Embedding PayPoint at the heart of convenience retail

PayPoint

Annual Report 2019

Who we are

Champions of convenience

At PayPoint, we're all about convenience. Through our network of 47,000 stores across the UK and Romania, we make life easier for everyone through pioneering retail technology, services and omnichannel payments solutions serving millions of customers every day.

Our aim is to embed ourselves at the heart of convenience retail in the UK and Romania – becoming the definitive convenient parcel point provider and maintaining our position as market leaders in the 'pay-as-you-go' and digital bill payments market. By continually innovating, we are creating unrivalled customer experiences and sustainable growth.

For more information go to
corporate.paypoint.com

Contents

Highlights

Revenue
£211.6m
-0.9%
(2018: £213.5m)

Profit before tax excluding exceptional items
£53.8m
+1.6%
(2018: £52.9m)

Profit before tax
£54.7m
+3.3%
(2018: £52.9m)

Cash generation[1]
£62.8m
-7.5%
(2018: £67.9m)

Ordinary dividend paid per share
46.2p
+1.9%
(2018: 45.3p)

Additional dividend paid per share
36.7p
No change
(2018: 36.7p)

Net corporate cash[2]
£3.5m
-81.3%
(2018: £18.5m)

Cash and cash equivalents
£37.5m
-18.6%
(2018: £46.0m)

Net revenue[3]
£116.6m
-2.5%
(2018: £119.6m)

Operating margin[4]
46.3%
+1.6ppts
(2018: 44.7%)

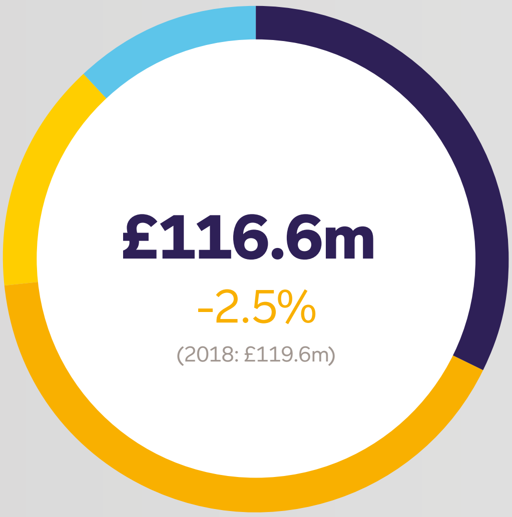
Diluted earnings per share
64.8p
+3.3%
(2018: 62.7p)

1. Cash generation is an alternative performance measure. Refer to the financial review – cash flow and liquidity for a reconciliation from profit before tax.
2. Net corporate cash is cash and cash equivalents excluding clients' funds and retailers' deposits of £34.0 million.
3. Net revenue is an alternative performance measure. Refer to note 4 to the financial statements for a reconciliation to revenue.
4. Operating margin % is an alternative performance measure and is calculated by dividing operating profit by net revenue.

At a glance

Our portfolio

Net revenue



UK retail services	**£37.8m**	(2018: £37.7m)
UK bill payments	**£47.8m**	(2018: £52.3m)
UK top-ups	**£17.1m**	(2018: £17.7m)
Romania	**£13.9m**	(2018: £11.9m)

Embed PayPoint at the heart of convenience retail

PayPoint One

This is the market-leading platform from which service fee revenue is derived through offering three EPoS solution packages: Base, Core and Pro. These are supported by both Android and iOS mobile apps allowing remote management of the EPoS system. PayPoint One is also integrated with wholesalers' links.

PayPoint One sites

12,881

As at 31 March 2019

+4,331

(2018: 8,550)

Card payments

PayPoint offers card payment solutions which seamlessly integrate with its in-store technology, making PayPoint a one-stop solution for convenience retailers.

Card sites

9,796

As at 31 March 2019

-456

(2018: 10,252)

ATMs

PayPoint's ATM merchant replenishment model allows retailers to recycle cash received from bill payments, creating additional revenue and footfall opportunities. This model is cost-effective for both PayPoint and retailers alike.

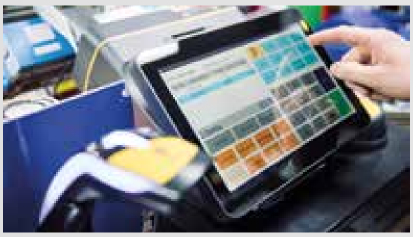
ATM sites

3,827

As at 31 March 2019

-319

(2018: 4,146)



PayPoint becomes the definitive parcel point solution

Online retail shopping will continue to grow with deliveries in the 'last mile' difficult for carriers who are operating in a competitive low-margin market.

Our extensive parcel network, which comprises over 7,000 sites, attracts new carriers which brings additional footfall for retailers and, crucially, convenience for busy internet shoppers.

Parcel volumes

21.8m

For the year ended 31 March 2019

-1.9m

(2018: 23.7m)

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

Bill payments

Over-the-counter payments will remain an important part of the UK economy. We will continue to retain our leadership in this market and grow PayPoint's share of client bill payments and to keep securing new clients. This business remains highly cash generative and enables us to invest in future growth and innovation.

UK bill payment and top-up transactions

361.7m

For the year ended 31 March 2019

-24.7m

(2018: 386.4m)

MultiPay

We intend to grow our presence in omni-channel payment through MultiPay by extending it beyond the energy sector. This will maintain PayPoint as a key service provider for clients even as the digital payment market grows.

MultiPay transactions

27.3m

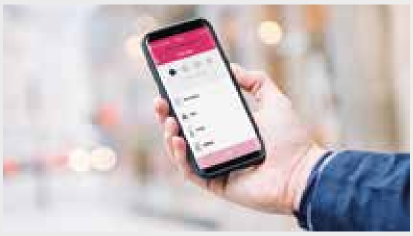
For the year ended 31 March 2019

+7.9m

(2018: 19.4m)

Top-ups and eMoney

Top-ups include transactions where consumers can top up their mobiles, prepaid debit cards and lottery tickets. This sector also includes eMoney transactions where PayPoint provides the physical network for consumers to convert cash into electronic funds with online organisations.



Diverse range of over 400 partners

amazon top up In store

e·on

monzo

Virgin media

TV LICENSING

XBOX

Chairman's statement

In last year's Annual Report, the Board identified the four key strategic priorities for the business.

These priorities were to: embed PayPoint at the heart of convenience retail, become the definitive parcel point solution, sustain leadership in 'pay-as-you-go' and grow digital bill payments, and innovate for future growth and profits. These objectives centred around our growth drivers of PayPoint One, parcels, Romania and MultiPay. I am pleased to report good progress against all four of these initiatives. Our PayPoint One estate was extended by 4,331 sites to reach 12,881 sites on 31 March 2019, ahead of the original target of 12,400 sites. We have signed four new significant parcel partnerships. Romania's transactions grew, delivering a 16.8% increase in net revenue. MultiPay also delivered strong growth of 48.3% in net revenue whilst the over-the-counter bill payments business proved to be resilient.

As a Board, we believe there is a significant opportunity to drive further growth from our retail services offering through developing the PayPoint One and parcel products, increasing the penetration of card payments and by achieving a substantial improvement in our service delivery to retail and client partners. To lead the next phase of PayPoint's development, and to build on the success achieved in the business over many years, Patrick Headon was appointed PayPoint's CEO on 1 April 2019. Patrick has a strong management track record in consumer, digital and B2B organisations.

Patrick succeeds Dominic Taylor, who successfully led PayPoint for over 21 years from a start-up company to an organisation of substantial scale and importance in the UK and Romania. The Board and I would like to thank Dominic for his immense contribution and leadership of PayPoint over this period and for the strong legacy he leaves behind in the business.

Nick Wiles
Chairman

"We believe there is a significant opportunity to drive further growth from our retail services offering"

Looking ahead, the Board remains confident in PayPoint's prospects given its position at the heart of convenience retail. Our low cost, scalable and efficient business model means that PayPoint will play an increasingly important role in the UK by providing vital payment, banking, CashOut and parcel services to communities where banks and the Post Office lack physical presence. We aim to fulfil our role in these areas in a way that provides excellent service to clients and retailers, enriching opportunities for all employees, and ensuring strong and sustainable returns to shareholders. The Board remains committed to our additional dividend programme of £25 million per annum which continues up until December 2021 alongside our ordinary dividend programme.

Finally, our dedicated people and their commitment and are vital to PayPoint and drive our performance. I am highly appreciative of the work they have done to deliver the results this year.

Nick Wiles
Chairman
22 May 2019

"THE BOARD REMAINS CONFIDENT IN PAYPOINT'S PROSPECTS GIVEN ITS POSITION AT THE HEART OF CONVENIENCE RETAIL"

PayPoint One sites
12,881
+4,331
(2018: 8,550)

MultiPay transactions
27.3m
+40.7%
(2018: 19.4m)

Our markets

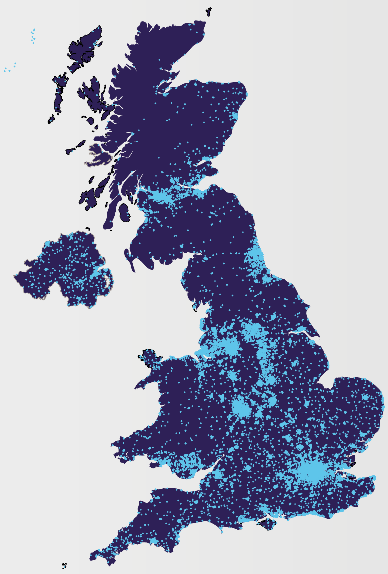
Responding to opportunities and challenges in a continually evolving market.

Market position

In the UK, the retail sector comprises of over 63,500 retail sites and is made up of the following segments:

	UK retail sector[1]	PayPoint's network
Independents and symbol groups in convenience retail	34,000	
Specialist and CTN stores (Confectionery, Tobacconist and News)	6,000	
Independent forecourts	3,000	
Symbol and independent retailers	**43,000**	**19,000**
Multiple groups in convenience retail	8,000	
Forecourt dealers	2,000	
Supermarkets and discounters	10,500	
Managed groups	**20,500**	**9,000**
Total UK sites	**63,500**	**28,000**

PayPoint's network is significantly larger than all the banks, supermarkets or the Post Office. Our superior network means 99.5% of the urban population live within one mile of a PayPoint retailer and 98.5% of the rural population within five miles. This provides a convenient place for consumers to pay their bills and utilise other PayPoint services, including the collection and sending of parcels where available.



28,000
locations within the UK

99.5%
of urban population live within one mile of a store

98.5%
of rural population live within five miles of a store

Market insights

Convenience retail

- total convenience sector sales are estimated to have grown by 2.5% in 2018 to over £40 billion[2]
- convenience retail growth is driven by consumers' habits changing towards smaller but more frequent shopping trips at their local stores
- convenience retailer sites declined by c.1.0%, mainly symbol groups, driven by disruption in the wholesale supply chain caused by the Palmer & Harvey collapse and consolidation within the sector

Our PayPoint One technology is well suited for symbol and independent convenience retailers. In conjunction with additional PayPoint services such as parcels, it enables retailers to achieve higher footfall, serve customers more quickly and improve business efficiency. This helps them to grow their businesses profitably and remain competitive. Managed groups which offer PayPoint services typically use the PPoS solution which integrates into their own EPoS systems. As we develop our range of services, we can drive additional growth from service fee revenue.

1. Data from the IDG retail analysis – UK grocery store numbers 2018.
2. ACS local shop report 2018.
3. Derived from data in 'Total Market Data – Credit Card Statistics – January 2019' available at https://www.ukfinance.org.uk/data-and-research/data/cards/card-spending, comparing seasonally adjusted figures from six months to July 2018 to the six months to January 2019.
4. https://www.link.co.uk/about/statistics-and-trends/ – 12 months to March 2019.
5. https://www.link.co.uk/about/news/link-update-to-interchange-rate-implementation/

Card payments

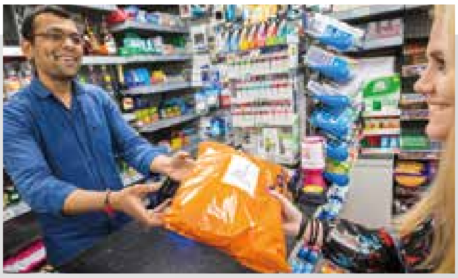
- total UK card payments transactions increased by 24.1% in the six months to January 2019[3] driven by consumers shifting towards contactless payments
- as a result of this strong growth in lower value contactless payments, average transaction values declined by 4.3%[3]
- legislation banning surcharges on card payments became effective from January 2018
- over 88% of convenience retailers offer debit and credit card facilities with 80% accepting contactless payments[2]

PayPoint will benefit both from the market growth in UK card payments and by increasing penetration of its card payments product in its retail network, assisted by our new unique settlement feature.

ATMs

- LINK's ATM transactions declined by 6.6% to 2,863 million transactions and LINK's ATM network declined by 5,400 (7.8%) sites to 63,200 in 2018[4]
- LINK's interchange fee reduced by 5% in July 2018 and by a further 5% in January 2019 which accelerated the decline of ATMs in the current year. Future interchange reductions are on hold[5]

PayPoint's ATM merchant replenishment model allows retailers to recycle cash received from bill payments into the ATM. This model is more cost-effective for both PayPoint and the retailer. It allows PayPoint to grow its market share and creates additional revenue and footfall opportunities for the retailer. The LINK Over-The-Counter opportunity will eliminate the capital investment required in an ATM allowing sustained access to cash withdrawal facilities for consumers, particularly in areas not justifying an ATM. This will further support PayPoint's position and grow market share.



Parcels

- IMRG continues to forecast UK parcel volumes to grow by 9% year-on-year in 2019, although for the three months to March 2019 volumes were 1.9% below 2018[6]
- the pick-up and drop-off market comprises Click and Collect, returns and send propositions. The Click and Collect market is c.118 million parcels per year and is expected to double by 2025[7]. Returns and send volumes are estimated at c.185 million and c.380 million parcels per year respectively[8]

As PayPoint develops new parcel partnerships it will maximise its share of this growing market. This will drive additional footfall and revenue opportunities for convenience retailers and improve the Click and Collect experience for shoppers.

Bill payments

- the Post Office acquired Payzone's bill payment business following the Competition and Markets Authority clearance in October 2018[9]
- cash payments in the UK declined by 14.7% in 2017[10]
- energy:
  - the price cap for pre-pay customers increased by £106 to £1,242 per year in April 2019[11]
  - non-big six energy providers combined market share is now c.25%
  - 11 challenger energy companies went into administration in the last eight months; Ofgem are introducing financial health tests for new energy suppliers
- number of pre-paid mobile subscriptions declined by 6.5% to 27.5 million subscribers,[12] with more customers topping up online
- big four banks, market share of current accounts fell from 92% of all bank customers in 2009 to around 70% today,[13] with fintech challenger banks such as Monzo, Revolut, N26, Atom and Starling Bank growing market share

Despite falling transaction volumes, PayPoint will work to maintain its leadership in this market and work to drive profitable growth opportunities supporting new entrants in the energy and banking space. Through MultiPay, and its improving range of services, PayPoint will facilitate growth of online bill payment transactions in selected verticals.

6. https://www.imrg.org/data-and-reports/imrg-metapack-delivery-indexes/mar-imrg-metapack-delivery-index-summary-february-2019/
7. https://www.imrg.org/uploads/media/default/0001/08/2477f50ad2fee946cdf5ed23ebb8df21f2489d09.pdf?st
8. Internal management estimates.
9. https://www.gov.uk/cma-cases/post-office-limited-payzone-uk-limited-merger-inquiry
10. http://www.fasterpayments.org.uk/sites/default/files/Quarterly%20Statistical%20Report%202018%20Q4.pdf (2018 data pending)
11. https://www.ofgem.gov.uk/publications-and-updates/higher-wholesale-costs-push-default-and-pre-payment-price-caps-april
12. https://www.ofcom.org.uk/research-and-data/multi-sector-research/cmr/cmr-2018/interactive
13. https://www.wired.co.uk/article/fintech-startups-taking-on-legacy-banks. Big four are Barclays, Royal Bank of Scotland/NatWest, HSBC and Lloyds.

Business model

Operating with a clear business model and capital discipline, we drive value to all stakeholders through our innovative products and services and our market-leading networks.

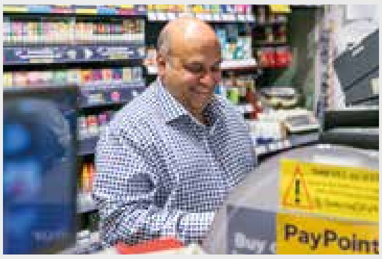
We help... To...

Consumers
(millions)

Conveniently make payments and collect parcels

+

Convenience retailers
(tens of thousands)

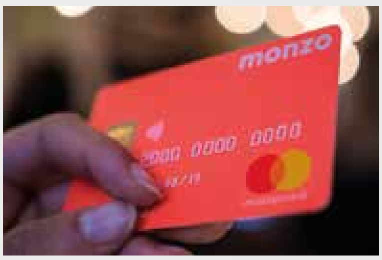


Offer more services to their local community

Improve the performance of their business

+

Business and public sector
(hundreds)



Make it easy for their customers to pay bills and receive online purchases

How…

Offering specialist products and services

- PayPoint One/EPoS
- Collect+
- MultiPay, eMoney
- card payments
- ATMs

Across our market-leading retail network (and online)

- **29,000** convenience stores in UK
- **18,000** in Romania

All sharing our low-cost, scalable platform

- differentiated and resilient technology
- robust settlement system
- 24/7 operations support
- retailer support and management

As a result we also deliver benefits to…

Shareholders

Healthy margins and profitability

Strong cash generation and dividends

Investment in innovation

+

Our people

A good place to work, making a difference through our purpose

Strategic framework

PayPoint's strategy is to exploit the opportunities available from the market developments by leveraging our leading retailer network, scalable technology and payments platform.

Strategic priorities

1. Embed PayPoint at the heart of convenience retail

PayPoint will continue to provide and develop new products and services which enhance our retailers' offer to their customers and help them operate their businesses more effectively. Core to this priority is PayPoint One which includes EPoS and bill payment functionality and other products such as card payments and ATMs.

Progress in 2018/19

PayPoint One sites increased by a net 4,331 in the year to reach 12,881 by 31 March 2019, ahead of the original target of 12,400. In the first quarter of 2018/19 our focus was on the roll out of EPoS Pro following its launch in January 2018 and at 31 March 2019 it was in 645 sites. The average PayPoint One service fee remained stable at £15 per week. During the year the PayPoint wholesaler links into Booker and Nisa were developed and were in trial at selected retailers. An iOS version of the PayPoint One mobile app was released in January 2019 to complement the existing Android version.

Card payments sites declined by 456 to 9,796 driven by competitor activity in this highly competitive segment of the market. Card rebate revenue grew by 5.5% as card payment transactions increased by 20.1%, offsetting the decline in revenue per transaction due to lower average transaction values. The card net settlement feature is in pilot with early indications of success. This will enable retailers to offset their bill payment settlement to PayPoint against their card settlements thereby reducing their working capital requirements and cash banking costs. Card net settlement will be ready for roll out at scale following the go-live of the new Salesforce CRM lead to sales feature.

The ATM estate declined by 319 sites due to our strategy to optimise capital expenditure. This strategy commenced in the current year with ATMs from low transacting sites being removed. Some of these ATMs were redeployed to more profitable sites with initial success evidenced by the 2.9% increase in transactions despite the general decline experienced in the wider market. Net revenue declined by £0.5 million (3.9%) due to LINK's interchange rate reductions. The LINK Over-The-Counter service (which enables cash withdrawals through the use of a pinpad integrated with the PayPoint terminal) is ready for its initial trial.

PayPoint One estate
12,881
As at 31 March 2019
+4,331
sites

ATM estate
3,827
As at 31 March 2019

2. PayPoint becomes the definitive parcel point solution

Online retail shopping will continue to grow as retailers enhance their offering with convenient delivery methods. Deliveries in the 'last mile' are difficult for carriers who are operating in a competitive low-margin market. Our extensive network, which comprises over 7,000 sites, brings carriers and retailers together for their, and their customers' benefit.

We successfully transitioned to a multi-carrier proposition by signing up three of the UK's largest carriers and eBay, the UK's largest online marketplace. Our parcel proposition traded under the Collect+ brand which held its Trust Pilot score at 9.2. PayPoint maintained the operational effectiveness of its in-store service. Parcel volumes declined by 8.0% primarily due to lower volumes from our incumbent partner. A parcel app for retailers was launched in December 2018 which allows retailers to scan parcels away from their PayPoint terminal, improving both the retailer and customer experience.

Parcel proposition in
7,134
sites

Trust Pilot score
9.2

The strategy is executed through the four key priorities described in last year's Annual Report. We have set out our progress and future ambition for each priority below.

Ambitions for 2019/20

For the year ahead, our emphasis will be on ensuring consistent progress in revenue growth across all products. We intend to grow the PayPoint One estate by a further 3,000 sites to 15,800 sites and to trade-up a portion of the existing Base sites to Core and Pro EPoS versions. This, together with the annual indexation increase, will drive an improvement in the average weekly PayPoint One service fee per site.

We will look to reverse the decline in the card payments estate through better sales force focus, roll out of the card net settlement feature and new pricing structures to attract new and retain existing retailers.

The ATM estate will remain broadly flat as we use the existing ATM stock and optimise capital expenditure. A successful trial of the LINK Over-The-Counter service will enable future growth from this product.

Risks and KPIs

Link to Risks

- innovation and market changes
- culture
- dependence on key clients and retailers
- partners and suppliers
- interruptions in processes and systems
- legislation or regulatory reforms and risk of non-compliance
- cyber security, data protection, resilience and business continuity
- attracting and retaining key talent
- Brexit

Link to KPIs

- PayPoint One sites
- PayPoint One average monthly fee per site
- card payment sites
- ATM sites

Our focus for the next financial year is to transition from delivery of new partnerships to growing parcel volumes and revenue. Key to this will be strong delivery of customer service as volumes scale, thereby maintaining the Collect+ Trust Pilot score.

Link to Risks

- innovation and market changes
- culture
- dependence on key clients and retailers
- competitor activity
- partners and suppliers
- interruptions in processes and systems

Link to KPIs

- parcel sites
- parcels processed

Strategic framework

continued

Strategic priorities

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

UK

Over-the-counter payments will remain an important part of the UK economy and we will continue to retain our leadership in this market. This business remains highly cash generative and enables us to invest in future growth and innovation. We intend to grow our presence in omnichannel payments by evolving the MultiPay platform offering and extending beyond the energy sector.

Romania

Romania is an important growth driver for PayPoint. Its technology platform, network strength and brand recognition make it uniquely placed as the Romanian market evolves. This evolution will include, over time, growth in automated, digital, parcel and card payments solutions. Cash bill payments remain a mass market proposition and will continue to be a robust category.

Progress in 2018/19

UK

Bill payment (including MultiPay), top-up and eMoney transactions declined by 6.4% to 361.7 million. This was partially offset by the 5.4% improvement in average net revenue per transaction. The improved margin was driven by growth in small clients' transactions. 21 new clients went live including Monzo Bank which has over one million customers. eMoney transactions grew by 11.4% to 7.8 million. The MultiPay platform continued to grow strongly, increasing transactions by 40.7% to 27.3 million. The MultiPay platform now has a new direct debit feature. This enables the service to be extended to other sectors; a new housing association client has already been secured.

eMoney transactions
7.8m
For the year ended 31 March 2019
+11.4%

MultiPay platform transactions
27.3m
For the year ended 31 March 2019
+40.7%

Romania

Romania continued to progress with the Payzone integration with over 1,500 of Payzone's highest transacting retailers choosing to migrate to the PayPoint platform driving improved margins. PayPoint maintained its leadership in the country with 27 new clients launched and keeping its 80% consumer awareness. Transactions in Romania increased by 16.4% to 112.2 million with the share of client bill payments steady at 34% (2018: 34%). The card payment service was available in 1,300 sites at 31 March 2019.

PayPoint maintained leadership
27
new clients launched

80%
consumer awareness

Romanian transactions
112.2m
For the year ended 31 March 2019
+16.4%

4. Innovate future growth and profits

To maintain PayPoint's competitive advantage we must continually innovate, drive new products and services, improve the retailer experience and increase efficiency.

Achievements in the year are addressed in the three priorities above but are repeated here for convenience and include:

- launched an iOS mobile app for PayPoint One to complement the existing Android app which enables retailers to manage their stores remotely
- developed and launched a pilot for card payments net settlement feature allowing offset of bill payments cash due from retailers against funds due to retailers for card payments. This reduces retailers' working capital requirements and cash banking costs
- developed the LINK Over-The-Counter service which is ready to commence its initial trial
- launched a parcel app enabling retailers to scan parcels away from the PayPoint One terminal which improves customer service at check-out
- MultiPay was enhanced with a direct debit payment feature extending the capabilities beyond card payment via app, web or text. This also enables the digital platform to be used outside of the energy sector

Ambitions for 2019/20

UK

PayPoint's intentions are to maintain leadership in this sector. This will be achieved by renewing key contracts with existing clients and targeting new clients specifically in the housing (MultiPay) and eMoney sectors. We anticipate existing challenger energy and bank providers will continue to take market share from the incumbents and mobile top-up transaction values will increase. These trends are expected to partially offset the net revenue impact from reducing transaction volumes.

Romania

We intend to continue to grow PayPoint's share of client bill payments and continue to secure new clients. Focus will also be on profitability by improving the margins on transactions and from the Payzone integration. PayPoint will commence with the development of a new terminal which will replace the legacy T2 terminal over time. The card payment solution will also be extended to a further 500 sites.

PayPoint will continue to invest in its PayPoint One product enabling it to meet growing retailer requirements and prepare for future products and services. We will also extend the data analytics capabilities which will, in time, provide further insight for retailers to enable them to manage their stores even more effectively.

Risks and KPIs

Link to Risks

- innovation and market changes
- culture
- dependence on key clients and retailers
- competitor activity
- partners and suppliers
- interruptions in processes and systems

Link to KPIs

- transaction value
- transactions processed

Link to Risks

- innovation and market changes
- culture
- attracting and retaining key talent

Organisation and service delivery

Underpinning PayPoint's future success is the continued development and investment in our people, systems and organisation with the aim to create an efficient and high-performance based culture with focus on empowerment, engagement and customer service.

Progress in 2018/19

In the year, the workflow feature of Salesforce CRM was launched. This manages the process from acceptance of an order to installation of services at the retailer and increased installation capacity levels by 40%. New customer service systems and policies were implemented which reduced both retailers' time in automated call handling systems by c.80% and time to resolve retailers' claims for refunds by c.70%. Finally, legacy terminal maintenance and repairs were transferred in-house which has improved our control over repairs whilst reducing costs by £0.2 million in the year.

Ambition for 2019/20

A cornerstone to delivery of PayPoint's strategy is the continued development of Salesforce CRM sales lead to sale feature. This will enable paperless sign up supported by a system driven workflow. This will improve data accuracy and will ultimately further reduce timeframes from prospecting to installation. Included in the Salesforce CRM development is a new billing engine which will also replace existing manual processes and speed up and simplify delivery of retailers' invoices.

We will also work with retailers to design a new multi-platform self-service portal. This will replace several existing separate portals. Ultimately, this will improve our retailers' experience and reduce their need to call the contact centre team.

Chief Executive's statement

Since joining PayPoint on 1 March 2019, I have spent considerable time with retailers, clients, external stakeholders and PayPoint employees.

Patrick Headon
Chief Executive

"PayPoint has a strong and scalable business model"

Four themes have come across clearly in these meetings:

- PayPoint has a strong and scalable business model. It plays a vital role in communities across the UK and Romania and has a strong record of generating sustainable returns for shareholders
- foundations for future growth are now established following the first stage of the PayPoint One roll out, the securing of new parcel carrier relationships and the continued adoption of our innovative products, such as MultiPay
- there are significant changes occurring in the sectors in which PayPoint operates, which presents both substantial opportunities and exciting challenges. To optimise performance, the business will need to adapt further and move quickly
- PayPoint is fortunate to have highly committed employees who are focused on delivering innovative products and services to our customers

Looking ahead, I have a number of early priorities. These include a strong focus on delivering good growth in retail services. We also need to improve customer service further. The continuing development of Salesforce CRM will support that objective. Finally, as well as executing the existing strategic initiatives, we will look at how we can add more value to the business.

2018/19 performance

Over the past 12 months, underlying net revenue[1] grew by £2.2 million (2.0%) to £115.9 million. Growth was driven by UK retail services, which now represents 32% of Group net revenue, and Romania. Service fee revenue exceeded £10 million for the first time as PayPoint One was rolled out to 12,881 sites ahead of the original target of 12,400 sites; a significant achievement for this new product. Our parcel business added three of the UK's largest carriers as well as eBay, which is the UK's largest online marketplace. UK bill payments and top-ups revenue demonstrated continued resilience in the face of the current decline in cash payments in the UK. Reported net revenue, which reflects the expected £5.2 million headwinds from the Department for Work and Pensions (DWP) SPS service closure and the impact of the revised Yodel commercial terms, decreased by £3.0 million to £116.6 million.

1. Refer to note 4 for a reconciliation to underlying net revenue.

This financial year we grew pre-tax profits before exceptional items by £0.9 million (1.6%) to £53.8 million, in line with the expectations we set in our 2017/18 Annual Report. There was an additional benefit of £0.9 million included in reported pre-tax profits of £54.7 million relating to the PayByPhone business disposal in 2016. Reported profit before tax grew by 3.3% with diluted earnings per share also increasing by 3.3% to 64.8 pence. PayPoint remains highly cash generative with profit before tax of £54.7 million converted into £62.8 million cash. Net corporate cash declined by £15.0 million to £3.5 million as a result of the additional dividend programme.

> **UNDERLYING NET REVENUE GREW BY £2.2 MILLION**

For 2019, the Board is proposing a final dividend of 23.6 pence per share and an additional dividend of 18.4 pence per share which reflects our confidence in the business and the outlook for 2019/20.

Outlook

In the past financial year our performance was driven by revenue growth in PayPoint One, MultiPay and Romania, resilience in bill payments and strong cost control. We also benefited from a non-recurring £2.4 million from improved VAT recoverability, relating to prior years. The improvement in profit before tax was delivered despite significant revenue headwinds from the closure of the DWP SPS service (£4.2 million) and the second year impact from the Yodel commercial negotiation (£1.0 million).

Delivery of the financial result for the year ending 31 March 2020 requires revenue growth across PayPoint One, MultiPay, Romania and Parcels, as we scale up with our new partnerships as well as continued resilience in bill payments and vigilance on costs. Despite the final year impact of the Yodel renegotiation (£0.7 million), investment in customer service and improved business efficiency (£2 million) and the uncertain broader economic environment, the Board is confident that there will be a progression in profit before tax for the year ending 31 March 2020.

Patrick Headon
Chief Executive
22 May 2019

Profit before tax (excluding exceptional items)

£53.8m

+1.6%

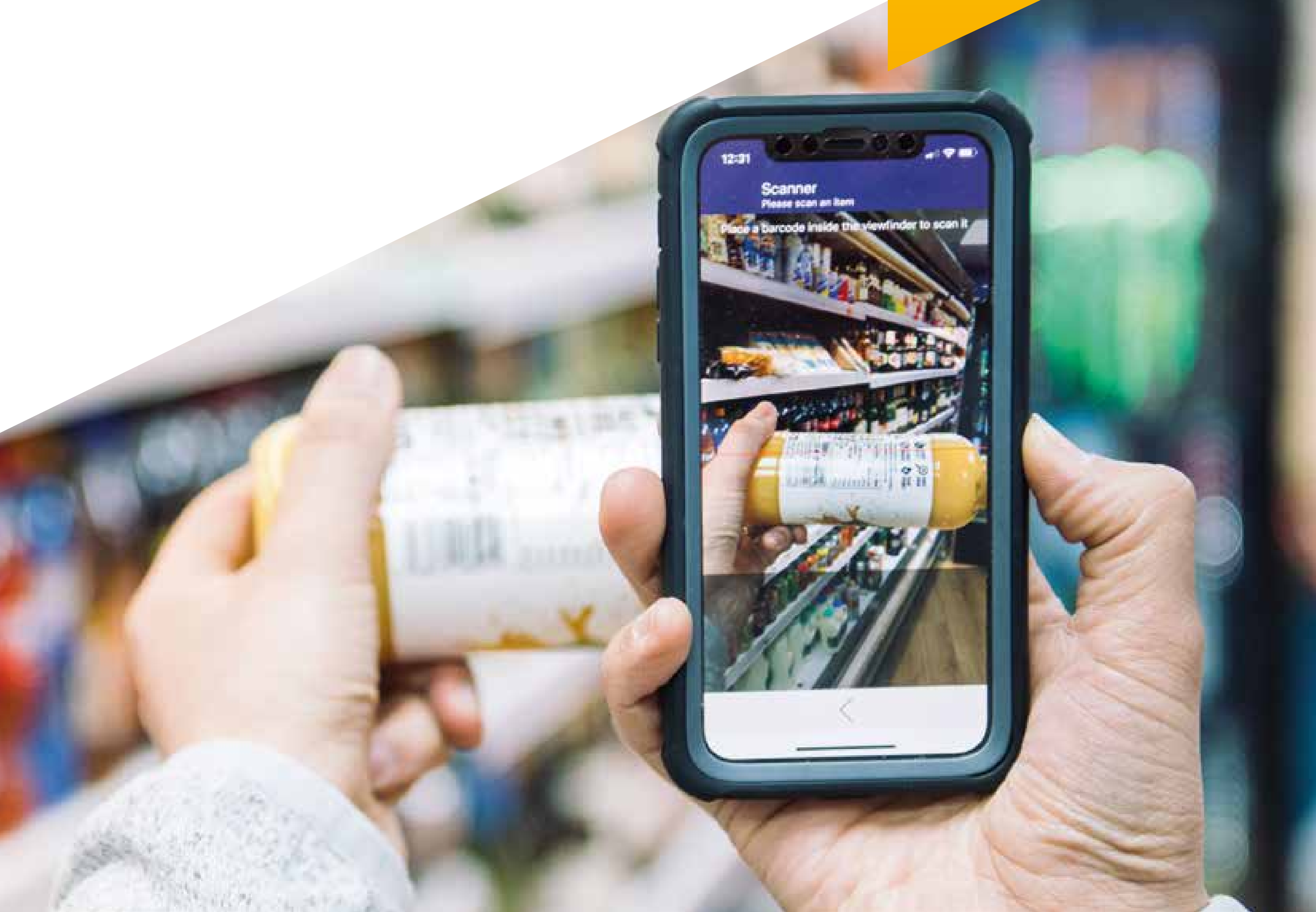
(2018: £52.9m)

Diluted earnings per share

64.8p

+3.3%

(2018: 62.7p)



Strategy in action

Your store, in your pocket

PayPoint One

"Our goal is to help our retail partners reduce costs, save time and increase profits. Implementing a cutting-edge Retail Management solution like PayPoint One can deliver instant benefits for retailers and the services they offer that translate to the bottom line and all with no upfront cost.

By using PayPoint One's unique reporting functionality, retailers can define their own reports to gain valuable insights into sales and margins, helping them to manage product ranges and drive real impact into their business."

Emma Allen
Head of Retail Products

Strategic priority

Innovating for future growth and profits

Consumers increasingly want greater convenience, variety and choice, whether shopping online or closer to home. Coupled with this, independent retailers are facing growing costs, competition and the need to keep up with changes in industry demands.

PayPoint One, the future-proof EPoS system, takes these needs into consideration and allows retailers to offer everything a modern convenience store needs from one device. Whether offering integrated card payments, bill payments, parcel services, or providing real-time stock updates to drive business insights and maximise sales, PayPoint One has delivered for thousands of retailers already.

Ken Singh, of Mill Hill Store in Pontefract, concluded that thanks to PayPoint One, he noted the following:

- sales up and blended margin increased by +20%
- his time freed up by 50% to focus on other tasks
- refinement of restocking process to increase sales

"It has more features than any other EPoS system I've used in the past and is more advanced."

Earlier this year, the Android-based platform was supplemented by an iOS app, meaning that PayPoint One is now available on the two most popular mobile operating systems. The app provides the tools and real-time insights for retailers to grow their business wherever they are.


12:41
Sales
PayPoint overview
Sales
Product
Inventory
Order
PayPoint today
£278
PayPoint week
£620
PayPoint month
£620

Chief Executive's Q&A

Q&A

Patrick Headon
Chief Executive

I am committed to delivering positive outcomes for all stakeholders

Q

What attracted you to PayPoint?

A

A combination of the unique business opportunity and the people. Right from the start, I was impressed by the Company's business model and purpose. In particular, I see significant opportunity across the three business streams – PayPoint One, parcels and payments – where my professional experience will help me develop these opportunities further. I also felt at ease with the values and culture of the business. I wanted to work with the people I met at PayPoint before I'd started and that's still the case!

Q

What do you view as the Company's key strengths?

A

Again, I would have to start with the people. There is a collaborative culture at PayPoint which is focused on pulling together to find new innovative ways to drive the business forward. In addition, we have a strong and unrivalled network of thousands of convenience retailers which has been developed over the years. We also have a unique and scalable payments infrastructure, which can handle all types of cash and digital payments. This unique combination allows us to provide vital everyday services to the communities in the UK and Romania.

Q

How would you summarise the performance of the business in 2019?

A

We had a robust financial performance in 2019 which provides a good platform for future growth. The team's focus has been on rolling out PayPoint One to almost 13,000 sites, signing up our new parcel partnerships, developing MultiPay, all whilst maintaining our leadership in bill payments. This gives us a strong base for further growth in the coming years.

Q

As CEO, how do you plan to lead PayPoint? What is your leadership style?

A

My style is to draw on the insights and experience of the whole team, as well as my own, to arrive at the best outcome. I strongly believe behaviours are vital in any organisation. I will, therefore, look to hold myself and my team to the highest standards and ensure these are followed throughout the whole organisation. Finally, I build strong relationships internally and with other stakeholders to ensure there is a high degree of alignment and we deliver positive outcomes together.

Q

PayPoint's purpose is to help make a positive difference to people's lives. How do your personal values align with this?

A

PayPoint was founded to make life easier for some of those in society who need the most help. PayPoint also helps convenience retailers serve their local communities better. It's a great example of business being a force for good. This is something that I have always looked for throughout my career.

Q

What are your priorities for the year ahead?

A

I have a number of early priorities. These include a strong focus on delivering good growth in retail services. We also need to improve customer service further. The continuing development of Salesforce CRM will support that objective.

Q

Do you have any intentions of changing the current strategy?

A

There is a significant opportunity to drive further growth from our retail services offering through developing the PayPoint One and parcel products, increasing the penetration of the card payments and by achieving a substantial improvement in our service delivery to retail and client partners. As well as executing the existing strategic initiatives, we will look at how we can add even more value to the business.

Q

What do you see as the main market opportunities going forward?

A

The three businesses we operate in, namely EPoS solutions, parcels and payments, are attractive markets, each providing PayPoint with growth opportunities. PayPoint One and our EPoS solutions are right at the heart of convenience retail and we will continue to add more services to help convenience retailers run their business more efficiently. With our new parcel partnerships, we will be able to offer more convenient pick up and drop offs for consumers. Finally, through MultiPay we will be able offer digital payments to clients in new sectors such as housing.

Q

Lastly, what is your message to PayPoint's stakeholders?

A

I am excited to have taken on the role of CEO at this point in the Company's journey. I am committed to delivering positive outcomes for all stakeholders through delivery of the growth in the three areas I have outlined above. As a result, convenience retailers can be more successful and offer more services to their local communities, employees will be more engaged and we will deliver strong returns to shareholders.

Strategy in action

Collection at your convenience

Parcels

"The number one objective within the PayPoint parcels business is to continue to develop our key role in the eCommerce world. This is a multi-carrier world, where shoppers will buy from multiple sites and expect deliveries via several courier companies to one convenient location.

By working with the UK's largest online retailers, marketplaces and carriers, the Collect+ store network is uniquely placed to provide an open access network of locations to fulfil that need."

Gary Winter
Parcels Director

Strategic priority

Become the definitive parcel point solution

With consumer habits ever changing, convenience is becoming key to their everyday lives. More people than ever are using online shopping and now, with Click and Collect, consumers have the freedom to choose a time and a place to have their shopping delivered including from one of 7,000 Collect+ retailers across the UK.

The last 12 months have seen a number of key milestones for Collect+. December 2018 saw the launch of the Collect+ StoreScan app. Available on Android and iOS, the app allows retailers to scan parcels in and out with their mobile device leaving the counter free to serve customers. PayPoint announced partnerships with major brands including eBay and were also named winners of the Metapack Award for Best Domestic or International Delivery Options.

With a Trustpilot score of 9.2, consumers are enjoying the flexibility to collect/return their orders at a time that is convenient to them.

Robert Murdoch, a Collect+ customer from Warrington, commented: "The parcel got there in good time and all was well. Cannot fault them at this time and am more than happy with an easy process, reasonable price and good all-round service."

Lyn Jones, from Cefn Mawr in North Wales, said: "It was the first time that I used the service. I did so with a little trepidation but I certainly need not have worried and was reassured on what would happen to my parcel by the lovely lady in the store."


PayPoint

Key performance indicators[1]

PayPoint has identified the following KPIs to measure progress of our strategic priorities.

1. All these KPIs are non-IFRS measures or alternative performance measures ('APMs'). The definitions, calculations and reconciliations of all APMs (including these KPIs) to IFRS are set out within the APMs section on page 103.

Financial

Net revenue

£116.6m
-2.5%

18/19	116.6
17/18	119.6
16/17	117.5

Description and purpose
Revenue less commissions paid to retailers and the cost of mobile top-ups and SIM cards where PayPoint is principal. This reflects the benefit attributable to PayPoint's performance eliminating pass-through costs and is an important measure of the overall success of our strategy.

Operating margin

46.3%
+1.6ppts

18/19	46.3
17/18	44.7
16/17	45.3

Description and purpose
Operating profit before exceptional items as a percentage of net revenue. Operating margin provides a broad overview of the efficient and effective management of the cost base enabling shareholder returns and investment in the business.

Cash generation

£62.8m
-7.5%

18/19	62.8
17/18	67.9
16/17	62.1

Description and purpose
Earnings before exceptional items, tax, depreciation and amortisation adjusted for corporate working capital movements (excludes movement in clients' funds and retailers' deposits). This represents the cash generated by operations which is available for capex, taxation and dividend payments.

PayPoint One sites

12,881
+50.7%

18/19	12,881
17/18	8,550
16/17	3,601

Description and purpose
The number, at the reporting date, of retailer sites in which at least one PayPoint One terminal was operational. A site may have more than one terminal (multiple lanes). This provides a measure of the extent of our network into which services and features can be sold, driving future growth.

Strategic focus 1

PayPoint One average weekly fee per site

£15.1
+1.5%

18/19	15.1
17/18	14.9
16/17	14.2

Description and purpose
The average weekly service fee across all PayPoint One sites based on the PayPoint One devices in store at the reporting date. This provides a measure of the weekly value derived from PayPoint One and EPoS services from each PayPoint One site.

Strategic focus 1

Card payment net revenue

£7.9m
+5.5%

18/19	7.9
17/18	7.5
16/17	7.0

Description and purpose
Card payment net revenue represents the rebate earned from card transactions processed by retailers through PayPoint's card payment service. This is an important measure of the overall success of our card payment solution.

Strategic focus 1

ATM net revenue

£12.3m
-3.9%

18/19	12.3
17/18	12.8
16/17	13.1

Description and purpose
ATM net revenue represents the fees earned less the commissions paid to retailers from consumers using PayPoint's ATMs located inside a retailer's store. This is an important measure of the overall success of our ATM product. Fees are earned from either interchange fees (from free-to-use ATMs) or surcharge fees (from pay-to-use ATMs) from cash withdrawals and balance enquiries.

Strategic focus 1

Parcel sites

7,134
-4.1%

18/19	7,134
17/18	7,436
16/17	6,167

Description and purpose
The number, at the reporting date, of sites where the parcel proposition was enabled on PayPoint terminals. This currently represents the number of Collect+ branded sites. This provides an indication of the coverage of our network with a larger coverage being more attractive to clients and consumers wanting to use the product.

Strategic focus 2

Strategic focus

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

Parcels processed

21.8m

-8.0%

18/19	21.8
17/18	23.7
16/17	23.3

Description and purpose

The number of parcels processed and registered through a PayPoint terminal or mobile app. Parcel volume provides a measure of the source of revenue where revenue is earned on a per parcel basis.

Strategic focus 2

Transaction value

£9,237m

+0.4%

18/19	9,237
17/18	9,201
16/17	9,222

Description and purpose

The value of bill payment (including MultiPay), top-up and eMoney transactions processed via our terminals or MultiPay platform where PayPoint provides the collection and settlement of funds. Transaction value provides a measure of the extent of the service PayPoint provides to clients. In certain instances, it also provides a measure of the source of revenue where revenue is based on a percentage of the transaction value.

Strategic focus 3

Transactions processed

472.7m

-1.9%

18/19	472.7
17/18	482.1
16/17	499.4

Description and purpose

The number of bill payment (including MultiPay), top-up and eMoney transactions processed in the year on our terminals or MultiPay platform. Transactions processed provides a measure of the source of revenue which is earned on a per transaction basis.

Strategic focus 3

Non-financial

Employee turnover

25.9%

-0.9ppts

18/19	25.9
17/18	26.8
16/17	29.0

Description and purpose

The number of permanent employees who left during the year divided by average total permanent employees. Labour turnover provides an indication of employee job satisfaction.

Net revenue per transaction

16.4p

+3.3%

18/19	16.4
17/18	15.9
16/17	14.7

Description and purpose

The net revenue earned from bill payments (including MultiPay, excluding SPS), top-ups and eMoney divided by the annual number of transactions processed on our terminals and MultiPay platform. This provides an indication of profitability per transaction.

Strategic focus 3

Diluted earnings per share

64.8p

+3.3%

18/19	64.8
17/18	62.7
16/17	87.2

Description and purpose

Diluted earnings divided by the weighted average number of ordinary shares in issue during the year (including potentially dilutive ordinary shares). Earnings per share is a measure of the profit attributable to each share.

Dividends paid per share

82.9p

+1.2%

18/19	82.9
17/18	82.0
16/17	115.2

Description and purpose

Dividends (ordinary and additional) paid during the financial year divided by number of ordinary shares in issue at reporting date. Dividends paid per share provides a measure of the return to shareholders.

PayPoint sites

46,901

-5.5%

18/19	46,901
17/18	49,628
16/17	40,478

Description and purpose

The number, at reporting date, of retailer sites which have at least one PayPoint One or legacy terminal or PPoS terminal which is operational. This provides the extent of PayPoint's network in which PayPoint services are available to retailers, clients and consumers.

Financial review

Year ended 31 March (£m)	2019	2018	Change %
Net revenue			
UK retail services	**37.8**	37.7	0.4%
UK bill payments and top-ups	**64.9**	70.0	(7.3%)
Romania	**13.9**	11.9	16.8%
Total net revenue	**116.6**	119.6	(2.5%)
Costs	**62.8**	66.6	(5.7%)
Profit before exceptional items and tax	**53.8**	52.9	1.6%
Profit before tax	**54.7**	52.9	3.3%
Cash generation	**62.8**	67.9	(7.5%)
Net corporate cash	**3.5**	18.5	(81.3%)

Rachel Kentleton
Finance Director

"Underlying pre-tax profits grew by 11.3%"

Overview

Profit before exceptional items and tax of £53.8 million reflects headwinds of £5.2 million from the closure of the DWP SPS service and the renegotiation of the Yodel commercial arrangement. It also includes a one-off benefit from improved VAT recovery of £2.4 million. Excluding these items underlying pre-tax profits grew by 11.3%.[1]

Profit before tax of £54.7 million includes an exceptional item of £0.9 million relating to a provision release which was held against potential liabilities arising from the disposal of the PayByPhone business in the 2016/17 financial year. These are no longer considered probable and have been reported separately as an exceptional item to distinguish it from our underlying performance.

Net revenue decreased by £3.0 million to £116.6 million but reflects headwinds of £5.2 million as mentioned above. Underlying net revenue[2] which excludes these items increased by £2.2 million (2.0%) driven by growth in UK service fee revenue and Romania supported by a good performance in the UK bill payments and top-up businesses.

UK retail services delivered underlying net revenue growth of £1.1 million (3.2%) after adjusting the £1.0 million impact in the current year from the renegotiation of the Yodel commercial arrangement. The growth was from increased service fee revenue driven by the roll out of PayPoint One to a further 4,331 sites.

1. Refer to note 8 for a reconciliation to profit before tax.
2. Refer to note 4 for a reconciliation to underlying net revenue.

UK bill payments and top-up businesses delivered net revenue of £64.9 million (2018: £70.0 million), a decline of £5.1 million from the prior year, however this includes the £4.2 million impact from the closure of the DWP SPS service. Excluding this, underlying net revenue declined by 1.3% which was less than the 6.4% decline in transaction volumes. The anticipated decline in transaction volumes was mitigated by margin improvement driven by continued focus on adding new smaller clients with higher yields. The digital payments platform, MultiPay, continued to grow robustly, with transactions increasing by 40.7% to 27.3 million and eMoney transactions also increased by 0.8 million (or 11.4%) to 7.8 million.

In Romania transactions grew by 15.8 million (16.4%) to 112.2 million. The integration of Payzone continued to progress and is evidenced by the net revenue per transaction fee of 12.3 pence remaining flat despite including a full year of Payzone which historically had a much lower net revenue per transaction rate. Net revenue grew by 16.8% to £13.9 million (2018: £11.9 million). Payzone was acquired in October 2017 and therefore was included in the comparative figures for only six months.

Costs decreased by £3.8 million to £62.8 million which includes a £2.4 million (2018: £1.5 million) VAT benefit related to prior years. This benefit stems from the enhancement of VAT recovery and has an estimated ongoing benefit of £0.7 million. Depreciation and amortisation declined by £0.7 million as assets reached the end of their useful lives. Other cost reductions of £1.0 million were driven from sustainable efficiencies from the implementation of a new interactive voice response system, reorganisation to implement the agile development programme and bringing legacy terminal maintenance and repairs in-house. Underlying costs which exclude the VAT benefits declined by 4.2%.

Cash generation declined by £5.1 million to £62.8 million. As highlighted in last year's Annual Report, the 2017/18 year included a working capital timing benefit of £3.4 million reflecting VAT receipts from clients received in advance of the net payment to HMRC as a result of the tribunal ruling. In the current year a net payment of £2.1 million was made to the HMRC. Excluding this, working capital improved by £2.5 million driven by improved focus on debtor collections.

Net corporate cash declined by £15.0 million to £3.5 million as a result of the additional dividend programme. The financing facility of £75 million was unutilised at 31 March 2019, but was used during the year where borrowings peaked at £12 million.

Sector analysis

We have continued to evolve the disclosures this year with additional emphasis being placed on key drivers of business performance for each of our main operating sectors: namely, UK retail services, UK bill payments, UK top-ups and eMoney and our Romanian operations.

UK retail services

UK retail services are services PayPoint provides to retailers which form part of PayPoint's networks. Services include providing the PayPoint One platform (which has a basic till application), EPoS, ATMs, card payments, parcels, money transfer and SIMs.

Year ended 31 March	2019	2018[3]	Change %
Number of retailers	**17,608**	17,812	(1.1%)
PayPoint terminal sites (no.)			
PayPoint One[1]	**12,881**	8,550	50.7%
Legacy (T2)	**7,000**	11,980	(41.6%)
PPoS[2]	**8,554**	8,584	(0.3%)
Total sites	**28,435**	29,114	(2.3%)
Services in sites (no.)			
PayPoint One Base	**6,337**	3,718	66.9%
EPoS Core	**5,899**	4,678	28.9%
EPoS Pro	**645**	154	318.8%
Card payments	**9,796**	10,252	(4.4%)
ATMs	**3,827**	4,146	(7.7%)
Parcels	**7,134**	7,436	(4.1%)
Transactions (millions)			
Card payments	**113.5**	94.5	20.1%
ATMs	**42.1**	40.9	2.9%
Parcels	**21.8**	23.7	(8.0%)
PayPoint One average weekly service fee per site (£)	**15.1**	14.9	1.5%
Net revenue (£m)			
Service fees	**10.3**	7.7	33.6%
Card payments rebate	**7.9**	7.5	5.5%
ATM	**12.3**	12.8	(3.9%)
Parcels and other	**7.3**	9.7	(24.4%)
Total net revenue (£m)	**37.8**	37.7	0.4%

1. PayPoint One will replace the legacy terminal and is the platform from which we can grow our retail services by offering additional products and services.
2. PPoS is a plug-in device and virtual PayPoint terminal used on larger retailers' own EPoS systems who wish to use PayPoint services.
3. The 2018 figures included 450 Ireland sites.

As at 31 March 2019, PayPoint had a terminal in 28,435 UK sites, a reduction of 679 from 31 March 2018 reflecting the closure of the Ireland network which had 450 terminals on 31 March 2018. The PayPoint One roll-out continued resulting in PayPoint One sites increasing by 4,331 to 12,881 and, as a consequence, the number of UK sites with the legacy terminal reduced by 4,530 to 7,000. The sun-setting of the legacy terminal remains on track through specific geographical cohorts and a planned service fee increase for the legacy terminal early in 2020.

UK retail services underlying net revenue increased by £1.1 million 3.2% to £37.8 million excluding the impact of £1.0 million from the revised commercial terms with Yodel. As presented in the prior year, the net revenue of each of our key products is separately addressed below.

Service fees: This is a core growth area and consists of service fees from PayPoint One and our legacy terminal. As PayPoint One extends further into our existing network together with moving retailers up the EPoS value chain, service fees will become a significant revenue item. In the current year, service fee revenue increased by £2.6 million (33.6%) to £10.3 million driven by the additional 4,331 PayPoint One sites. The PayPoint One average weekly fee per site was broadly stable at £15. Retailers taking the Core version of the product represent 45.8% (2018: 54.7%) of all PayPoint One sites and the Pro version representing 5.0% (2018: 1.8%).

Financial review

continued

ATMs: Transactions increased by 2.9% to 42.1 million despite the overall decline experienced across the LINK network. This was achieved through optimisation of PayPoint's ATM network by relocating existing machines to better performing locations. ATM net revenue declined by £0.5 million (3.9%) due to the reduction of LINK's interchange fee and to a lesser extent by an increased share of non-surcharge machines from which there is a lower net revenue rate per transaction.

Card payment rebate: Card payment transaction volumes grew by 20.1% to 113.5 million, benefitting from the market trend of growing card payments, in particular contactless payments. Across our network 9,796 retailers were using the card payment solution, 456 sites lower than the prior year, driven by competitor activity in the convenience market. Net revenue increased by 5.5% to £7.9 million, with the increased number of transactions being offset by lower average transaction values due to the growth in contactless payments. PayPoint's revenue rebate is broadly based on a percentage of the transaction value processed.

Parcels and other: Parcel volumes declined by 8.0% to 21.8 million due to lower volumes from our incumbent partner. This was slightly offset by volumes from new parcel partners which joined the network in the second half of the year. The strategy to expand the parcel service to other partners was achieved by renegotiating Yodel's commercial arrangement which had £1.0 million net revenue impact in the current year. Other services provided include SIM sales, money transfer services and other ad hoc items. SIM sales continue to be affected by the overall decline in the mobile top-up market.

UK bill and general[1]

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

Year ended 31 March	**2019**	2018	Change %
Total transactions (millions)	**317.2**	334.2	(5.1%)
Of which: MultiPay transactions (millions)	**27.3**	19.4	40.7%
Transaction value (£m)	**6,390.2**	6,717.6	(4.9%)
Net revenue (£m)	**47.8**	52.3	(8.6%)
Net revenue per transaction (pence)[2]	**15.1**	14.4	4.7%

UK bill and general net revenue declined by 0.6% (£0.3 million) to £47.8 million excluding the impact of £4.2 million from the closure of the DWP SPS service. The impact of the 5.1% (17.0 million) decline in transaction volumes was offset by an improved mix of smaller but higher yielding clients which drove the net revenue per transaction up by 0.7 pence (4.7%). MultiPay continued to grow strongly, transactions increased by 7.9 million (40.7%) to 27.3 million and net revenue by 48.3% to £3.5 million.

UK top-ups and eMoney

Top-ups include transactions where consumers can top up their mobiles, prepaid debit cards and lottery tickets. This sector also includes eMoney transactions where PayPoint provides the physical network for consumers to convert cash into electronic funds with online organisations.

Year ended 31 March	**2019**	2018	Change %
Transactions (millions)	**44.5**	52.2	(14.8%)
Of which: eMoney transactions (millions)	**7.8**	7.0	11.4%
Transaction value (£m)	**607.0**	639.1	(5.0%)
Net revenue (£m)	**17.1**	17.7	(3.3%)
Net revenue per transaction (pence)	**38.7**	33.9	14.2%

UK top-ups continued to be affected by market trends whereby UK prepay mobile transactions are being displaced by direct debit pay monthly options. UK top-up transactions declined by 7.7 million to 44.5 million. The impact of the lower level of transactions on net revenue was offset by the increased average top-up transaction values and growth in eMoney transactions of 11.4%. eMoney transactions derive a substantially higher fee per transaction than traditional top-up transactions.

1. Ireland is included in the 2018 figures and in the 2019 figures up to 31 October 2018 when Ireland ceased operations.
2. Prior year net revenue per transaction excludes the impact of the £4.2 million from the closure of the SPS service. This revenue was not based on transaction levels.

Romania

The Romanian business comprises mainly of bill payments and top-ups operating on a similar basis to our UK business. Cash payment remains a mass market proposition in the country and is expected to be the dominant payment method for the medium term.

Year ended 31 March	2019	2018	Change %
PayPoint terminal sites (no.)	**18,466**	20,514	(10.0%)
Transaction value (£m)	**2,312**	1,913	20.9%
Transactions (millions)			
Bill payments	**99.1**	85.3	16.2%
Top-ups	**11.9**	10.4	14.4%
Other	**1.2**	0.7	71.4%
Total transactions	**112.2**	96.4	16.4%
Net revenue (£m)	**13.9**	11.9	16.8%
Net revenue per transaction (pence)	**12.3**	12.3	0.0%

Romania's transactions grew by 15.8 million (16.4%) to 112.2 million helped by the inclusion of Payzone for the full year. Payzone was acquired in October 2017 which added over 10,000 sites to the network. Romania's net revenue per transaction remained flat at 12.3 pence per transaction with the inherited lower per transaction rate from Payzone offset by the migration of 1,500 Payzone retailers onto the PayPoint platform where client rates are higher for bill payment and top-up transactions. Romania's reduced by 2,048 as part of management's focus to optimise the network by removing low-performing sites.

Costs

Year ended 31 March (£m)	2019	2018	Change %
Other costs of revenue	**9.0**	9.4	(4.6%)
Depreciation and amortisation	**9.8**	10.5	(7.3%)
Administrative costs	**43.8**	46.2	(4.8%)
Finance costs	**0.2**	0.5	(69.1%)
Total costs	**62.8**	66.6	(5.7%)
Add back VAT recovery benefit related to prior years	**2.4**	1.5	60.0%
Underlying costs	**65.2**	68.1	(4.2%)

Costs decreased by £3.8 million to £62.8 million. Key drivers to the decline include:

- £2.4 million (2018: £1.5 million) VAT benefit which stems from improved cost allocations when determining irrecoverable VAT
- £0.7 million ongoing benefit from the improved VAT recovery
- £0.7 million reduction in depreciation and amortisation as assets reached the end of their useful lives
- cost reductions of £1.0 million from sustainable efficiencies including:
  - the implementation of a new interactive voice response system
  - reorganisation to implement the agile development programme
  - bringing legacy terminal maintenance and repairs in-house
- other one-off cost reductions partially offset by including Payzone's overheads for a full year

Excluding the one-off impact from prior year VAT recoveries, underlying costs reduced by 4.2%.

Operating margin

Operating margin[2] of 46.3% (2018: 44.7%) improved by 1.6ppts and has benefitted from the £2.4 million prior year VAT benefit described earlier.

Profit before tax and taxation

The tax charge of £10.3 million (2018: £10.0 million) on profit before tax of £54.7 million (2018: £52.9 million) represents an effective tax rate[1] of 18.8%, 0.1% lower than prior year due to the non-taxable nature of the £0.9 million exceptional item. Excluding the exceptional item, the effective tax rate would have been 19.1%, slightly higher than prior year due to the tax deduction for vested share options being lower than the expense recognised in the statement of profit and loss and other non-deductible expenses.

Statement of financial position

Net assets of £50.2 million (2018: £61.3 million) declined by £11.1 million as a result of the additional dividend programme to return £25 million per year from December 2016 to December 2021 to shareholders. Current assets declined by £31.9 million to £176.6 million due to funds in the course of collection reducing by £22.4 million as prior year end fell over Easter weekend which added an extra two days of funds held by retailers. There is a corresponding decrease in trade and other payables. Non-current assets increased by £0.7 million to £54.9 million, with capital expenditure of £11.0 million largely offset by depreciation and amortisation of £9.8 million.

1. Effective tax rate is the tax cost as a percentage of profit before tax.
2. Operating margin % is an alternative performance measure and is calculated by dividing operating profit by net revenue.

Financial review
continued

Cash flow and liquidity
The following table summarises the cash flow movements during the year.

Year ended 31 March (£m)	2019	2018	Change %
Profit before tax	**54.7**	52.9	3.3%
Exceptional items	**(0.9)**	–	0.0%
Depreciation and amortisation	**9.8**	10.5	(6.7%)
VAT and other non-cash items	**(2.3)**	(0.1)	>100%
Share-based payments and other items	**1.1**	1.2	(8.3%)
Working capital changes (corporate)	**0.4**	3.4	(88.2%)
Cash generation	**62.8**	67.9	(7.4%)
Taxation payments	**(10.0)**	(10.3)	(2.9%)
Capital expenditure	**(11.0)**	(13.4)	(17.9%)
Acquisition of subsidiary	**–**	(0.9)	(100.0%)
Dividends paid	**(56.6)**	(55.9)	1.2%
Net decrease in corporate cash and cash equivalents	**(14.8)**	(12.6)	16.7%
Net change in clients' funds and retailer's deposits	**7.3**	5.4	22.2%
Net decrease in cash and cash equivalents	**(7.5)**	(7.2)	12.5%
Cash and cash equivalents at the beginning of year	**46.0**	53.1	(13.4%)
Effect of foreign exchange rate changes	**(1.0)**	0.1	(1100.0%)
Cash and cash equivalents at the end of year	**37.5**	46.0	(19.8%)
Comprising:			
Corporate cash	**3.5**	18.5	(80.5%)
Clients' funds and retailers' deposits	**34.0**	27.5	21.1%

Cash generation declined by £5.1 million to £62.8 million. As highlighted in last year's Annual Report, the 2017/18 year working capital movement included a timing benefit of £3.4 million, reflecting the temporary benefit from the VAT tribunal ruling where receipts from clients were received in advance of the net payment to HMRC. This was finalised in the current year with a net payment to the HMRC of £2.1 million. Excluding this, working capital improved by £2.5 million driven by improved focus on debtor collections.

Taxation payments of £10.0 million (2018: £10.3 million) represents payments on account and is in line with the current tax charge for the year. In 2019/20 tax payments will be c.£5 million higher due to HMRC bringing forward payments on account by six months.

Capital expenditure of £11.0 million (2018: £13.4 million) consists of PayPoint One terminals and EPoS and CRM development.

Net corporate cash declined by £15.0 million to £3.5 million at 31 March 2019. PayPoint also has a £75 million revolving credit facility which was unutilised at year end but was used during the year where borrowings peaked at £12 million.

Dividends

From 1 April 2019 a programme of four equal dividends payable in July, September, December and March was implemented. This change will not alter the quantum of dividend that will be paid to shareholders within a financial year, although does reduce the reported dividends for the current year.

Year ended 31 March	**2019**	2018	Change %
Ordinary dividends per share (pence)			
Interim (paid)	**15.6**	15.3	1.9%
Final (proposed)	**23.6**	30.6	(22.9%)
Additional dividend per share (pence)			
Interim (paid)	**12.2**	12.2	–
Final	**18.4**	24.4	(24.6%)
Total dividend per share (pence)	**69.8**	82.5	(15.4%)
Total dividends paid in year (£m)	**56.6**	55.9	1.2%

We have declared a final dividend of 23.6 pence per share payable in equal instalments of 11.8 pence per share on 29 July 2019 and 30 September 2019 to shareholders on the register on 28 June 2019 and 6 September 2019 respectively. The final dividend is subject to the approval of the shareholders at the annual general meeting on 25 July 2019. We have also declared the additional dividend of 18.4 pence per share payable in equal instalments of 9.2 pence per share on the same dates as the ordinary dividend.

The final dividends will result in £28.8 million being paid to shareholders from the standalone statement of financial position of the Company which, as at 31 March 2019, had approximately £79.8 million of distributable reserves.

An interim ordinary dividend of 15.6 pence and an additional interim ordinary dividend of 12.2 pence was paid on 11 January 2019.

Going concern

The financial statements have been prepared on a going concern basis having regard to the identified principal risks, uncertainties and viability statement on page 35. Our cash and borrowing capacity provides sufficient funds to meet the foreseeable needs of the Group including dividends.

Rachel Kentleton
Finance Director
22 May 2019

Strategy in action

Digital pay, any time, any place

MultiPay

Giving our clients the ability to serve their customers with a choice of payment channels is at the heart of our digital payments strategy. MultiPay is a one stop shop for organisations that want offer a robust, proven and flexible digital payments solution in the modern world.

Mark Anderson
MultiPay Product Manager

Strategic priority

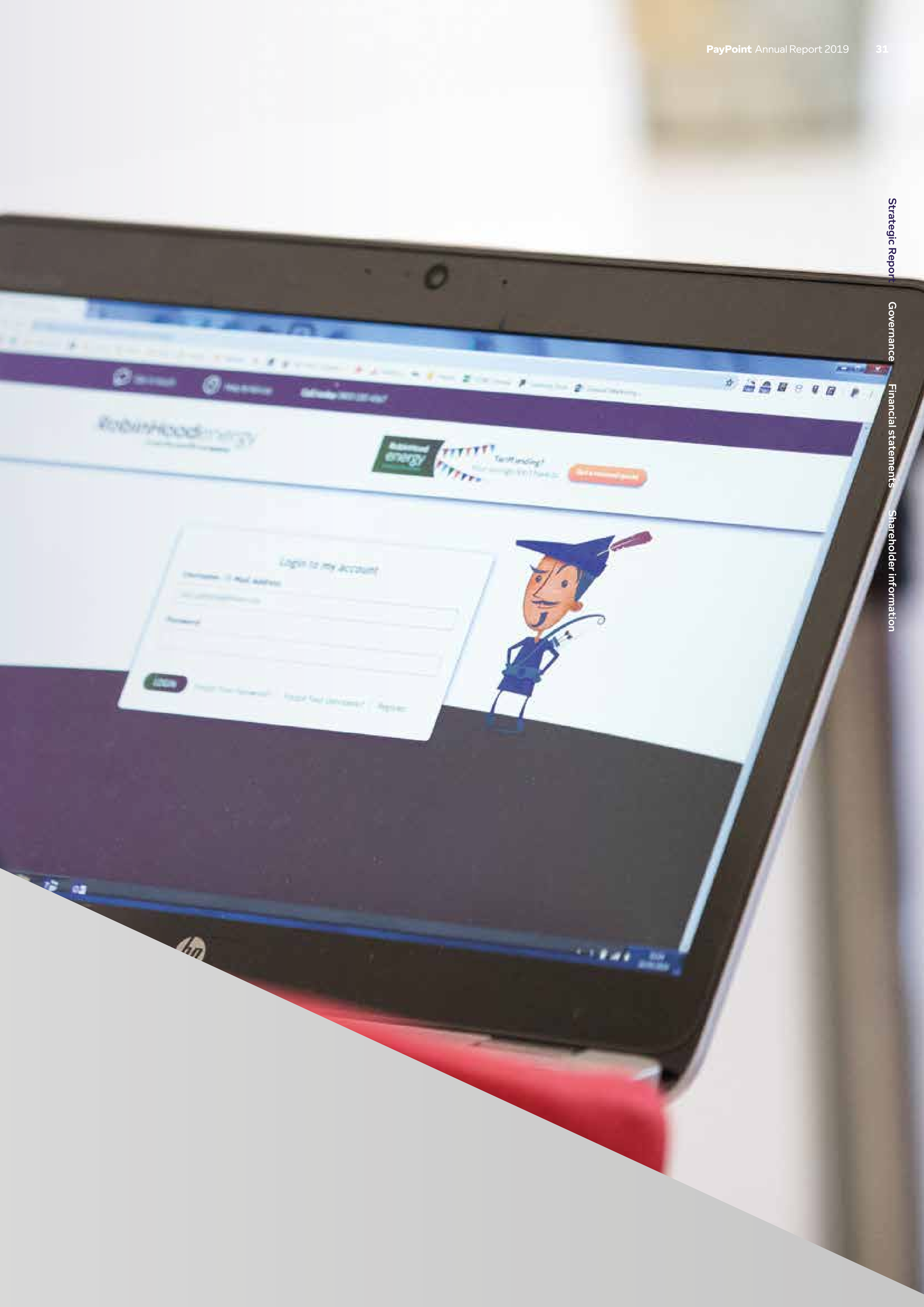
Sustain leadership in 'pay-as-you-go' and grow digital bill payments

As a challenger energy company, Robin Hood wanted to secure and increase their customer base rapidly. They were also moving customers to smart meters from traditional top-up meters. Smart meters provide the opportunity to move customers to different tariffs and offer a range of top-up options for pay-as-you-go customers.

PayPoint were the only provider who could support an integration to Robin Hood's smart meter operator and offer customers the choice to pay their bills online, by phone or in one of over 28,000 stores through their omnichannel payments solution, MultiPay. The solutions for Robin Hood included a white labelled payment webpage, automated telephone top-up and SMS channels.

MultiPay has given Robin Hood a full range of in-store and digital channels in a short space of time. Online top-ups have rapidly become very popular, with over half of energy tops-ups now taking place online. This has given Robin Hood, as a challenger energy company, the capability to come to market quickly with a smart prepayment solution. They are able to retain customers and grow their customer base in line with their business objectives.

Rob Purdon, Head of Contract Management, Robin Hood Energy said: "It was important that we were able to offer customers a number of top-up options to ensure inclusivity, from the more digital-savvy, through to vulnerable, unbanked consumers. PayPoint's MultiPay platform gave us a simple route to market that was well-integrated with the smart meter manufacturer of our choice, and provided a number of payment options to suit a range of customer types."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Principal risks and uncertainties

Strategy

Our formal approach to risk management is delivered through the application of PayPoint's risk management and internal control framework which is a defined process for identifying and escalating significant risks. It applies throughout the Group and the responsibility for oversight of the process rests with the Board. Consideration of appetite for risk forms part of the risk management process, in particular when deciding how best to manage the risks that are identified. Having a robust system of internal control using a combination of people, process and technology helps to mitigate risk to a level acceptable to the Board.

Risk appetite

The level of risk considered appropriate to achieving our business objectives is determined by the Board. PayPoint has no appetite for risk relating to the health, safety and welfare of employees, customers and the wider community.

There is a greater appetite for risk in relation to activities which are directed towards creating additional demand for our services to drive revenues and increase financial returns.

Risk identification and management

The risk management and internal control framework, as part of the wider governance framework, aims to provide assurance and confidence to stakeholders about PayPoint's ability to deliver its objectives and manage principal risks. During the year, the Audit Committee received and reviewed risk information relating to the key risk areas below, together with details of actions taken and relevant mitigating controls, prior to advising the Board in this regard. The Board then carried out its formal assessment and gave final approval to the list of principal risks which are as follows:

Key

- No change
- Increased likelihood
- Decreased likelihood

Risk area	Potential impact	Mitigation strategies
Business		
Innovation and market changes (No change)	The Group could fail to adapt to changes in consumer behaviour or to commercialise and develop innovation that is scalable and meets the requirements of clients and retailers. The inability to implement new products and services effectively may impact PayPoint's ability to drive growth and profitability.	The Group monitors technological and consumer trends through its monthly Strategy Committee and twice-yearly Board strategy reviews. The Group is committed to continued research and investment in technology and products to support its continued growth. Our product portfolio and the progress of new initiatives are reviewed at the monthly Product Committee that contains representatives from commercial, product, technology, finance and legal. PayPoint also has an active sales function and client teams which are incentivised to promote and sell PayPoint products and services in the regions in which PayPoint operates to expand its client and retailer base.
Culture (No change)	The strategic objectives and values of the Group are focused on retailer and consumer-centric products and services. If employees are not aligned with the strategic goals or empowered to realise opportunities, deliver performance or mitigate risks this could lead to poor service quality, a loss in revenue, increased cost or failure by employees to escalate concerns or issues to senior management and the Executive Board.	The PayPoint strategic objectives and values are defined and advocated by the Executive Board. These values are linked to strategic, team and individual employee objectives and performance appraisals. The Group's ethical principles are published on its website and intranet. A whistleblowing policy and procedures are published and a third-party service is available for employees to report wrongdoing. The Retailer Pledge is published and all employees made aware of its requirements. Retailer and employee engagement surveys are used to measure satisfaction and identify areas of concern.

Risk area	Potential impact	Mitigation strategies
Dependence on key clients and retailers	The consolidation or loss of major clients or multiple retailers could adversely affect revenue. Insolvency, liquidation, administration or receivership of retailers could lead to PayPoint being unable to recover some or all the client monies processed by the retailer. PayPoint would be liable to account to those clients where PayPoint bears the risk of collection.	The Group monitors client and retailer concentration risk to ensure that no one client or retailer accounts for a disproportionate share of the Group's net revenue. In addition, the Group continues to acquire new clients and retailers to reduce reliance on existing sources of revenue. All major clients are covered by specific contracts or agreements. Contract end dates and start of notice periods are scheduled and regularly reviewed by client management teams. Retail teams maintain and develop the relationship with retailers.
Competitor activity	Competitor activity in the market continues to evolve. There is, however, no evidence of an any increased impact to PayPoint from clients and retailers switching to competitors.	Where there is concern that the competitor activity may be unlawful then PayPoint will challenge this through the Competition and Markets Authority. Appropriate terms are included in client and retailer contracts. PayPoint offers products and services not available from competitors. Retailer engagement surveys are used to measure satisfaction and identify areas of concern.
Partners and suppliers	Reliance on third parties for the provision of key parts of the PayPoint services (e.g. payment service providers) could lead to extended outages if the supplier fails to meet required SLAs or goes into administration.	The Group selects and negotiates agreements with strategic suppliers and partners 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. Suppliers are selected on merit following tendering, procurement and due diligence processes.
Interruptions in processes and 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.	Resilience is built into systems and contingency plans are in place should systems fail. These plans are exercised regularly. Programmes are in place to remove technical debt and to automate manual processes. Payment files are automatically imported into settlement systems. All payments are checked/ authorised by nominated signatories. Segregation is maintained between settlement and corporate accounts. Invoices are recorded and approved by authorised managers. Daily reconciliation of client settlement accounts and weekly reconciliation of PayPoint corporate accounts are carried out. Audited controls for supplier and client account set-up are in place. A programme is in place to upgrade PayPoint's financial and back office systems.

Principal risks and uncertainties

continued

Risk area	Potential impact	Mitigation strategies
Operational		
Legislation or regulatory reforms and risk of non-compliance	PayPoint is required to comply with relevant legal and regulatory requirements. Any breach of these obligations could lead to costly and damaging legal or corrective actions to return to compliance, e.g. Health & Safety at Work Act, Data Protection Act/ GDPR, Financial Conduct Authority listing rules and requirements, anti-money laundering legislation, employment law. It could also lead to the prosecution of individual company officers or employees.	The Group's legal department works closely with senior managers to adopt strategies to educate legislature, regulators, consumer and privacy advocates and other stakeholders to support the public policy debate, where appropriate, to ensure regulation does not have unintended consequences on the Group's services. A central compliance department co-ordinates all compliance monitoring and reporting. Subsidiary managing and finance directors are required to sign annual compliance statements.
Cyber security, data protection, resilience and business continuity	System or network interruptions, recovery from fraud or cyber security incidents or poorly implemented change could delay and disrupt our ability to develop, deliver or maintain our products and services, causing harm to our business and reputation and resulting in loss of customers or revenue. PayPoint's ability to provide reliable and secure services largely depends on the availability and uninterrupted operation of its network of retailer terminals, computer systems, financial settlement and key business processes. Due to the heightened activity in the external environment the level of risk has been increased.	PayPoint has established a Cyber Security and IT Sub-Committee to oversee cybersecurity and information technology matters pertaining to PayPoint. Service delivery is constantly monitored with technical support teams in place to address service outages or errors. Contact Centre, Service Management and Technical Services Helpdesk are in place to assist with and resolve issues. Client Management and Retail Management teams are in place to interface with clients and retailers. Resilient systems are in place across the Group. Disaster recovery and business continuity plans are maintained and exercised regularly to ensure contingencies are in place in the case of failure.
Attracting and retaining key talent	Future success is substantially dependent on the continued services and performance of Executive Directors, senior management, competent and qualified personnel. The failure to attract the right candidates, loss of key personnel or failure to adequately train employees could damage the Group's business or lead to non-compliance with legal and regulatory requirements.	Effective recruitment programmes are ongoing across all business areas, as well as personal and career development initiatives. The executive management reviews talent potential twice a year and retention plans are put in place for individuals identified at risk of leaving. Compensation and benefits programmes are competitive and reviewed regularly.
Brexit	The effect on inter-company relationships 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.	PayPoint has carried out an assessment of the impact of a no-deal Brexit scenario and identified key risks to its operating model. Whilst no business can mitigate against the impact of Brexit, actions to reduce disruption in the short term are in place including building a buffer stock of PayPoint One terminals, maximising intercompany dividends and engaging with clients and suppliers determining their own readiness and impact assessments.

Viability and going concern statements

As part of the risk monitoring programme, each year the Directors consider the Group's viability over a three-year period.

This aligns with the financial planning cycle which, considering the dynamics of the markets in which the business operates, is an appropriate time horizon to use. The viability assessment includes consideration of the principal risks, including those that would threaten its business model, future performance, solvency and liquidity.

The business activities, its performance and future development are set out in the strategic framework on pages 10 to 13.

Market conditions are described on page 6. These, together with the assessment of principal risks set out on pages 32 to 34, are considered in determining PayPoint's viability which is based on business plans with several different, but plausible, principal risks crystallising. These include:

- business risk: the loss of large clients and retailers
- business risk: slower than anticipated growth in retail services and a quicker than expected decline in the cash payments business
- operational risk: impact of a technical event resulting in the temporary disturbance of usual operations
- financial risk: impact on cash or financing facilities as a result of viability assessment scenario
- possible impact from Brexit

In making the assessment, the Directors have also considered PayPoint's robust capital position, its cash-generative nature and mitigating actions in the unlikely event the described scenario materialises.

From this assessment, the Directors have concluded PayPoint will remain a viable operation over the assessment period and have therefore prepared the financial statements on a going concern basis.

Purpose and values

Our values
Our six values reinforce our purpose and are at the core of our culture.

Accountable
Customer focused
Ambitious
Enquiring
Team player
Passionate

We actively engage with our people to bring the values to life in the work that we do. Customer focus continues to be a priority and this year we have implemented an enhanced 90 day induction programme and regular industry briefings in order to ensure consistent and up-to-date knowledge of our customers and the markets in which they operate.

Our values are incorporated into our recruitment and induction processes, and demonstration of the values forms a key element of our bi-annual performance reviews. People who role model our values are recognised via our annual awards event and monthly values award programme.

Value award winner: Team Player
The Parcels team were the winners of the Team award at our annual awards event. This award recognises teams who listen, understand and support each other to deliver success. The team work to support each other while keeping business objectives in sight, resulting in improved performance during the incredibly busy peak period and onboarding eBay as a new partner. In addition to this they have won the Christmas decorations competition two years in a row and took part in a Muddy Mayhem 5km to raise money for charities close to their hearts. It is no surprise that this team has some of the highest engagement scores in the entire Company.

Value award winner: Ambitious
Heather won the Ambitious award at our annual awards event. This award recognises people who innovate, drive results, are bold and deliver positive change. Heather is a Team Leader in our Retail Operations team and since being promoted into the role earlier in the year she has focused on improving the productivity of the team, ensuring that retailer contracts are checked thoroughly and processed efficiently. Heather is incredibly hard working and drives the team to reach its full potential, encouraging them to find new methods to solve problems. She is looking forward to the introduction of Salesforce in the near future to help drive further efficiencies and knowhow.

WE EXIST TO HELP MAKE A POSITIVE DIFFERENCE TO PEOPLE'S LIVES

OUR PURPOSE FORMS THE FOUNDATIONS THAT GUIDE US IN THE WAY WE WORK WITH ALL OF OUR STAKEHOLDERS

Case study: **Our Purpose**

During the first half of the year, with the help of BluePrint for Business, the whole PayPoint team defined its organisational purpose as: **'We exist to help make a positive difference to people's lives'**.

This is done through:

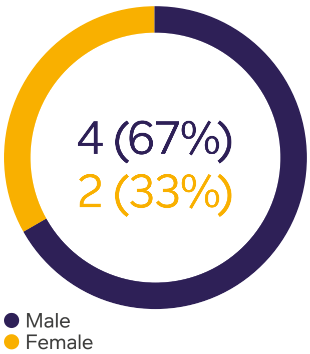
- bringing together consumers, local retailers, big businesses and government
- using smart technology to create services that people love
- balancing the needs of every customer served to ensure success for all
- being there whenever and wherever customers need us
- offering a supportive, fulfilling place to work for our people

We engaged all our UK employees in the development of our Purpose at an offsite event. Our Purpose forms the foundations that guide us in the way we work with all of our stakeholders, including our people, and underpins our retailer pledge.

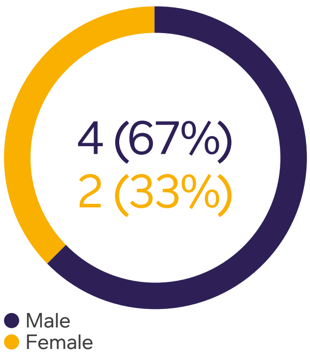
People and culture

Gender balance

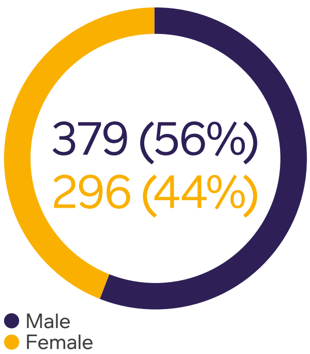
Board



Senior management[1]



All employees



Our employees

PayPoint employed, on average, 675 members of staff during the period. We aim to create a positive working environment that enables us to attract and retain a talented workforce. We recruit externally from a wide range of industries and we welcomed over 200 new starters to the business during the year. Employee turnover in the UK continued to decrease year on year with voluntary turnover falling to 15%. Total turnover in the UK was 22%, reflecting restructuring undertaken in our technology function to deliver faster, more agile and efficient ways of working. Turnover in Romania fell during the year from 47% to 44% but remained higher than we would like, reflecting local market conditions and the ongoing integration of the Payzone business. Actions are being taken to improve retention in Romania with a focus on team building and training.

Engaging our people

We are encouraged that 91% of our people responded to our latest engagement survey in December 2018. This was our first survey with a new provider which has resulted in additional insights into the drivers of engagement at PayPoint that we are using to inform our action plans. Our overall engagement score was 71% which is broadly in line with the external benchmark of our new provider. Our engagement priorities are focused on customer, collaboration and decision making and we are transitioning to quarterly surveys in order to measure progress more frequently.

We keep our people informed of Company performance and new developments through different channels including formal business updates, staff briefings and regular team meetings. All employees are invited to participate in two meetings a year where the Directors present the performance of the Group.

This year we have established an employee forum to provide a communication platform for consultation on relevant business related issues and selected Board matters. The forum is attended by functional employee representatives who have been elected by their colleagues in the UK business, the HR Director and Gill Barr, who represents the Board. Three formal meetings have been held so far and the forum collaborate informally in between meetings. The engagement survey has been a key focus area for the forum, who were involved in selecting the new provider, discussing the results and contributing ideas for consideration in the development of the UK action plan.

We operate a Share Incentive Plan to enable all UK employees to share in the success of the Company. 45% of employees actively participate in this plan, an increase from 43% in the prior year.

Diversity

PayPoint values diversity and it is important to us that our working environment is one where all are treated equally and which is free from discrimination in respect of gender, ethnicity, religion, sexual orientation, age or disability. We are committed to offering equal opportunities to all our people. Our Diversity and Inclusion Policy can be found on our website.[2]

The overall gender balance across all employees within the business on 31 March 2019 was 44% female and 56% male. Female representation on the Executive Board is 43%.

WE ARE COMMITTED TO OFFERING EQUAL OPPORTUNITIES TO ALL OUR PEOPLE

We published our second gender pay report in March which can be found on our website[3] and we have implemented a number of actions to support diversity including:

- launching our 'Working for Everyone' policy to promote flexible working
- updating our careers website to highlight the diversity of people already working for us
- offering work experience to an equal mix of male and female students
- introducing the 'Neil Swan Development Fund' to support the development of IT skills of employees who wish to progress to a role within the IT function. The initial award was made to a female employee

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.

Wellbeing
We have implemented a number of improvements during the year in order to support the wellbeing of our people. This includes investment in upgrading our buildings in Welwyn Garden City to provide better facilities, including quiet spaces and the gym. We have also improved our support for mental health by training 12 mental health first aiders. We promote mental health awareness through supporting stress awareness and providing weekly yoga and meditation sessions, which are available free of charge to our employees in Welwyn Garden City.

> WE AIM TO CREATE A POSITIVE WORKING ENVIRONMENT THAT ENABLES US TO ATTRACT AND RETAIN A TALENTED WORKFORCE

People development
We are committed to supporting the development of our people, and during the year, 25% of our UK vacancies were filled with internal candidates. This year we have invested heavily in management training, supplementing our existing management development offering with the introduction of management apprenticeships spanning multiple career levels including aspiring manager, experienced manager and MBA. In total we have supported over 40 employees to study via apprenticeship programmes during the course of the year.

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.

1. Senior management includes the Executive Board and Managing Director, PayPoint Romania.
2. https://corporate.paypoint.com/investor-centre/corporate
3. https://corporate.paypoint.com/investor-centre/csr/about-our-people

The Neil Swan Development Fund

The Neil Swan Development Fund has been set up in memory of our dear friend and colleague Neil Swan who sadly passed away in 2018. Neil worked at PayPoint for over 18 years and was passionate about development, helping lots of people get into IT. The fund is designed for people who do not currently work within IT, to develop their skills and help them on their way to pursue an IT career.

We were delighted to make our first award to Srilakshmi Chunduri who works in our Parcel team and is being supported to undertake the certifications required in order to support her desire to pursue a career in testing.

Responsible business

Our purpose (outlined on page 37) forms the foundations that guide us in the way we conduct our business and work with our stakeholders.

OUR SUCCESS IS BUILT ON A REPUTATION FOR HIGH STANDARDS IN ALL AREAS OF BUSINESS

In addition to our people, our key stakeholders are our retailers and consumers, our clients, our shareholders and the community.

To ensure that our business is run responsibly we review our practices against the 'Five Principles of a Purpose Driven Business' set out by Blueprint for Business:[1]

1. Has a purpose which delivers long-term sustainable performance

Our purpose helps us to ensure that we consider the impact of our business on all of our stakeholders so that we can both truly serve society and generate a sustainable return for our shareholders.

We had 627 shareholders as at 31 March 2019. We publish results twice each year and provide two interim management statements, complying with reporting and disclosure obligations. Shareholders are invited to attend the annual general meeting and Executive Directors meet with major shareholders twice a year to discuss the Group's results. We make webcasts of presentations available on our website and we are planning a presentation of our 2018/19 results to a ShareSoc meeting in order to improve our outreach to private shareholders. In addition to this, we regularly invite existing and prospective shareholders to our offices in Welwyn Garden City.

2. Honest and fair with customers and suppliers

Our success is built on a reputation for high standards in all areas of business which we achieve by working in accordance with our ethical principles. These principles apply throughout the PayPoint group of companies and are used to define the standards and working practices that we adopt.

1. https://www.blueprintforbusiness.org/
2. https://corporate.paypoint.com/investor-centre/corporate

They guide our day to-day actions and give employees clarity on acceptable behaviour. Our statement on ethical principles can be found on our website[2]. We operate an anti-bribery and corruption policy which was put in place in response to the UK Bribery Act 2010. Further information regarding this can be found on page 64 in the audit report.

Our retailer partners

We have approximately 47,000 PayPoint sites in the UK and Romania to whom we provide retail products and services, and who in turn provide services to millions of consumers.

We seek to provide an unparalleled service which is achieved by the use of leading, highly reliable technology and the broad range of services to help retailers run their businesses more efficiently as well as generating consumer footfall from the communities they serve.

In the UK, terminal availability is over 99% and when a terminal needs to be replaced, it is achieved within four hours across the UK in 98% of cases. The breadth of products offered by PayPoint is greater than any other network.

Our commitment to our retailer partners has been articulated in the following public pledge:

- listen and communicate openly with you
- support you and deliver excellent service
- always innovate to improve our products and services
- champion the importance of convenience retailers

Measuring customer satisfaction and using the insights to deliver tangible improvements is a fundamental part of our culture and business DNA. We carry out regular surveys with our retailer partners, via a third party to understand how we can improve our service and three times a year we hold a retailer forum, comprised of ten leading retailers from our network, to discuss progress, get feedback and work collaboratively to improve the customer experience in-store. These two-way sessions encourage collective feedback between PayPoint and the retailer representatives to identify improvement opportunities with the aim of ultimately improving the service we provide. To supplement these forums, we also engage regularly with retailers via the leading trade associations, the Association of Convenience Stores (ACS) and the National Federation of Retail Newsagents (NFRN) to ensure that we are helping them deliver the best possible experience. PayPoint One retailers are offered ACS membership, giving them access to industry-leading events, advice and networking. Major multiple retailers have regular review meetings with dedicated account managers.

Our consumers
Open early until late seven days a week, we serve millions of consumers every day, helping them to make payments and collect parcels conveniently through our retail network and omnichannel payments solutions.

Our MultiPay platform is designed to provide a simpler and more convenient way for consumers to pay and top up their prepayment meters. We were the first company to successfully generate Unique Transaction Reference Numbers (UTRNs) – which enable top-ups for gas and electricity on SMETS2 smart meters, and are uniquely able to provide customers with complete flexibility to choose to pay using whichever method is most convenient for them.

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

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

We set 21 new clients live in the UK during the reporting period including Monzo, Anglian Water, Arriva and Brighthouse. Monzo is our first major challenger bank client, using our physical capabilities to supplement their digital offering. Anglian Water was an important client to gain for our retailer partners in the Anglian region.

We continue to have a dedicated Client Management team, enhancing our engagement with clients to ensure we are able to align our strategy and roadmaps to the needs of the clients we partner with.

3. A good citizen
Our convenience retail network places us at the heart of local communities, supporting our retail partners to offer a strong portfolio of services to their customers. Our cash bill payment solutions enable less privileged people to access services that may otherwise be unavailable to them, and 86% of our ATM network is 'speech-enabled', the largest proportion of an independent network in the UK.

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

We offer our network to collect for the BBC's Children in Need telethon free of charge.

4. A responsible and responsive employer
Information about our employment practices can be found in the people and culture section on page 38.

5. A guardian for future generations
We are committed to supporting young people in our community and we work as an Enterprise Advisor to a local secondary school, supporting their students with the transition from school to the workplace. During the year we supported a number of activities including careers fairs, work shadowing placements and funding a skills website to help students gain and improve key skills that will help them get ready for the world of work.

£26,000
Donated to local charities

Charity Committee
PayPoint has a Charity Committee made up of employee volunteers which leads and provides support to fundraising activities carried out by our employees for charities which are important to them. During the year, the Committee donated £26,000 to 26 local and national charities, of which £14,000 was funded by the Company.

Charity firewalk
On a cold, dark night in October, 38 brave PayPoint people dared to do the impossible and walk on fire to raise money for Isabel Hospice, a charity that supports the local community in East Hertfordshire. It was an incredible experience for all involved and the team raised an amazing £6,000 via sponsorship, a bake sale and cake auction.

Responsible business
continued

WE HAVE A CYCLE TO WORK AND A CAR SHARE SCHEME TO ENCOURAGE LESS MOTOR VEHICLES

Environment

PayPoint's main impact on the environment stems from our use of resources to run offices in the UK, Ireland[1] and Romania and our communications with our retailers.

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

The two primary sources of PayPoint's carbon emissions are energy consumption and business travel. We visit existing and prospective retailers in the UK and Romania. Routes are pre-planned to ensure efficiency where possible. Management regularly visits our businesses to review and improve performance but aims to avoid unnecessary travel. Energy consumption arises from our offices in the UK and Romania. We have a cycle to work and a car share scheme to encourage less motor vehicles and we encourage electronic documents to reduce unnecessary printing, including our Board papers. PayPoint's services help consumers to reduce the number of unnecessary car journeys through the convenience of our outlets which are usually available within a short walking distance.

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

We have also improved our approach to waste management with the following initiatives now in place:

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

We continue to promote and recycle wherever possible and we are currently looking into ways to reduce our print volumes even more.

1. For the period until our Ireland office closed in October 2018.

GHG emissions and waste

In this section we report on all required greenhouse gas (GHG) emissions in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The new Streamlined Energy & Carbon Reporting (SECR) regulations came into effect on 1 April 2019 and we follow the guidelines to comply with these new regulations.

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 streamlined energy and carbon reporting guidance' (March 2019) 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. Using the latest UK Government GHG Conversion Factors, PayPoint's Global GHG emissions in the year decreased to 1,805 tCO_2 from 1,884 tCO_2 in 2017/18.

We are pleased to report that our overall waste tonnage has reduced and the percentage of waste that is recycled has increased as a result of internal initiatives to reduce waste and to improve our ratio of recycled waste to landfill.

The Strategic Report on pages 1 to 43 is approved by the Board of Directors and signed on behalf of the Board.

Patrick Headon
CEO
22 May 2019

	Units	**Year ended 31 March 2019**	Year ended 31 March 2018
Scope 1 (direct emissions from fuel combustion)	tonnes CO_2e	**329**	435
Scope 2 (indirect emissions from purchased electricity, heat and cooling)	tonnes CO_2e	**1,044**	922
Scope 3 (business travel, waste[1] and water)	tonnes CO_2e	**432**	527
Total		**1,805**	1,884
Intensity measurement: Total tonnes of CO_2e per employee[2]		**2.6**	3.0

1. Includes waste from UK and Ireland. Romania does not track waste.
2. We have used the average number of employees to calculate our intensity measure as most of our emissions are directly related to business travel and energy consumption at our head office locations.

Waste	**Year ended 31 March 2019 (tonnes)**	Year ended 31 March 2018 (tonnes)
Landfill	**16.7**	21.6
Recycled	**19.0**	21.1
Total	**35.7**	42.7
% recycled	**53.2%**	49.5%

Non-financial reporting statement

The Companies Act 2006 requires the Company to disclose certain non-financial reporting information within the Annual Report and accounts.

Accordingly, the disclosures required in the Company's non-financial information statement can be found on the following pages in the Strategic Report (or are incorporated into the Strategic Report by reference for these purposes from the pages noted):

Board of Directors

Nick Wiles
Non-Executive Chairman

Appointed to the Board
22 October 2009
Appointed as Chairman
8 May 2015

Experience
Nick retired as chairman of UK investment banking at Nomura in 2012 after more than 25 years in investment management and banking.

His career started as an analyst and fund manager at Mercury Asset Management before moving to Cazenove, where he spent the majority of his career and was a partner prior to incorporation and a vice chairman of JP Morgan Cazenove. He was a non-executive director of Strutt & Parker from 2003-2014, and was, until recently, the senior independent director at Primary Health Properties plc, prior to its merger with MedX plc. He is also a steward of the HPA and chairman of its commercial activities.

Key skills and competencies
Investment Banking, Corporate Finance, Equity Markets, Investor Sentiment and Relations

Committee memberships
Nomination (Chair); Remuneration

Gill Barr
Independent Non-Executive Director

Appointed 1 June 2015

Experience
Gill has held senior strategy, marketing and business development positions at John Lewis, Kingfisher, MasterCard and KPMG.

Most recently she was group marketing director for The Co-operative Group. She was a non-executive director of Morgan Sindall plc for eight years and now has a portfolio of non-executive directorships. She is a non-executive director on the boards of McCarthy & Stone plc, N Brown Group plc and Wincanton plc where she chairs their respective remuneration committees. She is the chair of the Customer Challenge Group for Severn Trent Water plc.

Key skills and competencies
Marketing, Strategy, Retail

Committee memberships
Audit; Nomination; Remuneration

Giles Kerr
Senior Independent Director

Appointed 20 November 2015

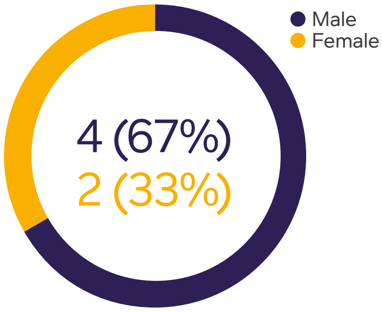
Experience
Giles was formerly national partner with Arthur Anderson & Co and previously held a number of positions with Amersham plc within finance and corporate development, culminating in his role as group finance director and board member.

Giles was a non-executive director of BTG plc and director of finance of Oxford University. He is a non-executive director of Senior plc, Abcam plc, Adaptimmune Therapeutics plc and Arix Bioscience plc.

Key skills and competencies
Corporate Finance, Accounting, Risk Management

Committee memberships
Audit (Chair); Nomination; Remuneration; Cyber Security & Information Technology

Gender of the Board



Rakesh Sharma OBE CPhys FREng MinstP
Independent Non-Executive Director

Appointed 12 May 2017

Experience
Rakesh started his career as an electronic design engineer at Marconi in 1983, having read physics at university, before moving to Dowty as chief engineer in 1989.

He was appointed marketing director, having gained an EMBA, of that business in 1993, when Ultra Electronics (Ultra) was formed. Rakesh managed businesses and divisions across the full range of Ultra's wide portfolio, becoming Chief Executive in 2011, a position which he held until 2017.

He is also the non-executive chairman of a private company Holmes Noble. Rakesh supports the younger generation in his pro bono activities being a director of a Multi Academy Trust and chair of the governing board for RiverBank Academy, a special educational needs school. In addition, Rakesh mentors young start-ups and he is a motivational speaker, working regularly with SEO, a registered charity helping socio-economically disadvantaged young adults.

Key skills and competencies
Cyber Security & Information Technology, Executive Management

Committee memberships
Audit; Nomination; Remuneration (Chair); Cyber Security & Information Technology

Patrick Headon
Chief Executive

Appointed 1 April 2019

Experience
Patrick joined PayPoint on 1 March 2019 and was appointed as a Director of the Board and Chief Executive on 1 April 2019.

Patrick is an experienced senior executive with extensive general management experience in consumer goods, e-commerce and B2B wholesales. His previous roles include managing director of Wolseley UK, business development director at eBay International, and managing director, Central & Eastern Europe at Diageo.

Key skills and competencies
Business Development, eCommerce, Operational Management

Committee memberships
Market Disclosure

Rachel Kentleton
Finance Director

Appointed 3 January 2017

Experience
Rachel is a qualified accountant and has held a number of finance roles at Unilever, NatWest, Diageo and SABMiller.

Prior to joining PayPoint, Rachel was group director, strategy & implementation at easyJet and a member of the airline management board. Rachel is also a non-executive director of Persimmon plc, where she is chair of the audit committee and a member of the risk, remuneration and the nomination committees.

Key skills and competencies
Finance, Strategy, Investor Relations, Risk Management

Committee memberships
Market Disclosure; Cyber Security & Information Technology

Leadership team

Patrick Headon
Chief Executive

See **Board of Directors** for biographies.

Rachel Kentleton
Finance Director

See **Board of Directors** for biographies.

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.

Jon Marchant
Chief Information Officer

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

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.

Lewis Alcraft
Chief Commercial Officer

Lewis was appointed to his current role of Chief Commercial Officer in 2019 and leads PayPoint's commercial strategy development and execution. From 2015, he was Commercial Director leading 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.

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 18,000 stores across Romania, as well as transaction growth from over one million in 2008/2009 to 100 million in 2018/2019 after the acquisition of Payzone, the main competitor.

Mugur previously held senior management roles in sales and marketing for Nestle and Rhone Poulenc. 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.

Tim Watkin-Rees
Founder

Tim was one of the founding Directors of PayPoint and was responsible for Group business development until March 2018, when he stood down from the plc Board. 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.

Chairman's introduction

Dear Shareholder,
I am pleased to present the Corporate Governance Report of PayPoint plc for the year ended 31 March 2019. The report sets out details of the Board's composition, its corporate governance arrangements and activities during the year, including reports on the activities of the Board Committees.

Overview

In fulfilling its role as the effective head of PayPoint, the Board continues to maintain critical oversight of the operational management of the organisation by ensuring that the right governance procedures are in place for delivery of the strategy. Accordingly, the Board held two strategy sessions during the year, in September 2018 and February 2019, at which presentations were led by the Executive Board, and the challenges and progresses of the various business functions were considered in depth by the Board. Further details of these strategy sessions are on page 51.

Governance highlights

I can confirm that the Board was in full compliance with the requirements of the Financial Reporting Council's (FRC) 2016 UK Corporate Governance Code (the Code) which was applicable to the Board for the year under review.

The Board welcomed the publication of the FRC's new 2018 UK Corporate Governance Code (new Code) as well as The Companies (Miscellaneous Reporting) Regulations 2018 (the Regulations) and we are supportive of the corporate governance reforms therein. These reforms became effective for the Company on 1 April 2019. As a result, the Board reviewed existing governance practices and identified areas of alignment with the reforms and areas for improvements, to ensure compliance with the new Code and the Regulations. My tenure as Chairman is dealt with later on in this report. We will report on compliance with the new Code and the Regulations in the next Annual Report, however the following are some of the significant areas where existing practices are in alignment with the new Code and the Regulations:

- as was reported in the 2018 Annual Report, the Board established an employee forum to facilitate employee engagement by providing a communication platform or consultation on relevant business related issues. Gill Barr, independent Non-Executive Director, is the appointed Board representative who sits on the forum and reports back to the Board. Further details on employee forum activities are on page 38
- the Board resolved to hold an additional Board meeting in January each year at which matters relating to culture and values, employee and wider stakeholder engagement, would be considered. The first of such meetings was held in January 2019, at which the Board also reviewed and formally adopted the Company's purpose

The Board takes the issue of diversity and inclusion very seriously and remains focused on maintaining a diverse and inclusive culture on the Board and across the organisation. To this end, the Board adopted a refreshed diversity and inclusion policy at its meeting in September 2018, which set out the Board objectives on diversity and delegated authority to the Nomination Committee to implement the policy and monitor progress against it. Further information on Board diversity and inclusion is in the Nomination Committee Report on page 58.

Giles Kerr, Senior Independent Director, led an internal Board effectiveness evaluation exercise. The overall outcome of this exercise was positive and a report on the evaluation is on page 55.

The Board continues to strive for meaningful engagement with shareholders and other stakeholders, and in accordance with the requirements of the new Code, the Board will continue to take shareholder and other stakeholder views into account in the Board decision-making process.

Appointment of a new Chief Executive

After 21 years leading PayPoint, Dominic Taylor stepped down from his role as Chief Executive and Director of the Board with effect from 1 April 2019. Dominic has been an outstanding leader of the business during his time as Chief Executive. With the support of a strong team, he built the business into a leading bill payments and retail services provider in the UK and Romania and made significant progress against our strategy of embedding PayPoint at the heart of convenience retailing. On behalf of the Board and the shareholders, I thank Dominic for his enormous contribution. In order to ensure a thorough transition Dominic will remain an employee of the Company until 31 December 2019.

The Board was delighted to welcome Patrick Headon as successor to Dominic Taylor. Patrick joined PayPoint on 1 March 2019 and the Board on 1 April 2019. Patrick is a highly experienced senior executive, with extensive relevant experience in FMCG, digital and B2B services.

Further details on the appointment process for the new Chief Executive are on page 57.

There has been no change in Non-Executive Directors during the year. The Nominations Committee keeps under review the balance of skills and experience required from the Non-Executive Directors and the composition of the Board and its diversity will remain areas of focus in the coming year.

Board Committees

The Board delegates certain roles and responsibilities to Committees of the Board as defined in their terms of reference, whilst retaining overall responsibility. This governance structure enables a deeper level of insight into relevant matters by the Committees, before reporting back on outcomes to the Board. During the year, in carrying out their duties and responsibilities the Committees have worked to ensure compliance with the Code and corporate governance regulations. In light of the reforms under the new Code and the Regulations, each of the Committee's terms of reference have been reviewed and appropriately updated. The Reports of the Nomination Committee and the Audit Committee are incorporated in this Corporate Governance Report and are on pages 57 and 60 respectively.

The Report of the Remuneration Committee is set out in the Remuneration Report on page 65. Details of the Market Disclosure Committee are on page 50.

Conclusion

The Corporate Governance Report, the Remuneration Report and the Directors' Report set out in greater detail how the Company has complied with the Code and relevant regulations, and the framework and processes that the Company has in place to ensure the highest levels of corporate governance. I therefore commend this report to all our shareholders and wider stakeholders.

Nick Wiles
Chairman
22 May 2019

Corporate governance statement

Compliance statement

The Board considers that throughout the year under review, it has complied with the principles and provisions of the 2016 version of the UK Corporate Governance Code (the Code) as issued by the Financial Reporting Council.

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

Corporate governance structure

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

This results in the growth of the business, and protection of the interests of shareholders and wider stakeholders.

Leadership

The Board

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

It 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 matters reserved to the Board including the terms of reference of each of the Committees can be found at *https://corporate.paypoint.com/investor-centre/corporate*

Audit Committee

- monitors the integrity of financial statements of the Group
- monitors compliance with financial reporting standards and other financial and governance reporting requirements

Read more on page 60.

Nomination Committee

- ensures there is a formal, rigorous and transparent procedure for appointments to the Board
- oversees the development of a diverse pipeline

Read more on page 57.

Remuneration Committee

- ensures the Remuneration Policy supports the strategy by attracting, motivating and retaining the right calibre of people
- ensures that executive remuneration is aligned to the Company purpose and values, and linked to delivery of the strategy

Read more on page 65.

Market Disclosure Committee

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

Cyber Security and IT Sub-Committee

This is a sub-committee of the Audit Committee. It oversees cyber security and information technology matters pertaining to the Group, and reports to the Audit Committee. Its membership comprises: two Non-Executive Directors, the Finance Director and the Chief Information Officer.

Read more on page 62.

Chief Executive

The Chief Executive is responsible for running the Group's business and in doing so, he delegates authority to the Executive Board, to the Managing Director and Finance Director of PayPoint Romania and to the Managing Director and Finance Director of PayPoint Payment Services Limited. His roles and responsibilities are on page 53.

PayPoint Romania

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

Executive Board

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

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 Services Regulations 2017. The Managing Director of PPSL reports to the Chief Executive.

1. https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Corporate-Governance-Code.aspx

Meetings

The Board and its Committees meet regularly throughout the year with meetings scheduled around key dates in the Company's corporate calendar, and where necessary to consider key corporate transactions or events that may arise. As stated in the Chairman's introduction on page 48, during the year, the Board resolved to include an additional Board meeting to the Board calendar to be held in January, the purpose of which was to consider culture and values, and stakeholder engagement. Therefore, there were eight scheduled meetings during the year under review, seven of which were full Board meetings and one was held by telephone conference. The meeting held by telephone conference was to consider and approve the trading update statement released in July 2018.

In addition, the Board held two strategy sessions during the year. The first was a two-day strategy session which was combined with scheduled Board and Board Committee meetings in September 2018. During this two-day strategy session, the Board engaged in-depth consideration and rigorous debate of the strategy including monitoring progress made. It was also an opportunity for the Board to interact with members of the Executive Board and senior management team who were involved in presenting the strategy updates to the Board.

The second strategy session was a half-day update session, held in February 2019, and was also combined with scheduled Board and Committee meetings. The purpose of this session was also for the Board to be updated on strategy and to monitor progress against the strategy.

The table below shows Directors' attendance of Board and Committee meetings.

Directors' meeting attendance 2018/19[1]	Membership of Committees			Board		Audit Committee		Nomination Committee		Remuneration Committee	
	Audit	Nomination	Remuneration	Meetings attended	Maximum possible to attend	Meetings attended	Maximum possible to attend	Meetings attended	Maximum possible to attend	Meetings attended	Maximum possible to attend
Non-Executive Directors											
Gill Barr	●	●	●	8	8	5	5	7	7	4	4
Giles Kerr	●	●	●	8	8	5	5	7	7	4	4
Rakesh Sharma	●	●	●	8	8	5	5	7	7	4	4
Nick Wiles		●	●	8	8	5*	5*	7	7	4	4
Executive Directors											
Rachel Kentleton				8	8	5*	5*	1*	1*	1*	1*
Dominic Taylor[2]				8	8	5*	5*	–	–	2*	2*

* By invitation – The Executive Directors are not members of any of the Board Committees shown and they attended only the Committee meetings to which they were specifically invited.
1. Patrick Headon joined the Board on 1 April 2019, however he did attend the Board meeting in March 2019 by invitation.
2. Dominic Taylor stepped down from the Board on 1 April 2019.

Corporate governance statement
continued

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

Strategy	Two strategy sessions were held in the year: • a two-day session was held in September 2018 at which members of the Executive Board and members of the senior management team gave presentations to the Board on the following key topics and areas of strategy: long-term summary plan; cash, clients, and MultiPay; parcels; network; retail services and relations; innovation; IT strategy; and finance • a half-year strategy update session was held in February 2019 at which the Board received updates on the progress made in implementation of the strategy since the last session At both sessions sufficient time was allocated for challenge and debate of the strategy by the Board.
Internal control and risk management	• considered the implications of Brexit for the Group • approved the renewal of insurance policies for the Group Risk management and oversight of internal controls are delegated by the Board to the Audit Committee which reports on its activities to the Board (please refer to the Audit Committee Report on page 60 for more on the Committees' activities on risk management and internal controls).
Business performance and financial reporting	• approved the Annual Report and preliminary results announcement • approved the half year financial report • discussed the first and third quarter trading updates and approved these updates for release to the market • reviewed management presentations to analysts for the full and half year results • approved a move to quarterly dividend payments with effect from 1 April 2019 • considered and approved the plan for financial year 2019/20 • reviewed Group forecasts and scrutinised the built-in risks and opportunities • received monthly management accounts ahead of every full Board meeting • received management reports from the Chief Executive at every full Board meeting, on general business operations and key strategic progress updates including areas such as: retailer survey action plan, parcels, PayPoint One, client contracts and contract renegotiations, progress updates on the integration of a CRM system and general business trading updates for PayPoint UK and Romania
Governance	• received Board Committee reports on the Committee meetings which were usually held prior to the Board meetings, and included updates and recommendations on matters that had been delegated to the Committees, some of which required Board approval • considered and recommended the final dividend for shareholder approval at the annual general meeting • approved the notice of annual general meeting • reviewed corporate governance updates, particularly around the 2018 UK Corporate Governance Code (the new Code) and The Companies (Miscellaneous Reporting) Regulations 2018, including the Board and Company-wide changes to be implemented to ensure compliance • adopted a refreshed Board policy on diversity and inclusion • reviewed investor feedback from the full and half year roadshows • approved the Slavery and Human Trafficking statement of the Board for 2018 • reviewed the Directors' conflicts of interest register • appointed the Senior Independent Director (SID) to lead the internal evaluation of the Board, and subsequently reviewed the evaluation report presented by the SID • approved the revision of the terms of reference for the Audit, Nomination and Remuneration Committees in line with the new Code and corporate governance best practice recommendations • received updated shareholder analysis summary reports ahead of every full Board meeting
People	In light of corporate governance reforms, the Board resolved to add an additional meeting to its annual calendar, at which the main areas for discussion would be people, culture and values. The first of such meetings was held in January 2019 and the matters considered included: adoption of the PayPoint purpose; culture and values; pay philosophy across the organisation; CEO pay ratio; diversity including gender and ethnic balance and pay gap; employee engagement and development, recruitment and succession across the organisation. Other people matters considered during the year were: • reviewed the Group health and safety report at each full Board meeting which covered any health and safety incidents that may have occurred and the actions taken in that respect, including any updates on previous actions • received regular updates on the employee forum from Gill Barr, Non-Executive Director, who is the appointed Board representative for the employee forum • considered and approved Dominic Taylor stepping down from the Board and his replacement with Patrick Headon with effect from 1 April 2019 • considered and approved the renewal of the Board's Chairman appointment • reviewed the PayPoint gender pay gap report and approved the commitments and actions therein, prior to publication of the report

Division of roles and responsibilities

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

Board leadership

Chairman – Nick Wiles

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

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

Running the business

Chief Executive – Patrick Headon

Patrick Headon is responsible for running the Group's business, and for proposing and developing the Group's strategy and overall commercial objectives, which he does in close consultation with the Chairman and the Board. He heads the Executive Board, the responsibilities of which are set out on page 50. His other main responsibilities include:

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

Finance Director – Rachel Kentleton

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

Constructive challenge and independent oversight

Senior Independent Director – Giles Kerr

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

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

Non-Executive Directors – Gill Barr, Rakesh Sharma

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

During the year, the Chairman held meetings with the Non-Executive Directors without the presence of the Executive Directors. These meetings were held immediately following a full Board meeting. There were no unresolved concerns about the running of the Company.

Board Support

Company Secretary and Head of Legal – Susan Court

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

- supporting the Board and Committee Chairs in annual agenda plan setting
- ensuring information is made available to the Board members in a timely fashion
- coordinating training requirements for the Non-Executive Directors
- organising internal Board and Committee evaluations at the request of the Chairman
- membership of the Market Disclosure Committee of the Board

Corporate governance statement
continued

Effectiveness
Composition
The Board is composed of three Non-Executive Directors, two Executive Directors and a Non-Executive Chairman. The Directors have a broad range of skills, competencies and experience which gives them an understanding of the market in which PayPoint operates and enables them collectively, as a Board, to discharge their responsibilities effectively. This balance of skill and independence on the Board creates an environment that encourages the effective challenge and development of the strategic aims of the Company.

As Nick Wiles was appointed as a Non-Executive Director in October 2009, in July 2018, the Board undertook a thorough assessment of his tenure and resolved that the Chairman's appointment as a Director be extended for a further term of three years. The Board agreed that the Chairman continues to demonstrate objective judgement and promotes constructive challenge amongst other Board members. Also, the extension would provide stability and aid the implementation of the proposed succession plans with respect to Dominic Taylor.

Dominic Taylor stepped down from the Board and his role as Chief Executive and was succeeded by Patrick Headon with effect from 1 April 2019. Further information can be found in the Nomination Committee report on page 57.

The biographies, including the key skills and competencies, of each of the Directors can be found on pages 44 and 45.

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

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

Independence statement
The Board considers its Non-Executive Directors who are identified on pages 44 and 45 to be independent. The Board has determined that each is independent in character and judgement, and is free from any business or other relationship which could affect the exercise of his/her judgement.

Induction
On joining the Board, all new Directors receive a full, formal and tailored induction. Details of Patrick Headon's induction following his appointment to the Board on 1 April 2019, will be detailed in next year's Annual Report.

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

In the course of the year, the Board is briefed on any significant changes in the law, regulations, governance codes or developments within PayPoint which affect their roles both on the Board and on Board Committees. Experts and advisers are brought in as necessary to present to the Board or its Committees on technical subject matters. For instance, the Board received a tailored briefing from agents of the National Cyber Security Centre (NCSC), which gave an overview of the work of the NCSC and the cyber security tools available to the organisation. The Company Secretary also provided updates to the Board and its Committees on other governance matters, including regular updates on corporate governance reforms.

The Non-Executive Directors are provided with schedules of relevant training by external providers which they are encouraged to attend at their convenience.

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

Board evaluation

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

Actions from 2017/18 external evaluation	Steps taken
Strategy:	
• continued update and development of the financial reporting information received by the Board, including further improvement of the consistency and quality of Board strategy papers	Additional improvements have been made to the quality of all papers provided to the Board including those provided ahead of the strategy sessions. Board papers are further supplemented by management presentations.
• improvement of the process for monitoring, by the Board, of strategic implementation during the year, as well as a more detailed assessment along product/business lines such that the Board can clearly identify: performance/delivery against the plan, and the delivery of a greater level of executive ownership and accountability	Regular updates on progress against strategic objectives are given at each Board meeting, building on specific actions agreed at the dedicated strategy sessions held in September 2018 and February 2019.
Board process:	
• encouragement of greater challenge and openness of Board debate, including: – more discussions around potential alternative strategies – devotion of greater Board time to strategy discussions – allocation of time to broaden Board discussions	The time allocation in Board agendas takes into account the need for proper debate. More significant time has been dedicated to strategy related discussions throughout the year.
• addition of one more full Board meeting to the Board calendar, in January, to address the specific issues of: – business values, diversity and cultural change – executive team development – formal update of NED training opportunities	The Board held an additional meeting in January 2019. Topics at the meeting included: • purpose, culture and values • remuneration • diversity • engagement • organisation Regular updates on NED training opportunities are provided to the Board.
Board engagement:	
• increase in availability of opportunities for the Board to engage with management across the business	The strategy sessions held in September 2018 and February 2019 involved presentations from the Executive Board and senior management team.

During the year the Board undertook an internal evaluation led by the Senior Independent Director (SID). The purpose of the evaluation was to identify the areas where the Board, including its Committees, performed well and any areas for improvement. The SID held one-to-one meetings with each Director. At these meetings the Directors had the opportunity to raise any concerns and to put forward any actions for improvement, both at individual and Board level. The SID collated the information received and then presented the results of the evaluation at a Board meeting. The following is a summary of the key outcomes and actions:

Outcomes

Strategy:
- improvement in the quality of Board strategy and financial papers
- significant improvement in process for monitoring strategic implementation

Board process, composition and engagement:
- general satisfaction with Board processes, and introduction of more NED dinners was a welcome addition

Actions

Strategy:
- continued close monitoring of strategic initiatives to ensure adequate resources available for implementation

Board process, composition and engagement:
- continued review of the Board composition

Corporate governance statement
continued

Re-election
In accordance with the provisions of the Code all Directors submit themselves for election or re-election at each annual general meeting. The Board's recommendations in respect of the re-election of each Director can be found in the Notice of Meeting on pages 123 to 130.

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 85 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 8 to 13 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 83 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 61.

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 32 to 34, and a statement on how the Directors have assessed the prospects of the Group taking into account the current position and principal risks is on page 35.

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 65 to 81.

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. The Chairman wrote to major shareholders and had meetings with a number of them following the appointment of Patrick Headon as a Board member and Chief Executive.

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

As done annually, the Executive Directors held 'roadshows' for institutional investors and analysts twice in the year for a week at a time following the release of the full and the half year results. These roadshows took place in May/June and November and were held in London, Edinburgh and Oxford. An additional two-day roadshow took place in February with further shareholder engagement comprising regular meetings with investors and analysts outside of the roadshows throughout the year. The meetings included: Executive Directors attendance of investor conferences at which they had one-to-one meetings with investors and investor days at which presentations were given by members of the Company's senior management team. The discussions at the roadshows and meetings covered a wide range of issues which had previously been made public including the full/half year results, strategy, performance, management and governance. Feedback from analysts and investors following these meetings were reported to the Board.

Committees of the Board
The Audit, Nomination, Remuneration and Market Disclosure Committees are the formally constituted Committees of the Board which deal with specific aspects of the Group's affairs in accordance with the duties and responsibilities formally delegated to them by the Board. The terms of reference for each of the Committees are available on the Company's website at www.corporate.paypoint.com. Details of the Market Disclosure Committee are on page 50 and the Reports of the Audit, Nomination and Remuneration Committees are set out on pages 57 to 81.

Nomination Committee Report

Chairman's statement on the Nomination Committee

Nick Wiles
Chairman,
Nomination Committee
22 May 2019

Dear Shareholder,
On behalf of the Nomination Committee, I am pleased to present the Nomination Committee Report for the year ended 31 March 2019. During the year under review the key areas of focus which are detailed in the Nomination Committee Report below included:

- succession planning for the Chief Executive
- internal evaluation of the Committee
- corporate governance review as pertains to the Committee
- review of the Committee terms of reference

The Committee continued to assess the balance of skills, experience, independence and knowledge on the Board to ensure that the Board remained effective and of a sufficient size to meet the requirements of the business without undue disruption.

The Nomination Committee comprises Gill Barr, Giles Kerr, Rakesh Sharma and myself, as the Committee Chairman. The biographies of Committee members are on pages 44 to 45.

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

Meetings
Meetings of the Committee are generally held on the day of scheduled Board meetings. The Committee met seven times during the year. Details of meeting attendance are set out on page 51.

Activities during 2018/19
Key activities of the Committee for the year under review comprised:

Succession planning:
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.

As a result of discussions during the year between the Committee and Dominic Taylor, the Committee explored succession options and thoroughly considered the detailed requirements for a successor to the role. The Committee commissioned an external search using the independent executive search firm, Russell Reynolds, which has no other connection with the Company, to search for a successor to Dominic Taylor. Following briefing calls with each Committee member, the Finance Director and Dominic Taylor, Russell Reynolds finalised a detailed candidate specification. Some of the key attributes considered by the Committee in terms of the candidate specification included: strategic thinker with the ability to operationalise strategy into day-to-day business performance; strong communication and influencing skills; high degree of financial literacy and financial astuteness; high integrity and a strong commitment to organisational and ethical values. Based on the agreed skillset, Russell Reynolds undertook a thorough review of the candidate market and produced a shortlist of suitable candidates. The shortlisted candidates met with each of the Committee members and the Finance Director. Patrick Headon was identified as the candidate who met all the criteria. The Committee was unanimous in its decision to recommend Patrick to the Board for appointment as a Director and successor to Dominic Taylor.

Nomination Committee Report
continued

Committee evaluation:
The last external evaluation of the Committee was in 2017/18 and the steps taken against the actions from that evaluation are as follows:

Actions	Steps taken
• summary and documentation of the overall Board succession plan by the Nomination Committee Chair, and institution of a more formal Nomination Committee process which would include improving on the regularity of Committee meeting papers	The Chairman provided regular written updates to the Committee on Board structure and development, to facilitate meaningful discussion by the Committee and assist with succession planning.
• regular review of the engagement of the Non-Executive Directors with the business in order to maximise access to their skills and experience	The Committee considers the Non-Executive Directors' engagement with the business to ensure their skills are used appropriately and to maximise benefit to the business.

As highlighted in the Committee Chairman's statement, an internal evaluation of the Committee was carried out during the year, led by the Senior Independent Director. The process for the evaluation was as set out on page 55 and the outcomes are set out below.

Outcomes of the internal evaluation
There were welcome improvements to the Committee's processes, including the quality of the information and documentation disseminated to the Committee.

Actions from the internal evaluation
The Committee agreed that succession plans for further layers of management within the business would be one of its areas of focus going forward.

Committee governance
In light of the corporate governance reforms in the 2018 UK Corporate Governance Code (the new Code), which have implications for nomination committees, during the year, the Committee was briefed on the changes in the new Code and considered proposed actions that the Committee should take to ensure compliance.

The Committee also revised its terms of reference in light of the new Code, which was subsequently approved by the Board. The revised terms of reference are available to view on the PayPoint website.

Diversity
Policy
During the year under review, the Board refreshed its diversity and inclusion policy. The Board also has overall responsibility for the effective operation of the PayPoint diversity and equality policy and for ensuring compliance with the relevant statutory framework. The Board has delegated day-to-day responsibility to the HR Director for operating the PayPoint diversity and equality policy across the rest of the Group and ensuring its maintenance and review.

Statement on diversity
The Board embraces the supporting principles on diversity enshrined in the UK Corporate Governance Code which include diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

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

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

Policy objectives
The Board takes account of all aspects of diversity in its considerations for succession planning and Board composition, including, but not limited to gender, disability, industry experience, background and race. The Board through the Committee engages with executive search firms in a manner which enhances opportunities for diverse candidates to be considered for appointment. The Nomination Committee supports Board-level diversity throughout the succession planning process.

At the date of this report, the Board meets the voluntary targets as set out in the Hampton-Alexander Review in respect of gender balance in the boardroom, and the targets of the Parker Review in respect of ethnic diversity on UK boards. It is the intention of the Board, through the Committee to continue to take these targets into consideration in the Board succession planning process.

Efforts to increase diversity in the senior management pipeline towards Executive Board positions will continue to be supported, and the development of diversity in senior management roles within PayPoint will be encouraged.

Monitoring and reporting

The Nomination Committee of the Board is responsible for the implementation of the Board diversity and inclusion policy and for monitoring progress towards the achievement of its objectives.

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

The terms and conditions of appointment of Non-Executive Directors and service contracts of Executive Directors are made available for inspection at the annual general meeting. Further details on diversity throughout the Group including further information on the diversity and equality policy can be found on page 58.

The Nomination Committee report was approved by the Board on 22 May 2019 and signed on its behalf by:

Nick Wiles
Chairman, Nomination Committee

Audit Committee Report

Chairman's statement on the Audit Committee

Giles Kerr
Chairman, Audit Committee
22 May 2019

Dear Shareholder,
I am pleased to present the Audit Committee Report for the year ended 31 March 2019.

In the year under review, the Audit Committee has focused on carrying out robust assessments of principal risks and internal control systems, and looking into how these are managed and mitigated. The Committee also reviewed the integrity of the Group's financial reporting, and advised the Board that, taken as a whole, the 2019 Annual Report and accounts, is fair, balanced and understandable and provides the information necessary for shareholders to assess the position and performance of the Company. In its assessment the Committee considered the audit findings and Auditor's Report including the significant judgements and issues identified in those reports. The Committee also took into consideration the following which had been presented to the Board during the year:

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

In line with the corporate governance reforms highlighted earlier in the report, the Committee reviewed and revised its terms of reference to ensure compliance. The processes and activities of the Committee are kept under regular review in accordance with regulatory and market developments.

Following the external evaluation of the Committee as detailed in the last Annual Report, I, in my capacity as Senior Independent Director led the internal evaluation of the Board and its Committees as described on page 55. The appropriate steps which have been taken against the actions identified in the last external evaluation are as shown below, and the outcome of the internal evaluation is set out on page 61.

Actions	Steps taken
• reinvigoration of the internal audit function and its engagement with the Committee and the Board	Steps have been taken to strengthen the internal audit capability in addition to retaining Grant Thornton as internal auditors.
• oversight of the implementation plans put in place by management to ensure compliance with GDPR	As part of the risk review process the Committee oversaw the prioritisation of controls required to comply with GDPR. This process was ongoing throughout the year.

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

Committee composition and meetings

The Audit Committee comprises Gill Barr, Rakesh Sharma and Giles Kerr, as Chairman. The Board considers that Giles Kerr has recent and relevant financial experience in accordance with the Code. Full biographical details of each of the Committee members, including their relevant financial and sector experience, are set out on pages 44 and 45.

The Committee met five times during the financial year. The details of meeting attendance are set out on page 51. By invitation, meetings were also attended by the Chairman of the Board, the Chief Executive, the Finance Director, and the Head of Risk and Compliance. The external auditor and internal auditor, also attended Committee meetings as appropriate.

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

Key responsibilities

The key responsibilities of the Audit Committee include:

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

Committee activities for 2018/19

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

Financial reporting:
- review of the preliminary and interim results announcements
- review of the Annual Report with particular reference to the significant risks, the Audit Committee report, disclosures relating to performance, business model and strategy and consideration as to whether the Annual Report is fair, balanced and understandable
- recommendation to the Board that the Annual Report and accounts taken as a whole, is fair balanced and understandable
- review of significant accounting judgements (as reported on page 62)
- consideration of the going concern basis for preparation of the financial statements
- consideration of the viability statement. In doing so the Committee had regard to an assessment which modelled the possible occurrence of significant risks and events, and which showed that PayPoint would continue to be viable and profitable over the three-year period
- recommendation of the viability statement and going concern statement to the Board
- review of the external auditor reports and the outcomes of the audit process
- review of the impact of IFRS15 on the Group Plan
- review of the tax strategy of PayPoint, and recommendation to the Board for approval
- review of PayPoint's approach to treasury, and recommendation to the Board for approval of the treasury policy

External auditor:
- review of external auditor independence and effectiveness, including recommendation to the Board for the reappointment of KPMG LLP as external auditor
- review and approval of auditor remuneration

Internal auditor:
- review of the internal auditor's engagement and consideration of the extension of the engagement
- consideration of internal audit reports presented during the year. These reports covered areas such as: EPoS project assurance audit; independent retail sales; operational and overnight processing; and anti-money laundering controls in PayPoint Payment Services Limited

Audit plans:
- consideration and approval of the internal and external audit plans

Risk management and internal controls:
- review of insurance renewal proposals
- review of whistleblowing reports
- in-depth consideration and review of the comprehensive reports produced by the Head of Risk and Compliance on risk management and internal controls within the Group. These reports are presented by the Head of Risk and Compliance at all Committee meetings and over the course of the year, covered the following areas:
  – for each risk on the corporate risk register, key findings from risk review that may have been carried out since the last Committee meeting, the updated risk register and outstanding risk reviews and audit actions
  – fraud monitoring and reporting
  – report and update on the strategic management risk review
  – newly identified risks
  – risk review of PayPoint Romania
  – report on the transactions and settlements in PayPoint Payment Services Limited
  – reports on audits of the business carried out by PayPoint clients
- review of BSI assessment reports. BSI carry out independent audits of the PayPoint network operations
- review of GDPR project updates
- review of supplier management and the Group procurement policy

Committee governance:
- review of reports from the Cyber Security & Information Technology sub-committee. See page 62 for details on this committee

Committee evaluation:

As highlighted in the Committee Chairman's statement, an internal evaluation of the Board and its Committees was carried out during the year. The process for the evaluation is as set out on page 55. The outcome including action for improvement are as set out below.

Outcome of the internal evaluation of the Committee

In the evaluation report the Senior Independent Director found that the committee continued to work well together, and there had been significant improvements in the risk reporting to the Audit Committee.

Action

- increased Committee focus on areas such as retailer sentiment and new systems implementation including the attendant processes and procedures

Audit Committee Report
continued

Significant judgements
The significant issues considered by the Committee in relation to the 2019 accounts, and how these were addressed, were:

Judgement: capitalised development expenditure
An accounting judgement at the statement of financial position date that has a risk of causing an adjustment to the carrying amount of assets and liabilities through estimation uncertainty is the evaluation of capitalised development expenditure shown in intangible assets.

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

Significant judgement: agent vs principal
A critical judgement for revenue recognition is PayPoint's assessment of whether it is acting as a principal or agent. This includes evaluating:
a) which party was responsible for fulfilling the promise to provide the service;
b) inventory risk before the service is transferred to a customer; and
c) discretion in establishing the price for the service.

In most cases it was clear that PayPoint acts in the capacity of the agent for clients, however in the case of mobile top-ups in Romania due to the nature of the product this becomes a key judgement area. Revenues are recognised on the principal basis considering the level of service responsibility, inventory risk and price discretion held by PayPoint. This is consistent with the judgement in prior years.

The cost of mobile top-ups and SIM cards as principal was £48.5 million (2018: £44.9 million).

Significant judgement: recognition of cash and cash equivalents
The nature of bill payments services means that PayPoint collects and holds funds on behalf of clients and also retains retailer deposits as security for those collections. The recognition of cash, retailer receivables and the related client payables is a key judgement area as those funds pass through the settlement process.

PayPoint uses the following criteria to determine whether clients' funds and retailers' deposits are recognised on balance sheet:
a) existence of a binding agreement clearly identifying the beneficiary of the funds;
b) the identification, ability to allocate and separability of funds; and
c) identification of the holder of those funds at any point in time.

Where there is a binding agreement specifying that PayPoint holds funds on behalf of the client (i.e. acting in the capacity of a trustee) and those funds have been separately identified as belonging to that beneficiary, the cash and the related liability is held off balance sheet. In all other situations the cash and corresponding liability are recognised on the balance sheet.

Risk of revenue recognition
The Committee continued to focus on revenue recognition during the year due to the level of transactions and the complexity of the systems. The Committee was pleased to note that no errors were found as a result of the auditor's work in this area.

Judgement: carrying value of investments (Company accounts)
An accounting judgement for the Company which has a significant risk of causing a material adjustment to net asset value of the Company is the carrying value of investments held in its subsidiary companies and joint operation. The carrying value of these investments (at cost less accumulated impairments) were assessed against their fair value using discounted cash flow models of each subsidiary and joint venture. The fair value of the investments was in excess of the carrying value.

Judgement: impact from Brexit
PayPoint has carried out an assessment of the impact of a no-deal Brexit scenario by identifying key risks to its operating model. Whilst no business can mitigate against the impact of Brexit, actions to reduce disruption in the short term were undertaken. Details of the risks are included in the principal risks and uncertainties found on page 34. Furthermore, as part of the viability assessment (see page 35), a scenario of a systematic risk in the markets we operate was assessed including the impact on retailers and clients. The Directors concluded that PayPoint is a viable operation.

Cyber Security & Information Technology sub-committee
The Cyber Security & Information Technology sub-committee (Cyber sub-committee) was established as a sub-committee of the Audit Committee to oversee cyber security and IT matters pertaining to the Group in order to report back to the Audit Committee. Its key responsibilities include:
- advise the Audit Committee on current cyber and information security risk exposure of the Group
- review the Group's policies established to assess, monitor and mitigate the significant cyber and information security risk exposures
- review reports on the Group's cyber and information security breach response plan
- review cyber incident reports
- assess the adequacy of the Group's cyber and information security related insurance cover

The composition of the sub-committee is: two Non-Executive Directors – Rakesh Sharma and Giles Kerr, as Chairman of the sub-committee, the Finance Director, and the Chief Information Officer, Jon Marchant, who is also on the Executive Board (see page 46 for Jon's biography details). The Company Secretary is the secretary to the sub-committee.

During the year the Cyber sub-committee held two meetings at which the Head of Risk and Compliance was also in attendance by invitation. Some of the key matters considered by the sub-committee at its meetings included: the integration of the Payzone/PayPoint networks in Romania, following the acquisition of Payzone Romania; review of updates on the technical controls implemented as a result of GDPR requirements; review of cyber security risk management; review of cyber security incident report and review of cyber security insurance limits.

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 2019, the primary risks identified were: risk of revenue recognition; carrying value of investments and impact from Brexit. As part of the audit planning process, the auditor provided a statement of confirmation of independence to the Board and the Audit Committee, which confirmed that in their professional judgement KPMG was independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff remained unimpaired.

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

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

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

The Committee's assessment of the external auditor's performance and independence was found to be satisfactory and this underpinned its recommendation to the Board to propose to shareholders the reappointment of KPMG as external auditor for the year ending 31 March 2020. There are no contractual obligations restricting the Committee's choice of auditor. The notice of the annual general meeting at which a resolution for reappointment of the auditor will be proposed, can be found on pages 123 to 130.

Non-audit services

In accordance with the FRC Revised Ethical Standard 2016, the Committee has a policy on auditor independence and the provision of non-audit services by the external auditor. This policy is a guide to the types of work that it is acceptable for the external auditor to undertake, and provides clarity on the process to be followed for approval of the provision of non-audit services by the external auditor. The policy also covers the 70% cap on non-audit fees as prescribed by the EU audit regulation. It states that subject to prior approval by the Finance Director, 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.

The ratio of non-audit fees to audit fees paid to the auditor for the year was 17%, with non-audit services limited to assurance services for the half year review. Details of the auditor's remuneration for the statutory audit and non-audit services, are set out in note 8 to the financial statements.

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 carries out robust and regular assessments 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 32 to 34 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 line with the risk appetite and in order to ensure that the business can maximise and protect its value.

Risk management is embedded in the organisation and within all projects and operational processes. It is entrenched in the operation of the business at all levels in order to drive improvements and prevent non-compliance in business processes. The risk management system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and therefore can only provide reasonable and not absolute assurance against material mis-statement or loss.

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

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

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Identified risks are documented in risk registers associated with business functions or key risk areas. Newly identified risks are assessed by the Executive Board and reported to the Audit Committee prior to their documentation.

↓

The main areas of risk to the Group are recorded in the Corporate Risk Register (CRR) which contains a high-level description of risks that fall within ten distinct areas of the business: innovation and market changes; culture; dependence on key clients and retailers; competitor activity; partners and suppliers; interruptions in processes and systems; legislation or regulatory reforms and risk of non-compliance; cyber security, data protection, resilience and business continuity; attracting and retaining key talent; and 'hard' Brexit.

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Reports on each of the key risk areas in the CRR are presented by the Head of Risk and Compliance for review at every Audit Committee meeting. In addition, the Audit Committee receives regular updates on ongoing risk management, control systems and processes which are discussed at its meetings.

Audit Committee Report
continued

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

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

Following the strategic risk review carried out by the Executive Board in 2018 and facilitated by the internal auditor, Grant Thornton UK LLP (Grant Thornton), the objectives of the risk management process are as follows:

- maintain an effective risk management and reporting framework
- regularly review the set of strategic (Tier 1) risks owned by the Executive Board
- review of risk appetite and mitigating controls
- update the risk registers which categorise risks into the following tiers:
  - tier 1 – strategic risk register – Executive Board/Audit Committee
  - tier 2 – corporate risk register – appointed senior managers
  - tier 3 – department, product and project risk registers – individual line managers, product or project managers
- review of outstanding risk review actions to justify, close out or remove as signed off by Executive Board owner

The objectives and completion of the actions arising from the strategic risk review that took place in the 2018/19 financial year have been achieved.

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 or corruption) in its business. However, if any malpractice is discovered, there are whistleblowing processes in place to ensure that this is properly addressed in accordance with guidance published by the UK Department for Business Innovation & Skill.

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

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

Anti-bribery and corruption

The Company operates an anti-bribery and corruption policy which was put in place in response to 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 Corruption Awareness training programme as part of their induction process upon joining the Group. Subsequent to their induction, employees who are deemed to be at risk by virtue of their roles, are required to attend a tailored anti-bribery and corruption training course which is organised internally on a yearly basis.

Internal audit

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

- supplier management processes in Romania
- independent retail sales processes in the UK
- anti-money laundering controls in PayPoint Payment Services Limited
- overnight processing carried out by the UK IT Operations teams
- PayPoint and Payzone integration progress in Romania

The Committee assessed the effectiveness of Grant Thornton as internal auditors and concluded that, following the changes implemented during the prior year, they were performing well and were demonstrating continued improvement. It has been agreed that the internal audit capability will be strengthened to complement the service provided by Grant Thornton.

The Audit Committee report was approved on 22 May 2019 and signed on its behalf by:

Giles Kerr
Chairman, Audit Committee

Directors' Remuneration Report

ANNUAL STATEMENT

Rakesh Sharma
Chairman of the Remuneration Committee
22 May 2019

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 2019.

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

- the Remuneration Policy – which provides a summary of the Remuneration Policy for which shareholder approval was obtained at the 2017 annual general meeting and which will continue to apply without amendment for the forthcoming year
- the Annual Report on Remuneration – which discloses the implementation of our Remuneration Policy for the year ended 31 March 2019 and how the Policy will be implemented for the year ending 31 March 2020

As no changes are proposed to the existing Policy given that the Remuneration Committee believes that it continues to promote the long-term success of the Company, only one remuneration resolution in respect of Directors' remuneration will be tabled at the 2019 annual general meeting – i.e. the advisory shareholder vote on the Annual Report on Remuneration. In addition, in connection with a small number of below Board restricted share awards, a resolution will be tabled to seek shareholder approval for the PayPoint restricted share plan, further details of which are set out in the Annual Report on Remuneration.

Work of the Committee during the year
The Committee met four times during 2018/2019 and details of members' attendance at meetings are provided on page 51. The main Committee activities during the year (full details of which are set out in the relevant sections of this report) included:

- agreeing Executive Director base salary increases from 1 July 2018
- agreeing the performance against the targets and payout for the 2017/18 annual bonus awards
- setting the performance targets for the 2018/19 annual bonus
- agreeing the award levels and performance targets for the 2018 LTIP awards
- considering the results and implications and required disclosures of the Gender Pay Gap Reporting
- considering the implications of the new UK Corporate Governance Code on the Committee's Terms of Reference and the Remuneration Policy
- agreeing the packages in respect of Dominic Taylor stepping down as Chief Executive and Patrick Headon being appointed to replace him
- agreeing the adoption of a restricted share plan for below Board participants and agreeing the first award to ensure the retention of critical talent in light of the succession of the Chief Executive

Pay and performance
In accordance with its terms of reference, the Committee continues to ensure the clear linkage of Executive Directors' pay and performance to the strategy and enhancement of shareholder value.

In assessing the performance of the 2018/19 annual bonus and the 2015 LTIP award, the Committee considered the financial and operational performance of the Group as well as the progress made in the ongoing delivery of the strategy. Annual bonuses for the year under review ranged from 69% to 71% of maximum, reflecting economic profit of £38.8 million and the partial achievement of the strategic targets. 25% of the Finance Director's bonus will be deferred into shares which will vest after three years from grant, subject to continued employment. No deferral will apply to Dominic Taylor's bonus award given the announcement of his departure date.

The LTIP awards granted in 2016 will be performance-tested in June 2019 and, based on TSR performance to date relative to FTSE 250 index constituents (excluding investment trusts), we expect full vesting of these awards.

Finally, the deferred annual bonus awards which were granted in 2016 in respect of the 2015/16 annual bonus awards will vest in June 2019.

The Committee is comfortable that the Executive Directors rewards for the year ended 31 March 2019 are appropriately aligned to the Company's performance that has been delivered over the one-year performance period of the annual bonus and three-year performance period for the DABS and LTIP awards.

Discretion
The Committee has not exercised discretion (positive or negative) in the year ended 31 March 2019.

Directors' Remuneration Report
continued

Board changes
As announced on 19 February 2019, Dominic Taylor stepped down as Chief Executive of the Company with effect from 1 April 2019. He will remain as an employee until 31 December 2019 to ensure a smooth transition. No payments for loss of office were, or will be, made in this regard. Full details of the remuneration arrangements in respect of his departure are detailed in the Annual Report on Remuneration.

Having joined the business on 1 March 2019 to ensure some time to familiarise himself with the business, Patrick Headon replaced Dominic Taylor in the role of Chief Executive from 1 April 2019. Details of the main elements of Patrick's package are as follows:
- base salary: £470,000 (set at a discount to Dominic Taylor's salary)
- benefits: (i) a £25,000 annual allowance in respect of car allowance, petrol, life insurance, medical insurance and permanent health insurance; and (ii) a one-off relocation allowance of £47,000, subject to deductions for income tax and national insurance and remaining in employment for a minimum of two years from date of payment
- pension: 6% of salary (i.e. workforce aligned)
- incentives: 150% of salary maximum bonus and 175% of salary annual LTIP award (consistent with the outgoing Chief Executive's incentive potential)

Further details are set out on pages 80 and 81 and in the Annual Report on Remuneration.

Implementing the Remuneration Policy for 2019/20
The Remuneration Committee intends to operate the Remuneration Policy for Executive Directors for 2019/20 as follows:
- as noted above, the Chief Executive's salary was set at £470,000 from appointment and the next salary review date will be 1 July 2020. The Finance Director's salary will be increased by 3% to £325,171 from 1 July 2019, broadly in line with the general workforce
- annual bonus provision will remain at 150% of salary for the Chief Executive and 106% of salary for the Finance Director and targets will be based on profit, revenue and stretching strategic targets. Profit before tax will replace economic profit in the interests of greater internal alignment, line of sight and simplicity and revenue is being introduced for a minority of the bonus to reflect the importance of sustainable revenue growth to the Company achieving earnings growth. No changes will be made to bonus deferral – 50% of the Chief Executive's bonus and 25% of the Finance Director's bonus will be deferred in shares for three years
- LTIP awards will be granted in 2018 at 175% of salary for the Chief Executive and 125% of salary for the Finance Director. Targets will continue to measure absolute EPS growth and relative Total Shareholder Return. A two-year post-vesting holding period will apply

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

Concluding remarks
I am pleased to state that at our 2018 annual general meeting, we received the support of 99.34% of shareholders who voted on our Directors' Remuneration Report.

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

REMUNERATION POLICY

Policy scope
The Policy applies to the Chairman, Executive Directors and Non-Executive Directors.

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

Consideration of conditions elsewhere in the Company
When making decisions on Executive Director remuneration, the Committee considers pay and conditions across PayPoint. In particular, it is anticipated that salary increases for senior executives will have regard to those of salaried employees as a whole.

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

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.

Directors' Remuneration Report

continued

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 the policy 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 the policy table). Dividends may 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

Element and link to strategy	Operation	Opportunity	Performance metrics
Variable			
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.	N/A
All-employee share plans Encourage share ownership across all employees	Operation of an HMRC-approved 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 Remuneration Policy as detailed in this report, and Executive Directors will be eligible to receive payment from any historical share awards made.

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

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

- misconduct
- material misstatement
- error in calculation
- serious reputational damage to the Company

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

Use of discretion

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

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

Any use of discretion by the Committee during the financial year will be detailed in the relevant Annual Report on Remuneration.

Performance measure selection

Profit before tax and exceptional items, has been selected as the primary financial measure for the annual bonus plan with effect from 1 April 2019 in the interests of greater internal alignment, line of sight and simplicity. This will be supplemented by a revenue measure for a minority of the bonus to reflect the importance of sustainable revenue growth to the Company achieving earnings growth. 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.

Directors' Remuneration Report
continued

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

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

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

During the year, the Committee adopted a restricted share plan for below Board participants only. The plan was established to enable the grant of a modest number of share-based retention awards to ensure that our critical talent is appropriately retained and aligned to the interests of the Directors and shareholders. Those awards will vest in two equal tranches on the second and third anniversary of the grant date, subject to continued employment and achievement of satisfactory performance appraisals. This plan will be put forward for shareholder approval at the annual general meeting, including approval of those awards that have been made in the last 12 months to ensure the retention of critical talent in light of the succession of the Chief Executive. Further details of the plan are set out in the notice of annual general meeting on page 123.

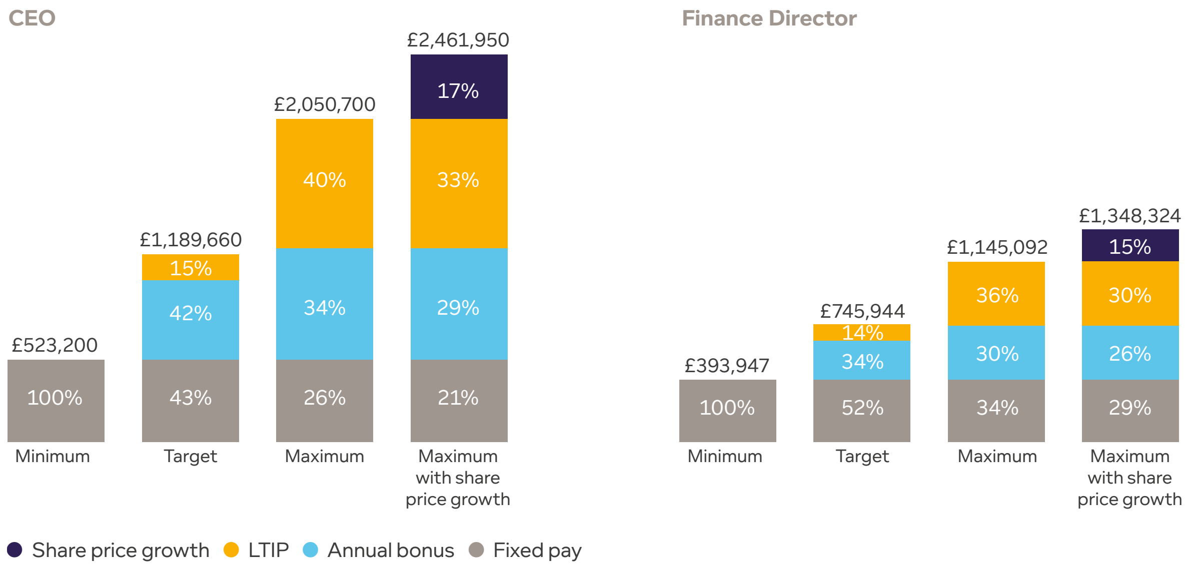
Non-Executive Director remuneration
The remuneration of the Non-Executive Directors is within the limits set by the articles of association. Non-Executive Directors do not participate in any bonus plan or share incentive programme operated by the Company and are not entitled to pension contributions 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 four different performance scenarios: minimum, target, maximum and maximum with share price.



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

	Component	Minimum	Target	Maximum	Maximum with share price growth
Fixed	Base salary	Salary as at 1 July 2019			
	Pension	Estimated value for year ending 31 March 2020			
	Other benefits	Estimated value for year ending 31 March 2020 (excluding any one-off relocation allowance)			
Annual bonus (Maximum opportunity of 150% of salary for the CEO and 106% of salary for the Finance Director)		No bonus payable	Target bonus: 80% of maximum for financial targets, 50% of maximum for strategic/personal targets	Maximum bonus	As per maximum
LTIP (Awards of 175% of salary for the Chief Executive and 125% of salary for the Finance Director)		No LTIP vesting	Threshold vesting 25% of maximum (20% of maximum for the CEO)	Maximum vesting	As per maximum but with a 50% share price growth assumption

For simplicity, the value of any SIP awards are excluded.

Directors' Remuneration Report
continued

Approach to recruitment remuneration
External appointment
In the cases of hiring or appointing a new Executive Director from outside the Company, the Remuneration Committee may make use of all the existing components of remuneration, as follows:

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

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

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

Non-Executive Directors
In recruiting a new Non-Executive Director, the Remuneration Committee will utilise the prevailing shareholder approved Policy.

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
Patrick Headon	12 months	18 February 2019
Rachel Kentleton	12 months	15 July 2016

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

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

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

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 2019	Date of appointment	Notice period
Nick Wiles	26 July 2018	847 days	22 October 2009	1 month
Gill Barr	26 July 2018	847 days	1 June 2015	1 month
Giles Kerr	26 July 2018	847 days	20 November 2015	1 month
Rakesh Sharma	12 May 2017	483 days	12 May 2017	1 month

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

Directors' Remuneration Report
continued

ANNUAL REPORT ON REMUNERATION

The following section provides details of how PayPoint's Remuneration Policy was implemented during the financial year ended 31 March 2019 and how it will be implemented for the year ending 31 March 2020. 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.

Remuneration Committee membership in 2018/2019

The Remuneration Committee is responsible for developing policy on remuneration for Executive Directors, the Executive Board and senior managers, and for determining specific remuneration packages for each of the Executive Directors. The Committee members excluding the Board Chairman, are all independent Directors. Rakesh Sharma is currently Chairman of the Committee, with Gill Barr, Giles Kerr and Nick Wiles as members. The Remuneration Committee is formally constituted with written terms of reference which set out the full remit of the Committee. The terms of reference are also available on the Company's website at www.corporate.paypoint.com.

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

In undertaking its responsibilities, the Committee seeks independent external advice as necessary. To this end, the Committee continued to retain the services of FIT Remuneration Consultants LLP as the principal external advisers to the Committee during the financial year. The Committee is comfortable that the FIT team provides independent remuneration advice to the Committee and do not have any other connections with PayPoint that may impair their independence. FIT is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at (www.remunerationconsultantsgroup.com). During the year, FIT provided independent advice on a wide range of remuneration matters including the Remuneration Policy implementation, the Board changes and remuneration benchmarking. FIT provides no other services to the Company. The fees paid to FIT (on the basis of time and materials) in respect of work carried out for the year under review were £44,617 (excluding VAT).

Summary of shareholder voting

The following table shows the results of the binding vote on the Remuneration Policy Report at the 26 July 2017 annual general meeting and the shareholder advisory vote on the 2018 Annual Report on Remuneration at the 26 July 2018 annual general meeting.

	2017 – Remuneration Policy		2018 – Remuneration Report	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	56,250,235	96.12%	59,395,563	99.34%
Against	2,269,240	3.88%	397,022	0.66%
Total votes cast (excluding withheld votes)	**58,519,475**		**59,792,858**	
Total votes withheld[1]	787,946		401	
Total votes cast (including withheld votes)	59,307,421		59,792,986	

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 2019 and the prior period:

	Dominic Taylor £'000		Rachel Kentleton £'000[6]	
	2019	2018	**2019**	2018
Base salary	**502**	490	**316**	308
Taxable benefits[1]	**26**	27	**21**	21
Pension[2]	**80**	78	**47**	46
Annual bonus[3]	**535**	490	**230**	204
Long-term incentives[4]	**648**	185	**–**	–
Other[5]	**12**	10	**58**	2
Total	**1,803**	1,280	**672**	581

1. Taxable value of benefits received in the year by executives relates to a car allowance of £17,500 (2018: £17,500) for Dominic Taylor, £13,200 (2018: £13,200) for Rachel Kentleton, petrol, medical insurance, life assurance and private health insurance.
2. Pension during the year: the Company made contributions of 16% of salary to Dominic Taylor and 15% of salary to Rachel Kentleton.
3. Annual bonus: this is the total bonus earned in respect of performance during the relevant year, including deferred amounts. 25% of the annual bonus (50% for the Chief Executive) is normally deferred in shares under the DABS. Further details of annual bonus awards for 2019 can be found in the Annual Report on Remuneration.
4. Long-term incentives: for 2019, this is the value of LTIP awards granted in 2016 based on interim performance to 30 April 2019 and which will vest on 2 June 2019. The share price used to calculate the estimated market value is based on the three-month average price to 31 March 2019 of £8.57. Further details can be found on page 77. For 2018, the long-term incentive figures have been re-stated based on the value at vesting (as opposed to the estimated value used in last year's report) of DABS and LTIP awards which were granted in 2015 and which vested in 2018 .
5. SIP matching and dividend shares awarded in the period valued at the average share price calculated over three months to 31 March 2019 of £8.57 (2018: £8.53). 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. For Rachel Kentleton, this figure also includes the value of 6,379 shares granted under Listing Rule 9.4.2 and disclosed previously, that were exercised in March 2019 at a share price of £8.78.
6. In the year to 31 March 2019 and not included in the table above, Rachel Kentleton also received fees of £75,000 for her service as a non-executive director of Persimmon plc.

Single total figure of remuneration for the Chairman and Non-Executive Directors (audited)

The table below sets out a single figure for the total remuneration received by the Chairman and each Non-Executive Director for the year ended 31 March 2019 and the prior year:

	Base fee £'000		Committee Chair fees £'000		Senior Independent Director fees £'000		Chairman fees £'000		Total £'000	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Chairman										
Nick Wiles	**–**	–	**–**	–	**–**	–	**165**	165	**165**	165
Non-Executive Directors										
Gill Barr	**47**	47	**–**	–	**–**	–	**–**	–	**47**	47
Giles Kerr	**47**	47	**9**	9	**5**	4	**–**	–	**61**	60
Rakesh Sharma	**47**	41	**9**	8	**–**	–	**–**	–	**56**	48
Former Directors[1]	**–**	22	**–**	1	**–**	1	**–**	–	**–**	24
Total	**141**	157	**18**	18	**5**	5	**165**	165	**329**	343

1. Neil Carson resigned on 26 May 2017 and received fees of £9,000 and David Morrison resigned on 26 July 2017 and received fees of £15,000 in the year ended 31 March 2018.

Incentive outcomes for the year ended 31 March 2019

Annual bonus in respect of 2018/19 performance

The annual bonus for the year ended 31 March 2019 was based on economic profit and strategic targets.

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

Economic profit targets:

Measure	Maximum value	Threshold (20% of maximum) £'000	Target (80% of maximum) £'000	Stretch (100% of maximum) £'000	Actual achieved £'000	Dominic Taylor	Rachel Kentleton
Group economic profit	106% of salary (Chief Executive) 80% of salary (Finance Director)	35,003 (90% of plan)	38,892 (100% of plan)	42,782 (110% of plan)	38,803	79% of max 84% of salary	79% of max 63% of salary

Strategic targets:

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

Target	Performance and bonus earned: Chief Executive	Performance and bonus earned: Finance Director
Successful roll out of PayPoint One	14.6% of salary	13% of salary
	Threshold: 12,400 sites by 31 March 2019 (payout 20% of maximum) Target: 50% based on 12,900 sites by 31 March 2019, 50% based on achievement of revenue target by 31 March 2019 (pay-out 80% of maximum) Maximum: 13,400 sites generating revenue target by 31 March 2019 (payout 100% of maximum) Actual: 12,881 sites achieved resulting in a payout of 78.5% of maximum, 97% of revenue target achieved resulting in a payout of 34% of maximum. This resulted in a total payout of 56% of maximum	
Implementation of a Customer Relationship Management (CRM) system	14.6% of salary	13% of salary

Directors' Remuneration Report
continued

Target	Chief Executive	Performance and bonus earned Finance Director
	Threshold: n/a Target: delivery of pipeline replacement (workflow), retailer billing and sign-up releases within target release dates and budget. Maximum: delivery ahead of target release dates and budget (payout 100% of maximum). Actual: pipeline replacement was deployed to the business in August within budget and target release date. This increased efficiency levels by c.40%. Good progress was made in preparing for the deployment of the retailer billing and sign up releases although as full delivery was not achieved 20% of the maximum was awarded.	
Delivery of an agreed succession plan aligned to wider talent management activities (target only applies to the Chief Executive)	14.6% of salary	n/a
	The succession plan objectives set for the Chief Executive for 2018/19 were in respect of: • implementation of agreed action plans to support the preparation of an internal succession candidate • supporting the transition of Tim Watkin-Rees to the role of Founder following his decision to step down from the Board • ensuring that new hires integrate well and fast into the business • supporting the evolution of the Operations Management Group (OMG) to ensure it becomes effective Actual: following a review of the Chief Executive's progress in respect of developing and implementing the comprehensive succession plan, the Remuneration Committee awarded a payout of 80% of maximum of this part of the bonus award	
Maximum value	44% of salary	26% of salary
% of potential award	52% of maximum	38% of maximum
% of salary award	23% of salary	10% of salary

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

	Maximum		Outcomes	
	Chief Executive	Finance Director	Chief Executive	Finance Director
Financial – % of award (% of salary)	71% (106%)	75% (80%)	79% of maximum 84% of salary	79% of maximum 63% of salary
Strategic – % of award (% of salary)	29% (44%)	25% (26%)	52% of maximum 23% of salary	38% of maximum 10% of salary
Total (% of salary)	100% (150%)	100% (106%)	107% of salary	73% of salary
Total (% of maximum)			71% of maximum	69% of maximum

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

25% of the Finance Director's bonus will be deferred into shares which will vest after three years from grant, subject to continued employment. No deferral will apply to Dominic Taylor's bonus award given the announcement of his departure date.

2016 LTIP vesting

With respect to the LTIP awards granted on 2 June 2016, vesting is based 100% on TSR. The three-year performance period for these awards will end on 1 June 2019 with vesting on the third anniversary of the date of grant. Further details relating to these awards are provided in the table below, based on TSR calculations ran to 30 April 2019:

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

Further details of the vesting for Dominic Taylor are as follows:

Director	Interests held	Implied % vesting	Number of shares vesting	Date of vesting	Value £'000[1]
Dominic Taylor	75,585	100%	75,585	2 June 2019	£648

1. As the price on the date of vesting is unknown, the value of an award is calculated by multiplying the number of shares which vested by the average three-month share price to 31 March 2019 of £8.57.

Scheme interests awarded in the year ended 31 March 2019

LTIP

In the year under review, LTIP awards were granted with a face value of 175% of salary for the Chief Executive and 125% of salary for the Finance Director. The awards will vest on the third anniversary of the date of grant, 4 June 2021, and will be subject to a holding period which will end on the fifth anniversary of the date of grant, being 4 June 2023. One half of each award is subject to a performance condition based on relative TSR vs. the FTSE 250 index (excluding companies in the Oil & Gas, Mining and Utilities sectors). The other half of each award is subject to three-year EPS growth targets. Details of the awards granted are as follows:

Executive Director	Basis of award	Number of shares	Face value[1]	Potential award for minimum performance	Performance period	Performance measures	
Dominic Taylor	175% of salary	87,023	£878,932	25% of face value	TSR: 4 June 2018 to 3 June 2021 EPS: 1 April 2018 to 31 March 2021	50% on TSR relative vs. FTSE 250 Index (excluding companies in the Oil & Gas, Mining and Utilities sectors): • 0% vesting below median • 25% vesting at median (20% for the Chief Executive) • 100% vesting at upper quartile (upper quintile for the Chief Executive) • straight-line vesting in between these points	50% on EPS • 0% vesting at less than 4% p.a. • 25% vesting at 4% p.a. (20% for the Chief Executive) • 100% vesting at 10% p.a. or more • straight-line vesting between these points
Rachel Kentleton	125% of salary	39,071	£394,617				

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, 3 June 2018, of £10.10.

Payments to past Directors (audited)

As per the announcement on 19 February 2019, Dominic Taylor stepped down as a director of PayPoint plc with effect from 1 April 2019. He will remain an employee until 31 December 2019 to ensure a thorough transition. No termination payments were or will be made. Dominic continued to receive his normal remuneration arrangements until 31 March 2019. Subsequent to stepping down from the Board he is: (i) receiving a reduced salary, payable on a monthly basis; (ii) no longer eligible to receive benefits or pension; (iii) not eligible to participate in the annual bonus plan in respect of 2019/20; and (iv) not eligible to receive future LTIP awards. He was eligible to receive his annual bonus for the year ended 31 March 2019, which is payable at the normal payment date in cash. Unvested deferred annual bonus and LTIP awards will continue to vest at the normal vesting dates and in respect of his LTIP awards, vesting will be subject to time pro-rating and the extent to which the performance targets are met. The time pro-rating calculation for LTIPs will be based on the extent of the respective vesting periods the individual has served to the AGM on 25 July 2019, rather than the default date under the LTIP rules, which is the date of cessation of employment (31 December 2019).

George Earle stepped down as a Director on 31 March 2017. On 1 June 2018, his LTIP awards granted in 2015 partially vested on a pro-rated basis and he received 11,076 shares with a gross value of £110,095.

Directors' Remuneration Report
continued

Tim Watkin-Rees stepped down as a Director on 31 March 2018. On 1 June 2018, his LTIP awards granted in 2015 partially vested on a pro-rated basis and he received 17,045 shares with a gross value of £169,427. In addition, on 1 June 2018, 7,672 shares granted to him in 2015 under the deferred annual bonus scheme were released to him with a gross value of £76,259.

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 2018 to 2019			
	Chief Executive			
	2019 £'000	2018 £'000	% change	Average % change for other employees[1]
Salary	**502**	490	2.5%	4.7%
Taxable benefits	**26**	27	-0.6%	-0.5%
Annual bonus	**535**	490	9.2%	7.7%[2]
Total	**1,064**	1,007	5.3%	

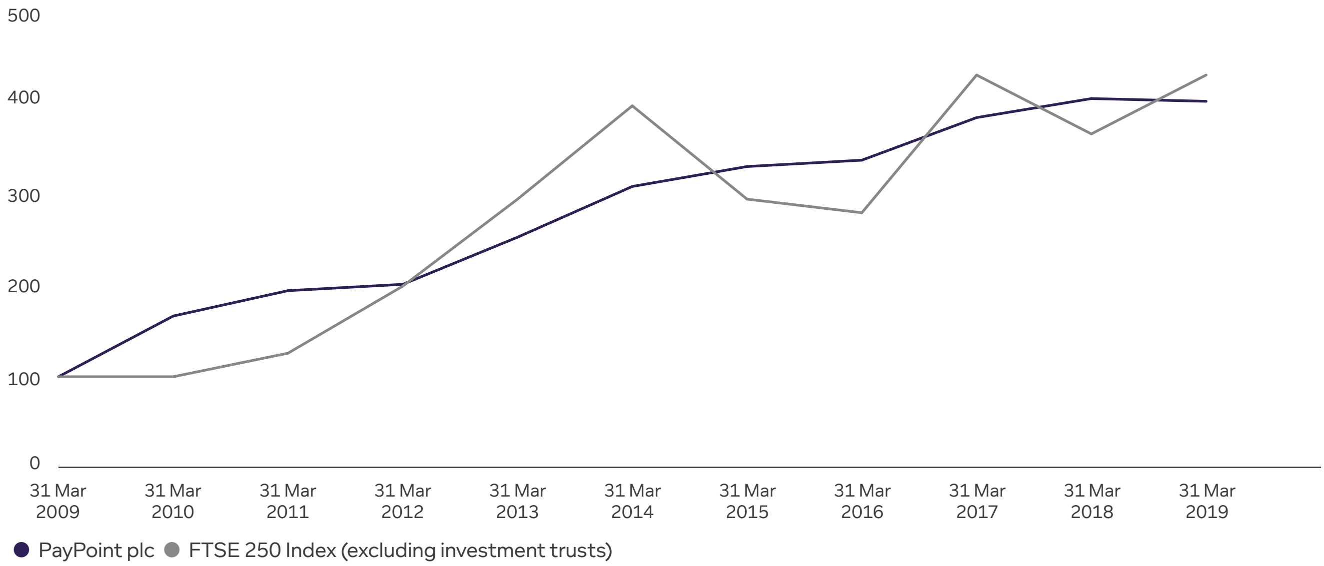
1. Increase in salary is for UK based employees who were employed by PayPoint for the entirety of both financial years, but excludes those who were promoted to a new role.
2. Increase is for UK based employees who earned a bonus payout in both financial years.

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 2018 and ended 31 March 2019.

	Total employee pay expenditure £'000	Distributions to shareholders £'000
2019	30,137	56,561
2018	26,683	55,898
% change	12.9%	1.2%

Pay for performance
The graph below compares the value of £100 invested in PayPoint shares, including reinvested dividends, with the FTSE 250 Index (excluding investment trusts) over the last ten 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.

Total Shareholder Return (rebased to 100)



	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
Chief Executive single figure of remuneration (£'000)	637	677	1,067	2,639	2,247	1,215	911	1,121	1,280	**1,803**
Annual bonus payout (as % of maximum)	84.5%	80.9%	88.7%	86.2%	91.4%	88.1%	31.0%	64.8%	66.7%	**71%**
LTIP vesting (as % of maximum)	0%	0%	40.10%	100%	100%	0%	0%	0%	30%	**100%**

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 2019:

	Shares held				Shareholding guidelines[2]		
	Owned outright or vested[1]	Unvested and subject to holding period	Unvested and subject to performance conditions	Current shareholding	% of salary	Shares	Met?
Dominic Taylor	1,875,676	40,903	262,317	1,875,676	200%	114,353	Yes
Rachel Kentleton	5,112	12,408	83,838	5,112	150%	53,909	No
Gill Barr	2,595						
Giles Kerr	7,500						
Rakesh Sharma	2,232						
Nick Wiles	35,000						

1. Current shareholding includes SIP shares other than SIP matching shares and SIP dividend shares subject to a holding period.
2. Executive Directors are required to hold shares of a value equivalent to 150% of their salaries (200% of salary for the Chief Executive) as at 1 April 2019. An average three-month share price to 31 March 2019 of £8.57 has been used to calculate this guideline.

The market price of the Company's shares on 31 March 2019 was £8.57 (31 March 2018: £8.07 per share) and the low and high share prices during the period were £7.48 and £10.76 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 2018	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 2019**	Share price at grant (£)	Value of shares awarded	Date of grant	Lapse/Release date
Dominic Taylor	LTIP[1]	72,423	–	29,403	43,020	**–**	£9.46	£685,122	01.06.15	01.06.18
	LTIP[1]	75,585	–	–	–	**75,585**	£9.40	£710,499	02.06.16	02.06.19
	LTIP[2]	99,709	–	–	–	**99,709**	£8.60	£857,497	26.07.17	26.07.20
	LTIP[3]	–	87,023	–	–	**87,023**	£10.10	£878,932	04.06.18	04.06.21
Rachel Kentleton	9.4.2	10,741	–	5,371	–	**5,370**	£10.25	£110,095	02.02.17	02.02.19-20
	LTIP[2]	44,767	–	–	–	**44,767**	£8.60	£384,996	26.07.17	26.07.20
	LTIP[3]	–	39,071	–	–	**39,071**	£10.10	£394,617	04.06.18	04.06.21

1. LTIP awards will only vest if the Company's comparative TSR performance is equal to or greater than the median level of performance over the three year-performance period, at which point 25% of awards will vest, with full vesting occurring for upper quartile performance with pro-rata vesting between points.
2. 50% of LTIP awards will only vest if the Company's comparative TSR performance is equal to or greater than the median level of performance over the three-year performance period, at which point 25% of awards will vest (20% for the Chief Executive's awards), with full vesting occurring for upper quartile (upper quintile for the Chief Executive's awards) performance with pro-rata vesting between points. 50% of LTIP awards will only vest if the Company's EPS grows by 5% p.a., at which point 25% of awards will vest (20% for the Chief Executive's awards), with full vesting occurring for EPS growth of 12% p.a. with pro-rata vesting between points.
3. 50% of LTIP awards will only vest if the Company's comparative TSR performance is equal to or greater than the median level of performance over the three-year performance period, at which point 25% of awards will vest (20% for the Chief Executive's awards), with full vesting occurring for upper quartile (upper quintile for the Chief Executive's awards) performance with pro-rata vesting between points. 50% of LTIP awards will only vest if the Company's EPS grows by 4% p.a., at which point 25% of awards will vest (20% for the Chief Executive's awards), with full vesting occurring for EPS growth of 10% p.a. with pro-rata vesting between points.

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

	Number of shares at 31 March 2018	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
Dominic Taylor	11,137	–	11,137	–	**–**	£105,356	01.06.15	01.06.18
	3,921[2]	–	–	–	**3,921**	£38,857	07.06.16	07.06.19
	9,093[3]	–	–	–	**9,093**	£84,341	05.06.17	05.06.20
	–	24,260[4]	–	–	**24,260**	£245,026	04.06.18	04.06.21
Rachel Kentleton	1,378[3]	–	–	–	**1,378**	£12,782	05.06.17	05.06.20
	–	5,062[4]	–	–	**5,062**	£51,126	04.06.18	04.06.21

1. The release of shares is dependent upon continuous employment for a period of three years from the date of grant.
2. £9.91 per share.
3. £9.27 per share.
4. £10.1 per share.

Directors' Remuneration Report
continued

Share Incentive Plan (audited)

	Number of Partnership Shares purchased at 31 March 2018	Number of Matching Shares awarded at 31 March 2018	Number of Free Shares[1] awarded at 31 March 2018	Number of Dividend Shares[2] acquired at 31 March 2018	Total shares at 31 March 2018	Number of Partnership Shares[3] purchased during the period	Number of Matching Shares[4] awarded during the period	Number of Dividend Shares acquired during the period	Dates of release of Matching and Free Dividend Shares[5]	**Total shares at 31 March 2019**
Dominic Taylor	3,522	3,522	1,562	4,042	12,648	171	171	1,189	23 April 2021 – 22 March 2022	**14,179**
Rachel Kentleton	316	316	0	37	669	171	171	74	23 April 2021 – 22 March 2022	**1,754**

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 £8.11 to £9.49).
4. Matching Shares are ordinary shares of the Company awarded conditionally on a monthly basis during the period (at prices from £8.11 to £9.49).
5. The dates used are based on the earliest allocation of the matching shares.

Implementation of Remuneration Policy for 2019/2020

Base salary

Current base salary levels, and those from 1 July 2019 (the normal salary review date) are as follows:

	From 1 July 2018[1]	**From 1 July 2019**	% increase
Patrick Headon	£470,000	**£470,000**	0%
Rachel Kentleton	£315,700	**£325,171**	3%

1. From appointment.

Rachel Kentleton's base salary was increased by 3% in line with the general workforce.

Benefits

Patrick Headon will receive a £25,000 annual benefit allowance in respect of car allowance, petrol, life insurance,medical insurance and permanent health insurance. In addition, in March 2019 he received a one-off relocation allowance of £47,000, subject to deductions for income tax and national insurance and remaining in employment for a minimum of two years from date of payment. Rachel Kentleton's benefits will continue to comprise a car allowance, petrol, medical insurance, life assurance and permanent health insurance.

Pension (policy limit: 20% of salary)

Pension provision, offered in the form of pension and/or a salary supplement, will be 6% of salary for Patrick Headon (in line with the average workforce pension provision) and remain at 15% of salary for Rachel Kentleton.

Annual bonus (policy limit: 150% of salary)

For the year ending 31 March 2020, profit before tax will replace economic profit in the interests of greater internal alignment, line of sight and simplicity and revenue is being introduced for a minority of the bonus to reflect the importance of sustainable revenue growth to the Company achieving earnings growth. The Chief Executive's annual bonus potential for the year ending 31 March 2020 will be 150% of salary with 90% of salary based on profit before tax targets, 30% based on revenue targets and 30% based on stretching strategic targets based on the roll out of PayPoint One, the continued implementation of our Customer Relationship Management (CRM) system and a number of objectives in respect of his first year in the role. 50% of the Chief Executive's bonus will be deferred into shares for three years.

Bonus potential for the Finance Director will remain at 106% of salary with 25% deferred. 64% of salary will be based on profit before tax targets, 21% will be based on revenue targets and 21% will be subject to the PayPoint One and CRM strategic targets set out above.

No bonus will be payable under the revenue targets unless at least the threshold profit before tax is achieved. In addition, in considering any payout related to the revenue and strategic targets, the Committee may at its discretion adjust the payment of bonus downwards (including to zero), in order to reflect the underlying performance of the business.

Full details of the annual bonus targets for the 2019/20 financial year and performance against the targets will be disclosed in next year's Annual Report on Remuneration.

LTIP (policy limit: 200% of salary)

LTIP awards will be granted in 2019 at 175% of salary for the Chief Executive and 125% of salary for the Finance Director. Targets will continue to measure absolute EPS growth and relative Total Shareholder Return. The performance targets, metrics and vesting for the LTIP awards to be granted in 2019 and which are expected to vest in 2022 will be as follows:

	EPS For 50% of awards		Relative TSR[1] For 50% of awards	
Below threshold	0%	Below 4% p.a.	0%	Below median
Threshold	25% (20% for the CEO)	4% p.a.	25% (20% for the CEO)	Median
Maximum	100%	10% p.a.	100%	Upper quartile (Upper quintile for the CEO)

1. Constituents of the FTSE 250 excluding oil & gas companies, mining and utilities.

In setting the performance targets for the EPS part of the 2019 LTIP awards, the Committee considered a number of reference points, including internal financial planning forecasts, external market consensus and a broader view of market conditions. The proposed targets were also set in compliance with the Company's overall risk profile.

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

In addition, the 2019 LTIP awards will be subject to a two-year holding period after vesting (for the net of tax shares), which will continue to apply post cessation.

Chairman and Non-Executive Director fees

Chairman and Non-Executive Director fees are as follows:

	From 1 April 2019	From 1 April 2018
Base fees		
Chairman	£170,000	£165,000
Non-Executive Director	£48,500	£46,625
Additional fees		
Chairman, Audit Committee	£9,200	£8,700
Chairman, Remuneration Committee	£9,200	£8,700
Senior Independent Director	£6,100	£5,100

Following a review of respective time commitments and fee levels and noting that fees have not increased since 1 April 2016, with effect from 1 April 2019, Non-Executive Director base fees were increased by 4.02% while the additional fees for chairing a Committee and acting as Senior Independent Director were increased by £500 and £1,000 p.a. respectively. In addition, noting that the Chairman's fee had not been increased since his appointment in 2015, Nick Wiles' fee was increased by 3.03% to £170,000 p.a. from 1 April 2019.

This Report covers the remuneration of all Directors that served during the period.

This Report was approved by the Remuneration Committee on 22 May 2019 and signed on its behalf by:

Rakesh Sharma
Chairman, Remuneration Committee

Directors' Report

The Directors present their Annual Report on the affairs of the Company and of the Group, together with the financial statements and Independent Auditor's Report, for the year ended 31 March 2019.

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 43 and it is incorporated into this Directors' Report by reference. The Company has chosen to set out certain matters in this Strategic Report that would otherwise be required to be disclosed in the Directors' Report. These matters include disclosures concerning: greenhouse gas emissions (page 43); use of financial instruments (page 120); credit risk and price risk (page 120); employment of disabled persons (page 38); employee involvement (pages 38 and 39); diversity (page 38) and likely future developments in the business (pages 10 to 13).

Principal activity

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

PayPoint UK and Romania process transactions for payment products and services and collect payments on behalf of leading utility and customer service organisations in convenience retail outlets. This is done using innovative and time-saving technology that empowers convenience retailers in the UK and Romania to achieve higher footfall and increased spend so they can grow their businesses profitably. 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 including card payments, EPoS solutions, ATMs and other value add services.

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

PayPoint has a 50% interest in Collect+ Holdings Limited, a joint arrangement with Yodel. Collect+ Brand Limited, which owns the Collect+ brand, is a wholly owned subsidiary of Collect+ Holdings Limited. The Collect+ network offers parcel collection and return services in over 7,100 retailer outlets.

Substantial shareholdings

The Company had been notified of the following disclosable interests in the voting rights of the Company as required by DTR 5 of the FCA's Disclosure Guidance and Transparency Rules. As at 31 March 2019:

Name of holder	Number of ordinary shares	Percentage of issued capital
Woodford Investment Management	12,749,871	18.68
Liontrust Investment Partners LLP	10,231,988	14.99
Capital Research & Management	5,399,900	7.91
Aberdeen Standard Investments	5,106,969	7.48
Evenlode Investment Management Ltd	3,197,966	4.69
Schroders Plc	2,120,567	3.11

No additional notifications have been received by the Company between 31 March 2019 and the date of this Report.

All notifications made to the Company under DTR 5 are published on the Regulatory Information Service and made available on the Company's website.

Share capital

As at 31 March 2019 , 68,243,406 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 2019, 62,861 ordinary shares were issued under the Company's share schemes. The rights and obligations attaching to the Company's ordinary shares, as well as the powers of the Company's Directors are set out in the Company's articles of association, copies of which can be obtained from Companies House or by writing to the Company Secretary.

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

At the annual general meeting on 26 July 2018, the Directors were given authority to purchase 10% of its issued share capital, allot relevant securities up to an aggregate nominal amount of £75,757 and to disapply pre-emption rights in respect of allotments of relevant securities up to an aggregate nominal amount of £11,364. Resolutions to renew these authorities will be proposed at the 2019 annual general meeting, details of which are set out in the notice of meeting on pages 123 to 130.

Directors

The names of the Directors at the date of this Report and their biographical details are on pages 44 and 45. Their interests in the ordinary shares of the Company are on page 79. During the financial year, Dominic Taylor stepped down from his role as Chief Executive and Director of the Board, and was replaced by Patrick Headon with effect from 1 April 2019.

Results for the year

The consolidated income statement, statement of financial position and statement of cash flow for the year ended 31 March 2019 are set out on pages 94 to 97. An analysis of risk is set out on pages 32 to 34, and of risk management on page 63. The statement of financial position and statement of cash flow of the holding company for the year ended 31 March 2019 are set out on pages 98 and 99. Since 1 April 2019, there have been no post balance sheet events that would impact the Company.

Qualifying third party indemnity provisions for the benefits of directors

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

Change of control

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

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

Suppliers' payment policy

Terms of payment are agreed with individual suppliers prior to supply. The Group aims to pay its creditors promptly, in accordance with terms agreed for payment, provided the supplier has provided the goods or services in accordance with the agreed terms and conditions. Further information can be obtained from the Government's payment practice reporting portal.

Charitable and political donations

The Group made no political donations during the year (2018: nil). Details of the charitable donations policy can be found within the Strategic Report on page 41.

Employee matters and environmental issues

Employee matters and environmental issues are set out in the Strategic Report on pages 36 to 39.

Related party transactions

Related party transactions that took place during the year can be found in note 26.

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 2 to 15.

Dividends

On 24 May 2018, the Company announced a transition to quarterly dividends with effect from 1 April 2019. Shareholders were informed that four equal dividends would be payable in July, September, December and March, and that this change will not alter the quantum of dividend that will be paid to shareholders within a financial year. Therefore the Directors recommend the payment of a final ordinary dividend of 23.6p (2018: 30.6p) per ordinary share amounting to £16.1 million (2018: £20.9 million) and a final additional dividend of 18.4p (2018: 24.4p) per ordinary share amounting to £12.6 million (2018: £16.7 million) both to be paid, if approved, in two equal instalments of 21.0p per ordinary share on: 29 July 2019 to members on the register on 28 June 2019, and 30 September 2019 to members on the register on 6 September 2019.

During the period, an interim ordinary dividend of 15.6p per share (2018: 15.3p per share) amounting to £10.6 million (2018: £10.4 million) and an additional interim dividend of 12.2p (2018: 12.2p) per ordinary share amounting to £8.3 million (2018: £8.3 million) were declared and paid.

The dividend policy including all the dividends declared during the year are set out in the Strategic Report on page 29.

Going concern

At the end of the year, the Group had cash of £37.5 million, and an undrawn £75.0 million revolving term credit facility with accordion option of £20 million, expiring in March 2023. The Company's cash and borrowing capacity is adequate to meet the foreseeable needs of the Group, taking into account any risks (see pages 32 to 34). 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 28 of the Strategic Report and commentary on financial risk management is shown in note 24.

Independent auditor

KPMG LLP has expressed its willingness to continue as the Company's auditor and a resolution for its reappointment will be proposed at the forthcoming annual general meeting. The notice of the annual general meeting can be found on pages 123 to 130.

Corporate governance statement

The information that fulfils the requirements of the corporate governance statement for the purposes of the FCA's Disclosure Guidance and Transparency Rules can be found in this Directors' Report and in the Corporate Governance section on pages 44 to 85 (which is incorporated into this Directors' Report by reference).

Directors' Report
continued

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
2. the Director has taken all the steps that he/she ought reasonably to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

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

Annual general meeting
The annual general meeting will be held at PayPoint's head office, 1 The Boulevard, Shire Park, Welwyn Garden City AL7 1EL on 25 July 2019. The notice of meeting and explanatory information on the resolutions to be passed at the annual general meeting can be found on pages 123 to 130 of the Annual Report.

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

Susan Court
Company Secretary
22 May 2019

Statement of Directors' responsibilities
in respect of the Annual Report and the financial statements

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

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

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

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and corporate governance statement that complies with that law and those regulations.

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

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

We confirm that to the best of our knowledge:

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

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

Rachel Kentleton
Finance Director
22 May 2019

Independent Auditor's Report to the members of PayPoint plc

1. Our opinion is unmodified

We have audited the financial statements of PayPoint plc ('the Company') for the year ended 31 March 2019 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows, company statement of financial position, company statement of changes in equity, company statement of cash flows, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were first appointed as auditor by the Directors on 15 August 2017. The period of total uninterrupted engagement is for the two financial years ended 31 March 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£2.5m (2018: £2.5m) 4.6% (2018: 4.7%) of profit before tax
Coverage	100% (2018: 99%) of Group profit before tax
Key audit matters	**vs 2018**
Recurring risks	Revenue recognition
	Recoverability of parent Company's investment in subsidiaries (parent)
Event driven	**New:** The impact of uncertainties due to the UK exiting the European Union on our audit

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

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

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 60 (Audit Committee Report), page 100 (accounting policy) and page 94 (financial disclosures).*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in the Recoverability of the Parent Company's investment in subsidiaries below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and the viability statement and to consider the Directors' statement that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	Our procedures included: We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks; • **Sensitivity analysis:** When addressing the Recoverability of the Parent Company's investment in subsidiaries and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the parent Company's investment in subsidiaries we considered all of the Brexit related disclosures together, including those in the Strategic Report, comparing the overall picture against our understanding of the risks. **Our results** • As reported under Recoverability of the Parent Company's investment in subsidiaries, we found the resulting estimates and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Independent Auditor's Report to the members of PayPoint plc

continued

2. Key audit matters: including our assessment of risks of material misstatement (continued}

	The risk	Our response
Revenue recognition *Refer to page 60 (Audit Committee Report), page 100 (accounting policy) and page 94 (financial disclosures).*	**Data capture and processing error:** The risk is that revenue is misstated due to inherent complexities involved in capturing and processing the high volume of low-value transactions generated across the Company's off-site terminal network. IT systems may not be configured appropriately such that data does not correctly flow through the IT systems.	Our procedures included: • **Control operation:** Testing controls over the general IT environment, with the support of our IT specialists to assess whether the polling, billing and general ledger systems are appropriately controlled. These procedures included testing access to programmes and data, programme change and development to address the risk of unauthorised changes being made to the operation of IT application controls; • **Control operation:** Testing key automated controls (with the support of our IT specialists) and manual controls, including controls that are designed to ensure reconciliations are performed between system reports used to generate invoices and off-site terminal network systems, are configured correctly. These controls support that revenue transactions are recorded and recognised in accordance with the Group's accounting policies; • **Tests of details:** Reconcile transactions recorded within tested polling system reports to the system reports used to generate invoices; • **Tests of details:** Using data analytical tools to test that revenue invoiced agrees through to cash received; and • **Tests of details:** On a sample basis, vouch revenue recorded back to supporting information including: – Examination of cash receipts from clients or third-party confirmations. – Agreeing settlement debtor and creditors to third-party confirmations, or subsequent cash transactions. **Our results** • The results of our procedures were satisfactory and we considered the amount of revenue recognised to be acceptable (2018: acceptable).

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

	The risk	Our response
Recoverability of parent Company's investment in subsidiaries (£60.2 million; 2018: £60.2 million) *Refer to page 60 (Audit Committee Report), page 100 (accounting policy) and page 94 (financial disclosures).*	**Low risk, high value:** The carrying amount of the parent Company's investments in subsidiaries represents 60.5% (2018: 61.8%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: • **Tests of detail:** Comparing the carrying amount of material investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit making; • **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit teams of those subsidiaries and considering the results of that work on those subsidiaries' profits and net assets; • **Comparing valuation:** For the investments where the carrying amount exceeded the net asset value, comparing the carrying amount of the investment with the expected value of the business based upon a discounted cash flow model; and • **Benchmarking assumptions:** We challenged the growth rate and discount rate for each investment where we tested the value in use calculation. We performed this by comparing the Group's assumptions to external data. **Our results** • The results of our procedures were satisfactory and we found the estimated recoverable amount of investments to be acceptable (2018: acceptable).

Independent Auditor's Report to the members of PayPoint plc
continued

3. Our application of materiality and an overview of the scope of our audit
Materiality for the Group financial statements as a whole was set at £2.5m (2018: £2.5m), determined with reference to a benchmark of Group profit before tax of £54.7m (2018: £52.9m) of which it represents 4.6% (2018: 4.7%).

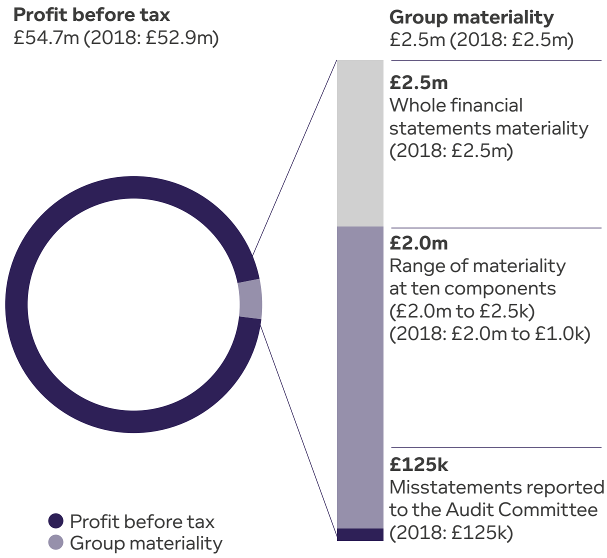
Materiality for the parent Company financial statements as a whole was set at £0.8m (2018: £2.0m), determined with reference to a benchmark of Company total assets, of which it represents 0.8% (2018: 2.1%).

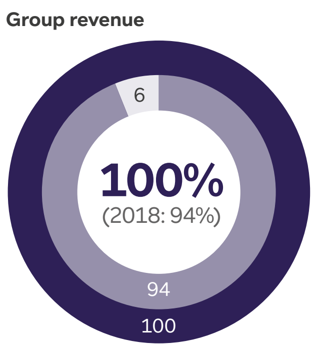
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £125k (2018: £125k) in respect of misstatements which relate solely to reclassifications within the balance sheet, £250k (2018: £250k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

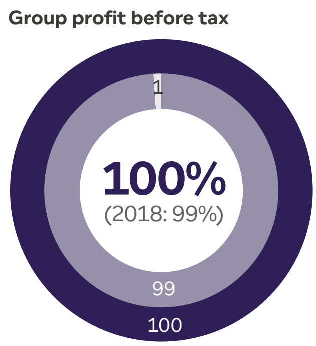
Of the Group's ten (2018: ten) reporting components, we subjected ten (2018: eight) to full scope audits for Group purposes and none (2018: one) to statutory audit to December and specified audit procedures for roll forward. The components within the scope of our work accounted for the percentages illustrated opposite. For the residual component in the prior year, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within this entity.

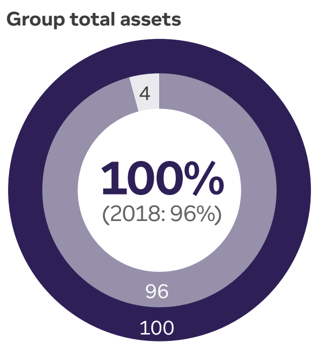
The Group team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £2.0m to £2,500 (2018: £2.0m to £1,000), having regard to the mix of size and risk profile of the Group across the components. The work on one (2018: one) of the components was performed by the component auditor and the rest, including the audit of the parent Company, was performed by the Group team.

The Group team visited the overseas component location in Romania (2018: two visits to Romania), to assess the audit risk and strategy and to assess the audit work performed. At this visit and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.









- Full scope for Group audit purposes 2019
- Full scope for Group audit purposes 2018
- Specified risk-focused audit procedures 2018

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ('the going concern period').

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and Company's available financial resources over this period was:

- The impact of Brexit on the wider economy, impacting demand for the Group's services.

As this was a risk that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the erosion of customer confidence, which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 65 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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

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

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

Strategic Report and Directors' Report

Based solely on our work on the other information:

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

Directors' Remuneration Report

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

Disclosures of principal risks and longer-term viability

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

- the Directors' confirmation within the viability statement on page 35 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the principal risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Independent Auditor's Report to the members of PayPoint plc
continued

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

We are required to report to you if the corporate governance statement does not properly disclose a departure from the 11 provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities
Directors' responsibilities
As explained more fully in their statement set out on page 85, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

Irregularities – ability to detect
We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at Group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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

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

22 May 2019

Consolidated statement of profit or loss

	Note	**Year ended 31 March 2019 £'000**	Year ended 31 March 2018 £'000
Continuing operations			
Revenue	3	**211,576**	213,515
Cost of revenue	5	**(113,303)**	(113,565)
Gross profit		**98,273**	99,950
Administrative expenses		**(44,319)**	(46,489)
Operating profit		**53,954**	53,461
Finance income		**427**	95
Finance costs		**(586)**	(609)
Profit before tax before exceptional items		**53,795**	52,947
Exceptional items – prior year business disposals	8	**922**	–
Profit before tax		**54,717**	52,947
Tax	9	**(10,285)**	(10,012)
Profit for the year attributable to equity holders of the parent		**44,432**	42,935
Earnings per share			
Basic	10	**65.2p**	63.0p
Diluted	10	**64.8p**	62.7p

Consolidated statement of other comprehensive income

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Items that may subsequently be reclassified to the consolidated income statement:		
Exchange differences on translation of foreign operations	**(740)**	67
Other comprehensive income for the year	**(740)**	67
Profit for the year	**44,432**	42,935
Total comprehensive income for the year attributable to equity holders of the parent	**43,692**	43,002

Consolidated statement of financial position

	Note	31 March 2019 £'000	31 March 2018 £'000
Non-current assets			
Goodwill	11	**11,618**	12,171
Other intangible assets	12	**15,875**	13,586
Property, plant and equipment	13	**26,665**	28,047
Deferred tax asset	16	**781**	414
		54,939	54,218
Current assets			
Inventories		**124**	279
Trade and other receivables	17	**139,010**	161,987
Cash and cash equivalents	18	**37,485**	46,040
		176,619	208,306
Total assets		**231,558**	262,524
Current liabilities			
Trade and other payables	19	**176,720**	196,562
Current tax liabilities		**4,455**	4,213
		181,175	200,775
Non-current liabilities			
Trade and other payables	19	**233**	390
Deferred tax liability	16	**–**	66
		233	456
Total liabilities		**181,408**	201,231
Net assets		**50,150**	61,293
Equity			
Share capital	21	**227**	227
Share premium		**3,352**	2,907
Share-based payment reserve	22	**2,684**	2,771
Translation reserve		**(989)**	(249)
Retained earnings		**44,876**	55,637
Total equity attributable to equity holders of the parent		**50,150**	61,293

These financial statements were approved by the Board of Directors and authorised for issue on 22 May 2019 and were signed on behalf of the Board of Directors.

Patrick Headon
CEO
22 May 2019

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 £'000
Opening equity for 1 April 2017		**227**	**2,633**	**4,404**	**(316)**	**66,197**	**73,145**
Profit for the year		–	–	–	–	42,935	42,935
Exchange differences on translation of foreign operations		–	–	–	67	–	67
Comprehensive income for the year		–	–	–	67	42,935	43,002
Equity-settled share-based payment expense		–	–	1,567	–	–	1,567
Vesting of share scheme		–	274	(2,999)	–	2,403	(322)
Deferred tax on share-based payments		–	–	(201)	–	–	(201)
Dividends		–	–	–	–	(55,898)	(55,898)
Closing equity 31 March 2018		**227**	**2,907**	**2,771**	**(249)**	**55,637**	**61,293**
Profit for the year		–	–	–	–	44,432	44,432
Exchange differences on translation of foreign operations		–	–	–	(740)	–	(740)
Comprehensive income for the year		–	–	–	(740)	44,432	43,692
Adoption of IFRS 15		–	–	–	–	975	975
Equity-settled share-based payment expense	22	–	–	1,466	–	–	1,466
Vesting of share scheme	22	–	445	(1,563)	–	393	(725)
Deferred tax on share-based payments	16	–	–	10	–	–	10
Dividends	23	–	–	–	–	(56,561)	(56,561)
Closing equity 31 March 2019		**227**	**3,352**	**2,684**	**(989)**	**44,876**	**50,150**

Consolidated statement of cash flows

	Note	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Net cash inflow from operating activities	27	**59,563**	62,990
Investing activities			
Investment income		**427**	95
Purchases of property, plant and equipment		**(5,087)**	(7,112)
Purchases of intangible assets		**(5,894)**	(6,258)
Net proceeds from disposal of property, plant and equipment		**12**	–
Acquisition of subsidiary		**–**	(2,480)
Acquisition of subsidiary – clients' funds and retailers' deposits		**–**	1,554
Net cash used in investing activities		**(10,542)**	(14,201)
Financing activities			
Dividends paid	23	**(56,561)**	(55,898)
Net cash used in financing activities		**(56,561)**	(55,898)
Net decrease in cash and cash equivalents		**(7,540)**	(7,109)
Cash and cash equivalents at beginning of year		**46,040**	53,080
Effect of foreign exchange rate changes		**(1,015)**	69
Cash and cash equivalents at end of year		**37,485**	46,040

Reconciliation of cash and cash equivalents

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Corporate cash	**3,471**	18,547
Clients' funds and retailers' deposits	**34,014**	27,493
Cash and cash equivalents on the statement of financial position	**37,485**	46,040

Company statement of financial position

	Note	31 March 2019 £'000	31 March 2018 £'000
Non-current assets			
Investments	15	**60,170**	60,170
		60,170	60,170
Current assets			
Trade and other receivables	17	**39,141**	36,116
Cash and cash equivalents		**187**	1,064
		39,328	37,180
Total assets		**99,498**	97,350
Current liabilities			
Trade and other payables	19	**13,234**	12,191
Current tax liabilities		**207**	296
		13,441	12,487
Net assets		**86,057**	84,863
Equity			
Share capital	21	**227**	227
Share premium		**3,352**	2,907
Share-based payment reserve	22	**2,650**	2,747
Retained earnings		**79,828**	78,982
Total equity attributable to equity holders of the parent		**86,057**	84,863

These financial statements were approved by the Board of Directors and authorised for issue on 22 May 2019 and were signed on behalf of the Board of Directors.

Patrick Headon
CEO
22 May 2019

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 2017		**227**	**2,633**	**4,179**	**69,870**	**76,909**
Profit for the year		–	–	–	62,607	62,607
Equity-settled share-based payment expense		–	–	1,567	–	1,567
Vesting of share scheme		–	274	(2,999)	2,403	(322)
Dividends		–	–	–	(55,898)	(55,898)
Closing equity 31 March 2018		**227**	**2,907**	**2,747**	**78,982**	**84,863**
Profit for the year		–	–	–	57,014	57,014
Equity-settled share-based payment expense	22	–	–	1,466	–	1,466
Vesting of share scheme	22	–	445	(1,563)	393	(725)
Dividends	23	–	–	–	(56,561)	(56,561)
Closing equity 31 March 2019		**227**	**3,352**	**2,650**	**79,828**	**86,057**

Company statement of cash flows

	Note	**Year ended 31 March 2019 £'000**	Year ended 31 March 2018 £'000
Net cash outflow from operating activities	27	**(2,033)**	(7,065)
Investing activities			
Dividends and interest received		**57,717**	62,639
Investment in Group companies		**–**	(21)
Net cash used in investing activities		**57,717**	62,618
Financing activities			
Dividends paid	23	**(56,561)**	(55,898)
Net cash from financing activities		**(56,561)**	(55,898)
Net decrease in cash and cash equivalents		**(877)**	(345)
Cash and cash equivalents at beginning of year		**1,064**	1,409
Cash and cash equivalents at end of year		**187**	1,064

Notes to the consolidated financial statements

1. Accounting policies

Statement of compliance with IFRSs and basis of preparation

PayPoint plc is a public limited company and is incorporated and registered in England in the United Kingdom under the Companies Act. The Company's ordinary shares are traded on the London Stock Exchange. The Group and Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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.

The financial statements have been prepared on a going concern basis. As of the 31 March 2019 current liabilities exceeded current assets by £4.6 million. Our cash and borrowing capacity provides sufficient funds to meet the foreseeable needs of the Group.

Adoption of new and revised standards

IFRS 9 Financial Instruments

The Group has applied IFRS 9 from 1 April 2018; as disclosed in the prior year accounts, there was no material impact at the date of transition on adoption of IFRS 9 so prior year comparatives have not been restated.

(a) The classification and measurement of financial assets and financial liabilities

The adoption of IFRS 9 did not result in any changes to classification or measurement of financial asset and liabilities.

(b) Impairment of financial assets

IFRS 9 replaced the incurred loss model in IAS 39 with an expected credit loss (ECL) model. The ECL model differs from the incurred loss model as impairments were recognised on an indication of impairment, whereas under IFRS 9 impairments are recognised on initial recognition of the financial asset.

PayPoint has adopted an allowance matrix for trade receivables, whereby receivables are segmented according to number of days outstanding and an appropriate probability of impairment is applied to each category based on historical loss experience and adjusted for information about current and reasonable supportable future conditions. There was no material impact from applying the ECL model.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was adopted from 1 April 2018 using the modified retrospective method, therefore the prior period comparatives have not been restated. The cumulative impact from prior periods of £975k was adjusted through the opening retained earnings on 1 April 2018, which is detailed in the table below. There was a minimal impact on the profit before tax for the year.

	Notes	Impact on retained earnings £'000
Deferral of setup and development fees	a	(1,760)
Deferral of costs associated with setting up clients and retailers on PayPoint's network	b	3,023
Contracts with varied pricing structures over the contract term	c	(288)
Impact at 1 April 2018		975

(a) Deferral of setup and development fees

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

(b) Deferral of costs associated with setting up clients and retailers on PayPoint's network

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

(c) Contracts with varied pricing structures over the contract term

Prior to the adoption of IFRS 15, transaction fees were recognised as the transaction was processed at the contractual fee attributable to those transactions. Under IFRS 15, estimates of the average transaction fee over the life of the contract is estimated. Revenue is now recognised at that estimated transaction fee with any revisions to that estimated fee at each reporting period.

Apart from the above, IFRS 15 did not have a significant impact on the Group's accounting policies with respect to other revenue streams from clients and retailers.

The impact on the consolidated statement of profit and loss and consolidated statement of financial position in the year was as follows:

Extract from the consolidated statement of financial position:

	As reported at 31 March 2019 £'000	Adjustments £'000	Amounts without the adoption of IFRS 15 £'000
Current assets			
Trade and other receivables	**139,010**	(3,636)	135,374
Current liabilities			
Trade and other payables	**176,720**	(2,696)	174,024
Equity			
Retained earnings	**44,876**	(940)	43,936

Extract from the consolidated statement of profit or loss:

	As reported for the year ended 31 March 2019 £'000	Adjustments £'000	Amounts without the adoption of IFRS 15 £'000
Continuing operations			
Revenue	**211,576**	649	212,225
Cost of revenue	**(113,303)**	(69)	(113,372)
Gross profit	**98,273**	580	98,853
Administrative expenses	**(44,319)**	(545)	(44,864)
Operating profit	**53,954**	35	53,989
Finance income	**427**	–	427
Finance costs	**(586)**	–	(586)
Profit before tax before exceptional items	**53,795**	35	53,830
Exceptional items - prior year business disposals	**922**	–	922
Profit before tax	**54,717**	35	54,752
Tax	**(10,285)**	–	(10,285)
Profit for the year	**44,432**	35	44,467

IFRS 16 Leases

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. The date of initial application for the Group is 1 April 2019 and the Group will apply the modified retrospective method. 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 statement of financial position a right-to-use asset and lease liability for all leases under which it is a lessee, initially measured at the present value of the future lease payments. In the statement of profit or loss 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 depreciation, finance costs and a decrease in administrative expenses. The Group will recognise the total amount of cash paid into a principal portion presented within financing activities and interest presented within operating activities in the consolidated cash flow statement.

For short-term leases and leases of low-value assets, the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 March 2019, the Group has a non-cancellable operating lease commitment of £1.3 million.

The Group has assessed the estimated impact of the initial application of IFRS 16 on its consolidated financial statements, as described below. 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.

Based on current information, if the standard was adopted in the current financial year the right-to-use asset would increase gross assets by £1.1 million and lease liabilities would increase total liabilities by £1.2 million. The net impact on the profit and loss account would be a reduction of £28k, depreciation would increase by £235k, finance costs would increase by £45k and administration expenses would decrease by £308k.

The Group assessed whether it had any assets where it was the lessor and concluded that it does not lease any assets.

Notes to the consolidated financial statements
continued

In the current year, several amendments to IFRS issued by the International Accounting Standards Board (IASB) became mandatorily effective for accounting periods beginning on or after 1 April 2018. The below have not had a material impact on the disclosures or on the amounts reported in these financial statements:
- 2014-2016 Cycle of annual improvements to IFRS
- IFRS 2: (amended) Classification and Measurement of Share-Based Payment Transactions
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

New and revised IFRS standards in issue but not yet effective
At the date of authorisation of these financial statements, new and revised standards issued but not yet effective are set out below. It is anticipated the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group. These have not been adopted in the Group's accounting policies:

Effective from 1 April 2019:
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IAS 28 Investments in Associates and Joint Ventures

Use of judgements and estimates
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.

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

Judgement: capitalised development expenditure
An accounting judgement at the statement of financial position date that has a risk of causing an adjustment to the carrying amount of assets and liabilities through estimation uncertainty is the evaluation of capitalised development expenditure shown in intangible assets.

Critical estimate: useful economic lives of intangible assets
The useful life used to amortise intangible assets relates to the expected future performance of the assets and management's judgement of the period over which economic benefit will be derived from the asset. For development costs, the Group has determined the useful life based on historical experience with similar products and platforms controlled by the Group as well as anticipation of future events which may impact their life such as changes in technology. Development costs recognised as an intangible asset could be amortised on a straight-line basis over a period of three to ten years which could impact the annual amortisation charge by an increase of £1.5 million to a decrease of £2.3 million.

Critical judgement: agent vs principal
A critical judgement for revenue recognition is PayPoint's assessment of whether it is acting as a principal or agent. This includes evaluating:
(a) which party was responsible for fulfilling the promise to provide the service
(b) inventory risk before the service is transferred to a customer
(c) discretion in establishing the price for the service

In most cases it was clear that PayPoint acts in the capacity of an agent for clients. However, the nature of Romania's mobile top-ups makes this a key judgement area. Revenues are recognised on the principal basis considering the level of service responsibility, inventory risk and price discretion held by PayPoint. This is consistent with the judgement in prior years.

The cost of mobile top-ups and SIM cards as principal was £48.5 million (2018: £44.8 million).

Critical judgement: recognition of cash and cash equivalents
The nature of bill payments services means that PayPoint collects and holds funds on behalf of clients and also retains retailers' deposits as security for those collections. The recognition of cash, retailer receivables and the related client payables is a key judgement area as those funds pass through the settlement process.

PayPoint uses the following criteria to determine whether clients' funds and retailers' deposits are recognised on balance sheet:
(a) existence of a binding agreement clearly identifying the beneficiary of the funds
(b) the identification, ability to allocate and separability of funds
(c) identification of the holder of those funds at any point in time

Where there is a binding agreement specifying that PayPoint holds funds on behalf of the client (i.e. acting in the capacity of a trustee) and those funds have been separately identified as belonging to that beneficiary, the cash and the related liability is held off balance sheet. In all other situations the cash and corresponding liability are recognised on the balance sheet.

Judgement: impact from Brexit
PayPoint has carried out an assessment of the impact of a no-deal Brexit scenario by identifying key risks to its operating model. Whilst no business can mitigate against the impact of Brexit, actions to reduce disruption in the short term were undertaken. Details of these are included in the principal risks and uncertainties found on page 32. Furthermore, as part of viability assessment (see page 35) a scenario of a systematic risk in the markets we operate was assessed including the impact on retailers and clients. The Directors concluded that PayPoint is a viable operation.

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, operating margin, effective tax rate (note 9), reported dividends (note 23) and cash generation.

Net revenue (non-IFRS measure)
Net revenue is revenue less commissions paid to retailers and the cost of mobile top-ups and SIM cards where PayPoint is principal. This reflects the benefit attributable to PayPoint's performance eliminating pass-through costs which creates comparability where PayPoint is agent or principal and is an important measure of the overall success of our strategy. A reconciliation from revenue to net revenue is included 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.

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

Cash generation (non-IFRS measure)
Cash generation reflects earnings before tax, depreciation, amortisation and exceptional items adjusted for working capital (excluding movement in clients' funds and retailers' deposits) as detailed in note 27 to the financial statements. This measures the cash generated which can be used for tax payments, new investments and financing activities.

Total costs (non-IFRS measure)
Total costs comprises of other cost of revenue (note 5), admin expenses, financing income and financing costs. This represents the total operating costs of the Group and is a key driver of profitability for operating on a low-cost model.

Operating margin (non-IFRS measure)
Operating margin is calculated by dividing operating profit by net revenue. This measure reflects the efficiency of converting revenue into profits.

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.

All the subsidiaries of the Group, a list of which are provided in note 15 of the financial statements, apply accounting policies which are consistent with those of the Group.

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

Notes to the consolidated financial statements
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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 reporting 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.

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. Performance obligations are identified at contract inception and the revenue is recognised once the performance obligations are satisfied.

Revenue from bill payments comprises fees from clients for providing over-the-counter payments, digital bill payments and CashOut services. Over-the-counter and digital payments services are products where customers of PayPoint's clients can pay their bills (due to the client) at any of PayPoint's retailers or online. PayPoint provides the technology for recording the payment of bills and transmission of that payment data to the client. PayPoint also collects bill payment funds from retailers and remits those funds to clients. Revenue is recognised as performance obligations are satisfied which is usually at the point in time each transaction is processed. Management fees, set-up fees or up-front lump sum payments are deferred and recognised on a straight-line basis over the contracted period with the client.

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

Retail services revenue comprises:
- service fees from retailers that use our technology to facilitate card payments, PayPoint One and legacy terminals and EPoS, all of which are charged for on a weekly or monthly basis, and recognised on a straight-line basis over the period of the contract
- commissions, rebates and fees from card payment, ATM transaction fees and money transfer transactions are recognised when each transaction is processed
- fees earned for processing parcels is recognised when each parcel has been delivered or returned through the PayPoint network
- commissions from sale of SIM cards is primarily earned from the mobile operators based on the value of top-ups after the initial activation. This revenue is contingent on the customer actions and is recognised as the consumer tops up the SIM card
- fees for receipt advertising and failed direct debits are recognised at the time the transaction occurs
- the Group's share of royalty income from the Collect+ joint operation and is recognised as the parcels are processed (see accounting policy on joint arrangements on page 107)

Cost of revenue
Cost of revenue primarily consists of expenses related to delivering our services and products. These include retailer commissions, cost of mobile top-ups and SIM cards (where PayPoint is principal), transaction costs, terminal and ATM maintenance costs, telecommunications costs, field service costs, depreciation and amortisation of assets used to deliver services.

Foreign currency
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position 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 translation 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 statement of financial position 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

Exchange rates used for translation	**31 March 2019 £'000**	31 March 2018 £'000
Romania Leu – average	**5.29**	5.21
Romania Leu – year end	**5.54**	5.29
Euro – average	**1.13**	1.13
Euro – year end	**1.16**	1.14

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 (based on past practice and stated policy) and if there is no present obligation, treats the options as equity-settled. If the Group then elects to settle in cash, the cash payment is accounted for as a deduction from equity.

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

Finance income
Finance 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.

Finance costs
Finance costs comprises of interest costs for the loan facility and bank overdraft. Finance costs are recognised as expense in the period in which they are incurred.

Retailer commission costs
Retailer commission costs represent the fees due to PayPoint's retailers for providing PayPoint's services in their store. These costs are recognised as an expense within cost of revenue when the transaction or parcel is processed. PayPoint owns the relationship with the retailer and accordingly recognises the cost as a principal, rather than a pass-through cost for clients.

Exceptional items
The Group presents exceptional items on the face of the consolidated statement of profit or loss those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year so as to facilitate comparison with prior years and to better assess trends in financial performance.

Taxation
The Group operates in three different tax jurisdictions which can lead 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.

Notes to the consolidated financial statements
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The tax expense represents the amount payable in respect of the year under review based on the taxable profit for the year and the provision for 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 are applicable to the current year.

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 asset 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 to other comprehensive income or equity, in which case the deferred tax is recorded in other comprehensive income or equity.

Intangible assets

Recognition on acquisition

The Group has recognised a brand intangible asset at fair values in accordance with IFRS 3 Business Combinations, which is being amortised over its estimated useful economic life of five years.

Development expenditure

The Group develops computer software and other intangible assets for internal use. Development expenditure on large projects is recognised as an intangible asset if the product or process is technically and commercially feasible and the Group intends to and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. 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
- 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 arrangements in the Company accounts are stated at cost less accumulated impairments.

Inventories

Inventories comprises stocks of eVouchers, 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 eVouchers is included in inventories. Where PayPoint acts as an agent, the cost of the eVouchers is not included in inventories.

Trade and other receivables

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

PayPoint have used the Expected Credit Loss ('ECL') model and have adopted an allowance matrix for trade receivables, whereby these are segmented according to number of days outstanding and an appropriate probability of impairment is applied to each category based on historical loss experience and adjusted for information about current and reasonable supportable future conditions.

Items in the course of collection represent gross transaction values received by retailers that have not yet been collected by PayPoint.

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

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

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

Joint arrangements
PayPoint's investment in Collect+ Holdings Limited is accounted for as a joint operation under IFRS 11 and is accounted for by recognising, in relation to the interest in the joint operation:

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

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

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

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term.

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

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

Corporate cash consists of cash available to PayPoint for its daily operations. Clients' funds consists of cash collected on behalf of clients from retailers, but not yet transferred to clients and is held in PayPoint's bank accounts. Retailers' deposits consists of retailers' funds held as security against default, except if held in trust which is disclosed off of the balance sheet.

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

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

Notes to the consolidated financial statements
continued

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

Geographical information

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Revenue		
UK	**143,294**	152,225
Ireland	**1,381**	3,727
Romania	**66,901**	57,563
Total	**211,576**	213,515

Non-current assets

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
UK and Ireland	**41,759**	40,411
Romania	**13,180**	13,807
Total	**54,939**	54,218

3. Revenue
Disaggregation of revenue

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Bill payments	**78,095**	82,478
Top-ups and eMoney	**79,076**	75,400
Retail services	**54,405**	55,637
Total	**211,576**	213,515

Contract balances

	Notes	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Trade receivables	17	**15,271**	18,425
Accrued income	17	**2,047**	3,644
Contract assets – deferral of set-up and development fees	17	**3,636**	–
Contract liabilities	19	**(2,696)**	–
Deferred income	19	**(599)**	(721)
Total		**17,659**	21,348

Deferred income recognised as revenue in the year was £0.5 million.

Seasonality of operations
PayPoint operates in many sectors each within their own form of seasonality. The energy bill payment and parcel sectors are the most seasonal sectors with the energy sector generating more transactions during the winter months and parcels generating higher volumes in the lead up to Christmas. As a result, higher revenue and operating profits are usually expected in the second half of the year rather than in the first six months. This does not constitute "highly seasonal" as considered by IAS 34 Interim Financial Reporting.

4. Net revenue (alternative performance measure)

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Service revenue	**147,988**	164,519
Sale of goods	**62,557**	47,809
Royalties	**1,031**	1,187
Total revenue	**211,576**	213,515
less:		
Retailers' commissions	**(46,434)**	(49,100)
Cost of mobile top-ups and SIM cards as principal	**(48,507)**	(44,844)
Net revenue	**116,635**	119,571
SPS revenue and Yodel contract renegotiation	**(706)**	(5,925)
Underlying net revenue	**115,929**	113,646

5. Cost of revenue

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Retailers' commissions	**46,434**	49,100
Cost of mobile top-ups and SIM cards as principal	**48,507**	44,844
Cost of revenue deducted to arrive at net revenue	**94,941**	93,944
Depreciation and amortisation	**9,365**	10,195
Other	**8,997**	9,426
Other costs of revenue	**18,362**	19,621
Total cost of revenue	**113,303**	113,565

6. Profit of parent Company

The Company has taken advantage of the exemption under S.408 of the Companies Act 2006 and consequently the statement profit or loss 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 £57.0 million (2018: £62.6 million).

7. Employee information

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Average number of employees		
Sales, distribution and marketing	**177**	174
Operations and administration	**498**	464
	675	638
Staff costs during the year (including Directors)		
Wages and salaries	**26,245**	22,985
Social security costs	**2,267**	2,285
Pension costs	**1,625**	1,413
	30,137	26,683

There was a credit for redundancy and termination costs of £0.1 million due to the reversal of a prior year accrual (2018: charge of £0.4 million).

Directors' emoluments, pension contributions and share options are disclosed in the Remuneration Committee report on pages 65 to 81. Included within staff costs is a share-based payment charge (note 22) of £1.4 million (2018: £1.6 million).

Pension arrangements

The Group administers a non-contributory defined contribution scheme for Executive Directors and employees. The amount charged in the consolidated statement of profit or loss for the year for pension costs of the Group under the scheme was £1.6 million (2018: £1.4 million). There was no accrual for pension contributions at the statement of financial position date (2018: £nil).

Notes to the consolidated financial statements
continued

8. Profit for the year

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Profit is after charging:		
Inventory expensed – cost of mobile top-ups and SIM cards as principal	**48,507**	44,844
Depreciation on property, plant and equipment – cost of revenue	**5,936**	6,100
Amortisation of intangible assets – cost of revenue	**3,429**	4,095
Depreciation on property, plant and equipment – administration expenses	**382**	262
Amortisation of intangible assets – administration expenses	**37**	60
Loss on disposal of property, plant and equipment	**110**	52
Operating leases	**301**	67
Exceptional item[1]	**922**	–
Research and development costs	**299**	2,100

1. Exceptional item relates to a provision release of £922k which was held against potential liabilities arising from the disposal of the PayByPhone business in 2016.

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**46**	35
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	**191**	139
Total audit fees	**237**	174
Other audit-related services	**10**	–
Fees payable to the Group's auditor for the review of the interim results	**38**	35
Audit-related assurance services	**48**	35
Total auditor's remuneration	**285**	209

A description of the work of the Audit Committee is set out on pages 60 to 64 and includes an explanation of how auditor independence is safeguarded by limitation of non-audit services.

Reconciliation to underlying profit	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Profit before tax before exceptional items	**53,795**	52,947
Impact of SPS and Yodel contract	**(706)**	(5,925)
VAT recovery related to prior years	**(2,427)**	(1,500)
	50,662	45,522

9. Tax

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Current tax		
Charge for current year	**10,475**	10,224
Adjustment in respect of prior years	**233**	62
Current tax charge	**10,708**	10,286
Deferred tax		
Charge for current year	**(195)**	(262)
Adjustment in respect of prior years	**(228)**	(12)
Deferred tax credit	**(423)**	(274)
Total income tax		
Income tax charge	**10,285**	10,012

The income tax charge is based primarily on the United Kingdom statutory rate of corporation tax for the year of 19% (2018: 19%). The charge for the year is reconciled below the profit before tax as set out in the consolidated statement of profit or loss. In the current year, the main rate of UK corporation tax was 19% (2018: 19%). Reductions in the main rate of UK corporation tax from 19% to 17% for the year beginning 1 April 2020 have been substantively enacted at the statement of financial position date. Temporary differences have been measured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

The tax charge of £10.3 million (2018: £10.0 million) on profit before tax of £54.7 million (2018: £52.9 million) represents an effective tax rate[1] of 18.8% (2018: 18.9%), 0.1% lower than prior year due to the non-taxable nature of the £0.9 million exceptional item. Excluding this the effective tax rate would have been 19.1%, slightly higher than prior year due to the tax deduction for vested share options being lower than the expense recognised in the statement of profit and loss and other non-deductible expenses. The charge for the year is reconciled below to the profit before tax as set out in the consolidated statement of profit or loss.

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Profit before tax	**54,717**	52,947
Tax at the UK corporation tax rate of 19% (2018: 19%)	**10,396**	10,059
Tax effects of:		
Effect of tax rates in other countries where the rate is different to the UK	**(182)**	(130)
Disallowable expenses	**103**	49
Losses in companies where a deferred tax asset is not recognised	**–**	4
Adjustments in respect of prior years	**5**	50
Tax impact of share-based payments	**102**	(22)
Revaluation of deferred tax asset	**36**	2
Non-taxable exceptional items	**(175)**	–
Actual amount of tax charge	**10,285**	10,012

1. Effective tax rate is the tax cost as a percentage of profit before tax.

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

Year ended 31 March (£'000)	**2019**	2018
Profit before tax	**54,717**	52,947
Exceptional items	**(922)**	–
Total for calculating the effective tax rate excluding exceptional items	**53,795**	52,947

Effective tax rate	**Year ended 31 March 2019**	Year ended 31 March 2018
Effective tax rate	**18.8%**	18.9%
Effective tax rate excluding exceptional items	**19.1%**	18.9%

10. Earnings per share

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

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Profit for basic and diluted earnings per share is the net profit attributable to equity holders of the parent	**44,432**	42,935

	Year ended 31 March 2019 Number of shares Thousands	Year ended 31 March 2018 Number of shares Thousands
Weighted average number of ordinary shares in issue (for basic earnings per share)	**68,160**	68,113
Potential dilutive ordinary shares:		
Long-term incentive plan	**361**	260
Deferred annual bonus scheme	**39**	48
SIP and other	**37**	29
Weighted average number of ordinary shares in issue (for diluted earnings per share)	**68,598**	68,450

Earnings per share		
Basic	**65.2p**	63.0p
Diluted	**64.8p**	62.7p

Notes to the consolidated financial statements
continued

11. Goodwill

	Total £'000
Cost	
At 31 March 2017	8,236
Acquisition	3,947
Exchange rate adjustment	(12)
At 31 March 2018	12,171
Exchange rate adjustment	(553)
At 31 March 2019	**11,618**

Goodwill arose on the acquisition of PayPoint Romania and Payzone Romania.

The Group tests goodwill annually for impairment as set out in the accounting policy note on page 104. Following the integration of operations in Romania both legal entities are considered a single cash-generating unit ('CGU') for the purpose of goodwill impairment testing. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the medium term and extends cash flows to perpetuity. Terminal values are based on nominal growth rates that do not exceed 3% (2018: 3%). The post-tax rates used of 13.8% (2018: 13.1%) 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.

The CGU generates value substantially in excess of the carrying value of the CGU. Management therefore believes that no reasonably possible change in any of the above assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

12. Other intangible assets

	Development costs £'000	Trademark £'000	Total £'000
Cost			
At 31 March 2018	20,902	266	21,168
Additions	6,032	–	6,032
Disposals	(265)	–	(265)
Exchange rate adjustment	(22)	(12)	(34)
At 31 March 2019	**26,647**	**254**	**26,901**
Accumulated amortisation			
At 31 March 2018	7,555	27	7,582
Charge for the year	3,413	53	3,466
Disposals	–	–	–
Exchange rate adjustment	(18)	(4)	(22)
At 31 March 2019	**10,950**	**76**	**11,026**
Carrying amount			
At 31 March 2019	**15,697**	**178**	**15,875**
At 31 March 2018	13,347	239	13,586

	Development costs £'000	Trademark £'000	Total £'000
Cost			
At 31 March 2017	16,328	–	16,328
Additions	5,564	–	5,564
Disposals	(1,034)	–	(1,034)
Acquisitions	44	270	314
Exchange rate adjustment	–	(4)	(4)
At 31 March 2018	**20,902**	**266**	**21,168**
Accumulated amortisation			
At 31 March 2017	4,461	–	4,461
Charge for the year	4,128	27	4,155
Disposals	(1,034)	–	(1,034)
At 31 March 2018	**7,555**	**27**	**7,582**
Carrying amount			
At 31 March 2018	**13,347**	**239**	**13,586**
At 31 March 2017	11,867	–	11,867

At 31 March 2019, the Group had not entered into any material contractual commitments for other intangible assets.

13. Property, plant and equipment

	Terminals and ATMs £'000	Fixtures, fittings and equipment £'000	Land and buildings £'000	Total £'000
Cost				
At 31 March 2018	67,733	3,920	10,681	82,334
Additions	4,149	700	324	5,173
Disposals	(444)	(263)	(112)	(819)
Exchange rate adjustment	(477)	120	–	(357)
At 31 March 2019	**70,961**	**4,477**	**10,893**	**86,331**
Accumulated depreciation				
At 31 March 2018	51,280	1,865	1,142	54,287
Charge for the year	5,763	319	236	6,318
Disposals	(342)	(259)	(42)	(643)
Exchange rate adjustment	(274)	(22)	–	(296)
At 31 March 2019	**56,427**	**1,903**	**1,336**	**59,666**
Carrying amount				
At 31 March 2019	**14,534**	**2,574**	**9,557**	**26,665**
At 31 March 2018	16,453	2,055	9,539	28,047

At 31 March 2019, the Group had entered into contractual commitments for the acquisition of terminals amounting to £0.9 million (2018: £1.7 million).

Notes to the consolidated financial statements
continued

13. Property, plant and equipment continued

	Terminals and ATMs £'000	Fixtures, fittings and equipment £'000	Land and buildings £'000	Total £'000
Cost				
At 31 March 2017	61,462	3,982	10,390	75,834
Additions	6,402	207	291	6,900
Disposals	(399)	(372)	–	(771)
Acquisitions	281	103	–	384
Exchange rate adjustment	(13)	–	–	(13)
At 31 March 2018	**67,733**	**3,920**	**10,681**	**82,334**
Accumulated depreciation				
At 31 March 2017	45,726	1,988	952	48,666
Charge for the year	5,924	248	190	6,362
Disposals	(358)	(372)	–	(730)
Exchange rate adjustment	(12)	1	–	(11)
At 31 March 2018	**51,280**	**1,865**	**1,142**	**54,287**
Carrying amount				
At 31 March 2018	**16,453**	**2,055**	**9,539**	**28,047**
At 31 March 2017	15,736	1,994	9,438	27,168

14. Joint operation

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

The only source of revenue for the Collect+ Group in the period was the royalty income received from licensing the brand. The Group's share of £1.0 million (2018: £1.2 million) has been included in revenue. There were insignificant operating costs incurred by the arrangement.

15. 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	Ceased trading (29 Earlsfort Terrace, Dublin 2)	Ireland
PayPoint Collections Ireland Limited	Ceased trading (29 Earlsfort Terrace, Dublin 2)	Ireland
PayPoint Services SRL	Management of an electronic payment and collection service (Charles de Gaulle Square, 15th Floor 8, Sector 1, Bucharest, Romania)	Romania
Payzone S.A.	Management of an electronic payment service (Charles de Gualle Square, 15th Floor 8, Sector 1, Bucharest, Romania)	Romania
SC P.P. Network Progresimo SRL	Holding Company (Charles de Gaulle Square, 15th Floor 8, Sector 1, Bucharest, Romania)	Romania
PayPoint Payment Services Limited	Provision of regulated payments services (1 The Boulevard, Shire Park, Welwyn Garden City, Hertfordshire AL7 1EL)	England and Wales
Collect+ Holdings Limited[1]	Holding company (20-22 Wenlock Road, London N1 7GU)	England and Wales
Collect+ Brand Limited[1]	Holder of Collect+ brand (20-22 Wenlock Road, London N1 7GU)	England and Wales
PayPoint Trust Managers Limited	Provision of employee benefit trust services (1 The Boulevard, Shire Park, Welwyn Garden City, Hertfordshire AL7 1EL)	England and Wales

1. The Group holds a 50% interest in Collect+ Holdings Limited and Collect+ Brand Limited. The Group has licensed the Collect+ Brand from Collect+ Limited but no royalty charges have been paid or are payable.

Notes to the consolidated financial statements
continued

Movement of investments

	31 March 2019 £'000	31 March 2018 £'000
Cost and net book value		
Balance at the beginning of the year	**60,170**	60,149
Additions	**–**	21
Balance at the end of the year	**60,170**	60,170

16. Deferred tax asset and liability

	31 March 2018 £'000	Credit/(debit) to statement of profit or loss £'000	Charge to equity £'000	31 March 2019 £'000
Property, plant and equipment	811	109	–	**920**
Intangible assets	(968)	269	–	**(699)**
Share-based payments	441	(9)	10	**442**
Short-term temporary differences	64	54	–	**118**
Total	348	423	10	**781**

	31 March 2017 £'000	Credit to statement of profit or loss £'000	Charge to equity £'000	Acquisitions £'000	31 March 2018 £'000
Property, plant and equipment	736	113	–	(38)	**811**
Intangible assets	(933)	6	–	(41)	**(968)**
Share-based payments	592	50	(201)	–	**441**
Short-term temporary differences	(41)	105	–	–	**64**
Total	354	274	(201)	(79)	**348**

Disclosed as:	
Non-current asset	**414**
Non-current liability	**(66)**
Total	**348**

At the statement of financial position date and in the prior year, the Group had no unused tax losses.

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

17. Trade and other receivables

Group	31 March 2019 £'000	31 March 2018 £'000
Trade receivables	**15,271**	18,425
Items in the course of collection	**117,263**	139,666
Revenue allowance	**(2,957)**	(3,862)
	129,577	154,229
Other receivables	**1,032**	1,208
Contract assets	**3,636**	–
Accrued income	**2,047**	3,644
Prepayments	**2,718**	2,906
	139,010	161,987

1. Items in the course of collection represent amounts collected for clients by retailers. An equivalent balance is included within trade and other payables.

The Group's exposure to the credit risk inherent in its trade and other receivables is discussed in note 24.

The Group reviews trade receivables past due but not impaired on a regular basis and in determining the recoverability of the trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date.

Included in the Group's trade receivable balance are debtors with a carrying amount of £8.6 million (2018: £11.6 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 ageing 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 2019	**7,916**	**408**	**46**	**195**	**8,565**
Carrying value at 31 March 2018	9,564	1,048	1,010	17	11,639

Movement in the revenue allowance

	31 March 2019 £'000	31 March 2018 £'000
Balance at the beginning of the year	**3,862**	3,640
Amounts utilised in the year	**(1,468)**	(1,209)
Increase in allowance	**760**	1,424
Foreign exchange	**(197)**	7
Balance at end of the year	**2,957**	3,862

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 2019	**76**	**10**	**43**	**2,828**	**2,957**
Carrying value at 31 March 2018	62	2	–	3,798	3,862

Company	31 March 2019 £'000	31 March 2018 £'000
Amounts owed by Group companies	**38,405**	36,023
Other receivables	**–**	93
Accrued income	**112**	–
Prepayments	**624**	–
	39,141	36,116

Notes to the consolidated financial statements
continued

18. 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 of £37.5 million are balances of £34.0 million relating to funds collected on behalf of clients where PayPoint has title to the funds (clients' funds) and where retailers have provided security deposits (retailers' deposits). An equivalent balance is included within trade payables (note 19). Clients' funds held in trust which are not included in cash and cash equivalents amounted to £47.5 million at 31 March 2019.

19. Trade and other payables

Group	31 March 2019 £'000	31 March 2018 £'000
Amounts owed in respect of clients' funds and retailers' deposits[1]	**34,014**	27,493
Settlement payables[2]	**117,263**	139,666
Client payables	**151,277**	167,159
Trade payables	**7,536**	8,010
Other taxes and social security	**1,985**	7,286
Other payables	**5,939**	2,823
Accruals	**6,921**	10,953
Deferred income	**599**	721
Contract liabilities	**2,696**	–
	176,953	196,952
Disclosed as:		
Current	**176,720**	196,562
Non-current	**233**	390
Total	**176,953**	196,952

1. Relates to monies collected on behalf of clients where the Group has title to the funds (clients' funds and retailers' deposits). An equivalent balance is included within cash and cash equivalents.
2. Payable in respect of amounts collected for clients by retailers. An equivalent balance is included within trade and other receivables.

Company	31 March 2019 £'000	31 March 2018 £'000
Amounts owned by Group companies	**12,094**	10,187
Other payables	**10**	70
Accruals	**1,130**	1,934
	13,234	12,191

20. Financial commitments
Operating lease commitments for land and buildings is as follows:

	31 March 2019 £'000	31 March 2018 £'000
Amounts payable under operating leases:		
Within one year	**263**	237
Within two to five years	**1,008**	947
After five years	**–**	197
	1,271	1,381

21. Share capital

	31 March 2019 £'000	31 March 2018 £'000
Authorised share capital		
4,365,352,200 (2018: 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		
68,243,406 (2018: 68,180,545) ordinary shares of 1/3p each	**227**	227
	227	227

22. Share-based payments

LTIP, DSB, DABS and restricted schemes

The Group's share schemes are described in the Directors' Remuneration Report on pages 65 to 81 and include LTIP, DABS and restricted share equity settled share schemes.

During the year, 209,694 shares under the LTIP scheme were granted with 50% of the vesting based on Total Shareholder Return (TSR) and 50% on earnings per share (EPS) growth. The performance condition for the TSR element is the same as the vesting period. The performance period for the EPS element is for the three financial years up to 31 March 2020. A further 48,444 shares were issued under the DABS scheme vesting over three years to 4 June 2021.

Other share-based payments include 62,196 restricted shares which were issued to eligible employees which do not contain any performance criteria. Half will vest over two years on 25 March 2021 with the second half vesting over three years on 25 March 2023.

The amount charged to the statement of profit or loss in the year was £1.4 million (2018: £1.5 million). A total charge of £1.6 million (2018: £2.9 million) previously recognised directly to equity for schemes which have now lapsed or vested was transferred from the share-based payments reserve to retained earnings during the period.

Share awards movement during the year

	Number of shares 2019	Number of shares 2018
Outstanding at the beginning of the year	**715,528**	669,828
Granted	**320,334**	320,714
Lapsed	**(107,388)**	(207,123)
Forfeited	**(28,873)**	(4,861)
Exercised	**(113,731)**	(63,030)
Outstanding at end of the year	**785,870**	715,528

All awards granted and in issue are for free shares and therefore the weighted average exercise price for all outstanding schemes is £nil.

Remaining vesting period of outstanding share awards	Number of shares 2019	Number of shares 2018
Within one year	**201,845**	234,572
One to two years	**518,652**	206,458
Two to three years	**65,373**	274,498
Outstanding at end of the year	**785,870**	715,528

Awards	Grant date	Number of shares	Vesting date
LTIP	4 June 2018	209,694	25 July 2021
Restricted	25 March 2019	62,196	25 July 2021
DABS	4 June 2018	48,444	25 July 2021

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

	2018 LTIP CEO TSR	2018 LTIP Non-CEO TSR	2018 LTIP EPS
Weighted average share price	1,076.0p	1,076.0p	1,076.0p
Expected volatility[1]	27%	27%	27%
Expected life	3 years	3 years	3 years
Risk-free rate	0.70%	0.70%	0.70%
Fair value of award	785.6p	818.4p	1,076.0p

1. The expected volatility for PayPoint has been calculated using historical daily data over a term equal to the expected life of each conditional award.

Restricted shares issued during the year have a fair value of 870p. DABS shares issued during the year have a fair value of 1,076p being the share price on the date of the grant.

Notes to the consolidated financial statements
continued

Share Incentive Plan
The employee Share Incentive Plan is open to all employees of PayPoint Network, PayPoint Collections, PayPoint Retail Solutions and provides 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 statement of profit or loss in the year was £0.1 million (2018: £0.1 million). For shares that have vested, £0.1 million (2018: £0.2 million) which had been previously charged to the statement of profit or loss, has been reclassified to retained earnings.

23. Dividends on equity shares

	Year ended 31 March 2019		Year ended 31 March 2018	
	£'000	**pence per share**	£'000	pence per share
Reported dividends on ordinary shares:				
Interim ordinary dividend	**10,643**	**15.6**	10,431	15.3
Proposed final ordinary dividend	**16,105**	**23.6**	20,863	30.6
Total ordinary dividends	**26,748**	**39.2**	31,294	45.9
Interim additional dividend	**8,326**	**12.2**	8,316	12.2
Proposed additional final dividend	**12,557**	**18.4**	16,636	24.4
Total additional dividend	**20,883**	**30.6**	24,952	36.6
Total reported dividends (non-IFRS measure)	**47,631**	**69.8**	56,246	82.5
Dividends paid on ordinary shares:				
Final ordinary dividend for the prior year	**20,867**	**30.6**	20,450	30.0
Interim dividend for the current year	**10,643**	**15.6**	10,431	15.3
Total ordinary dividend paid	**31,510**	**46.2**	30,881	45.3
Final additional dividend for the prior year	**16,725**	**24.5**	16,701	24.5
Additional interim dividend for the current year	**8,326**	**12.2**	8,316	12.2
Total additional dividend paid	**25,051**	**36.7**	25,017	36.7
Total dividends paid	**56,561**	**82.9**	55,898	82.0
Number of shares in issue used for purposes of per share calculations	**68,243,406**		68,180,545	

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.

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

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign exchange. The Directors review and agree policies for managing each of these risks which are summarised below. These policies have remained unchanged during the year. The Group uses hedges to manage the foreign exchange risk of purchasing PayPoint One terminals.

(a) Credit risk
The Group's financial assets are cash and cash equivalents, trade and other receivables and investments. The Group's credit risk is primarily attributable to its trade and other receivables. To mitigate against credit risk, PayPoint credit checks clients and retailers, holds retailer security deposits, operates terminal limits, monitors clients and retailers for changes in payment profiles and in certain circumstances, has the right to set-off monies due against funds collected. The Group's maximum exposure, at 31 March 2019, was £75.1 million (2018: £64.3 million).

The Company, PayPoint plc, has issued parental guarantees in favour of clients of its subsidiaries under which it has guaranteed amounts due to clients, by the subsidiaries, for settlement of funds collected by retailers. PayPoint plc has also issued guarantees in favour of Romanian banks amounting to £5.1 million for guarantee facilities used by Romanian subsidiaries also to guarantee settlement of client funds.

(b) Liquidity risk
The Group's policy throughout the year ended 31 March 2019 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 2019 other than short-term payables such as trade payables and accruals.

(c) Foreign exchange risk
The Group's currency exposures comprise those transactional exposures that give rise to the net currency gains and losses recognised in the statement of profit or loss. 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 2019, these exposures were £nil (2018: £nil).

The Group uses hedges to manage the foreign exchange risk related to PayPoint One terminal purchases.

(d) Interest rate risk
The Group had no interest-bearing financial assets at 31 March 2019 other than the cash and cash equivalents of £37.5 million (2018: £46.0 million). The Group is also exposed to interest rate risk through use of its financing facility which incurs interest charges based on Libor plus a margin.

All funds earn interest at the prevailing rate. The funds are deposited on short-term deposits (normally weekly or monthly) or held in current accounts. The Group seeks to maximise interest receipts within these parameters. The Group also minimises interest cost by effective central management of cash resources to minimise the need for utilisation of the financing facility.

(e) Borrowing facilities
At year end, the Group had an undrawn, unsecured £75 million revolving loan facility with a £20 million accordion expiring in March 2023.

(f) Fair value of financial assets and liabilities
The Directors consider there to be no material difference between the book value and the fair value of the Group's financial instruments at 31 March 2019, or 31 March 2018.

(g) Market price risk
The Group's exposure to market price risk comprises interest rate exposure. Group funds are invested in money market cash deposits with the objective of maintaining a balance between accessibility of funds and competitive rates of return.

(h) Capital risk management
The Group's objectives when managing capital (the definition of which is consistent with prior year and is the Group's assets and liabilities including cash) are to safeguard the Group's ability to continue as a going concern to provide returns for shareholders and benefits for other stakeholders. The Group manages its capital by continued focus on free cash flow generation and managing the level of capital investment in the business.

(i) Financial instrument sensitivities
Financial instruments affected by market risk include deposits, trade receivables and trade payables. Any changes in market variables (exchange rates and interest rates) will have an immaterial effect on these instruments.

25. 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 2019 £'000	Year ended 31 March 2018 £'000
Short-term benefits and bonus[1]	**1,630**	2,579
Pension costs[2]	**127**	234
Long-term incentives[3]	**648**	445
Other[4]	**70**	29
Total	**2,475**	3,287

1. Includes salary, fees, benefits in kind and annual bonus.
2. Defined contribution pension scheme.
3. Long-term incentives: includes the value of 2016 LTIP and DABS expected to vest after the year end (2018: 2015 DSB and LTIP awards).
4. SIP matching and dividend shares awarded in the year.

Revenue received from Drop and Collect Limited during the year totalled £11.3 million (2018: £15.1 million) and PayPoint held a trade debtor at year end of £0.6 million (2018: £0.4 million).

Directors' remuneration is disclosed in the Annual Report on Remuneration on pages 65 to 81.

Notes to the consolidated financial statements
continued

26. Company related party transactions
The following transactions occurred between the Company and its wholly owned subsidiaries

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Amounts owed by subsidiaries	**38,405**	36,023
Amounts owed to subsidiaries	**12,094**	10,187
Interest paid to subsidiaries	**1,112**	546
Interest received from subsidiaries	**1,084**	698
Total	**52,695**	47,454

27. Notes to the cash flow statement

Group	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Profit before tax	**54,717**	52,947
Adjustments for:		
Depreciation of property, plant and equipment	**6,318**	6,362
Amortisation of intangible assets	**3,466**	4,155
VAT and R&D credits[2]	**(2,427)**	(166)
Exceptional items	**(922)**	–
Loss on disposal of fixed assets	**110**	52
Net finance costs	**159**	514
Share-based payment charge	**1,730**	1,567
Cash-settled share-based remuneration	**(725)**	(322)
Operating cash flows before movements in corporate working capital	**62,426**	65,109
Movement in inventories	**155**	148
Movement in trade and other receivables	**3,712**	(424)
Movement in contract assets	**(614)**	–
Movement in contract liabilities	**649**	–
Movement in payables	**(3,482)**	3,650
Cash generated by operations	**62,846**	68,483
Corporation tax paid	**(9,952)**	(10,285)
Financial costs paid	**(586)**	(609)
Net cash from operating activities (corporate)	**52,308**	57,589
Movement in clients' cash and retailers' deposits	**7,255**	5,401
Net cash from operating activities[1]	**59,563**	62,990

1. Items in the course of collection and settlement payables are included in this reconciliation on a net basis through the client cash line. The Directors have included these items on a net basis to best reflect the operating cash flows of the business.
2. In 2017/18 PayPoint received cash from clients in advance of payment to HMRC following the VAT tribunal outcome. In the current year the improved VAT recovery was offset against the net payment to HMRC which has been shown as a non-cash item.

Company	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Profit before tax	**57,221**	62,831
Adjustments for:		
Dividends from subsidiaries	**(57,717)**	(62,639)
Exceptional item	**(922)**	–
Net finance income	**473**	(32)
Share-based payment charge	**–**	1,567
Cash-settled share-based remuneration	**(725)**	(322)
Operating cash movement before movements in working capital	**(1,670)**	1,405
Movement in receivables	**(770)**	(13,385)
Movement in payables	**852**	5,035
Cash movement from operations	**(1,588)**	(6,945)
Interest and bank charges paid	**(445)**	(120)
Net cash movement from operating activities	**(2,033)**	(7,065)

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 2019 annual general meeting of PayPoint plc ('the Company') will be held at the Company's head office, 1 The Boulevard, Shire Park, Welwyn Garden City, Hertfordshire AL7 1EL on Thursday 25 July at 12.00 noon. You will be asked to consider and pass the resolutions below. Resolutions 14, 15 and 16 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 2019.
2. To approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy on pages 67 to 73), as set out in the Company's Annual Report and accounts for the financial year ended 31 March 2019.
3. To declare a final dividend of 23.6 pence per ordinary share of the Company for the year ended 31 March 2019.
4. To elect Mr Patrick Headon 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.
5. To re-elect Ms Gill Barr as a Director.
6. To re-elect Ms Rachel Kentleton as a Director.
7. To re-elect Mr Giles Kerr as a Director.
8. To re-elect Mr Rakesh Sharma as a Director.
9. To re-elect Mr Nick Wiles as a Director.
10. To re-appoint KPMG LLP as auditor of the Company until the conclusion of the next annual general meeting of the Company at which the accounts are laid.
11. To authorise the Directors to determine the auditor's remuneration.
12. To authorise the Directors to operate the PayPoint Restricted Share Plan ('RSP'), a copy of the draft rules of which is produced to the meeting and a summary of the main provisions of which is set out in the explanatory notes, and to do all such acts and things as may be necessary or expedient to give effect to the RSP.

Special business

13. 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 £75,828 provided that this authority shall expire on the conclusion of the annual general meeting of the Company to be held in 2020 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).

14. 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 13 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 £11,374.

Notice of annual general meeting
continued

and shall expire upon the expiry of the general authority conferred by resolution 13 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.

15. 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 6,824,520;
(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 2020 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.

16. 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
22 May 2019

Registered office:
1 The Boulevard
Shire Park
Welwyn Garden City
Hertfordshire
AL7 1EL
United Kingdom

Notes to the notice of annual general meeting

1. Shareholders should submit their proxy vote via www.signalshares.com not less than 48 hours before the time of the annual general meeting. Although the Company will no longer be providing a proxy form, you may request one from our registrar, Link Asset Services, on 0871 664 0391. From overseas call +44 (0) 371 664 0391 (calls cost 12p per minute plus your phone company's access charge. Calls outside of the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).

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 please contact the Company's registrar using the details provided above. CREST members should utilise 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 procedure in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST proxy instructions. It is therefore the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

6. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

7. To be entitled to attend and vote at the annual general meeting or any adjournment thereof (and also for the purpose of calculating how many votes a person may cast), a person must have his/her name entered on the register of members of the Company by close of business on 23 July 2019 (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 pages 44 and 45 of the 2019 Annual Report.

9. Each member attending the meeting has the right to ask questions relating to the business being dealt with at the meeting which, in accordance with section 319A of the Companies Act 2006 and subject to some exceptions, the Company must cause such questions to be answered. However, no such answer need be given if:

   (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
   (b) the answer has already been given on a website in the form of an answer to a question; or
   (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

Notes to the notice of annual general meeting
continued

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 20 May 2019, the latest practicable date before publication of this notice, was 68,245,203 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 20 May 2019 is 68,245,203.

13. The Directors' service agreements, Directors' letters of appointment and rules of the Restricted Share Plan are available for inspection at the registered office of the Company and at the office of Mills & Reeve, Monument Place, 24 Monument Street, London EC3R 8AJ 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 8 (inclusive), the Chairman confirms that, based on the performance evaluation undertaken during the period, each of the retiring Directors' 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.

With respect to resolution 9, as Nick Wiles was appointed as a Non-Executive Director in October 2009, in July 2018, the Board undertook a thorough assessment of his tenure and resolved that the Chairman's appointment as a Director be extended for a further term of three years. The Board agreed that the Chairman continues to demonstrate objective judgement and promotes constructive challenge amongst other Board members. Also, the extension would provide stability and aid the implementation of the succession plans with respect to Dominic Taylor. The Board recommends that Nick Wiles be proposed for re-election.

The Directors' biographies can be found on pages 44 and 45 of the 2019 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 65 to 81 other than the part containing the Directors' Remuneration Policy, of the 2019 Annual Report and accounts. This vote is advisory, and the Directors' entitlement to remuneration is not conditional on it.

Resolution 3: Declaration of final dividend
On 24 May 2018, the Company announced a transition to quarterly dividends with effect from 1 April 2019. Shareholders were informed that four equal dividends will be payable in July, September, December and March, and that this change will not alter the quantum of dividend that will be paid to shareholders within a financial year.

Shareholders are being asked to approve a final dividend of 23.6 per ordinary share for the year ended 31 March 2019. Subject to approval, the dividend will be paid in equal instalments of 11.8p per share on 29 July 2019 and 30 September 2019 to the holders of ordinary shares whose names are recorded on the register of members at the close of business on 28 June 2019 and 6 September 2019 respectively.

Resolutions 10 and 11: Re-appointment and remuneration of auditor
The Company is required to appoint or re-appoint an auditor at each general meeting at which accounts are presented to shareholders. Following an evaluation of the effectiveness and independence of KPMG, the Directors recommend KPMG be re-appointed as auditor. Resolution 11 grants authority to the Company to determine the auditor's remuneration.

Resolution 12: To authorise the operation of the RSP and to do all such acts and things as may be necessary or expedient to give effect to the RSP
Below is a summary of the principal terms of the RSP.

Operation
The Remuneration Committee of the Board of Directors of the Company (the 'Committee') will supervise the operation of the RSP.

Eligibility
Any employee (but excluding any Executive Director) of the Company and any of its subsidiaries will be eligible to participate in the RSP at the discretion of the Committee.

Grant of awards
The Committee may grant an award in one of two forms:

(i) nil cost options, where a participant can decide when to exercise his/her award over ordinary shares in the Company ('Shares') during a limited period of time after it has vested; or
(ii) a conditional award, where a participant will receive free Shares on the vesting of his/her award.

The Committee may allow awards to be settled in cash where it is appropriate to do so.

The Committee may normally grant awards within six weeks following:

(i) the date on which the RSP is approved by shareholders;
(ii) the Company's announcement of its results for any period; or
(iii) the lifting of restrictions on dealing in Shares that prevented grant of awards under (i) or (ii). The Committee may also grant awards when there are exceptional circumstances which the Committee considers justifies the granting of awards.

No awards will be granted after 25 July 2029, being ten years after the 2019 annual general meeting.

No payment will be required for the grant of an award. Awards are not transferable (other than to the participant's personal representatives in the event of death). Awards are not pensionable.

Individual limit
The maximum number of Shares that may be awarded to a participant in any financial year will be limited so that normally the market value of such Shares on the award date will not exceed 200% of the individual's base salary.

Overall RSP limits
The RSP may operate over new issue Shares, treasury Shares or Shares purchased in the market.

In any ten-year period the Company may not issue (or have the possibility to issue) more than:

(a) 10% of the issued ordinary share capital of the Company in respect of awards made in that period under the RSP and any other employee share plan adopted by the Company; and
(b) 5% of the issued ordinary share capital of the Company in respect of awards made in that period under the RSP and any other executive share plan adopted by the Company.

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

Vesting of awards
The vesting of awards granted under the RSP will normally only be subject to continued employment with the Company's Group for a specified period. The vesting period of awards will be determined by the Remuneration Committee at the time of grant, but may be set for periods shorter than three years.

The Committee may also make vesting of RSP awards conditional upon the achievement of one or more performance conditions set at the time of grant (although any such conditions are not required and may be set by reference to personal performance measures, such as annual appraisals).

Leaving employment
As a general rule, an award will lapse upon a participant leaving the employment of the Company's Group. However, if before the vesting of an award a participant ceases to be an employee within the Company's Group by reason of death, injury, disability, ill-health, redundancy, retirement (with the consent of his or her employing company), upon the sale or transfer out of the Company's Group or the Company or undertaking employing him/her, or in other circumstances at the discretion of the Committee (except in circumstances of gross misconduct or summary dismissal), then the award will vest on the normal vesting date.

The Committee may, at its discretion, permit or require awards to vest in such circumstances at the time of cessation of employment.

In either case, there will be a pro-rata reduction in the number of shares that may vest, for the time that has elapsed up to the date of cessation compared to the originally stated vesting period, unless the Committee determines that it would be inappropriate to apply a pro-rata reduction in the particular circumstances. Vesting of awards will remain subject to the Committee determining the extent to which any performance conditions have been satisfied.

A participant will be deemed to have ceased employment at the date that notice is given or received, unless the Committee decides to use a later date (e.g. the date that employment ends formally, or another date between the notice date and the date that employment ends).

Corporate events
In the event of a takeover, scheme of arrangement or voluntary winding up of the Company (not being an internal corporate reorganisation), all awards would vest early. The awards would normally be pro-rated to reflect the shorter than normal period of time between the date of the award and the time of vesting. The Committee can decide not to pro-rate awards if it regards it as inappropriate to do so in the particular circumstances. Vesting of awards will remain subject to the Committee determining the extent to which any performance conditions have been satisfied.

In the event of an internal corporate reorganisation, awards will be replaced by equivalent new awards over shares in a new holding company, unless the Committee decides that awards should vest on the same basis as described above.

Awards may also vest on the same basis if a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of the Shares to a material extent.

Participants' rights
Awards will not confer any shareholder rights on participants until the awards have vested and the participants have received their Shares.

The number of Shares comprised in an award will be increased in respect of an amount equivalent to the dividends that would have been paid on the Shares vesting under the awards between the time when the awards were granted and the time when they vest.

The Committee may determine that any additional Shares in respect of dividends that would have been paid on the Shares vesting under the awards, can instead be paid in cash.

Rights attaching to Shares
Any Shares allotted when an award vests (or for an award structured as an option, when it is exercised) will rank equally with all other Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

Variation of capital
In the event of any variation of the Company's share capital, or in the event of a demerger, payment of a special dividend or other similar event which materially affects the market price of the Shares, the Committee may make such adjustments as it considers appropriate to the number of Shares subject to an award and/or the exercise price payable (if any).

Malus and clawback

The Committee retains a power to recoup the value of unvested and previously vested awards from an individual within the period of three years from the vesting date of an award, if it considers it appropriate to do so. The Committee may choose to exercise this power in the following circumstances:

- the summary dismissal of the participant as a result of gross misconduct (or the Committee determines that circumstances existed that warranted summary dismissal as a result of gross misconduct)
- a material misstatement of the financial results of any company in the Company's Group
- the assessment or calculation of the value of an award (or any other condition imposed upon it) was based on an error that directly or indirectly led to an award vesting to a greater degree than would have been the case had that error not been made
- other circumstances which would, in the opinion of the Committee, have a sufficiently significant impact on the reputation of any company in the Company's Group

Alterations to the RSP

The Committee may, at any time, alter the provisions of the RSP in any respect, provided that the prior approval of shareholders must be obtained for any alterations that are in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of Shares held in treasury, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be provided under the RSP and the adjustment of awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the RSP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's Group.

If the proposed alterations are to the material disadvantage of participants the Board must invite participants to indicate if they approve the alterations and if so the alterations must be approved by a majority of the participants that respond.

Resolution 13: 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. This resolution authorises the Directors to make allotments of up to 22,748,401 ordinary shares, representing approximately one-third of the issued share capital of the Company (excluding treasury shares) as at 20 May 2019, being the latest practicable date prior to the publication of this notice. If approved at the forthcoming annual general meeting, the authority will expire no later than 15 months from the date on which the resolution is passed or on the conclusion of the annual general meeting of the Company to be held in 2020, whichever is the sooner.

Resolution 14: 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. This resolution 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 3,412,260 ordinary shares (representing approximately five per cent) of the issued share capital of the Company (excluding treasury shares) as at 20 May 2019, being the latest practicable date prior to the publication of this notice, 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 2020, 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 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 this resolution, 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 6,824,520, being ten per cent of the issued share capital of the Company (excluding treasury shares) as at 20 May 2019, being the latest practicable date prior to the publication of this notice. Any repurchase of ordinary shares carried out by the Company would be at a maximum price per ordinary share of 105 per cent of the average middle market price of such a share for the five business days immediately preceding the date of the purchase, the price equal to the last independent trade or the highest current independent bid and at a minimum price equal to the nominal value. The authority to repurchase ordinary shares will, if approved by shareholders, only be exercised after careful consideration by the Directors and if such exercise would result in an increase in earnings per share and be in the best interests of shareholders generally. If approved at the forthcoming annual general meeting, the authority will expire no later than 15 months from the date on which the resolution is passed, or on the conclusion of the annual general meeting of the Company to be held in 2020, whichever is the sooner.

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

Resolution 16: 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 this resolution as a special resolution to approve 14 days as the minimum period of notice for all general meetings of the Company other than annual general meetings. The approval of this resolution will be effective until the end of the 2020 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[1]
P Headon
G Kerr[1]
R Kentleton
R Sharma[1]
N Wiles (Chairman)[1]

1. Non-Executive Directors.

Company Secretary
S Court

Registered office
1 The Boulevard
Shire Park
Welwyn Garden City
Hertfordshire AL7 1EL
United Kingdom

Registered in England and Wales
Company number 03581541

Independent auditor
KPMG LLP
15 Canada Square
London E14 5GL
United Kingdom

Registrar
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
United Kingdom

Notes

PayPoint plc
1 The Boulevard, Shire Park
Welwyn Garden City
Hertfordshire AL7 1EL
United Kingdom

Tel +44 (0)1707 600 300
Fax +44 (0)1707 600 333
www.paypoint.com

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