secretary.

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 set out on page 36.

PayPoint Romania

PayPoint Romania is headed by the 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, Business Development Director, Chief Information Officer, Commercial Director, HR Director and Company Secretary/Head of Legal. The executive board is responsible for the day-to-day management of the Group's (excluding PayPoint Romania and PayPoint Payment Services Limited) operations, including: risk management; preparation and presentation of the strategy plan and the annual budget to the board; and the implementation of these strategic plans and other decisions as approved by the board. The board oversees the activities of the executive board

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 CashOut services) under the Payment Service Regulations 2009. The managing director of PPSL reports to the Chief Executive.

1. Neil Carson will be stepping down from the board on 26 May 2017 and Rakesh Sharma was appointed as an independent non-executive director on 12 May 2017.

Meetings

The board and its committees meet regularly throughout the year with meetings scheduled: around key dates in the Company's corporate calendar, and to consider key corporate transactions or events that may arise. There were ten scheduled meetings during the year under review, six of which were full board meetings and four were held by telephone conference. Of the meetings held by telephone conference, two were to consider and approve the interim management statements, while the other two were to consider and approve the appointment of Rachel Kentleton to the board, and the sale of the Mobile business as well as the new arrangements with respect to Collect+, respectively. 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 2016/17

	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	■	■	■	10	10	6	6	4	4	7	7
Neil Carson	■	■	■	10	10	6	6	4	4	7	7
Giles Kerr[2]	■	■	■	9	10	6	6	4	4	7	7
David Morrison[2]		■		8	10	5*	5*	4	4	6*	6*
Nick Wiles		■	■	10	10	6	6	4	4	7	7
Executive Directors											
George Earle[3]				8	9	5*	5*	-	-	2*	2*
Rachel Kentleton[4]				3	3	2*	2*	-	-	-	-
Dominic Taylor				10	10	6*	6*	4*	4*	7*	7*
Tim Watkin-Rees				10	10	6*	6*	-	-	2*	2*

* 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 is not a member of the Audit and Remuneration Committees and he only attended meetings of these committees to which he was specifically invited.
1. Rakesh Sharma joined the board on 12 May 2017 therefore he was not eligible to attend any of the meetings for the financial year under review.
2. Giles Kerr was unable to attend one board meeting at which the third quarter interim management statement was considered while David Morrison was unable to attend one full board meeting and one board meeting at which Rachel Kentleton's appointment to the board was considered.
3. George Earle stepped down from the board on 31 March 2017. He was unable to attend the last full board meeting held for the financial year and he did not attend the board meeting at which the appointment of his successor was considered and approved.
4. Rachel Kentleton joined the board on 03 January 2017 and attended all board meetings held after her appointment.

The Chairman sets the agenda for board meetings and 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 external advisers are held as necessary to aid the board's decision making process. The work undertaken by the board during the year is set out in the tables below:

The agenda for each full board meeting included the following as standing items:

– Consideration for approval of the previously held board meeting minutes.

– Board committee reports on the committee meetings which were usually held prior to the board meetings, and included all matters which had been delegated to the committees and which required board approval.

– A management report prepared and presented by the Chief Executive which covered group operations. Over the course of the year, this included updates and reports on:
  - the proposed sale of the Mobile payments business;
  - the discussions around the new joint venture arrangements for Collect+;
  - various ongoing projects within the business;
  - a development programme for the executive board; and
  - other operational matters for the board's consideration.

– Group health and safety report which covered any health and safety incidents that may have occurred and the actions taken in that respect, including any updates on previous actions.

Other matters which were covered as a matter of routine during the year included:

– Strategy - during the year the board agreed that in order to ensure strategic issues are fully and properly addressed, there would be bi-annual strategy sessions – one in February which would be a one-day strategy update session, and a two-day strategy session in September at which the board will consider the strategic plan (whether existing or proposed) in depth. Accordingly, for the year under review, the board held a strategy update session in February where the executive board gave updates on the implementation of the strategy key among which included:
  - renegotiation of the Collect+ arrangement with Yodel;
  - sale of the Mobile payments business to VW Financial Services;
  - development and deployment of PayPoint One and EPoS;
  - bill payments and MultiPay;
  - retailer relations; and
  - executive board development.

- Review of annual report and preliminary results.
- Review of executive director's presentation of the full year results to analysts and investors.
- Bi-annual review and approval of the interim management statements for release to the market.
- Review of the directors' conflicts of interest register.
- Review and approval of interim dividend and recommendation of final dividend.
- Review of management accounts and business performance, including forecasts.
- Board evaluation (see page 38).
- Review of delegated authorities and recommended committees' terms of reference.
- Consideration and approval of the recommended terms for renewal of Company insurance.
- Consideration and approval of the budget for the financial year.

Other important topics covered by the board during the year included:

- Review of the capital allocation programme to return £125 million of surplus cash to shareholders over five years to 2021, in addition to the ordinary dividends paid by the Company.
- Approval of the Company's statement on slavery and human trafficking.
- Approval of a new securities dealing policy and code in accordance with the Market Abuse Regulations.
- Consideration of the legal issues surrounding Brexit and the effect of such issues on PayPoint.
- Consideration of the proposals for use of market leading CRM and ERP solutions to improve customer service capabilities and operational efficiency within PayPoint.

In addition to the pre-scheduled board meetings, there were two additional board meetings held during the year at which the following key events were tabled:

- Consideration and approval of the recommendation to appoint Rachel Kentleton to the board.
- Consideration and approval of the agreements for the sale of the Mobile payments business and the re-structure of the Collect+ joint venture arrangement.

Division of roles and responsibilities

The Chairman is responsible for the leadership of the board and for ensuring the effectiveness in all aspects of the board's role. The Chairman chairs board meetings and regularly consults with the executive directors regarding on-going business. His other significant commitments are disclosed in his biography on page 29. The board considers that these commitments do not hinder his ability to discharge his responsibilities to the Company and its subsidiaries.

There is a clear division of responsibilities between the Chairman, the Chief Executive and the Senior Independent Director which has been agreed by the board as follows:

Chairman

Nick Wiles is the Chairman and he 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. 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 the Group's performance and operations.
- Ensuring, with the advice of the Company Secretary where appropriate, 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 in board appointments to retain and build an effective and complementary board, and to facilitate the appointment of effective and suitable members and chairmen of board committees.
- Ensuring that there is effective communication by the Group with its shareholders, including by the Chief Executive and Finance Director, and ensuring that members of the board develop an understanding of the views of the major investors in the Group.
- Promoting the highest standards of integrity, probity and corporate governance throughout the Group and particularly at board level.

Chief Executive

Dominic Taylor is the Chief Executive and he is responsible for running the Group's business by 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.
- Ensuring, in consultation with the Chairman and the Company Secretary as appropriate, that he and the executive board comply with the board's approved procedures.
- 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.
- Promoting, and conducting the affairs of the Group with the highest standards of integrity, probity and corporate governance.

Senior Independent Director

Neil Carson[1] is the senior independent director and he is responsible for supporting the Chairman in his role by working with the Chairman and other directors to resolve any issues that may arise. His other main responsibilities are:

- 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

All the non-executive directors bring considerable knowledge and experience to board deliberations. Non-executive directors do not participate in any of the Company's share schemes or bonus schemes and their service is non-pensionable. The balance and independence of the board is kept under review by the Nomination Committee.

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

Effectiveness

Composition

The board is comprised of an appropriate balance of skills, experience, independence and knowledge, which enables it to discharge its responsibilities effectively. The directors have a range of backgrounds including retail, payments services, banking, investment management, sales and marketing, and finance, and possess a wealth of experience which attunes them to the industry in which PayPoint operates. This balance of skill and independence creates an environment that encourages the effective challenge and development of the strategic aims of the Company. At the end of the year under review, there were eight directors on the board: Nick Wiles, the non-executive Chairman, three executive directors: Dominic Taylor, Rachel Kentleton and Tim Watkin-Rees, and four non-executive directors: Gill Barr, Neil Carson, who is also the senior independent director, Giles Kerr and David Morrison. Subsequent to the year end it is Neil Carson's intention to step down from the board and in view of this, Rakesh Sharma has been appointed as an independent non-executive director. The biographies of each of the directors can be found on page 29.

During the financial year, Rachel Kentleton joined the board on 3 January 2017 and George Earle retired from the board on 31 March 2017. Further information on directors' appointment and resignation can be found in the Nomination Committee report on page 40.

The board determined that Gill Barr, Neil Carson, Giles Kerr and Rakesh Sharma are independent for the purposes of the Code.

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

The 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.

Training and support

All directors receive full, formal and tailored induction on joining the board. Following Rachel Kentleton's appointment to the board during the year, she underwent a comprehensive induction programme which spanned the four-week period after her appointment, and which included the following:

Week 1

- Receiving a corporate governance pack containing: the corporate and organisational structure of PayPoint, delegation of authorities and terms of reference, relevant policies and procedures, and access to previous board minutes, and attending the standard Company induction which is given to all new employees.
- Holding a series of meetings to gain a deep understanding and knowledge of PayPoint with her direct reports in the finance team, the executive directors, the HR Director and the Product Director.
- Deep-dive sessions with members of the finance team looking into various areas which included among others planning, forecasting, financial systems, risk and compliance, and transaction processing.
- Introductory meetings with brokers, analysts, bankers and the audit partner.

Week 2

- Meetings with the Company Secretary/Head of Legal and the Commercial Director and Marketing Director for overviews of these functions and the areas they cover.
- Holding deep-dive sessions with the Chief Information Officer, and the Product Managers on products including technical products and services such as EPoS, Cards, ATMs, MultiPay, PayPoint One, Parcels etc.
- Holding a manager induction session with the HR Director.

1. Giles Kerr will become the Senior Independent Director when Neil Carson steps down from the board.

Week 3

- Visiting the Collect+ office.
- Attending the product and commercial strategy day.
- Full day out in the field with a Territory Development Manager visiting retail stores.

Week 4

- Visit to PayPoint offices in Romania which comprised:
- Series of meetings with the staff.
- A full day out with the Managing Director visiting retail stores.

Directors are provided with clear and accurate information pertaining to 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 the months where there are no scheduled board meetings the directors receive management accounts and reports on the status of the business. In addition to board meetings, directors have dinners during the year at which relevant items are identified beforehand and discussed in detail.

During 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 on technical subject matters. For instance, the board received tailored and comprehensive training from external legal advisers, on the Market Abuse Regulations and the obligations thereunder, including the requisite processes to ensure compliance with the regulations. The Company Secretary also provides updates to the board on governance matters as and when it is pertinent to do so.

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.

Evaluation

Actions from 2015/16 evaluation	Steps taken
– More regular non-executive director only meetings to consider and give feedback to the executive directors on management performance	– The non-executive directors and the Chairman have met regularly during the year, typically such meetings are held immediately following a board meeting without the presence of the executive directors. These meetings have aided more in-depth consideration of executive director and management performance and in turn resulted in constructive feedback.
– Increased interaction between the executive directors and the non-executive directors to ensure the latter have a more in-depth understanding of the Group's business	– There have been more avenues for interaction between the non-executive directors and the executive directors including other members of the executive board. For instance executive board members are invited to attend board dinners and they prepare and present at the board strategy sessions.

During the year the board once again undertook an internal evaluation the purpose of which was to evaluate its and its committees' performance and processes, as well as individual director performance, by identifying areas which the board and committees perform well, and any areas for improvement. As was done in the previous year, there were two parts to the evaluation process which was led by the Senior Independent Director. The first part was the completion of a comprehensive questionnaire by each of the directors, while the second part of the evaluation process, following the completion of the questionnaire, was one-to-one meetings between each director and the Senior Independent Director. At these meetings the feedback given by the directors in the questionnaire was discussed and the directors had the opportunity to put forward any actions for improvement, both at individual and board levels as they thought fit. The Senior Independent Director then presented the results of the evaluation at a board meeting. The following is a summary of the key outcomes and suggested actions for improvement from the internal evaluation:

Outcomes:

- General expression of satisfaction with the process by which the board reached agreement on the strategy. This showed that the board worked effectively together.
- The size of the board including the skill and experience therein were deemed satisfactory for the size of the business.
- The relationship between the Chairman and the Chief Executive was working well and had the right level of challenge, support and encouragement.

Actions:

- Proposed non-executive directors' only dinner with the Chairman as an opportunity for increased interaction between these directors.
- Increased oversight of the performance of members of the executive board to ensure that they are equipped to deliver on the strategic plan.

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 election or re-election of each director can be found in the notice of meeting on pages 95 to 99.

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 67 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 66 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 44.

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 20 to 22, and a statement on how the directors have assessed the prospects of the Group taking into account the current position and principal risks and uncertainties is on page 22.

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 46 to 63.

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.

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 investors, which is strongly encouraged.

During the year under review the chairman wrote to major shareholders offering to meet with them following the release of the preliminary results in May 2016. This offer was very well received by the shareholders contacted and resulted in subsequent engagement with the Chairman.

Major shareholders were also consulted on the proposed adjustments to the directors' remuneration policy. Their feedback was taken into account and considered responses provided to the questions they raised.

The executive directors have an ongoing programme of meetings with institutional investors and analysts twice a year for two weeks at a time. During the year the meetings took place in May/June and November and were held in the UK in: London, Edinburgh and Oxford; and the USA in: New York, Chicago and Boston, in addition to meetings at the Company's premises. The discussions at these meetings covered a wide range of issues which had previously been made public including strategy, performance, management and governance.

The Company held briefings with institutional fund managers, analysts and other investors following the announcement of half yearly results and feedback from these were reported on 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.paypoint.com. Details of the Market Disclosure Committee are on page 34 and the reports on the Audit, Nomination and Remuneration Committees are set out on pages 40 to 63.

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 2017. The main focus for the committee during the year was on the processes for the appointment of new directors to the board. The committee continued to regularly assess the balance of skills, experience, independence and knowledge on the board. This regular assessment enabled the committee to correctly identify key skills and knowledge that would enhance the composition of the board, and these were then used in the recruitment process as key criteria for candidates to possess in order to be considered for appointment.

The committee carried out an evaluation of its performance which followed the same process as the board evaluation set out on page 38. The evaluation questionnaire covered the areas of:

- Terms of reference and composition of the committee;
- Committee management;
- Committee effectiveness;
- Chair effectiveness; and
- Overall committee performance.

I am pleased to report that the general outcome of the evaluation based on the assessment of committee members' was positive with the members agreeing that the committee worked well together and had the right balance of skill to be able to discharge its duties effectively.

For the year under review the Nomination Committee comprised Gill Barr, Neil Carson, Giles Kerr, David Morrison and myself, Nick Wiles as the committee Chairman. Subsequently, upon his appointment, Rakesh Sharma became a member of the committee. Biographies of each committee member are on page 29.

Nick Wiles
Chairman, Nomination Committee
25 May 2017

Activities of the committee during 2016/17

The committee met four times during the period and the details of meeting attendance are set out on page 35. The activities of the committee for the year under review comprised:

Board composition:	The committee kept the composition of the board under constant review in order to determine the skills, knowledge and experience required in light of the various changes to the board. Details of appointments to the board are set out opposite.
Succession planning:	The committee considered succession planning for board directors.
Committee evaluation:	As highlighted in the committee Chairman's letter above, the members of the committee carried out an internal evaluation of its performance.
Terms of reference:	Review of the committee's terms of reference.

Diversity policy

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. In full support of the Department of Business Innovation & Skills objective for FTSE 350 boards to have an appropriate female presence, 25% of the board members are women. 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.

The Nomination 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.

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.

The terms and conditions of appointment of non-executive directors are made available for inspection at the annual general meeting. Further details on diversity throughout the Group including information about the diversity and equality policy that applies to PayPoint employees can be found on pages 25 to 27.

Succession planning and board appointments

The committee in making recommendations to the board on the appointments of new directors, adopts a transparent procedure whereby the required skills, knowledge and experience are carefully identified in order to complement and create a balance with the existing skill set on the board.

During the year, George Earle informed the board of his intention to retire as Finance Director. In light of this development after careful consideration the Nomination Committee commissioned an external search, using the independent executive search firm, Zygos Partnership (Zygos) which has no other connection with the Company, to search for a successor to George Earle. In deciding on the candidate specifications, the committee took into account the importance of delivery on strategy and therefore made 'strong competency on strategy' one of the key skills the candidates were required to have. The other key attributes required aside from technical financial competence were: ability to engage with investors and the market, and strong commercial knowledge. Based on the agreed required skill set, Zygos produced a shortlist of suitable candidates. The committee authorised the Chairman and the Chief Executive to meet with each of the shortlisted candidates on its behalf. Rachel Kentleton was identified as the candidate who met all the criteria, and upon her meeting with each member of the committee, the committee was unanimous in its decision to recommend her to the board for appointment as a director and successor to George Earle.

Neil Carson also informed the board during the year of his intention to step down as a director before the 2017 annual general meeting. Again, the committee commissioned Zygos to search for a non-executive director who would also act as chair of the Remuneration committee following Neil Carson's departure from the board. Zygos was given the candidate specification which was based on objective criteria in line with the appropriate guidelines on diversity, and included a requirement for the proposed candidates to have competence and experience relevant to the environment in which PayPoint operates. Zygos submitted a shortlist of suitable candidates to the committee. The committee authorised the Chairman and the Chief Executive to meet with each of the shortlisted candidates on its behalf. Rakesh Sharma was identified as the best candidate for the role and was subsequently recommended to the board by the Nomination Committee on the basis that he met the desired criteria.

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

The Nomination Committee report was approved by the board of directors on 25 May 2017 and signed on its behalf by:

Nick Wiles
Chairman, Nomination Committee
25 May 2017

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 2017 which sets out the activities and focus of the committee for the period.

Corporate transactions
During the year, there were two major corporate transactions within PayPoint being the sale of the Mobile payments business and the re-structuring of the Collect+ joint venture agreement. The committee ensured that both transactions were properly recognised and accounted for.

Risk management
The committee carried on with its robust risk management process which saw the committee review a different risk area on the risk register at each committee meeting and assess the management and mitigation of these risk areas. A welcome development to the committee's risk management process was that, at the invitation of the committee, the Head of Risk and Compliance has begun to attend meetings of the committee in order to present the risk management reports and respond directly to any queries the committee may have in this respect. This provides the opportunity for the committee to interact directly with the employee responsible for risk management and internal controls at a senior management level, and thereby gain a better understanding of the risk and internal control matters reported on.

External auditor
The committee has approved the formal commencement of an audit tender in the summer of 2017 which will result in a new audit firm replacing Deloitte LLP (Deloitte) as external auditor. Further details on the decision to put the external audit out to tender are on page 43.

Annual report recommendation
The committee assessed and recommended to the board that, taken as a whole, this 2017 annual report of the Company is fair, balanced and understandable.

Committee effectiveness
The committee undertook an internally facilitated evaluation which followed the same process as the previously described board evaluation (see page 38). The general conclusion of this evaluation was that the Audit Committee is effective in carrying out its roles and responsibilities and its members continue to work well together.

Committee composition and meetings
The Audit Committee comprised myself, Gill Barr, and Neil Carson. The board considers that I have recent and relevant financial experience in accordance with the Code. Full biographical details of each of the committee members, including relevant financial experience, are set out on page 29.

The committee met six times during the period. 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 and non-executive directors, the Chief Executive, Finance Director, Business Development Director, the Financial Controller, and recently the Head of Risk and Compliance. Our external auditor, Deloitte and internal auditor, Grant Thornton UK LLP, also attended the committee meetings as appropriate.

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

Key responsibilities
The key responsibilities of the Audit Committee include:

- monitoring the integrity of the Company's reporting process and financial management;
- oversight of the internal control and risk management systems in place;
- in-depth review of the full and half year financial statements before recommending these to the board for approval;
- oversight of the internal and external audit processes.

In conclusion, I would like to thank the members of the Audit Committee for their support throughout the year. I hope this statement and the report that follows provides insight into the work of the committee for the year ended 31 March 2017.

Giles Kerr
Chairman, Audit Committee
25 May 2017

Committee activities for 2016/17

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

Financial reporting:

- Review of the preliminary and interim results announcement and the annual report.
- Review of significant accounting issues and accounting for major corporate transactions (as reported below).
- Consideration of the going concern basis for preparation of the financial statements.
- Consideration of the elements of the viability statement and the appropriate forward-looking period to be applied.
- Recommendation of the viability statement and going concern statement to the board.
- Advising the board on whether the annual report and accounts taken as a whole, is fair, balanced and understandable.
- Review of the external auditor reports and the outcomes of the audit process.

External auditor:

- Approval of the commencement of an audit tender. See details opposite.
- Review and update of the non-audit services policy in line with changes to the Financial Reporting Council's (FRC) Revised Ethical Standard in 2016.
- Assessment of external auditor appointment, independence and effectiveness for recommendation to the board.
- Review and approval of audit and non-audit fees.

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.
- Review of reports produced by the Head of Risk and Compliance on risk management and internal controls within the Group.
- Review of the six monthly BSI assessment reports. BSI carry out independent audits of the PayPoint network operations.
- Review of the principal risks and the mitigation of these risks as set out on page 20.
- Review of the risk review action register which shows the actions arising from the group risk review.

Committee governance:

- Review and update of the Audit Committee terms of reference in accordance with the 2016 version of the UK Corporate Governance Code.
- Committee evaluation of its performance, which followed the same format as the internal board evaluation exercise (see page 38).

The significant issues considered by the committee in relation to the 2017 accounts, and how these were addressed, were:

- Accounting for the Collect+ transaction: We have reviewed the relevant accounting considerations in connection with the Collect+ transaction and are satisfied that the position taken is appropriate. In the context of accounting for the arrangement on a go forward basis, this has been evaluated against the requirements of IFRS 11 – Joint Arrangements. We are satisfied that the arrangement is a joint operation and that the accounting for the Group's interest in Collect+ is appropriate.
- Revenue Recognition: We reviewed the recognition of income to ensure that the approach adopted is accurate and consistent. The Group relies heavily on its computer systems to record this data accurately. We have reviewed the effectiveness of the Group's system of internal control and risk management, reviewed the results of internal audit, and reviewed the results of the auditor's tests of general computer controls relating to the applications that underpin the revenue cycle, which were found to be effective. We are comfortable with this conclusion.
- Management override of controls: The internal audit programme will continue to address the effectiveness of the key controls. The external auditors also test the key internal financial controls. We have reviewed the results of internal audit, the external audit and audits by clients, Link and BSI and we review and challenge management's actions to resolve any points arising from these audits and risk reviews carried out throughout the year. We are satisfied that adequate controls are in place.

Audit tendering

Deloitte were initially appointed as external auditors following a formal tender process, for the year ended 31 March 2001. For the two periods prior to this, from the date of incorporation of the Company, the auditors were Arthur Andersen. These two periods are required to be included in the determination of the duration of auditor appointment. The appointment of Deloitte LLP as external auditor, including the rotation of the audit partner, is kept under annual review. Hadleigh Shekle is the current audit partner and he has completed two years of his five year term. An annual review of the effectiveness of the external audit is undertaken by the committee.

In March 2017, the committee, in carrying out its review of the external auditor's performance considered whether to initiate or defer an external audit tender process. It was noted that under the terms of the transitional provisions applicable under EU Regulation, PayPoint will be required to appoint a new auditor for the year ending 31 March 2025. The committee in its consideration also had regard to the Revised Ethical Standard published by the FRC in 2016, which incorporated changes relating to auditor independence, including new prohibitions and restrictions on non-audit services. In its assessment, the committee concluded that Deloitte remain independent and their performance satisfactory. Nevertheless it was decided that in order to avoid conflict situations pertaining to provision of non-audit services which could arise in future, it was in the best interest of shareholders that the external audit be put out to tender in the summer of 2017. Deloitte will not be asked to participate in the tender process, however Deloitte has agreed to be re-appointed as auditor at the 2017 annual general meeting and will hold office until the new auditor is appointed following the tender process. The committee will supervise the tender process including the implementation of a robust audit tender governance process, to be agreed on, which would deliver a successful external audit tender process with minimal disruption to the Group.

Consequently, based on its assessment, the committee has provided the board with its recommendation to the shareholders on the re-appointment of Deloitte LLP as external auditor to hold office until the appointment of a new external auditor following the conclusion of the audit tender process. There are no contractual obligations restricting the committee's choice of auditor. A resolution for re-appointment of the auditor will be proposed at the forthcoming annual general meeting, the notice for which can be found on pages 95 to 99, to fulfil the legal requirement for the Group to have an auditor until the conclusion of the audit tender.

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 2017, the primary risks identified were: accounting for the Collect+ transaction, revenue recognition and management override of controls.

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

The 2016 audit of PayPoint plc was subject to inspection from the Financial Reporting Council's Audit Quality Review team (the AQR team). The review commenced in August 2016 and focused on those matters assessed to be most significant to the audit, both from a Group perspective and in reviewing the component work for UK and Ireland. The PayPoint group audit file was given a Grade 1, by the AQR team, which means it was rated as good, and there were no significant areas for improvement identified with regard to the component audit work. The chairman of the Audit Committee received a full copy of the findings of the AQR team and has discussed these with Deloitte. The Audit Committee is satisfied that there is nothing within the report which might have a bearing on the audit appointment.

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

The committee's assessment of the external auditor's performance and independence was found to be satisfactory and this underpinned its recommendation to the board to propose to shareholders the re-appointment of Deloitte LLP as auditor to hold office until the appointment of a new external auditor following the audit tender process, details of which are on page 43.

Non-audit services

During the year, the committee considered the nature of non-audit services and the level of fees for non-audit services provided by the auditor, in order to satisfy itself that auditor independence is safeguarded. Under the non-audit services policy for the Group which was applicable for the whole of the year under review, the auditor was prohibited from providing certain services which might impair their independence. The committee monitored compliance with the policy throughout the year. The policy also prescribed that any fees (excluding tax), for non-audit services performed by the auditor in a particular year, were to be provisionally capped at an aggregate total equivalent to the level of the annual audit fee. Any proposal to use the auditor for non-audit services whereby the fees exceeded the stated cap, was subject to the prior approval of the Audit Committee.

In determining the most appropriate provider of non-audit services, the committee considered the knowledge and expertise of the potential providers and the proposed costs. Where non-audit services were provided by the external auditors, it was based on a conclusion by the committee that they were best placed to provide the services in view of their knowledge of the business, and that the provision of the services posed no threat to their independence. Details of the remuneration paid to the auditor for the statutory audit and non-audit services, which normally are limited to assurance and tax advice, are set out in note 8.

In light of the changes introduced by the FRC to the Revised Ethical Standard in 2016, the committee reviewed and updated its policy on auditor independence and the provision of non-audit services by the external auditor with effect from 1 April 2017. This policy is a guide on 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 year's audit fee before VAT.

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 20 to 22 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 in place 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 is as follows:

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

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

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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, being: 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 the 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; annual certifications from business managing directors and finance directors; and review of the disclosures within the annual report and accounts from functional leads. The reviews by the functional leads 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.

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 and safety issues, breach of compliance or legislation, bribery and 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 & Skills.

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 the 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 and 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 of 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.

During the year, the committee assessed the effectiveness of Grant Thornton as internal auditors and concluded they were performing well and had demonstrated continued improvement.

The Audit Committee report was approved by the board of directors on 25 May 2017 and signed on its behalf by:

Giles Kerr
Chairman, Audit Committee

Annual Statement by the chair 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 2017.

Pay and performance
Executive director salaries were adjusted from 1 April 2016, broadly in line with those for the general employee population. No salary increases are planned for 2017.

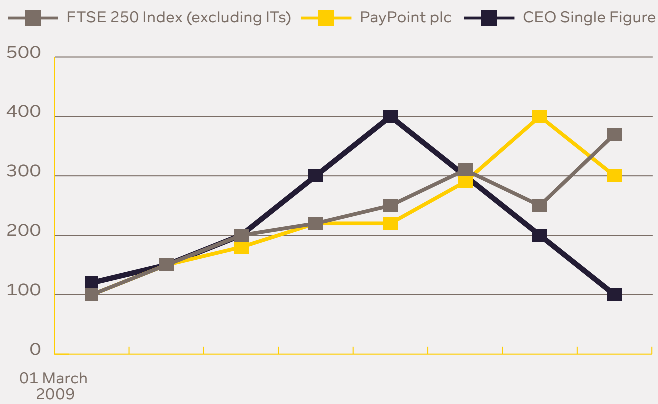
As set out in the Strategic report, the year ended 31 March 2017 has seen the strong delivery of some key milestones in the development of the Company's strategy. It is against this backdrop that the committee assessed the performance of the variable incentive plans, which for this year included the 2016/17 annual bonus, the 2014 Deferred Share Bonus (DSB) award and the 2014 Long Term Incentive Plan (LTIP) award.

Annual bonuses for the year under review were 64.8% of maximum, reflecting growth in economic profit of 19.6%, with 25% deferred into shares vesting after three years, subject to continued employment.

Based on our three year adjusted earnings per share growth to 31 March 2017 of 21.6%, the 2014 DSB awards will vest in full. 2014 LTIP awards will be performance-tested in May 2017 and, based on TSR performance to date relative to FTSE 250 index constituents (excluding investment trusts), we expect these awards to lapse.

The committee is comfortable that the Executive Director rewards for the year ended 31 March 2017 are appropriately aligned to the Company's performance that has been delivered over the one and three year performance periods of the annual bonus and LTIP respectively.

Total Shareholder Return performance and the Chief Executive Officer's reward over the last eight years, rebased to 100, can be seen on the graph opposite.



Policy renewal at the 2017 annual general meeting
As a result of the three year Remuneration Policy reaching the end of its life in 2017, the Remuneration Committee undertook a review of the policy at the end of 2016 in light of the Group's strategy and the developing views of our major investors. As part of the review, I wrote to the top circa 14 shareholders and main representative bodies.

The main conclusion in respect of the review was that the current Directors' Remuneration Policy, originally approved at the 2014 annual general meeting with significant levels of support, remains fit for purpose and no material amendments should be made at the present time. That said, the committee will continue to monitor market and best practice developments (including the Executive Remuneration Working Group's proposals on the simplification of pay and any outcomes from the UK Government's Green Paper on Corporate Governance Reform).

However, the Remuneration Committee is aware that best practice has evolved in a number of areas over the last circa three years and, as such, a number of areas of the Remuneration Policy will be updated to reflect this, namely:

– The introduction of a formal base salary cap. Whilst our default approach will remain that any salary increases are aligned with those in line with the wider workforce, this 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.

– The current malus (aka withholding) provisions will be strengthened and clawback provisions (aka recovery) will be introduced on a consistent basis across both the annual bonus and LTIP rules.

– Shareholding guidelines will be increased from 100% of salary to 200% of salary for the Chief Executive and 150% of salary for the Finance Director and Business Development Director.

– A two year post-vesting holding period will be applied to LTIP awards granted to executive directors from 2017 onwards. The holding period will continue to apply post-cessation.

The Remuneration Committee will therefore be seeking shareholder approval at the 2017 annual general meeting to roll over the existing policy, albeit with the updated shareholder protections presented above.

Implementation of the Remuneration Policy for 2017/18

Following the consultation exercise with the Company's largest investors in connection to the Remuneration Policy approval, the Remuneration Committee intends to make a number of changes to the way it operates the Remuneration Policy for the year ending 31 March 2018. The committee spent a significant time considering and debating these proposals in the context of transition in the Company's strategy, the impact of recent board changes, the need to support future talent management and succession planning activities and with reference to the pay arrangements proposed for other senior executives.

Details of how the policy will be implemented and the changes from the prior year are set out on page 48 although the main changes are the introduction of EPS performance targets for half of LTIP awards (the other half will continue to be measured on relative TSR, which previously operated as the sole performance measure for the LTIP awards) and the Chief Executive's incentive provision. In respect of the latter, the Chief Executive's incentive potential has been increased (albeit still within the existing shareholder approved policy) as a result of the Committee wishing to incentivise and reward the Chief Executive for the delivery of key strategic goals over the next 3 to 5 years, which is considered to be a crucial period in the Company's development. While annual bonus provision and LTIP awards have been increased, the performance targets (and vesting scales in respect of LTIP awards) have been made tougher and level of bonus deferral has been doubled (in addition to the extra shareholder protections which have been introduced as detailed above).

The committee is satisfied that the changes proposed are appropriate, as any additional incentive potential can only be realised for the delivery of broader and tougher performance metrics, and with a longer time horizon, to ensure performance is sustainable and aligned with shareholders.

Looking forward

In 2016, our Remuneration Report received the support of 96.23% of shareholders. The committee would like to thank shareholders for their continued support and I hope that you will support the 2017 annual general meeting resolutions.

On the basis that I will be stepping down as a non-executive director shortly before the forthcoming annual general meeting, as previously stated on page 32, Rakesh Sharma will succeed me as a non-executive director and as Chairman of the Remuneration Committee. I would like to wish him and the Group continued success.

Neil Carson
Chairman, Remuneration Committee
25 May 2017

Remuneration report continued

Policy implementation for 2017/18:

- There will be no base salary increases to executive directors for the year ended 31 March 2018. The Remuneration Committee will move the normal salary review date for future reviews, from 1 April to 1 July, so that it is aligned with the general workforce review date.
- Pension provision, capped at 20% of salary under the existing and proposed Remuneration Policy will remain unchanged at 16% of salary for the Chief Executive and 15% of salary for the other executive directors. No changes will be made to benefit provisions.
- Annual bonus provision, capped at 150% of salary under the existing and proposed Remuneration Policy will be set at 150% of salary for the Chief Executive and 106% of salary for the other directors. Strategic measures will be introduced for a minority of bonus potential. Reflecting the Chief Executive's increased bonus potential, the proportion of his bonus deferred will be increased from 25% to 50%, which will result in his cash bonus potential decreasing. For any bonus to be paid under the strategic targets, a threshold economic profit target must be achieved.
- LTIP awards, capped at 200% of salary under the existing and proposed Remuneration Policy, will be 50% based on EPS growth targets and 50% based on relative TSR to reflect the committee's desire for more balanced performance metrics. The Chief Executive's LTIP award will be set at 175% of salary, although to reflect the increase in the Chief Executive's award level, his vesting schedule and the TSR targets will be toughened. LTIP awards for the other executive directors will remain at 125% of salary (with 25% of awards continuing to vest at threshold and full vesting for upper quartile TSR). Assuming the new policy is approved at the 2017 annual general meeting, these awards will be subject to the new two year holding period which continues to apply post-cessation

Policy scope

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

Policy duration

The new Directors' Remuneration Policy will be put to a binding shareholder vote at the annual general meeting on 26 July 2017 and, subject to receiving majority shareholder support, the Policy will apply from the date of approval and is intended to remain in place for a maximum of three years.

Changes from 2014 Remuneration Policy

The main changes from the 2014 Remuneration Policy are summarised below:

- The introduction of a formal salary cap. 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).
- The current malus (aka withholding) provisions will be strengthened and clawback provisions (aka recovery) will be introduced on a consistent basis across both the annual and long-term incentive plan (LTIP) rules.
- Shareholding guidelines will be increased from 100% of salary to 200% of salary for the Chief Executive and 150% of salary for the Finance Director and Business Development Director.
- A two year post-vesting holding period will be applied to LTIP awards granted to executive directors from 2017 onwards. The holding period will continue to apply post-cessation of employment.

To aid the administration and clarity of its operation, a number of minor changes have also been made to the wording of the Remuneration Policy where appropriate.

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.

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).	The salary review takes into account individual and Company performance.
	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.	None
	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).	None

	Element and link to strategy	Operation	Opportunity	Performance metrics
Variable	**Annual bonus and Deferred Annual Bonus Scheme (DABS)** Rewards delivery of the Group's annual financial and strategic goals and supports retention	The Remuneration Committee reviews and agrees measures, targets and weightings at the beginning of each financial year. At the end of the year, the Remuneration Committee determines the extent to which targets have been achieved. 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. Dividends accrue on deferred awards as additional share entitlements over the deferral period but would only vest on awards that vest. Awards are subject to clawback and malus provisions (see notes to table)	150% of salary. 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.	The majority of the award will be based on financial targets. A minority of the award may be based on strategic/personal targets. 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. 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.
	Long Term Incentive Plan (LTIP) Drives sustained long term performance, aids retention and aligns the interests of executive directors with shareholders	Annual awards of conditional share awards or nil-cost options vesting subject to performance and continued employment over at least three years. 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. Award levels and performance conditions are reviewed by the committee in advance of grant to ensure they remain appropriate. Awards are subject to clawback and malus provisions (see notes to table). Dividends accrue as additional share entitlements over the vesting period but would only be paid on awards that vest.	Annual awards of performance shares of up to 200% of salary for executive directors. Achievement of threshold level of performance results in no more than 25% of maximum vesting. Where appropriate a sliding scale between threshold and maximum performance will be used to determine the payout under each metric.	Financial performance metrics (e.g. Earnings Per Share) and/or share price related metrics (e.g. Total Shareholder Return). 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. In addition: – 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	Shareholding guidelines require executive directors to acquire a specified shareholding. 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.	Chief Executive: 200% of salary. Other Directors: 150% of salary.	None
	All employee share plans Encourage share ownership across all employees	Operation of an HMRC favoured all-employee share plan (currently a SIP). Executive directors may participate on the same basis as all other eligible employees.	Up to the prevailing HMRC approved limits.	None

Notes to the policy table

Payments from previous awards
The Company will honour any commitments entered into prior to the approval and implementation of the 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 FY17/18, all incentive awards, including the cash and deferred element of the annual bonus and the LTIP, will be 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; and

– serious reputational damage to the Company.

These provisions will be in operation for a period of up to 3 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 (circa 25 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

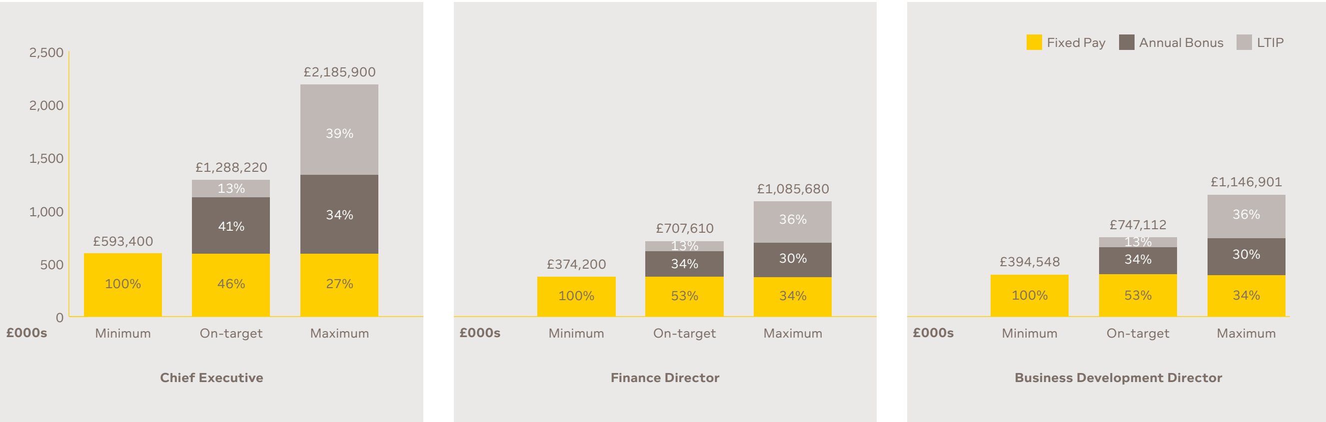
The remuneration of the non-executive directors is within the limits set by the articles of association. Non-executive directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions or other benefits provided by the Company.

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	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). 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. 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. All reasonable business related expenses may be reimbursed (including any tax due thereon).	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. 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. Aggregate fees are also limited by the cap contained in the Company's articles of association.	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. Potential reward opportunities are based on PayPoint's remuneration policy, applied to base salaries as at 1 April 2017. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance based on the maximum bonus opportunity of 150% of salary for the Chief Executive and 106% of salary for the other directors. For the LTIP, the award opportunities are based on LTIP awards of 175% of salary for the Chief Executive and 125% of salary for other executive directors. 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.



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

	Component	Minimum	Target	Maximum
Fixed	Base salary	Salary as at 1 April 2017		
	Pension	Current contribution rate applied to latest known salary		
	Other benefits	Estimated value for year ending 31 March 2018		
Annual bonus (Maximum opportunity of 150% of salary for the Chief Executive and 106% of salary for the other directors)		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 other directors)		No LTIP vesting	Threshold vesting 25% of max (20% of max for the Chief Executive)	Maximum vesting

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 page 49.

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
D Taylor	12 months	13 September 2004
R Kentleton	12 months	15 July 2016
T Watkin-Rees	12 months	13 September 2004

There are no special provisions in service contracts relating to cessation of employment or change of control. The policy on termination is that the Company does not make payments beyond its contractual obligations and executive directors will be expected to mitigate their loss. In addition, the Remuneration Committee ensures that there are no unjustified payments for failure. Under normal circumstances, executive directors may receive termination payments in lieu of notice equal to 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 2017	Date of appointment	Notice period
D Morrison	10 August 2016	117 days	12 January 1999	1 month
N Wiles[1]	8 May 2015	482 days	22 October 2009	1 month
N Carson	23 July 2014	117 days	23 July 2015	1 month
G Barr	1 June 2015	482 days	1 June 2016	1 month
G Kerr	20 November 2015	482 days	20 November 2016	1 month
R Sharma[2]	12 May 2017	1,173 days	12 May 2017	1 month

1. Neil Carson is due to step down as a director on 26 May 2017
2. Rakesh Sharma was appointed as a director on 12 May 2017 after the 2016/17 year end.

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.

The following section provides details of how PayPoint's remuneration policy will be implemented for the year ending 31 March 2018 and how it was implemented during the financial year ended 31 March 2017. 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 2017/2018

Base salary

The Remuneration Committee has determined that there will no base salary increases for 2017/18. In order to align executive director base salary review date with that for the general workforce, the normal executive director base salary review date for future years will be moved from 1 April to 1 July (i.e. the next review date will be 1 July 2018).

	From 1 April 2016[1]	From 1 April 2017	From 1 July 2017
Dominic Taylor	£490,000	£490,000	£490,000
Rachel Kentleton	£308,000	£308,000	£308,000
Tim Watkin-Rees	£325,694	£325,694	£325,694

1. Or date of appointment if later.

Pension (Policy Limit: 20% of salary)

Pension contributions will remain unchanged with Dominic Taylor's at 16% of salary, and 15% of salary for the other executive directors.

Annual bonus (Policy Limit: 150% of salary)

The Chief Executive's annual bonus potential for the year ending 31 March 2018 will 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 targets themselves are considered commercially sensitive at this stage but will be based on the successful roll out of PayPoint One, as determined by the number of terminals introduced, 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 approval of a comprehensive succession plan, aligned to wider talent management activities with clear milestones to be achieved. Reflecting the increased potential from previous years (106% of salary), the Chief Executive's bonus deferral will be doubled from the current 25% to 50% of the bonus over a three year period (so the cash bonus potential decreases from 79.5% of salary to 75% of salary).

Bonus potential for the other executive directors will remain at 106% of salary with 25% deferred. However, to promote 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.

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

As is currently the case, full details of the annual bonus targets (both financial and non-financial for the 2017/18 financial year onwards) and performance against the targets will be disclosed in next year's Annual Report on Remuneration.

LTIP (Policy Limit: 200% of salary)

For past awards up to and including the 2016 grant, 100% of LTIP awards were based on relative Total Shareholder Return (TSR) against the constituents of the FTSE 250. However, for 2017 awards onwards, reflecting the committee's desire for more balanced performance metrics, Earnings Per Share (EPS) will also be used as a performance measure for 50% of the awards. Relative TSR, will continue to be measured against the constituents of the FTSE 250 (albeit the committee may exclude less relevant sectors for performance comparison – e.g. Oil & Gas companies, Basic Materials and Utilities) for 50% of LTIP awards, with threshold vesting for achieving a median ranking, rising on a straight-line basis to full vesting for achieving an upper quartile ranking or better.

The Chief Executive's annual LTIP award will be set at 175% of salary from 2017 onwards (as permitted under the current and proposed policy). Reflecting the increase in the award level, the vesting schedule will be amended and the TSR targets will be toughened. Rather than 25% of awards vesting for threshold performance, 20% will vest at threshold for both the EPS and TSR part of the Chief Executive's awards. In addition, rather than 100% of the TSR part of the Chief Executive's award vesting at upper quartile (75th percentile), this will be increased to upper quintile (80th percentile). LTIP awards for the other executive directors will remain at 125% of salary (with 25% of awards continuing to vest at threshold and full vesting for upper quartile TSR).

The performance targets, metrics and vesting for the LTIP awards to be granted in 2017 and which are expected to vest in 2020 will be as follows:

	EPS		TSR	
	For 50% of awards		For 50% of awards	
Below Threshold	0%	Below 5% p.a.	0%	Below median
Threshold	25% (20% for the CEO)	5% p.a.	25% (20% for the CEO)	Median
Maximum	100%	12% p.a.	100%	Upper quartile (Upper quintile for the CEO)

When setting the performance targets for the EPS awards the committee considered a number of reference points, including internal financial planning forecasts, external market consensus and a broader view of market conditions. They were also set in compliance with the Company's overall risk profile. The committee views this 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.

If approved by shareholders, these 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

In March 2017, the board undertook its annual review of non-executive directors' fees. Following consideration of general non-executive director fee increases across the market and the competitiveness of current market fee levels, the board determined that there would be no fee increases awarded from 1 April 2017.

	From 1 April 2016	**From 1 April 2017**
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 2016/2017

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. Neil Carson 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 subsequent to the year ended 31 March 2017, and he will take over as Chairman of the committee upon Neil Carson stepping down from the board. 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.paypoint.com**. The Remuneration Committee met seven times during the year. The details of meeting attendance are set out on page 35.

During the year, the committee sought internal support from the Chief Executive and the Human Resource 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, FIT Remuneration Consultants LLP (FIT) replaced Kepler as the principal external advisers to the committee during the financial year, following a competitive tender process overseen by the committee. The committee is comfortable that the FIT team provide 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 review and the board changes. 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 £42,895. Fees paid in year to Kepler were £89,079.

Summary of shareholder voting at the 2016 annual general meeting

The following table shows the results of the binding vote on the Remuneration Policy Report at the 23 July 2014 annual general meeting (the last time the policy was put to vote) and the shareholder advisory vote on the 2016 Annual Report on Remuneration at the 28 July 2016 annual general meeting:

	2014 annual general meeting Remuneration Policy		**2016 annual general meeting Remuneration Report**	
	Total number of votes	**% of votes cast**	**Total number of votes**	**% of votes cast**
For (including discretionary)	58,346,532	97.7%	58,677,492	97.5%
Against	1,380,271	2.3%	1,510,760	2.5%
Total votes cast (excluding withheld votes)	**59,726,803**		**60,188,252**	
Total votes withheld[1]	93,453		2,210	
Total votes cast (including withheld votes)	59,820,256		60,190,462	

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.

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 2017 and the prior year:

	Dominic Taylor £000		George Earle £000		Rachel Kentleton £000[6,7]		Tim Watkin-Rees £000	
	2017	2016	2017	2016	2017	2016	2017	2016
Base salary	490	473	346	338	76	-	325	318
Taxable benefits[1]	25	25	23	23	4	-	22	22
Pension[2]	78	76	98	96	11	-	48	48
Annual bonus[3]	337	155	239	111	51	-	224	105
Long-term incentives[4]	181	179	136	136	0	-	128	125
Other[5]	10	3	8	3	1	-	10	3
Total	**1,121**	**911**	**850**	**707**	**143**	**-**	**757**	**621**

1. Taxable value of benefits received in the year by executives includes car allowance of £17,500 (2016: £17,500) for Dominic Taylor, £3,266.15 (2016: n/a) for Rachel Kentleton and £15,000 (2016: £15,000) for George Earle and Tim Watkin-Rees, petrol, medical insurance, life assurance and permanent 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 (the Remuneration Committee has agreed that George Earle's pension contributions will be paid direct to him, grossed up for tax as in previous years although this policy has ended on his retirement from the board).
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 is mandatorily deferred in shares under the DABS although reflecting George Earle's retirement from the board, his 2017 annual bonus was paid in cash. Further details of annual bonus awards for 2017 can be found in the Annual Report on Remuneration on page 59.
4. Long-term incentives: for 2017, this is the market value of matching DSB shares granted on 2 June 2014 based on performance to 31 March 2017 and which will vest on 2 June 2017. The share price used to calculate market value is the trailing three month average on 31 March 2017 of 984p. Further details can be found in the Annual Report on Remuneration on page 59. For 2016, 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 LTIP and DSB awards granted in 2013 and vesting in 2016.
5. SIP matching and dividend shares awarded in the period valued at the average share price calculated over three months to 31 March 2017 of £9.84 (2016: £7.86). 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. Rachel Kentleton was appointed as an executive director on 3 January 2017.
7. In addition, in the year to 31 March 2017, Rachel Kentleton received fees of £69,290 for her service as a non-executive director of Persimmon plc.

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 2017 and the prior year:

	Base fee £000		Committee Chair fees £000		Senior Independent Director fees £000		Chairman fees £000		Total £000	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Chairman										
Nick Wiles	-	-	-	-	-	-	165	153	165	153
Non-executive directors										
Gill Barr	47	38	-	-	-	-	-	-	47	38
Neil Carson	47	46	9	8	5	4	-	-	61	58
Giles Kerr	47	17	9	3	-	-	-	-	56	20
David Morrison	47	46	-	-	-	-	-	-	47	46
Former directors										
Stephen Rowley	-	39	-	-	-	-	-	-	-	39
Warren Tucker	-	-	-	-	-	-	-	20	-	20
Eric Anstee	-	17	-	-	-	-	-	-	-	17
Total	**188**	**203**	**18**	**11**	**5**	**4**	**165**	**173**	**376**	**391**

Incentive outcomes for the year ended 31 March 2017

Annual bonus in respect of 2016/17 performance

The annual bonus for the year ended 31 March 2017 was based on economic profit (Group operating profit including PayPoint's share of the results of Collect+ after tax and after deducting a charge for capital employed based on the Company's cost of capital). Based upon the actual results for the year, 64.8% of the maximum bonus was payable.

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

Measure	Weighting	Threshold (20% of maximum) £000	Target (80% of maximum) £000	Stretch (100% of maximum) £000	Actual achieved £000	Bonus earned Dominic Taylor	George Earle	Rachel Kentleton[1]	Tim Watkin-Rees
Group economic profit	100%	36,244 (90% of plan)	40,271 (100% of plan)	44,298 (110% of plan)	39,249				
Annual bonus (% of max)						64.8%	64.8%	64.8%	64.8%
Annual bonus (% of salary)						68.85%	68.85%	68.85%	68.85%
Total Annual bonus (£)						£337,365	£238,707	£51,126	£224,240
Cash Bonus (£)						£253,024	£238,707	£38,344	£168,180
Deferred Bonus (£)[2]						£84,341	–	£12,782	£56,060

1. Rachel Kentleton's bonus is pre-rated to reflect her period of employment
2. 25% of the bonus earned was mandatorily deferred into shares vesting after three years subject to continued employment. As noted on page 60 the annual bonus for George Earle will be paid in cash on the normal payment date. 25% of the bonus will remain subject to the same clawback provisions as apply to the DAB for other participants.

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

2014 DSB vesting

With respect to the DSB matching awards granted on 2 June 2014, vesting was based on earnings per share growth. The three year performance period for these awards ended on 31 March 2017 with vesting on the third anniversary of the date of grant. Further details relating to these awards are provided in the table below:

Measure	Weighting	Targets	Outcome[1]	% vest
EPS	100%	0% vesting below RPI+3% p.a. 100% vesting at RPI+3% p.a.	EPS growth of 21.6% Target: 14.3%	100%
Total DSB vesting				100%

1. Based on 2017 adjusted EPS of 64.3p, 2014 EPS of 52.9p and RPI growth over the three year period of 5.3%.

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

Director	Interests held	Vesting %	Number of shares vesting	Date of vesting	Market price on vesting[1]	Value £000
Dominic Taylor	18,417	100%	18,417	2 June 2017	£9.84	181
George Earle	13,867	100%	13,867	2 June 2017	£9.84	136
Tim Watkin-Rees	13,000	100%	13,000	2 June 2017	£9.84	128

1. As the price on the date of vesting is unknown, the value of an award is calculated by multiplying the number of shares, which vested by the average share price calculated over three months to 31 March 2017 of £9.84.

2014 LTIP vesting

With respect to the LTIP awards granted on 2 June 2014, vesting is based 100% on TSR. The three year performance period for these awards will end on 2 June 2017 with vesting on the third anniversary of the date of grant. Further details relating to these awards are provided in the table below:

Measure	Weighting	Targets	Outcome (to 30 April 2017)	Implied % 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	117th position out of 186 companies equating to 37.3% centile	0%
Total LTIP vesting				**0%**

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

Director	Interests held	Implied % vesting	Number of shares vesting	Date of vesting	Market price on vesting	Value £000
Dominic Taylor	61,848	0%	0	2 June 2017	N/A	0
George Earle	39,099	0%	0	2 June 2017	N/A	0
Tim Watkin-Rees	36,729	0%	0	2 June 2017	N/A	0

Board changes

Departure of George Earle
As announced on 5 July 2016 and subsequently updated, George Earle stepped down from his role as Finance Director on 10 February 2017 and stepped down from the board on 31 March 2017. He will remain an employee for a number of months during 2017/18 to provide assistance with the completion of a number of outstanding projects. No termination payments have been or will be made.

George will continue to receive fixed pay on a monthly basis during his limited period of employment although he will not be eligible for an annual bonus in respect of 2017/18 or future LTIP awards. Details of his annual bonus for the year ended 31 March 2017 are presented in the single figure table and notes above.

Unvested deferred share bonus and LTIP awards will continue to vest at the normal vesting date subject to time pro-rating and, where relevant, the extent to which the performance targets are met. The time pro-rating calculation will be based on the period of the respective vesting periods he served as an executive director (i.e. until 31 March 2017, so no time pro-rating credit will be given for the subsequent employment period).

Appointment of Rachel Kentleton
Consistent with the July 2016 announcement, Rachel Kentleton joined the PayPoint board in January 2017 and was appointed Finance Director on 10 February 2017. A summary of her remuneration arrangements, which are consistent with the existing Remuneration Policy, is as follows:

- Base salary £308,000 p.a.
- 15% of salary pension p.a.
- Maximum bonus of 106% of salary p.a.
- Annual LTIP award of 125% of salary p.a. (with the first award being granted in summer 2017).

In addition, again in line with the Remuneration Policy, she received:

- A one-off award over 6,049 shares in PayPoint plc equal to the value of the cash annual bonus that she would have received in December 2016 had she remained with her previous employer. No compensation has been paid for associated deferred annual bonus shares that were forfeited. 50% of the award will vest after two years and 50% will vest after three years, subject to continued employment; and
- A one-off award over 4,692 shares in PayPoint plc which equated to the expected value of share awards (after factoring in the value of the underlying shares in her previous employer and current estimated and expected performance against the targets) forfeited upon cessation of her previous employment. 50% of the award will vest after two years and 50% will vest after three years, subject to continued employment.

Further details of the share award are presented below.

Scheme interests awarded in the year ended 31 March 2017

LTIP
In the year under review, LTIP awards were granted with a face value of 145% 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, 2 June 2019. The performance condition is based 100% on relative TSR vs. the FTSE 250 index (excluding investment trusts). The three year performance period, over which TSR performance will be measured began on the grant date of 2 June 2016 and will end on 1 June 2019.

Executive director	Basis of award	Number of shares	Face value[1]	Potential award for minimum performance	End of performance period	Performance measures
Dominic Taylor	145% of salary	75,585	£710,499	25% of face value	1 June 2019 (3 years from grant)	100% on TSR relative vs. FTSE 250 (excluding investment trusts): – 0% vesting below median – 25% vesting at median – 100% vesting at upper quartile – Straight-line vesting in between
George Earle	125% of salary	46,104	£433,378			
Tim Watkin-Rees		43,310	£407,114			

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, 2 June 2016, of £9.40.

Listing Rule 9.4.2 award granted to Rachel Kentleton

Executive director	Date of grant	Basis of award	Number of shares	Vesting date	Vesting conditions
Rachel Kentleton	2 February 2017	10,741 shares vesting 50% after 2 years and 50% after 3 years[1]	5,371	2 February 2019	Continued service
			5,370	2 February 2020	

1. 6,049 shares reflect the value of the cash annual bonus that Rachel Kentleton would have received in December 2016 had she remained with her previous employer, while 4,692 shares equated to the expected value of share awards (after factoring in the value of the underlying shares in her previous employer and current estimated and expected performance against the targets) forfeited upon cessation of her previous employment.

Payments to past directors

No such payments were made during the year under review.

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 2015 to 2016			
	Chief Executive			
	2017 £000	2016 £000	% change	Average % change for other employees[1]
Salary	490	473	3.6%	5.1%
Taxable benefits	25	25	0.4%	7%
Annual bonus	337	155	117%	130%[2]
Total	**852**	**653**	**30%**	

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.

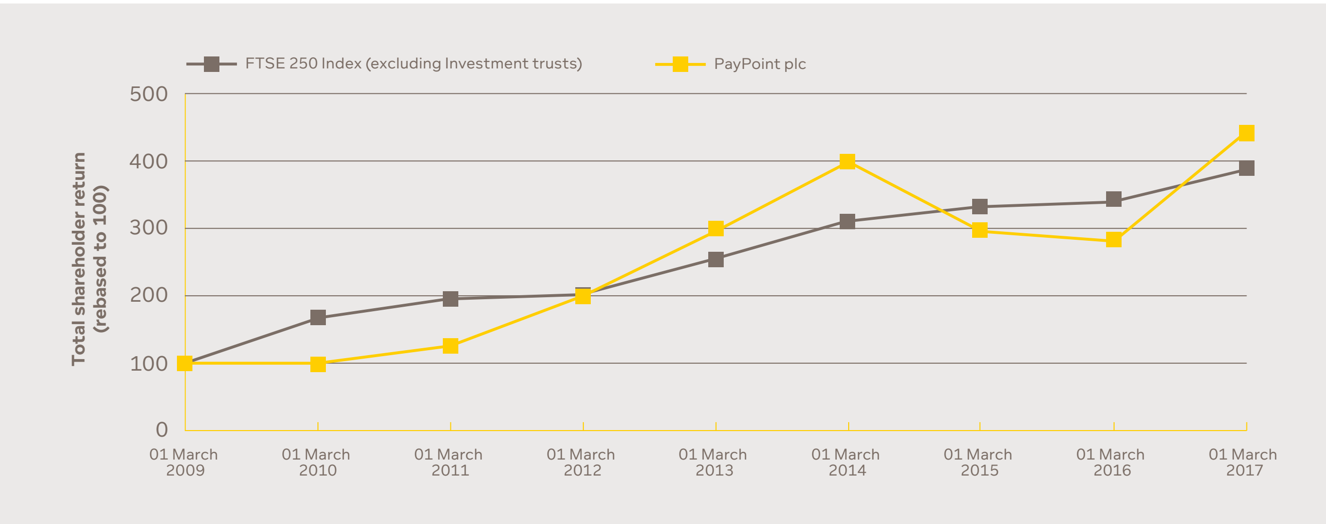
Relative importance of spend on pay

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 2016 and ended 31 March 2017.

	Total employee pay expenditure £000	Distributions to shareholders £000
2017	33,630	78,543
2016	33,903	27,436
% change	**1%**	**186%**

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 eight 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**
Chief Executive single figure of remuneration (£000)	637	677	1,067	2,639	2,247	1,215	911	**1,121**
Annual bonus pay-out (as % of maximum)	84.50%	80.90%	88.70%	86.20%	91.43%	88.11%	30.98%	**64.8%**
LTIP vesting (as % of maximum)	0.00%	0.00%	40.10%	100.00%	100.00%	0.00%	0.00%	**0%**

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 2017:

	Shares held				Shareholding Guidelines[5]		
	Owned outright or vested[4]	Unvested and subject to holding period	Unvested and subject to performance conditions	Current shareholding[4]	% of salary	Shares	Met?
Dominic Taylor	1,842,073	16,708	228,273	1,842,073	100%	49,797	Yes
George Earle[1]	339,006	12,481	141,391	339,006	100%	35,234	Yes[6]
Rachel Kentleton	151	10,892	-	151	100%	31,301	No[6]
Tim Watkin-Rees[2]	545,752	11,961	132,795	545,752	100%	33,099	Yes
Gill Barr	2,595						
Neil Carson	30,000						
Giles Kerr	7,500						
David Morrison[3]	35,000						
Nick Wiles	35,000						

1. Includes 324,033 shares held by a Person Closely Associated with George Earle.
2. Includes 317,894 shares held by Persons Closely Associated with Tim Watkin-Rees.
3. Held by Prospect Investment Management Limited, which is wholly owned by David Morrison and his connected persons.
4. Current shareholding includes DABS and DSB bonus and SIP shares other than SIP matching shares and SIP dividend shares subject to a holding period.
5. Executive directors are required to hold shares of a value equivalent to 100% of their salaries as at 1 April 2017 (expected to increase to 200% of salary for the Chief Executive and 150% of salary for the other executive directors from the 2017 annual general meeting). An average three month share price to 31 March 2017 of £9.84 has been used to calculate this guideline.
6. George Earle stepped down from the board on 31 March 2017 and Rachel Kentleton joined the board on 3 January 2017.

The market price of the Company's shares on 31 March 2017 was £10.25 (31 March 2016: £7.48) per share and the low and high share prices during the period were £7.49 and £11.68 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 2016	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 2017**	Value of shares awarded	Date of grant	Release date
D Taylor	LTIP[1]	52,577[3]	-	-	(52,577)	-	£509,997	31.05.13	31.05.16
	LTIP[2]	61,848[4]	-	-	-	61,848	£652,496	02.06.14	02.06.17
	LTIP[2]	72,423[5]	-	-	-	72,423	£685,122	01.06.15	01.06.18
	LTIP[2]	-	75,585[6]	-	-	75,585	£710,499	02.06.16	02.06.19
G Earle	LTIP[1]	32,989[3]	-	-	(32,989)	-	£319,993	31.05.13	31.05.16
	LTIP[2]	39,099[4]	-	-	-	39,099	£412,494	02.06.14	02.06.17
	LTIP[2]	44,694[5]	-	-	-	44,694	£422,805	01.06.15	01.06.18
	LTIP[2]	-	46,104[6]	-	-	46,104	£433,378	02.06.16	02.06.19
R Kentleton	9.4.2[7]	-	10,741[7]	-	-	10,741	£110,095[7]	02.02.17	02.02.19-20
T Watkin-Rees	LTIP[1]	30,927[3]	-	-	(30,927)	-	£299,992	31.05.13	31.05.16
	LTIP[2]	36,729[4]	-	-	-	36,729	£387,491	02.06.14	02.06.17
	LTIP[2]	41,985[5]	-	-	-	41,985	£397,178	01.06.15	01.06.18
	LTIP[2]	-	43,310[6]	-	-	43,310	£407,114	02.06.16	02.06.19

1. These LTIP awards would only vest if the Company's comparative TSR performance had been equal to or greater than the median level of performance over the three year holding period, at which point 30% of awards would have vest, with full vesting occurring for upper quartile performance (proportionate vesting between points).
2. These 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 holding period, at which point 25% of awards will vest, with full vesting occurring for upper quartile performance (proportionate vesting between points). Awards were granted at the following closing prices on the preceding day:
3. £9.70 per share.
4. £10.55 per share.
5. £9.46 per share (being the mid-market share price on the dealing day preceding the date of grant).
6. £9.40 per share (being the mid-market share price on the dealing day preceding the date of grant).
7. Rachel Kentleton's buyout joining award granted under Listing Rule 9.4.2. See Scheme Interests awarded in the year ended 31 March 2017 and board changes section above. 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 purchased at 31 March 2016[1]	Number of matching shares awarded at 31 March 2016[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 2017**	**Number of matching shares awarded at 31 March 2017**	Value of matching shares awarded	Date of grant	Date lapsed/ release date[3]
D Taylor	9,719[4]	18,338[4]	(9,719)	(18,338)		**-**	**-**	£176,201	06.06.13	06.06.16
	9,761[5]	18,417[5]				**9,761[5]**	**18,417[5]**	£194,299	02.06.14	02.06.17
G Earle	7,366[4]	13,898[4]	(7,366)	(13,898)		**-**	**-**	£133,539	06.06.13	06.06.16
	7,349[5]	13,867[5]				**7,349[5]**	**13,867[5]**	£146,297	02.06.14	02.06.17
T Watkin-Rees	6,748[4]	12,733[4]	(6,748)	(12,733)		**-**	**-**	£122,345	06.06.13	06.06.16
	6,890[5]	13,000[5]				**6,890[5]**	**13,000[5]**	£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 will be released unless the Company's earnings per share growth is 3% p.a. in excess of the Retail Prices Index over the three year holding period. The bonus shares were purchased and the matching share awarded at share prices of:
4. £9.61 per share.
5. £10.55 per share.

Deferred Annual Bonus Scheme (DABS)[1] (audited)

	Number of shares at 31 March 2016	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 2017**	Value of shares awarded	Date of grant	Release date
D 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
G Earle	8,167	-	-	-	8,167	£77,260	01.06.15	01.06.18
	-	2,806[2]	-	-	2,806	£27,807	07.06.16	07.06.19
T 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

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.

Share Incentive Plan (audited)

	Number of Partnership Shares purchased at 31 March 2016	Number of Matching Shares awarded at 31 March 2016	Number of Free Shares[1] awarded at 31 March 2016	Dividend Shares[2] acquired at 31 March 2016	Total shares at 31 March 2016	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 2017**
D Taylor	3,204	3,204	1,562	2,091	10,061	153	153	888	22.04.19-22.03.20	**11,255**
G Earle	3,227	3,227	-	1,625	8,079	153	153	747	22.04.19-22.03.20	**9,132**
R Kentleton	-	-	-	-	-	151	151	-	22.02.19-22.03.20	**302**
T Watkin-Rees	3,227	3,227	1,562	2,097	10,113	153	153	892	22.04.19-22.03.20	**11,311**

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 £8.605 to £10.82).
4. Matching Shares are ordinary shares of the Company awarded conditionally on a monthly basis during the period (at prices from £8.605 to £10.82) 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 25 May 2017 and signed on its behalf by:

Neil Carson
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 2017.

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

Strategic report

The strategic report is on pages 1 to 27. 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 24); use of financial instruments (pages 19 and 93); credit risk and price risk (page 93); employment of disabled persons (page 27); employee involvement (pages 25 and 26); diversity (page 25) and likely future developments in the business (page 14).

Principal activity

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

PayPoint UK and Ireland processes transactions for payment products and services and collects payments on behalf of the UK and Ireland's leading utility and customer service organisations 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 offers clients streamlined consumer payment processing and transaction routing in one, seamlessly integrated solution, through its MultiPay offering. 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 Romania provides electronic mobile top-ups, scratch cards, money transfer, road tax payment and a bill payment service to consumers.

Prior to the sale of the Mobile payments business, it entered into contracts with parking authorities to provide services enabling the payment of parking charges via mobile phones in the UK, USA, Canada, France and Switzerland.

PayPoint has a 50% interest in Collect+ Holdings Limited, in a joint venture 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 6,000 convenient outlets.

Substantial shareholdings

The Company had been notified of the following disclosable interests in the voting rights of the Company as required by provision 5.1.2 of the FCA's Disclosure and Transparency Rules.

As at 31 March 2017:

Name of holder	No. of ordinary shares	Percentage of issued capital
Woodford Investment Management	12,681,121	18.61
Liontrust Asset Management plc	7,688,001	11.28
Capital Research & Management	5,919,900	8.69
Mawer Investment Management	4,745,952	6.97
Neptune Investment Management	4,673,431	6.86
Standard Life Investments Limited	3,805,010	5.59
Schroder Investment Management	3,665,252	5.38
Wise Investments Limited	2,432,719	3.57

As at 25 May 2017:

Name of holder	No. of ordinary shares	Percentage of issued capital
Woodford Investment Management	13,619,871	19.99
Liontrust Asset Management plc	7,802,333	11.45
Capital Research & Management	5,919,900	8.69
Mawer Investment Management	4,745,952	6.97
Neptune Investment Management	3,396,744	4.99
Standard Life Investments Limited	3,805,010	5.58
Schroder Investment Management	3,661,962	5.37
Wise Investments Limited	2,432,719	3.57

Share capital
As at the date of this report, 68,135,252 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 2017, 46,130 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 28 July 2016, the directors were given authority to purchase 10% of its issued share capital, allot relevant securities up to an aggregate nominal amount of £75,659 and to dis-apply pre-emption rights in respect of allotments of relevant securities up to an aggregate nominal amount of £11,349. Resolutions to renew these authorities will be proposed at the 2017 annual general meeting, details of which are set out in the notice of meeting on pages 95 to 99.

The Company's issued share capital as at 31 March 2017, together with details of purchases of own shares during the year, are set out in note 23.

Directors
The names of the directors at the date of this report and their biographical details are given on page 29 and their interests in the ordinary shares of the Company are given on page 62.

Results for the year
The consolidated income statement, statement of financial position and cash flow statement for the year ended 31 March 2017 are set out on pages 73 to 76. An analysis of risk is set out on pages 20 and 22 and of risk management on page 44. The statement of financial position and cash flow statement of the holding company for the year ended 31 March 2017 are set out on pages 77 and 78. Since 1 April 2017, there have been no material events likely to impact the future development of the Company.

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

Change of control
All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would be pro-rated 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 £45 million with a remaining term of over two years. The terms of the facility allow for termination on a change of control, subject to certain conditions. The British Gas contract for payments is subject to termination rights for change of control in very limited circumstances. The Simple Payment service contract allowed for termination on change of control however a recent decision by the Department of Work and Pensions would see the discontinuance of this scheme from summer 2017 (see page 10). 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 27 days' purchases outstanding at 31 March 2017 (2016: 27 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 (2016: £nil). Details of the charitable donations policy can be found within the strategic report on page 23.

Employee matters and environmental issues
Employee matters and environmental issues are discussed in the strategic report on pages 23 to 27.

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

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 27.

Dividends
The directors recommend the payment of a final dividend of 30p (2016: 28.2p) per ordinary share, amounting to £20,435,531 (2016: £19,198,610) to be paid on 31 July 2017 to members on the register on 23 June 2017. An interim dividend was declared and paid during the period of 15p per share (2016: 14.2p per share) amounting to £10,218,825 (2016: £9,667,385). There was an additional dividend declared and paid during the period of 12.2p per share (2016: nil) amounting to £8,333,000. This additional dividend was one third of the first £25 million per annum of additional dividends as previously announced by the Company. The dividend policy including all the dividends declared during the year are set out in the strategic report on page 19.

Going concern
At the end of the year, the Group had cash of £53.0 million, and an undrawn £45.0 million revolving term credit facility expiring in May 2019. The Company's cash and borrowing capacity is adequate to meet the foreseeable needs of the Group, taking into account any reasonably forseeable risks (see pages 20 to 22). 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 19 of the strategic report and commentary on financial risk management is shown in note 26.

Independent auditor
Deloitte LLP has expressed its willingness to continue as the Company's auditor until the appointment of a new external auditor following a tender process (please refer to page 43 of the Audit Committee report for details). 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 95 to 99.

Corporate governance statement
The information that fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure and Transparency Rules can be found in this Directors' report and in the governance section on pages 32 to 45 (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 section 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 2017. The notice of meeting and explanatory information on the resolutions to be passed at the annual general meeting can be found on pages 95 to 99 of the annual report.

The Directors' report was approved by the board of directors on 25 May 2017 and signed on its behalf by:

Susan Court
Company Secretary
25 May 2017

Statement of directors' responsibilities

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

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

– properly select and apply accounting policies;

– present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

– provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

– make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

– the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

– the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

– the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the board of directors on 25 May 2017 and signed on its behalf by:

Dominic Taylor
Chief Executive
25 May 2017

Independent auditor's report to the members of PayPoint plc

Opinion on financial statements of PayPoint plc

In our opinion:

- **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 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 (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

The financial statements that we have audited comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Balance Sheets;
- the Consolidated and Company Cash Flow Statements;
- the Consolidated and Company Statements of Changes in Equity;
- the related notes to the Consolidated financial statements 1 to 29; and
- the related notes to the Parent financial statements 1 to 10.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Summary of our audit approach

Key risks
The key risks that we identified in the current year were:

- Accounting for the Collect+ restructure; and
- Revenue recognition.

Within this report, any new risks are identified with ↑ and any risks which are the same as the prior year identified with →.

Materiality
The materiality that we used in the current year was £2.5 million which was determined on the basis of 5% of profit before tax, adjusted to exclude the profit arising on disposal of the Mobile Payments business.

Scoping
Our group audit scope included 12 (2016: 12) entities.

Significant changes in our approach
Our audit approach has changed in response to the principal corporate transactions that have resulted in changes to the Group's structure:

- the disposal of the mobile payments business resulted in prior year risks on valuation and classification as held for sale no longer being relevant;
- the sale of the Group's interest in Drop and Collect Limited has resulted in the the prior year identified risk of impairment no longer being relevant; and
- the new joint arrangements with Yodel Delivery Network Limited have given rise to a new risk relating to the determination of the nature of the arrangement, whether it is a joint venture or a joint operation, and therefore the accounting policy to be applied.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the directors' statement on the longer-term viability of the group on page 22.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 20 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 or liquidity;

– the disclosures on pages 20-22 that describe those risks and explain how they are being managed or mitigated;

– the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and

– the directors' explanation on page 22 as to how they have assessed the prospects of the group, over what period they have done so and why they consider 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.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

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

Accounting for the joint arrangements in Collect+ ↑

Risk description	As described in note 17 and as discussed by the Audit Committee on page 43, in December 2016 the Group announced the sale of its 50% interest in Drop and Collect Limited, which trades as Collect+, to its joint venture partner, Yodel Delivery Network Limited ("Yodel"), in exchange for a 50% stake in a newly incorporated entity Collect+ Holdings Limited which holds, via its wholly-owned subsidiary, Collect+ Brand Limited, the Collect+ brand. Collect+ Brand Limited has entered into agreements to licence the brand to PayPoint and Yodel in return for royalties for each parcel introduced to Collect+. The accounting for this transaction is complex, requiring an evaluation of the arrangements entered into to determine the disposal accounting for the Group's interest in Drop and Collect Limited and the accounting for the new arrangements with Collect+ Holdings Limited in determining whether the arrangement represents a joint venture or a joint operation. This determination affects the presentation in the Group's financial statements as the former requires the use of equity accounting whilst the latter requires the use of proportionate consolidation. As management expect that the parcel delivery service provided by Collect+ will continue to grow, the determination of the accounting presentation is considered a critical judgement. Management has determined that the arrangement represents a joint operation.
How the scope of our audit responded to the risk	We considered management's assessment of accounting for the new arrangements by inspecting the agreements signed relating to the transaction including: – the shareholders' agreement between PayPoint and Yodel; – the services agreement between PayPoint and Drop and Collect Limited; and – the brand licence agreement between PayPoint and Collect+ Brand Limited. We have reviewed the Group's accounting analysis of the transaction and the agreement. We evaluated the accounting against the requirements of IFRS 11 – Joint Arrangements. We considered the rights and obligations of each party to the arrangement in the normal course of business based on the agreements and through discussion with management. We have tested the loss on disposal calculation, including performing substantive analytical review procedures on the results of Drop and Collect Limited up to the date of disposal.
Key observations	Based on our audit procedures, we are satisfied that the accounting for the new joint arrangement as a joint operation and the impact on the financial statements, including from the disposal of the Group's interest in Drop and Collect Limited, is appropriate and in accordance with IFRS.

Revenue Recognition →

Risk description	Revenues of £212 million, primarily comprising commission and fees receivable from clients and retailers and the Group's share of royalty income from the Collect+ joint operation, as well as revenues from the disposed Mobile payments business. The Group's accounting policy for the recognition of revenue is described in note 1 to the financial statements and further information is included in note 3 to the financial statements and in the report of the Audit Committee on page 43. The majority of the Group's revenue is driven by high volume, low value transactions and the Group relies heavily on its computer systems to record this data accurately. Automated controls in the computer systems are supported by business process controls designed to ensure completeness and accuracy of recording of the transactions processed across the Group's retail network. There is an inherent risk around the revenue recorded given the complexity of systems and the large number of schemes operated by the Group, particularly where there are manual interventions such as in processing changes to fee structures.
How the scope of our audit responded to the risk	With the assistance of our IT specialists, we tested the effectiveness of the controls over the IT environment in which transaction polling, billing and rating reside, including the change control procedures in place over systems that bill material revenue streams. We tested controls over end-to-end reconciliations from transaction polling from terminals, to billing and rating, to the general ledger, including interface controls designed to determine completeness of recording of all revenue transactions. We also tested controls over manual adjustments to transaction-based invoices. In addition to this controls work, we have performed the following: – substantive testing on the fee rates input into the computer systems; – for all material revenue streams, analytical procedures were undertaken; and – any material non-routine revenue streams were also substantively tested and the revenue recognition policies assessed against the criteria of IAS 18.
Key observations	Based on our audit procedures, we identified no matters to report to the Audit Committee.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

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

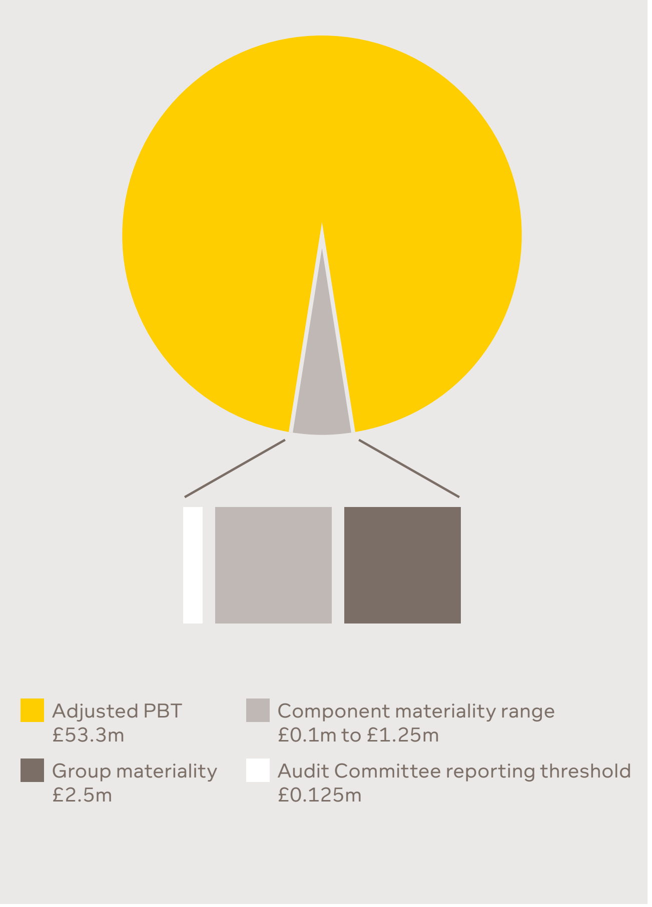
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality
£2.5 million (2016: £2.5 million)

Basis for determining materiality
5% of pre-tax profit adjusted to exclude the gain arising on disposal of the Mobile Payments businesses and the loss on disposal of the Group's 50% interest in Drop and Collect Limited.

Rationale for the benchmark applied
A profit measure is considered most relevant to users of the accounts; and an adjusted measure has been used to exclude the gain on disposal of the Mobile Payments business and the loss on disposal of the Group's 50% interest in Drop and Collect Limited as these transactions are non-recurring in nature.

We agreed with the Audit Committee that we would report to the committee all audit differences in excess of £125,000 (2016: £125,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.



An overview of the scope of our audit

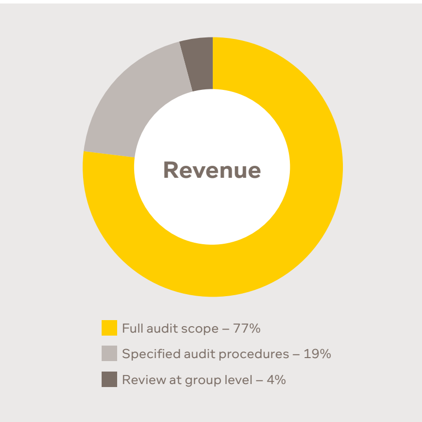
Our group audit scope focused primarily on the audit work of 12 legal entities (2016: 12 legal entities). Of those:

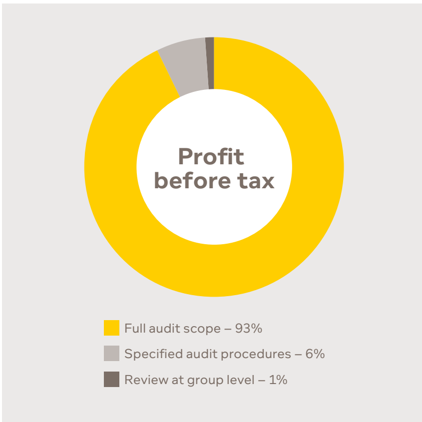
- 7 (2016: 8) were subject to a full audit. These audits were performed by the Group audit team without the assistance of a component auditor and represent 77% of the Group's revenue, 93% of profit before tax and 93% of net assets.
- 1 (PayPoint Romania) was subject to a statutory audit to 31 December 2016 followed by 3 months roll forward through specific audit procedures, it represents 19% of revenue, 6% of profit before tax and 7% of net assets; and
- 4 entities (including Drop and Collect Limited) which were disposed of during the year were subject to analytical review procedures by the Group audit team for the period during which they were under PayPoint's control.

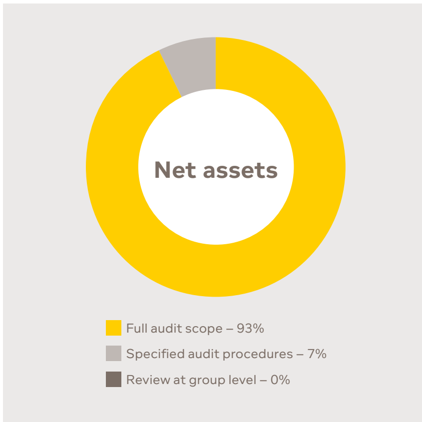
The extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the group's business operations at those locations. These 12 entities represent the principal business units within the group and account for 100% (2016: 100%) of the group's net assets, 100% (2016: 100%) of the group's revenue and 100% (2016: 100%) of the group's adjusted profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work on the 12 entities was executed at levels of materiality applicable to each individual entity which were lower than group materiality. The highest materiality applied to an individual trading component was £1.25 million (2016: £1.4 million).

At the parent entity level we also tested the consolidation process and carried out analytical procedures.

The group audit team, including the Senior Statutory Auditor or another senior member of the engagement team, visits PayPoint Romania (the only location where a component auditor assists with the audit work) every year.







Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the financial statements

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

Hadleigh Shekle FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
25 May 2017

Consolidated income statement

	Note	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Continuing operations			
Revenue	2	**211,924**	212,556
Cost of revenue	5	**(106,008)**	(106,539)
Gross profit		**105,916**	106,017
Administrative expenses	8	**(53,640)**	(55,689)
Operating profit before impairments and business disposals		**52,276**	50,328
Impairments	9	**-**	(48,986)
Disposal of businesses	9	**15,660**	7,014
Operating profit after impairments and business disposals		**67,936**	8,356
Share of joint venture result	15	**1,193**	(224)
Investment income		**132**	123
Finance costs		**(120)**	(103)
Profit before tax		**69,141**	8,152
Tax	10	**(9,508)**	(10,247)
Profit/(loss) for the year		**59,633**	(2,095)
Attributable to:			
Equity holders of the parent		**59,622**	(2,111)
Non-controlling interest		**11**	16
		59,633	(2,095)
Earnings/(loss) per share			
Basic	11	**87.5p**	(3.1)p
Diluted	11	**87.2p**	(3.1)p

Consolidated statement of comprehensive income

	Note	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Items that may subsequently be reclassified to the consolidated income statement:			
Exchange differences on translation of foreign operations		**675**	968
Accumulated foreign exchange translation recycled to the income statement (net of nil tax)	9	**2,047**	-
Other comprehensive income for the year		**2,722**	968
Profit/(loss) for the year		**59,633**	(2,095)
Total comprehensive income/(expense) for the year		**62,355**	(1,127)
Attributable to:			
Equity holders of the parent		**62,344**	(1,143)
Non-controlling interest		**11**	16
		62,355	(1,127)

Consolidated statement of financial position

	Note	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Non-current assets			
Goodwill	12	**8,236**	8,068
Other intangible assets	13	**11,867**	8,038
Property, plant and equipment	14	**27,168**	21,452
Investment in joint venture	15	**-**	1,629
Deferred tax asset	17	**354**	-
		47,625	39,187
Current assets			
Inventories		**357**	523
Trade and other receivables	18	**98,771**	109,247
Cash and cash equivalents	20	**53,080**	80,831
Assets held for sale		**-**	4,794
		152,208	195,395
Total assets		**199,833**	234,582
Current liabilities			
Trade and other payables	21	**121,603**	140,095
Current tax liabilities		**4,548**	3,487
Liabilities directly associated with assets classified as held for sale		**-**	3,070
		126,151	146,652
Non-current liabilities			
Trade and other payables	21	**537**	-
Deferred tax liability	17	**-**	67
		537	67
Total liabilities		**126,688**	146,719
Net assets		**73,145**	87,863
Equity			
Share capital	23	**227**	227
Share premium		**2,633**	2,365
Share-based payment reserve		**4,404**	3,956
Translation reserve		**(316)**	(3,038)
Retained earnings		**66,197**	84,467
Total equity attributable to equity holders of the parent		**73,145**	87,977
Non-controlling interest		**-**	(114)
Total equity		**73,145**	87,863

These financial statements were approved by the board of directors and authorised for issue on 25 May 2017 and signed on behalf of the board of directors.

Dominic Taylor
Chief Executive
25 May 2017

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 2015		**227**	**1,977**	**3,926**	**(4,006)**	**113,348**	**115,472**	**(130)**	**115,342**
(Loss)/profit for the year		-	-	-	-	(2,111)	(2,111)	16	(2,095)
Exchange differences on translation of foreign operations		-	-	-	968	-	968	-	968
Equity-settled share-based payment expense	23	-	-	1,660	-	-	1,660	-	1,660
Vesting of share scheme	23	-	388	(1,630)	-	666	(576)	-	(576)
Dividends	24	-	-	-	-	(27,436)	(27,436)	-	(27,436)
Closing equity 31 March 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
Exchange differences transferred to income statement on sale of business	9	-	-	-	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		-	-	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**

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS

Consolidated statement of cash flows

	Note	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Net cash inflow from operating activities	28	**42,217**	59,014
Investing activities			
Investment income		**132**	123
Purchases of property, plant and equipment		**(12,116)**	(4,633)
Purchases of intangible assets		**(5,335)**	(3,586)
Net proceeds on disposal of businesses		**22,674**	11,966
Net cash from investing activities		**5,355**	3,870
Financing activities			
Cash-settled share-based remuneration		**(410)**	(576)
Dividends paid	24	**(78,543)**	(27,436)
Net cash used in financing activities		**(78,953)**	(28,012)
Net (decrease)/increase in cash and cash equivalents		**(31,381)**	34,872
Cash and cash equivalents at beginning of year		**83,221**	47,198
Effect of foreign exchange rate changes		**1,240**	1,151
Cash and cash equivalents at end of year	20	**53,080**	83,221

Reconciliation of cash and cash equivalents

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Corporate cash	**32,876**	50,665
Client cash	**20,204**	30,166
Cash and cash equivalents on the statement of financial position	**53,080**	80,831
Cash and cash equivalents included in assets held for sale	**-**	2,390
Cash and cash equivalents on the statement of cash flows	**53,080**	83,221

Company statement of financial position

	Note	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Non-current assets			
Investments	16	**60,149**	61,743
		60,149	61,743
Current assets			
Trade and other receivables	18	**22,032**	41,181
Cash and cash equivalents		**1,409**	12,337
		23,441	53,518
Total assets		**83,590**	115,261
Current liabilities			
Trade and other payables	21	**6,611**	429
Non-current liabilities			
Trade and other payables	21	**-**	25,901
Deferred tax		**70**	-
Total liabilities		**6,681**	26,330
Net assets		**76,909**	88,931
Equity			
Share capital	23	**227**	227
Share premium		**2,633**	2,365
Share-based payment reserve		**4,179**	3,956
Retained earnings		**69,870**	82,383
Total equity		**76,909**	88,931

PayPoint plc's profit for the year was £65.4 million (2016: £52.5 million).

The financial statements of PayPoint plc (registered number 03581541) were approved by the board of directors and authorised for issue on 25 May 2017 and signed on behalf of the board of directors.

Dominic Taylor
Chief Executive
25 May 2017

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 2015		**227**	**1,977**	**3,926**	**56,636**	**62,766**
Profit for the year	6	-	-	-	52,517	52,517
Equity-settled share-based payment expense	23	-	-	1,660	-	1,660
Vesting of share scheme	23	-	388	(1,630)	666	(576)
Dividends paid	24	-	-	-	(27,436)	(27,436)
Closing equity 31 March 2016		**227**	**2,365**	**3,956**	**82,383**	**88,931**
Profit for the year	6	-	-	-	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	24	-	-	-	(78,543)	(78,543)
Closing equity 31 March 2017		**227**	**2,633**	**4,179**	**69,870**	**76,909**

Company statement of cash flows

	Note	**Year ended 31 March 2017 £000**	Year ended 31 March 2016 £000
Net cash movement from operating activities	28	**(2,374)**	30,460
Investing activities			
Dividends and interest received		**46,021**	-
Proceeds on disposal of investments		**24,808**	12,300
Investment in group companies	16	**(840)**	(3,369)
Net cash from investing activities		**69,989**	8,931
Financing activities			
Dividends paid	24	**(78,543)**	(27,436)
Net cash used in financing activities		**(78,543)**	(27,436)
Net (decrease)/increase in cash and cash equivalents		**(10,928)**	11,955
Cash and cash equivalents at beginning of year		**12,337**	382
Cash and cash equivalents at end of year		**1,409**	12,337

Notes to the consolidated financial statements

1. Accounting policies

Statement of compliance with IFRS 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'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, a number of amendments to IFRS issued by the International Accounting Standards Board (IASB) became mandatorily effective for accounting periods beginning on or after 1 April 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

- 2012-2014 Cycle of annual improvements to IFRS
- IFRS 10, IFRS 12 and IAS 28 (amended) Investment entities: applying the consolidation exception
- IFRS 11 (amended) Accounting for acquisitions of interests in joint operations
- IAS 1 (amended) Disclosure initiative
- IAS 27 (amended) Equity method in separate financial statements
- IAS 16 and IAS 38 (amended) Clarification of acceptable methods of depreciation and amortisation
- IAS 16 and IAS 41 (amended) Agriculture bearer plants

At the date of authorisation of these financial statements, new and revised IFRS issued, but not yet effective, are set out below. The directors anticipate that 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:

- 2014-2016 Cycle of annual improvements to IFRS
- IFRS 2 (amended) Classification and measurement of share-based payment transactions
- IFRS 10 and IAS 28 (amended) Sale or contribution of assets between an investor and its associate or joint venture
- IFRIC 22 Foreign currency transactions and advance consideration
- IAS 7 (amended) Disclosure initiative
- IAS 12 (amended) Recognition of deferred tax assets for unrealised losses
- IAS 40 (amended) Transfers of investment property
- IFRS 9 Financial instruments
- IFRS 14 Regulatory deferral accounts

Furthermore:

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 initial impact assessment of IFRS 15 taking into account the current revenue recognition policies set out on page 81. The revenue recognition for SIMs is the only area where the revenue recognition will change although this is not material to the overall Group revenue. Revenue recognition for other products and services is unlikely to change significantly from the current recognition policy.

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 £1.6 million and lease liabilities increasing total liabilities by £1.6 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 and effective tax rate.

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 PayByPhone 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 tax cost as a percentage of the net profit before tax excluding significant items including profit or loss on business disposals and impairments. Effective tax is a better reflection of the tax cost because it excludes the effects of significant items and better reflects the underlying tax rate.

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 to 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 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.

Assets held for sale and discontinued operations
Where the sale of a component of the Group is considered highly probable and the business is available for immediate sale in its present condition, it is classified as held for sale. Assets and liabilities held for sale are measured at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group which represents a separate major line of business or a geographical area of operations, which has been sold or classified as an asset held for sale. The Group has no discontinued operations.

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. In the UK, PayPoint is contracted as agent in the supply of mobile top-ups and accordingly the commission earned from mobile operators is recognised. In Ireland and Romania, PayPoint contracts as principal 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 (ATM, card payment, broadband, PayPoint One and EPoS services) and is recognised as the services are provided
- commissions, rebates and fees from card payment processing, parcel and money transfer transactions are recognised when the transactions are processed
- commissions from sale of SIM cards is primarily earned from the mobile operators based on activations and the value of top-ups after the initial sale. This revenue is contingent on the customer actions and is recognised once the customer activates and uses the SIM
- 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 83)

Cost of revenue

In the current year 'cost of sales' was renamed to 'cost of revenue' to better reflect the nature of the costs included in this category. The costs allocated to this category are consistent with prior year's allocations and policy.

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 a separate component of equity titled the translation reserve.

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

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

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 included merchant contract and acquired systems. These intangible assets were amortised over their estimated useful lives of one to five years for merchant contracts and ten years for acquired systems.

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 (ATMs) – 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 arrangement 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 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 amount of invoices received from suppliers for purchases of goods and services for which payment has not been made.

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

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:

– 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.

Joint ventures are accounted for using the equity method, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

Joint operations are 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 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
The Group has no finance leases. 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 cash flow statement, cash and cash equivalents comprise cash at bank and in hand and short-term deposits with original maturity of less than three months and are subject to insignificant risk of changes in value.

Cash consists of 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. Corporate cash and client funds are included in the cash and cash equivalents on the statement of financial position and statement of cash flows.

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 accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an 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 judgement at the balance sheet date that has a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next year is the capitalised development expenditure shown in intangible assets of £11.9 million (2016: £8.0 million).

Key source of estimated uncertainty
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.

2. Segment reporting

(i) Segment information

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

The application of technology is directed on a Group basis by the Group's Executive Board to develop products across the business, prioritised on an economic value basis (generally by product), rather than on a subsidiary by subsidiary basis and therefore the Group has only one operating segment.

Geographical information

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Revenue		
UK	**161,664**	168,172
Ireland	**5,110**	6,371
Romania	**39,765**	31,956
North America	**4,459**	5,303
France	**926**	754
Total	**211,924**	212,556

Non-current assets (excluding deferred tax)

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Revenue		
UK	**38,164**	31,119
Romania	**9,107**	8,068
Total	**47,271**	39,187

3. Net revenue (alternative performance measure)

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Service revenue	173,880	179,723
Sale of goods	37,695	32,833
Royalties	349	0
Total revenue	**211,924**	212,556
less:		
Retail agent commissions	**(53,645)**	(57,650)
Cost of mobile top-ups and SIM cards as principal	**(32,296)**	(28,082)
Card scheme sponsors' charges	**(2,130)**	(3,191)
Net revenue	**123,853**	123,633

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

Following the sale of Mobile and Online, the ongoing business of the Group is Retail networks. In order to assist users, a reconciliation has been presented of the Group's results for the year from Group's statutory income statement to Retail networks to aid with the users' understanding of the results for the year. Neither Mobile nor Online met the definition of a discontinued operation set out in IFRS 5 Non-current assets held for sale and discontinued operations as each did not constitute a separate major line of business.

For the year ended 31 March 2017	Statutory result £000	Less Mobile and Online £000	Less Collect+ £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 disposals	**52,276**	**984**	**-**	**53,260**
Impairments	-	-	-	-
Profit on disposals of business	15,660	(19,503)	3,843	-
Operating profit after impairments and business disposals	**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**

For the year ended 31 March 2016	Statutory result £000	Less Mobile and Online £000	Less Collect+ £000	Retail networks £000
Revenue	212,556	(16,160)	-	196,396
Cost of revenue	(106,539)	4,841	-	(101,698)
Gross profit	**106,017**	**(11,319)**	**-**	**94,698**
Administrative expenses	(55,689)	13,754	-	(41,935)
Operating profit before impairments and business disposals	**50,328**	**2,435**	**-**	**52,763**
Impairments	(48,986)	48,986	-	-
Profit on disposals of business	7,014	(7,014)	-	-
Operating profit after impairments and business disposals	**8,356**	**44,407**	**-**	**52,763**
Share of joint venture result	(224)	-	224	-
Investment income	123	-	-	123
Finance costs	(103)	23	-	(80)
Profit before tax	**8,152**	**44,430**	**224**	**52,806**
Tax	(10,247)	-	-	(10,247)
Profit for the year	**(2,095)**	**44,430**	**224**	**42,559**

5. Cost of revenue

In the current year 'cost of sales' was renamed to 'cost of revenue' to better reflect the nature of the costs included in this category. The costs allocated to this category are consistent with prior year's allocations.

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Commission payable to retail agents	**53,645**	57,650
Cost of mobile top-ups and SIM cards as principal	**32,296**	28,082
Card scheme sponsors' charges	**2,130**	3,191
Depreciation and amortisation	**7,473**	5,784
Other	**10,464**	11,832
Total cost of revenue	**106,008**	106,539

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 £65.4 million (2016: £52.5 million).

7. Employee information

	Year ended 31 March 2017	Year ended 31 March 2016
Average number of persons employed		
Sales, distribution and marketing	**190**	195
Operations and administration	**471**	519
	661	714

	£000	£000
Staff costs during the year (including directors)		
Wages and salaries	**26,715**	28,924
Social security costs	**2,728**	2,904
Pension costs (note 25)	**1,310**	1,146
	30,753	32,974

Redundancy and termination costs were £0.6 million (2016: £0.9 million).

Directors' emoluments, pension contributions and share options are disclosed in the Remuneration Committee report on pages 46 to 63. Included within staff costs is a share-based payment charge (note 23) of £1.6 million (2016: £1.7 million).

8. Profit/(loss) for the year

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Profit/(loss) is after charging/(crediting):		
Inventory expensed – cost of mobile top-ups and SIM cards as principal	**32,182**	28,082
Write downs of inventories recognised as an expense	**114**	-
Depreciation on property, plant and equipment	**5,302**	4,698
Amortisation of intangible assets	**2,171**	1,086
Loss on disposal of property, plant and equipment	**414**	25
Foreign exchange gains/(losses)	**-**	10
Operating leases	**63**	153
Impairment of goodwill	**-**	48,986
Profit on disposal of business (note 9)	**(15,660)**	(7,014)
Research and development costs	**2,500**	2,800
Staff costs (note 7)	**30,753**	32,974

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**35**	33
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	**155**	133
Total audit fees	**190**	166
Other audit-related services	**28**	-
Fees payable to the Group's auditor for the review of the interim results	**24**	28
Audit-related assurance services	**52**	28
Fees payable to the Group's auditor and its associates for other services to the Group:		
Corporate finance services	**300**	300
Tax compliance services	**53**	86
Tax advisory services	**132**	297
Total other services	**485**	683
Total auditor's remuneration	**727**	877

Fees payable to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis. A description of the work of the Audit Committee is set out on pages 42 to 45 and includes an explanation of how auditor independence is safeguarded where non-audit services are provided by the auditor.

9. Impairments and disposal of businesses

In the current year (23 December 2016) the Group disposed of its interest in the mobile payments business which comprised of PayByPhone Technologies Inc., PayByPhone Limited, Mobile Payment Services SAS and Adaptis Solutions Limited. Included in the Group's results in the current year was a net loss of £1.0 million (2016: £2.2 million) related to Mobile's operations up to the date of its sale.

In the prior year (8 January 2016) the Group disposed of the online payments business. Included in the Group's results in the prior year was a net loss from the online business of £0.2 million.

The profit on disposal of these businesses is set out as follows:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Other intangible assets	**-**	4,258
Property plant and equipment	**614**	178
Deferred tax asset	**-**	43
Trade and other receivables	**2,830**	1,313
Cash and cash equivalents	**1,959**	334
Trade and other payables	**(3,063)**	(840)
Net carrying value of disposed business	**2,340**	5,286
Exchange differences recognised in equity	**2,047**	-
Non-controlling interests	**103**	-
Gain on disposal	**19,503**	7,014
Total consideration	**23,993**	12,300
Satisfied by:		
Gross consideration	**26,500**	14,300
Disposal costs	**(2,507)**	(2,000)
	23,993	12,300
Net cash inflow arising on disposal:		
Gross consideration received	**26,500**	14,300
Less: disposal costs paid	**(1,596)**	(2,000)
Less: cash and cash equivalents disposed of	**(1,959)**	(334)
	22,945	11,966

Profit/(loss) on disposal

Together with the loss on disposal of Drop and Collect Limited (note 15), the profit/(loss) resulting from the disposal of businesses is shown below:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Disposal of Online	**-**	7,014
Disposal of Mobile	**19,503**	-
Disposal of Drop and Collect Limited (note 15)	**(3,843)**	-
	15,660	7,014

Impairments

In the year no goodwill impairments were recognised. In the prior year the carrying value of the Mobile and Online assets were tested for impairment with impairments recorded as follows:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Online	**-**	18,207
Mobile	**-**	30,779
	-	48,986

10. Tax

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Current tax		
Charge for current year	**10,596**	9,909
Adjustment in respect of prior years	**(892)**	(860)
Current tax charge	**9,704**	9,049
Deferred tax		
Charge for current year	**-**	420
Adjustment in respect of prior years	**(196)**	778
Deferred tax charge	**(196)**	1,198
Total income tax		
Income tax charge	**9,508**	10,247

The income tax charge is based on the United Kingdom statutory rate of corporation tax for the year of 20% (2016: 20%). The charge for the year is reconciled below to the profit before tax as set out in the consolidated income statement.

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Profit before tax	**69,141**	8,152
Tax at the UK corporation tax rate of 20% (2016: 20%)	**13,828**	1,630
Tax effects of:		
Losses in countries where the tax rate is different to the UK	**(213)**	(228)
Disallowable expenses/ non-taxable income	**107**	(52)
Utilisation of tax losses not previously recognised	**-**	(38)
Losses in companies where a deferred tax asset was not recognised	**-**	459
Adjustments in respect of prior years	**(1,088)**	(43)
Tax impact of share-based payments	**(10)**	208
Revaluation of deferred tax asset due to change in tax rate	**16**	(25)
Disallowable loss on Collect+ arrangement	**769**	-
Disallowable impairments and profit on disposal	**(3,901)**	8,336
Actual amount of tax charge	**9,508**	10,247

Profit before tax for purposes of calculating the effective tax rate is as follows:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Profit before tax	**69,141**	8,152
Impairments	**-**	48,986
Profit on disposal	**(15,660)**	(7,014)
Profit before tax for purposes of calculating the effective tax rate	**53,481**	50,124

11. Earnings/(loss) per share

Basic and diluted earnings per share are calculated on the following profit/(loss) and number of shares.

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Profit/(loss) for statutory basic and diluted earnings per share is the net profit/(loss) attributable to equity holders of the parent	**59,622**	(2,111)
Adjustments:		
-(Profit)/loss related to Mobile and Online (note 4)	**(18,508)**	44,430
-Non-controlling interest	**11**	16
-Loss related to Collect+ (note 4)	**2,650**	224
Profit for the purpose of basic and diluted earnings per share (Retail networks)	**43,775**	42,559

	31 March 2017 Number of shares	31 March 2016 Number of shares
Weighted average number of ordinary shares in issue (for statutory and Retail networks basic earnings per share)	**68,118,438**	68,080,179
Potential dilutive ordinary shares:		
Long-term incentive plan	**190,484**	-
Deferred share bonus	**59,725**	147,156
SIP and other	**373**	-
Weighted average number of ordinary shares in issue (for statutory and Retail networks diluted earnings per share)	**68,369,020**	68,227,335

12. Goodwill

Goodwill arose on the acquisition of PayPoint Romania.

The Group tests goodwill annually for impairment as set out in the accounting policy note on page 80.

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 2% (2016: 3%). The post-tax rates used of 12.5% (2016: 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.

	Total £000
Cost	
At 31 March 2015	7,694
Exchange rate adjustment	374
At 31 March 2016	8,068
Exchange rate adjustment	168
At 31 March 2017	**8,236**

Notes to the consolidated financial statements continued

13. Other intangible assets

	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**
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

	Acquired systems £000	Development costs £000	Acquired contracts with merchants £000	Total £000
Cost				
At 31 March 2015	1,800	7,352	2,052	11,204
Additions	-	2,976	-	2,976
Disposals	(1,800)	-	(1,251)	(3,051)
At 31 March 2016	**-**	**10,328**	**801**	**11,129**
Accumulated amortisation				
At 31 March 2015	1,505	1,204	2,052	4,761
Charge for the year	135	1,086	-	1,221
Disposals	(1,640)	-	(1,251)	(2,891)
At 31 March 2016	**-**	**2,290**	**801**	**3,091**
Carrying amount				
At 31 March 2016	**-**	**8,038**	**-**	**8,038**
At 31 March 2015	295	6,148	-	6,443

The acquired systems were disposed of with the sale of the Online business. In the current year, the fully amortised contract with customers were derecognised as those contracts no longer exist. There are no other intangible assets remaining from acquisitions. At 31 March 2017, the Group had not entered into any material contractual commitments for other intangible assets.

14. Property, plant and equipment

	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**
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**
Carrying amount				
At 31 March 2017	**15,736**	**1,994**	**9,438**	**27,168**
At 31 March 2016	13,201	2,478	5,773	21,452

At 31 March 2017, the Group had entered into contractual commitments for the acquisition of terminals and ATMs amounting to £2.8 million (2016: £2.9 million).

	Terminals and ATMs £000	Fixtures, fittings and equipment £000	Land and buildings £000	Total £000
Cost				
At 31 March 2015	50,951	3,870	6,412	**61,233**
Additions	4,595	39	-	**4,634**
Disposals	(709)	(15)	-	**(724)**
Exchange rate adjustment	204	55	-	**259**
At 31 March 2016	**55,041**	**3,949**	**6,412**	**65,402**
Accumulated depreciation				
At 31 March 2015	37,944	1,233	551	39,728
Charge for the year	4,399	211	88	4,698
Disposals	(684)	(15)	-	(699)
Exchange rate adjustment	181	42	-	223
At 31 March 2016	**41,840**	**1,471**	**639**	**43,950**
Carrying amount				
At 31 March 2016	13,201	2,478	5,773	21,452
At 31 March 2015	13,007	2,637	5,861	21,505

15. Investment in joint arrangements

Joint Venture

On 15 December 2016, PayPoint entered into an arrangement with Yodel Delivery Network Limited (Yodel) regarding its investment in Drop and Collect Limited. The arrangement included the formation of the Collect+ Group consisting of Collect+ Holdings Limited, held 50:50 by PayPoint and Yodel, and its wholly owned subsidiary Collect+ Brand Limited. Yodel and PayPoint sold their respective investments in Drop and Collect Limited to Collect+ Holdings Limited. The Collect+ brand was transferred from Drop and Collect Limited to Collect+ Brand Limited. Drop and Collect Limited was then sold to Yodel. This resulted in PayPoint retaining its 50% share in the Collect+ brand but disposing of its share in the remaining operations and assets of Drop and Collect Limited. The result of the Group's share of Drop and Collect Limited up to the date of disposal is as follows:

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Revenues	**21,393**	24,794
Result for year	**1,193**	(224)

	31 March 2017 £000	31 March 2016 £000
Opening balance	**1,629**	1,853
Result for the year	**1,193**	(224)
Carrying value derecognised at the date of sale	**(2,822)**	-
Closing balance	**-**	1,629

The loss recognised relating to the sale of Drop and Collect Limited was as follows:

	Year ended 31 March 2017 £000
Net carrying value of Drop and Collect Limited prior to disposal	**2,822**
Disposal costs	**1,021**
Loss on disposal	**3,843**
Gross cash inflow arising on disposal	**-**
Less disposal costs paid	**(271)**
Net cash outflow from Collect+ arrangement	**(271)**

Joint operation

The new joint operation, the Collect+ Group, has licensed the use of the Collect+ brand to both Drop and Collect Limited (now a wholly owned subsidiary of Yodel) and PayPoint. In consideration, PayPoint and Drop and Collect Limited will pay royalties to the joint operation for each parcel they introduce to the Collect+ network. The royalties in the arrangement will then be distributed equally to Yodel and PayPoint on a regular basis.

The only source of revenue for the Collect+ Group is the royalty income received from licencing the brand to Drop and Collect Limited. The Group's share of £0.3 million has been included in revenue and there were no 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 floor 8, sector 1, Bucharest, Romania)	Romania
Metacharge (Australia) Pty Limited	Provision of an online payment service (Level 12, 60 Carrington Street, Sydney NSW 2000)	Australia
PaybyPhone (Australia) Pty Limited	Provision of an online payment service (Level 12, 60 Carrington Street, Sydney NSW 2000)	Australia
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. The Group has licensed the Collect+ brand from Collect+ Limited but no royalty charges have been paid or are payable.

Movement in investments held by the Company are detailed below:

	31 March 2017 £000	31 March 2016 £000
Cost		
Balance at the beginning of the year	**108,800**	127,512
Additions	**840**	2,943
Disposals	**(49,491)**	(21,655)
Balance at the end of the year	**60,149**	108,800
Accumulated impairments		
Balance at the beginning of the year	**47,057**	-
Recognised during the year	**-**	68,712
Disposals	**(47,057)**	(21,655)
Balance at the end of the year	**-**	47,057
Net book value	**60,149**	61,743

17. Deferred tax asset/(liability)

	31 March 2016 £000	Charge to income statement £000	Credit/ (debit) 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**

	31 March 2015 £000	Charge to income statement £000	31 March 2016 £000
Property, plant and equipment	1,564	(856)	**708**
Intangible assets	(680)	(256)	**(936)**
Share-based payments	235	(74)	**161**
Short-term temporary differences	12	(12)	**-**
Total	**1,131**	**(1,198)**	**(67)**

At the balance sheet date, the Group had no unused tax losses (2016: £10.4 million). Prior year losses were held by companies within the mobile payments business which were sold during the year (note 9).

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

In the current year, the main rate of UK corporation tax was 20% (2016: 20%). Reductions in the main rate of UK corporation tax from 20% to 19% for the year beginning 1 April 2017 and 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.

18. Trade and other receivables

Group	31 March 2017 £000	31 March 2016 £000
Trade receivables[1]	**14,743**	18,645
Items in the course of collection[2]	**78,340**	83,252
Revenue allowance[2]	**(3,640)**	(2,803)
	89,443	99,094
Other receivables	**1,161**	1,071
Prepayments and accrued income	**8,167**	9,082
	98,771	109,247

1 The average credit period on the sale of goods is 25 days (2016: 33 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 £13.5 million of this balance at 31 March 2017 (2016: £17.8 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 £47,300 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 have the right of set-off of funds collected against monies due.

The historical level of customer default is low, and as a result the credit quality of period end trade receivables is considered to be high. The Group reviews trade receivables past due but not impaired on a regular basis and in determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date.

Included in the Group's trade receivable balance are debtors with a carrying amount of £4.4 million, (2016: £1.9 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 2017	3,938	314	15	86	**4,353**
Carrying value at 31 March 2016	1,055	218	95	500	**1,868**

Movement in the revenue allowance:

	31 March 2017 £000	31 March 2016 £000
Balance at the beginning of the year	**2,803**	2,795
Amounts utilised in the year	**(78)**	(116)
Increase in allowance	**858**	124
Foreign exchange adjustment	**57**	-
Balance at end of the year	**3,640**	2,803

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 2017	30	53	72	3,485	**3,640**
Carrying value at 31 March 2016	28	2	50	922	**954**

Company	31 March 2017 £000	31 March 2016 £000
Amounts owed by Group companies	**21,949**	41,164
Other receivables	**83**	15
Prepayments and accrued income	**-**	2
	22,032	41,181

19. Operating lease receivables

	31 March 2017 £000	31 March 2016 £000
Amounts receivable under operating leases:		
Within one year	**56**	122
Within two to five years	**33**	89
	89	211

In prior years the Group entered into operating leases with its retail agents for the supply of ATMs. The average term of each lease entered into is five years. Most of these operating leases are nearing the end of their contracts.

20. 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 21).

21. Trade and other payables

Group	31 March 2017 £000	31 March 2016 £000
Amounts owed in respect of client cash[1]	**20,204**	21,539
Settlement payables[2]	**78,340**	83,252
Client payables	**98,544**	104,791
Trade payables[3]	**6,019**	22,920
Other taxes and social security	**2,406**	1,540
Other payables	**2,047**	1,867
Accruals	**12,383**	8,058
Deferred income	**741**	919
	122,140	140,095
Current	**121,603**	140,095
Non-current	**537**	-
Total	**122,140**	140,095

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 22 days purchases outstanding at 31 March 2017 (2016: 27 days) based on the average daily amount invoiced by suppliers during the year.

Company	31 March 2017 £000	31 March 2016 £000
Amounts owned by Group companies	**4,181**	25,901
Other payables	**468**	82
Accruals	**1,962**	347
	6,611	26,330
Disclosed as		
Current	**6,611**	429
Non-current	**-**	25,901
	6,611	26,330

22. Financial commitments

Operating lease commitments for land and buildings are as follows:

	31 March 2017 £000	31 March 2016 £000
Amounts payable under operating leases:		
Within one year	**316**	439
Within two to five years	**924**	826
After five years	**404**	-
	1,644	1,265

The increase in the current year is a result of a new seven year lease of office space in Romania.

Notes to the consolidated financial statements continued

23. Share-based payments and equity

LTIP and DSB equity settled share scheme

The Group's share schemes are described in the Remuneration Committee report on pages 46 to 63. The vesting period for all awards is three years, and they are forfeited if the employee leaves the Group before shares vest. The amount charged to the income statement in the year was £1.4 million (2016: £1.7 million).

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

	Number of shares 2017	Number of shares 2016
Outstanding at the beginning of the year	**865,131**	992,732
Granted	**258,386**	269,851
Lapsed	**(221,978)**	(397,452)
Forfeited	**(170,688)**	-
Exercised	**(61,023)**	-
Outstanding at end of the year	**669,828**	865,131

Awards granted		Number of shares	Vesting date
LTIP	2 June 2014	276,720	2 June 2017
DSB	2 June 2014	82,643	2 June 2017
LTIP	1 June 2015	269,851	1 June 2018
LTIP	2 June 2016	247,645	2 June 2019
Restricted	3 January 2017	10,741	3 January 2019 and 3 January 2020

All options granted are for free shares and therefore the weighted average exercise price for all outstanding options is £nil.

The long term incentive plan tranche did not vest in June 2016. Under IFRS 2, the fair value charges of £1.1 million relating to this tranche, which had been previously charged to the income statement, have been reclassified to retained earnings. The deferred share bonus fully vested in June 2016 and accordingly the fair value charge of £0.2 million was also reclassified to retained earnings.

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

	2017 LTIP	2016 LTIP	2016 DSB
Weighted average share price (£)	**5.91**	5.75	5.99
Expected volatility[1]	**27%**	28%	28%
Expected life	**3 years**	3 years	3 years
Risk-free rate	**0.4%**	0.7%	0.8%
Expected dividend yield	**4.25%**	3.75%	3.79%

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.

Share incentive plan

The employee Share Incentive Plan is open to all employees of PayPoint Network, PayPoint Collections, PayPoint Retail Solutions and provides for a purchase price equal to the market price on the date of purchase. The shares are purchased each month (or employees can opt to purchase 12 months at the start of each year) and are placed in the employee share savings plan for a three year period. For each share purchased by the employee the Company issues a free matching share which will vest subject to the employee remaining employed with the Group for three years from the date each share was purchased by the employee. The amount charged to the income statement in the year was £0.2 million.

	31 March 2017 £000	31 March 2016 £000
Authorised share capital		
4,365,352,200 ordinary shares of 1/3p each (2016: 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		
68,133,611 ordinary shares of 1/3p each (2016: 68,087,481 ordinary shares of 1/3p each)	**227**	227
	227	227

24. Dividends on equity shares

	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Equity dividends on ordinary shares: Interim ordinary dividend paid of 15.0p (2016: 14.2p) per share	**10,218**	9,667
Proposed final ordinary dividend of 30.0p (2016: 28.2p) per share	**20,436**	19,199
Interim additional dividend paid 12.2p per share	**8,333**	-
Additional final dividend 24.5p per share	**16,667**	-
Disposal dividends 38.9p (2016: 21.0p) per share	**26,493**	14,300
Total dividends paid and recommended	**82,147**	43,166
Amounts distributed to equity holders in the year:		
Final dividend ordinary for the prior year	**19,199**	17,769
Interim ordinary dividend for the current year	**10,218**	9,667
Interim additional dividend for the current year	**8,333**	-
Disposal dividends	**40,793**	-
	78,543	27,436

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 £1.3 million (2016: £1.1 million). There is no accrual for pension contributions at the balance sheet date (2016: £nil).

26. Derivatives and other financial instruments

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

The main risks arising from the Group's financial instruments are interest rate, 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) Interest rate risk
The Group had no interest bearing financial assets at 31 March 2017 other than the cash and cash equivalents of £53.1 million (2016: £83.2 million).

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 in cash. The Group seeks to maximise interest receipts within these parameters.

(b) Liquidity risk
The Group's policy throughout the year ended 31 March 2017 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 2017 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 2017, these exposures were £nil (2016: £nil).

(d) Borrowing facilities
At the period end, the Group had an undrawn, unsecured £45 million revolving loan facility expiring in May 2019.

(e) Fair value of financial assets and liabilities
The directors consider there to be no material difference between the book value and the fair value of the Group's financial instruments at 31 March 2017, or 31 March 2016.

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

(g) 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 in order 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.

(h) Credit risk
The Group's financial assets are cash, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade receivables and retailer debt to the extent that PayPoint bears the credit risk. Clients and retailers are credit checked to mitigate credit risk and in all new client contracts, we have the right of set-off of funds collected against monies due. The Group's maximum exposure, at 31 March 2017, was £38.5 million (2016: £37.5 million).

(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 2017 £000	Year ended 31 March 2016 £000
Short term benefits and bonus[1]	2,162	1,570
Pension costs[2]	235	219
Long term incentives[3]	445	353
Other[4]	**29**	9
Total	**2,871**	2,151

1 Includes salary, fees, benefits in kind and annual bonus.
2 Defined contribution pension scheme, of which two current directors are members.
3 Long term incentives: includes the value of 2014 DSB award expected to vest after the period end (2017: 2014 DSB and LTIP awards).
4 SIP Matching and Dividend Shares awarded in the year.

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the performance of individuals and market trends. The directors' remuneration is disclosed in the Remuneration Committee Report on pages 46 to 63.

Amounts received from Drop and Collect Limited during the year totalled £17.8 million (2016: £13.3 million) and PayPoint held a trade debtor at year end for Drop and Collect Limited of £0.6 million (2016: £0.5 million).

28. Notes to the statement of cash flows

Group	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Profit before tax	**69,141**	8,152
Adjustments for:		
Depreciation of property, plant and equipment	**5,302**	4,698
Amortisation of intangible assets	**2,171**	1,086
Share of joint venture result	**(1,193)**	224
Research and development credit	**(171)**	(522)
Impairments	**-**	48,986
Profit on disposal of businesses	**(15,660)**	(7,014)
Loss on disposal of fixed assets	**414**	25
Net interest income	**(12)**	(20)
Share-based payment charge	**1,552**	1,442
Operating cash flows before movements in working capital	**61,544**	57,057
Movement in inventories	**196**	193
Movement in receivables	**(338)**	(1,500)
Movement in payables		
– client cash	**(11,641)**	17,762
– other payables	**1,219**	(4,516)
Cash generated by operations	**50,980**	68,996
Corporation tax paid	**(8,643)**	(9,877)
Bank charges paid	**(120)**	(105)
Net cash from operating activities	**42,217**	59,014

Movements in items in the course of collection (see note 18) and settlement payables (see note 21) have not been included in this reconciliation as the directors do not consider them to be operating working capital balances.

Company	Year ended 31 March 2017 £000	Year ended 31 March 2016 £000
Profit before tax	**65,449**	52,517
Adjustments for:		
Impairments	**-**	68,712
Profit on sale of investments	**(20,440)**	(12,300)
Dividends from subsidiaries	**(46,010)**	(110,000)
Net interest income	**187**	(1,626)
Share-based payment charge	**1,552**	1,442
Operating cash movement before movements in working capital	**738**	(1,255)
Movement in receivables	**19,654**	82,167
Movement in payables	**(22,766)**	(50,452)
Cash movement from operations	**(2,374)**	30,460
Corporation tax paid	**-**	-
Interest and bank charges paid	**-**	-
Net cash movement from operating activities	**(2,374)**	30,460

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 2017 annual general meeting of PayPoint plc (the Company) will be held at the offices of Canaccord Genuity, 88 Wood Street, EC2V 7QR, on Wednesday 26 July at 12.00 noon. You will be asked to consider and pass the resolutions below. Resolutions 15, 16 and 17 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 2017.

2. To approve the directors' remuneration report (excluding the directors' remuneration policy on pages 48 to 57), as set out in the Company's annual report and accounts for the financial year ended 31 March 2017.

3. To approve the directors' remuneration policy, as set out on pages 48 to 57 of the directors' remuneration report, which takes effect immediately after the end of the annual general meeting.

4. To declare a final dividend of 30.0 pence per ordinary share of the Company for the year ended 31 March 2017.

5. To re-elect Ms Gill Barr as a director.

6. To re-elect Mr Giles Kerr as a director.

7. To re-elect Mr Dominic Taylor as a director.

8. To re-elect Mr Tim Watkin-Rees as a director.

9. To re-elect Mr Nick Wiles as a director.

10. To elect Ms Rachel Kentleton as a director who, having been appointed since the last annual general meeting of the Company, offers herself for election in accordance with the Company's articles of association.

11. To elect Mr Rakesh Sharma as a director who, having been appointed since the last annual general meeting of the Company, offers himself for election in accordance with the Company's articles of association.

12. To re-appoint Deloitte LLP as auditor of the Company until the conclusion of the next annual general meeting of the Company at which the accounts are laid.

13. To authorise the directors to determine the auditor's remuneration.

Notice of annual general meeting continued

Special business

14. 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 £75,706 provided that 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, 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).

15. 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 14 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 £11,356.

    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.

16. 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 ⅓ 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 6,813,525;

    (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.

17. 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
25 May 2017

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

Notes to the notice of annual general meeting

1. A form of proxy accompanies this notice for use by shareholders. To be valid, a proxy must be received by the Company's registrar, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF not less than 48 hours before the time of the annual general meeting. Completion and return of a form of proxy does not preclude a shareholder from attending the annual general meeting and voting in person.
2. A member entitled to attend, speak and vote at the annual general meeting may appoint a proxy (who need not be a member of the Company) to exercise all or any of his or her rights to attend and to speak and vote on his or her behalf. A member may appoint more than one proxy in relation to a meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him or her. To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. In order to be valid, an appointment of proxy must be returned by one of the following methods: in hard copy form by post, by courier or by hand to the Company's registrar, Capita Asset Services, PXS 1, 34 Beckenham Road, Beckenham, Kent BR3 4ZF; or – in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below, and in each case must be received by the Company not less than 48 hours before the time of the meeting. You must inform the Company's registrar in writing of any termination of the authorities of a proxy.
3. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a Nominated Person) may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the annual general meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
4. The statement of the rights of shareholders to appoint a proxy in paragraphs one and two above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company. Nominated Persons are reminded that they should contact the registered holder of their shares (and not the Company) on matters relating to their investments in the Company.
5. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the annual general meeting and any adjournment thereof by using the procedures described in the CREST manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment, or instruction, made by means of CREST to be valid, the appropriate CREST message (a CREST proxy instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's (EUI) specifications and must contain the information required for such instructions, as described in the CREST manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of annual general meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures 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 2017 (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 29 of the 2017 annual report.

Notes to the notice of annual general meeting continued

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 25 May 2017 was 68,135,252 ordinary shares of ⅓ 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 25 May 2017 is 68,135,252.

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.

Recommendation and voting intentions

With respect to resolutions 5 to 11 (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 29 of the 2017 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 46 to 63 other than the part containing the Directors' Remuneration Policy, of the 2017 annual report and accounts. This vote is advisory, and the directors' entitlement to remuneration is not conditional on it.

Resolution 3: Directors' remuneration policy

The Company is required to seek shareholders' approval of its policy on remuneration of directors (the "Directors' Remuneration Policy") at least every three years (or when the policy changes). This vote is binding. As the current Directors' Remuneration Policy was approved at the 2014 annual general meeting, a resolution is proposed this year in connection with approving the new Directors' Remuneration Policy set out on pages 48 to 57 of the annual report and accounts. Subject to shareholder approval, the policy would take effect from the close of the annual general meeting on 26 July 2017, and has been developed taking into account the principles of the UK Corporate Governance Code and the views of our major shareholders.

Resolution 4: Declaration of final dividend

Shareholders are being asked to approve a final dividend of 30.0pence per ordinary share for the year ended 31 March 2017. Subject to approval, the dividend will be paid on 31 July 2017 to the holders of ordinary shares whose names are recorded on the register of members at the close of business on 23 June 2017.

Resolution 12 and 13: Re-appointment and remuneration of auditor

The Audit Committee of the board of PayPoint will be undertaking a formal audit tender exercise during the summer of 2017, the outcome of which will be announced later this year (please refer to page 43 of the annual report for further details). In the meantime the Audit Committee has recommended that Deloitte LLP (Deloitte) be re-appointed as auditor of the Company.

The board intends to implement this recommendation and this proposal is set out in resolution 12. Resolution 13 proposes that the directors be authorised to set the auditors remuneration.

Resolution 14: 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 14 authorises the directors to make allotments of up to 22,711,751 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 2018, whichever is the sooner. The directors have no present intention of exercising the authority proposed to be conferred pursuant to resolution 14.

Resolution 15: 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 15 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 3,406,763 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 15.

Resolution 16: 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 16, 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 6,813,525, being 10% 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% 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 2018, whichever is the sooner.

Resolution 17: 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:

(a) 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

(b) 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 17 for a special resolution to approve 14 days as the minimum period of notice for all general meetings of the Company other than for annual general meetings. The approval of this resolution will be effective until the end of the 2018 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*
N Carson*
G Kerr*
R Kentleton
D Morrison*
R Sharma*
D Taylor
T Watkin-Rees
N Wiles (Chairman)*

* Non-executive directors

Company Secretary
S Court

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Hertfordshire, AL7 1EL
United Kingdom

Registered in England and Wales
number 03581541

Independent auditor
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United Kingdom

Brokers
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25 Bank Street
London, E14 5JP
United Kingdom

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

Jefferies/Hoare Govett
Vintners Place
68 Upper Thames Street
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Capita Registrars
The Registry
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With thanks to:
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Lauren Menck
Chisom Onita
Marketing team
Finance team
HR team
Risk and compliance team
Product team
Commercial team
Leadership team

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

Carbon Balancing by the World Land Trust tackles climate change through projects that both offset carbon dioxide (CO2) emissions and conserve biodiversity.

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