# PayPoint plc
# Half yearly financial report
# for the 6 months ended 30 September 2015

## SUMMARY

| | 6 months ended 30 September 2015 | 6 months ended 30 September 2014 | Increase/ (decrease) |
|---|---|---|---|
| Revenue | **£102.8m** | £104.3m | (1.4)% |
| Net revenue[1] | **£59.3m** | £57.9m | 2.4% |
| Gross margin | **49.6%** | 48.0% | 1.6ppts |
| Operating profit before goodwill impairment[2] | **£21.3m** | £22.4m | (5.0)% |
| Adjusted earnings per share[3] | **24.8p** | 26.0p | (4.6)% |
| Interim dividend per share | **14.2p** | 12.4p | 14.5% |
| Cash at period end (comparative 31 March 2015) | **£46.1m** | £43.9m | 4.9% |

**Good progress in our strategic priorities**
- Sales success in multi-channel payment solution, including first big six energy client and a framework agreement with a housing consortium for rent collection
- New tablet based retail terminal, which builds new functionality (to include EPoS) now in pilot phase
- Reorganising to improve cost efficiency and provide better strategic focus
- Active review of new countries with retail network potential
- Potential beyond current verticals enabled by new retail technology
- Discussions continue with Yodel on Collect+, with reduced profitability from cost increases
- Sale of Mobile and Online businesses expected to complete in the second half of the financial year

**Financial results**
- Overall results for the first half are in line with our expectations, but weather warmer than expected
- Net revenue up 3.5% in retail networks
- Operating profits[2] decreased by 5.0% as expected, from investment in Mobile and lower revenues in Online Payments
- Online Payments goodwill impairment of £18.2 million as offers have not met expectations
- Robust balance sheet with cash of £46.1 million and undrawn credit facility of £45 million
- Increase in interim dividend by 14.5% to 14.2p

**Operations**
- Record first half group transaction volumes at 399 million, up 6.9%
- Romanian bill payment transactions grew 15.6%
- Total retail network sites increased  to 38,000 and Collect+ to 6,000 going into Christmas peak
- Mobile and Online transactions up 22.2% to 85.9 million

Dominic Taylor, Chief Executive, said: “In the first half of the year, I am pleased to report further progress in the delivery of the strategy we outlined last year. We have leveraged our unique business model to secure the best client offering and drive growth in our retail services through innovation in new products and technology. We continued to seek new international opportunities.  Overall the results are in line with our expectations for the first half, with the performance from retail networks offset by losses in Mobile and Online Payments, which we expect to sell in the second half of this financial year as announced in May this year.  Offers on the Online Payments business have not met expectations and accordingly, we have impaired the entire goodwill on this business.

Looking ahead to the second half, we expect to conclude current Collect+ joint venture discussions with our partner Yodel and complete the sale of our Mobile and Online businesses.  Overall, we expect to make further progress across the business, with trading since 30 September in line with our expectations.  Our dividend increase anticipates double digit growth in the dividend for the year as a whole and reflects our confidence in the business and its long term prospects.”

1 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 other costs include retail agent commission, card payment merchant service charges and costs for the provision of call centres for PayByPhone clients.
2 Operating profit before goodwill impairment includes our share of joint venture results.
3 Adjusted earnings per share are stated before the £18.2m impairment of goodwill in the Online Payment business.

Net revenue, operating profit before goodwill impairment and adjusted earnings per share are measures the directors believe will assist with a better understanding of the underlying performance of the group

## MANAGEMENT REPORT

This management report has been prepared solely to provide additional information to shareholders as a body to assess PayPoint's half year results and it should not be relied upon for any other purpose. It contains forward-looking statements made by the directors in good faith based on the information available at the time of approval of the half yearly financial report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking statements.

PayPoint processes consumer transactions and as such, has only one operating segment. However, we include an analysis of the number and value of consumer transactions, revenue and net revenue by product and an analysis of our networks to help to explain our performance and strategy.

Growth opportunities include: provision of single solution, multi-channel payments and services to new and existing clients; the extension of services in each payment channel across our existing and prospective clients, new and existing client development and retail services in the UK and Romanian retail networks; the expansion of these retail networks; building and developing our parcel services. There are also opportunities to extend our services into other countries.

The channel and product analysis is as follows:

**Retail Payments and Services:**
Bill and general (prepaid energy, bills and cash out services)
Top-ups (mobile, e-money vouchers, prepaid debit cards and lottery)
Retail services (ATM, debit/credit, money transfer, SIMs, broadband, receipt advertising, charges for failed direct debits and paper invoicing)
Parcel services

In addition, fees for early settlement, development and set up are attributed to the client, to which they are billed and included above in the relevant categories.

**Mobile and Online:**
Parking, permits, tolling, ticketing, bicycle rental transactions, consumer transactions with merchants, pre-authorisations, optimisation of authorisations, Payment Card Industry solutions, fraud management, where separately charged, hosted and mobile solutions and real time management reporting.

## Operational review

Net revenue increased by 2.4% over the prior period to £59.3 million (2014: £57.9 million), on revenues of £102.8 million, with transaction volume up by 25.6 million transactions to 399.0 million (2014: 373.4 million) and transaction value up to £7.2 billion (2014: £7.1 billion). Net revenue growth from bill and general payments, top-ups and retail services exceeded revenue growth. Mobile top-up decline has a greater impact on revenue than net revenue, particularly where PayPoint is principal. The costs of restructuring the business earlier in the year are included in the first half together with professional fees incurred towards the sale of the Mobile and Online businesses (together £0.7 million). We expect cost increases to be lower in the second half. We are also implementing a programme in the UK to re-engineer processes and systems to drive efficiency and ensure we maximise opportunities for our new products and services. Adjusted earnings per share[1] decreased by 5.8% as a consequence of the loss in Mobile and Online pending their sale, the costs incurred in the sales process, the reorganisation costs incurred in the first half and the increase in the tax rate.

Our retail networks produced net revenue growth of 3.5%. In the UK, there were 1.2% fewer prepaid energy transactions than last year. In particular, the number of prepay electricity transactions was lower than last year as consumer demand appears to have reduced. In Romania, bill payment transactions have grown 15.6%, as we continued to add new clients and increase our market share. Retail services transaction growth was 21.2% and net revenues were £15.1 million, up 16.2% (2014: £13.0 million).

In the UK, mobile top-up transaction volumes have continued to decline, whereas in Romania, we have increased the volume of transactions. Mobile top-ups accounted for £7.3 million (2014: £7.4 million), which is 12.3% of total net revenues (2014: 12.7%).

We are excited by the new technology, products and services which will drive growth, particularly the launch of our third generation terminal which will provide the platform for further retail innovation. We have developed a multi-channel product in UK retail, aimed at addressing the payment challenges faced by utilities, as a result of the UK Government mandated change to smart meters by 2020, which builds on our existing online payment solutions for prepayment meters. This product has already been sold to six clients in the energy sector including our first big six energy client and has attracted interest from other sectors, including housing.

In Collect+, our joint venture with Yodel, the number of transactions increased by 18.1% to 9.9 million (2014: 8.4 million). Collect+ ranks number 1 both in customer satisfaction and customer recommendation to friends and colleagues (source:YouGov BrandIndex). Since the period end, the number of sites has increased to 6,000, ahead of the Christmas peak**.** We continue to discuss the future of the joint venture with Yodel and the proposed increases in charges put forward by Yodel. A portion of these charges has been allowed pending the outcome of discussion, which has caused the adverse impact on profitability in Collect+. We expect to be able to report on the conclusion of these discussions by the time of the full year results announcement.

We have made substantial progress with the sale of Mobile, which we expect to complete before the end of the current financial year, as announced last year end. Offers made for the Online Payments business have not met expectations but reflect the potential buyer's uncertainty of the business' success with new products, which are at an early stage of their lifecycle. In view of the uncertainty of the eventual outcome, management have recorded an impairment of all the goodwill in the Online Payments business of £18.2m. Mobile and Online transaction growth was 22.2% but net revenue declined by 5.7% as a consequence of price competition in core Online Payment processing, in advance of the build-up of new product revenues, which are now starting to emerge. This decline was offset by strong growth in the Mobile business in North America.

We continue to focus on growth and on evaluating new opportunities to extend our business, particularly in developing vertical markets and internationally. The combination of our new terminal and our existing platform enhances our opportunities for expansion. Romania continues to grow its transaction volumes and revenues across all services, including bill payment, mobile top-ups, and retail services (road tax and money transfer). We are developing new retail services and promoting the PayPoint brand, continuing to strengthen the network and consumer recognition.

1. Adjusted earnings per share are stated before the £18.2 m impairment of goodwill in the Online Payment business.

### Bill and general

| | | 6 months ended 30 September 2015 | 6 months ended 30 September 2014 | Increase/ (decrease) % | Year ended 31 March 2015 |
|---|---|---|---|---|---|
| Transactions | '000 | **203,215** | 201,024 | 1.1 | 459,018 |
| Transaction value | £000 | **3,909,134** | 3,824,598 | 2.2 | 8,485,736 |
| Revenue | £000 | **38,533** | 38,811 | (0.7) | 89,229 |
| Net revenue[1] | £000 | **26,180** | 25,881 | 1.2 | 58,954 |

Bill and general transactions were ahead of the same period last year as a result of a 15.6% increase in Romanian bill payment transactions. UK and Irish bill and general transactions were down 1.0% on last year due to lower transactions from prepaid electricity. An apparent decrease in consumption together with the effect of higher average transaction values exceeded the impact from meter growth. Although not material in the results to September, the multi-channel payment solution continues to grow strongly and sales to a further five clients have been agreed, including our first big six client and it is attracting interest from other sectors. The strong growth in Romania, where we processed 29.1 million transactions (2014: 25.2 million) was the result of increasing market share[2] to 21.3% in September (2014: 18.8%), and the addition of new clients.

Growth in net revenue of 1.2% exceeded that in revenue, helped by changes to our retail terms that we made in response to competitor rates.

### Top-ups

| | | 6 months ended 30 September 2015 | 6 months ended 30 September 2014 | Decrease % | Year ended 31 March 2015 |
|---|---|---|---|---|---|
| Transactions | '000 | **41,636** | 45,789 | (9.1) | 89,482 |
| Transaction value | £000 | **390,739** | 419,413 | (6.8) | 821,049 |
| Revenue | £000 | **32,541** | 36,256 | (10.2) | 69,978 |
| Net revenue[1] | £000 | **11,083** | 11,696 | (5.2) | 23,154 |

Top-up transactions decreased from last year as a result of the continued decline in mobile top-up volumes in the UK and Ireland of 13.8%. The reduction in UK and Irish mobile top-up transactions was only partly offset by an increase in other top-up transactions and Romanian mobile top-ups.

The reduction in top-up transaction value was lower than that of transaction numbers as the average value of mobile top-ups increased. This also helped mitigate the reduction in net revenue, as did the increase in other top-ups.

1 Net revenue is revenue less the cost of mobile top-ups (where PayPoint is principal), SIM cards and other costs incurred by PayPoint which are recharged to clients and merchants. These costs include retail agent commission, card payment merchant service charges and costs for the provision of call centres for PayByPhone clients. Net revenue is a measure, which the directors believe assists with a better understanding of the underlying performance of the group.

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

| | | 6 months ended 30 September 2015 | 6 months ended 30 September 2014 | Increase % | Year ended 31 March 2015 |
|---|---|---|---|---|---|
| Transactions | '000 | **68,305** | 56,344 | 21.2 | 118,849 |
| Transaction value | £000 | **524,591** | 412,869 | 27.1 | 874,449 |
| Revenue | £000 | **23,397** | 20,579 | 13.7 | 42,294 |
| Net revenue | £000 | **15,062** | 12,958 | 16.2 | 26,507 |

Retail services transaction volume has increased across all products. ATM transactions increased by 27.0%, credit and debit transactions by 19.2%, money transfer transactions by 7.2%, SIM cards by 45.0% and parcels by 18.1% over the same period last year.

A higher average credit and debit transaction value and money transfer transaction value has driven an increase in total transaction value in excess of the increase in transaction volume.

Strong net revenue growth of 16.2% was driven by the increases in parcels, ATM transactions, credit and debit and income from broadband (enabling faster terminal transactions).

## Collect+

PayPoint has a 50% equity interest in Drop and Collect Limited, trading as Collect+, a 50:50 joint venture with Yodel. PayPoint does not consolidate the results of the joint venture but does include its share of the profit or loss of the joint venture in its consolidated income statement, after group operating profit.

| Collect+ at 100% | | 6 months ended 30 September 2015 | 6 months ended 30 September 2014 | Increase/ (decrease) % | Year ended 31 March 2015 |
|---|---|---|---|---|---|
| Transactions | '000 | **9,911** | 8,394 | 18.1 | 18,799 |
| Revenue | £000 | **23,693** | 20,638 | 14.8 | 46,059 |
| (Loss)/ profit | £000 | **(797)** | 487 | (263.7) | 2,634 |

Collect+ is the market leading proposition for third party Click and Collect services and its parcel returns activity also continues to grow strongly. Within the consumer send market, there continues to be substantial price competition and consequently the Collect+ management team has focussed on developing Click & Collect and returns.

We continue to discuss with Yodel the future of the joint venture and the proposed increases in charges put forward by Yodel. A portion of these charges have been allowed pending the outcome of these discussions, which has caused the adverse impact on profitability in Collect+. We expect to be able to report on the conclusion of these discussions by the time of the full year results announcement.

## Mobile and Online

| | | 6 months ended 30 September 2015 | 6 months ended 30 September 2014 | Increase/ (decrease) % | Year ended 31 March 2015 |
|---|---|---|---|---|---|
| Transactions | ‘000 | **85,891** | 70,282 | 22.2 | 145,319 |
| Transaction value | £000 | **2,388,029** | 2,424,468 | (1.5) | 4,575,242 |
| Revenue | £000 | **8,344** | 8,621 | (3.2) | 16,994 |
| Net revenue | £000 | **6,983** | 7,404 | (5.7) | 14,516 |

Transactions increased by 22.2% with payment transactions of 62.3 million up 22.7% and parking transactions of 23.6 million up 20.9%.

Parking transaction growth was driven predominantly by the continued increase in consumer adoption in existing clients and the full roll out of parking payment services in Paris. The increase in online Payment transactions stemmed from existing merchants.

Overall revenues decreased by 3.2% and net revenues decreased by 5.7%, reflecting a decline in payment revenues due to larger merchants benefitting from lower pricing on core payment processing transactions, offset by strong growth in the mobile business in North America.

We have continued to add parking contracts with councils and parking authorities, as we provide them with a more convenient and cost effective method for collecting parking charges. The business has fully rolled out the parking payment services in Paris during the period, a contract has been signed to service a number of London underground car parks as part of a Transport for London initiative and during the period, Brighton local authority ended its use of parking meters.

In Online Payments, an increasing number of clients are processing on the new Advanced Payments platform and the sales of the two new licensed products, Cashier and Cardlock, have started to accelerate. Cashier enables enterprise merchants to offer a highly customised payment experience for their online or mobile customers and also has a built in capability to allow customers to store multiple cards. Cardlock reduces the complication and cost of Payment Card Industry compliance for merchants by removing card data from their websites and apps as soon as it has been entered, and securing it remotely within PayPoint systems. A further two new products have been launched in the first half of this year, Mobile SDK and Fraudguard5. Mobile SDK makes it easier for a merchant to provide an improved payment experience in an app and Fraudguard5 is an enhanced version of the successful Fraud Management product, which introduces new analytical capabilities.

## Network growth

Terminal sites overall have increased by 848 to 38,389 since March 2015.

In the UK and Ireland, retail sites increased by 624, an increase of 2.2% since March 2015. We provide debit and credit card acceptance, including the capability for retailers to accept convenient contactless card transactions in 10,020 sites, an increase of 204 sites. We continue to roll out our PPoS integrated solution to retailers, which combines a virtual terminal (our software on the retailer's till system) with a plug-in reader, to provide our service at lower cost. As well as enhancing service to retailers, this allows us to redeploy terminals for use in Romania. In addition to these 7,717 PPoS solutions, there were 11,627 broadband enabled terminals (which offer a faster service than PSTN enabled terminals for transactions where the terminal has to contact the client's host) at 30 September 2015.

In Romania, we have increased our sites by 224 since March 2015 to 9,458 sites at 30 September 2015.

The number of internet merchants fell by 645 since March 2015, largely through churn of low volume merchants.

We increased the number of sites offering our Collect+ parcels service in the first half of the year by 64, bringing the total to 5,895 and which, since the period end, has risen further to 6,000 sites in advance of peak Christmas activity. Site growth has been constrained during the discussion of Yodel's proposed increase in charges to Collect+.

| **Analysis of sites/internet merchants** | **At 30 September 2015** | At 30 September 2014 | Increase/ (decrease) % | At 31 March 2015 |
|---|---|---|---|---|
| UK and Ireland terminal sites | **28,931** | 27,997 | 3.3 | 28,307 |
| Romania terminal sites | **9,458** | 8,756 | 8.0 | 9,234 |
| **Total terminal sites** | **38,389** | 36,753 | 4.5 | 37,541 |
| Internet merchants | **4,017** | 4,963 | (19.1) | 4,662 |
| Collect+ sites | **5,895** | 5,617 | 4.9 | 5,831 |

## Financial review

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

Gross profit was £51.0 million (2014: £50.0 million), up 2.0% and the gross profit margin improved to 49.6% (2014: 48.0%) predominantly as a result of the reduction in the cost of mobile top-ups and lower retail commission.

Administrative expenses increased by 5.4% (2014: 10.9%) to £29.3 million (2014: £27.8 million). The year on year cost increases are driven by the HMRC ruling which increased irrecoverable VAT (£1.0 million in the first half), which will continue and the one off restructuring costs incurred in the first half to gain efficiencies between group and our retail businesses, together with the professional fees incurred in the first half on the sale of Mobile and Online (in total £0.7 million). We expect the rate of increase in operating costs to slow further in the second half as a consequence of the reorganisation in the first half and the sale of the Mobile and Online businesses.

Our share of the loss in our parcels joint venture, Collect+, was £0.4 million (2014: profit of £0.2 million).

Our operating margin before goodwill impairment[1] decreased to 36.0% (2014: 38.7%) as a consequence of the increase in costs in excess of revenues.

1 Operating profit margin is stated before the goodwill impairment of £18.2m and includes our share of joint venture results, as a percentage of net revenue.

Profit before tax was £3.2 million (2014: £22.5 million), which includes a £18.2m impairment to goodwill in the Mobile and Online business. The tax charge was £4.4 million (2014: £4.7 million) and the effective tax rate was 20.8% (year ended 31 March 2015: 21.0%). The decrease in the effective tax rate reflects the decrease in the UK statutory tax rate in the current year to 20%, offset by a reduction in the deferred tax assets on finalisation of prior year tax returns, which has been reflected in full in the half year. As a result the full year effective tax rate is expected to be lower than as reported in the first half.

Operating cash flow was £24.5 million (2014: £12.0 million), after corporation tax payments of £4.9 million (2014: £5.0 million). Capital expenditure of £5.5 million (2014: £5.1 million) comprised expenditure on IT infrastructure, developments for new products, terminals, ATMs and prepaid energy card and key readers for the software version of our terminal that can be loaded onto retail till systems. Share incentive schemes settled in cash absorbed £0.6 million (2014: £2.8 million). Equity dividends paid were £17.8 million (2014: £16.3 million). Net cash and cash equivalents at the period end were £46.1 million (excluding net cash within assets held for resale of £2.0 million), higher than £43.9 million (excluding net cash within assets held for resale of £3.3 million) at 31 March 2015.

## Related party transactions

Related party transactions are disclosed in note 5.

## Risks

Risks to PayPoint's business, financial condition and operations are disclosed on pages 21 and 22.

## Dividend

We have declared an interim dividend of 14.2p per share (2014: 12.4p) to be paid on 17 December 2015 to shareholders on the register at 4 December 2015. The final dividend for the year ended 31 March 2015 totalling £17.8 million (26.1p per share) was paid during the period.

## Liquidity and going concern

The group had cash of £46.1 million at the period end and an undrawn £45.0 million revolving term credit facility expiring in May 2019. Cash includes amounts held to settle short term client settlement obligations, which at the period end amounted to £11.5 million in the UK (September 2014: £3.8 million, March 2015: £3.8 million) and £7.5 million in Romania (September 2014: £7.2 million, March 2015: £10.1 million). Cash and borrowing capacity is adequate to meet the foreseeable needs of the group, taking account of any risks (pages 21 and 22). The financial statements have therefore been prepared on a going concern basis.

## Economic climate

The company's bill and general payments service, which accounts for 44.1% (2014: 47.2%) of our net revenue, has continued to be resilient, as consumers' discretion in expenditure is limited for essential services and our service continues to be popular. Utility providers continue to install new prepay gas and electricity meters. The online payment market continues to grow substantially. There has been an adverse impact on our mobile top-ups as mobile operators continue to promote prepay less than contract. Mobile and Online is able to offer parking authorities a more cost effective collection system for parking compared to pay and display machines. The convenient parcel services offered by Collect+ offer great opportunity for growth.

## Outlook

Looking ahead to the second half, we expect to conclude current Collect+ joint venture discussions with our partner Yodel and complete the sale of our Mobile and Online businesses. Overall, we expect to make further progress across the business, with trading since 30 September in line with our expectations. Our dividend increase anticipates double digit growth in the dividend for the year as a whole and reflects our confidence in the business and its long term prospects.

## CONDENSED CONSOLIDATED INCOME STATEMENT

| Continuing operations | Note | **Unaudited 6 months ended 30 September 2015 £000** | Unaudited 6 months ended 30 September 2014 £000 | Audited year ended 31 March 2015 £000 |
|---|---|---|---|---|
| **Revenue** | 2 | **102,815** | 104,267 | 218,495 |
| Cost of sales | 2 | **(51,779)** | (54,259) | (113,415) |
| Gross profit | | **51,036** | 50,008 | 105,080 |
| Administrative expenses | | **(29,316)** | (27,812) | (56,892) |
| **Operating profit before goodwill impairment** | | **21,720** | 22,196 | 48,188 |
| Goodwill impairment | 8 | **(18,207)** | - | - |
| **Operating profit after goodwill impairment** | | **3,513** | 22,196 | 48,188 |
| Share of (loss)/profit of joint venture | | **(398)** | 244 | 1,317 |
| Investment income | | **65** | 92 | 151 |
| Finance costs | | **(25)** | (60) | (95) |
| Profit before tax | | **3,155** | 22,472 | 49,561 |
| Tax | 3 | **(4,441)** | (4,719) | (10,414) |
| **(Loss)/profit for the period** | | **(1,286)** | 17,753 | 39,147 |
| **Attributable to:** | | | | |
| Equity holders of the parent | | **(1,288)** | 17,758 | 39,150 |
| Non-controlling interest | | **2** | (5) | (3) |
| | | **(1,286)** | 17,753 | 39,147 |
| **(Loss)/earnings per share** | | | | |
| Basic | 4 | **(1.90)p** | 26.1p | 57.6p |
| Diluted | 4 | **(1.90)p** | 26.0p | 57.4p |
| Adjusted | 4 | **24.8p** | 26.0p | 57.4p |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | **Unaudited 6 months ended 30 September 2015 £000** | Unaudited 6 months ended 30 September 2014 £000 | Audited year ended 31 March 2015 £000 |
|---|---|---|---|---|
| **Items that may subsequently be reclassified to the consolidated income statement:** | | | | |
| Exchange differences on translation of foreign operations | 9 | **(865)** | (247) | (1,393) |
| Tax effect thereof | | **-** | - | - |
| Other comprehensive loss for the period | | **(865)** | (247) | (1,393) |
| (Loss)/profit for the period | | **(1,286)** | 17,753 | 39,147 |
| Total comprehensive (loss)/income for the period | | **(2,151)** | 17,506 | 37,754 |
| **Attributable to:** | | | | |
| Equity holders of the parent | | **(2,153)** | 17,511 | 37,757 |
| Non-controlling interest | | **2** | (5) | (3) |
| | | **(2,151)** | 17,506 | 37,754 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | **Unaudited 30 September 2015 £000** | Unaudited 30 September 2014 £000 | Audited 31 March 2015 £000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | | **7,761** | 57,814 | 7,694 |
| Other intangible assets | | **7,501** | 7,905 | 6,443 |
| Property, plant and equipment | | **21,479** | 22,302 | 21,505 |
| Investment in joint venture | | **1,455** | 929 | 1,853 |
| Deferred tax assets | | **383** | 1,775 | 1,131 |
| | | **38,579** | 90,725 | 38,626 |
| **Current assets** | | | | |
| Inventories | | **553** | 690 | 686 |
| Trade and other receivables | | **106,680** | 150,395 | 163,395 |
| Cash and cash equivalents | 7 | **46,056** | 28,681 | 43,913 |
| Assets held for resale | 8 | **39,236** | - | 59,066 |
| | | **192,525** | 179,766 | 267,060 |
| **Total assets** | | **231,104** | 270,491 | 305,686 |
| **Current liabilities** | | | | |
| Trade and other payables | | **128,300** | 164,551 | 181,724 |
| Current tax liabilities | | **3,564** | 2,782 | 4,349 |
| Liabilities directly associated with assets classified as held for sale | 8 | **3,580** | - | 4,250 |
| | | **135,444** | 167,333 | 190,323 |
| **Non-current liabilities** | | | | |
| Other liabilities | | **-** | 49 | 21 |
| | | **-** | 49 | 21 |
| **Total liabilities** | | **135,444** | 167,382 | 190,344 |
| | | | | |
| **Net assets** | | **95,660** | 103,109 | 115,342 |
| **Equity** | | | | |
| Share capital | 9 | **227** | 226 | 227 |
| Share premium | 9 | **2,365** | 1,978 | 1,977 |
| Share based payment reserve | 9 | **3,107** | 3,105 | 3,926 |
| Translation reserve | 9 | **(4,871)** | (2,860) | (4,006) |
| Retained earnings | 9 | **94,960** | 100,792 | 113,348 |
| **Total equity attributable to equity holders of the parent company** | | **95,788** | 103,241 | 115,472 |
| Non-controlling interest | | **(128)** | (132) | (130) |
| **Total equity** | | **95,660** | 103,109 | 115,342 |

# 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 |
|---|---|---|---|---|---|---|---|---|---|
| **Opening equity 31 March 2014** | | **226** | **408** | **3,682** | **(2,613)** | **101,995** | **103,698** | **(127)** | **103,571** |
| Profit/(loss) for the period | | - | - | - | - | 17,758 | 17,758 | (5) | 17,753 |
| Dividends paid | 6 | - | - | - | - | (16,259) | (16,259) | - | (16,259) |
| Exchange differences on translation of foreign operations | 9 | - | - | - | (247) | - | (247) | - | (247) |
| Movement in share based payment reserve | 9 | - | - | (577) | - | - | (577) | - | (577) |
| Share premium arising on issue of shares | 9 | - | 1,570 | - | - | - | 1,570 | - | 1,570 |
| Adjustment on share scheme vesting | 9 | - | - | - | - | (2,405) | (2,405) | - | (2,405) |
| Deferred tax on share based payments | 9 | - | - | - | - | (297) | (297) | - | (297) |
| **Closing equity 30 September 2014** | | **226** | **1,978** | **3,105** | **(2,860)** | **100,792** | **103,241** | **(132)** | **103,109** |
| Profit for the period | | - | - | - | - | 21,392 | 21,392 | 2 | 21,394 |
| Dividends paid | 6 | - | - | - | - | (8,437) | (8,437) | - | (8,437) |
| Exchange differences on translation of foreign operations | 9 | - | - | - | (1,146) | - | (1,146) | - | (1,146) |
| Movement in share based payment reserve | 9 | - | - | 821 | - | - | 821 | - | 821 |
| Share premium arising on issue of shares | 9 | 1 | (1) | - | - | - | - | - | - |
| Adjustment on share scheme vesting | 9 | - | - | - | - | (52) | (52) | - | (52) |
| Deferred tax on share based payments | 9 | - | - | - | - | (347) | (347) | - | (347) |
| **Closing equity 31 March 2015** | | **227** | **1,977** | **3,926** | **(4,006)** | **113,348** | **115,472** | **(130)** | **115,342** |
| Profit for the period | | - | - | - | - | (1,288) | (1,288) | 2 | (1,286) |
| Dividends paid | 6 | - | - | - | - | (17,768) | (17,768) | - | (17,768) |
| Exchange differences on translation of foreign operations | 9 | - | - | - | (865) | - | (865) | - | (865) |
| Movement in share based payment reserve | 9 | - | - | (819) | - | - | (819) | - | (819) |
| Share premium arising on issue of shares | 9 | - | 388 | - | - | - | 388 | - | 388 |
| Adjustment on share scheme vesting | 9 | - | - | - | - | 668 | 668 | - | 668 |
| Deferred tax on share based payments | 9 | - | - | - | - | - | - | - | - |
| **Closing equity 30 September 2015** | | **227** | **2,365** | **3,107** | **(4,871)** | **94,960** | **95,788** | **(128)** | **95,660** |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Note | **Unaudited 6 months ended 30 September 2015 £000** | Unaudited 6 months ended 30 September 2014 £000 | Audited year ended 31 March 2015 £000 |
|---|---|---|---|---|
| **Net cash flow from operating activities** | 10 | **24,488** | 11,950 | 44,896 |
| **Investing activities** | | | | |
| Investment income | | **65** | 92 | 153 |
| Purchase of property, plant and equipment and technology | | **(5,474)** | (5,092) | (10,076) |
| Proceeds from disposal of property, plant and equipment | | **-** | 16 | 4 |
| Repayment of loan by joint venture | | **-** | - | 150 |
| Acquisition of subsidiary | 5 | **-** | (180) | (180) |
| **Net cash used in investing activities** | | **(5,409)** | (5,164) | (9,949) |
| **Financing activities** | | | | |
| Cash settled share based remuneration | | **(576)** | (2,847) | (2,898) |
| Dividends paid: | | **(17,768)** | (16,259) | (24,696) |
| Net cash used in financing activities | | **(18,344)** | (19,106) | (27,594) |
| Net increase/ (decrease) in cash and cash equivalents | | **735** | (12,320) | 7,353 |
| Cash and cash equivalents at beginning of period | | **47,198** | 41,600 | 41,600 |
| Effect of foreign exchange rate changes | | **100** | (599) | (1,755) |
| **Cash and cash equivalents at end of period** | | **48,033** | 28,681 | 47,198 |

| | Note | **Unaudited 6 months ended 30 September 2015 £000** | Unaudited 6 months ended 30 September 2014 £000 | Audited year ended 31 March 2015 £000 |
|---|---|---|---|---|
| **Reconciliation of items disclosed on the consolidated statement of financial position:** | | | | |
| Cash and cash equivalents | | **46,056** | 28,681 | 43,913 |
| Cash and cash equivalents included in assets held for sale | 8 | **1,977** | - | 3,285 |
| **Cash and cash equivalents at end of period** | | **48,033** | 28,681 | 47,198 |

# NOTES TO CONDENSED FINANCIAL STATEMENTS

## 1. Accounting policies

These condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union on an historical cost basis and the same accounting policies, presentation methods and methods of computation are followed in this condensed set of financial statements as applied in the group's latest annual audited financial statements. The group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The group has adopted relevant standards and amendments with no material impact on its results, assets and liabilities.

**Basis of preparation**

The condensed 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 23. The information shown for the year ended 31 March 2015, 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 2015, 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 Management Report on page 8.

## 2. Segmental reporting, net revenue analysis and cost of sales

**(i) Segmental information**

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

The application of technology is directed on a group basis by the group’s executive (comprising the Chief Executive, Group Finance Director, Business Development Director and Chief Information Officer) to develop products across the business, prioritised on an economic value basis (generally by product), rather than on a subsidiary by subsidiary basis. As the business has high fixed operating costs, the company regards the analysis of net revenue as the most reliable indication of contribution on a product by product basis and net revenue analysis is shown in the operating and financial review.

Whilst the group has a number of different services and products, these do not meet the definition of different segments under IFRS 8 and, therefore, the group has only one reportable class of business, being a service provider for consumer payment and value added transactions.

**(ii) Reconciliation of revenue to net revenue, analysis of cost of sales**

Revenue comprises the value of sales (excluding sales taxes) of services in the normal course of business.

Revenue performance of the business is measured by net revenue, which is calculated as the total revenue from clients less commissions paid to retail agents, the cost of mobile top-ups and SIM cards where PayPoint is principal and costs incurred by PayPoint which are recharged to clients and merchants. These costs include retail agent commission, merchant service charges levied by card scheme sponsors and costs for the provision of call centres for mobile parking clients.

### Net revenue

| | **6 months ended 30 September 2015 £000** | 6 months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| Revenue - transaction processing | **102,225** | 103,782 | 217,430 |
| - service charge income from ATMs | **590** | 485 | 1,065 |
| **Revenue** | **102,815** | 104,267 | 218,495 |
| less: | | | |
| Commission payable to retail agents | **(28,261)** | (29,622) | (63,337) |
| Cost of mobile top-ups and SIM cards as principal | **(13,885)** | (15,488) | (29,549) |
| Card scheme sponsors' charges and call centre charges | **(1,361)** | (1,218) | (2,478) |
| **Net revenue** | **59,308** | 57,939 | 123,131 |

### Cost of sales

| | **6 months ended 30 September 2015 £000** | 6 months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| **Cost of sales** | | | |
| Commission payable to retail agents | **28,261** | 29,622 | 63,337 |
| Cost of mobile top-ups and SIM cards as principal | **13,885** | 15,488 | 29,549 |
| Card scheme sponsors' charges and call centre charges | **1,361** | 1,218 | 2,478 |
| Depreciation and amortisation | **2,900** | 3,030 | 6,530 |
| Other | **5,372** | 4,901 | 11,521 |
| **Total cost of sales** | **51,779** | 54,259 | 113,415 |

Commission payable to retail agents has fallen as the group has adjusted the share of commission with its retailers in response to competitor rates.

### Geographical information:

| | **6 months ended 30 September 2015 £000** | 6 months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| **Revenue** | | | |
| UK | **81,330** | 81,468 | 173,976 |
| Ireland | **3,379** | 5,003 | 9,062 |
| Romania | **15,564** | 15,488 | 30,673 |
| North America | **2,542** | 2,308 | 4,784 |
| **Total** | **102,815** | 104,267 | 218,495 |
| | | | |
| **Non-current assets (excluding deferred tax)** | | | |
| UK | **37,390** | 87,141 | 36,519 |
| Romania | **806** | 1,203 | 976 |
| North America | **-** | 606 | - |
| **Total** | **38,196** | 88,950 | 37,495 |

### 3. Tax on profit of ordinary activities

| | **6 months ended 30 September 2015 £000** | 6 months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| Current tax | **3,685** | 4,600 | 10,012 |
| Deferred tax | **756** | 119 | 402 |
| **Total** | **4,441** | 4,719 | 10,414 |

### 4. Earnings per share

The basic and diluted earnings per share are calculated on the following profit and number of shares. The adjusted earnings per share is calculated using the diluted earnings per share and excluding from earnings the £18.2m impairment of goodwill in the Online Payment business.

| | **6 months ended 30 September 2015 £000** | 6 months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| Profit for basic and diluted earnings per share is the net profit attributable to equity holders of the parent | **(1,288)** | 17,758 | 39,150 |
| | **Number of Shares** | Number of shares | Number of shares |
| Weighted average number of ordinary shares in issue (for basic earnings per share) | **68,072,877** | 67,993,955 | 68,019,437 |
| **Potential dilutive ordinary shares**: | | | |
| Long-term incentive plan | **-** | 305,559 | - |
| Deferred share bonus | **147,156** | 91,893 | 239,049 |
| **Diluted basis** | **68,220,033** | 68,391,407 | 68,258,486 |

## 5. Related party transactions

During the period, the company subscribed £991,000 for additional share capital in PayByPhone Mobile Technologies Inc., £320,000 for additional share capital in PayByPhone Limited, £110,000 for additional share capital in Adaptis Solutions Limited and £550,000 for additional share capital in Metacharge Limited.

The total amount of the loan from the company to Drop and Collect Limited outstanding was £5,400,000 (31 March 2015: £5,400,000). This has been treated as part of the investment in the joint venture.

During the period, the deferred share bonus scheme vested and the obligations were settled in cash and shares, the long term incentive scheme did not vest.

## 6. Dividend

The interim dividend of 14.2p (2014: 12.4p) was declared on 26 November 2015 and, accordingly, has not been recorded as a liability at 30 September 2015. The total dividend in respect of the year ended 31 March 2015 was 38.5p per share. The final dividend (26.1p per share) for the year ended 31 March 2015 totalling £17.8m was paid during the period.

## 7. Cash and cash equivalents

Included within cash and cash equivalents is £11.5 million (September 2014: £3.8 million, March 2015: £3.8 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.

Client settlement funds in the UK and Ireland are not shown in the balance sheet as the funds are held in trust for clients. In Romania, all client settlement funds are held in bank accounts owned by PayPoint Romania and this cash, which at 30 September 2015 amounted to £7.5 million (September 2014 £7.2 million, 31 March 2015 £10.1 million) is included in the balance sheet.

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 2015, the group’s cash was £46.1 million (31 March 2015: £43.9 million), excluding £2.0 m in assets held for sale (31 March 2015: £3.3m).

## 8. Assets held for sale

The major classes of assets and liabilities comprising the operations classified as held for resale are as follows:

| | **Unaudited 30 September 2015 £000** | Audited 31 March 2015 £000 |
|---|---|---|
| **Assets held for sale:** | | |
| Goodwill | 29,704 | 49,321 |
| Other intangible assets | 3,769 | 3,449 |
| Property plant and equipment | 694 | 733 |
| Deferred tax asset | 62 | 14 |
| Trade and other receivables | 3,030 | 2,264 |
| Cash and cash equivalents | 1,977 | 3,285 |
| | **39,236** | **59,066** |
| **Liabilities directly associated with assets classified as held for sale:** | | |
| Trade and other payables | 3,580 | 4,030 |
| Current tax liabilities | - | 220 |
| | **3,580** | **4,250** |
| **Net assets held for sale** | **35,656** | **54,816** |
| **Translation reserve (deficit) relating to the Mobile business** | **(3,130)** | **(2,094)** |

The assets held for sale are those of the Mobile and Online Payments businesses, including their related goodwill.

As a consequence of the continuing investment and longer term payback required for these parking and online payments businesses to reach their undoubtedly considerable potential, the board announced at the time of last year end results it had decided to realise their value.

Advisors for the sale were appointed before the end of the year and an active programme was started to market the sale and identify an appropriate buyer.

The sale will be of separate legal entities within the group, with no material separation issues expected.

We have made substantial progress with the sale of Mobile, which we expect to complete before the end of the current financial year. Offers made for the Online Payments business are disappointing but reflect the potential buyer's uncertainty of the business' success with new products which are at an early stage of their lifecycle. In view of the uncertainty of the eventual outcome, management have recorded an impairment of all the goodwill in the Online Payments business of £18.2m.

## 9. Share capital and reserve

| | **6 months ended 30 September 2015 £000** | 6 months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| **Authorised share capital** | | | |
| 4,365,352,200 ordinary shares of 1/3p each | **14,551** | 14,551 | 14,551 |
| **Called up, allotted and fully paid share capital** | | | |
| 68,045,059 ordinary shares of 1/3p each | **227** | 226 | 227 |
| **Share premium** | | | |
| At start of period | **1,977** | 408 | 408 |
| Arising on issue of shares | **388** | 1,570 | 1,569 |
| At end of period | **2,365** | 1,978 | 1,977 |
| **Share based payment reserve** | | | |
| At start of period | **3,926** | 3,682 | 3,682 |
| Additions in period | **814** | 749 | 1,570 |
| Released in period | **(1,633)** | (1,326) | (1,326) |
| At end of period | **3,107** | 3,105 | 3,926 |
| **Translation reserve** | | | |
| At start of period | **(4,006)** | (2,613) | (2,613) |
| Movement in the period | **(865)** | (247) | (1,393) |
| At end of period | **(4,871)** | (2,860) | (4,006) |
| **Retained earnings** | | | |
| At start of period | **113,348** | 101,995 | 101,995 |
| (Loss)/profit for the period | **(1,286)** | 17,753 | 39,147 |
| Non-controlling interest loss for period included in above | **(2)** | 5 | 3 |
| Dividends paid | **(17,768)** | (16,259) | (24,696) |
| Adjustment on share scheme vesting | **668** | (2,405) | (2,457) |
| Deferred tax | **-** | (297) | (644) |
| At end of period | **94,960** | 100,792 | 113,348 |

## 10. Notes to the cash flow statement

| | **6 months ended 30 September 2015 £000** | 6 months ended 30 September 2014 £000 | Year ended 31 March 2015 £000 |
|---|---|---|---|
| Profit before tax | **3,155** | 22,472 | 49,561 |
| Adjustments for: | | | |
| Depreciation on property, plant and equipment | **2,282** | 2,623 | 5,383 |
| Impairment of goodwill within assets held for resale | **18,207** | - | - |
| Amortisation of intangible assets | **618** | 407 | 1,147 |
| Share of loss/(profit) in joint venture | **398** | (244) | (1,317) |
| Profit on sale of fixed assets | **11** | - | 7 |
| Net interest income | **(40)** | (32) | (56) |
| Share based payment charge | **814** | 749 | 1,570 |
| **Operating cash flows before movements in working capital** | **25,445** | 25,975 | 56,295 |
| Decrease/(increase) in inventories | **139** | 10 | (25) |
| (Increase)/decrease in receivables | **(1,408)** | 422 | (971) |
| Increase/(decrease) in payables | | | |
| - client cash | **7,751** | (2,234) | (2,687) |
| - other payables | **(2,494)** | (7,124) | 995 |
| **Cash generated by operations** | **29,433** | 17,049 | 53,607 |
| Corporation tax paid | **(4,921)** | (5,039) | (8,614) |
| Interest and bank charges paid | **(24)** | (60) | (97) |
| **Net cash from operating activities** | **24,488** | 11,950 | 44,896 |

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

## RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

(a) the condensed set of 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.

Nick Wiles
**Chairman**

Dominic Taylor
**Chief Executive**

26 November 2015

# RISKS AND UNCERTAINTIES

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 crystallisation of some or all of such risks.

| Risk area | Potential impact | Mitigation strategies |
|---|---|---|
| **Loss or inappropriate usage of data** | The group's business requires the appropriate and secure use of consumer and other sensitive information. Mobile telephone and internet-based electronic commerce requires the secure transmission of confidential information over public networks, and several of our products are accessed through the internet. Fraudulent activity 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 rigorous cyber and information security, anti-fraud and whistleblowing standards, procedures, and recruitment and training schemes, which are embedded throughout its business operations. The group also screens new employees carefully. Continued investments are made in IT security infrastructure, including the significant use of data and communications encryption technology. |
| **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. |
| **Exposure to legislation or regulatory reforms and risk of non-compliance** | The group is largely unregulated by financial services regulators although in the UK we have Payment Institution status for prefunded cash payments to consumers and to allow the online payments business to act as a master merchant for SME online merchants. The group's agents which offer money transfer are licensed as Money Service Businesses by HMRC. Our Mobile and Online business is 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. |
| **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. |
| **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 ongoing across all business areas, as well as personal and career development initiatives. The executive management reviews talent potential at quarterly meetings. Compensation and benefits programmes are competitive and also reviewed regularly. |

| Risk area | Potential impact | Mitigation strategies |
|---|---|---|
| **Technology change may render products obsolete** | There are rapid changes in technology in the payments industry including the development of new payment methods, particularly on smart phones and tablets, but also as a consequence of technology changes in other areas e.g. smart meters, which will replace the use of the energy keys and gas cards currently used to pay for prepaid energy. Such changes may render current products and services obsolete. | 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, a multi-channel product is under development. |
| **Exposure to 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. |
| **Exposure to country and regional risk (political, financial, economic, social) in North America, United Kingdom, Romania, France and Ireland** | The group's geographic footprint subjects its businesses to economic, political and other risks associated with international sales and operations. A variety of factors, including changes in a specific country's or region's political, economic or regulatory requirements, as well as the potential for geopolitical turmoil, including terrorism and war, could result in loss of services, prevent our ability to respond to agreed service levels or fulfil other obligations. These risks are generally outside the control of the group. | The group's portfolio is diversified by geography, by product, by sector and by client in order to protect itself against many of these fluctuations, especially those that are restricted to individual territories and market sectors, although the bulk of its operations and revenues are UK based. |
| **Exposure to 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. | No single client accounts for more than 6% of the group's net revenue, and no single retailer accounts for more than 4% of the group's net revenue, which reduces the probability of this potential risk having a significant impact on the group's business. In addition, the group continues to expand in its developing businesses, and in CashOut (reversing the flow of money through its retail networks). |
| **Acquisitions, strategic alliances and joint ventures may not meet expectations** | The group's acquisitions, strategic alliances and joint ventures may result in financial outcomes that are different than expected. The group is currently engaged in the sale of its mobile and online businesses. The sale may result in a loss. The failure to sell may result in continuing operating losses. | The group assesses all acquisitions and joint ventures rigorously, using both in-house experts and professional advisers. In addition, the group conducts regular reviews to monitor performance. |
| **Exposure to the unpredictability of financial markets (foreign exchange, interest rate and other financial risks)** | As the group operates on an international basis, 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. |
| **Exposure to increasing competition** | The group operates in a number of geographic, product and service markets that are highly competitive and subject to technological developments for example the introduction of smart meters and new payment solutions. 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. |
| **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 vigorously defends all third party infringement claims. |
| **Data centre security breaches** | The group is highly dependent on information technology networks and systems to process, transmit and store electronic information. Fraudulent or unauthorised access, including security breaches of our data centres, could create system disruptions, shutdowns or unauthorised disclosure of confidential information. | The group's data centres are protected against physical break-ins. The group has strict standards and procedures for security and fraud prevention. |

**INDEPENDENT REVIEW REPORT TO PAYPOINT PLC**

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 2015 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 related notes 1 to 10. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company 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. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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 formed.

**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 Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as adopted by the European Union.

**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.

**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 United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) 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.

**Conclusion**

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 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

**Deloitte LLP**
Chartered Accountants and Statutory Auditor
London, United Kingdom
26 November 2015

# DIRECTORS & KEY CONTACTS

| | |
|---|---|
| **Directors** | Dominic Taylor (Chief Executive)<br>George Earle (Group Finance Director)<br>Tim Watkin-Rees (Business Development Director)<br>Gillian Barr*<br>Neil Carson*<br>Giles Kerr*<br>David Morrison*<br>Stephen Rowley*<br>Nick Wiles * (Chairman)<br><br>* non-executive directors |
| **Registered office** | 1 The Boulevard<br>Shire Park<br>Welwyn Garden City<br>Hertfordshire<br>AL7 1EL<br>United Kingdom<br>Registered in England and Wales number 3581541 |
| **Registrars** | Capita Registrars<br>The Registry<br>34 Beckenham Road<br>Beckenham<br>Kent<br>BR3 4TU<br>United Kingdom |
| **Press and investor relations enquiries** | Finsbury<br>Tenter House<br>45 Moorfields<br>London<br>EC2Y 9AE<br>United Kingdom |

# ABOUT PAYPOINT

PayPoint is an international leader in payment technologies, its solutions transforming payments for everyone from consumer and financial services companies to retailers, utilities, media, e-commerce, gaming and government clients.

PayPoint delivers payments and services by taking the complexity of multi-channel payments and translating it into convenient, simple, value-added solutions. It handles almost £15 billion from over 785 million transactions annually for more than 6,000 clients and merchants.

With the backing of 24/7 operations centres with dual site processing, PayPoint is widely recognised for its leadership in payment systems, smart technology and service.

**Retail networks**

The PayPoint retail network across the UK numbers over 28,000 local shops (including Co-op, Spar, McColls, Costcutter, Sainsbury's Local, Tesco Express, One Stop, Asda, Londis and thousands of independents), where it processes energy meter pre-payments, bill payments, benefit payments, mobile phone top-ups, transport tickets, BBC TV licences, cash withdrawals and a range of other transactions. In Romania, the retail network numbers over 9,450 terminals in local shops, helping people to make cash bill payments, money transfers, road tax payments and mobile phone top-ups. In the Republic of Ireland, over 500 terminals in shops and credit unions process mobile top-ups and bill payments.

Collect+, a joint venture with Yodel, provides a parcel drop-off and pick-up service at 6,000 PayPoint retailers. PayPoint's ATM network numbers more than 4,000 'LINK' branded machines across the UK, and 10,000 PayPoint terminals enable retailers to accept credit and debit cards.

**Mobile and Online**

PayPoint Mobile and Online (formerly trading as PayPoint.net, PayByPhone and Adaptis) handles over 139 million payments for parking, payments and consumer services. In major cities in the UK, Canada, USA, France, Switzerland and Australia, its parking solutions make it easy for people to pay for parking by mobile, as well as providing electronic parking permits, automatic number plate recognition systems for car parks and penalty charge notices.

PayPoint's core online payments platform is linked to 16 major acquiring banks in the UK, Europe and North America, delivering secure credit and debit card payments for almost 5,000 online merchants. Its suite of products ranges from transaction gateway to a bureau service, in addition to value-added services such as FraudGuard, an advanced service that mitigates the risk of fraud in card not present transactions.

***Enquiries***

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*Dominic Taylor, Chief Executive*
*George Earle, Group Finance Director*

***Finsbury*** *(telephone: 0207 2513 801)*
*Rollo Head*
*Charlotte Whitley*

*A presentation for analysts is being held at 11.45am today (26 November 2015) at Finsbury Group, Tenter House, 45 Moorfields London EC2Y 9AE*

*This announcement is available on the PayPoint plc website: www.paypoint.com*