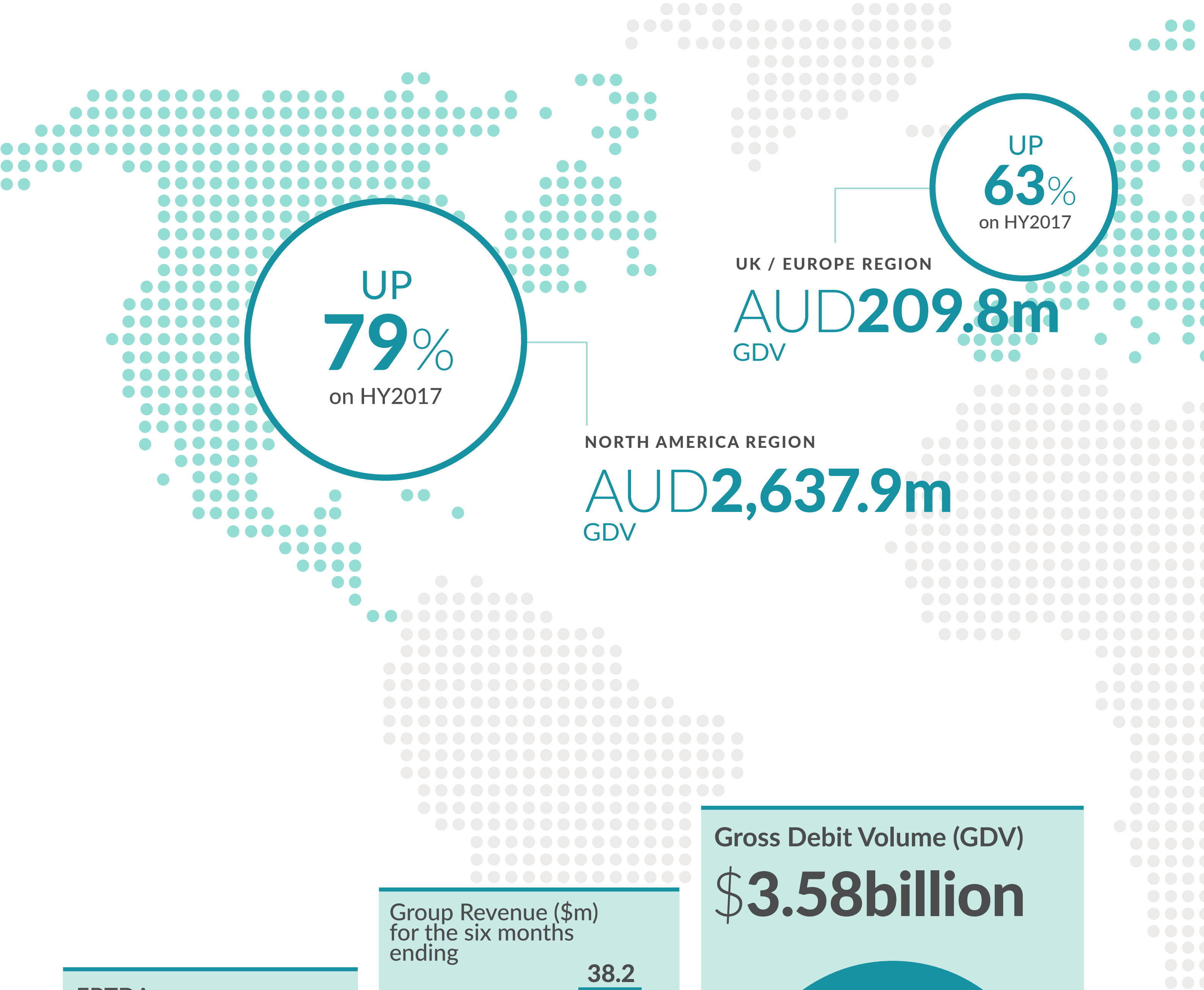
2018 Interim Report

EML
empowering your payments

MORE › REACH TRANSPARENCY FLEXIBILITY

MORE 〉OPPORTUNITY ON A GLOBAL SCALE

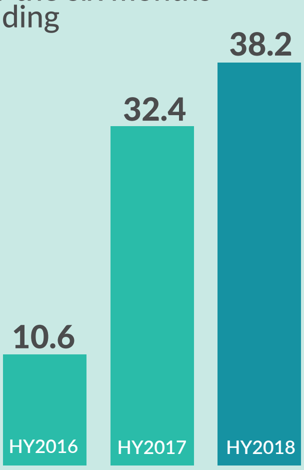


EBTDA

$13.5m

UP **35%**

Group Revenue ($m) for the six months ending



Gross Debit Volume (GDV)

$3.58billion

UP **86%**

EML
empowering your payments

At EML we value:

INNOVATION & EMBRACE CHANGE

We are fast paced.

We are innovative.

We are the opposite of boring... and we love it!

UP
125%
on HY2016

AUSTRALIA / ASIAPAC REGION

AUD735.6m
GDV

We are currently managing

APPROXIMATELY
1,100
CARD PROGRAMS

IN

19
COUNTRIES

EML
empowering your payments

Contents

Director's Report

The first six months of the 2018 financial year has seen EML continue to execute our strategy of growing our Reloadable & B2B Virtual Payments segments. New programs launched late last year continue to grow strongly in all regions and had a meaningful impact on our results in this financial period. As the base volumes on these programs establishes alongside new programs planned for launch later this year or early next financial year, our strategy of transforming EML through geographic and product diversification will continue to be realised.

Bob Browning will be retiring from the Board on 20 February and I would like to thank Bob for his contribution to the Company over the past several years in a variety of roles including CEO, non-executive Chairman and more recently as a non-executive director. We wish Bob all the best and it has been a pleasure working with him.

We are pleased to welcome Dr. Kirstin Ferguson and Melanie Wilson to the EML Board in February 2018. These two appointments enhance the Boards' diversity and bring significant experience in areas such as People & Performance and Marketing in particular. These appointments position EML for continuing rapid growth in the global payments industry.

Directors

The names of the Directors of the Company during or since the end of the half-year are:

> Peter Martin (Chairman)
> Robert Browning (resigned 20 February 2018)
> Tony Adcock
> Thomas Cregan
> David Liddy AM
> Dr Kirstin Ferguson (appointed 14 February 2018)
> Melanie Wilson (appointed 14 February 2018)

On 22nd December 2017, Louise Bolger resigned as Company Secretary. Erlyn Dale & Winton Willesee have been appointed as Joint Company Secretaries effective from 22 December 2017.

Review of operations

The first six months of the new financial year delivered another record EBTDA of $13.5 million, up 35% on the same period last year. The nature of our business and industry is that new business takes significant time to win, complete development and then launch. Much of the timing is outside our direct control but our geographic & product diversification assists in managing this. Following the stellar growth from our North American business in

FY17, the Australian business has been the growth engine in this period. Following the launch of an innovative solution for the Salary Packaging industry on 1 July 2017, GDV has increased by over $400m and Gross Profit by 78%.

Highlights of the six months under review were as follows:

> Continued financial growth with profitability as measured by EBTDA increasing 35% to $13.5 million. Funds loaded on our products (GDV) increased by 86% to $3.58 billion;

> EML's Balance Sheet also continued to strengthen with Shareholder Funds of $125.9m of which $54.0m is cash and breakage accrual (66% of breakage accrual will convert to cash in the near term);

> As expected, cash flow from operating activities in the first six months was a timing challenge due to a large build up in payables at the end of the last financial year. Operating cash outflow of $3.4 million reflects payment of breakage share owed to our partners (received into cash in late FY17) and one-off costs associated with establishing our Australian salary packaging vertical. Excluding these one off items, operating cash inflow would have been approx. $8.0 million for the period;

> Established our innovative & market leading product for the Salary Packaging vertical in Australia, including a loyalty offering servicing more than 116,000 benefit accounts;

> Made significant progress on developing new mobile based products utilising Pays technology which will be in market within this financial year ; and,

> Continued progress in signing new Reloadable programs in Europe focused on our gaming vertical and new B2B Virtual programs in the US market.

EML is taking advantage of the opportunities that are emerging to create scale and capability worldwide. Following the end of the period under review, on 1 February 2018, we acquired Presend Nordic AB ('Presend') a leading provider of Non-Reloadable solutions for shopping malls and city/town programs in Europe, principally in the Nordic and Baltic region. The acquisition of Presend expands the geographic reach of our European business and we expect to realise synergies from insourcing functions such as issuing and transaction processing.

Auditor Independence

The auditors independence declaration is included on page 13 of the half-year report.

Peter Martin

Peter Martin
Non-executive Chairman

20 February 2018

$13.5m
EBTDA **up 35%**

› All regional business units improved EBTDA on a constant currency basis

$38.2m
Revenue **up 18%**

› 77% of revenues generated offshore and 91% are recurring

$3.58b
TOTAL GDV **up 86%**

› Gross Debit Volume of $714m in December, the first time this milestone had been achieved

At EML we value:

TAKING BRAVE STEPS

We empower ourselves and others to succeed and grow.

UK/Europe Operations

In December 2014, EML purchased the European business, which at that time specialised in Non-Reloadable Gift cards for shopping malls. We have diversified with retail gift cards for direct deals including Pandora and distribution partners including Epipoli and Blackhawk. We have launched our first winnings card with bet365 and continue to invest substantial effort in our Reloadable products which offer significant growth potential.

Our core Non-Reloadable mall business continues to perform well with new customers including Dundrum mall in Ireland. In addition, our non-mall business has grown with the launch of open-loop cards into the Auchan retail network in Italy (2200+ stores). We signed a letter of intent with ECE who operate over 90 malls in Germany. We hope to launch that before Christmas 2018 which will have a significant impact on our FY19 results.

In the Reloadable vertical, the GDV has begun to increase significantly as our initial gaming program with bet365 and our Italian fuel card program ramp up from their launches in 2017. While the time taken to expand our Reloadable vertical in Europe has been longer than we would have liked, in the period under review we signed new gaming programs with Fortuna, Betsson and BETDAQ. We expect these programs to launch in FY19 and like bet365, would have a significant impact on the GDV. We are working on a number of significant opportunities and we look forward to being able to update our shareholders once we have reached agreement with our clients.

Region sales segments

UK / Europe:
Total Gross Debit Volume (GBP 'M)

£122m

HY2018	**£122M**
HY2017	£76M

GROSS DEBIT VOLUME

$209.8m

up 63% on HY2017

› In local currency, revenue is up 62% on the prior corresponding period.

STORED VALUE

$116.0m

up 32% on HY2017

REVENUE

$8.2m

up 23% on HY2017

› In local currency, revenue is up 22% on the prior corresponding period.

GROSS PROFIT

$6.8m

up 18% on HY2017

› In local currency, gross profit is up 17% on the prior corresponding period.

Australia Operations

In 2011 EML purchased the Australian business, which at that time specialised in Non-Reloadable Gift cards, since then the business has diversified across both product and client verticals. The current product suite includes Non-Reloadable, Reloadable, Virtual cards and the Cash Top Up loading system.

AUSTRALIA:
Total Gross Debit Volume (AUD$M)

$736m

HY2018	**$735.6M**
HY2017	$327.7M

The successful launch of a new Salary Packaging vertical in 2017 has been transformational for the Australian operations with over 116,000 benefit accounts and approximately $0.4 billion of Gross Debit Volume in the six months to 31 December.

The Australian business has a well established Reloadable segment outside of Salary Packaging, in particular for the established Gaming vertical which continues to provide strong organic growth with Gross Debit Volume up 33% on HY2017.

Our Non-Reloadable business performed above expectations in the six months with Gross Debit Volume up 6% on HY2017.

Region sales segments

GROSS DEBIT VOLUME

$735.6m

up 125% on HY2017

STORED VALUE

$103.6m

up 85% on HY2017

REVENUE

$8.8m

up 75% on HY2017

GROSS PROFIT

$6.4m

up 78% on HY2017

North America Operations

In June 2016 EML purchased the North America business, which at that time was providing gift card solutions to shopping malls and providing processing only services for B2B Virtual Payments. In the full financial year that EML has owned the business, we have expanded our offerings to include Reloadable products and program managing B2B Virtual Payment offerings.

North America:
Total Gross Debit Volume (USD$M)

$2,054m

HY2018	$2,054.9M
HY2017	$1,101.3M

The North American business launched its initial Reloadable program in February this calendar year and from this single client we experienced GDV of over A$1bn in the 6 months to December 2017. We don't expect continued growth at this level indefinitely and our strategy is to expand our Reloadable offering across the region into different verticals and solutions.

In the B2B vertical we have signed agreements with a number of operators during the period and we expect the financial contributions will become meaningful in FY19 once the programs have had time to ramp up. Like our experiences in Australia and Europe, we expect it to take time but the opportunities are significant and the new business we have signed in FY18 will have a material impact on FY19.

Region sales segments

GROSS DEBIT VOLUME

$2,637.9m

up 79% on HY2017

- In local currency, gross debit volume is up 87% on the prior corresponding period.

STORED VALUE

$294.9m

up 19% on HY2017

REVENUE

$21.3m

up 2% on HY2017

- In local currency, revenue is up 7% on the prior corresponding period.

GROSS PROFIT

$15.5m

down 4% on HY2017

- In local currency, gross profit is up 1% on the prior corresponding period.

Performance Overview

($ Millions)	HY 2018	Growth	HY 2017
Gross Debit Volume			
Reloadable	1840.28	575%	272.56
Non-Reloadable	467.08	7%	438.01
B2B Virtual Payments	1,275.92	5%	1,219.50
Gross Debit Volume	**3,583.29**	86%	1,930.24
Revenue	**38.24**	**18%**	**32.44**
Gross Profit	**28.71**	**13%**	**25.43**
Gross Profit %	75%	(3%)	78%
Research and Development tax offset	0.61	-	0.61
Overheads – employment related	(10.72)	2%	(10.54)
Overheads – other	(5.12)	(8%)	(5.54)
EBTDA*	**13.48**	**35%**	**9.96**
Less			
Research and Development tax offset included above	(0.61)	-	(0.61)
Depreciation and amortisation expense	(4.19)	(17%)	(5.06)
Share-based payments	(2.74)	6%	(2.58)
Other non-cash items	(0.15)	(2167%)	0.01
Profit for the year before tax	**5.79**	**235%**	**1.73**
Tax (including Research and Development tax offset)	(3.76)	974%	(0.35)
Net Profit for the year	**2.03**	**47%**	**1.38**

* EBTDA is reconciled above and disclosed within the Directors' Report and is equivalent to the net profit/(loss) for the period including R&D tax offset and excluding share-based payments, depreciation and amortisation expense and non-cash unrealised foreign exchange included within the Statement of Profit or Loss and Other Comprehensive Income. The analysis of results below is primarily based on EBTDA so as to align the information that is given to users of financial reports to the way the Directors view the business and to assist better understanding of the Group's performance. The Directors believe that EBTDA is the most appropriate measure of maintainable earnings of the Group and therefore best reflects the core drivers and ongoing influences upon those earnings. The Directors also link the Group CEO and Senior Executives' short and long term incentives to EBTDA as detailed in the remuneration report.

Performance Overview

The key drivers for the movement in the net profit for the year were:

> Revenue increased by 18% to $38.2M for the six months ended 31 December 2017. Gross Debit Volume converted to revenue at approximately 107 bps, in line with expectations.

> Results are a like for like comparison reflecting ownership of all business units in the period under review and the comparative.

> Gross profit on revenue was generated at 75% in line with the full year results for the prior period. It is a decline from the period ending 31 December 2016 at 78% primarily due to the inclusion of the new Reloadable vertical in North America and Salary Packaging programs in Australia which are material contributors but at gross margins slightly less than the group average.

> Employment related overhead expenses was $10.7M (2017: $10.5M) in line with the prior period. At the end of December the Group had 179 staff members compared to 168 in the comparative supporting GDV growth of 86%.

> Other overhead expenses have decreased slightly to $5.1M due to cost saving initiatives and one off office move costs in the prior year in North America.

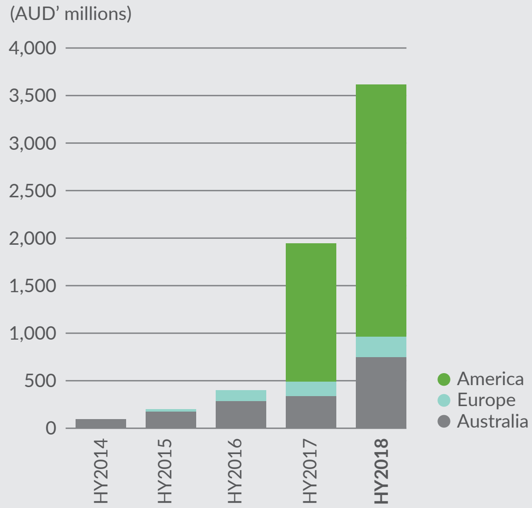
> The refund from the R&D Tax Concession program has been included in the EBTDA measure as this is a refund of expenditure previously incurred, predominantly as internal employment costs, on qualifying research and development activities that the Group undertakes to ensure we are able to continue offering innovative market leading products. The Group continues to initiate new projects which will generate returns in future periods.

> Depreciation and amortisation expense has decreased by $0.9M to $4.2M in the current period. Of the total $4.2M expense, only $0.8M related to maintenance capital expenditure and $3.4M related to amortisation on assets resulting from the "purchase price allocation" of our previous business acquisitions the Group has made in acquiring the European business (December 2014), North American business (June 2016) and the Australian business (July 2011).

> Share based payments expense is in line with the prior period and primarily relates to the amortisation of the performance options awarded to the management of the North America business as part of the initial acquisition agreement. A total of 6.2M options were granted and will vest by FY2019 conditional on continuous employment and the North America business achieving certain EBTDA targets.

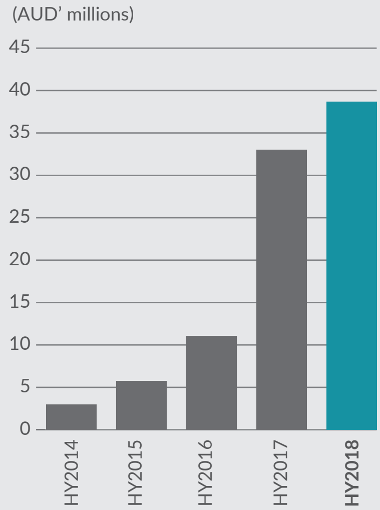
Total Gross Debit Volume HY2018

$3.58billion



Revenue HY2018

$38.2million



Performance Overview

> The breakage accrual of $19.3M represents the residual portion of funds on Non-Reloadable accounts that the Group has previously sold and expects to convert to cash.

> Receivable from financial institutions and the offsetting amount reflected in liabilities to cardholders relates to a number of payment programs that are issued directly by our European & Australian operations, with the terms of the funding onto the accounts determined between ourselves and the clients, as opposed to a Bank or Authorised Deposit taking Institution.

> A significant proportion of our deferred tax asset reflects the fact that the Company expects to be generating taxable income in Australia in the near future and consequently, under the accounting standards, has recognised it's carried forward tax losses.

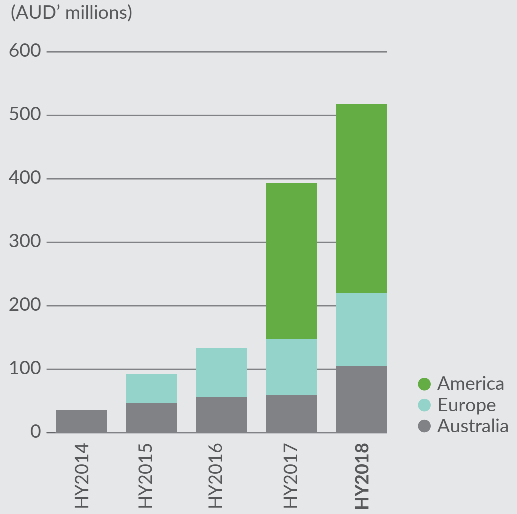
> Our deferred tax asset & liability balances also include deductible temporary differences for certain items including intangibles & share based payments in the United States. On 22 December 2017, the United States signed into law the Tax Cuts and Jobs Act ('The Act'). One impact of The Act is to reduce the federal corporate income tax rate from 35% to 21%. This will benefit the Group in future years as a substantial proportion of the Group results are generated in the United States but has an immediately detrimental impact to our net deferred tax position in this period. As a result of the new tax rate becoming substantially enacted, the Group has recognised a deferred tax expense of $1.0M in the period.

> Cash outflows from operating activities totalled $3.4M due to the Group generating EBTDA of $13.5M offset by a reduction in short term payables following a receipt of breakage we banked at the end of the FY17 year but had not paid our partners share. We also incurred cash outflows in relation to the establishment of our Australian Salary Packaging vertical.

> Cash outflows from investing activities were predominantly investment in software development in connection with our Reloadable and B2B Virtual programs in Europe and North America.

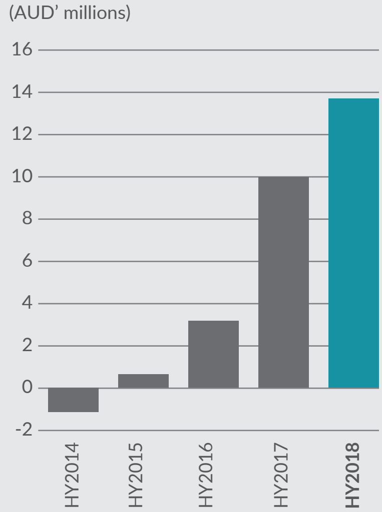
Stored Value HY2018

$514.5million



EBTDA HY2018

$13.5million



Overview

Operating Review

Signed Reports

Financial Statements

Directors' Declaration

In the opinion of the Directors of EML Payments Limited (the "Company"):

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to section 303(5) of the *Corporations Act 2001*.

Peter Martin
Chairman

Sydney, 20 February 2018

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
EML Payments Limited
26 Commercial Road
NEWSTEAD QLD 4006

20 Feburary 2018

Dear Board Members

EML Payments Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of EML Payments Limited.

As lead audit partner for the review of the financial statements of EML Payments Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Rodgers
Partner
Chartered Accountants

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Review Report to the members of EML Payments Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of EML Payments Limited, which comprises the condensed statement of financial position as at 31 December 2017, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the group and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 16 to 36.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of EML Payments Limited, ASRE 2410 requires that we comply with the ethical requirements that are relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, 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 Australian Auditing Standards 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.

Independent Auditor's Report

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of EML Payments Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of EML Payments Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

David Rodgers
Partner
Chartered Accountants
Brisbane, 20 February 2018

FINANCIAL STATEMENTS

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Incomes

For the half year ended 31 December 2017

	Notes	Consolidated 31 December 2017 $'000	Consolidated 31 December 2016 $'000
Revenue	A1, A2	38,241	32,440
Cost of sales		(9,532)	(7,007)
Gross Profit	A2	**28,709**	**25,433**
Expenses			
Employee benefits expense		(10,716)	(10,540)
Professional fees		(966)	(1,670)
Share-based payments		(2,740)	(2,576)
Depreciation and amortisation expense		(4,192)	(5,057)
Other expenses	A1	(4,300)	(3,858)
Total expenses		**(22,914)**	**(23,701)**
Profit before income tax		5,795	1,732
Income tax (expense) / benefit	A3	(3,760)	(348)
Net profit for the year		**2,035**	**1,384**
Other comprehensive income, net of income tax			
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		587	(2,120)
Other comprehensive income for the year, net of income tax		**587**	**(2,120)**
Total comprehensive profit / (loss) for the year		**2,622**	**(736)**
Profit / (Loss) per share (cents per share)			
Basic (cents per share)		0.83	0.57
Diluted (cents per share)		0.80	0.55

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

For the half year ended 31 December 2017

	Notes	Consolidated 31 December 2017 $'000	Consolidated 30 June 2017 $'000
Current Assets			
Cash and cash equivalents		34,697	39,872
Breakage accrual	B1	12,757	10,272
Other receivables		8,726	6,310
Receivable from financial institutions		97,374	37,574
Current tax asset		-	207
Other current assets		3,116	2,645
Total Current Assets		**156,670**	**96,880**
Non-Current Assets			
Breakage accrual	B1	6,583	3,054
Other receivables		689	738
Available-for-sale financial assets	C2	4,940	5,022
Plant and equipment		2,593	2,844
Intangibles	D1	58,657	60,132
Deferred tax asset	A3	18,248	18,834
Total Non-Current Assets		**91,710**	**90,624**
Total Assets		**248,380**	**187,504**
Current Liabilities			
Trade and other payables		16,895	23,759
Employee benefits		544	533
Current tax payable		1,129	17
Provisions		1,117	887
Liabilities to stored value account holders		97,374	37,574
Total Current Liabilities		**117,059**	**62,770**
Non-Current Liabilities			
Lease incentive		176	204
Deferred income		165	361
Deferred tax liabilities	A3	4,926	3,475
Employee benefits		119	113
Total Non-Current Liabilities		**5,386**	**4,153**
Total Liabilities		**122,445**	**66,923**
Net Assets		**125,935**	**120,581**
Equity			
Issued capital	E1	137,876	137,981
Reserves		15,294	11,870
Accumulated losses		(27,235)	(29,270)
Total Equity		**125,935**	**120,581**

The accompanying notes form part of these financial statements.

Condensed Consolidated Statement of Cash Flows

For the half year ended 31 December 2017

	Notes	Consolidated 31 December 2017 $'000	Consolidated 31 December 2016 $'000
Cash Flows from Operating Activities			
Receipts from customers		28,389	24,653
Payments to suppliers and employees		(32,872)	(15,819)
Acquisition – related expenses		(190)	-
Interest received		1,312	806
Net cash generated by operating activities		**(3,361)**	**9,640**
Cash Flows from Investing Activities			
Payments for plant and equipment		(210)	(1,356)
Payments for intangibles	D1	(1,625)	(179)
Payment for available for sale financial assets		-	(3,353)
Net cash used in investing activities		**(1,835)**	**(4,888)**
Cash Flows From Financing Activities			
Proceeds from issue of shares	E1	26	204
Net cash provided from financing activities		**26**	**204**
Net increase / (decrease) in cash held		(5,170)	4,955
Cash at beginning of year		39,872	26,943
Impacts of foreign exchange		(6)	(87)
Cash at end of year		**34,697**	**31,811**

The accompanying notes form part of these financial statements.

Condensed Consolidated Statement of Changes in Equity

For the half year ended 31 December 2017

	Notes	Issued Capital $'000	Accumulated Losses $'000	Other Reserve $'000	Foreign Currency Translation Reserve $'000	Total $'000
Balance at 1 July 2017		**137,981**	**(29,270)**	**19,035**	**(7,165)**	**120,581**
Total comprehensive income						
- Profit for the period		-	2,035	-	-	2,035
Other comprehensive income						
Unrealised foreign currency gain, net of tax		-	-	-	588	588
Transactions recorded directly in equity						
- Share-based payments		-	-	2,836	-	2,836
- Issue of share capital	E1	26	-	-	-	26
- Issue costs		(131)	-	-	-	(131)
Balance at 31 December 2017		**137,876**	**(27,235)**	**21,871**	**(6,577)**	**125,935**
Balance at 1 July 2016		138,043	(29,279)	12,757	(2,314)	119,206
Total comprehensive income						
- Profit for the period		-	1,384	-	-	1,384
Other comprehensive income						
Unrealised foreign currency (loss), net of tax		-	-	-	(2,120)	(2,120)
Transactions recorded directly in equity						
- Share-based payments		-	-	3,597	-	3,597
- Issue of share capital		204	-	-	-	204
- Issue costs		(133)	-	-	-	(133)
Balance at 31 December 2016		**138,114**	**(27,895)**	**16,354**	**(4,434)**	**122,138**

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

A1 REVENUE AND OTHER EXPENSES

The following revenue and expense items are relevant in explaining the financial performance for the period

	Consolidated	
	31 December 2017 $'000	31 December 2016 $'000
(a) Revenue includes		
Breakage income	15,979	19,166
Establishment income	3,477	3,358
Transaction fees	17,312	8,969
Interest income – host based stored value	1,116	549
Interest income – group funds	145	256
Service fees	212	142
	38,241	**32,440**
(b) Other expenses include		
Risk & Compliance	394	341
Fixed Sponsor Bank and Other Related Costs	285	253
Marketing & Advertising	222	248
Rent, Buildings & Office Management	835	826
Information Technology Related Costs	1,341	1,358
Travel & Accommodation	762	795
Foreign Exchange (Gain)/Loss	145	37
Acquisition Costs	190	-
Other	126	-
	4,300	**3,858**

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Key Assumption - Breakage income

We refer to the portion of the dollar value of prepaid-stored value accounts that account holders do not ultimately redeem as breakage. We include in breakage revenue all revenue generated from expected residual revenue.

Where we expect to be entitled to a breakage amount and can demonstrate the ability to reliably measure future revenue, we recognise revenue using an estimated residual percentage applied to the funds initially loaded on these applicable accounts each month.

The residual percentage is calculated using the historical data, market-specific trends, escheatment rules and existing economic conditions for each program. The calculated residual percentage is reviewed regularly in line with new commercial agreements and changes in cardholder behaviour.

If we are unable to reliably measure expected residual revenue, all forms of expired residual revenue are recognised on a cash basis.

A2 SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of EML Payments Limited.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on the geographic location of the business operations. The Group's reportable segments under AASB 8 are therefore as follows:

> Australia
> Europe
> Americas (U.S.A. & Canada)

Notes to the Financial Statements

Segment EBTDA represents the gross profit earned by each segment, after cash overheads, inclusive of R&D tax incentive and allocation of central administration costs and Directors' salaries, before share based payments, depreciation & amortisation and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review:

	Six months ended 31 December 2017				Six months ended 31 December 2016			
	Australia $'000	Europe $'000	Americas $'000	Total $'000	Australia $'000	Europe $'000	Americas $'000	Total $'000
Revenue	8,756	8,206	21,279	38,241	5,004	6,665	20,771	32,440
Gross Profit	6,422	6,769	15,518	28,709	3,608	5,718	16,107	25,433
Overheads	(4,435)	(2,594)	(8,808)	(15,837)	(3,771)	(1,978)	(10,326)	(16,075)
R&D Tax Incentive Offset	605	-	-	605	605	-	-	605
Segment EBTDA	**2,592**	**4,175**	**6,710**	**13,477**	**442**	**3,740**	**5,781**	**9,963**
Depreciation & Amortisation	(456)	(2,592)	(1,144)	(4,192)	(352)	(2,593)	(2,111)	(5,057)
Intergroup transfers	704	(1,873)	1,169	-	1,490	2,284	(3,774)	-
Add back:								
R&D Tax Incentive Offset	(605)	-	-	(605)	(605)	-	-	(605)
	1,153	361	7,166	8,680	975	3,430	(104)	4,302
Share based payments				(2,740)				(2,576)
Other non-cash charges				(145)				6
Profit / (Loss) before tax				**5,795**				**1,732**

The following is an analysis of the consolidated entity's assets by reportable operating segment:

	31 December 2017 $'000	30 June 2017 $'000
Australia	101,883	97,162
Europe	106,448	47,351
Americas	40,049	42,991
Total segment assets	**248,380**	**187,504**

Notes to the Financial Statements

A3 TAXATION

	Consolidated	
	31 December 2017 $'000	31 December 2016 $'000
(a) Recognised in the Statement of Profit or Loss and Other Comprehensive income		
Current income tax expense	1,580	(7)
Deferred tax expense relating to the origination and reversal of temporary differences	2,785	477
Refundable R & D tax offset	(605)	(605)
Adjustments for income tax of prior year	-	483
Total income tax expense	**3,760**	**348**
(b) Reconciliation between income tax expense and pre-tax profit/ (loss)		
Profit before income tax	5,795	1,731
Income tax expense using the domestic corporation tax rate of 30% (2017: 30%)	1,739	519
Tax effect of:		
Non-deductible expenses & permanent differences	1,333	(601)
Tax deduction in respect of contributions to employee share trust	(23)	-
Refundable R & D tax offset	(605)	(605)
Effect of differences in tax rates (1)	356	552
Change in tax rates (1)	960	-
Adjustments for income tax of prior year	-	483
Income tax expense	**3,760**	**348**

(1) United Kingdom corporate tax rate is 19%, Australian corporate tax rate is 30%, USA tax rate is 38.62% reducing to 24.62% from the financial year commencing 1 July 2018 and Canadian tax rate is 26.51%. The USA tax rate reduction was substantially enacted on 22 December and resulted in a writedown in the Group's deferred tax asset & liability balances.

(2) The Group is recognising a deferred tax asset arising from unused carried forward losses of the UK operating group following the recognition of an asset related to the Australian operating group in the prior year. The Group has assessed that sufficient future taxable profit will be available against which the unused tax losses will be able to applied. The deferred tax assets and liabilities are not offset due to arising in different tax jurisdictions.

	31 December 2017 $'000	30 June 2017 $'000
(c) Deferred Tax asset		
Employee Benefits	1,919	1,318
Share Capital Costs	563	694
Recognition of tax losses	12,718	11,810
Goodwill	2,147	3,688
Other	901	1,324
Deferred Tax Asset	**18,248**	**18,834**

Notes to the Financial Statements

	31 December 2017 $'000	30 June 2017 $'000
(d) Deferred Tax liability		
Customer Contracts	(453)	(602)
Customer Relationships	(22)	(134)
Accruals	(4,451)	(2,739)
Deferred Tax Liability	**(4,926)**	**(3,475)**

The deferred tax assets and liabilities are not offset due to arising in different tax jurisdictions.

The income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

Key Assumption - Recovery of deferred tax assets

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

B1 BREAKAGE ACCRUAL

	Consolidated	
	31 December 2017 $'000	30 June 2017 $'000
Current	12,757	10,272
Non-current	6,583	3,054
Breakage accrual	19,340	13,326

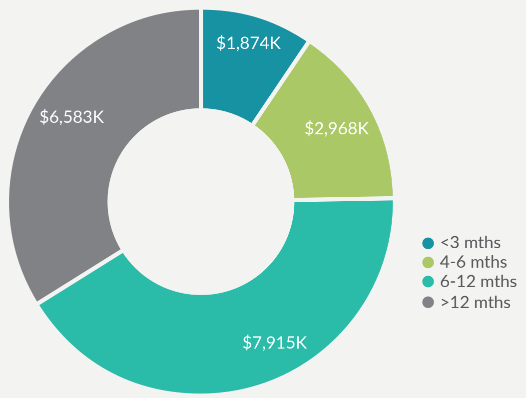
Notes to the Financial Statements

Where we expect to be entitled to a breakage amount and can demonstrate the ability to reliably measure future revenue, we recognise revenue using an estimated residual percentage applied to the funds initially loaded on these applicable accounts each month into revenue and consequently breakage accrual.

If we are unable to reliably measure expected residual revenue, all forms of expired residual revenue are recognised on a cash basis and no breakage accrual is recognised.

Breakage is predicted to convert to cash over the following periods:

Phasing of HY18 breakage accrual expected conversion to cash $'000



C1 FINANCIAL INSTRUMENTS

Overview

This note presents information about the Group's exposure to credit, liquidity and market risks, its objectives, policies and processes for measuring and managing risk, and the management of capital.

Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities. At the balance date there were no significant concentrations of credit risk.

Cash and cash equivalents

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

Trade and other receivables

The Group where necessary establishes an allowance for impairment that represents its estimate of incurred losses in respect of other receivables and investments. Management does not expect any counterparty to fail to meet its obligations.

Notes to the Financial Statements

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated	
	31 December 2017 $'000	30 June 2017 $'000
Cash and cash equivalents	34,697	39,872
Receivables from Financial Institutions	97,374	37,574
Bank Security deposits	223	244
Other receivables	8,726	6,310
Available-for-sale	4,940	5,022

Impairment Losses

None of the Group's other receivables are past due (2017: nil).

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Group does not have any external borrowings.

The following are the Group's contractual maturities of financial liabilities, including estimated interest payments:

	Carrying amount $'000	Contractual cash flows $'000	6 mths or less $'000	6-12 mths $'000	1-2 years $'000	2-5 years $'000
31 December 2017						
Non-interest bearing	16,895	16,895	16,895	-	-	-
Payables to stored value account holders	97,374	97,374	97,374	-	-	-
Total	114,269	114,269	114,269	-	-	-
30 June 2017						
Non-interest bearing	23,759	23,759	23,759	-	-	-
Payables to stored value account holders	37,574	37,574	37,574	-	-	-
Total	61,333	61,333	61,333	-	-	-

Notes to the Financial Statements

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

The Company manages currency risk by ensuring that the operating revenue and expenses are largely incurred in the same currency whilst intentionally seeking to generate earnings in currencies other than Australian dollars. It is the policy of the Group to enter into forward exchange contracts to cover specific material foreign currency exposures that will impact the Group's cash flow.

In the current period, the Group has designated certain forward exchange contracts as cash flow hedges with respect to hedging the risk of converting USD and GBP to and from AUD at a forward date.

The Group may have excess USD & GBP which are not deriving any interest revenue due to the low interest rate environment for USD & GBP deposits. To enhance the return, the Group may converted the foreign currency into AUD and invest in a term deposit. To hedge the exchange rate risk at maturity of converting the proceeds of the AUD term deposit back into the foreign currency, the Group fixes the AUD payable by entering into forward exchange contracts. These hedges are designated as cash flow hedges.

At 31 December 2017, no ineffectiveness has been recognised in profit or loss for outstanding forward exchange contracts (2017: none).

Foreign currency sensitivity

The sensitivity to the Group's Profit and Loss to a reasonably possible change in GBP and USD exchange rates, with all other variables held constant, is immaterial.

Interest Rate Risk

The Group is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The Company does not use derivatives to mitigate these exposures.

The Group adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in short term deposit at interest rates maturing over 90 day rolling periods.

Fair values versus carrying amounts

The Group's financial assets and liabilities are included in the balance sheet at amounts that approximate fair values. The basis for determining fair values is disclosed below. The fair value at 31 December 2017 of derivative assets held for risk management, which are the Group's only financial instruments carried at fair value, was a net gain of $107k (2017: gain $61k) which was recognised in other comprehensive income. These financial instruments were measured using Level 2 valuation techniques as defined in the fair value hierarchy shown below. The Group does not have any financial instruments that are categorised as Level 1 or Level 3 in the fair value hierarchy.

Capital Management

Capital is defined as the equity of the Group.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future working capital. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity to continue its operations. The Group monitors capital based on the gearing ratio, however there are no external borrowings as at balance date.

The Group encourages employees to be shareholders through Share Option Plans.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

The Group is not subject to externally imposed capital requirements.

Notes to the Financial Statements

C2 AVAILABLE-FOR-SALE ASSETS

Available-for-sale financial assets include the following assets:

	Consolidated	
	31 December 2017 $'000	30 June 2017 $'000
Investment in Contrarian Holdings, LLC	70	71
Investment in PayWith Worldwide, Inc.	4,870	4,951
	4,940	5,022

The Group holds 17% of the diluted ordinary share capital of PayWith Worldwide, Inc, a company offering mobile reward program technology.

The Group holds less than 1% of the ordinary share capital of Contrarian Holdings, LLC, a company that manages employee benefit activities, only in the USA.

The directors of the Company do not consider that the Group is able to exercise significant influence over either entity. Available-for-sale financial assets are held at fair value with gains and losses included in other comprehensive income. Financial assets that are not classified into any of the other categories (at FVPL, loans and receivables or held-to-maturity investments) are included in the Available-for-sale asset category.

D1 INTANGIBLES

	Consolidated				
	Software $'000	Customer Relationships & Trademarks $'000	Customer contracts $'000	Goodwill $'000	Total $'000
Balance at 1 July 2017					
At 1 July 2017, net of accumulated amortisation and impairment	16,902	6,304	3,107	33,820	60,132
Additions	1,603	22	-	-	1,625
Disposals	-	-	-	-	-
Amortisation charge for the year	(2,335)	(809)	(626)	-	(3,770)
Effect of unrealised foreign currency exchange differences	301	45	55	268	670
At 31 December 2017, net of accumulated amortisation and impairment	16,471	5,562	2,536	34,088	58,657
At 31 December 2017					
Cost or fair value	25,813	10,055	8,505	34,088	78,461
Accumulated amortisation and impairment	(9,342)	(4,493)	(5,969)	-	(19,804)
Net carrying amount	16,471	5,562	2,536	34,088	58,657

No impairment loss was recognised for continuing operations for the six months ended 31 December 2017 (2017: nil).

Notes to the Financial Statements

	Software $'000	Customer Relationships & Trademarks $'000	Customer contracts $'000	Goodwill $'000	Total $'000
	Consolidated				
Balance at 1 July 2016					
At 1 July 2016, net of accumulated amortisation and impairment	21,466	8,209	6,595	35,138	71,408
Additions	1,279	-	-	-	1,279
Disposals					
Amortisation charge for the year	(4,443)	(1,610)	(3,134)	-	(9,187)
Effect of unrealised foreign currency exchange differences	(1,400)	(295)	(354)	(1,318)	(3,367)
At 30 June 2017, net of accumulated amortisation and impairment	16,902	6,304	3,107	33,820	60,132
At 30 June 2017					
Cost or fair value	23,784	9,931	8,385	33,820	75,919
Accumulated amortisation and impairment	(6,882)	(3,627)	(5,278)	-	(15,787)
Net carrying amount	16,902	6,304	3,107	33,820	60,132

Goodwill and intangible assets are assessed for impairment at least annually or more frequently if events and circumstances dictate.

	Carrying amount of goodwill allocated to CGU	
	31 December 2017 $'000	30 June 2017 $'000
Australia	10,777	10,777
Europe	16,687	16,322
North America	6,624	6,721
Consolidated Group	34,088	33,820

E1 ISSUED CAPITAL

	Consolidated	
	31 December 2017 $'000	30 June 2017 $'000
246,909,774 fully paid ordinary shares (30 June 2017: 246,761,847)	137,876	137,981

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Notes to the Financial Statements

	31 December 2017		30 June 2017	
	No.	$'000	No.	$'000
Balance at start of the year	246,761,847	137,981	242,419,862	138,043
Issued for cash	-	-	-	-
Issued for consideration [1]	100,927	-	-	-
Share-based payments to directors & executives	-	-	349,745	-
Options exercised [2]	47,000	26	3,992,240	204
Costs associated with the issue of shares	-	(131)	-	(266)
Balance at end of the year	246,909,774	137,876	246,761,847	137,981

(1) Share-based payments:

(i) 100,927 fully paid ordinary shares were issued in consideration of services rendered. The fair value of the award was $166,530 and was fully amortised in the period.

(2) Options exercised, the following options on issue were exercised during the period and issued for shares:

(i) 47,000 ordinary shares following the exercise of 47,000 options expiring 18 November 2017, exercise price 56 cents per share.

	Consolidated	
Options over ordinary shares	31 December 2017 No.	30 June 2017 No.
Options on issue at beginning of year	13,865,665	16,534,121
Options issued during the period	-	2,196,314
Options exercised during the period	(47,000)	(3,992,240)
Options cancelled during the period	(292,188)	(872,530)
Options expired during the period	-	-
Options on issue at end of period	13,526,477	13,865,665

			Consolidated	
Date of Expiry	**Exercise Price**	**Options Series**	31 December 2017 No.	30 June 2017 No.
18 November 2017	$0.56	Series 11	-	47,000
30 June 2018	-	Series 12	481,666	481,666
30 September 2018	$0.87	Series 13	125,000	125,000
30 September 2018	$0.87	Series 14	3,034,374	3,226,562
15 June 2018	-	Series 15	886,666	886,666
15 June 2019	-	Series 15	886,668	886,668
30 September 2019	$1.45	Series 16	6,015,789	6,015,789
30 November 2018	-	Series 17	207,500	257,500
30 November 2018	$1.85	Series 17	107,500	157,500
30 November 2018	-	Series 18	90,000	90,000
19 March 2019	-	Series 19	50,000	50,000
30 September 2020	-	Series 20	1,641,314	1,641,314
Options on issue at end of period			13,526,477	13,865,665

Notes to the Financial Statements

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

E2 SHARE OPTION PLAN

(a) Employee Share Option Plan (2) ("ESOP 2")

The Group established an equity-based compensation plan for employees which was approved by shareholders at an Extraordinary General Meeting held on 29 June 2011. ESOP 2 is open to any person who is a full-time or permanent part-time employee or Director of the Company or a related body corporate of the Company. Options may not be granted to a Director or his or her associates under ESOP 2 unless approval of the grant is given by shareholders in general meeting in accordance with the requirements of the ASX Listing Rules.

The Board has broad discretions under ESOP 2, including (without limitation) as to:

a. the timing of making an offer to participate in ESOP 2;
b. identifying persons eligible to participate in ESOP 2; and
c. the terms of issue of options (including vesting conditions, if any).

The expense recognised in the statement of profit and loss and other comprehensive income in relation to share-based payments made under ESOP 2 is $2,739,590 (2017: $2,576,118).

E3 CONTROLLED ENTITIES

		Ownership Interest (%)	
	Country of Incorporation	31 December 2017	30 June 2017
Parent Entity			
EML Payments Limited	Australia		
Controlled Entities			
EML Payment Solutions Limited	Australia	100	100
EML Payments Europe Limited	United Kingdom	100	100
EML Payments USA LLC	United States	100	100
Store Financial 2 LLC	United States	100	100
EML Payments Canada, Ltd	Canada	100	100

F1 CONTINGENT LIABILITIES

(a) Contingent Liabilities

Estimates of the potential financial effect of contingent liabilities that may become payable:

Host-Based Store Value accounts with BIN Sponsors

A number of BIN Sponsors provide depository accounts to the Group to facilitate clients of the Group to deposit funds relating to the provision of prepaid payment products. The BIN Sponsors have sole authority to transact on the licensee depository accounts. Due to the fact that the Group does not have ownership or the right to direct operation of the depository accounts, the account is not recognised as an asset in the financial statements of the Group.

Notes to the Financial Statements

Under the agreements:

(i) In consideration of the BIN Sponsors performing any Authorised Act, the Group will indemnify the BIN Sponsors and the Directors, employees, officers, agent and independent contractors of the Bin Sponsors on demand from time to time; and

(ii) The Group is liable to the BIN Sponsors in respect of any debit balance of the depository account and in respect of any other moneys owing or contingently owing by the Group to the BIN Sponsors under or in connection with the depository account.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

F2 SUBSEQUENT EVENTS

Following the end of the financial period and the date of this report, on 1 February 2018 the Group acquired Presend Nordic AB, a leading provider of Non-Reloadable solutions in Europe. The upfront purchase consideration was approximately $1.6m with the total purchase price including deferred consideration capped at $9.5m. Aside from the acquisition of Presend Nordic AB, there has not arisen any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial periods.

F3 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance & Reporting entity

The half-year report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year report does not include notes of they type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

EML Payments Limited (Company) is a company incorporated and domiciled in Australia. The condensed consolidated financial report of the Company for the period ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the Group or consolidated entity or EML).

(b) Basis of preparation

The condensed consolidated financial statements have been prepared on a historical cost basis except where otherwise stated. Cost is based on the fair values of the consideration given in exchange for assets. The financial report is presented in Australian dollars, unless otherwise noted.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated.

The Company is a Company of the kind referred to in *ASIC Corporations (Rounding in Financials/Directors Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2017 annual financial report for the year ended 30 June 2017, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

The Company is a listed public company, incorporated in Australia and operating in Australia. The entity’s principal activities are the provision of payment services.

(c) Adoption of new and revised standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current year.

Notes to the Financial Statements

Standards and Interpretations in issue not yet adopted

Standards/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' and AASB 2014-7 'Amendments to Australian Accounting Standards Arising from AASB 9'	1 January 2018	30 June 2019
AASB 15 Revenue from Contracts with Customers, 2014-5 Amendments to Australian Accounting Standards arising from AASB 15, 2015-8 Amendments to Australian Accounting Standards – Effective date of AASB 15, 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15	1 January 2018	30 June 2018
AASB 2015-10 Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128	1 January 2018	30 June 2018
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018
AASB 2016-5 Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions	1 January 2017	30 June 2018
AASB 16 'Leases'	1 January 2019	30 June 2020

At the date of publication, there have been no IASB Standards or IFRIC Interpretations that are issued but not yet effective not yet effective, although Australian equivalent Standards and Interpretations have not yet been issued.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies for the period ended 31 December 2017. The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the period ended 31 December 2017

The directors of the Company anticipate that the application of AASB 9 and AASB 15 in the future will not have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements.

AASB 9 Financial Instruments

AASB 9 issued in December 2009 introduced new requirements for the classification and measurement of financial assets. AASB 9 was subsequently amended in December 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in December 2013 to include the new requirements for general hedge accounting. Another revised version of AASB 9 was issued in December 2014 mainly to include: (a) Impairment requirements for financial assets (b) Limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of AASB 9:

> All recognised financial assets that are within the scope of AASB 9 are required to be subsequently measured at amortised cost or fair value. Specifically:
  - Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods.
  - Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI.
  - All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under AASB 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, AASB 9 requires that the amount of change in fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under AASB 139 Financial Instruments: Recognition and Measurement, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss
- In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model, as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In the words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in AASB 139. Under AASB 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

AASB 9 applies to annual periods beginning on or after 1 January 2018. The directors of the Company anticipate that the application of AASB 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. The Group has undertaken a preliminary assessment of the impact on financial assets and has concluded that the impact will be immaterial. The Group is continuing to assess the impact upon financial liabilities. The group will review our processes and procedures for hedging strategy upon implementation of AASB9. Until the Group completes a detailed review, it is not practicable to provide a reasonable estimate of the effect of AASB 9.

AASB15 – Revenue from contracts with Customers

AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. AASB 15 will supersede the current revenue recognition guidance primarily from AASB 118 Revenue and the related Interpretations when it becomes effective. The core principle of AASB 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under AASB 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in AASB 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by AASB 15. In May 2016, the AASB issued AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

AASB15 includes specific guidance on the recognition of breakage income. The new standard is consistent with the group's existing accounting policy of accruing for expected breakage income. The group's current policy is to accrue for breakage income in the month of load. When adopted, the group expects that revenue will be accrued in line with the expected redemption profile of the value on the card. Breakage income (excluding AMF) accounts for approximately 32% of group revenues in the year ending 30 June 2017. In circumstances where gross debit volume ('GDV') is consistent from year to year there will be no material impact on group revenues as reduced breakage accrual is replaced by cash breakage income. The Group is unable to provide detailed forward guidance on the expected GDV for Non-Reloadable products in the years ending 30 June 2018 and 30 June 2019 at this time. The Group notes that breakage income is becoming less material to the group as other sources of income including transaction

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fees from Reloadable products increase. There is not expected to be any other material impacts to the group with respect to establishment income, transaction fees, interchange or interest revenue following implementation of AASB15.

It should be noted that the above assessments were made based on an analysis of the Group's contracts with customers and breakage accrual as at 31 December 2017 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of AASB 15, the assessment of the potential impact is subject to change. The directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

AASB 16 Leases

AASB 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. AASB 16 will supersede the current lease guidance including AASB 117 Leases and the related interpretations when it becomes effective. AASB 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets. The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under AASB 117 are presented as operating cash flows; whereas under the AASB 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively. In contrast to lessee accounting, AASB 16 substantially carries forward the lessor accounting requirements in AASB 117, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by AASB 16.

AASB 117 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in the Group Annual Report for the year ended 30 June 2017 A preliminary assessment indicates that these arrangements will meet the definition of a lease under AASB 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of AASB 16. The new requirement to recognise a right-of-use asset and a related lease liability may have a significant impact on the amounts recognised in the Group's consolidated financial statements and the directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review..

Corporate Information

ABN

93 104 757 904

DIRECTORS

Peter Martin
(Non-executive Chairman)

Thomas Cregan
(Managing Director and Chief Executive Officer)

Tony Adcock
(Non-executive Director)

David Liddy AM
(Non-executive Director)

Robert Browning (resigned 20 February 2018)
(Non-executive Director)

Dr Kirstin Ferguson (appointed 14 February 2018)
(Non-executive Director)

Melanie Wilson (appointed 14 February 2018)
(Non-executive Director)

JOINT COMPANY SECRETARIES

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SECURITIES EXCHANGE LISTING

EML Payments Limited is listed on the Australian Securities Exchange

(ASX: EML)