PayPoint plc - results for the 6 months ended 30 September 2017
Good growth in retail services supported by continued progress in business reshaping

REPORTED HIGHLIGHTS

	6 months ended 30 September 2017	**6 months ended 30 September 2016**	Change
Revenue	**£97.6m**	£101.7m	(4.1)%
Net revenue[1]	**£56.5m**	£58.4m	(3.2)%
Gross margin[2]	**48.5%**	49.1%	(0.6)ppts
Operating profit before impairments and business disposal	**£24.4m**	£24.2m	0.6%
Profit before tax	**£24.4m**	£24.7m	(1.5)%
Earnings per share	**29.1p**	29.0p	0.1p
Ordinary interim dividend per share	**15.3p**	15.0p	0.3p
Additional interim dividend per share	**12.2p**	12.2p	-
Total dividend per share	**27.5p**	27.2p	0.3p
Operating cash flows	**£29.5m**	£28.0m	5.3%
Cash at period end	**£27.6m**	£51.4m	(46.3)%

PayByPhone, our mobile payment business, which was sold on 23 December 2016, and Drop and Collect, before our renegotiation with Yodel which completed on 16 December 2016 are included in last year's reported numbers making this year's interim performance not directly comparable. In order to more clearly compare our financial performance we have included highlights of our ongoing Retail networks business below.

RETAIL NETWORKS[3] HIGHLIGHTS

	6 months ended 30 September 2017	**6 months ended 30 September 2016**	Change
Revenue	**£97.6m**	£95.4m	2.3%
Net revenue[1]	**£56.5m**	£53.8m	5.0%
Gross margin[2]	**48.5%**	48.5%	-
Operating profit	**£24.4m**	£25.0m	(2.7)%
Profit before tax	**£24.4m**	£25.1m	(3.0)%
Earnings per share	**29.1p**	29.6p	(0.5)p

Financial highlights

- Good revenue growth in our ongoing Retail networks business;
  - Gross revenue grew by 2.3% to £97.6 million,
  - Net revenue[1] grew by 5.0% to £56.5 million,
  - UK retail services net revenue grew 12.5% to £19.0 million.

- Announced ordinary interim dividend of 15.3 pence per share, an increase of 2% year-on-year alongside the additional interim dividend of 12.2 pence per share. Total dividends of £37.2 million paid to shareholders during the period supported by strong operating cash flows[4] of £29.5 million up on prior period by £1.5 million. Cash at period end was £27.6 million.

[1] Net revenue is an alternative performance measure. Refer to note 2 to the interim financial statements for a reconciliation to revenue.
[2] Gross margin is an alternative performance measure and is calculated by dividing gross profit by revenue.
[3] Retail networks consists of our UK, Irish and Romanian retail businesses. A reconciliation, for each measure, from the statutory results to Retail networks is included in note 1 to the interim financial statements.
[4] Operating cash flows before movements in working capital from note 12 to the interim financial statements.

Retail services

- Continued successful roll out of PayPoint One, reached 6,181 sites as at 30 September 2017, an increase of 2,580 sites since 31 March 2017, with further growth in the average weekly PayPoint One fee per site. Remain on track to deliver target of 8,000 PayPoint One installations by 31 March 2018.
- Strong growth in card payment net revenue of 22.4% driven by an increase in transactions, improved margins and change in VAT treatment.
- Further progress in the parcel business with volumes up by 13.6% to 11.9 million and the network has now increased to over 7,200 outlets ahead of the Christmas peak season. Collect+ remains the clear market leader in parcel shop services.

Payments

- UK bill payments and top-up net revenue broadly flat at £32.4 million. The positive growth from improvements to client mix, renegotiation of symbol commissions, increased average top-up values and increased eMoney volumes which have a higher margin per transaction, was offset by a 9.7% reduction in transaction volumes.
- Good momentum in MultiPay with transactions doubling to 6.7 million servicing 17 clients including SSE.
- Ongoing strong growth in Romania;
  - Net revenue increased 17.1% to £5.0 million,
  - Good growth in transactions which have increased by 6.6% to 38.8 million,
  - Payzone Romania acquisition completed in October 2017.

Service delivery

- Initiatives to improve company processes are taking effect. For example, the PayPoint One prospecting to installation timeframe has reduced by 19% since last year.
- Cost base grew by £3.3 million to £32.1[1] million (September 2016: 28.8 million) reflecting continued investment in PayPoint One, MultiPay and improving customer service. The increase is weighted to the first half of the year and we expect minimal growth in the second half of the financial year.

Dominic Taylor, Chief Executive, said: “It has been an exciting and busy six months for PayPoint as we have continued to reshape our business. PayPoint One is already benefiting over 6,800 retailers and we have just launched EPoS Pro and our EPoS mobile app, innovations which will further help our convenience retailer customers drive significant additional efficiencies and value within their businesses. We continue to see strong card payment growth while MultiPay, our omni-channel payment solution, has now processed over 22.5 million transactions since launch. Collect+ continues to perform strongly and has extended its lead in parcels, with a network now of over 7,200 sites. Finally, our Romanian business remains the clear market leader, further strengthened with the acquisition of Payzone Romania following the recent clearance of the transaction by the competition authorities.

This continued progress underpins the Board’s confidence in our strategy, allowing us to confirm the full year outlook which remains in line with previous guidance.”

Enquiries

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A presentation for analysts is being held at 11.45am today (30 November 2017) at Canaccord Genuity Limited, 88 Wood Street, London, EC2V 7QR. A webcast of the presentation can be accessed at http://paypoint301117-live.audio-webcast.com. This announcement is available on the PayPoint plc website: http://corporate.paypoint.com.

[1] Costs include administrative expenses of £23.0 million and other costs of revenue of £9.1 million (note 4).

CHIEF EXECUTIVES REVIEW

The past six months represents the first set of interim results since the completion of our restructuring programme and the good growth reflects the progress being made reshaping the business towards future growth opportunities in retail services. Our success is built around our deeply embedded scalable network and low cost operating platform. We are in approximately 29,000 stores in the UK and Ireland with a 43%[1] share of retail outlets[2] and also a 43% share of the independent retail sector outlets, whether affiliated to a symbol operator or not. We also have 11,700 stores in Romania (with the acquisition of Payzone this increases to over 21,000). By creating a technology, settlement and operating platform to leverage a wide range of payment, parcel and retail service products, we are able to deliver a strong consumer proposition which delivers incremental revenue at a low marginal cost driving attractive returns for our shareholders.

Net revenue for the past six months was £56.5 million (September 2016: £58.4 million), on revenues of £97.6 million (September 2016: £101.7 million). Transactions of 295.2 million (September 2016: 337.2 million) were processed over the six months representing a transaction value of £4.7 billion (September 2016: £4.9 billion). Note that the results of the mobile payments business (PayByPhone), which was sold on 23 December 2016, are included in the 2016 comparative.

Our Retail networks[3] performed well with net revenue increasing by £2.7 million to £56.5 million, up 5.0% from the same period last year, driven mostly by the increase in service revenue from PayPoint One. However, our cost base[4] increased by £3.3 million to £32.1 million as a result of our continued investment in PayPoint One, MultiPay and improving customer service. The increase is weighted to the first half of the year and we expect minimal growth in the second half of the financial year as the investment required to deliver PayPoint One to our retailers decreases.

Earnings per share increased to 29.1 pence (September 2016: 29.0 pence) primarily as a result of the effective tax rate[5] reducing to 18.8% (September 2016: 20.2%). The higher effective tax rate in the prior period was primarily due to the losses in the mobile payments business incurring no tax relief.

With this set of results we have declared an interim ordinary dividend of 15.3p per share, an increase of 2% year-on-year alongside the additional interim dividend of 12.2 pence per share, resulting in an incremental payment of £18.7 million to our shareholders.

As outlined in our full year results the management team is focused on reshaping the business to build on the strength of our Retail network, so as to drive growth in retail services and to improve retailer experience through our investment in customer service and position PayPoint at the heart of our customers businesses. To execute our strategy, we set out five clear priorities for this financial year on which we have made good progress over the past six months, these are:

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

1. Drive profitable growth in UK retail services

Convenience retailing is a strong, resilient and growing sector which has benefitted from a shift towards regular top-up shopping, complementing online purchasing and taking share from big weekly shops. The total food and grocery market in the UK in 2017 is estimated to be £184.5bn with the convenience sector taking 21.7% of the market share. The convenience market is expected to increase by 17.7% by 2022 driving its share to 22.1%[6]. PayPoint is well placed through our strong convenience coverage of approximately 29,000 stores in the UK and Ireland, to grow retail services by selling to retailers as our customers and serving consumers through retailers as our distributors. This dynamic has underpinned our continuing retail services growth which are on track to exceed bill payment revenues in the coming years.

[1] William Reed Grocery Retail Structure 2017 and PayPoint.
[2] Retail outlets include convenience, CTNs, supermarkets, forecourts and specialist off licences.
[3] Retail networks consists of our UK, Irish and Romanian retail businesses. A reconciliation, for each measure, from the statutory results to Retail networks is included in note 1 to the interim financial statements.
[4] Costs include administrative expenses of £23.0 million and other costs of revenue of £9.1 million (note 4).
[5] Effective tax rate is the tax cost as a percentage of net profit before tax excluding profit on disposal of businesses. There was no profit on disposal of businesses in the current year.
[6] https://www.igd.com/Portals/0/Downloads/Infographics/UK-food-and-grocery.pdf.

Progress in the six months

- UK retail services net revenue grew 12.5% to £19.0 million driven by strong growth from PayPoint One service fees.
- PayPoint One installed in 6,181 sites as at 30 September 2017, an increase of 2,580 since 31 March 2017;
    - PayPoint One is already the largest EPoS capable estate in the UK convenience sector,
    - Average weekly revenue per site increased to £14.29 as a result of an improving mix within our three price points of £10, £15 or £20 per week per site,
    - 57% (3,947 sites)[1] of PayPoint One users now have EPoS Core with the remainder taking our Base proposition,
    - Over 80%[2] of PayPoint One users would recommend PayPoint One,
    - Retailers are increasingly using more functionality within PayPoint One EPoS; 47% of goods are now being scanned vs 43% at January 2017.
- EPoS Pro and the EPoS mobile app were launched at the beginning of November with enhanced features including stock management, news management and wholesaler links. EPoS Pro will retail at £30 a week;
    - Roll out to commence from January 2018,
    - EPoS Pro integration with Nisa agreed providing a seamless link to their in-house stock management systems with more symbol links in development,
    - EPoS mobile app to provide PayPoint One customers with access to data on any device, anywhere, whether they are using EPoS Base, Core or EPoS Pro.
- ATM transactions increased to 20.4 million (September 2016: 19.8 million) an increase of 3.4%;
    - Replaced over 500 legacy ATMs with broadband connected machines which are faster, more reliable, and improve the consumer experience.
- Card payment transactions increased 5.4% to 46.7 million with growth in card payment net revenue of 22.4% driven by an increase in transactions, improved margins and the change in VAT treatment in the second half of the last financial year.
- Standardised service fees for legacy terminals introduced across 14,000 sites; experienced small churn in customer base of 1.9%, in line with expectations.

Delivery to the end of the financial year

We remain on target to achieve 8,000 PayPoint One sites by March 2018. With the launch of EPoS Pro and our focus on increasing our pricing mix, we expect continued growth in the average weekly fee per site. We also plan to implement an option for retailers to have net settlement for card payments. This will be a unique differentiator for PayPoint, reducing our retailers' banking costs and improving their working capital.

In ATMs we intend to grow our network in the second half of the year while also reviewing the implications from LINK's recent proposals to reduce the interchange rate for our ATM business. ATMs remain an important business for us although we may adjust our network plans to remove sites that become un-profitable should LINK's recent proposals to reduce interchange revenue go ahead.

2. <u>Deliver parcels volume growth in the UK</u>

Collect+ is the biggest pick up and drop off network in the UK and provides consumers with the ability to collect parcels or send returns from over 7,200 local convenience stores nationwide. The UK parcel market has continued to grow strongly. Year to date the market has increased by 16.4%[3] to an estimated 2.4 billion per annum, driven by the growth in online orders. Within the total parcels market, Click & Collect accounts for 120 million parcels and returns have even higher volumes.

Progress in the six months

- Continued growth in parcel volumes, up 13.6% to 11.9 million.
- Collect+ sites increased by 627 to 6,794 on 30 September 2017, now at over 7,200 in advance of the Christmas peak.
- Collect+ remains the market leader;
    - Improvement in Trust Pilot score, score up to 9.3 out of 10 (31 March 2017: 9.2),
    - Ranked in the top three delivery services, with 89% neutral or positive reviews[4].
- Proposition remains highly attractive to retailers including a trial participation from Tesco Express.

[1] As at 27 November 2017.
[2] PayPoint One feedback from an in-house survey from 98 respondents responding agree or above.
[3] IMRG MetaPack UK Delivery Index Report September 2017.
[4] Money Saving Expert, January 2017.

Delivery to end of the financial year
Underlying trends in parcels remain favourable with increasing outlets and continued growth in UK online shopping. Following the successful restructure of our Collect+ joint arrangement with Yodel last year, we now have the opportunity to extend our network to other carriers, providing PayPoint with an exciting opportunity to capture a greater share of the market. As a result, we expect continued growth in parcel volumes with the addition of new carriers.

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

Cash prepay energy payments is a sector where PayPoint continues to be the market leader. The prepay energy sector has however, been impacted by a number of factors including the Big Six energy providers losing market share, reduced levels of consumer energy debt, higher temperatures and the continued uncertainty around the impact of smart meters and the delays to their national roll out. We believe our MultiPay service, which complements our existing business by enabling consumer choice of digital channels, is well placed to capture digital payments from smart meters through its integrated platform as well as enabling PayPoint to service new non-energy clients.

Progress in the six months

- Net revenue of £32.4 million (September 2016: £32.6 million) was broadly flat compared to prior period as improvements to client mix, renegotiation of symbol commissions, increased average top-up values and increased eMoney volumes which have a higher margin per transaction, were offset by the decline in bill payments and top-up transactions.
- UK bill payments and top-up transactions reduced by 9.7% to 174.7 million, a large part of which was caused by the ongoing decline in the UK mobile top-ups and energy prepay markets.
- Launched Amazon Cash as Amazon's first partner in the UK.
- 18 new clients secured in the six month period of which nine are challenger energy providers.
- MultiPay transactions doubled to 6.7 million, with 17 clients, including SSE, now live on the service.
- A new contract was secured for the replacement of the Department of Work and Pensions simple payment service, albeit at a lower value than the previous contract.
- Renewed and extended contracts with six clients, including the BBC.

Delivery to end of the financial year
There is a strong residual demand for cash payment that we will continue to serve successfully and expand where possible. In addition, we will continue to add more clients to our MultiPay service and extend it to other sectors. There is however uncertainty relating to the roll out of smart meters and the general long-term decline of cash and top-ups which will continue to impact our payments business, but we expect to continue to renew key contracts with an improvement in revenue per transactions rates.

4. Drive continued organic growth in Romania

In Romania, there are an estimated 418 million bill payments per year and cash is expected to be the dominant settlement method for the foreseeable future. PayPoint is a well-known market leading brand which has relationships with clients from all sectors. We estimate our current share of the bill payments issued by our clients is 23.6%.

Progress in the six months

- Good transaction growth of 6.6% to 38.8 million.
- Strong growth in net revenue, up 17.1% to £5.0 million; underlying net revenue growth excluding exchange rate movements was 11.1%.
- Network sites increased to 11,771, up by 469 since 31 March 2017.
- Successfully added a further 14 clients; total clients now in excess of 140.
- Parcels trial continues with over 200 sites in Bucharest and five online merchants.
- Completed Payzone acquisition in October 2017; consideration paid totalled £1.4 million with a contingent £0.4 million deferred.

Delivery to end of the financial year
The Payzone acquisition presents a step change for our Romanian business increasing our stores in Romania to over 21,000. Our focus for the next six months will be to start network optimisation, integrating the businesses to increase revenue and services portfolio and to drive cost efficiencies. We will also look to maximise market share with existing clients, extend our presence in multiples and add new clients from other sectors.

5. <u>Business optimisation</u>

We intend to invest in tools and capabilities to enable our client and field teams to more effectively sell a portfolio of products. In addition, we have also publicly pledged to our UK retailers that we intend to deliver first class service through the entire lifecycle of on-boarding, operational support and status changes. This will require us to invest in an efficient workflow and in billing systems with accurate and timely supporting information so we can serve them effectively.

Progress in the six months

We have made good progress in improving our processes so as to meet our pledge of delivering first class service to our UK retailers. Our end to end process for on-boarding retailers has significantly improved over the last six months with average days from prospecting to installation across all products reducing by over 10% and for PayPoint One by 19%. We have also improved our calls answered ratio by 3.3ppts compared to last year.

Delivery to end of the financial year

The first phase of our new customer relationship management and billing systems will go live in the first half of 2018. These systems will allow us to further improve our service to retailers, our sales capability and our ability to generate operational efficiencies.

OUTLOOK

This continued progress underpins the Board's confidence in our strategy, allowing us to confirm the full year outlook which remains in line with previous guidance.

OPERATING REVIEW

PayPoint is a multi-channel service provider for consumer transactions, processing high transaction volumes, managing retailers and clients, settling funds (collection and transmission) and transmitting data in a secure environment, by the application of technology.

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

Retail networks[1]
The group has established Retail networks in the UK, Ireland and Romania which grew by 2.2% (September 2016: 3.2%) to 40,512 sites.

Analysis of sites/internet merchants	**At 30 September 2017**	At 30 September 2016	Change %	At 31 March 2017
UK and Ireland terminal sites	**28,741**	28,973	(0.8)	29,176
Romania terminal sites	**11,771**	10,662	10.4	11,302
Total terminal sites	**40,512**	39,635	2.2	40,478

In the UK, we introduced standardised service fees for legacy terminals across 14,000 sites and, as expected, experienced small churn in customer base of 1.9%. Overall the UK network reduced by a net 435 sites to 28,741 in the first half of the year. Our main priority is to deploy PayPoint One across our existing site base in the UK.

PPoS, our solution for symbol groups and Multiples who want to integrate through their own EPoS, grew to 8,561 sites (September 2016: 8,178 sites).

In Romania, we increased the number of terminal sites by 469 in the period, an increase of 4.1% since year end.

Transactions in our Retail networks declined by 11.9 million (5.3%) to 295.2 million (September 2016: 307.1 million), with the UK declining by 5.3% offset by growth in Romania of 6.6%. Transaction value of £4.7 billion (September 2016: £4.8 billion) was 2.0% lower than prior period. Net revenue of £56.5 million was 5.0% up on last year driven by increased service revenue from PayPoint One. The impact of declining transactions on net revenue was mitigated by improvements to client mix, renegotiation of symbol commissions, increased average top-up values and increased eMoney volumes which have a higher margin per transaction.

	At 30 September 2017	At 30 September 2016	Change %	At 31 March 2017
UK transactions (million)	**256.4**	270.7	(5.3)	579.8
Romania transactions (million)	**38.8**	36.4	6.6	75.0
Total transactions (million)	**295.2**	**307.1**	(3.9)	**654.8**
Transaction value (£m)	**4,721.9**	4,819.0	(2.0)	10,409.6
Revenue (£m)	**97.6**	95.4	2.3	203.4
Net revenue[2](£m)	**56.5**	53.8	5.0	117.5

We distinguish between three business categories within our Retail networks, namely bill and general, top-ups and retail services and each is reviewed separately below.

[1] Retail networks consists of our UK, Ireland and Romanian retail businesses. A reconciliation, for each measure, from the statutory results to Retail networks is included in note 2 to the interim financial statements.
[2] Net revenue is an alternative performance measure. Refer to note 2 to the interim financial statements for a reconciliation to revenue.

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

	6 months ended 30 September 2017	6 months ended 30 September 2016	Change %	Year ended 31 March 2017
Transactions (million)	**182.9**	195.0	(6.2)	430.5
Transaction value (£m)	**3,750.0**	3,860.3	(2.9)	8,489.9
Revenue (£m)	**36.8**	37.8	(2.8)	82.5
Net revenue[1] (£m)	**26.7**	26.9	(1.0)	58.5

Bill and general transactions decreased to 182.9 million, down 6.2% (September 2016: 4.0%) compared to the same period last year. As anticipated, UK energy transactions declined 9.0% (September 2016: 7.1%) due to a number of factors including the Big Six energy providers losing market share, reduced levels of consumer energy debt, higher temperatures and the continued uncertainty around the impact of smart meters and the delays to their national roll out. However our MultiPay service, which complements our existing business by enabling consumer choice of digital channels, performed well doubling transactions to 6.7 million in the period. Continued strong growth in Romania resulted in a market share[2] improvement to 23.6% (September 2016: 23.1%) and the addition of 14 new clients. Romania had good transaction volume growth of 6.2% (September 2016: 11.7%) to 34.6 million transactions (September 2016: 32.6 million).

Net revenue of £26.7 million decreased 1.0% (September 2016: increased 2.8%). The decline in transactions was mitigated by improvements to client mix.

Top-ups
Top-ups include transactions where consumers can top up their mobiles and prepaid debit cards. They can also purchase eMoney vouchers and lottery tickets. In Ireland and Romania, PayPoint is principal in the sale of mobile top-ups and, accordingly, the face value of the top-up is included in revenue and the corresponding costs deducted when deriving net revenue.

	6 months ended 30 September 2017	6 months ended 30 September 2016	Change %	Year ended 31 March 2017
Transactions (million)	**31.3**	35.8	(12.4)	68.9
Transaction value (£m)	**349.5**	370.0	(5.5)	731.6
Revenue (£m)	**32.6**	31.9	2.4	63.6
Net revenue[1] (£m)	**10.3**	9.6	7.6	19.1

As expected, top-up transactions reduced by 12.4% (September 2016: 14.1%) as a result of the continued decline in the UK mobile top-up volumes which was partly offset by an increase in UK eMoney top-ups and Romanian top-ups.

Net revenue increased 7.6% to £10.3 million, despite transactions declining as a result of renegotiation of symbol commissions, increased average top-up values and increased eMoney volumes which have a higher margin per transaction.

[1] Net revenue is an alternative performance measure. Refer to note 2 to the interim financial statements for a reconciliation to revenue.
[2] Market share in Romanian bill payments is our share of the bill payments expressed as a percentage of the total bills issued by our clients.

Retail services
Retail services are services we sell to retailers in our networks. Services include the provision of the PayPoint One platform (which includes our Base, Core and Pro EPoS solutions), ATMs, card payment, parcels, money transfer and SIMs.

	6 months ended 30 September 2017	**6 months ended 30 September 2016**	Change %	Year ended 31 March 2017
Transactions (million)	**81.0**	76.3	6.1	155.4
Transaction value (£m)	**622.4**	588.7	5.7	1,188.1
Revenue (£m)	**28.2**	25.7	9.9	57.3
Net revenue[1] (£m)	**19.5**	17.3	13.0	39.9

Overall retail services transaction volumes increased 6.1% (September 2016: 11.8%) over the same period last year. Parcels volumes increased by 13.6% (September 2016: 5.7%), card payment transactions increased by 5.5% (September 2016: 14.7%) and ATM transactions by 3.4% (September 2016: 9.3%).

Net revenue growth of 13.0% (September 2016: 14.7%) was greater than transaction growth, mainly as a result of strong growth from PayPoint One service fees, standardised service fees for legacy terminals, improved card payment margins and the change in VAT treatment in the second half of the last financial year for card payments resulting in benefit of £0.5 million. An associated increase in irrecoverable VAT costs of £0.3 million is included in administrative costs. These benefits were partially offset by the revised commercial terms with Yodel for parcels with an impact of £1.4 million on a like for like volume basis.

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

Service	**6 months ended 30 September 2017**	**6 months ended 30 September 2016**	Change %	Year ended 31 March 2017
PayPoint One	**6,181[2]**	1,142	>100	3,601
Collect+	**6,794[2]**	5,960	14.0	6,167
Card payment	**9,684**	10,076	(3.9)	10,024
ATM	**4,153**	4,120	0.8	4,165

Mobile
The group disposed of its mobile payments business on 23 December 2016. The results below show the trading of this business for the comparative interim period.

	6 months ended 30 September 2017	**6 months ended 30 September 2016**	Decrease %	Year ended 31 March 2017
Transactions (million)	**-**	30.1	(100.0)	40.3
Transaction value (£m)	**-**	100.6	(100.0)	136.0
Revenue (£m)	**-**	6.3	(100.0)	8.5
Net revenue[1] (£m)	**-**	4.6	(100.0)	6.4

[1] Net revenue is an alternative performance measure. Refer to note 2 to the interim financial statements for a reconciliation to revenue.
[2] On 27th November 2017 PayPoint One was in 6,898 sites and Collect+ was in 7,211 sites.

FINANCIAL REVIEW
Movements in revenue and net revenue have been addressed in the operational review above.

Gross profit was down by 5.3% to £47.3 million (September 2016: £50.0 million). Excluding the mobile payments business from the prior period, Retail networks'[1] gross profit was up 2.3% reflecting gross profit margin of 48.5%, the same as September 2016.

Administrative expenses of £23.0 million were 8.3% higher than the prior period of £21.2 million after excluding £4.5 million from the comparative figure related to the mobile payments business. The higher costs relate to PayPoint One roll out, IT investment costs in relation to CRM, PayPoint One and data centre migration, people costs and irrecoverable VAT. Irrecoverable VAT increased by £0.3 million due to the change in the VAT treatment of card payments, however included in revenue is a corresponding benefit of £0.5 million.

The changes in revenue and costs described above have led to a decrease in our Retail networks operating margin[2] to 43.1% (September 2016: 46.5%).

Profit before tax was £24.4 million (September 2016: £24.7 million). The conversion of Romania's results into sterling benefited profit before tax by £0.1 million compared to the prior year.

The tax charge was £4.6 million (September 2016: £5.0 million) resulting in an effective tax rate[3] of 18.8% (March 2017: 20.2%). The reduction in the effective tax rate was primarily caused by the removal of the losses incurred by the mobile payments business in North America for which there was no tax relief.

Cash flow and liquidity
Operating cash flows, before movements in working capital, continue our strong conversion of profit to cash. We generated £29.5 million in the period, an increase of £1.5 million when compared to prior period.

Working capital absorbed £5.0 million in the period of which £2.0 million relates to a decrease in client funds. The balance mainly relates to our Salesforce CRM implementation and data centre migration. We expect full year working capital to be broadly flat excluding movements for client funds.

Corporation tax payments of £5.0 million (September 2016: £3.1 million) are for payments on account. Included in the net £3.1 million tax paid last period were tax refunds of £1.7 million for the 2014 and 2015 financial years. Capital expenditure of £8.1 million (September 2016: £9.1 million) relates to the purchase of PayPoint One terminals and continued development of EPoS, MultiPay and Salesforce CRM.

Settlement of the 2014 DSB share incentive schemes absorbed £0.3 million (September 2016: £0.4 million). Equity dividends paid in the period were £37.2 million (September 2016: £33.5 million).

The group had cash of £27.6 million at the period end (September 2016: £49.6 million, March 2017: £53.1 million) and a £45.0 million revolving term credit facility. Cash includes amounts held to settle short-term client settlement obligations, which at the period end, amounted to £18.1 million (September 2016: £15.4 million, March 2017: £20.2 million).

The balance sheet remains strong with group net assets of £56.6 million. This is a reduction of £16.5 million from 31 March 2017 and reflects the reduction in cash balances as a result of the additional dividend returning surplus cash to shareholders.

Risks and going concern
Risks to PayPoint's business, financial condition and operations have not changed significantly since 31 March 2017 and are disclosed on pages 22 and 23. Taking account of these key risks, PayPoint's profitability, cash balances and borrowing capacity which are adequate to meet the foreseeable needs of the group, the interim financial statements have been prepared on a going concern basis.

Dividend
An interim dividend of 15.3p per share (September 2016: 15.0p) and an additional dividend of 12.2p (September 2016: 12.2p) per share have been declared. Both dividends will be paid on 21 December 2017 to shareholders on the register at 8 December 2017. Total dividends of £37.2 million (54.5p per share) were paid during the period and comprised of the final ordinary dividend for the year ended 31 March 2017 totalling £20.5 million (30.0p per share) and the final additional dividend of £16.7 million (24.5p per share).

[1] Retail networks consists of our UK, Ireland and Romanian retail businesses. A reconciliation, for each measure, from the reported results to Retail networks is included in note 2 to the interim financial statements.
[2] Operating profit margin is operating profit before impairments and disposal as a percentage of net revenue.
[3] Effective tax rate is the tax cost as a percentage of net profit before tax excluding profit on disposal of businesses. There was no profit on disposal of businesses in the current year.

CONDENSED CONSOLIDATED INCOME STATEMENT

Continuing operations	Note	**Unaudited 6 months ended 30 September 2017 £000**	Unaudited 6 months ended 30 September 2016 £000	Audited year ended 31 March 2017 £000
Revenue	2	**97,593**	101,713	211,924
Cost of revenue	4	**(50,244)**	(51,730)	(106,008)
Gross profit		**47,349**	49,983	105,916
Administrative expenses		**(22,978)**	(25,769)	(53,640)
Operating profit before impairments and disposal		**24,371**	24,214	52,276
Profit on disposal of businesses		**-**	-	15,660
Operating profit after impairments and disposal		**24,371**	24,214	67,936
Share of profit of joint venture		**-**	443	1,193
Finance income		**47**	93	132
Finance costs		**(48)**	(19)	(120)
Profit before tax		**24,370**	24,731	69,141
Tax	5	**(4,570)**	(4,987)	(9,508)
Profit for the period		**19,800**	19,744	59,633
Attributable to:				
Equity holders of the parent		**19,800**	19,743	59,622
Non-controlling interest		**-**	1	11
		19,800	19,744	59,633
Earnings per share				
Basic	6	**29.1p**	29.0p	87.5p
Diluted	6	**28.9p**	28.7p	87.2p

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 6 months ended 30 September 2017 £000	Unaudited 6 months ended 30 September 2016 £000	Audited year ended 31 March 2017 £000
Items that may subsequently be reclassified to the consolidated income statement:			
Exchange differences on translation of foreign operations	**314**	1,324	675
Accumulated foreign exchange translation recycled to the income statement (net of nil tax)	**-**	-	2,047
Other comprehensive profit for the period	**314**	1,324	2,722
Profit for the period	**19,800**	19,744	59,633
Total comprehensive income for the period	**20,114**	21,068	62,355
Attributable to:			
Equity holders of the parent	**20,114**	21,067	62,344
Non-controlling interest	**-**	1	11
	20,114	21,068	62,355

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 30 September 2017 £000**	Unaudited 30 September 2016 £000	Audited 31 March 2017 £000
Non-current assets				
Goodwill		**8,406**	8,507	8,236
Other intangible assets		**13,769**	9,778	11,867
Property, plant and equipment		**28,868**	25,048	27,168
Investment in joint venture		**-**	2,072	-
Deferred tax assets		**438**	-	354
		51,481	45,405	47,625
Current assets				
Inventories		**327**	669	357
Trade and other receivables		**119,358**	100,393	98,771
Cash and cash equivalents	8	**27,574**	49,647	53,080
Assets held for sale		**-**	5,166	-
		147,259	155,875	152,208
Total assets		**198,740**	201,280	199,833
Current liabilities				
Trade and other payables		**137,407**	117,211	121,603
Current tax liabilities		**4,249**	5,391	4,548
Liabilities directly associated with assets classified as held for sale		**-**	2,925	-
		141,656	125,527	126,151
Non-current liabilities				
Other Liabilities		**471**	-	537
Deferred tax liability		**-**	64	-
		471	64	537
Total liabilities		**142,127**	125,591	126,688
Net assets		**56,613**	75,689	73,145
Equity				
Share capital	**9**	**227**	227	227
Share premium		**2,907**	2,633	2,633
Share-based payment reserve		**2,305**	3,174	4,404
Translation reserve		**(2)**	(1,714)	(316)
Retained earnings		**51,176**	71,482	66,197
Total equity attributable to equity holders of the parent company		**56,613**	75,802	73,145
Non-controlling interest		**-**	(113)	-
Total equity		**56,613**	75,689	73,145

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital £000	Share premium £000	Share-based payment reserve £000	Translation reserve £000	Retained earnings £000	Total equity attributable to equity holders of the parent company £000	Non-controlling interest £000	Total equity £000
Audited equity 31 March 2016		**227**	**2,365**	**3,956**	**(3,038)**	**84,467**	**87,977**	**(114)**	**87,863**
Profit for the period		-	-	-	-	19,743	19,743	1	19,744
Dividends paid		-	-	-	-	(33,515)	(33,515)	-	(33,515)
Exchange differences on translation of foreign operations		-	-	-	1,324	-	1,324	-	1,324
Equity-settled share-based payment expense		-	-	547	-	-	547	-	547
Vesting of share scheme	10	-	268	(1,329)	-	653	(408)	-	(408)
Deferred tax on share-based payments		-	-	-	-	134	134	-	134
Unaudited equity 30 September 2016		**227**	**2,633**	**3,174**	**(1,714)**	**71,482**	**75,802**	**(113)**	**75,689**
Profit for the period		-	-	-	-	39,879	39,879	10	39,889
Dividends paid		-	-	-	-	(45,028)	(45,028)	-	(45,028)
Exchange differences on translation of foreign operations		-	-	-	(649)	-	(649)	-	(649)
Sale of Mobile		-		-	2,047	-	2,047	103	2,150
Equity-settled share-based payment expense		-	-	1,005	-	(2)	1,003	-	1,003
Deferred tax on share based payments		-	-	225	-	(134)	91	-	91
Audited equity 31 March 2017		**227**	**2,633**	**4,404**	**(316)**	**66,197**	**73,145**	**-**	**73,145**
Profit for the period		-	-	-	-	19,800	19,800	-	19,800
Dividends paid		-	-	-	-	(37,150)	(37,150)	-	(37,150)
Exchange differences on translation of foreign operations		-	-	-	314	-	314	-	314
Equity-settled share-based payment expense		-	-	848	-	-	848	-	848
Vesting of share scheme	10	-	274	(2,925)	-	2,329	(322)	-	(322)
Deferred tax on share-based payments		-	-	(22)	-	-	(22)	-	(22)
Unaudited equity 30 September 2017		**227**	**2,907**	**2,305**	**(2)**	**51,176**	**56,613**	**-**	**56,613**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Unaudited 6 months ended 30 September 2017 £000**	Unaudited 6 months ended 30 September 2016 £000	Audited year ended 31 March 2017 £000
Net cash flow from operating activities[1]	**12**	**19,457**	8,734	41,807
Investing activities				
Investment income		**47**	93	132
Purchase of property, plant and equipment		**(4,136)**	(6,383)	(12,116)
Intangible asset development		**(3,922)**	(2,741)	(5,335)
Net proceeds from disposal of property, plant and equipment		**3**	(11)	-
Net proceeds on disposal of subsidiary		**-**	-	22,674
Net cash (used)/ generated in investing activities		**(8,008)**	(9,042)	5,355
Financing activities				
Dividends paid		**(37,150)**	(33,515)	(78,543)
Decrease in cash and cash equivalents		**(25,701)**	(33,823)	(31,381)
Cash and cash equivalents at beginning of period		**53,080**	83,221	83,221
Effect of foreign exchange rate changes		**195**	1,963	1,240
Cash and cash equivalents at end of period		**27,574**	51,361	53,080

	Unaudited 6 months ended 30 September 2017 £000	Unaudited 6 months ended 30 September 2016 £000	Audited year ended 31 March 2017 £000
Reconciliation of items disclosed on the consolidated statement of financial position:			
Corporate cash	**9,501**	34,211	32,876
Client cash	**18,073**	15,436	20,204
Cash and cash equivalents on the statement of financial position	**27,574**	**49,647**	**53,080**
Cash and cash equivalents included in assets held for sale	**-**	1,714	-
Cash and cash equivalents on the statement of cash flows	**27,574**	51,361	53,080

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

NOTES TO INTERIM FINANCIAL STATEMENTS

1. Accounting policies

Reporting entity
PayPoint plc ('the company') is a company domiciled in the United Kingdom. These consolidated interim financial statements ('interim financial statements') as at and for the six months ended 30 September 2017 comprise the company and its subsidiaries (together referred to as the 'group'). The group is primarily involved in providing innovative and time-saving technology to our retailers and is a service provider for consumer transactions (see note 3).

Basis of preparation
These interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the group's last annual consolidated financial statements as at and for the year ended 31 March 2017 ('last annual financial statements'). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the group's financial position and performance since the last annual financial statements. The interim financial statements contained in this report are unaudited, but have been formally reviewed by the auditor and their report to the company is set out on page 24.

The information shown for the year ended 31 March 2017, which is prepared under International Financial Reporting Standards (IFRS), does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The report of the auditor on the statutory accounts for the year ended 31 March 2017, prepared under IFRS, was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under sections 498 (2) or (3) of the Companies Act 2006 and has been filed with the Registrar of Companies.

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. The group's liquidity and going concern review can be found in the Finance review on page 10.

Impact of IFRS 15
IFRS 15 is a new standard and is effective for accounting periods commencing on or after 1 January 2018. It is based on a five step model framework, which replaces all existing revenue standards. The principles of the standard are that revenue is recognised as the group fulfils its performance obligations. In the 2017 annual report the initial assessment identified SIMs revenue recognition as potential change. The impact assessment of IFRS 15 has progressed, although is not fully complete. The key identified areas of change are now:

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

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

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

The impact of IFRS 15 on implementation may change as a result of changes to existing contract terms or new contracts entered into before the standard's implementation. If the standard had been adopted in the 31 March 2017 financial year, it is estimated deferred costs would increase gross assets by £2.0 million and deferred income would increase total liabilities by £1.3 million. The overall impact on earnings for the 2017 financial year would not be significant, as revenue which would have been deferred by an estimated £0.8m is broadly similar to deferred costs of £0.9m.

2. 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 which have remained consistent with prior periods. These measures are included in these interim financial statements to provide additional useful information on performance and trends to shareholders.

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

Net revenue (non-IFRS measure)

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

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

The reconciliation of revenue to net revenue is as follows:

	6 months ended 30 September 2017 £000	6 months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Service revenue	**76,867**	83,005	173,880
Sale of goods	**20,131**	18,708	37,695
Royalties	**595**	-	349
Revenue	**97,593**	101,713	211,924
less:			
Retail agent commissions	**(23,912)**	(25,801)	(53,645)
Cost of mobile top-ups and SIM cards as principal	**(17,174)**	(15,779)	(32,296)
Card scheme sponsors' charges[1]	**-**	(1,737)	(2,130)
Net revenue	**56,507**	58,396	123,853

[1] These costs related to PayByPhone, our mobile payment business, which was sold on 23 December 2016.

Reconciliation from the group income statement to Retail networks
PayByPhone, our mobile payment business, which was sold on 23 December 2016, and Drop and Collect, before our renegotiation with Yodel which completed on 16 December 2016 are included in last year's reported numbers making this year's interim performance not directly comparable. In order to assist users, the reconciliation from the reported income statement to Retail networks income statement has been presented. This will aid with the users' understanding of the ongoing results for the period. The mobile payments business did not meet the definition of a discontinued operation set out in IFRS 5 Non-current assets held for sale and discontinued operations as it did not constitute a separate major line of business.

For the period ended 30 September 2016	Group result £000	Less Mobile £000	Less Collect+ £000	Retail networks £000
Revenue	101,713	(6,346)	-	**95,367**
Cost of revenue	(51,730)	2,631	-	**(49,099)**
Gross profit	49,983	(3,715)	-	**46,268**
Administrative expenses	(25,769)	4,543	-	**(21,226)**
Operating profit	24,214	828	-	**25,042**
Share of joint venture result	443	-	(443)	**-**
Investment income	93	-	-	**93**
Finance costs	(19)	-	-	**(19)**
Profit before tax	24,731	828	(443)	**25,116**
Tax	(4,987)	-	-	**(4,987)**
Profit for the period	19,744	828	(443)	**20,129**

Effective tax rate (non-IFRS measure)
Effective tax rate is the tax cost as a percentage of net profit before tax excluding significant items including profit or loss on business disposals and impairments**.** Effective tax better reflects the underlying tax rate because it excludes the effect of significant items.

3. Segmental reporting
PayPoint provides innovative and time-saving technology to our retailers and is a service provider for consumer transactions through various distribution channels, involving the processing of high volume transactions, the management of retailers and clients, the settlement of funds (collection and transmission) and transmission of data in a secure environment by the application of technology. The application of technology is directed on a group basis by the group's executive board to develop products across the business, prioritised on an economic value basis (generally by product), rather than on a subsidiary by subsidiary basis and therefore the group has only one operating segment.

	6 months ended 30 September 2017 £000	6 months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Revenue			
UK	**73,447**	75,974	161,664
Ireland	**2,151**	2,697	5,110
Romania	**21,996**	19,155	39,765
North America[1]	**-**	3,277	4,459
France[1]	**-**	610	926
Total	**97,594**	101,713	211,924

[1] These geographical areas related to PayByPhone, our mobile payment business, which was sold on 23 December 2016.

Non-current assets (excluding deferred tax)			
UK	**41,631**	36,107	38,164
Romania	**9,412**	9,298	9,107
Total	**51,043**	45,405	47,271

4. Cost of revenue

	6 months ended 30 September 2017 £000	6 months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Cost of revenue			
Commission payable to retail agents	**23,912**	25,801	53,645
Cost of mobile top-ups and SIM cards as principal	**17,174**	15,779	32,296
Card scheme sponsors' charges and call centre charges[1]	**-**	1,737	2,130
Cost of revenue deducted for net revenue	**41,086**	43,317	88,071
Depreciation and amortisation	**4,606**	3,265	7,473
Other	**4,552**	5,148	10,464
Other costs of revenue	**9,158**	8,413	17,937
Total cost of revenue	**50,244**	51,730	106,008

5. Tax on profit of ordinary activities

	6 months ended 30 September 2017 £000	6 months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Current tax	**4,676**	4,855	9,704
Deferred tax	**(106)**	132	(196)
Total	**4,570**	4,987	9,508

Tax for the six month period was charged on profits at an effective tax rate[2] of 18.8% (September 2016: 20.2%, March 2017: 20.4%). The higher effective tax rate in the prior period was primarily due to the losses in the mobile payments business incurring no tax relief.

[1] These costs related to PayByPhone, our mobile payment business, which was sold on 23 December 2016.
[2] Effective tax rate is the tax cost as a percentage of net profit before tax excluding profit on disposal of businesses. There was no profit on disposal of businesses in the current year.

6. Earnings per share

The basic and diluted earnings per share are calculated on the following profit and number of shares. Earnings for the calculating of earnings per shares is the net profit attributable to equity holders of the parent.

	6 months ended 30 September 2017 £000	6 months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Profit for group basic and diluted earnings per share is the net profit attributable to equity holders of the parent	**19,800**	19,743	59,622
Adjustments:			
Loss/(profit) related to Mobile	**-**	828	(18,508)
Non-controlling interest	**-**	1	11
(Profit)/loss related to Collect+	-	(443)	2,650
Profit for the purpose of basic and diluted earnings per share (Retail networks)	**19,800**	**20,129**	**43,775**

	Number of Shares	Number of shares	Number of shares
Weighted average number of ordinary shares in issue (for basic earnings per share)	**68,156,122**	68,110,140	68,118,438
Potential dilutive ordinary shares:			
Long-term incentive plan	**235,449**	517,496	190,484
Deferred annual bonus scheme	**37,107**		
Deferred share bonus	**-**	82,643	59,725
SIP and other	**3,629**	-	373
Diluted basis	**68,432,307**	68,710,279	68,369,020

7. Dividends

The interim dividend of 15.3p (September 2016: 15.0p) and additional dividend of 12.2p per share declared on 30 November 2017 have not been recorded as a liability at 30 September 2017. Total dividends of £37.2 million (54.5p per share) were paid during the period and comprised of the final ordinary dividend for the year ended 31 March 2017 totalling £20.5 million (30.0p per share) and the final additional dividend of £16.7 million (24.5p per share).

8. 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. At 30 September 2017, the group's cash was £27.6 million (31 March 2017: £53.1 million).

Included within cash and cash equivalents is £18.1 million (September 2016: £15.4 million, March 2017: £20.2 million) relating to monies collected on behalf of PayPoint clients where PayPoint has title to the funds (client cash). An equivalent balance is included within trade payables.

Funds which are held in trust for clients in the UK and Ireland are not included within cash and cash equivalents.

9. Share capital

Share capital as at 30 September 2017 was £227,235. During the period the group issued 37,016 (September 2016: 36,047) shares for the 2014 DSB and SIP schemes.

10. Share-based payments

The total charge of £2.9 million (September 2016: £1.3 million) recognised directly to equity for schemes which have lapsed or vested was transferred from the share-based payments reserve to retained earnings during the period.

On 26 July 2017, 237,070 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.

Other share base payments include 11,620 restricted shares which were issued to eligible employees which do not contain any performance criteria and will vest over three years on 25 July 2020 and 26,542 shares issued under the DABS scheme with vesting over three years to 31 May 2020.

11. 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 30 September 2017, 30 September 2016 and 31 March 2017.

12. Notes to the statement of cash flows

	6 months ended 30 September 2017 £000	6 months ended 30 September 2016 £000	Year ended 31 March 2017 £000
Profit before tax	**24,370**	24,731	69,141
Adjustments for:			
Depreciation on property, plant and equipment	**3,028**	2,547	5,302
Amortisation of intangible assets	**1,579**	718	2,171
Share of profit of joint venture	**-**	(443)	(1,193)
Research and development credit		-	(171)
Profit on sale of investments	**-**	-	(15,660)
Loss on disposal of fixed assets	**-**	409	414
Net interest income charge/(income)	**1**	(74)	(12)
Cash element of share-based payment	**(322)**	(408)	(410)
Share-based payment charge	**848**	547	1,552
Operating cash flows before movements in working capital	**29,504**	28,027	61,134
Decrease/(increase) in inventories	**38**	(108)	196
(Increase)/decrease in receivables	**(520)**	2,851	(338)
(Decrease)/increase in payables			
- client cash	**(2,004)**	(15,556)	(11,641)
- other payables	**(2,535)**	(3,343)	1,219
Cash generated by operations	**24,483**	11,871	50,570
Corporation tax paid	**(4,978)**	(3,118)	(8,643)
Interest and bank charges paid	**(48)**	(19)	(120)
Net cash from operating activities	**19,457**	8,734	41,807

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.

13. Post balance sheet events

On 12 October 2017 the group acquired the entire share capital of Payzone SA in Romania for an initial consideration of £1.4 million paid in cash plus £0.4 million in deferred consideration contingent on the collection of specific debts over the two years following the acquisition. The initial accounting of the business combination is yet to be finalised and therefore allocation of the purchase price has not been disclosed. Based on the management accounts, Payzone SA had gross assets of £9.1 million and profit before tax of £0.2 million for the six months ended 30 September 2017.

PRINCIPAL RISKS AND UNCERTAINTIES

Risks

PayPoint's business, financial condition or operations could be materially and adversely affected by the risks summarised below. Although management takes steps to mitigate risks where possible or where the cost of doing so is reasonable in relation to the probability and seriousness of the risk, it may not be possible to avoid the occurrence of some or all of such risks. The group's level of risk in each area remains similar to those disclosed in the 2017 annual report.

Risk area	Potential impact	Mitigation strategies
Cyber, technology & process and Fraud		
Loss or inappropriate usage of data	The group's business requires the appropriate and secure use of consumer and other sensitive information. Electronic commerce requires the secure transmission of confidential information over public networks. Increasingly, internal systems make use of third party hosted services (cloud services) and several of our products are accessed through the internet. Fraudulent activity, cyber-crime or security breaches in connection with maintaining data and the delivery of our products and services could harm our reputation, business and operating results.	The group has established physical security controls at its data centres and has rigorous cyber security, anti-fraud and whistleblowing standards, procedures, recruitment and training schemes, which are embedded throughout its business operations. The group also screens new employees carefully. Continued investments are made in cyber security, including the significant use of data and communications encryption technology, improvements in e-mail and web filtering and testing and removal of system vulnerabilities. We have also developed plans for responding to a breach of security.
Interruptions in business processes or systems	The group's ability to provide reliable services largely depends on the efficient and uninterrupted operation of our computer network systems, financial settlement systems, data and call centres, as well as maintaining sufficient staffing levels. System or network interruptions, recovery from fraud or security incidents or the unavailability of key staff or management resulting from a pandemic outbreak could delay and disrupt our ability to develop, deliver or maintain our products and services, causing harm to our business and reputation and resulting in loss of customers or revenue.	Comprehensive business continuity plans and incident management programmes are maintained to minimise business and operational disruptions, including fraudulent activity, system failure or pandemic incidents. Support arrangements have been established with third party vendors and there are strict standards, procedures and training schemes for business continuity.
Clients, agents & other third parties		
Dependence upon third parties to provide data and certain operational services	The group's business model is dependent upon third parties to provide operational services, the loss of which could significantly impact the quality of our services. Similarly, if one of our outsource providers, including third parties with whom we have strategic relationships, were to experience financial or operational difficulties, their services to us would suffer or they may no longer be able to provide services to us at all, significantly impacting delivery of our products or services.	The group selects and negotiates agreements with strategic suppliers and agents based on criteria such as delivery assurance and reliability. Single points of failure are avoided, where practicable and economically feasible. Controls are regularly reviewed and improved to minimise risk of retailer churn caused by financial loss to retailers through fraudulent third party activity.
Consolidation among clients and markets	Consolidation of retailers and clients could result in reductions in the group's revenue and profits through price compression from combined service agreements or through a reduced number of clients.	The group monitors client and retailer concentration risk to ensure that no one client or retailer accounts for a disproportionate share of the group's net revenue. In addition, the group continues to acquire new clients and retailers to reduce reliance on existing sources of revenue.
Legal, regulatory & compliance		
Legislation or regulatory reforms and risk of non-compliance	The group is largely unregulated by financial services regulations, although in the UK we have Payment Institution status (through PayPoint Payment Services Limited) which enables the provision of regulated payment services, under the Payments Services Regulations 2009, including certain CashOut services. The group's agents which offer money transfer on behalf of third party clients are licensed as Money Service Businesses by HMRC. We are subject to Payment Card Industry Data Security Standards regulated by the card schemes. Regulatory reform could increase the cost of the group's operations or deny access to certain territories in the provision of certain services. Non-compliance with law, regulation, privacy or information security laws could have serious implications in cost and reputational damage to the group.	The group's legal department works closely with senior management to adopt strategies to educate legislature, regulators, consumer and privacy advocates and other stakeholders to support the public policy debate, where appropriate, to ensure regulation does not have unintended consequences over the group's services. The group has in place a business ethics policy which requires compliance with local legislation in all the territories in which the group operates. A central compliance department co-ordinates all compliance monitoring and reporting. Subsidiary managing and finance directors are required to sign annual compliance statements. A review is underway to ensure that the group is compliant with the requirements of the General Data Protection Regulations prior to the May 2018 deadline.

Risk area	Potential impact	Mitigation strategies
Materially adverse litigation	The group contracts with a number of large service organisations for which it provides services essential to their customers. Failure to perform in accordance with contractual terms could give rise to litigation.	The group seeks to limit exposure in its contracts. Mitigating actions are taken where contractual exposures are above the norm, including insurance coverage, where appropriate and economically sustainable.
Loss or infringement of intellectual property rights	The group's success depends, in part, upon proprietary technology and related intellectual property rights. Some protection can be achieved but in many cases, little protection can be secured. Third parties may claim that the group is infringing their intellectual property rights or our intellectual property rights could be infringed by third parties. If we do not enforce or defend the group's intellectual property rights successfully, our competitive position may suffer, which could harm our operating results.	The group, where appropriate and feasible, relies upon a combination of patent, copyright, trademark and trade secret laws, as well as various contractual restrictions, to protect our proprietary technology and continues to monitor this situation. The group also defends vigorously all third party infringement claims.
HR/Personnel		
Dependence on recruitment and retention of highly skilled personnel	The ability of the group to meet the demands of the market and compete effectively is, to a large extent, dependent on the skills, experience and performance of its personnel. Demand is high for individuals with appropriate knowledge and experience in payments, IT and support services. The inability to attract, motivate or retain key talent could have a serious consequence on the group's ability to service client commitments and grow our business.	Effective recruitment programmes are on-going across all business areas, as well as personal and career development initiatives. The executive management team reviews talent potential twice a year and retention plans are put in place for individuals identified at risk of leaving. Compensation and benefits programmes are competitive and also reviewed regularly.
Economic growth		
Brexit	The effect on inter-company transactions and the group's international expansion plans may be adversely affected by the outcomes of the negotiations between the UK government and the other member countries during the UK's exit from the European Union.	Due to the current uncertainties of the Brexit negotiations the group is still considering appropriate mitigation strategies. However, the bulk of the group's operations and revenues are UK based. Romania and Ireland will remain within the EU and are unlikely to be significantly affected by Brexit.
Foreign exchange fluctuations	As the group operates in Romania and Ireland, it is exposed to the risk of currency fluctuations and the unpredictability of financial markets in which it operates.	The group's financial risk management seeks to minimise potentially adverse effects on the group's financial performance.
Product/project management		
Technological changes and increasing competition	The group operates in a number of geographic, product and service markets that are highly competitive and subject to rapid technological changes, for example the introduction of smart meters, new payment solutions and the movement of UK consumers away from cash payments. Competitors may develop products and services that are superior to ours or that achieve greater market acceptance than our products and services, which could result in the loss of clients, merchants and retailers or a reduction in revenue.	The group is committed to continued research and investment in new data sources, people, technology and products to support its strategic plan. IT development resource is directed at a group level and developments are in hand to ensure the group has relevant products in place to meet the demands brought about by changing technology. For smart meters, MultiPay has been launched.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

(a) the set of interim financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting;
(b) the half yearly financial report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first half and description of principal risks and uncertainties for the remaining half of the year); and
(c) the half yearly financial report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the board.

Dominic Taylor
Chief Executive

Rachel Kentleton
Finance Director

INDEPENDENT REVIEW REPORT TO PAYPOINT PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and the related explanatory notes.
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2017 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.
As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities
This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Michael Harper
for and on behalf of KPMG LLP
Chartered Accountants
KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL
November 2017

DIRECTORS & KEY CONTACTS

Directors	Dominic Taylor (Chief Executive) Rachel Kentleton (Finance Director) Tim Watkin-Rees (Business Development Director) Gillian Barr* Giles Kerr* R Sharma* Nick Wiles* (Chairman) * non-executive directors
Registered office	1 The Boulevard Shire Park Welwyn Garden City Hertfordshire AL7 1EL United Kingdom Registered in England and Wales number 3581541
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU United Kingdom
Press and investor relations enquiries	Finsbury Tenter House 45 Moorfields London EC2Y 9AE United Kingdom
Auditors	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL November 2017

ABOUT PAYPOINT

In thousands of retail locations, at home and on the move, we make life more convenient for everyone.
For retailers, we offer 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. Our innovative retail services platform, PayPoint One, is now live in over 6,800 stores in the UK and offers everything a modern convenience store needs, from parcels and contactless card payments to EPoS and bill payment services. Our technology helps retailers to serve customers quickly, improve business efficiency and stay connected to their stores from anywhere.

We help millions of people to control their household finances, make essential payments and access in-store services, like parcel collections and drop-offs. Our UK network of 29,000 stores is bigger than all banks, supermarkets and Post Offices together, putting us at the heart of communities nationwide.

For clients of all sizes we provide cutting-edge payments technologies without the need for capital investment. Our seamlessly integrated multichannel payments solution, MultiPay, is a one-stop shop for customer payments. PayPoint helps over 500 consumer service providers to save time and money while making it easier for their customers to pay – via any channel and on any device.