PayPoint plc
Results for the six months to 30 September 2018

FINANCIAL HIGHLIGHTS

	Six months to 30 September 2018	Six months to 30 September 2017	Change
Revenue	**£106.1m**	£97.6m	8.7%
Net revenue[1]	**£55.6m**	£56.5m	(1.6)%
Operating margin[2]	**45.8%**	43.1%	2.7ppts
Operating profit	**£25.5m**	£24.4m	4.5%
Profit before tax	**£25.3m**	£24.4m	4.0%
Earnings per share	**30.1p**	29.1p	3.5%
Ordinary interim dividend per share	**15.6p**	15.3p	2.0%
Additional interim dividend per share	**12.2p**	12.2p	0.0%
Total dividend per share	**27.8p**	27.5p	1.1%
Cash generation[3]	**£27.6m**	£26.5m	4.1%
Net corporate cash at period end	**£0.6m**	£9.5m	(93.5)%
Client funds and retailer deposits at period end	**£32.7m**	£18.1m	81.2%

Good progress against PayPoint's strategic priorities

- **Embed PayPoint in the heart of convenience retail**
  - PayPoint One installed in 10,242 sites as at 30 September 2018, an increase of 1,692 since 31 March 2018 with EPoS Pro live in over 400 sites. PayPoint remains on target to achieve 12,400 PayPoint One sites by 31 March 2019 with 11,246 sites now[4] installed.
  - PayPoint One average weekly service fee per site has grown to £15.01 from £14.29 and total service fee revenue has grown by 39.8% to £4.8 million.
- **Become the definitive parcel point solution**
  - eBay agreement signed and now rolled out to 2,500 Collect+ sites.
  - Good progress being made with other parcel opportunities.
  - Collect+'s Trust Pilot rating of 9.2, reconfirming Collect+ as consumers' favourite delivery solution.
- **Sustain leadership in 'pay-as-you' go and grow digital bill payments**
  - 11 new UK bill payment and top-up clients were set live with a further six new clients secured including Monzo Bank which has over 1 million customers.
  - Continued strong growth in MultiPay with transaction growth of 55.7%, net revenue up 64.7%, and over 10 million transactions in the period.
  - First phase of the Payzone network migration underway in Romania.
- **Innovate for future growth and profits**
  - More retailers will be able to manage stores remotely and 'on the move' with the imminent launch of an iOS mobile app to complement the existing android app.

Organisation and service delivery

- Increased the speed of answering retailer calls by 80% through the implementation of an improved Interactive Voice Response System.
- PayPoint Retail Operations team have improved PayPoint One installation efficiency levels by 40% following the introduction of Salesforce CRM to manage workflow.

[1] Net revenue is an alternative performance measure. Refer to note 2 to the interim financial statements for a reconciliation to revenue.
[2] Operating margin is an alternative performance measure and is calculated by dividing operating profit by net revenue.
[3] Cash generation reflects operating cash flows including movements in working capital, but excluding movement in client and retailer deposits as detailed in note 14 to the interim financial statements.
[4] As at 26 November 2018.

Financial highlights

- Net revenue of £55.6 million was down by 1.6% on a reported basis, but with underlying growth of £1.8 million, or a 3.2% increase excluding the £2.2 million impact of the closure of the Department of Work and Pensions' Simple Payment Service (SPS) and the revised Yodel commercial terms.
- Underlying net revenue growth was driven by strong performance in UK service fee revenue, up 39.8%, and in Romania, up by 33.2% to £6.8 million which was partially offset by the marginal decline of £0.3 million in UK bill payment and top-up net revenue.
- Network costs of £30.2 million[5] were £1.9 million lower than last year of £32.1 million and include a £1.7 million benefit from improved VAT recovery. Excluding this, costs were slightly lower than the £32.1 million for the same period last year, reflecting the ongoing improvement in operational efficiencies, partially offset by £1.1 million increase in Romania driven by including Payzone overheads for six months.
- Profit before tax of £25.3 million was up 4.0% including a £1.7 million benefit from improved VAT recovery related to prior years.
- Net corporate cash of £0.6 million reflects cash balances of £6.6 million less £6.0 million financing facility usage.
- Client funds and retailer deposits at period end increased to £32.7 million primarily due to recognising retailer deposits on the statement of financial position.
- Continued strong cash conversion with £27.6 million cash generated[6] from profit before tax of £25.3 million.
- Ordinary interim dividend of 15.6 pence per share, an increase of 2%. Additional interim dividend of 12.2 pence per share. Total dividend of 27.8 pence per share.

Dominic Taylor, Chief Executive, said:
"I'm pleased with the progress PayPoint has made over the past six months. We are executing against the roadmap and our strategic priorities outlined in May, delivering underlying net revenue growth of 3.2% and reported profit before tax growth of 4.0%. The business also continues to innovate in an evolving retail and payments environment, developing new technologies and propositions that are transforming the way our customers operate and run their businesses.

The roll out of PayPoint One has continued at pace, expanding to 11,246[7] sites and with EPoS Pro now live in 478[3] sites. We remain on target to achieve 12,400 PayPoint One sites by 31 March 2019. Service fee revenue from PayPoint One also grew by 39.8% in the period, contributing to the increase in underlying net revenue, with the new terminal providing tangible benefits for our retailers, enabling retailers to drive increased profitability and efficiency in their stores.

In parcels, our new carrier partnership with ebay is now live in 2,500 sites ahead of the festive season and we remain focused on delivering at least two additional carriers in 2019. E-money and MultiPay volumes grew strongly and a further six clients were secured including one of the UK's fastest growing digital bank challengers, Monzo. In Romania, we continue to see good growth as we integrate Payzone.

The good performance of the first half underpins the Board's confidence that as PayPoint's growth drivers continue to develop there will be progression in profit before tax for the full financial year to 31 March 2019."

Enquiries

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A presentation for analysts is being held at 11.45am today (29 November 2018) at Canaccord Genuity Limited, 88 Wood Street, London, EC2V 7QR. This announcement is available on the PayPoint plc website: www.paypoint.com

[5] Network costs consist of £21.0m administration expenses, other cost of revenue £9.1m (Note 4) and net finance costs of £0.1m.
[6] Cash generation reflects operating cash flows including movements in working capital, but excluding movement in client and retailer deposits as detailed in note 14 to the interim financial statements.
[7] As at 26 November 2018.

CHIEF EXECUTIVE REVIEW

PayPoint has made good progress in the first six months of the year and delivered a financial performance in line with its expectations. PayPoint One is critical to the evolution of the business and is now in over half of PayPoint's independent convenience retail estate. This is the first Christmas with ebay live as a partner on the Collect+ network and there has been good progress integrating Payzone into the Romanian business. In addition, there was continued progress in service delivery and improvements to the organisation. All of this means PayPoint is now a stronger business with a firm foundation in place to deliver future growth and cash returns to shareholders.

Net revenue of £55.6 million was down 1.6% on a reported basis, but with underlying growth of £1.8 million, or 3.2% increase, excluding the £2.2 million impact of the closure of Department of Work and Pensions' Simple Payment Service (SPS) and the £0.5 million impact from the revised Yodel commercial terms. Underlying net revenue growth was achieved from PayPoint's growth areas of UK Retail services which increased by £0.4 million to £18.9 million and Romania which increased by £1.7 million to £6.8 million partially offset by UK bill payments and top-ups which reduced by only £0.3 million.

Profit before tax improved to £25.3 million, an increase of £0.9 million from £24.4 million for the same period last year, this included a £1.7 million benefit from improved VAT recovery following the VAT tribunal ruling in 2017. Earnings per share increased to 30.1 pence (September 2017: 29.1 pence).

An interim ordinary dividend of 15.6p per share (2% increase) and an additional interim dividend of 12.2 pence per share have been declared. The total dividend of 27.8 pence per share will be paid on 11 January 2019.

MARKET OVERVIEW

The markets in which PayPoint operates continued to evolve. Key trends and changes since the end of the financial year include:

- Parcels
  - UK parcel volume growth was 12.6% over the eight months to August driven by growth of online retail sales which increased 14.5%[8].
  - Click and collect market is 118 million parcels per year which is expected to double by 2025[9].
- Convenience
  - Total convenience sector sales growth was 2.9% and forecasted to reach over £40bn by the end of 2018[10].
- Card payments
  - Total retail card payment transactions increased by 8.5% in 2017[11], although average transaction values declined by 3.3%.
  - Legislation banning merchants applying a surcharge to card payments became effective from January 2018.
- ATMs
  - LINK's ATM transactions declined by 5.2% to 1,501 million transactions[12] and its ATM estate reduced by 400 sites to 69,610 in 2017[5].
  - LINK's interchange fee reductions of 20% spread equally over four dates have been revised as follows: July 2018 was implemented and January 2019 remains as planned, however, January 2020 has been cancelled with the January 2021 reduction is on hold[13].
  - The Financial Conduct Authority (FCA) will regulate the new LINK Over-The-Counter service. Payment Systems Regulator (PSR) will continue to regulate standard ATM transactions.
- Bill payments
  - In April 2018 Ofgem increased the pre-pay energy price cap by £57 per year (5.5%) with a further increase of £47 per year (4.3%) on 1 October 2018. New price cap for standard variable tariffs and default fixed tariffs will be introduced in January 2019.
  - Non-Big Six energy providers combined market share is now c.25%, larger than any of the Big six.
  - Competition and Markets Authority cleared the merger between SSE and Npower[14] and the acquisition of Payzone's bill payment business by the Post Office[15].

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[8] IMRG MetaPack UK Delivery Index Report September 2018.
[9] IMRG UK Click and Collect Report 2018
[10] ACS Local Shop Report 2018
[11] https://www.ukfinance.org.uk/wp-content/uploads/2017/12/Card-Expenditure-Statistics-October-2017.pdf
[12] https://www.link.co.uk/about/statistics-and-trends/
[13] https://www.link.co.uk/about/news/link-update-to-interchange-rate-implementation/
[14] https://www.gov.uk/government/news/ssenpower-merger-receives-final-clearance-after-consultation
[15] https://www.gov.uk/cma-cases/post-office-limited-payzone-uk-limited-merger-inquiry

Brexit
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 underway including building a buffer of PayPoint One stocks, maximising intercompany dividends and engaging with clients and suppliers to determine their own readiness and impact assessments.

PROGRESS AGAINST OUR STRATEGIC PRIORITIES

At PayPoint's May 2018 financial results announcement a strategic roadmap was set out built around four key strategic priorities:
1. Embed PayPoint at the heart of convenience retail.
2. PayPoint becomes the definitive parcel point solution.
3. Sustain leadership in 'pay-as-you-go' and grow digital bill payments.
4. Innovate for future growth and profits.

Progress against these priorities is set out below.

1. <u>Embed PayPoint at the heart of convenience retail</u>

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

Progress in the first half of the year
- Continued roll out of PayPoint One which was installed in 10,242 sites as at 30 September 2018, an increase of 1,692 since 31 March 2018. As at 26 November 2018, PayPoint One was in 11,246 sites:
  - Focus in the first quarter was on the roll out of the EPoS Pro which was in 418 sites as at 30 September 2018, with focus in the second quarter being on extending PayPoint One penetration which resulted in more EPoS Base and Core being rolled out.
  - 64%[16] of PayPoint's independent retailers are now[17] using PayPoint One. From the end of the 2019/20 financial year PayPoint will commence with the process to sunset the legacy terminal.
  - Average weekly revenue per site increased to £15.01 (2017: £14.29) with improved mix within product price points of £10, £15, £20 or £30 per week per site. £30 per week is for the PayPoint's flagship product, EPoS Pro, which was launched in January 2018.

- ATM's are an integral part of PayPoint's offering to retailers and its low-cost operating model has meant that PayPoint delivered a resilient performance. ATM transactions increased to 21.4 million (September 2017: 20.4 million), an increase of 4.9%, despite general market decline, reflecting an increase in PayPoint's market share of ATM transactions:
  - Net revenue slightly decreased (£0.1 million) to £6.5m due to the reduced interchange rate.
  - We delivered an improvement in cash flow from the ATM product through a reduction in ATM maintenance costs and an initiative to optimise the network with ATMs installed at low transacting sites being removed and held for redeployment to more profitable locations. As a result, the ATM estate reduced by 163 to 3,983 sites from 31 March 2018.

- Card payment transactions increased by 19.7% to 57.0 million (September 2017: 47.6 million).
  - Net revenue of £3.9 million was flat compared to the prior period as increased transactions were offset by lower average transaction values and competitive rates given to new retailers. The average transaction value was £12.81, a reduction from £13.96 achieved in 2017.
  - The card payment estate reduced from 10,252 to 9,951 due to the focus on rolling out PayPoint One.
  - Net settlement agreement is in place and the solution is now in pilot.

Ambition for the second half of the year
- Continue with PayPoint One roll out to achieve the target of 12,400 PayPoint One sites by 31 March 2019.
- Completion of wholesaler links to Nisa and Booker, allowing retailers to order stock from the PayPoint One terminal.
- Commence the roll out of card net settlement in conjunction with the next phase of the Salesforce CRM implementation.

[16] Excludes retailers using the PPoS terminal and Multiple retailers using the legacy terminal.
[17] As at 26 November 2018.

2. Become the definitive parcel point solution

Online retail shopping will continue its robust growth, increasing the demand for convenient delivery solutions for consumers. Carriers are operating in a low-margin competitive market where "last mile" delivery is challenging. With an extensive network of over 7,000 sites, PayPoint's parcel solution brings carriers and retailers together for the benefit of their consumers.

Progress in the first half of the year

- ebay deal signed and now rolled out to 2,500 Collect+ sites.
- In the first half, parcel volumes reduced to 10.0 million down 15.9% from 11.9 million, reflecting the existing carrier's performance and highlighting the strategic importance to expand the parcel service to other partners.
- Collect+'s Trust Pilot rating of 9.2 maintained, reconfirming Collect+ as the consumers favourite solution.

Ambition for the second half of the year

- Ensuring the operational success of ebay over the parcel peak season.
- Add one further partner to the Collect+ network.

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

UK

Cash payments will remain a mainstay of the UK economy for many years to come and PayPoint will continue to retain leadership in this market. Whilst the general decline in cash as a payment method in the UK economy means that PayPoint anticipates reducing transaction volumes, this business is highly cash generative and enables investment in future growth and innovation across the wider business.

Progress in the first half of the year

- 11 new clients were set live and a further six new clients were secured, including Monzo Bank a leading bank challenger with over 1 million customers.
- Renewed and extended three major contracts.
- UK bill payment net revenue of £21.1 million was broadly flat year-on-year excluding the £2.2m impact from SPS closing. The transaction volume decline of 5.2% was mitigated due to client revenue mix continuing to improve.
- Continued strong growth in MultiPay with net revenue up by 64.7% driven by processing over 10 million transactions in the period.
- UK top-up and e-money net revenue reduced by 2.2% to £8.8 million. The impact on net revenue from the 15.7% decline in transaction volumes to 23.1 million was largely offset by growth in e-money transactions which have higher margins and higher average mobile top-up values. E-money transactions increased by 10.3% to 3.7 million.

Ambition for the second half of the year

- Continue to add more clients to the MultiPay product by extending it to other sectors specifically housing associations following the development of PayPoint's direct debit capability.
- Continue to target bank challengers, e-money and utility challenger clients where PayPoint can provide digital organisations with a physical network.

Romania

PayPoint, with its technology platform and unique network strength and brand recognition, is uniquely placed to drive further opportunity as the market in Romania continues to evolve. This will include, over time, growth in automated, digital, parcel and card payments solutions. Cash bill payment remains a mass market proposition and will continue to be a robust and growing category.

Progress in the first half of the year

- The first phase of the Payzone network migration commenced with over 300 sites transitioned to PayPoint systems allowing for improvements in operational efficiency and profitability, albeit because of the strong pace of integration, organic and acquisitive growth are now largely indistinguishable.
- Payzone network optimised with over 1,500 low performing sites removed since 31 March 2018. The combined network is now at 18,984 sites.
- Strong transaction growth of 43.8% to 55.8 million, largely driven by the Payzone acquisition.
- Strong growth in net revenue, up 33.2% to £6.8 million; net revenue growth was behind transaction growth as the historic Payzone transactions were at lower margins.
- Maintained leadership in the bill payment market with 38% share of client's cash bill payments, driven by 75% consumer awareness.

- Cost efficiencies of £0.5 million through synergies of merging Payzone into existing business.

Ambition for the second half of the year

- Continue optimising the network which will result in the network reducing to 18,000 sites.
- Compete the first phase of the Payzone migration which will migrate almost 1,300 sites to PayPoint's systems.

4. <u>Innovate for future growth and profits</u>

PayPoint will continue to innovate to maintain its competitive advantage, drive new products and services, improve the retailer experience and increase efficiency.

Progress in the first half of the year

- Completed a technical solution in preparation for the LINK Over-The-Counter service; the trial is pending finalisation of the FCA's requirements. If this product is successful it will mitigate many of the barriers to delivering access to cash in underserved communities.
- More retailers will be able to manage stores remotely and 'on the move' with the imminent launch of an iOS mobile app to complement the existing android app.

Ambition for the second half of the year

- Commence the development of the T4 terminal, in preparation for the legacy terminal replacement in Romania.

<u>Organisation and service delivery</u>

Underpinning PayPoint's four priorities is the continued development and investment in PayPoint's people and organisation including the implementation of Salesforce CRM and a new billing system, delivering a new agile based technology organisation and developing a performance based culture, with focus on empowerment and customer service.

During the first half 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.

This purpose statement has been a key support to our effort to improve the service to and engagement with retailers. PayPoint's commitment to retailers has been articulated in a public pledge which is as follows:

- '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.'

Progress in the first half of the year

- Increased the speed of answering retailer calls by 80% through the implementation of an improved Interactive Voice Response System.
- PayPoint's Retail Operations team have improved efficiency levels by 40% following the introduction of Salesforce CRM to manage workflow.
- Launch of a programme to ensure all the PayPoint team are aligned to delivering good quality service to retailers.

On 21 July 2018 there was a technical incident that impacted approximately one-third of the UK retail network. During the incident coverage was maintained across our network to 98% of households and services were fully restored on the day. The root cause was identified and resolved and further enhancements implemented to the incident response and communications policies and processes.

Ambition for the second half of the year

The sign-up and billing elements of Salesforce CRM will go live towards the end of the financial year. This will allow further improvements to retailer service, sales capability and operational efficiencies. The PayPoint website will be further developed and together with the first significant phase of Salesforce CRM will create the ability for retailers to self-serve and order PayPoint One terminals and services on-line.

OUTLOOK

The good performance of the first half underpins the Board's confidence that as PayPoint's growth drivers continue to develop there will be progression in profit before tax for the full financial year to 31 March 2019.

FINANCIAL REVIEW

Trading performance

	Six months to 30 September 2018	Six months to 30 September 2017	Change %	12 months to 31 March 2018
Group				
Total transactions (million)	**308.5**	295.3	4.5	643.5
Transaction value (£m)	**4,920.9**	4,721.9	4.2	10,450.3
Revenue (£m)	**106.1**	97.6	8.7	213.5
Net revenue[18] (£m)	**55.6**	56.5	(1.6)	119.6
UK and Ireland				
Total transactions (million)	**252.7**	256.4	(1.4)	547.1
Transaction value (£m)	**3,838.5**	3,996.8	(4.0)	8,537.4
Revenue (£m)	**69.5**	75.6	(8.0)	155.9
Net revenue[1] (£m)	**48.8**	51.4	(5.2)	107.7
Romania				
Total transactions (million)	**55.8**	38.8	43.8	96.4
Transaction value (£m)	**1,082.4**	725.1	49.3	1,912.9
Revenue (£m)	**36.6**	22.0	66.3	57.6
Net revenue[1] (£m)	**6.8**	5.1	33.2	11.9

Transaction volumes have increased by 13.2 million (4.5%) to 308.5 million largely due to the Payzone business which was acquired in October 2017 and is therefore not included in the comparative period. Transaction value was £4.9 billion for the six months to 30 September 2018, an increase of 4.2% from the same period last year and was broadly in line with the increased transaction volumes.

Gross revenue increased by £8.5 million (8.7%) to £106.1 million, with Romania revenue increasing by £14.6 million through a combination of the Payzone acquisition and organic growth. Payzone had a large mobile top-up element for which PayPoint acts as principal and is accordingly recognised on a gross basis. Other growth areas of the business included PayPoint One service fee revenue which increased by £1.4 million and e-money which increased by £0.5 million. Offsetting the above was UK bill payment and top-up revenue reducing revenue by £4.9 million due to the general decline in the cash payments and the closure of SPS worth £2.2 million.

Net revenue is gross revenue of £106.1 million (2017: £97.6 million) less retailer commission of £22.0 million (2017: £23.9 million) and the cost of mobile top-ups of £28.5 million (2017: £17.2 million). Retailer commissions reduced by £1.9 million following the decline in UK bill payments and top-ups. The cost of mobile top-ups increased as a result of the Payzone business. Net revenue of £55.6 million was £0.9m lower than the £56.5 million achieved last year however growth of underlying[19] net revenue of £1.8 million or 3.2% was achieved.

[18] Net revenue is an alternative performance measure. Refer to note 2 to the interim financial statements for a reconciliation to revenue.

[19] Underlying net revenue excludes the impact of the closure of SPS of £2.2 million and the revised commercial terms with Yodel for parcels of £0.5 million on a like for like volume basis.

Retail network sites[20]	**At 30 September 2018**	At 30 September 2017	Change %	At 31 March 2018
UK & Ireland Retail network; *Of which*	28,886	28,286	2.1	29,114
• PayPoint One[21]	10,242	6,181	65.7	8,550
• Legacy terminal	10,080	13,544	(25.6)	11,980
• PPoS[22]	8,564	8,561	0.0	8,584
Romania Retail network	18,984	11,771	61.3	20,514
Total sites	**47,870**	40,057	19.5	49,628

UK retail services sites	**At 30 September 2018**	At 30 September 2017	Change %	At 31 March 2018
PayPoint One	10,242	6,181	65.7	8,550
Collect+	7,084	6,794	4.3	7,436
Card payments	9,951	9,684	2.8	10,252
ATM	3,983	4,153	(4.1)	4,146

The UK retail network reduced to 28,886 sites, 258 lower than at 31 March 2018 with emphasis on the launch and rollout on EPoS Pro in the first quarter which was in over 400 sites as at 30 September 2018. In the second quarter focus has been on the PayPoint One roll out, with 10,242 sites installed as at 30 September 2018, an increase of 1,692 since 31 March 2018 with a consequential small reduction in the number of card payment sites. More of PayPoint's independent retailers are now using PayPoint One than the legacy terminal.

Romania's retail network stood at 18,984 sites on 30 September 2018 with over 1,500 low performing sites removed since 31 March 2018 from the Payzone network which will improve future profitability.

Included in the above results and site numbers is the Ireland retail network which closed at the end of October 2018. Ireland contributed c£0.5 million net revenue per annum and had 426 sites on 30 September 2018.

[20] Retail networks consists of our UK, Ireland and Romanian retail businesses.
[21] 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.
[22] PPoS is a plug-in device and virtual PayPoint terminal used on larger retailers' own EPoS systems who still want to use PayPoint services.

Trading performance by sector

Bill and general	**Six months to 30 September 2018**	Six months to 30 September 2017	Change %	12 months to 31 March 2018
Group				
Total transactions (million)	**189.8**	182.9	3.7	419.5
Transaction value (£m)	**3,928.0**	3,750.4	4.7	8,502.9
Revenue (£m)	**35.3**	36.8	(3.9)	82.5
Net revenue[23] (£m)	**25.4**	26.7	(4.8)	60.0
UK and Ireland				
Total transactions (million)	**140.7**	148.4	(5.2)	334.2
Transaction value (£m)	**2,920.1**	3,079.3	(5.2)	6,717.6
Revenue (£m)	**28.8**	32.0	(10.0)	71.0
Net revenue[1] (£m)	**21.1**	23.4	(9.7)	52.3
Romania				
Total transactions (million)	**49.1**	34.5	42.4	85.3
Transaction value (£m)	**1,007.9**	670.7	50.3	1,785.3
Revenue (£m)	**6.5**	4.8	36.7	11.5
Net revenue[1](£m)	**4.3**	3.3	33.0	7.7

Bill and general transactions increased to 189.8 million, up 3.7% (September 2017: down 6.1%) compared to the same period last year driven by Romania. Romania had strong transaction volume growth of 42.4% (September 2017: 6.2%) to 49.1 million transactions (September 2017: 34.5 million) as a result of the Payzone acquisition and continued organic growth including adding 10 new clients in Romania. Romania market share[24] had increased to 38% (September 2017: 23.6%). The MultiPay service continued to perform well and increased transactions by 55.7% to over 10 million in the period.

Net revenue of £25.4 million decreased by £1.3 million or 4.8% (September 2017: increased 1.0%), largely due the closure of SPS worth £2.2 million. Excluding this, underlying net revenue increased by 3.5% in line with transaction volume growth. The improved client mix which increased the margin per transaction in the UK was offset by the lower margins achieved from the Payzone acquisition.

Top-ups and e-money	**Six months to 30 September 2018**	Six months to 30 September 2017	Change %	12 months to 31 March 2018
Group				
Total transactions (million)	**29.2**	31.3	(6.7)	62.6
Transaction value (£m)	**344.5**	349.5	(1.4)	698.3
Revenue (£m)	**43.6**	32.6	33.6	75.3
Net revenue[1] (£m)	**10.7**	10.3	2.7	20.8
UK and Ireland				
Total transactions (million)	**23.1**	27.4	(15.7)	52.2
Transaction value (£m)	**308.2**	326.2	(5.5)	639.1
Revenue (£m)	**14.4**	16.1	(10.5)	30.8
Net revenue[1] (£m)	**8.8**	9.0	(2.2)	17.7
Romania				
Total transactions (million)	**6.1**	3.9	55.7	10.4
Transaction value (£m)	**36.3**	23.3	56.0	59.2
Revenue (£m)	**29.2**	16.5	76.5	44.5
Net revenue[1] (£m)	**1.9**	1.3	44.8	3.1

[23] Net revenue is an alternative performance measure. Refer to note 2 to the interim financial statements for a reconciliation to revenue.
[24] 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.

Top-up and e-money transactions reduced by 6.7% (September 2017: 12.4%) as a result of the expected ongoing decline in the UK mobile top-up volumes. This was partly offset by good growth of 10.3% in UK e-money transactions and Romania's top-up growth of 55.7% which increased Romania's transactions to 6.1 million.

Net revenue increased by 2.7% (September 2017: 7.6%) to £10.7 million, despite lower transaction volume as a result of increased e-money transactions which have a higher margin per transaction. Similar to bill payments, the margins earned from Payzone transactions were lower than that of the existing business, and therefore the net revenue growth of 44.8% in Romania was behind the 55.7% growth in transactions.

Retail services	**Six months to 30 September 2018**	Six months to 30 September 2017	Change %	12 months to 31 March 2018
Group				
Total transactions (million)	**89.5**	81.0	10.5	161.4
Transaction value (£m)	**648.4**	622.4	4.2	1,249.1
Revenue (£m)	**27.2**	28.2	(3.5)	55.7
Net revenue[25] (£m)	**19.5**	19.5	0.2	38.8
UK and Ireland				
Total transactions (million)	**88.9**	80.7	10.2	160.7
Transaction value (£m)	**610.2**	591.3	3.2	1,180.7
Revenue (£m)	**26.3**	27.5	(4.3)	54.1
Net revenue (£m)	**18.9**	19.0	(0.6)	37.7
ATM	**6.5**	6.6	(1.1)	12.8
Services fees	**4.8**	3.4	39.8	7.7
Card payments rebate	**3.9**	3.9	1.1	7.5
Parcels and other	**3.7**	5.1	(27.7)	9.7
Romania				
Total transactions (million)	**0.6**	0.3	98.3	0.7
Transaction value (£m)	**38.2**	31.1	22.8	68.4
Revenue (£m)	**0.9**	0.7	28.2	1.6
Net revenue (£m)	**0.6**	0.5	31.9	1.1

Retail services' transaction volumes increased 10.5% (September 2017: 6.1%) driven by the strong growth from card payment transactions of 19.3%. ATM transactions also increased by 4.9%, despite overall ATM market conditions. Parcel volumes declined by 15.9% due lower volumes from the existing partner.

Net revenue was flat at £19.5 million and reflects the revised Yodel commercial terms with an impact of £0.5 million on a like-for-like volume basis. Excluding this, net revenue increased by £0.5 million (2.2%) with strong growth of £1.4 million (39.8%) in service fee revenue, driven by the roll out of the PayPoint One terminal, partially offset by lower SIM activation net revenue and reduced parcel volumes.

Network costs

Network costs of £30.2 million[26] were £1.9 million lower than last year of £32.1 million and includes a £1.7 million benefit from improved VAT recovery. Excluding this, costs were slightly lower than the £32.1 million for the same period last year, reflecting the ongoing improvement in operational efficiencies from the new Interactive Voice Response System and reorganisation to implement an agile development programme, partially offset by £1.1 million increase in Romania driven by including Payzone overheads for six months and additional investment to drive future growth areas.

The changes in net revenue and costs described above has led to an improved operating margin[27] of 45.8% (September 2017: 43.1%).

[25] Net revenue is an alternative performance measure. Refer to note 2 to the interim financial statements for a reconciliation to revenue.
[26] Network costs consist of £21.0m administration expenses, other cost of revenue £9.1m (Note 4) and net finance costs of £0.1m.
[27] Operating profit margin is operating profit as a percentage of net revenue.

Profit before tax and taxation

Profit before tax was £25.3 million (September 2017: £24.4 million). The conversion of Romania's results into sterling had a negligible impact on profit before tax and was converted at an average exchange rate of 5.19 (September 2017: 5.25). IFRS 15 was implemented at the commencement of the period using the modified retrospective method and accordingly prior period comparatives have not been restated. During the current period the impact of IFRS 15 was to increase profit before tax by less than £0.1 million.

The tax charge was £4.8 million (September 2017: £4.6 million) resulting in an effective tax rate[28] of 19.0% (September 2017: 18.8%), in line with the UK statutory rate. The lower Romanian tax rate has been offset by a small amount of non-deductible expenses.

Statement of financial position and capital expenditure

The statement of financial position remains strong with net assets of £45.7 million (September 2017: £56.6 million). This is a reduction of £15.6 million from 31 March 2018 and was a result of the additional dividend program.

Gross assets increased to £233.6 million (September 2017: £198.7 million), an increase of £34.9 million from September last year due to an additional day of client funds held by retailers compared to last year. This was caused by the period end falling over both days of the weekend. A corresponding liability towards clients is included in trade and other payables. Gross assets also increased with the acquisition of Payzone, which included goodwill of £3.9 million.

During the period retailer deposits of £9.5 million held as security were transferred to new banking arrangements. These arrangements differ from the previous facilities which under IFRS are now included within cash and cash equivalents on the statement of financial position with corresponding liability included as a retailer deposit liability within trade and other payables. These funds will continue to be held and operated separately from corporate cash balances with the view of limiting PayPoint and client exposure to retailer credit risk.

IFRS 15 – Revenue from contracts 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 was to increase net assets by £1.0 million which was adjusted through the opening retained earnings on 1 April 2018.

Cash flow and liquidity

There was continued strong conversion of profit to cash with £27.6 million (September 2017: £26.5 million) generated[29] from profit before tax of £25.3 million.

Working capital, excluding the movement in client funds, absorbed £1.1 million (September 2017: £3.0 million), predominantly reflecting pre-payments which occur in the first half of the year but are related to full year activities. These are expected to reverse in the full year. Furthermore, as highlighted in the 2017/18 full year results, the working capital benefit relating to the VAT tribunal ruling of £3.0 million will reverse in the second half of this year.

Corporation tax payments of £4.4 million (September 2017: £5.0 million) represent the regular payments on account. Capital expenditure of £3.7 million (September 2017: £8.1 million) relates to ongoing investment in the PayPoint One terminal roll out and development of EPoS, MultiPay and Salesforce CRM. Capital expenditure is expected to increase in the second half of the year, with full year capex expected to be between £12 million and £13 million.

PayPoint had net corporate cash of £0.6 million at the period end (2017: £9.5 million) and comprised of cash balances of £6.6 million less the £6.0 million utilised from PayPoint's £75.0 million financing facility. Client funds and retailer deposits amounted to £32.7 million (2017 £18.1 million), the increase driven primarily by recognising retailer deposits on the statement of financial position.

PayPoint is a profitable business and together with its cash and borrowing capacity has sufficient resources to adequately meet its foreseeable requirements, therefore the financial statements have been prepared on a going concern basis.

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[28] Effective tax rate is the tax cost as a percentage of net profit before tax.

[29] Operating cash flows before working capital movements from note 14 to the interim financial statements.

Dividend

An interim dividend of 15.6p per share (September 2017: 15.3p) and an additional dividend of 12.2p (September 2017: 12.2p) per share have been declared. Both dividends will be paid on 11 January 2019 to shareholders on the register at 7 December 2018. This is the last dividend payment under the current dividend payment profile. From April 2019 PayPoint will move to a quarterly payment profile with the first quarter dividend paid in July 2019.

Total dividends of £37.6 million (55.1p per share) were paid during the period and comprised the final ordinary dividend for the year ended 31 March 2018 totalling £20.9 million (30.6p per share) and the final additional dividend of £16.7 million (24.5p per share).

Rachel Kentleton
Finance Director
29 November 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	**Unaudited 6 months ended 30 September 2018 £000**	Unaudited 6 months ended 30 September 2017 £000	Audited year ended 31 March 2018 £000
CONTINUING OPERATIONS				
Revenue	2,3	**106,134**	97,593	213,515
Cost of revenue	4	**(59,605)**	(50,244)	(113,565)
Gross profit		**46,529**	47,349	99,950
Administrative expenses		**(21,048)**	(22,978)	(46,489)
Operating profit		**25,481**	24,371	53,461
Finance income		**176**	47	95
Finance costs		**(312)**	(48)	(609)
Profit before tax		**25,345**	24,370	52,947
Tax	5	**(4,815)**	(4,570)	(10,012)
Profit for the period[30]		**20,530**	19,800	42,935
OTHER COMPREHENSIVE INCOME				
Exchange differences on translation of foreign operations		**229**	314	67
Total comprehensive income for the period[1]		**20,759**	20,114	43,002
Earnings per share				
Basic	6	**30.1p**	29.1p	63.0p
Diluted	6	**30.0p**	28.9p	62.7p

Notes 1 to 15 form part of these financial statements.

[30] All subsidiaries were 100% owned over the period, therefore profit for the period was entirely attributable to equity holders of the parent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**Unaudited 30 September 2018 £000**	Unaudited 30 September 2017 £000	Audited 31 March 2018 £000
Non-current assets				
Goodwill		**12,372**	8,406	12,171
Other intangible assets		**14,464**	13,769	13,586
Property, plant and equipment		**27,273**	28,868	28,047
Deferred tax assets		**400**	438	414
		54,509	51,481	54,218
Current assets				
Inventories		**193**	327	279
Trade and other receivables	8	**139,561**	119,358	161,987
Cash and cash equivalents	9	**39,359**	27,574	46,040
		179,113	147,259	208,306
Total assets		**233,622**	198,740	262,524
Current liabilities				
Trade and other payables	10	**176,959**	137,407	196,562
Current tax liabilities		**4,629**	4,249	4,213
Loans and borrowings		**6,000**	-	-
		187,588	141,656	200,775
Non-current liabilities				
Other liabilities	10	**322**	471	390
Deferred tax liability		**54**	-	66
		376	471	456
Total liabilities		**187,964**	142,127	201,231
Net assets		**45,658**	56,613	61,293
Equity				
Share capital	11	**227**	227	227
Share premium		**3,351**	2,907	2,907
Share-based payment reserve		**2,221**	2,305	2,771
Translation reserve		**(20)**	(2)	(249)
Retained earnings		**39,879**	51,176	55,637
Total equity[31]		**45,658**	56,613	61,293

Notes 1 to 15 form part of these financial statements.

[31] All subsidiaries were 100% owned over the period, therefore Equity is entirely attributable to equity holders of the parent

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[32] £000
Audited equity 31 March 2017		**227**	**2,633**	**4,404**	**(316)**	**66,197**	**73,145**
Profit for the period		-	-	-	-	19,800	19,800
Equity-settled share-based payment expense		-	-	848	-	-	848
Exchange differences on translation of foreign operations		-	-	-	314	-	314
Dividends paid		-	-	-	-	(37,150)	(37,150)
Vesting of share scheme	12	-	274	(2,925)	-	2,329	(322)
Deferred tax on share-based payments		-	-	(22)	-	-	(22)
Unaudited equity 30 September 2017		**227**	**2,907**	**2,305**	**(2)**	**51,176**	**56,613**
Profit for the period		-	-	-	-	23,135	23,135
Equity-settled share-based payment expense		-	-	-	-	(18,748)	(18,748)
Exchange differences on translation of foreign operations		-	-	-	(247)	-	(247)
Movement in share based payment reserve		-	-	719	-	-	719
Dividends paid		-	-	(74)	-	74	-
Deferred tax on share based payments		-	-	(179)	-	-	(179)
Audited equity 31 March 2018		**227**	**2,907**	**2,771**	**(249)**	**55,637**	**61,293**
Adoption of IFRS 15						975	975
Profit for the period		-	-	-	-	20,530	20,530
Equity-settled share-based payment expense		-	-	886	-	-	886
Exchange differences on translation of foreign operations		-	-	-	229	-	229
Dividends paid		-	-	-	-	(37,565)	(37,565)
Vesting of share scheme	12	-	444	(1,439)	-	302	(693)
Deferred tax on share-based payments		-	-	3	-	-	3
Unaudited equity 30 September 2018		**227**	**3,351**	**2,221**	**(20)**	**39,879**	**45,658**

Notes 1 to 15 form part of these financial statements.

[32] All subsidiaries were 100% owned over the period, therefore equity is entirely attributable to equity holders of the parent

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Unaudited 6 months ended 30 September 2018 £000**	Unaudited 6 months ended 30 September 2017 £000	Audited year ended 31 March 2018 £000
Net cash flow from operating activities	14	**28,299**	19,457	62,990
Investing activities				
Finance income		**176**	47	95
Purchase of property, plant and equipment		**(1,583)**	(4,136)	(7,112)
Intangible asset development		**(2,112)**	(3,922)	(6,258)
Net proceeds from disposal of property, plant and equipment		**7**	3	-
Acquisition of subsidiary		**-**	-	(2,480)
Acquisition of subsidiary – client cash		**-**	-	1,554
Net cash used in investing activities		**(3,512)**	(8,008)	(14,201)
Financing activities				
Dividends paid		**(37,565)**	(37,150)	(55,898)
Movement in financing facility		**6,000**	-	-
Decrease in cash and cash equivalents		**(6,778)**	(25,701)	(7,109)
Cash and cash equivalents at 1 April		**46,040**	53,080	53,080
Effect of foreign exchange rate changes		**97**	195	69
Cash and cash equivalents at period end		**39,359**	27,574	46,040
Reconciliation of cash and cash equivalents				
Corporate cash		**6,617**	9,501	18,547
Client funds and retailer deposits		**32,742**	18,073	27,493
Cash and cash equivalents at period end		**39,359**	27,574	46,040

Notes 1 to 15 form part of these financial statements.

NOTES TO CONDENSED 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 2018 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 retailers and is a service provider for consumer transactions (see note 2).

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 2018 ('last annual financial statements'). They do not include all 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 30.

The information shown for the year ended 31 March 2018, 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 2018, 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.

By order of the Board, these interim statements were authorised for issue on 29 November 2018.

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 accounting policies are consistent with those included in the annual report 2018, except for revenue recognition which has been changed to IFRS 15 requirements.

Adoption of 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 interim period.

	Notes	Impact on retained earnings £000
Deferral of setup and development revenue	a	(440)
Deferral of costs associated to setting up clients and retailers on PayPoint's network	b	1,703
Contracts with tiered pricing structures	c	(288)
Impact at 1 April 2018		975

(a) Deferral of setup and development revenue

Prior to the adoption of IFRS 15 revenue recognition for setup and development revenue 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 to 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. 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 tiered pricing structures

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 six-month period was as follows:

Extract from the condensed consolidated statement of financial position

	As reported 30 September 2018 £000	Adjustments £000	Amounts without the adoption of IFRS 15 £000
Current assets			
Trade and other receivables	**139,561**	(3,205)	136,356
Current liabilities			
Trade and other payables	**176,959**	(2,156)	174,803
Equity			
Retained earnings	**39,879**	(1,048)	38,831

Extract from the condensed consolidated statement of profit and loss

	As reported for 6 months ended 30 September £000	Adjustments £000	Amounts without the adoption of IFRS 15 £000
CONTINUING OPERATIONS			
Revenue	**106,134**	109	106,243
Cost of revenue	**(59,605)**	(15)	(59,620)
Gross profit	**46,529**	94	46,623
Administrative expenses	**(21,048)**	(167)	(21,215)
Operating profit	**25,481**	(73)	25,408
Finance income	**176**	-	176
Finance costs	**(312)**	-	(312)
Profit before tax	**25,345**	(73)	25,272
Tax	**(4,815)**	-	(4,815)
Profit for the period	**20,530**	(73)	20,457

The group has also adopted IFRS 9 'Financial Instruments' which had no significant impact to the balance sheet.

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.

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

The critical accounting judgement at the balance sheet date that has a significant risk of causing a material adjustment to the carrying amount of assets and liabilities through estimation uncertainty is the evaluation of capitalised development expenditure shown in intangible assets.

Critical estimate: Useful economic lives
The useful life used to amortise intangible assets relates to the expected future performance of the assets and management's judgement of the period over which economic benefit will be derived from the asset. For development costs, the group has determined the useful life based on historical experience with similar products and platforms controlled by the group as well as anticipation of future events which may impact their life such as changes in technology. Historically, changes in useful lives have not resulted in material changes to the group's amortisation charge.

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

The impact of IFRS 16 on implementation may change as a result of alterations to existing lease contracts terms or new contracts entered into before the standard's implementation. If the standard was adopted in the current financial year the right to use the asset would increase gross assets by £0.9 million and lease liabilities increasing total liabilities by £1.0 million. However, the overall impact on earnings would not be significant, as total operating lease charges would broadly be similar to the depreciation and finance costs recognised. The group does not have any leases where it is a lessor.

Alternative performance measures
Non-IFRS measures or alternative performance measures are used by the directors and management for performance analysis, planning, reporting and incentive setting purposes 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	6 months ended 30 September 2018 £000	6 months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Service revenue	**74,371**	76,867	164,519
Sale of goods	**31,262**	20,131	47,809
Royalties	**501**	595	1,187
Revenue	**106,134**	97,593	213,515
less:			
Retail agent commissions	**(22,043)**	(23,912)	(49,100)
Cost of mobile top-ups and SIM cards as principal	**(28,509)**	(17,174)	(44,844)
Net revenue	**55,582**	56,507	119,571

Cash generation (non-IFRS measure)
Cash generation reflects operating cash flows including movements in working capital, but excluding movement in client funds and retailer deposits as detailed in note 14 to the interim financial statements.

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.

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

2. Segmental reporting

PayPoint provides innovative and time-saving technology to 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 2018 £000	6 months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Revenue by country			
UK	**68,306**	73,447	152,225
Ireland	**1,238**	2,151	3,727
Romania	**36,590**	21,995	57,563
Total	**106,134**	97,593	213,515

	30 September 2018 £000	30 September 2017 £000	31 March 2018 £000
Non-current assets (excluding deferred tax)			
UK	**36,172**	41,631	39,997
Romania	**17,937**	9,412	13,807
Total	**54,109**	51,043	53,804

3. Revenue

Disaggregation of revenue	6 months ended 30 September 2018 £000	6 months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Bill and general	**35,312**	36,756	82,478
Top-ups and e-money	**43,610**	32,624	75,400
Retail services	**27,212**	28,213	55,637
Total	**106,134**	97,593	213,515

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.

Contract balances	6 months ended 30 September 2018 £000	6 months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Trade receivables	**19,699**	13,521	18,425
Accrued income	**2,496**	7,020	3,644
Contract assets	**3,205**	-	-
Contract liabilities	**(2,307)**	(151)	(721)
Total	**23,093**	20,390	21,348

4. Cost of revenue

	6 months ended 30 September 2018 £000	6 months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Cost of revenue			
Commission payable to retail agents	**22,043**	23,912	49,100
Cost of mobile top-ups and SIM cards	**28,509**	17,174	44,844
Cost of revenue deducted for net revenue	**50,552**	41,086	93,944
Depreciation and amortisation	**4,509**	4,606	10,195
Other	**4,544**	4,552	9,426
Other costs of revenue	**9,053**	9,158	19,621
Total cost of revenue	**59,605**	50,244	113,565

5. Tax on profit

	6 months ended 30 September 2018 £000	6 months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Current tax	**4,811**	4,676	10,286
Deferred tax	**4**	(106)	(274)
Total	**4,815**	4,570	10,012

Tax for the six month period was charged on profits at an effective tax rate[33] of 19.0% (September 2017: 18.8%), which is in line with the UK statutory rate. The lower Romanian tax rate has been offset by a small amount of non-deductible expenses.

6. Earnings per share

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

	6 months ended 30 September 2018 £000	6 months ended 30 September 2017 £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	**20,530**	19,800	42,935
	Number of Shares	Number of shares	Number of shares
Weighted average number of ordinary shares in issue (for basic earnings per share)	**68,158,612**	68,156,122	68,112,815
Potential dilutive ordinary shares:			
Long-term incentive plan	**171,280**	235,449	260,078
Deferred annual bonus scheme	**25,934**	37,107	47,795
SIP and other	**11,978**	3,629	28,719
Diluted basis	**68,367,804**	68,432,307	68,449,407

Earnings per share			
Basic	**30.1p**	29.1p	**63.0p**
Diluted	**30.0p**	28.9p	**62.7p**

7.

[33] Effective tax rate is the tax cost as a percentage of net profit before tax.

Dividends

On 29 November an interim dividend of 15.6p per share (September 2017: 15.3p) and an additional dividend of 12.2p (September 2017: 12.2p) per share were declared. Both dividends will be paid on 11 January 2019 to shareholders on the register at 7 December 2018. Total dividends of £37.6 million (55.1p per share) were paid during the period and comprised of the final ordinary dividend for the year ended 31 March 2018 totalling £20.9 million (30.6p per share) and the final additional dividend of £16.7 million (24.5p per share).

8. Trade and other receivables

	30 September 2018 £000	30 September 2017 £000	31 March 2018 £000
Trade receivables	**19,699**	13,521	18,425
Items in the course of collection[1]	**112,915**	98,335	139,666
Revenue allowance	**(3,203)**	(4,278)	(3,862)
	129,411	107,578	154,229
Other receivables	**495**	606	1,208
Contract assets	**3,205**	-	-
Accrued income	**2,496**	7,020	3,644
Prepayments	**3,954**	4,154	2,906
	139,561	119,358	161,987

[1] Items in the course of collection represent amounts collected for clients by retail agents, but not yet remitted to PayPoint.

9. 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 interest being incurred so long as the overall position is in credit. At 30 September 2018, the corporate cash was £6.6 million (2017: £18.1 million).

Separate to corporate cash, PayPoint also holds client funds and retailer deposits of £32.7 million (September 2017: £18.1 million) where PayPoint has title to the client's funds and retailer's deposits. 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.

10. Trade and other payables

	30 September 2018 £000	30 September 2017 £000	31 March 2018 £000
Client funds and retailer's deposits[1]	**32,741**	18,073	27,493
Settlement payables[2]	**112,915**	98,335	139,666
Client and retailer payables	**145,656**	116,408	167,159
Trade payables	**9,902**	7,114	8,010
Other taxes and social security	**5,087**	1,967	7,286
Other payables	**2,937**	2,433	2,823
Accruals	**11,392**	9,805	10,953
Contract liabilities	**2,307**	151	721
	177,281	137,878	196,952
Disclosed as:			
Current	**176,959**	137,407	196,562
Non-current	**322**	471	390
Total	**177,281**	137,878	196,952

[1] Relates to funds collected on behalf of clients and retailer's deposits where PayPoint has title to the funds. An equivalent balance is included within cash and cash equivalents.
[2] Payable in respect of amounts collected for clients by retail agents.

11. Share capital

Share capital as at 30 September 2018 was £227,431. During the period the PayPoint plc issued 48,777 (September 2017: 37,016) shares for the 2014 DSB and SIP schemes.

12. Share-based payments

The total charge of £1.4 million (September 2017: £2.9 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 4 June 2018, 197,298 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 with vesting over three years to 4 June 2021.

13. 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 2018, 30 September 2017 and 31 March 2018.

14.

Notes to the statement of cash flows

	6 months ended 30 September 2018 £000	6 months ended 30 September 2017 £000	Year ended 31 March 2018 £000
Profit before tax	**25,345**	24,370	52,947
Adjustments for:			-
Depreciation on property, plant and equipment	**3,057**	3,028	6,362
Amortisation of intangible assets	**1,633**	1,579	4,155
Loss on disposal of fixed assets	**-**	-	52
Net interest income charge	**137**	1	514
VAT and R&D credits	**(1,730)**	**-**	(166)
Share-based payment charge	**886**	848	(322)
Cash-settled share-based remuneration	**(703)**	(322)	1,567
Earnings before interest, depreciation and amortisation	**28,625**	29,504	65,109
Working capital movements			
Inventories	**86**	38	148
Trade and other receivables	**(1,403)**	(520)	(424)
Contract assets	**182**	-	-
Trade and other payables	**181**	(2,535)	3,650
Contract liabilities (deferred income)	**(109)**	-	-
Cash generation (non-IFRS measure)	**27,562**	26,487	68,483
Client funds and retailer deposits movement[34]	**5,365**	(2,004)	5,401
Cash generated from operating activities	**32,927**	24,483	73,884
Corporation tax paid	**(4,405)**	(4,978)	(10,285)
Finance charges paid	**(223)**	(48)	(609)
Net cash from operating activities	**28,299**	19,457	62,990

15. Post balance sheet events

There were no significant events occurring after the balance sheet date.

[34] Items in the course of collection and settlement payables are included in this reconciliation on a net basis through the client funds and retailer deposits line. The directors have included these items on a net basis to best reflect the operating cash flows of the business.

PRINCIPAL RISKS AND UNCERTAINTIES

Since the publication of the Annual Report, a further review of the key risks that could prevent PayPoint meeting its strategic objectives, its risk appetite and the risk management framework was undertaken. Key risks are highlighted below with changes in risk level denoted as follows ➲ - risk level has not changed, ⬆ - risk level has increased and ⬇ risk level has reduced.

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

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. A technical incident occurred on Saturday 21 July 2018 that impacted approximately one-third of our retail terminal estate. During this period, customers were able to undertake services at alternative local sites and were able to continue to provide coverage across our network to 98% of households. Services were fully restored during the course of the day.	Resilience is built into systems and contingency plans are in place should systems fail. These plans are exercised regularly. Programmes are in place to remove technical debt and to automate manual processes. Payment files are automatically imported into settlement systems. All payments are checked / authorised by nominated signatories. There is segregation of duties maintained between settlement & corporate accounts. Invoices are recorded and approved by authorised managers. Daily reconciliation of client settlement accounts and weekly reconciliation of PayPoint corporate accounts is carried out. Audited controls for supplier and client account set-up are in place. Following the technical incident, the Major Incident Response Plan was reviewed with an incident categorisation matrix defined which provides a clearer action plan for the incident management team whose responsibilities have been thoroughly defined. The incident communications process was also enhanced including active monitoring of social media and emergency contacts clearly identified.	
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, Stock Market listing rules, Financial Conduct Authority requirements, anti-money laundering legislation, employment law etc. It could also lead to the prosecution of individual company officers or employees.	The group's legal department works closely with senior managers to adopt strategies to educate legislature, regulators, consumer and privacy advocates and other stakeholders to support the public policy debate, where appropriate, to ensure regulation does not have unintended consequences over the group's services. A central compliance department co-ordinates all compliance monitoring and reporting. Subsidiary managing and finance directors are required to sign annual compliance statements.	
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.	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 on-going across all business areas, as well as personal and career development initiatives. The executive management reviews talent potential twice a year and retention plans are put in place for individuals identified at risk of leaving. Compensation and benefits programmes are competitive and reviewed regularly.	
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.	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 underway 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.	

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).

Dominic Taylor	Rachel Kentleton
Chief Executive	**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 2018 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 2018 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

15 Canada Square
Canary Wharf
London
E14 5GL

29 November 2018

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 11,000 sites 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 sites 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 400 consumer service providers to save time and money while making it easier for their customers to pay – via any channel and on any device.

DIRECTORS & KEY CONTACTS

Directors	Dominic Taylor (Chief Executive) Rachel Kentleton (Finance Director) Gillian Barr* Giles Kerr* Rakesh 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 United Kingdom