XPS Pensions Group

We are passionate about pensions. We are XPS

XPS Pensions Group plc
formerly Xafinity plc
Annual Report and Accounts

2018

We believe in a better way

Following the acquisition of Punter Southall Holdings Limited in January 2018, XPS Pensions Group became the largest purely pensions consulting and administration firm in the UK. We are 100% focused on the UK pensions market.

We are actuaries, consultants and administrators working to protect and enhance the benefits of hundreds of thousands of pension scheme members. We bring cutting edge solutions for the benefit of pension scheme trustees, members and sponsoring employers.

Strategic report

Governance

Financial statements

Visit us online

xpsgroup.com

We believe that everyone should expect more from the pensions industry

2018 Highlights

Acquisition of Punter Southall Group's pensions businesses

£159m

Third party administrator of the year, 4th time in 5 years[2]

#1

Growth in revenue

29.2%

Proposed dividend

4.2p

Growth in Xafinity business revenue[1]

4.4%

Growth in adjusted diluted earnings per share[3]

16%

Our highly complementary acquisition of the Punter Southall Group's pensions businesses has created the largest purely pensions firm in the UK. We have the scale to invest in the solutions our clients need, and we remain nimble and able to respond quickly in an evolving market. We believe everyone should expect more from the pensions industry, and we are ambitious to deliver it.

1 Figure calculated by excluding HR Trustees revenue, excluding post-acquisition Punter Southall pensions business revenue, and allowing for a one off adjustment arising from an historic billing arrangement.
2 The Professional Pensions Administration Survey 2018.
3 Adjusted diluted earnings per share is based on the adjusted profit after tax as set out in notes 7 and 17 to the financial statements.

At a Glance

We are XPS

As the only UK pensions specialist listed on the FTSE, we have the flexibility to think differently and to act differently. Our unique structure means that we can make transparent, long-term investment decisions in our business for the benefit of our clients and pension scheme members. We are dedicated to challenging and changing the industry for the good of all.

We bring expertise and technology to bear, to drive better decisions, better service expectations and ultimately better financial outcomes for trustees, businesses, members and our shareholders.

Employees

900+

Total pension assets under advice

>£19bn

Years of experience providing pensions services

40+ years

Our services

XPS Pensions

We provide advice and support to trustees and corporate sponsors across all areas of pension scheme management to address the specific challenges faced by UK pension schemes.

This includes everything from actuarial advice and long-term financial planning for schemes, through to member communications, advice on member option exercises and scheme benefit design.

XPS Investment

We provide advice to pension scheme trustees on where to invest their scheme's assets. We deliver clear, independent advice that can be quickly and effectively implemented, to enable our clients to make the right investment decisions, tailored to their needs. In essence, we help clients to choose the right portfolio for them, in order to maximise returns and/or minimise their level of risk, which we do through financial modelling of different mixes of asset classes.

XPS Administration

Our teams of pension administrators provide services to a wide range of trust-based company pension schemes, including defined benefit (DB), defined contribution (DC), career average revalued earnings (CARE) and hybrid schemes.

Our range of services includes pensions administration, payroll services, pension scheme accounting, scam identification, de-risking projects and technical consultancy.

XPS Transactions

We provide specialist pensions advice and analysis during corporate events including helping clients who are buying, selling, restructuring or refinancing a business. We work for vendors, purchasers and other corporate entities, including private equity firms and hedge funds as well as pension scheme trustees.
Our team delivers pension due diligence and advice on ongoing pension cost and risk management.

We also provide:

- A Master Trust, National Pension Trust (NPT), for employers, which offers full 'Freedom and Choice' capability,
- Consulting services to employers on healthcare benefits, and
- SIPP and SSAS solutions to financial advisers under the Xafinity brand.

Where to find us

UK locations

15

What makes us different

- **We are innovative**
- **We are ambitious**
- **We have a unique structure**
- **We put people first**

See our Business Model on pages 14 to 15 for more information

We are 100% focused on the UK pensions market which means that we have no distractions and no competing priorities.

Why invent in XPS?

The only specialist pension advisor on the FTSE

We are the largest purely pensions specialist in the UK and are 100% focused on the UK market. We have the ideal combination of scale and agility to be able to quickly develop solutions and technology for the benefit of our clients and pension scheme members.

Large core market and opportunities for growth

Liabilities of private UK defined benefit pension schemes

£1.7 trillion

Longevity of private UK defined benefit pension schemes

40+ years'

Funds invested in UK defined contribution schemes

£380bn

Robust long-term financial performance

Delivered year-on-year organic revenue growth over past 10 years

Average annual growth in revenue since 2013

4.7%

Highly experienced management team

- Joint CEOs have over 40 years' experience combined in UK pensions industry
- Both have a strong track record of growing businesses
- Executive Committee has extensive experience across breadth of UK pensions market

We embrace technology

- Unique, proprietary technology platform Radar that provides clients with real-time analysis
- Rolled out to over 40 clients during the year
- Informs better decision making and improved outcomes

See pages 22 to 23 for more information

Chairman's Statement

A transformative and successful year

This year has been both transformative and successful for XPS Pensions Group (XPS). In our first full year as a publicly listed Company, we have completed the significant acquisition of the actuarial consulting, pensions administration and investment consulting businesses of the Punter Southall Group (PSG).

Final dividend

4.2p

Overview

The success of the acquisition and the ongoing integration of the business has also led to the re-branding of the Company from Xafinity to XPS Pensions Group, reflecting the huge strides we have made in our strategy towards becoming the pre-eminent pensions consultancy firm in the UK.

As ever, the high quality of the team at XPS has been central to the continued success of the Group, underpinning the market leading and innovative level of service that we provide to our clients, and I would like to thank everyone for their ongoing hard work as the Company continues to grow and strengthen.

Results

The Company has performed in line with expectations for the year ended 31 March 2018, delivering strong revenue growth and an impressive stream of new client wins. All this has been achieved while ensuring the smooth integration of the Punter Southall pension businesses.

Revenue from continuing operations was £63.97m (2017: £49.49m). Profit before tax from continuing operations was £4.2m (2017: Loss before tax of £14.1m). Basic earnings per share was 7.9p (2017: Loss per share of -12.5p).

Dividend

The Board is proposing a final dividend of 4.2p (2017: 0.73p). The interim dividend was 2.1p (2017: Nil). This payment to shareholders is in line with our stated strategy of pursuing a progressive dividend policy that is subject to financial discipline and future Group results. The Board expects to retain sufficient capital to fund ongoing operating requirements, an appropriate level of dividend cover and funds to invest in the Group's long-term growth.

The final dividend will be payable on 27 September 2018 to shareholders on the register at 31 August 2018, subject to shareholder approval.

Strategy

The Group is committed to its continued and sustainable growth by focusing on its core areas of business and investing in our staff, technology and client services. This ongoing commitment ensures that XPS continues to provide an agile, high quality and market leading service that puts client satisfaction at the heart of the business. As part of our focus on our key business areas, we divested our HR Trustee business which is non-core to the Group. XPS is focused on continuing to build its market share in the pensions advisory sphere both organically and through acquisition.

Outlook

XPS has enjoyed substantial progress over the course of the last 12 months through the successful implementation of our strategic vision, leading to growth in our core markets and a sustained pipeline of new business wins. The integration of the combined Group continues at a healthy pace, whilst the business is already beginning to see material benefits from the acquisition through our expanded client offering and increased new business opportunities.

The Group performance since 31 March 2018 has remained in line with expectations, and the Board remains confident about the future growth of the Company during the upcoming financial year.

XPS has become the largest pure play pension consulting and administration firm in the UK. We have deep experience and benefits of scale to draw on, and I look forward to working with my colleagues to build on the momentum generated over the past year as we continue to innovate, invest in, and expand our client offering. Against this background, the outlook for the Company throughout 2018 looks promising.

Tom Cross Brown
Chairman
27 June 2018

Governance highlights

- **Increased number of Board members to reflect merger**
- **Developing executive talent**
- **Creating a diversity working group to drive improvement in this area**
- **Board evaluation process developed and implemented for first time as a plc**
- **Focus on succession planning**

See pages 34 to 39 for more information

We are unique

We are the only listed, purely pensions consulting firm in the UK.

Our larger competitors are multinationals for whom pensions is a non-core activity. Our smaller competitors are frequently partnerships with inter-generational issues that can make investing for the future a challenge. We are uniquely placed; we have the scale and experience to be able to help pension schemes of any size, but we remain nimble and our focus lets us respond to market changes and opportunities quickly. We take a long-term view, with access to capital to invest for the benefit of our clients and our shareholders.

"

We are committed to challenge the expectations of our industry, our clients and ourselves.

Neil Lalley FIA
XPS Pensions

Market overview

We believe there is a better way

100% focused on the UK market. We have the scale and capacity to advise on the largest schemes. We offer innovative and differentiated solutions for clients.

Overview

There are currently more than 5,500 defined benefit (DB) schemes in the UK, of which 61% remain open to future benefit accrual, with aggregate liabilities of approximately £1.7 trillion. There are 10.6 million members of DB schemes in the UK private sector, of which 60% are yet to retire and draw an income from their scheme.

Due to the growing costs and risks of running UK DB schemes, most such schemes are closed to new entrants, an increasing number are closed to future accrual, and there has also been growing appetite for advice on de-risking strategies. Liabilities in respect of UK DB schemes are expected to take a long time to 'run off', given that the majority of members are yet to begin drawing a pension, and the remaining life expectancy of a member currently in their early forties is typically more than 40 years. Based on aggregate data for all DB schemes in the UK private sector, payments out of schemes to members are expected to rise until beyond 2040, and the present value of scheme liabilities is also expected to rise for each of the next 10 to 20 years.

The services required by scheme trustees – which generated aggregate fees of an estimated £1.9 billion in 2016 will therefore continue to be needed for a long time, and increased liabilities, together with the growing number of pension schemes employing professional trustees, will drive growth in demand for de-risking projects.

Regulatory environment

Competition and Markets Authority (CMA) Review into the lack of competition in the investment consulting market.

The FCA recently carried out a review of the investment consulting market providing investment advice for UK DB schemes amid concerns regarding a lack of competition in the sector given the market share held by the 'big three' global consultancies. The FCA expressed concerns in relation to potential conflicts of interest where investment consultants (ICs) sell their own in-house fiduciary management (FM) services. The FCA referred this issue to the CMA which is now a long way through its investigation.

The CMA has issued 8 working papers from trustee engagement through to the conflicts of the IC-FMs selling FM through their IC business which highlighted:

- 88% of the FM market is dominated by the businesses that provide both IC and FM (IC-FMs) selling FM through their IC business.
- 60% of trustees thought that IC-FMs steering clients into FM is a problem.

The CMA's initial conclusions are due in July 2018. Although there is uncertainty in relation to the outcome of the CMA's review, it is likely that any actions that seek to reduce the market share of the 'big three' global consultancies will benefit firms like XPS.

XPS does not provide fiduciary management services – XPS only provides independent investment advice – and so is well placed to increase its market share in investment consulting.

White Paper on DB pension schemes

In March 2018 the Department of Work and Pensions (DWP) published a White Paper on DB pension schemes, against a backdrop of front-page headlines in relation to pension schemes at BHS, Tata Steel, and, most recently, Carillion. Although the DWP believes that the current system works well for the majority of DB schemes, the paper contains several proposals which, together, have the potential to bring about the most significant changes to the DB pensions regime since the Pensions Acts 1995 and 2004. The proposals would give strengthened powers to the Pensions Regulator, in particular in areas where employers' actions may be putting their pension schemes at risk, and are likely to require legislation, which is not anticipated to come into force before the early 2020s.

Sources: Financial Times, The Actuary, Purple Book 2017, GS L&G
Source: Market Financial Reports

UK DC schemes could grow to over

£600m

Contributions into UK DC schemes

3.6 billion

Workplace defined contribution (DC) schemes

32,000

XPS welcomes the proposals as we believe they will benefit our clients. In terms of the impact on firms like XPS, regulatory changes have historically led to additional work and revenues, either through one-off advice projects for clients or additional services being required on an ongoing basis.

There is an increasing need for solutions in the burgeoning defined contribution market

There are approximately 32,000 UK workplace defined contribution (DC) schemes, with assets under management of an estimated £380 billion. Contributions into UK DC schemes increased from £2.1 billion per annum in 2012 to £3.6 billion per annum in 2016, driven by the continued closure of UK DB schemes, the introduction of 'auto enrolment' requirements and the popularity of UK DC schemes among private sector employers. The Pensions Policy Institute estimates that the value of assets in these UK DC schemes could grow to over £1,700 billion by 2030.

Historically, DC schemes operated in a simple manner. The majority of members invested contributions made by them and/or their employer until their retirement, at which point they were required to purchase an annuity. In April 2015, UK pension regulations were fundamentally altered, to give 'Freedom and Choice' to scheme members: rather than being required to purchase an annuity upon retirement, pension scheme members instead have flexibility as to how they may use their DC pension pots. Members are now able to leave their funds invested, to draw on them as they wish from time to time.

In order to provide members with access to the flexibilities afforded by 'Freedom and Choice', the trustees and sponsoring employers of UK DC schemes may either upgrade their existing arrangements, which incurs up-front costs and an increased ongoing administration burden, or they can link or transfer their scheme to one that has been upgraded to provide 'Freedom and Choice' flexibilities. This is stimulating demand for Master Trusts, which provide such flexibility, as the preferred solution for UK DC schemes. Master Trusts provide a common administration and investment platform shared by multiple employers, enabling them to benefit from economies of scale. Of the £380bn invested in UK DC Schemes, only around 5% is investment in Master Trusts. The majority of UK DC Schemes do not offer access to all of the flexibilities introduced by 'Freedom and Choice'.

Sources: Pensions Regulator Guidance, Pensions Policy Institute
Source: PLSA

XPS provides consultancy and administration services to the trustees and sponsors of individual trust-based DC schemes, and also offers a Master Trust, National Pension Trust (NPT), for employers, with AUM of approximately £320 million. NPT was one of the first Master Trusts to offer the full 'Freedom and Choice' capability. It is one of very few Master Trusts to hold both the Pensions and Lifetime Savings Association's Pension Quality and Retirement Quality Marks. These accreditations are important as they independently position XPS at the forefront of employer responsibility, and trustees and employers will actively select products which have these marks.

The Pensions Regulator is currently introducing a Master Trust authorisation process, under which all master trusts must be formally approved to operate in the UK. We welcome this process, as it will ensure that all master trusts are sustainable and it will protect the interests of the members of these schemes. NPT, supported by XPS, is well positioned to obtain authorisation and to benefit from a reduction in the number of other master trusts in the market.

DB to DC transfers

Members of defined benefit schemes are also able to take advantage of the flexibilities introduced as part of 'Freedom & Choice', by transferring their benefits into a defined contribution vehicle. Volumes of such transfers were historically low but have materially increased in recent years; the Pensions Regulator has reported that between 1 April 2017 and 31 March 2018 transfers out of DB schemes reported to it totalled £14.3 billion.

Members wishing to take a transfer from a DB scheme are required to take regulated independent financial advice before they do so, and may only transfer to a suitable pension product. XPS does not provide advice to individual members in this area, but does have an opportunity to grow as a result of this increase in transfer activity, as NPT is a high quality, low cost and highly governed solution that can be made accessible for members to transfer safely to.

There are considerable opportunities to advise on SSAS and SIPP products

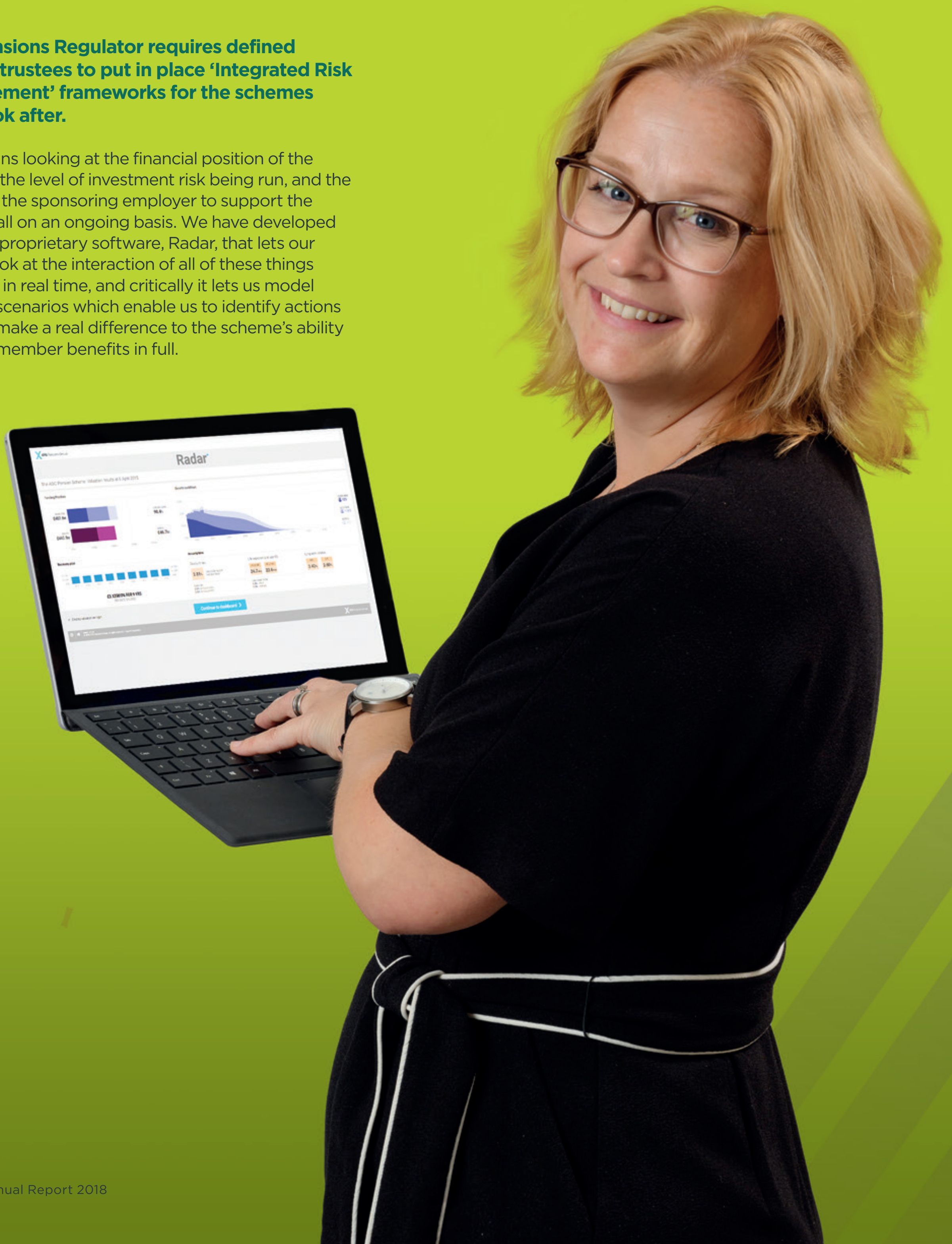
While SSAS occupational pension schemes have remained more niche, self-invested personal pensions (SIPPs) have become a mainstream pension product. MoretoSIPPs estimates that there are approximately 1.4 million SIPPs, with assets of around £175 billion. The significant growth in SIPPs over the past decade has been driven by the shift towards defined contribution arrangements, a growing awareness of pensions generally, advances in technology and online financial tools, and the desire by individuals to take personal ownership over their own retirement provisions. This had led to rapid growth in the number of SIPP providers, which has in turn led to much stronger regulation and, more recently, market consolidation.

XPS is positioned primarily at the 'full-service', more bespoke end of SIPP products, where product flexibility and personal service allows it to charge premium fees and to build long-term relationships.

We are innovative

The Pensions Regulator requires defined benefit trustees to put in place 'Integrated Risk Management' frameworks for the schemes they look after.

This means looking at the financial position of the scheme, the level of investment risk being run, and the ability of the sponsoring employer to support the scheme all on an ongoing basis. We have developed our own proprietary software, Radar, that lets our clients look at the interaction of all of these things together in real time, and critically it lets us model 'what if' scenarios which enable us to identify actions that will make a real difference to the scheme's ability to meet member benefits in full.



I love that we have developed technology that provides accurate information, at pace, to inform better decision-making and delivers improved outcomes – it’s a win for everyone.

Katherine Lynas
Head of Operations – XPS Investment

Business model

Our simple, focused model sets us apart from rivals and creates value for stakeholders

What we do

XPS is a UK focused specialist in pensions and investment consulting and administration, providing a wide range of services and solutions to over 1,000 pension scheme clients.

The Group combines
- expertise
- insight
- technology

to address the needs of both pension trustees and sponsoring companies.

XPS has around 900 employees, of which approximately 90% are client facing, with 15 offices providing the Group with access to staff, expertise and clients across the UK.

Who we work with

We work with pension trustees, sponsoring companies and pension scheme members, with schemes ranging in size from less than £20m in assets to multi-billion pound pension funds.

Clients

900+
defined benefit consultancy clients

325+
defined benefit administration clients

How we earn revenue

We charge fixed fees for ongoing administration and advisory services combined with time-based fees for consulting advice and one-off projects.

We work on open ended engagement letters. 82% of our revenues are recurring and we have a loyal client base which has worked with us over many years.

> **We put members first. We pride ourselves on exceeding expectations and delivering the best administration service experience.**

David Watkins
XPS Administration

What makes us different

We are innovative

We invest in solutions to be at the forefront of our industry. Examples include Radar, our technology platform which provides smarter analysis to inform better decision making, and National Pension Trust, a solution to the challenges provided by 'Freedom and Choice'.

We are ambitious

We are determined to shake up a traditional and often slow moving industry and are well-placed to capitalise on market opportunities.

We are unique

We are the only 100% UK pensions focused specialist listed on the FTSE. We have agility and can respond quickly to market changes for the benefit of our clients. We also have the ability to invest for the long-term, free from inter-generational issues facing many of our competitors who are partnerships.

We put people first

We put relationships at the very heart of our business. We are dedicated to helping people and developing partnerships that last.

How we generate value that is shared with our stakeholders

For clients

- greater insight and expertise leading to better decisions and better outcomes
- excellent service – core service delivered well and proactive ideas brought in addition
- value for money

For shareholders

- strong cash generation and dividends
- track record of revenue growth
- services needed in all economic circumstances

For employees

- a stimulating working environment
- world class training and support toward professional qualifications
- attractive career prospects
- competitive remuneration and benefits

Our strategy
Read about our ambition and performance against our 6 strategic objectives on pages 22 to 23

Risk management
Read about our principal risks and uncertainties on pages 30 to 31

Co-Chief Executive Officer's Review

A complementary acquisition

We have created the largest pure pensions and consulting firm in the UK.

In line with our strategy of growth through market consolidation, in January Xafinity completed the acquisition of the actuarial consulting, pensions administration and investment consulting businesses of the Punter Southall Group (PSG). ("the merger"). This has created the largest purely pensions firm in the UK, renamed the XPS Pensions Group in May 2018.

Our businesses are extremely complementary. The merger has enabled us to combine Xafinity's strengths in the application of technology and our breadth of service offering on the consulting side with Punter Southall's expertise in administration, and technical and thought leadership. As a result our clients can now access the best of what each business brings to the merger, as well as our existing range of products and services. This means we are better able to service our clients and meet their needs.

More significantly, the merger will provide us with additional opportunities. Being positioned as the biggest purely pensions consulting firm outside the "Big 3" global consultancies of Mercer, Willis Towers Watson and Aon Hewitt is the perfect place for us to be at this stage of our journey. Our increased size means we expect to be invited to more tenders, which we are well placed to win, as we aim to offer superior service at better value than our larger rivals particularly for medium sized pension schemes. It also enables us to continue to make material investments in our products, people and technology. However, at the same time, as a purely UK focused pensions company, we remain nimble and agile and able to react very quickly to changes in government policy or regulation that affect our market.

Finally, the merger also increases the stability of our business as it reduces our dependence on our largest clients.

The merger and the rationale behind it have been well received and understood by the market and intermediaries. We both visited all of our offices in the few weeks after the announcement of the merger, and the reaction here has also been extremely positive. Indeed, a team from both companies conducted a pitch against two of the Big 3 firms (among others) during the merger process with the pitch happening only two days after the transaction completed. We were delighted to win the appointment, taking a large scheme directly from a 'Big 3' incumbent, having articulated our story to the client. The appointment covers all three key areas of our business (actuarial, investment and administration) and got us off to a flying start, and we have continued to have new business success since.

Personal Highlight – Paul Cuff

When the transaction was very close to being finalised, Ben and I made a presentation to around 40 of the most senior Punter Southall pensions business staff, who had been told of the pending merger only half an hour before. We presented for 45 minutes on our positive vision of the future – to create a firm capable of challenging our industry and really making a positive difference. As we broke for refreshments, the atmosphere was electric. The enthusiasm we were instantly greeted with, by old friends and new colleagues alike, told us all we needed to know about our ability to bring the two businesses together. It was a great moment on the journey.

Paul Cuff
Co-Chief Executive Officer

Integrating our businesses

The integration of the businesses is going well. Cultural alignment is critical to success, and having both started our careers at Punter Southall and worked there for a combined 15 years, we have a deep insight into the culture of both businesses, and strong relationships with both senior management teams. Both businesses have long-standing client relationships, based on a culture of putting clients first. Both provide a positive working environment with an emphasis on training and development. All bar one of our offices are in different cities and will continue to operate autonomously, with the exception being London where we will merge offices. We now have a spread across 14 different cities right across the UK, which is important in a market where clients often value local advisors.

We are in the process of refreshing our values to reflect the combined business, and are providing lots of training to bring our people together. We have finalised and are implementing a plan to replace over the next two years the Transitional Services Agreement with PSG, which provides core services (eg HR, IT and some finance functions) to the businesses we have acquired. We have also implemented a common employee grading structure across the two businesses. We are pleased with our progress to date, and are working to align all our processes and services across our business divisions.

At a management level, we have made three significant hires, Patrick McCoy as Head of Investment, with a view to exploiting the market opportunity represented by the CMA review into the investment consulting industry, Wayne Segers as Head of Transaction Services, who will grow corporate and transaction advisory services, and Dave Hodges, as Head of National Pension Trust.

We have also formed an Executive Committee, which Patrick and Wayne sit on along with David Watkins and Richard Thomas, the two heads of the administration business, Mike Ainslie (CFO), Jonathan Bernstein (Head of Pensions), John Batting, Executive Director from Punter Southall, and ourselves. The committee members have a strong breadth of experience, and we are well positioned to identify opportunities across the business.

Personal Highlight – Ben Bramhall

The reaction of our clients to both the merger and Radar has been fantastic. On the day of the announcement of the merger, I spoke to a number of our clients who really understood the rationale for the deal and saw it as the next great milestone following the IPO – the fact that they were genuinely excited for us was fantastic. In parallel, several of my clients were also seeing our new Radar software for the first time. This new software has been received incredibly positively and it is brilliant to be able to help our clients understand the issues and take decisions by presenting information in a much more visual and engaging manner.

Ben Bramhall
Co-Chief Executive Officer

A complementary acquisition continued

Financial and operational performance

Our financial performance during the year has been in line with our expectations. We have seen substantial underlying Xafinity revenue[1] growth of 4.4% during the year, due mainly to a number of new business wins in the final quarter of last year and the first half of this year which have now come on-stream, benefitting our underlying performance. During the year, we have maintained this momentum, and revenue from new clients remains healthy.

As part of the merger process, we sold our HR trustee business during the year as this represented a conflict of interest with the rest of our client base, as we would not be able to provide other services to our HR trustee clients. We wish our former colleagues every success in the future.

Our markets

Our markets are in a state of significant flux. The Competition and Markets Authority (CMA) review, which is due to present its final findings in the coming months, presents significant commercial opportunities for us. We welcome the review as we do not believe the market is functioning properly. We are supportive of the CMA opinions expressed to date, and are absolutely committed to providing the services that the market needs. As a result of the review there is potential for the Big 3 to lose market share. With our increased scale, and with a growing capability in investment consulting, we are very capable of picking up new mandates.

Another material development is the UK Government's White Paper, which was published in March 2018 and proposes some quite significant changes to the governance of defined benefit pension schemes. The White Paper challenges the advisory industry to improve outcomes for defined benefit pension schemes and members of defined contribution schemes, in the context of several recent high-profile controversial cases including BHS, Carillion and Tata Steel. Our clients face great challenges, but we are constantly striving to provide better consultancy, better technology and better insights to help our clients avoid becoming the next headline. We also have anti-scamming solutions in place to protect individual pension scheme members.

Generally our industry has been slow to react to the changes in the market and is still struggling to explain the changes introduced in 2014 on 'Freedom and Choice'. We see that as a great opportunity for us to offer new solutions.

Our strategy

As before, our strategy aims to achieve growth, focusing purely on the UK pensions market. We believe clients need better solutions so we are investing in our people and technology to deliver those solutions and grow our market share. Our six strategic priorities focus on the areas we believe present the greatest opportunities.

Our 6 strategic priorities for growth:

- **Growth through defined benefit de-risking**
- **Growth through winning new clients**
- **Growth through administration outsourcing**
- **Growth through investment consulting**
- **Growth through the National Pension Trust**
- **Growth through mergers & acquisitions**

Investment consultancy is a new focus area for us and one we think presents a great opportunity, particularly in light of the CMA review.

[1] Xafinity revenue is calculated by excluding HR Trustees revenue, excluding post-acquisition Punter Southall pensions business revenue, and allowing for a one-off adjustment arising from an historic billing arrangement.

While we will continue to consider further consolidation opportunities that could accelerate our growth as they arise, our current focus is on completing the integration and making a success of the merger.

Our people

We want XPS to be the best place for people to work and we spend a lot of time communicating internally, engaging with our colleagues and providing development opportunities. We carry out employee surveys every year and make changes to reflect the feedback we receive. This year, for example, we introduced changes to maternity pay and implemented a grading system for employees to help them understand their progression path through the business, following employee feedback. We also set up a working group to look at initiatives around gender and inclusion across the organisation and ways to improve diversity.

We support a number of charities including 'Tax Help for Older People', and our employees across our offices are encouraged to participate in community and social events.

This year has been transformational for the company, and we recognise the additional pressure that the merger put on all our employees during the year. We are extremely grateful for the support and extra effort our employees have shown, and would like to thank them all for their loyalty and dedication.

Outlook

We are extremely excited about the prospects for the combined XPS Pensions Group and are committed to its long-term success. As the largest pure play pensions consultancy in the UK, XPS is perfectly positioned to exploit current market dynamics and to meet evolving client needs. Our increased size and expertise mean we can provide better and truly differentiated solutions for our clients.

While we have made considerable progress already, there is more to do to complete the integration process and we will be working hard in the coming months to ensure the businesses are fully aligned.

To sum up, we believe we are in the right place at the right time to take advantage of the opportunities in our market place and to continue to grow and thrive as a business.

Across our offices our employees are excited about the future. We intend to build on this momentum to continue to grow XPS.

Paul Cuff
Co-Chief Executive Officer
27 June 2018

Ben Bramhall
Co-Chief Executive Officer
27 June 2018

We are ambitious

We are ambitious as a Company to thrive and grow, but our ambition goes beyond that.

We want to make a genuine difference to the outcomes achieved by members of pension schemes. With better technology and good ideas we are able to help manage risk and improve funding in defined benefit schemes, and more widely we will continue to create solutions that give members better outcomes in the world of 'Freedom and Choice'. We are ambitious to make a positive difference to the pensions environment in the UK.

We put ourselves in your shoes. We think as you do. We act as you need us to – and we implement effectively.

Sankar Mahalingham FIA
Head of DB Growth – XPS Pensions Group

Ambition and Strategy

We are a forward looking, ambitious business

We aim to become the pre-eminent independent mid-tier pensions consulting firm – the best place for people to work, and the best partner for our clients.

Our objective is to become the clearly differentiated alternative to the 'Big 3' providers, Mercer, Willis Towers Watson and Aon Hewitt. We will remain focused purely on the UK pensions market, operating at scale and yet agile enough to provide clients with superior service at better value than our larger rivals.

Our strategy remains focused on achieving growth. We have reviewed and evolved our priorities since the merger of Xafinity with Punter Southall's pension businesses to strategically pursue growth across the six key areas of the market where we see the greatest opportunities:

Growth through

- **Defined benefit de-risking**
- **Winning new clients**
- **Administration outsourcing**
- **Investment consulting**
- **The National Pension Trust**
- **Mergers & acquisitions**

Our strategic priorities

Growth through defined benefit de-risking

Our Radar pensions modelling software enables trustees and sponsors to see the benefits of de-risking their defined benefit schemes and this drives more value-added project work. Our unique Centre of Excellence delivers de-risking projects with high levels of member engagement.

Growth through winning new clients

We intend to grow by targeting new clients, by providing innovative and differentiated solutions at better value for money than our competitors.

Growth through administration outsourcing

There has been an increasing trend in the pensions market for large schemes to outsource administration where it was previously done in-house.

Our administration business has won a number of large clients in recent years and we aim to continue to grow in this market.

Growth through investment consulting

The CMA review into the investment consulting market presents a large opportunity for us. The business models of our largest competitors are under close scrutiny, and as the largest purely pensions consulting firm we are extremely well placed to benefit from changes in the market.

Growth through the National Pension Trust (NPT)

NPT is a defined contribution vehicle that offers members full access to pensions flexibilities under 'Freedom and Choice'.

Many pension schemes still do not offer access to these flexibilities, and open market options are frequently expensive and inappropriate for members. We believe NPT can address an urgent market need.

Growth through mergers & acquisitions

The mid-tier section of the pensions consulting market remains highly fragmented and ripe for consolidation. We will continue to review opportunities should they arise.

Progress	Priorities for the year ahead
Our Centre of Excellence completed a very large trivial commutation exercise for 40,000 members successfully during the year. This success led to a number of other clients commissioning projects from us. The total number of these exercises we have done has now passed 120. We rolled our Radar technology out to 40 clients during the year.	We aim to grow in this area by: – Taking our established solutions to clients from the Punter Southall side of the merger, to introduce the Centre of Excellence to them and to deliver projects that add value for them. We will also aim to win new clients in the wider market building on our strong reputation. – Further rolling out our Radar technology for the benefit of our clients – we have a process to achieve 300 clients having access to Radar this year.
We won 14 new clients during the year, with a split across all of our core service lines of actuarial and investment consulting and administration. We have found our story of focus solely on UK pensions, innovation, and value for money has resonated in the market, and Radar has been a very powerful tool to differentiate ourselves in new business pitches.	We aim to win new clients by: – Capitalising on the increased profile that our merger has brought us, and the strong story we have to tell regarding the services we can provide now and in the future. – Continuing to provide new and innovative solutions.
XPS Administration has a reputation as a leader in this market. In a recent survey of >230 pension managers and trustees, XPS was rated the best third party administrator, achieving the number one rank in every category assessed including innovation, value for money and overall quality. This was the fourth time in five years that XPS Administration has been rated number one, and the third year in a row.	We aim to grow this area by publicising the achievements and capability of XPS administration, in a market where service standards elsewhere are not always as high as they should be.
The merger has given us real scale in this area, with 40 staff working in our investment consulting practice. We hired a new Head of Investment Consulting, Patrick McCoy, during the year, to drive our business forward in this area. Patrick brings a very strong track record of growth in this area. We won a number of new clients in the face of competition from the biggest firms in our market.	We aim to win new clients by providing a service that is the antidote to the problems identified by the CMA. We will deliver clear, independent pragmatic advice. Vitally we will also bring razor-sharp execution. We will be the investment advisors that actually make things happen.
National Pension Trust had a strong year, growing assets under management by 44% to £336.6m. The pipeline for NPT also continued to grow strongly. We have continued to invest in NPT, with a new Head of the proposition, Dave Hodges, being recruited, and we have continued to develop the proposition, for example investing in member communications expertise.	We intend to offer NPT as a solution to clients in several ways, including as: – an employer's main defined contribution arrangement into which contributions are paid, or a 'de-cumulation' vehicle to sit alongside an employer's existing arrangement where the employer's own arrangement does not offer the full range of flexibilities; and – a vehicle to receive transfers in respect of individuals who wish to transfer from a client's DB pension scheme. There is an increasingly pressing need for a 'safe solution' in this area.
We completed the merger of Xafinity and Punter Southall pension businesses to form XPS, thereby strengthening our position in the UK pensions market, and have made good progress with integrating the two businesses.	We will continue to work on integrating and aligning our two businesses and ensuring our clients see the benefits in the services we offer them.

We put people first

We are committed to being the best place in our industry to work. It's very simple to us – happy, motivated people will provide great service to our clients.

We provide comprehensive training for our people. Throughout our business we support pension qualifications, but also qualifications in finance and accounting, payroll, administration, systems, marketing and personnel.

Each year we seek feedback and ways to improve through an annual staff survey – this year 89% said we are a good company to work for.

XPS is a very exciting place to be at the moment – we all know what we are trying to achieve for our clients and our colleagues, and the merger gives us a real opportunity to make a positive difference in our world

Rachel Gillion
HR Director – XPS Pensions Group

Operating responsibly

We believe in a positive culture

We want XPS to provide a positive working environment for all our employees regardless of location, background or experience.

Xafinity and Punter Southall have similar cultures with a focus on training and development and competitive remuneration and benefit structures. We have put a programme of internal communications in place to engage with our over 900 employees, across all 15 of our offices, around the merger and alignment of processes and structures. We aim to have consistent policies in place for the whole Group from 1 April 2019 and we are in the process of refreshing our values in line with the combined Group.

Diversity policy

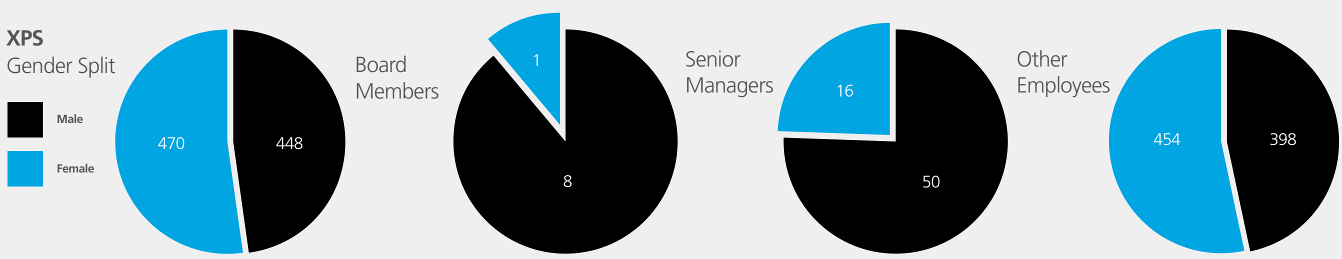
XPS has a strategic ambition to improve the diversity of its workforce, particularly in senior positions and has a number of initiatives in place to support this including providing staff with regular training on diversity.

In 2017, all Xafinity's people managers attended a course on diversity training and this will be extended for all employees across the Group later this year. We have recently set up a Diversity Working Group to develop and implement tangible actions to improve diversity across the firm.

Actuarial Mentoring Group

Towards the end of last year, Xafinity decided to participate in a new Actuarial Mentoring Programme for female employees that was launched by the Institute and Faculty of Actuaries (and is sponsored by Pension Insurance Corporation) to improve diversity within the actuarial profession. We see this as a fantastic development opportunity for women within our organisation and it is consistent with our ambition to have far more diversity in our senior roles.

Under the programme, XPS provides 5 mentors and 5 mentees (who must be recently qualified females). The mentors are assigned a mentee from another organisation and vice versa for our mentees. The structured programme lasts 9 months with an option to extend for a further 6 months on an informal basis. One to one mentoring meetings provide support and informal training to mentees and take place every 2 – 3 months. In addition to this, we are implementing an internal 'version' of the programme with our 5 mentors also mentoring 5 employees within XPS. We will shortly be requesting feedback from the mentors/mentees who have been involved in this programme with a view to participating again later this year and expanding the number of colleagues involved.



Employee training and development

XPS Pensions group delivered over 6,670 hours of training in the year.

Xafinity delivered 3,843 hours of training in the year and Punter Southall delivered 2,827 hours. This was across a wide range of professional and technical courses. Professional training included consultant masterclass, consultant and management development, minute taking, professional writing and presentation skills, and time management. Technical training courses consist of actuarial and pensions management institute courses and in-house actuarial training.

We also provide training to our finance, systems and marketing staff.

Employee engagement

XPS conducts an annual Employee Survey and the most recent took place in July 2017. It had an 87% response rate, compared to a 81% response rate in July 2016. These surveys are well received by employees and provide constructive feedback which is used to update our processes and policies. For example the main areas of employee feedback from last year's survey led to the following actions being implemented:

- Requirement for details of career progression paths implemented job grading across the firm in April 2018.
- Maternity pay out of line with the market – implemented enhanced maternity pay in April 2018.
- More flexibility in hours and location – variable working patterns in place so that colleagues can better fit commitments outside of work.
- Increase number of females in senior management positions – action plan includes a trial of gender balanced shortlists for certain roles so there is an equal share of men and women to interview for positions.

Retention and career progression

XPS launched a Performance Share Plan last year with a vesting period of 3 years which is open to key employees, for example, those that have been identified as likely to significantly impact the growth of the firm or manage a large client relationship or function.

Community

As a Group, we support a number of charities including 'Tax help for old people'. In addition, all our offices participate in national charity and community events such as Macmillan Coffee Morning, Children in Need and Comic Relief and there are local events for charity held by most offices.

Our policies

We have policies in place on anti-bribery, anti-money laundering and statements on modern slavery, which are regularly reviewed. These can all be found on our website at www.xpsgroup.com/policies. As a combined Group, we are looking to strengthen and expand our policies and activities around corporate responsibility given our increased size and the scale of our operations.

The Directors believe the direct environmental impact of the Group's people and operations is relatively low due to the office-based nature of what the Group does. However the Group strives to work in a responsible and sustainable manner, and encourages its staff to minimise their environmental impact in their day-to-day activities. The Group has introduced processes such electronic data management for document handling and private printing to minimise usage and wastage of paper.

Financial Review

A year of continued growth

The financial results for 2018 show continued growth in the underlying business but are dominated by the acquisition of the actuarial, administration and investment consulting businesses from Punter Southall Group (PSG). The deal completed on 11 January 2018. As part of the deal the Xafinity independent trustee business (HR Trustees Ltd or 'HRT') was sold to PSG. The impact on our results is as follows.

Acquisition of PS

£159m

Revenue (including HRT)

£66m

Profit before tax

£4m

Adjusted diluted earnings per share

9.3p

PS acquisition

The business was purchased for £158.7m made up of cash of £92.9m, funded partly by the issue of 41.2m shares to the market raising £70.0m gross proceeds, issuing 25.8m completion shares, contingent and deferred consideration valued at £8.6m and the sale of HR Trustees valued at £8.5m. The acquisition created intangible assets of £161.3m, £70.5m of which will be amortised over 2–20 years.

The operating results of the acquired businesses are included in the income statement for the period 11 January 2018 to 31 March 2018 and amount to revenue of £12.8m, expenses of £9.4m and profit before tax of £3.4m

HR Trustees sale

As part of the acquisition HRT was sold to PS for £8.5m. The gain on the sale of the business was £8.2m and has been recognised in the income statement within profit on discontinued operations.

The profit before tax from the HRT business activities in the period from the start of the financial year to the time of sale on 11 January 2018 amounted to £0.8m which arose from revenue of £2.0m and expenses of £1.2m. This also appears in the income statement under 'profit from discontinued operations'. In the full year to 31 March 2017 the HRT business had revenue of £2.5m, expenses of £1.6m and profit of £0.9m.

The table on the next page shows the impact of this on our results.

Financing

To fund the acquisition a new offer of the company's shares were offered at a price of £1.70 which was oversubscribed for and raised gross proceeds of £70m. The existing loan facility with HSBC was revised and became a two bank committed facility with Bank of Ireland, totalling £80m. £55.8m was drawn immediately and we expect that balance to be repaid gradually through cash generated from operations. The facility matures in December 2022 and along with the healthy cash conversion from the business we are well placed to cover our working capital needs going forward.

Net interest and financing costs totalled £1.5m (2017: £8.6m). The significant reduction came from using the IPO proceeds to pay down debt. Net debt at year end stood at £45.7m with net debt to pro-forma adjusted EBITDA of 1.47x (the pro-forma measure is calculated by taking the PS acquisition impact for a full year rather than since 11 January 2018).

The margin on the facility is now 1.5% (previously 1.75%) over LIBOR.

Exceptional items

The fundraising, loan refinancing and acquisition/disposal required us to incur fees of £7.8m for advisors and other costs. £3.2m has been set off against the share premium account, £0.9m has been held on the balance sheet to be amortised over the life of the loan facility, and the remaining £3.7m was expensed through the income statement and treated as an exceptional item. In 2017 there were IPO related fees amounting to £1.9m, which were also treated as exceptional and share issue costs of £1.3m.

Underlying business

The period post acquisition resulted in the rapid integration of business activities in certain areas and as a result the comparison of the business on a year-on-year basis is less straightforward. There was also a one-off adjustment of £0.4m, arising from an historic billing arrangement.

We can see, however, that the underlying, continuing Xafinity business built on the good momentum seen at the half year with revenue growth for the full year of 4.4% up from 0.5% a year ago and 1.8% for the first half of the year. The second half of the year saw 10 new wins, to go with the 4 new wins in the first half, which will combine to further accelerate growth in future periods.

Integration costs are low at £0.1m in this year's accounts. More are expected in 2019 and 2020 as the support units take over the operations currently provided under the Transitional Services Agreement with Punter Southall Group which runs to 11 January 2020.

Earnings per share

The EPS for 2018 is 7.9p (2017: EPS of -12.5p).

Adjusted EPS in 2018 is 9.6p (2017: 8.1p) an increase of 19%. The reconciliation of the profit used in the adjusted EPS to the statutory profit measure can be found in Note 7. Adjusted profit excludes exceptional and non-cash costs such as share-based payment costs, acquired intangible amortisation and fair value adjustments to contingent consideration, so gives a better view of underlying performance.

Dividend

A final dividend of 4.2p is being proposed by the Board. (2017: 0.73p covering the period from IPO (16 February 2017) to 31 March 2017).

The final dividend, if approved, which amounts to £8.5m (2017: £1m), will be paid on 27 September 2018 to those shareholders on the register on 31 August 2018.

Future reporting

Going forward the business will report numbers with a split of revenue between actuarial, administration, investment consulting and other (comprised of the SIP business, NPT and Healthcare). Expenses will be provided on a combined basis.

The 2018 numbers presented on this basis including the revenue from discontinued operations are:

Revenue	2018 £'m	2017 £'m
Pensions	37.9	31.5
Administration	13.7	7.3
Investment	4.9	4.0
Other	9.5	9.2
Total Revenue	**66.0**	**52.0**

Significant accounting matters

We completed a review of our activities to look at the impact of IFRS15 on revenue recognition. The focus of the review was on our fixed fees received, particularly as they relate to the triennial valuation exercises carried out for clients. The result of our review was that the implementation of the policy, which occurred on 1 April 2018 is not expected to have a material effect on our results going forward.

We continue to show adjusted numbers in our results. The adjusted concept ignores exceptional items, the amortisation of acquisition intangible assets as well as share-based payment costs. The later two items are non-cash related and are also key to defining our dividend policy. The amounts are clearly disclosed in Note 7.

Capital expenditure

Capital expenditure remains low and for 2018 was £1.3m (2017: £1.2m), again driven by software purchases and development.

Cash flow and cash position

At 31 March 2018 the Group had £9.4m (2017: £4.9m) cash balances and generated £10.5m (£11.4m) of cash from its operating activities. These, combined with an £80m committed financing facility until December 2022, of which £55.75m is currently drawndown, mean the Group is well placed to meet future working capital cash requirements.

The Group had net cash inflows from financing activities of £84m (2017: outflow of £8.1m) which was as a result of £66.9m proceeds from the issue of share capital relating to the Punter Southall acquisition, the drawdown of new bank facilities of £41.1m, the repayment of bank borrowings of £19.3m and associated finance costs of £0.8m, less dividends paid in the year of £3.8m.

The Group had net cash out flows from investing activities of £89.9m (2017: £1.2m) which included £88.9m in respect of the acquisition of Punter Southall Holdings Limited and its subsidiaries. The remaining investing activities mainly related to the purchase of software and tangible assets.

Statement of Financial Position

At 31 March 2018 the Group had net assets of £153.6m (31 March 2017: £29.0m). The increase is principally driven by the acquisition of Punter Southall Holdings Limited and its subsidiaries as detailed above, the generation of profit after tax in the period of £11.8m net of an interim dividend paid of £2.8m.

Subsidiary undertakings

The subsidiary undertakings of the Group in the year are listed in Note 38 to the accounts.

Going concern

Details on the Directors continuing to adopt the going concern basis in preparing the Financial Statements can be found in the Viability Statement in the Directors' Report on page 60.

Mike Ainslie
Chief Financial Officer
27 June 2018

Financial Highlights

	Revenue 2018 £'m	Revenue 2017 £'m	Revenue % Growth	Profit before tax 2018 £'m	Profit/(loss) before tax 2017 £'m	Profit after tax 2018 £'m	Profit/(loss) after tax 2017 £'m
Xafinity continuing business	51.5	49.3	4.4%	1.2	(14.3)	0.6	(13.7)
PS post acquisition	12.9	–	–	3.4	–	2.8	–
Other one-off adjustment	(0.4)	0.2	–	(0.4)	0.2	(0.4)	0.2
Total continuing operations	**64.0**	**49.5**	**29.2%**	**4.2**	**(14.1)**	**3.0**	**(13.5)**
HRT pre disposal (2017 = 12 months)	2.0	2.5	(18.2%)	0.8	0.9	0.7	0.7
HRT gain on disposal	–	–	–	–	–	8.1	–
Total including discontinued operations	**66.0**	**52.0**	26.9%	**5.0**	**(13.2)**	**11.8**	**(12.8)**

Principal Risks and Uncertainties

The Group laid out the principal risks affecting it in the IPO prospectus and the prospectus that accompanies the fund raising for the Punter Southall pensions businesses acquisition which completed 11 January 2018. The risks are grouped here under 7 main headings along with mitigating controls.

Principal Risk	Description	Mitigation
Staff retention	The Group is dependent on the continued services of its senior management team and key employees for the growth and success of the business. The loss of, or inability to recruit key personnel could have a material adverse effect on the Group's business, results of operations and financial condition.	The Group offers attractive compensation packages that are regularly benchmarked. The Group also has a graduate recruitment scheme that takes on recent graduates and trains them and supports them through professional exams. Training and development are provided for all staff with regular opportunities for discussion about career progression. A performance share plan and sharesave scheme are in place. Succession planning is reviewed by the Nominations Committee.
Reputation	The Group may suffer damage to its reputation which could materially and adversely affect the Group's results of operations.	Quality control standards and processes are maintained throughout the operational activity of the Group. Staff and client surveys are carried out on a regular basis, with the Board reviewing the consolidated feedback. The executive management and wider senior management team constantly demonstrate high standards of professional behaviours which permeate throughout the organisation.
Data loss/security breach	The loss or unintended disclosure of sensitive personal data could damage the Group's reputation and materially and adversely affect the Group's results of operations. The Group's information technology systems may be affected by failures and breaches of security, which could materially and adversely affect the Group's results of operations.	Procedures and processes are in place to safeguard against unintended data breaches and IT security standards are regularly reviewed and penetration testing performed regularly. Appropriate Professional Indemnity Insurance arrangements are in place to cover the business activity of the Group along with product, public and employers liability cover and other insurances necessary for a corporate Group. The levels of cover are reviewed annually.
Errors	The Group may be materially adversely affected by mistakes and misconduct by its personnel, including non-compliance with regulatory procedures or by any errors or omissions in any work undertaken previously by the Group.	The Group sets high standards of professional performance and trains employees appropriately for their area of operation. Policies and procedures are in place to cover these operations. Quality control processes are also in place. Insurance arrangements exist to limit the loss should an error lead to a claim.

Principal Risk	Description	Mitigation
Competition/client retention	The Group's principal market, being the professional services market to UK pension arrangements, is competitive. The Group's future success depends on its ability to continue to perform and maintain its client contracts. If the Group is unable to provide services under its client contracts, if the Group has disputes with its clients over the services provided or to be provided under the Group's contracts, or if the services to be provided under the Group's contracts are more demanding than anticipated, the Group's results of operations could be materially adversely affected.	The Group reviews the competitive landscape on a regular basis. As described above the Group has arrangements in place to ensure the highest professional standards are achieved in providing services to our clients. These services are provided at prices that provide a fair reward for the work done and which are competitively priced. The Group strives to maintain deep relationships with its clients which is manifested in the number of clients that have been with the Group for more than 20 years.
Regulatory change/ compliance	The Group is subject to regulation and benefits from regulatory approvals. The Group may fail, or be held to have failed, to comply with regulations. In addition, such regulations and approvals may change, making compliance more onerous. The Group's clients operate in an evolving regulatory environment.	The Group has a Compliance department that reviews the adherence to regulatory requirements and monitors changes in those requirements. The risk arising from regulatory change is generally viewed as an opportunity to provide more services to our clients.
Crime/external events/ market, economic, political	The Group may be susceptible to crime which could materially and adversely affect its results of operations. The Group's operations could be adversely affected by external events and amounts recoverable under its insurance policies may be limited. The Group may be subject to litigation or regulatory claims and its insurance arrangements may not be adequate to protect the Group. Certain parts of the Group's business may be adversely affected by economic, political and market factors that are beyond the Group's control.	The Group takes a structured approach to risk management and identifies and manages risks. Appropriate Professional Indemnity Insurance arrangements are in place to cover the business activity of the Group along with product, public and employers liability cover and other insurances necessary for a corporate group. The levels of cover are reviewed annually.

The Directors confirm in the Directors' Responsibility Statement on page 57 that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. This Strategic Report has been approved by the Board and signed by order of the Board:

Paul Cuff
Co-Chief Executive Officer
27 June 2018

Ben Bramhall
Co-Chief Executive Officer
27 June 2018

Board of Directors

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1. Tom Cross Brown
Independent Non-executive Chairman

Tom Cross Brown was appointed Chairman of XPS in January 2017. He is currently a non-executive director of Artemis Alpha Trust plc and a non-executive member of the Management Committee of Artemis Investment Management LLP. Until 2003, he was Chief Executive Officer of ABN AMRO Asset Management. Prior to joining ABN AMRO Asset Management in 1997, he spent 21 years at Lazard Brothers & Co., Limited, latterly as Chief Executive Officer of Lazard Brothers Asset Management from 1994 to 1997. He was non-executive Chairman of Pearl Assurance plc from 2005 to 2009 and of Just Retirement Group from 2006 to 2016. Tom is Chairman of the Nomination Committee of XPS Pensions Group plc (formerly Xafinity plc) and a member of the Audit and Risk Committee and the Remuneration Committee.

2. Paul Cuff
Co-Chief Executive Officer

Paul, who is a qualified actuary with over 20 years' experience in the pensions industry, is Co-Chief Executive Officer alongside Ben Bramhall. Paul was a partner at KPMG for 8 years, and joined XPS in October 2016. Immediately prior to joining XPS, Paul was head of the KPMG London pensions team, where he was instrumental in growing the London pensions business. Paul is primarily responsible for raising the profile of XPS in the market and generating new business. This covers both growing the client base in the Group's traditional service areas and the development of new service offerings to help clients meet the challenges they face as the market evolves. Paul is also responsible for the Group's strategy with regard to acquisitions and investment, including, for example, the development of technology.

3. Ben Bramhall
Co-Chief Executive Officer

Ben is a senior actuary with around 20 years' experience in the pensions industry and advises a wide range of trustees and corporate sponsors on all matters relating to pension provision. Ben joined XPS in April 2014, and is primarily responsible for the day to day operations of the business. This covers the provision of services to XPS's existing clients, revenue generation and the Group's people agenda. Since joining XPS in April 2014, he has played a key role in the development and implementation of the strategy for XPS as well as the hiring of key staff and development of new services and infrastructure. Ben joined XPS from KPMG in London where he played a key role in its development from a small team to one of the leading providers of corporate pensions advisory services.

4. Mike Ainslie
Chief Financial Officer

Mike is a Chartered Accountant who, on leaving the profession, spent 18 years in Corporate Banking working for a US Bank. His roles included Head of Audit, CFO and COO for the Bank's International operations. For the last 10 years he has worked as CFO or COO for a number of fast growing companies owned by Private Equity or other investment firms. The industries covered include: Life Insurance; Anti-Money Laundering Due Diligence; Offshore Company Formation and Administration and Social Media Analytics (SaaS). Mike joined XPS in October 2015 and as CFO, Mike is responsible for the finance, legal and compliance functions.

5. Jonathan Bernstein
Head of Pensions

Jonathan is a senior actuary with over 25 years' experience in the pensions industry. He joined XPS in June 2015 and was made Head of Pensions at XPS in January 2016. Jonathan is responsible for the pensions consulting/actuarial business, as well as wider business matters. His main responsibility is to ensure there is effective management of the Pensions business at all office locations of the Group, so that the business runs efficiently and as 'one team' of highly motivated staff and that XPS's strategy is successfully implemented. Jonathan provides advice on all aspects of UK pension schemes for some of XPS's largest clients. Prior to joining XPS, Jonathan was a senior partner at Mercer, UK. He has extensive experience of operational management, having run Mercer's Tower Retirement Unit for approximately five years before taking on a regional management role. His last role at Mercer was as UK Chief Actuary where Jonathan managed commercial risks across Mercer's Retirement Consulting business as well as leading on all aspects of professionalism and quality for approximately 500 qualified and trainee actuaries.

6. John Batting
Executive Director

John Batting was CEO of Punter Southall Ltd between 2004 and 2018, and he was one of the four founders of BGJ & Co Limited, an actuarial consulting business which was established in 1993 and subsequently merged with the Punter Southall businesses in 2002. He is a Scheme Actuary with over 38 years of experience in the actuarial profession, providing pensions and investment advice to both trustees and sponsoring companies, and has acted as an expert witness on pension matters.

7. Alan Bannatyne
Senior Independent Non-executive Director

After qualifying as a Chartered Accountant with Deloitte & Touche, Alan was Commercial Manager of Primecom and then Financial Director of Foresight, both subsidiaries of Primedia, a listed South African Media Group. Alan joined Robert Walters plc as Group Financial Controller in September 2002 and was appointed to the board of Robert Walters plc as Group Finance Director in March 2007. He is Chairman of the Audit and Risk Committee of XPS Pensions Group plc, and a member of the Remuneration and Nomination Committees.

8. Margaret Snowdon OBE
Independent Non-executive Director

Margaret is a Pensions professional and experienced non-executive director. She is Chair of the Remuneration Committee of XPS Pensions Group plc, and a member of the Audit and Risk Committee and the Nomination Committee. Margaret is a non-executive director of the Pensions Regulator and a non-executive member of the Phoenix Group With Profits Committee. She also serves on the Advisory Board of Moneyhub Financial Technology Limited. She previously held partner and director level positions with leading employee benefit consultancies, as well as running her own pensions management consulting business.

Among her many voluntary roles within the pensions industry, Margaret is Chair of the Pensions Administration Standards Association and of the Pension Scams Industry Group. She serves on the Council of the Pensions Policy Institute, and advises the Government on the national Pensions Dashboard and other matters.

Margaret was appointed an OBE in 2010 and has, uniquely, for seven years running been named as one of the Top 50 Influential People in Pensions and has received many awards for her contribution to Pensions.

9. Jonathan Punter
Non-executive Director

Jonathan Punter is the Punter Southall Group's Chief Executive Officer and one of the founders of the Punter Southall Group which sold Punter Southall Holdings Limited and its subsidiaries to XPS Pensions Group. Jonathan began his actuarial career with Duncan C Fraser & Co, where he became a partner, prior to the company being acquired by William M Mercer. He has 40 years of experience in the actuarial profession, with particular expertise in the areas of UK pensions and investment strategy. Jonathan is also a non-executive director of River & Mercantile Group.

Chairman's Introduction

Tom Cross Brown
Chairman

I am pleased to introduce the Corporate Governance Report for 2017/18, our first full financial year as a Group with a premium listing on the London Stock Exchange's main market.

In our maiden full year and up to the date of this report, the Group has delivered good revenue growth, strategic progress via the acquisition in January this year of Punter Southall Holdings Limited and its subsidiaries which comprise the actuarial consulting, pensions administration and investment consulting businesses of the Punter Southall Group, the subsequent introduction of new XPS branding and the Company's name changing to XPS Pensions Group plc. Throughout this exciting time, the Board has remained committed to the highest standards of corporate governance and maintaining a sound framework for the control and management of the Group's business activities.

On behalf of the Board, we were delighted to welcome Jonathan Punter and John Batting to the Board, as a Non-executive Director and an Executive Director respectively, on completion of the Punter Southall pensions business acquisition on 11 January 2018 and look forward to their contribution to the Group's development.

The Board has in place relevant policies and procedures to support the embedding of a robust governance structure and compliance with the obligations under the UK Corporate Governance Code and as a listed Company. We recognise, however, that further work over the medium term is required on the corporate governance framework to ensure that it embeds transparency, accountability and challenge in the culture and values of the substantially enlarged Group following the Punter Southall pensions business acquisition.

Debates and decisions at our Board meetings aim to link the Group's strategy, its risk appetite and the effective application of good governance practices to the pursuit of sustainable growth over the longer term for the benefit of all stakeholders. Since last year's report, the Board, Nomination Committee and Management have focused on progressing initiatives in the areas of succession planning and developing executive talent, gender pay and diversity, and Board effectiveness through our first Board and Committees performance evaluation process – the aim being to help drive improvement across the Business that will bring long-term success for the Company.

In the report to shareholders that follows, we have included a description of how the Company has applied the main principles of the Code, and complied with all its relevant provisions, throughout the financial year. Looking ahead, we recognise the need for the Company's succession planning, when identifying new Board members with the right skills set, to cast the net wider across the pool of talent to help improve diversity and will consider what actions may be required to ensure future compliance with the UK corporate governance regime following publication of the new version of the Code.

I look forward to reporting on further progress next year.

Tom Cross Brown
Chairman
27 June 2018

Corporate Governance

Statement of compliance with the UK Corporate Governance Code

The Company adopted the 2016 version of the UK Corporate Governance Code on 16 February 2017 on admission of its shares to the UKLA's Official List and listing on the Main Market of the London Stock Exchange. The Code is publicly available at www.frc.org.uk. Since the commencement of the financial year, the Company has applied all of the main principles of the Code as they apply to it as a 'smaller company' (defined in the Code as being a company below the FTSE 350) and has complied with all relevant provisions of the Code.

Group governance framework

Board composition and independence

The Board is composed of nine members, including the Chairman, five Executive Directors, two independent Non-executive Directors and one other Non-executive Director.

Jonathan Punter was appointed as a Non-executive Director pursuant to the Relationship Agreement entered into between Punter Southall Group Limited ('PSGL') and Xafinity plc on the completion of the Company's acquisition of Punter Southall Holdings Limited and its subsidiaries on 11 January 2018. The Relationship Agreement entitles PSGL to appoint one nominee director to the Board for so long as PSGL holds a beneficial interest, directly or indirectly, in 10% or more of the aggregate voting rights in the Company from time to time. John Batting was appointed as an Executive Director on 11 January 2018, on completion of the acquisition of Punter Southall Holdings Limited, having been CEO of Punter Southall Limited since 2004.

The Company complies with the provisions of the Code for smaller companies below the FTSE 350 which requires the composition of the board of directors of a UK listed company to include at least two independent non-executive directors (excluding the Chairman). The Board concluded that Tom Cross Brown met the independence criteria set out in the Code on his appointment as Chairman. The Board considers that the Non-executive Directors Alan Bannatyne and Margaret Snowdon OBE are each independent of management in character, judgement and opinion and are free from relationships or circumstances that could affect their judgement. One of the Non-executive Directors, Alan Bannatyne, acts as the Senior Independent Director ('SID'). The Board acknowledges that Jonathan Punter, as the nominated shareholder Director in the Company's relationship agreement with Punter Southall Group Limited, must therefore be considered non-independent within the meaning of the Code.

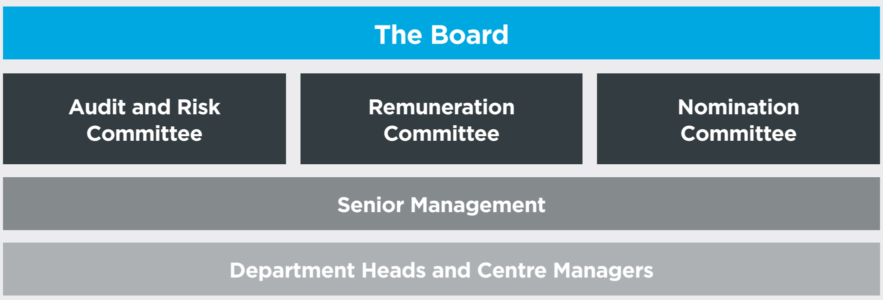
The Board benefits from the wide experience of its Non-executive Directors. Biographical details of all Board members are given on page 33.

Board Committees

The Board operates in accordance with the Company's Articles of Association and has a Nomination Committee, a Remuneration Committee and an Audit and Risk Committee, with formally delegated duties, authorities and reporting responsibilities, to assist it with the direction and control of the Group. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises. Written terms of reference for each Committee are subject to annual review and periodic updating to reflect any changes in legislation, regulation or best practice. The terms of reference for the three main Board Committees are available on the Company's website at www.xpsgroup.com.

The Company complies with the Code provision that a UK listed company's Remuneration and Audit Committees should comprise at least three independent Non-executive Directors (including the independent Non-executive Chairman) and that its Nomination Committee should comprise a majority of independent directors. The Chairman and the two independent Non-executive Directors are members of the three Board Committees. Tom Cross Brown chairs the Nomination Committee, Alan Bannatyne chairs the Audit and Risk Committee and Margaret Snowdon OBE chairs the Remuneration Committee. Each Chair reports on the business of their previous Committee meeting at the next scheduled Board meeting.

The Audit and Risk Committee's role is to assist the Board in discharging its oversight responsibilities by reviewing and monitoring the following: the integrity of the financial information provided to shareholders; the effectiveness of the Company's system of internal controls and risk management; the external audit process and auditors; and the processes for compliance with laws, regulations and ethical codes of practice. Further details are given in the Audit and Risk Committee report on page 40.



The role of the Remuneration Committee is to assist the Board to fulfil its responsibility to shareholders to ensure that remuneration policy and practices of the Company reward fairly and responsibly, with a clear link to corporate and individual performance, having regard to statutory and regulatory requirements. The Committee recommends the policy the Board should adopt on executive remuneration and, within the terms of the Directors' Remuneration Policy approved by shareholders at the AGM in September 2017, determines and agrees with the Board the levels of remuneration for each of the Executive Directors, the Company Chairman and designated senior management below Board level. Further details are given in the Remuneration Report on page 42.

Nomination Committee Report

The Nomination Committee assists the Board in determining the composition and make-up of the Board, including its skills, knowledge, experience and diversity. It is responsible for developing and maintaining a formal, rigorous and transparent procedure for identifying appropriate candidates for Board appointments and making recommendations to the Board.
The Committee is also responsible for keeping under review the leadership needs of the Group, both executive and non-executive, and for ensuring that succession planning focuses on the continued ability of the Group to deliver its strategic goals and compete effectively.

The Committee plans to meet twice a year, and otherwise as required, to fulfil its role. The Committee met on three occasions during the financial year and once since the year end. The meetings focused on succession planning for Board and senior management appointments, the induction and development of Board members, the Group's approach to gender balance and ethnic diversity, the annual performance evaluation led by the Group Chairman, a review of the independence of each of the Non-executive Directors, and confirmation that each Director continues to contribute effectively and demonstrate commitment to their role. The Committee also reviewed its constitution and terms of reference. Following the annual performance evaluation, the Committee is satisfied that there is an appropriate balance of skills, experience, independence and knowledge on the Board and all its Committees.

During the year, the Nomination Committee reviewed detailed succession plans covering all key executive roles including those of the Executive Directors. The Committee is satisfied that the contingency and talent management plans in place for senior executive positions are appropriate, and has agreed that the Group's succession planning should be kept under review and further developed over time to cover the Chairman and Non-executive Director roles.

Formal induction of any new Director is tailored to further their knowledge of the Group, its business, culture, operations and governance and to ensure awareness of their regulatory duties and obligations as a director of a UK premium listed company. Given Jonathan Punter's and John Batting's extensive knowledge of the UK pensions industry and of Punter Southall Holdings Limited, together with the detailed disclosures in the Company's Prospectus dated 7 December 2017 regarding its acquisition of Punter Southall Holdings Limited and related issues of new equity, the Committee considered that they did not require tailored formal inductions following their appointments to the Board on 11 January 2018, other than meetings with the Group Chairman, other Board members and certain senior managers. Additionally, they were briefed on their duties and responsibilities as a director of a listed company.

During the year, the Board approved the Group's policy on equality and diversity, covering everyone employed by XPS and including employees on fixed term contracts, agency workers and self-employed contractors. This policy supports the actions being taken to help address the Company's gender pay gap, which reflects a higher proportion of males in higher paid roles than females. Whilst this is partly a challenge of the UK industry in which the Company operates, with a male-dominated actuarial profession, the Board believes it has a responsibility to promote change both within XPS and the industry more generally.
To support better diversity outcomes over time for the XPS workforce at all levels, and specifically to progressively increase the number of females in senior positions, the Company is aiming to promote various new initiatives during 2018/19, including:

- Improving the Company's maternity pay policy, offering flexibility around returning to work to encourage female employees to pursue a long-term career with XPS, and running an actuarial mentoring programme for female actuaries in conjunction with Women Ahead, aimed at retaining female actuaries within the profession through ongoing career advice and support.
- Establishing a diversity working group with representation from across XPS to seek new ways of enhancing the diversity agenda, introducing gender balanced shortlists for certain roles, and sponsoring a network of senior females within the pensions industry to identify how the industry can address the gender pay gap collectively.

The Board believes that no individual should be discriminated against, whether for reasons of gender, ethnicity or other grounds that restrict social inclusion, and this extends to Board appointments which it considers should be made on merit and on the basis of ensuring an appropriate balance of skills and experience within the Board. The Board recognises that greater diversity, in the widest sense of diversity of race, experience and approach, can generate a more diverse perspective on issues which, in turn, has the ability to benefit Board effectiveness through improved discussions and better decisions.

Group executive committee

The Co-CEO's operate a Group Executive Committee to support them in the performance of their duties, including the development and implementation of strategy and the day-to-day operational management of the business. The Group Executive Committee meets weekly and comprises the Executive Directors Ben Bramhall, Paul Cuff, Mike Ainslie, Jonathan Bernstein and John Batting. The Group Executive Committee also holds monthly management calls with the senior management team comprising the heads of business lines and divisions.

Board responsibilities and operation

The Board is focused on providing entrepreneurial leadership to the Group. It is responsible for directing and controlling the Group and has overall authority for the effective and prudent management and conduct of the Group's business and the Group's strategy and development. The Board monitors performance, being responsible for ensuring that appropriate financial and human resources are in place for the Group to meet its objectives, and takes the lead in setting and embedding the Company's culture, values and standards. The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls, and for reviewing the overall effectiveness of systems in place), and for the approval of any changes to the capital, corporate or management structure of the Group. There is a formal schedule of matters reserved for Board approval which is subject to annual review and includes:

- the Group's long-term objectives, business strategy and risk appetite;
- the Company's policies, values and standards;
- annual business plans, budgets and forecasts;
- extension of the Group's activities into new business or geographic areas;
- changes in capital structure and any form of fundraising or asset securitisation;
- major changes to the corporate structure, including material acquisitions and disposals;
- interim and annual financial statements and dividend policy;
- material guarantees, indemnities and letters of comfort;
- the Group's system of internal control and risk management;
- contracts which are material strategically or by reason of size or duration;
- calling of shareholder meetings and related documentation;
- changes to the membership of the Board and its Committees;
- remuneration policy for the Directors and senior executives;
- introduction of new share incentive plans or major changes to existing plans; and
- the Company's overall corporate governance arrangements.

There is a clear division of key responsibilities between the Chairman and the two Co-CEOs. The Chairman is responsible for the effective leadership and governance of the Board, but takes no part in the day-to-day running of the Group's business. His key responsibilities include:

- leading the Board effectively to ensure it is primarily focused on business strategy, performance, value creation and accountability;
- ensuring the Board determines the risk appetite it is willing to embrace in the implementation of strategy;
- leading the succession planning process and chairing the Nomination Committee;
- encouraging all Directors to contribute fully to Board discussions and ensuring sufficient challenge applies to major proposals;
- fostering relationships within the Board and providing a sounding board for the Co-CEOs on important business issues;
- identifying development needs for the Board and Directors;
- leading the process for evaluating the performance of the Board, its Committees and individual Directors; and
- ensuring effective communication with shareholders.

The Co-CEOs report to the Chairman and the Board and are responsible for jointly leading the Group's business and managing it in accordance with the business plan approved by the Board, the Board's overall risk appetite, the policies approved by the Board and its delegated authorities, and all applicable laws and regulations. They also recommend budgets and forecasts for Board approval, lead the developing investor relations programme, and maintain a dialogue with the Chairman on significant business developments and strategy issues. Ben Bramhall is primarily responsible for the operation of the business, covering the provision of services to existing clients, revenue generation and the Group's people strategy. Paul Cuff is primarily responsible for raising the profile of the XPS Group in the market and generating new business, both in traditional service areas and in the development of new services as the market evolves. He is also responsible for the Group's strategy with regard to acquisitions and technology investment.

Decisions on operational matters are delegated by the Board to the Executive Directors, consistent with the schedule of matters reserved for Board approval. In advance of scheduled Board meetings each Director receives documentation providing updates on Group strategy, finances, operations and business development. The Board plans to meet at least seven times a year and at other times as and when necessary. At least once a year, the Board will meet to review business strategy. The Directors are expected to attend all meetings of the Board and any Committees of which they are members, and to devote sufficient time to the Company's affairs to fulfil their duties as Directors. Non-executive Directors each need to commit a minimum of 28 days service per year to the Company. Where Directors are unable to attend a meeting, they are encouraged to submit to the Chairman any comments on matters to be considered at the meeting to ensure that their views are recorded and taken into account during the meeting.

The table below shows the attendance of each Director at meetings of the Board and of the Committees of which they are a member during the financial year:

Director	Board	Audit and Risk Committee	Remuneration Committee	Nomination Committee
Tom Cross Brown	9/9	5/5	5/5	3/3
Alan Bannatyne	9/9	5/5	5/5	3/3
Margaret Snowdon OBE	9/9	5/5	5/5	3/3
Jonathan Punter*	2/3	–	–	–
Ben Bramhall	9/9	–	–	–
Paul Cuff	8/9	–	–	–
Mike Ainslie	9/9	–	–	–
Jonathan Bernstein	9/9	–	–	–
John Batting*	2/3	–	–	–

* Appointed 11 January 2018

In addition to the formal scheduled meetings, all Directors attended a full strategy review session in May 2018. Non-executive Directors remain in regular contact with the Chairman, whether in face to face meetings or by telephone, to discuss matters relating to the Company without the Executives present.

The Board is ultimately responsible for the effectiveness and monitoring of the Group's system of internal controls. The Audit and Risk Committee's role is to assist the Board with its oversight responsibility by reviewing and monitoring the Company's system of internal controls. It met five times in the financial year and at its meeting in June 2018 considered the internal controls assurance framework used during the financial year, concluding that it was sound and appropriate for the Business.

Directors are reminded at the commencement of each meeting to notify the Board of any conflicts of interest. Any actual or potential conflicts of Directors with the interests of the Company that arise must be disclosed for consideration and, if appropriate, authorisation by the Board in accordance with the Company's Articles of Association. The Board may authorise conflicts and potential conflicts, as long as the potentially conflicted Director is not counted in the meeting quorum and does not vote on the resolution to authorise. Directors are required to notify the Group Chairman when a conflict or potential conflict does arise in order that Board authorisation can be considered. If the Board determines that a conflict or potential conflict can be authorised, it may impose additional conditions on the Director concerned.

Following a review of the approach to performance evaluation by the Nomination Committee in November 2017, the first annual performance evaluation of the Board, its Committees and of individual Directors was carried out in April 2018 prior to publication of the Annual Report for 2017/18. The evaluation process was conducted by the Group Chairman through a combination of one-to-one interviews with all Board members and the completion of detailed questionnaires designed to assess the effectiveness and assist in the objective review of the performance of the Board, Committees and individual Directors.

The findings of these meetings and questionnaires were reviewed and discussed at the Board meeting in May 2018. The Board considered that the overall outcome of the evaluation process was encouraging, noting that there was an appropriate split of skill sets on the Board and its Committees, and concluding that all forums were performing effectively with all Directors considered to be effective and committed to their roles. Three specific actions were identified to further improve the effectiveness of the Board:

- to increase the amount of discussion time together, outside of formal Board meetings, devoted to business strategy;
- to increase the time spent in formal Board meeting discussions on current business issues and challenges; and
- to fit more frequent legal, compliance and accounting updates from external advisers into the Board and Committees' annual programme of meetings, to enhance Board members' knowledge of future changes affecting the governance of the Group.

These actions will be reviewed and monitored by the Board and Nomination Committee, with progress assessed as part of the Board evaluation exercise next year which will be carried out on a similar basis.

The independent Non-executive Directors, in addition to their role of constructively challenging and facilitating the development of the Group's strategy, met to evaluate the performance of the Chairman during 2017/18 (led by the SID and excluding the Chairman), taking into account the views of other Board members, with the positive results of that process communicated by the SID to the Board at its meeting in May 2018. As the SID, Alan Bannatyne provides a sounding board for the Chairman and will deputise for him in his absence. The Chairman and Non-executive Directors are in regular contact and may meet on a number of occasions each year without the Executive Directors being present.

Each Director, as part of their induction, receives a legal briefing from a Company advisor on their duties and responsibilities as a director of a publicly quoted company. A formal induction programme will be developed and tailored for any new Directors joining the Board. The Chairman, with the support of the Company Secretary, ensures that the development and ongoing training needs of individual Directors and the Board as a whole are reviewed and agreed following the annual performance evaluation of the Board, its Committees and individual Directors.

Directors may seek independent professional advice at the Company's expense where they consider it appropriate in relation to their duties. All Directors have access to the advice and services of the Company Secretary.

The Board has adopted a code on dealings in relation to the securities of the Company which is based on, and is at least as rigorous as, the model code formerly contained in the Listing Rules updated as appropriate to reflect the EU Market Abuse Regulation. The Directors and those employees formally identified as insiders are required to comply with the Company's securities dealing code.

As part of its investor relations programme, the Company seeks to maintain an ongoing dialogue with major institutional shareholders relating to the performance of the Group including strategy and new developments. Investor activity is a standing report on the Board's agenda and includes the views communicated by shareholders. As the SID, Alan Bannatyne is available to shareholders if they have concerns which contact through the normal channels of Chairman, the Co-CEOs or other Executive Directors has failed to resolve or for which such channels of communication are inappropriate.

Annual General Meeting

The Company's second Annual General Meeting ('AGM') will take place at 2.00pm on Thursday 13 September 2018 at the Group's main office in Reading. The AGM notice setting out the resolutions to be proposed at the meeting and including explanatory notes, together with this Annual Report and Accounts, will be available on the Company's website (www.xpsgroup.com) and distributed to shareholders who have elected to receive hard copies of shareholder information at least 20 working days prior to the date of the meeting. Voting at the AGM will be conducted by way of a poll and the results will be announced through the London Stock Exchange Regulatory News Service and made available on the Company's website. All Board members are expected to attend the meeting and the Chair of each of the Board's Committees will be present to answer any questions put to them by shareholders.

Audit and Risk Committee Report

Alan Bannatyne
Chair of the Audit and Risk Committee

XPS Group is totally committed to actively identifying and mitigating risk and demonstrating transparent corporate governance.

Dear Shareholder,
I am pleased to present the report of the Audit and Risk Committee for the year-ended 31 March 2018. The Committee has met 5 times during the year and intends to continue to meet at least 4 times annually.

Membership of the Committee

The members of the Committee are myself, Tom Cross Brown and Margaret Snowdon.

The Board is satisfied that the Committee has recent and relevant financial experience as can be seen in their biographies included elsewhere in the Annual Report.

The Executive Directors are invited to each meeting as well as the Head of Compliance, the Financial Controller and other members of the management team as the agenda dictates.

Auditor

The Committee is responsible for making recommendations to the Board regarding the appointment of its external auditors and their remuneration. BDO LLP has been the Group's auditor since 2014.

The Group Audit Partner is required to rotate after a maximum of 5 years; the current audit partner, Christopher Pooles, was appointed in 2014.

The Committee is responsible for making recommendations on the independence of the Company's Auditor, BDO LLP. In addition, the Auditor has internal processes, which include peer reviews, to ensure that independence is maintained. As a result of the IPO, the Auditor now has limitations on the nature and scope of other work that the firm is permitted to provide to the Group. The Committee will review the level of audit fees and non-audit fees on an ongoing basis. See Note 6 to the Financial Statements.

The Committee has reviewed the approach to the annual audit at a meeting that the Auditor attended ahead of the start of fieldwork. The Auditor then attended a further Committee meeting at the completion stage of the audit to present their findings. There is an open line of communication between the Chair of the Audit and Risk Committee and the audit engagement partner. The Committee assessed the effectiveness of the external audit process by obtaining feedback from parties involved in the process, including management and the external auditor.

Based on this feedback and its own ongoing assessment, the Committee remains satisfied with the efficiency and effectiveness of the audit.

After due and careful consideration the Committee remains satisfied with the effectiveness and independence of BDO LLP and has recommended to the Board that BDO LLP be reappointed as the Company's Auditor.

Significant accounting matters considered during the year

Revenue recognition and accrued income

We reviewed the approach that management take to revenue recognition and discussed the treatment of accrued income for services not billed and the deferral of income billed in advance of work performed. We were satisfied with the processes put in place by management for recording revenue.

PS acquisition and HRT disposal reporting

The acquisition of Punter Southall's Actuarial and Investment consulting and Administration businesses and the sale of the independent trustee business, HRT, gave rise to a number of one-off items, some of which include the need for judgement. Included within that are the allocation of costs between share issuance and operating expenses, the treatment of intangible assets acquired and the treatment of gains made on the sale of an asset. No changes in treatment were needed.

Impact of future accounting standards

See Note 1 to the Financial Statements. Some of these new accounting standards will apply for the financial year 2019 and the Committee will continue to assess the impact on the Group's Financial Statements.

Annual Report review

A final draft of the Annual Report is reviewed by the Committee prior to consideration by the Board and the Committee considered whether the 2018 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. They were satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable and provided the necessary information.

Risk

An effective Risk Management culture has been embedded throughout the organisation with strong leadership and direction from Executive Management.

XPS Group is totally committed to actively identifying and mitigating risk and demonstrating transparent corporate governance. Our Risk Management process seeks to focus on those business and control objectives that must be met in order to evidence achievement of client needs and relevant statutory compliance. As such, XPS Group looks to focus on key inherent risks that may impact on the achievement of control objectives and embed control measures into its process to render reasonable assurance that they will be achieved in practice.

The Business Process Manager reviews all administrative processes and our Actuarial business follows the guidelines for full peer review as set out by the Institute of Actuaries. The Audit and Risk Committee also reviews the wider internal control processes and will enlist external support to review and test when it is deemed necessary.

Our approach to risk management is continually reviewed to ensure that it remains fit for purpose and that ownership for Risk Management rests with local management. Risks are recorded and assessed based on their potential impact on the business and their likelihood. The process requires action to mitigate any risk where existing controls are considered to be insufficient or where the risk is considered beyond tolerable limits.

All local reports are consolidated into a core report for the Board to evidence that all risks have been identified and mitigated, and where necessary corrective action is planned.

Underpinning the approach to Risk Management is a strong culture of control which is supported by:
- clear and well documented compliance policies available to all staff;
- fully documented processes which are subject to review;
- local quality checks; and
- customer and client surveys.

The process embraces the whole spectrum of activities and measures addressing risk (identification, evaluation, treatment, reporting and monitoring) which taken together, support the achievement of the organisation's objectives. The underlying processes and control procedures are regularly reviewed and amended to reflect the findings of the process, including improvements in operational administration, regulatory compliance and legislative changes.

The business determined during the year that an Internal Audit function would be put in place. This has been implemented for the year commencing 1 April 2018.

Whistleblowing

The Company has a whistleblowing policy in place that allows for reports to be made to the Compliance function. All staff are provided with a copy of the policy.

Alan Bannatyne
Chair of the Audit and Risk Committee
27 June 2018

Directors' Remuneration Report

Margaret Snowdon OBE
Chair of the Remuneration Committee

The principal objectives of our Directors' Remuneration Policy remain to provide incentives that support the implementation of our strategy and are aligned to the delivery of long-term shareholder value. We aim to do this in a way that is perceived to be fair by all parties and is also value for money.

Dear Shareholder,
XPS Pensions Group is a very different Company now from 12 months ago. During the year ended 31 March 2018, shareholders approved the acquisition of the actuarial consulting, pensions administration and investment consulting businesses of the Punter Southall Group. This is a bold step which has almost doubled the size of the Group and materially increased market capitalisation. The transaction not only increases XPS Pensions Group's scale but also the complexity of the business and the range of services we offer. It makes XPS Pensions Group the largest purely pensions consulting firm in the UK.

The Group achieved creditable financial performance in the year and delivered profitable revenue growth, a healthy operating margin and strong cash generation, while investing in operational capabilities to underpin future growth. The Executive Directors have delivered strong operational performance while ensuring that the integration of the new businesses is executed efficiently and well.

Significant changes to our approach to remuneration are now required

The principal objectives of our Directors' Remuneration Policy are to provide incentives that support the implementation of our strategy and are aligned to the delivery of long-term shareholder value. We aim to do this in a way that is perceived to be fair by all parties and is also value for money. The Remuneration Committee has spent time discussing how best to ensure that our approach to Directors' remuneration – both in respect of policy and practice – fulfils these objectives and keeps pace with the changing business.

The Remuneration Committee reached the conclusion that significant changes are required to the composition and the level of the remuneration of the Executive Directors. To this end, we plan to make changes in stages which will significantly increase base salaries and reduce current levels of variable pay as a percentage of salary. The changes are designed to:

- ensure the internal alignment of the Executive Directors' pay with that of employees in XPS Pensions Group; and
- narrow the gap between current level of total remuneration and external market practice.

We have started the process and, working within the current Directors' Remuneration Policy which was approved last year, have implemented substantial increases to the base salaries of four of the five Executive Directors effective from 1 April 2018. We shall make no further changes until we have consulted with our largest shareholders on the next steps and on a proposed new Directors' Remuneration Policy.

The rationale for the changes

XPS Pensions Group's pay reflects the Group's history of private equity ownership. Base salaries were set so as to be low against the market. This was not remedied when the Group floated in 2017.

During the year, the Committee conducted a review of market practice which highlighted that the fixed remuneration of the Co-CEOs was around half the level seen in comparator companies (c. £265,000 compared to £510,000 in the FTSE Small Cap and £560,000 in other professional services businesses). It is also apparent that, although the variable incentives are currently high as percentage figures, the total target remuneration of the Co-CEOs which is c. £700,000 falls well short of competitive levels both in other FTSE Small-Cap companies and when compared to our professional services competitors – of between £1 million and £1.2 million. The market shortfalls also exist for the CFO and Head of Pensions, although are less severe. Their fixed pay of c. £234,000 and c. £235,000 respectively compared to the market median of £342,000 and £338,000 respectively.

To start the process of adjustment, the Remuneration Committee has increased the salaries of the Co-CEOs, CFO and Head of Pensions by the maximum permitted under the Directors' Remuneration Policy of 20%. The Committee recognises that these increases are significant. They are higher than the average increase for staff generally although they are in line with increases made to other employees where market adjustments have been necessary during the year.

The increases will still mean that the pay of the Co-CEOs is well below the lower quartile. The pay of the CFO and the Head of Pensions will remain below the lower quartile albeit to a lesser degree. The increases in fixed pay should also be seen in the context of our desire, subject to consultation with our shareholders, to reduce the annual incentive for the Co-CEOs from 150% of salary to 100% of salary and the face value of awards under the Performance Share Plan from 150% to 125% of salary. The Committee has no intention of chasing market medians but it has taken the view that the extent of the market gap results in an approach which is both unfair and untenable. The Co-CEOs are both first-time Plc CEOs but they are talented and we want to ensure that they are paid in accordance with the scope of the responsibilities they hold. The adjustment we have made to base salaries will mean that the ratio of their total target pay to average pay in XPS Pensions Group is around 20:1.

I shall be meeting with our largest shareholders in the Autumn to consult on the next stages of the changes and on a new Directors' Remuneration Policy.

A new Executive Director on the Board

John Batting was appointed to the Board of Directors of the Company following the completion of the acquisition in January 2018. His fixed pay arrangements reflect his legacy Punter Southall service contract and his incentive elements are being aligned to those of the other Executive Directors.

The table below summarises our approach to the remuneration of the Executive Directors for 2018/2019.

Component of remuneration	Summary of approach
Base salary and benefits	Appropriate level of base salary and benefits, reviewed annually in the light of factors such as individual/Group performance, scope of role, practice adopted by comparator companies. The base salaries of the Executive Directors for the forthcoming year are: Ben Bramhall – £288,000 Paul Cuff – £288,000 Mike Ainslie – £252,000 Jonathan Bernstein – £252,000 John Batting – £258,370
Pension	Defined contribution/cash supplement of between 6% and 8% of salary for the continuing Executive Directors and John Batting receives a defined contribution of 15% of salary.
Annual bonus	Payable subject to the achievement of challenging financial/strategic/personal performance conditions. Malus and clawback provisions apply. Maximum bonus opportunity for the Executive Directors potentially payable in cash and deferred shares: Ben Bramhall – 150% of salary Paul Cuff – 150% of salary Mike Ainslie – 112.5% of salary Jonathan Bernstein – 112.5% of salary John Batting – 112.5% of salary
Long-term incentives	Provided via a Performance Share Plan ('PSP'). Annual awards over shares made that vest subject to stretching performance conditions generally measured over a 3-year period. Maximum 'normal' grant level is 150% of salary. Malus and clawback provisions apply.
All-employee share plans	Executive Directors are entitled to participate in all the Company's employee share plans, including the Share Save Plan, on the same terms as other employees.
Share ownership guidelines	200% of salary.

Annual bonus payments for 2017/18

Based on the Remuneration Committee's assessment of financial and personal performance against the targets set last year, the bonus outturn for 2017/18 for the Executive Directors is as follows:

Executive Director	% of salary	% of bonus maximum
Ben Bramhall	119%	79%
Paul Cuff	119%	79%
Mike Ainslie	89%	79%
Jonathan Bernstein	89%	79%
John Batting	58%	80%[1]

1. John Batting's bonus was pro-rated for time to reflect his appointment on 11 January 2018.

Other activities to note

The Remuneration Committee has also overseen the introduction of the all-employee Share Save plan that was launched in July 2017 and reviewed the Group's gender pay gap analyses and action plans. It will also monitor the development and implementation of the action plans.

I trust that you find this Report to be informative and transparent, and, although I know that some shareholders may be reluctant to support the large increases in base salaries, I hope that the Directors' Remuneration Report explains clearly and effectively why we think this was the right decision to take. I hope to receive your support for the Directors' Remuneration Report at the AGM. I am very keen to encourage an open dialogue with our shareholders on executive remuneration and look forward to the consultation exercise in the Autumn.

Margaret Snowdon OBE
Chair of the Remuneration Committee
27 June 2018

Directors' Remuneration Policy

This Remuneration Policy, which was approved by shareholders at the 2017 AGM, contains the material required to be set out in the Directors' Remuneration Report for the purposes of Part 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which amended The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the DRR Regulations').

The Directors' Remuneration Policy took effect for all payments made to Directors with effect from the conclusion of the 2017 AGM. The policy was developed with reference to the UK Corporate Governance Code in force at the time of approval and is appropriate to support the long-term success of the Company while ensuring that it does not promote inappropriate risk-taking.

The full policy can be found on the Company's website (www.xpsgroup.com). However, for convenience we have set out below a summary of the policy's key terms:

Element and purpose	Policy and operation	Maximum	Performance measures
Base salary The core element of pay, reflecting the individual's position within the Company and experience.	The base salary of each Executive Director takes into account the performance of each individual and is set at an appropriate level to secure and retain the talent needed to deliver the Group's strategic objectives. Salaries are reviewed annually on 1 April and are influenced by: information from relevant comparator groups (referencing the Group's competitors and public companies in other industries); the performance of each individual Executive Director; and average increases for employees across the Group as a whole.	Annual increases will not exceed 7.5% + RPI or the average increase of employees across the Group in any given year, whichever is higher. The level of increase may deviate from this maximum in the case of special circumstances for example, increases in responsibilities or promotion. As an example, this may occur if the market capitalisation of the Company increases as the shares are 're-rated' by investors such that the comparator group changes. In this scenario, other elements of remuneration may also change. In these cases, any exceptional increase will not exceed 20% of salary a year.	n/a
Benefits in kind To provide market-competitive benefits valued by recipients.	Benefits currently include permanent health insurance, life insurance, private medical insurance and car allowance and may also include other benefits in the future. In certain limited circumstances, relocation allowances may be necessary. All benefits are subject to annual review to ensure they remain in line with market practice.	Benefits (excluding any relocation allowances) may be provided up to an aggregate value of normally £30,000 for each Executive Director (indexed to inflation).	n/a
Pension To provide retirement benefits.	Executive Directors participating in the pension plan benefit from matching annual Group contributions worth between 6% and 8% of base salary. Executive Directors are entitled to take all or part of their pension contributions as a cash allowance.	The maximum employer's contribution (or cash supplement) is 8% of salary.	n/a

Directors' Remuneration Report continued

Element and purpose	Policy and operation	Maximum	Performance measures
Annual bonus To motivate Executive Directors and support the delivery of the Group's financial and strategic business target over a one-year operating cycle.	Annual bonus plan levels and the appropriateness of measures are reviewed annually to ensure they continue to support our strategy. Once set, performance measures and targets will generally remain unchanged for the year, except to reflect events (eg corporate acquisitions, other major transactions) where the Committee considers it to be necessary in its opinion to make appropriate adjustments. The Remuneration Committee retains the flexibility to pay annual bonus outcomes in cash and/or deferred shares (which may allow for dividend roll-up). Clawback and malus provision apply as explained in more detail in the notes to this Policy table.	The maximum annual bonus opportunity is 150% of base salary. For 2018/19, the maximum opportunity will be 150% of base salary for the Co-CEOs and 112.5% of salary for the other Executive Directors.	Bonuses will be payable subject to the achievement of performance conditions which will be set by the Remuneration Committee. The targets may be financial and/or personal and strategic. The intended weighting of these measures is not less than 60% financial. Where a sliding scale of targets is used, attaining the threshold level of performance for any measure will not typically produce a pay-out of more than 20% of the maximum portion of overall annual bonus attributable to that measure, with a sliding scale to full pay-out for maximum performance. Bonus payments will also be subject to the Committee considering that the proposed bonus amounts, calculated by reference to performance against the targets, appropriately reflect the Company's overall performance and shareholders' experience. If the Committee does not believe this to be the case, it may adjust the bonus outturn accordingly.
Performance Share Plan To motivate Executive Directors and incentivise the delivery of sustained performance over the long term, and to promote alignment with shareholders' interests.	Awards under the PSP may be granted as nil/nominal cost options which vest to the extent performance conditions are satisfied over a period normally of at least 3 years. Awards will vest at the end of the specified vesting period at the discretion of the Remuneration Committee and are subject to a further holding period of a further 2 years (or such shorter period so that the period from the date of grant until the end of the holding period will be equal to 5 years). The PSP rules allow that the number of shares (or the cash equivalent) subject to vested PSP awards may be increased to reflect the value of dividends that would have been paid in respect of any record dates falling between the grant of awards and the expiry of any vesting period. Clawback and malus provisions applied are explained in more detail in the notes to this Policy table.	The market value of shares to be awarded to Executive Directors in respect of any year will normally be up to 150% of base salary, with awards of a maximum of 200% allowable in exceptional circumstances.	The Remuneration Committee may impose such conditions as it considers appropriate which must be satisfied before any award will vest. All awards made to Executive Directors will be subject to performance conditions which measure performance over a period normally no less than 3 years. No more than 25% of awards vest for attaining the threshold level of performance.

Element and purpose	Policy and operation	Maximum	Performance measures
Share ownership guidelines To promote stewardship and to further align the interests of Executive Directors with those of shareholders.	The share ownership guidelines encourage Executive Directors to build or maintain (as appropriate) a shareholding in the Company. If any Executive Director does not meet the guideline, they will be expected to retain up to 50% of the net of tax number of shares vesting under any of the Company's discretionary share incentive arrangements (including any deferred bonus shares) until the guideline is met.	No maximum level but not less than 200% of base salary for any Executive Director.	n/a
All-employee share plans To facilitate and encourage share ownership by staff, thereby allowing everyone to share in the long-term success of the Company and align interests with those of shareholders.	The Executive Directors will be entitled to participate in all of the Company's employee share plans, including the Share Save Plan, on the same terms as other employees. These all-employee share plans are established under HMRC tax-advantaged regimes and follow the usual form for such plans.	The maximum participation levels for all-employee share plans will be the limits for such plans set by HMRC from time to time. However the Company may impose lower limits on a scheme by scheme basis.	Consistent with normal practice, such awards would not be subject to performance conditions.

Chairman and Non-Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures
Chairman and Non-executive Directors' fees To enable the Company to recruit and retain Company Chairs and Non-executive Directors of the highest calibre, at the appropriate cost.	The fees paid to the Chairman and Non-executive Directors aim to be competitive with other listed companies of equivalent size and complexity. The fees payable to the Non-executive Directors are determined by the Board, with the Chairman's fees determined by the Committee. No Director participates in decisions regarding their own fees. The Chairman and Non-executive Directors do not participate in any new cash or share incentive plans. The Chairman and Non-executive Directors are entitled to benefits relating to travel and office support and such other benefits as may be considered appropriate. The Chairman is paid a single fee for the role, although he will be entitled to an additional fee if he is required to perform any specific and additional services. Non-executive Directors receive a base fee for the role. Additional fees are paid for acting as Senior Independent Director or for Chairman of the Audit, Remuneration of other Board Committees to reflect the additional time commitment. They will be entitled to an additional fee if they are required to perform any specific and additional services.	The aggregate fees and any benefits of the Chairman and Non-executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association for such fees currently £500,000 p.a. in aggregate. Any increases in fee levels made will be appropriately disclosed.	n/a

Service contracts

Executive Directors

Ben Bramhall, Paul Cuff, Mike Ainslie and Jonathan Bernstein entered into a service agreement with the Company that was effective upon Admission and dated 16 February 2017. The policy is that each Executive Director's service agreement should be of indefinite duration, subject to termination by the Company or the individual on no more than 12 months' notice. However, the Committee reserves flexibility to alter these principles if necessary to secure the recruitment of an appropriate candidate and if appropriate introduce a longer initial notice period of up to 2 years (reducing over time to no more than 12 months).

The service agreements of all Executive Directors, which are available for inspection at the Company's registered office, comply with this policy:

- The Executive Directors' service agreements are terminable by either party on not less than 9 months' written notice for the Co-CEOs, 6 months for CFO and Head of Pensions and 12 months for John Batting or immediately upon payment in lieu of notice and contain a garden leave clause.
- In each case any payment in lieu of notice will be calculated by reference to base salary and contractual benefits only and will not include any entitlement to bonus.

Chairman and Non-Executive Directors

The appointments of Tom Cross Brown, Alan Bannatyne and Margaret Snowdon are subject to the terms of letters of appointment agreed between each of them and the Company dated 24 January 2017 and the appointment of Jonathan Punter is subject to the terms of a letter of appointment dated 5 June 2018. They are not entitled to receive any compensation on termination of their appointment (other than payment in respect of a notice period where notice is served) and are not entitled to participate in the Company's share plans, bonus arrangements or pension schemes. They are entitled to be reimbursed all reasonable out-of-pocket expenses incurred in the proper performance of their duties.

Their appointment may be terminated at any time upon 3 months' written notice by either party and with immediate effect in certain circumstances. The appointment may also be terminated pursuant to the Articles or as otherwise required by law. They are subject to retirement by rotation every 3 years under the Articles but intend to retire and submit themselves for re-election by shareholders each year at the annual general meeting.

The full policy also provides full details of our approach to:

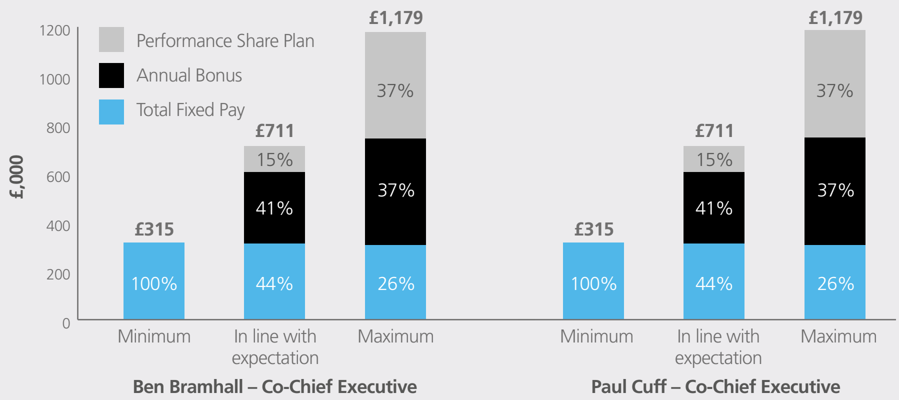
- Committee discretions
- Travel and hospitality
- Past obligations
- Malus/clawback
- Performance conditions
- Recruitment and terminations
- External Appointments
- Differences between the Policy in respect of Remuneration for Directors and the Policy on Remuneration for Other Staff
- Consideration of Shareholders' Views.

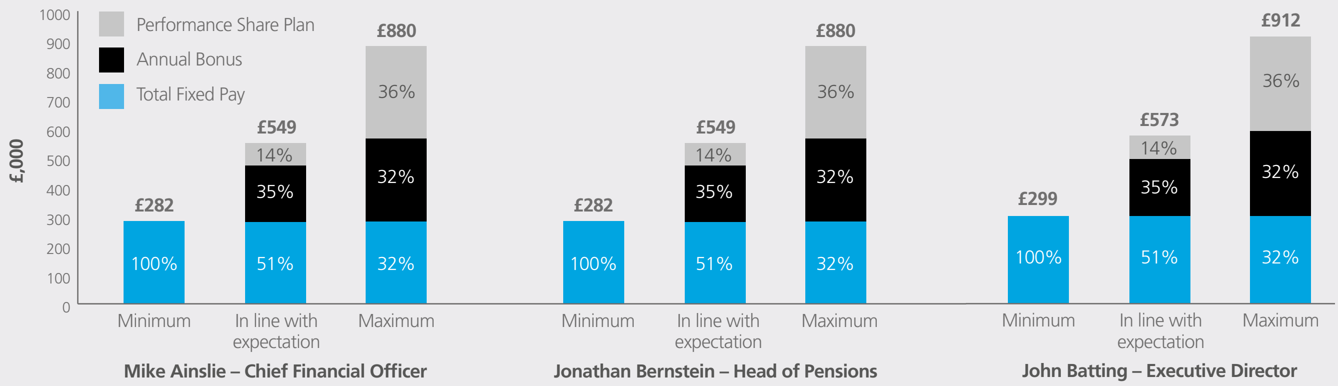
Illustrations of Application of the Remuneration Policy

The charts below show how the Remuneration Policy set out above will be applied for Executive Directors in the financial year 2018/19 based on 3 performance scenarios and using the assumptions below.

Minimum	– Consists of base salary, benefits and pension – Base salary is the salary to be paid in the 2018/19 financial year – Benefits measured as benefits paid in the year ending 31 March 2018[1] – Pension measured as the defined contribution or cash allowance in lieu of Company contributions of 6–8% of salary for all Executive Directors apart from John Batting, whose contribution is 15% of salary.
Target	Based on what the Executive Director would receive if performance was on-target (excluding share price appreciation and dividends): – Annual Bonus: consists of the on-target bonus (50% of maximum opportunity used for illustrative purposes) – PSP: consists of the threshold level of vesting (25% vesting) under the PSP.
Maximum	Based on the maximum remuneration receivable (excluding share price appreciation and dividends): – Annual Bonus: consists of maximum bonus of 150% of salary for the Co-CEOs and 112.5% of salary for the other maximum Executive Directors – PSP: consists of the face value of awards (150% of base salary for Co-CEOs and 125% of base salary for the other Executive Directors) under the PSP.

1 John Batting's benefits have been annualised.





Annual Report on Remuneration

The following section provides details of how the Company's Directors were paid during the financial year to 31 March 2018.

Remuneration Committee membership

The Remuneration Committee is chaired by Margaret Snowdon OBE, who is an Independent Non-Executive Director. Tom Cross Brown, who is the Company Chairman and Alan Bannatyne, an Independent Non-Executive Director, are also members of the Committee.

Other individuals, such as the Co-Chief Executive Officers, the Chief Financial Officer, Head of HR and external professional advisers may be invited to attend for all or part of any meeting as and when appropriate and necessary.

The purpose of the Committee is to establish a formal and transparent procedure for developing policy on remuneration in accordance with the Code and to set the remuneration of the Chairman and selected individuals with due account taken of all relevant factors such as individual and Group performance, remuneration payable by companies of a comparable size and complexity. The Committee meets at least twice a year and at such other times as the Chairman of the Committee shall require or as the Board may direct.

The Committee has formal terms of reference which can be viewed on the Company's website: www.xpsgroup.com

Advisers

FIT Remuneration Consultants LLP ('FIT'), signatories to the Remuneration Consultants Group's Code of Conduct, were appointed by the Committee in 2017 following an invitation to tender. FIT has been retained to provide advice to the Committee on matters relating to executive remuneration. FIT provided no other services to the Company and, accordingly, the Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of the 2017/18 financial year were £66,007 (2016/17: nil). FIT's fees are charged on the basis of the firm's standard terms of business for advice provided.

Single Total Figure Table (audited)

The remuneration for the Executive and Non-executive Directors of the Company who performed qualifying services during the year is detailed below. The Non-executive Directors received no remuneration other than their annual fee.

As the Company listed in February 2017, a significant part of the 2017 remuneration related to the period when the Group was privately owned.

Director		Salary/fees £	Taxable benefits[5] £	Bonus[6] £	Long-term incentives[7] £	Pension[8] £	Total remuneration £
Executive Directors							
Ben Bramhall	2018	240,000	9,831	284,550	–	11,757	546,138
	2017	204,718	9,408	60,999	–	11,757	286,882
Paul Cuff[1]	2018	240,000	9,416	284,550	–	11,757	545,723
	2017	104,718	4,704	15,501	4,048,893	5,879	4,179,695
Mike Ainslie	2018	210,000	9,038	186,736	-	11,248	417,022
	2017	165,897	9,389	14,880	1,390,755	11,248	1,592,169
Jonathan Bernstein[2]	2018	210,000	9,821	186,736	-	14,569	421,126
	2017	192,359	9,389	17,670	1,738,442	14,569	1,972,429
John Batting[3]	2018	56,643	480	33,000	–	7,433	97,556
	2017	–	–	–	–	–	–
Non-executive Directors							
Tom Cross Brown[4]	2018	120,000	–	–	–	–	120,000
	2017	22,769	–	–	–	–	22,769
Alan Bannatyne[4]	2018	75,000	–	–	–	–	75,000
	2017	14,231	–	–	–	–	14,231
Margaret Snowdon[4]	2018	65,000	–	–	–	–	65,000
	2017	12,333	–	–	–	–	12,333
Jonathan Punter[3]	2018	13,462	–	–	–	–	13,462
	2017	–	–	–	–	–	–
Past Directors[9]							
Robert Birmingham	2018	–	–	–	–	–	–
	2017	100,000	18,010	9,407	–	7,600	135,017
Jeff Hunt	2018	-	-	-	-	-	-
	2017	36,667	7,424	5,789	-	7,500	57,380
Alastair McLeish	2018	–	–	–	–	–	–
	2017	27,000	–	–	–	–	27,000
Jim Thomas	2018	–	–	–	–	–	–
	2017	9,699	1,570	236	–	3,071	14,576
Total	2018	1,230,105	38,586	975,572	–	56,764	2,301,027
	2017	890,391	59,894	124,782	7,178,090	61,624	8,314,481

1 Paul Cuff joined the Company on 1 October 2016 and became a Director on 3 October 2016.
2 Jonathan Bernstein joined the Company on 30 June 2015 and became a Director on 7 April 2016.
3 John Batting and Jonathan Punter joined the Company and became Directors on 11 January 2018.
4 Tom Cross Brown, Alan Bannatyne and Margaret Snowdon joined the Company on 14 January 2017 and became Directors on 24 January 2017.
5 Each of the Executive Directors is entitled to a range of benefits, comprising permanent health insurance, life insurance, private medical insurance and car allowance. The Non-executive Directors do not receive other benefits.
6 No element of annual bonus was deferred in respect of bonuses shown. The 2018 bonus will be partly settled in cash, and partly settled in shares from the EBT.
7 The Directors received the amounts in 2017 as a result of the vesting on Admission of awards previously granted to them under the pre-IPO Incentive Share Plan.
8 Pension values shown all relate either to pension contributions or to cash allowances in lieu of pension.
9 The resignation dates of the past Directors are as follows: Robert Birmingham and Jeff Hunt 24 January 2017; Alistair McLeish 30 September 2016; Jim Thomas 6 April 2016.

2017/18 Annual Bonus (audited)

The Executive Directors' annual bonus targets were set at the beginning of the financial year. The financial targets which account for 70% of the annual bonus were set as both Group PBT and the resulting adjusted diluted EPS. As a result of strong underlying financial performance, the Group's adjusted diluted EPS performance exceeded the Target adjusted diluted EPS set by the Board for the purposes of awarding the 2017/18 annual bonuses of the Executive Directors.

The adjusted diluted EPS targets set were as follows:

£	Threshold	Target	Maximum	Actual	Pay-out (% of this element)
Adjusted diluted earnings per share (70% of potential)	8.24p	9.04p	10.64p	9.34p	72.9%

The personal performance goals which account for 30% of the annual bonus were agreed with each Executive Director and were based on a range of strategic objectives set at the start of the year. The targets were designed to focus and reward the Executive Directors for accomplishing strategic goals which directly support the Company's strategy. Details of the measures, to the extent they are not commercially sensitive, are outlined below.

The objectives were grouped into three areas as follows: 'Protect' 'Develop' and 'Grow' and four categories – communications and leadership, operations, clients and strategy and these were weighted differentially. Some of the goals were common.
Examples of the common objectives set were:

- The oversight of client care in respect of specific clients.
- The fostering of collaborative working relationships among the Executive Directors.

Examples of the individual objectives set include:

Ben Bramhall

- Develop the strategic plan for the Company and ensure the business is well positioned in the market (opportunities and challenges), including the services we offer, how we offer them, the markets we operate in and who our customers are
- Enhance the Company as a place to work for staff in order to become the employer of choice
- Work with HR function to align objectives to business needs and monitor delivery, including liaison with RemCo
- Work with IT function, align objectives to business needs and monitor delivery including oversight of IT and cyber security. Work to achieve and maintain high levels of client care across the Group.

Paul Cuff

- Develop the strategic plan for the Company and ensure the business is well positioned in the market (opportunities and challenges), including the services we offer, how we offer them, the markets we operate in and who our customers are
- Develop technology to enhance the Company's offerings
- Oversight of marketing and new business functions, maximising lead generation and conversion of opportunities
- Oversight of DB and DC Growth groups, to develop services to meet client needs in an evolving regulatory and commercial environment
- Identification and assessment of potential acquisitions or M&A opportunity.

Mike Ainslie

- Oversight of finance function (covering financials and tax) to align objectives to business needs and monitor delivery
- Develop internal audit and risk management
- Development of finance systems / information provisions to improve analysis of KPIs
- Raise profile of XPS Group within the investor community
- Identification and assessment of potential acquisitions or M&A opportunity.

Jonathan Bernstein

- Manage resourcing needs across pensions business including resourcing requirements, recruitment and spreading work across offices
- Work with office leaders (including administration to develop plans to achieve budget, monitor progress and provide support where required)
- Manage potential claims to minimise financial and reputational impact to XPS Pensions Group
- Oversight of Professional Practice Committee (PPC) and equivalents within pensions business to ensure appropriate structures are in place such that work is compliant with relevant regulations
- Develop and implement a robust client review programme
- Development of risk management framework for the pensions business.

Each objective is supported by 'as evidenced by' activities and outcomes. The Remuneration Committee then assessed performance against each objective in each category on the basis of evidenced outcomes and rated the percentage achievement. The scores in each category for each of the Executive Directors ranged from 80% to 100%. In the light of the high standards of attainment of each of the Executive Directors and the need for them to continue to operate as an integrated team, the Remuneration Committee, having assessed the performance of each of the Executive Directors in the round decided to rate their achievement at the same level and, based on the weightings of the categories, awarded reach 93% of maximum for this element of bonus.

In line with other former Punter Southall employees, John Batting participated in a stub bonus arrangement which rewarded for business performance from 1 January to 31 March 2018. Following an assessment of performance over this period a bonus payment of £33,000 was determined.

	Weightings	Outcomes				
		Ben Bramhall	Paul Cuff	Mike Ainslie	Jonathan Bernstein	John Batting
Financial Performance (% of this element)	70%	72.9%	72.9%	72.9%	72.9%	–
Strategic Performance (% of this element)	30%	93.3%	93.3%	93.3%	93.3%	–
Total Performance Outcome (% of maximum)		79.0%	79.0%	79.0%	79.0%	–
Total Performance Outcome (% of salary)		118.6%	118.6%	88.9%	88.9%	58.3%[1]
Total Performance Outcome (£)		£284,550	£284,550	£186,736	£186,736	£33,000

1 Calculated on a pro-rata basis for the part of the year served as a Director.

Statement of Directors' shareholding and share interests (audited)

For each Director, the total number of Directors' interests in shares at 31 March 2018 was as follows:

	Ben Bramhall	Paul Cuff	Mike Ainslie	Jonathan Bernstein	John Batting	Tom Cross Brown	Alan Bannatyne	Margaret Snowdon	Jonathon Punter
Number of ordinary shares held as at 31 March 2018	1,509,380	768,450	252,637	315,796	74,328	38,861	36,594	–	–
Share ownership requirement (% of salary)	200%	200%	200%	200%	200%	n/a	n/a	n/a	n/a
Share ownership requirement met	Y	Y	Y	Y	N	n/a	n/a	n/a	n/a
Holding as % of March 2018 salary	1,138%	580%	218%	272%	52%	n/a	n/a	n/a	n/a
Number of ordinary shares held as at 31 March 2017	1,509,380	713,534	252,637	315,796	–	35,971	32,374	–	–

The shareholdings above include those held by Directors and their respective connected persons. There were no changes in the Directors' interests in shares between 31 March 2018 and 25 June 2018.

Under the share ownership guidelines, the Executive Directors will be required to build and maintain a shareholding equivalent to at least 200% of salary.

John Batting and Jonathan Punter each have an indirect interest in the Company's issued ordinary share capital through their interests in the issued ordinary share capital of Punter Southall Group Limited. The following interests were held as at 31 March and 25 June 2018: Punter Southall Group Limited held 25,543,887 ordinary shares in the Company; John Batting held 478,262 ordinary shares in Punter Southall Group Limited and Jonathan Punter and his connected persons held in aggregate 2,064,359 ordinary shares in Punter Southall Group Limited (out of a total issued share capital of 26,169,843 ordinary shares).

Awards granted in the year under the PSP (audited)

Following completion on 11 January 2018 of the acquisition of Punter Southall Holdings Limited by the Company, John Batting was granted a nominal cost option PSP award over 153,374 shares on 18 January 2018 with a face value of £283,742 (based on a grant day share price of 185p). This award is subject to the same EPS and TSR performance conditions as those attached to the awards made to the other Executive Directors in February 2017, as outlined below.

No other awards were made to Executive Directors in the financial year.

Outstanding share plan awards (audited)

Details of all outstanding PSP awards made to Executive Directors are set out below:

Director	Date of grant	Exercise price	Interests held at 31 March 2017	Interests awarded during the year	Interests vested during the year	Interests lapsed during the year	Interests held at 31 March 2018	Vesting Period
Ben Bramhall	16 February 2017	0.05p	258,992	–	–	–	258,992	June 2020
Paul Cuff	16 February 2017	0.05p	258,992	–	–	–	258,992	June 2020
Michael Ainslie	16 February 2017	0.05p	188,848	–	–	–	188,848	June 2020
Jonathan Bernstein	16 February 2017	0.05p	188,848	–	–	–	188,848	June 2020
John Batting	18 January 2018	0.05p	–	153,374	–	–	153,374	January 2021

These awards comprise nominal cost options with an exercise price of 0.05p per option and vest in 2020 (or 2021 for John Batting) following announcement of annual results in 2020 subject to performance relating to (i) adjusted Earnings per Share (EPS) (see Note 37 to the Financial Statements for calculations) targets as to 50% of the award, and (ii) Relative Total Shareholder Return (TSR) targets as to the remaining 50% of the award. The details of the EPS and TSR target ranges are shown in the table below.

Fully diluted Adjusted EPS for the 3 year period to the end of FY 2019/20	Portion of award vesting
Compound annual growth in EPS ('CAG') of less than 8% above CPI	0%
CAG of 8% above CPI	25%
CAG between 8% and 18% above CPI	Between 25% and 100% on a straight-line basis
CAG of 18% or more above CPI	100%

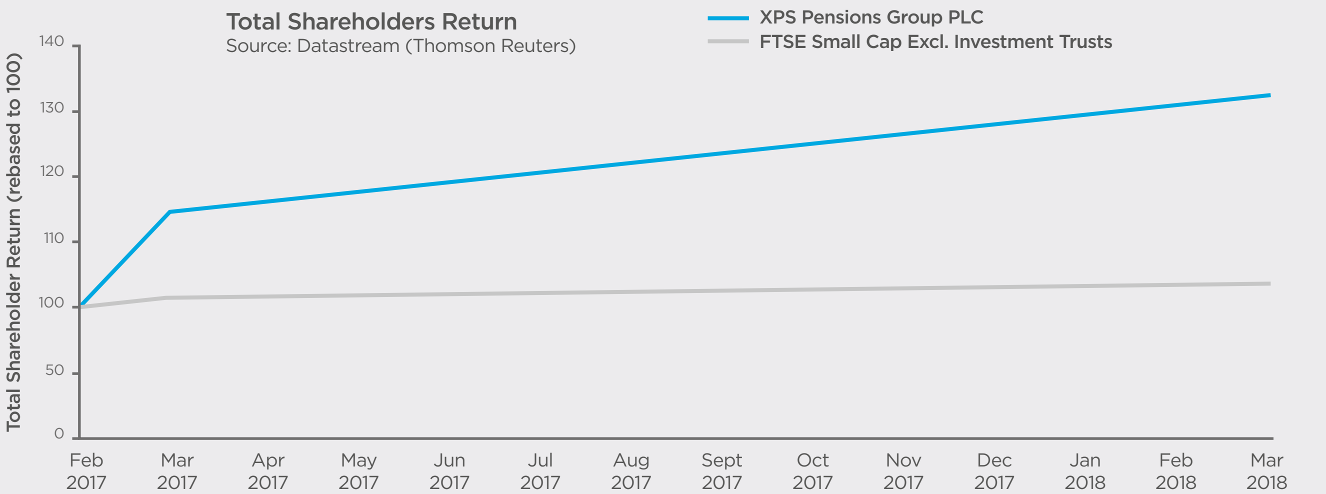
XPS Pensions Group's TSR ranking vs a Comparator Group of Companies	Portion of award vesting
Below median	0%
Median	25%
Between median and upper quartile	Between 25% and 100% on a straight-line basis
Upper quartile	100%

The TSR Comparator Group consists of 20 companies (excluding investment trusts) whose shares are listed on the London Stock Exchange and whose market capitalisation was similar to that of the Company at the date of grant as described in the Prospectus.

Payments to past directors (audited)
There were no payments to past Directors in the financial year 2017/18 (2016/17: nil).

Payments for loss of office (audited)
No payments were made to any Director in respect of loss of office in the financial year 2017/18 (2016/17: £nil).

Review of past performance and CEO remuneration table (unaudited)
The graph below shows the TSR of the Company and the FTSE SmallCap Index (excluding Investment Trusts) over the period from Admission to 31 March 2018. This is considered an appropriate comparator for XPS Pensions Group which is a constituent of the FTSE SmallCap.



The table below details certain elements of the CEOs' remuneration since Admission:

		Single total figure of remuneration	Annual bonus pay-out as % of maximum	Long-term incentive vesting rates as % of maximum
2018	Ben Bramhall	£546,138	79%	n/a
	Paul Cuff	£545,724	79%	n/a
2017	Ben Bramhall[1]	£286,882	31%	n/a
	Paul Cuff[2]	£4,179,695	31%	n/a

1 The single total figure for Ben Bramhall includes the one-off payment of £30,000 made on his appointment as Co-Managing Director on 1 April 2016. His annual performance-related bonus paid out at 31% of maximum.

2 It should be noted that £4,048,893 of the 2017 figure above for Paul Cuff amount relates to the Xafinity Incentive Share Plan 2013 awards that were granted pre-Admission (and were therefore 'one-off' in nature) that all vested at IPO – as described on page 148 of the Prospectus.

Percentage change in remuneration of the CEO (unaudited)

The table below presents the year-on-year % change in remuneration received by the CEOs, compared with the change in remuneration received by all XPS Pensions Group staff.

	Ben Bramhall	Paul Cuff	All XPS Pensions Group staff
Salary	17%	17%	4.6%
Annual bonus	366%	818%	26.3%
All taxable benefits	4%	0%	5.9%

Relative importance of spend on pay (unaudited)

The table below details the change in total staff pay between financial years 2016/17 and 2017/18 as detailed in Note 11 of the Financial Statements, compared with distributions to shareholders by way of dividend, share buy backs or any other significant distributions or payments. These figures have been calculated in line with those in the audited Financial Statements.

	% change	2017/18 £'000	2016/17 £'000
Total gross staff pay	27%	27,472	21,635
Distributions to shareholders	n/a	3,822	0

Implementation of Policy for 2018/19 (unaudited information)

Base salary

Base salaries are as follows and the next annual review will be effective from 1 April 2018.

- Ben Bramhall: £288,000
- Paul Cuff: £288,000
- Michael Ainslie: £252,000
- Jonathan Bernstein: £252,000
- John Batting; £258,370

Benefits in kind

Benefits will be paid in line with the Directors' Remuneration Policy. Details of the benefits received by Executive Directors are set out in the single figure table on page 51.

There is no intention to introduce additional benefits in 2018/19.

Pension

Contribution rates will be between 6% and 8% of base salary depending on age for the continuing executives. John Batting will receive a defined contribution of 15% of salary. For 2018 there will be no changes except those driven by age thresholds. Contributions may be made as cash supplements in full or in part.

Annual Bonus

Bonus maxima of 150% of salary will be applied for the Co-CEOs and 112.5% for the other Executive Directors.

70% of the bonus will be payable by reference to performance against Group PBT, with performance against personal/strategic targets determining the extent to which the remaining 30% of the overall bonus opportunity is payable.

In addition:

- no bonus will be payable unless the Committee is satisfied that the Company's underlying performance warrants it; and
- as set out in the policy table, bonus payments will also be subject to the Committee considering that the proposed bonus amounts, calculated by reference to performance against the targets, appropriately reflect the Company's overall performance and shareholders' experience. If the Committee does not believe this to be the case, it may adjust the bonus outturn accordingly.

Owing to the Board's concerns about commercial sensitivity, we do not believe it is in shareholders' interests to disclose any further details of these targets on a prospective basis. However, the Company is committed to adhering to principles of transparency and will, provided disclosure of targets is not deemed to be commercially sensitive, make appropriate and relevant levels of disclosure of bonus targets and performance against these targets for the 2018/19 bonus in next year's report.

PSP awards
PSP awards will be made in 2018/19 with a face value of awards equal to 150% of base salary for the Co-CEOs and 125% of base salary for the other Executive Directors. These awards will vest three years after grant based upon performance against the following performance conditions:

Fully diluted Adjusted EPS for the 3 year period to the end of FY 2020/21	Portion of award vesting
Compound annual growth in EPS ('CAG') of less than 8% above CPI	0%
CAG of 8% above CPI	25%
CAG between 8% and 18% above CPI	Between 25% and 100% on a straight-line basis
CAG of 18% or more above CPI	100%

XPS Pensions Group's TSR ranking vs a Comparator Group of Companies	Portion of award vesting
Below median	0%
Median	25%
Between median and upper quartile	Between 25% and 100% on a straight-line basis
Upper quartile	100%

The TSR Comparator Group consists of the constituents of the FTSE SmallCap Index at the start of the performance period.

The Chairman's and the Non-Executive Directors' Fees

Tom Cross Brown receives an annual fee of £120,000 for his role as Company Chairman.

Margaret Snowdon OBE receives an annual fee of £65,000 and Alan Bannatyne receives an annual fee of £75,000.

The above fees are unchanged from the prior year.

This report was reviewed and approved by the Board of Directors on 27 June 2018 and was signed on its behalf by:

Margaret Snowdon OBE
Chair of the Remuneration Committee
27 June 2018

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Group Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements and have elected to prepare the Company Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group and Company for that period. In preparing these Financial Statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business; and
- prepare a Directors' Report, a Strategic Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of the Directors in respect of the Annual Report

As required by the UK Corporate Governance Code, the Directors confirm that they consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy. When arriving at this position the Board was assisted by a number of processes, including the following:
- the Annual Report is drafted by appropriate senior management with overall coordination by the Chief Financial Officer and Financial Controller to ensure consistency across sections;
- an extensive verification process is undertaken to ensure factual accuracy;
- comprehensive reviews of drafts of the Annual Report are undertaken by members of the Executive Board and senior management team; and
- the final draft is reviewed by the Audit and Risk Committee prior to consideration by the Board.

Responsibility Statement

The Directors confirm that to the best of their knowledge:
- the Group Financial Statements, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the parent Company, as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board:

Mike Ainslie
Chief Financial Officer
27 June 2018

Directors' Report

Overview

The Directors present their Annual Report on the activities of XPS Pensions Group plc ('the Group'), together with the audited financial statements for the year ended 31 March 2018. The Governance section on pages 32 to 61 forms part of this Directors' Report. Other requisite components of this report are set out elsewhere in this Annual Report.

The Strategic Report provides information relating to the Group's activities, its business and strategy, the principal risks and uncertainties faced by the business and environmental and employee matters. These sections, together with the Corporate Governance and the Directors' Remuneration Reports provide an overview of the Group and give an indication of future developments in the Group's business, so providing a balanced assessment of the Group's position and prospects. These reports and this Directors' Report have been drawn up and presented in accordance with, and in reliance upon, applicable English company law and any liability of the Directors in connection with such reports shall be subject to the limitations and restrictions provided by such law.

On 6 February 2017, the Company name changed from Xafinity Group Holdings (Reading) Limited to Xafinity plc. On 16 February 2017, all the Company's 136,896,244 ordinary shares were admitted to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange ('Admission'). From Admission the Company's ordinary shares are registered under ISIN GB00BDDN1T20, SEDOL number BDDN1T2, and LEI 2138004Y8OBPJEAACJ11 and, until 16 May 2018, traded under the ticker symbol XAF.

In connection with the acquisition of Punter Southall Holdings Limited, which completed on 11 January 2018, a further 41,176,470 and 25,766,871 ordinary shares in the Company were admitted on 5 and 11 January 2018 respectively to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange. The Company had 203,839,585 ordinary shares in issue on 31 March 2018. On 16 May 2018, the Company name changed from Xafinity plc to XPS Pensions Group plc. From 17 May 2018 the Company's ordinary shares trade under the ticker symbol XPS. XPS Pensions Group plc is a member of the FTSE All-Share Index.

The table below details where certain other information, which forms part of the Directors' Report, can be found within this Annual Report:

Information	Location within Annual Report
Likely future developments in the business of the Company	Strategic Report (pages 1 to 31)
Equality and diversity	Co-Chief Executive Officers' Report (page 16) and Corporate Governance Report (pages 34 to 39)
Employee involvement	Co-Chief Executive Officers' Report (pages 16 to 19)
Directors' shares interests	Directors' Remuneration Report (page 53)
Financial risk management objectives and policies	Note 2 to the financial statements (page 78)

Results and dividend

The Group's audited financial statements for the year ended 31 March 2018 are set out on pages 68 to 100 and the Company's audited financial statements are set out on pages 101 to 106. The Group's profit after taxation for the year ended 31 March 2018 was £11.83m (2017: Loss £(12.79m)).

An interim dividend of 2.1p per ordinary share (2017: Nil) was paid on 8 February 2018 to shareholders on the register on 29 December 2017. The Directors recommend a final dividend for the year of 4.2p per ordinary share (2017: 0.73p) to be paid on 27 September 2018 to shareholders on the register on 31 August 2018. Further information regarding dividend policy and payments can be found in the Financial Review on page 29 and in Note 39 to the Financial Statements on page 100.

Post balance sheet events

There have been no significant post balance sheet events to report since 31 March 2018.

Directors

The current Directors of the Company, with summaries of their key skills and experience, are set out in the Governance section on page 33. Directors on the Board during the year and up to the date of this report are as follows:

Ben Bramhall
Mike Ainslie
Jonathan Bernstein
Paul Cuff
Tom Cross Brown
Alan Bannatyne
Margaret Snowdon
Jonathan Punter (appointed 11/1/18)
John Batting (appointed 11/1/18)

Details of the Directors' service contracts are shown in the Report of the Remuneration Committee on page 48.

Details of share options granted to Directors and the interests of the Directors in the ordinary shares of the Company are set out in the Remuneration Report on page 53.

In accordance with its articles of association, on 13 February 2017 prior to Admission, the Company made qualifying third-party indemnity provisions for the benefit of its Directors against any liability that attaches to them in defending proceedings brought against them, to the extent permitted by company law, which were in place throughout the year and remain in force at the date of this report. In addition, directors' and officers' liability insurance cover was maintained throughout the year at the Company's expense and remains in force at the date of this report.

As part of the acquisition of Punter Southall Holdings Limited and its subsidiaries, the Company and Punter Southall Group Ltd agreed a Transitional Services Agreement on 11 January 2018, pursuant to which Punter Southall Group Ltd provides certain IT, finance, human resources, legal and compliance and facilities management services to Punter Southall Holdings Ltd for up to two years after that date, with the Company paying up to £2.125 million per annum for such services (subject to additional charges that may be agreed). The Board acknowledges that this is a significant contract in which Jonathan Punter, a Non-executive Director, is materially interested given his position as Chief Executive of Punter Southall Group Ltd.

Capital structure

The Company's issued ordinary share capital and total voting rights at 1 April 2017, 31 March 2018 and the date of this report were respectively 136,896,244, 203,839,585 and 203,851,691 ordinary shares (each with a par value of £0.0005 and all fully paid). There were no ordinary shares held in treasury. Further details of the Company's issued share capital are given in Note 30 on page 93. On 4 January 2018, shareholders of the Company in general meeting approved the proposal for the acquisition of Punter Southall Holdings Limited and the related proposals for the issue of new ordinary shares, being the proposed firm placing of 30,645,990 ordinary shares at 170 pence per share, the placing and open offer of 10,530,480 ordinary shares at 170 pence per share, and the issue to the vendors (Punter Southall Group Ltd and certain minority sellers) of 25,766,871 ordinary shares on completion of the acquisition and up to a further 6,134,969 ordinary shares on an earn out basis. Details of the proposed capital issues and acquisition were set out in a circular and prospectus to shareholders dated 7 December 2017. A total of 41,176,470 ordinary shares were issued on 5 January 2018 in respect of the firm placing and the placing and open offer, followed by the issue of 25,543,887 ordinary shares to Punter Southall Group Ltd on completion of the acquisition on 11 January 2018.

Since 31 March 2018, an aggregate total of 12,106 ordinary shares have been allotted to participants in the Company's PSP and Sharesave Plans who transferred with the sale of HR Trustees Ltd to Punter Southall Group Ltd on 11 January 2018. The Company's ordinary shares rank pari passu in all respects with each other, including for voting purposes and for all dividends. Each share carries the right to one vote at general meetings of the Company. Further information on the voting and other rights of shareholders, including deadlines for exercising voting rights, are set out in the Company's Articles of Association and in the explanatory notes that accompany the Notice of the Annual General Meeting, which are available on the Company's website at www.xpsgroup.com

Restrictions on shares

The Company's ordinary shares are freely transferable and there are no restrictions on the size of a holding. Transfers of shares are governed by the provisions of the Articles of Association and prevailing legislation. The ordinary shares are not redeemable; however, the Company may purchase any of the ordinary shares, subject to prevailing legislation and the requirements of the Listing Rules.

The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Awards of shares under the Company's Performance Share Plan incentive arrangement are subject to restrictions on the transfer of shares prior to vesting. As disclosed in the Company's IPO Prospectus, the Executive Directors, senior managers and certain Group employees who held ordinary shares directly in the Company at the time of Admission, or who received a beneficial interest in the Company's ordinary shares as a result of the vesting on Admission of share incentive plan awards previously granted to them, undertook, for the period of 12 months from the date of Admission without the prior written consent of Zeus Capital, not to offer, lend, mortgage, assign, charge, sell or contract to sell, or otherwise dispose of, directly or indirectly, any ordinary shares or any interest therein.

The Trustee of the Xafinity Employee Benefit Trust holds 1,836,758 ordinary shares in the Company but has waived its entitlement to dividends and does not seek to exercise the voting rights on those shares.

Major interests in shares

The table below shows the interests in shares (whether directly or indirectly held) notified to the Company in accordance with Chapter 5 of the Disclosure Guidance and Transparency Rules as at 31 March 2018 and 25 June 2018 (being the latest practicable date prior to publication of this Annual Report):

Shareholder	No. of ordinary shares	Percentage of total voting rights	No. of ordinary shares	Percentage of total voting rights
Punter Southall Group Limited	25,543,887	12.53	25,543,887	12.53
BlackRock Investment Management (UK) Ltd	17,785,396	8.72	17,785,396	8.72
Invesco Asset Management Ltd	14,853,230	7.29	14,853,230	7.29
Wellington Management Company LLP	14,410,570	7.07	14,410,570	7.07
Axa Investment Managers	12,490,743	6.13	12,490,743	6.13
Threadneedle Asset Management Ltd	11,102,597	5.45	11,102,597	5.45
Franklin Templeton Fund Management Ltd	10,763,570	5.28	10,763,570	5.28
Unicorn Asset Management Limited	9,563,093	4.69	9,563,093	4.69

Details of the Relationship Agreement entered into between Punter Southall Group Limited and the Company can be found in the Corporate Governance Report on page 35. Part of the consideration to be paid by the Company to Punter Southall Group Limited, pursuant to the acquisition on 11 January 2018 of Punter Southall Holdings Limited, is to be satisfied by the issue to Punter Southall Group Limited of up to a maximum of 6,134,969 ordinary shares in the Company pursuant to a contingent deferred consideration mechanism calculated by reference to the revenue of the Group as stated in the 2018/19 Annual Report and Accounts.

Appointment and retirement of Directors

The Board may from time to time appoint one or more additional Directors so long as the total number of Directors does not exceed the limit of 12 prescribed in the Articles of Association. Any person so appointed will retire at the next Annual General Meeting and then be eligible for re-election. The UK Corporate Governance Code recommends that all Directors be subject to annual re-election by shareholders. Therefore, being eligible, all Directors will offer themselves for re-election at the 2018 Annual General Meeting.

Powers of Directors

The business of the Company shall be managed by the Directors, who may exercise all powers of the Company, subject to legislation, the provisions of the Articles of Association and any directions given by special resolution. The Articles of Association contain specific provisions governing the Company's power to borrow money and also provide the powers to issue shares and to make purchases of its own shares. In accordance with the authorities granted at the 2017 Annual General Meeting, the Directors are authorised, within certain limits, to allot shares or grant rights to subscribe for shares in the Company and to make market purchases of the Company's own shares representing up to 10% of its share capital at that time. Details of the proposed renewal of authorities of the Directors are set out in the Notice of the 2018 Annual General Meeting.

Political donations

No political contributions were made, or political expenditure incurred, by the Company and its subsidiaries during the year (2017: £nil).

Employment of disabled persons

The Group continues to give full and fair consideration to applications for employment by disabled persons, bearing in mind their aptitudes and abilities. In the event of an employee becoming disabled whilst working for the Group, every effort will be made by the Group to ensure their continued employment and to provide re-training where practicable and appropriate. The policy of the Group is that training, career development and promotion should, as far as possible, be identical to that of other employees.

Provisions on change of control

The Company is subject to a change of control provision in the following significant agreement:

The Company's £80m agreement with HSBC Bank plc and the Bank of Ireland in multicurrency revolving facilities, with a further uncommitted facility of up to £20m, includes a customary provision for a lending counterparty to amend, alter or cancel the relevant commitment to the Group following a change of control of the Company.

The Company does not have agreements with any Director or employee that would provide specific compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's Performance Share Plan incentive arrangement may cause awards to vest on a takeover.

Articles of Association

A copy of the full Articles of Association are available upon request from the Company Secretary. The Company's Articles of Association may only be amended by a special resolution of shareholders in a general meeting.

Viability Statement

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the reports referred to in the Overview section on page 58 of this Directors' report.

The Directors have assessed the long-term prospects of the Group based upon business plans and upon cash flow projections for the three-year period ending 31 March 2021. The three-year period was chosen as it is considered the longest timeframe over which any reasonable view can be formed. The forecasts and cash flow projections being used to assess going concern have been comprehensively stress-tested by using simulation techniques involving sensitivity analysis. It should be noted that the Group has limited forward visibility and consequently there is a high degree of uncertainty in respect of future outcomes.

In forming their opinion the Directors have performed a robust assessment of the principal risks and uncertainties facing the Group as set out on pages 30 and 31. In addition, Note 2 on page 78 of the accounts includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives and its exposure to credit risk, liquidity risk and market risk.

The Group had £9.4m of cash at 31 March 2018 and a £80m committed financing facility until December 2022. Further details of the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described within the Financial Statements and notes.

The Group has a strong balance sheet, access to financial resources and long-term growth prospects. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully.

After making enquiries, the Directors have formed a judgement, at the time of approving the Financial Statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence and meet its liabilities as they fall due over the three-year assessment period. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Auditor and disclosure of information to the Auditor

In accordance with section 418 of the Companies Act 2006, each of the Directors who were members of the Board at the date of the approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the Director has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The Company's auditor, BDO LLP, has expressed its willingness to continue in office and the Board has agreed, based on the recommendation of the Audit and Risk Committee, that a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

Details of the forthcoming Annual General Meeting are given on page 39 of the Governance section.

Listing Rule ('LR') disclosures

For the purposes of LR 9.8.4CR, the information required to be disclosed by LR 9.8.4R can be found in the following locations:

Item	Location
Interest capitalised	None
Publication of unaudited financial information	Not applicable
Details of long-term incentive schemes	Details of the Company's long-term incentive scheme can be found in the Remuneration Committee Report on page 42
Waiver of emoluments by a Director	None
Waiver of future emoluments by a Director	None
Non pre-emptive issues of equity for cash	Not applicable
Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings	Not applicable
Contracts of significance in which a director is or was interested	Transitional Services Agreement with Punter Southall Group Ltd – see page 59 of this report
Provision of services by a controlling Shareholder	Not applicable
Shareholder waiver of dividend for the year and future dividends	Dividend waiver by the Trustee of the Xafinity Employee Benefit Trust – see page 59 of this report
Agreements with controlling Shareholder	Not applicable

The Directors' Report was approved by the Board of Directors of XPS Pensions Group plc.

By order of the Board:

Mike Ainslie
Chief Financial Officer
27 June 2018

XPS Pensions Group plc, registered in England and Wales (number 08279139)

Registered office:
Phoenix House, 1 Station Hill, Reading, Berkshire RG1 1NB

Independent auditor's report to the members of XPS Pensions Group plc

Opinion
We have audited the financial statements of XPS Pensions Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company statement of financial position, the company statement of changes in equity, the company statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:
- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement
We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:
- the disclosures in the annual report set out on pages 30 and 31 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 57 in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 73 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 60 in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Matter

The Group generates revenue from pension advisory, administration and investment consulting services as well as providing independent trustee, SSAS and SIPP services and corporate healthcare advice.

Dependent upon the income stream and nature of the engagement, revenue is recognised on either a time costs incurred, fixed fee or rateably over the period of providing the service basis. Refer also to Note 1 (Accounting policies) in the financial statements for further details.

Revenue is billed on a monthly, quarterly or, in the case of SSAS and SIPP services, on an annual basis. Services may be billed in arrears, as in the case of pensions advisory work, or in advance as is the case with SSAS and SIPP revenues. As a result of such arrangements, judgement is involved in the timing of revenue recognition.

Risks over revenue recognition include:

- Inherent fraud risk in respect of overstatement of revenue and accrued income and the understatement of deferred revenue;
- Incorrect calculation of revenue on SSAS services;
- Recoverability of accrued income in respect of pension advisory services;
- Completeness of production captured within the timecard system and subsequently recorded in the accounting system.

Response

We identified the Group's revenue streams and ensured that the application of the related revenue recognition policies is in accordance with the requirements of IAS18 'Revenue'.

We utilised our IT audit specialists to review revenue transactions and identify those which did not appear to arise from standard billing arrangements. We then agreed any such transactions to underlying support to gain an understanding of the transaction and ensure related revenue had been appropriately recognised.

We tested a sample of revenue transactions for each material income stream by agreeing back to timecard data and to receipt of payment to check the existence of revenue and that it was accurately recorded.

We tested the recoverability of a sample of accrued income by agreeing through to its subsequent billing and cash receipt. We tested deferred income by re-calculating all deferrals and reviewing for revenue deferrals not made.

We tested the completeness of timecards recorded within the timecard system and the subsequent recognition of related revenue by reconciling the timecards recorded to the amounts billed and written off, agreeing exceptions noted to underlying support.

Our testing did not identify any material misstatements in the amount of revenue recognised.

Based on the significance of Revenue and the number and complexity of material revenue streams we considered this to be an area in which there was a significant risk of material misstatement, and hence a key audit matter.

Fair value of intangible assets in the acquisition of Punter Southall Holdings Limited and its subsidiaries

Matter

On 11 January 2018 the group completed the acquisition of the actuarial consulting, pension administration and investment consulting businesses of Punter Southall Holdings Limited and its subsidiaries (PSHL Group) for a total consideration of £158.7 million. Refer also to Note 4 (Business combinations during the period) in the financial statements for further details.

As part of this acquisition, management have recognised intangibles of £65.1m for customer relationships, £5.4m for brand right of use and £90.8m for goodwill. They engaged third party valuation specialists to assist with valuation of these intangibles. Significant management judgements and estimates were required to arrive at these valuations, their allocation to appropriate cash generating units, and the useful economic lives of the customer relationships and brand right of use assets.

Based on the level of judgements and estimates involved and the magnitude of the resulting intangible assets, we considered this to be an area in which there was a significant risk of material misstatement, and hence a key audit matter.

Response

With the assistance of our specialist internal valuations team, we:

- Reviewed management’s model for the valuation of the intangible assets acquired prepared by a valuation expert engaged by management. This included an analysis of the mechanics of the model and consideration of its suitability for the exercise.
- Assessed the competence, capability and objectivity of the valuation expert engaged by management through a review of their qualifications, external governing body requirements and our previous experience of their work. We concluded that they had the necessary expertise required to perform the valuation exercise.
- Challenged management over the underlying assumptions included in the model. This involved questioning as to how forecast growth rates would be achieved and how the other key judgements and estimates in the underlying data inputs had been arrived at.
- Performed sensitivity analysis on the key underlying assumptions, estimates and judgements made; being the growth rates, customer attrition rates and discount rates.
- Our internal valuation specialists reviewed the useful economic lives applied to the acquired intangible assets and benchmarked them against the group’s sector peer group.
- Re-performed management’s calculation of the deferred equity consideration payable and discussed the judgements applied in respect of the achievement of the related revenue target.

Based on our testing, the key judgements and estimates applied by management in identifying and recognising intangible assets and recognition of goodwill for the acquisition made during the year were considered appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as follows:

	Group	Parent company
Overall materiality	£400,000 (2017: £500,000)	£350,000 (2017: £475,000)
How we determined it	Materiality was based on 5% of profit before tax excluding acquisition costs of £3.7m (2016: based on 3% EBITDA before exceptional costs and share based payment costs).	Materiality for the parent company financial statements was capped at 88% (2017: 95%) of group materiality which represents < 1% (2017: < 1%) of gross assets.
Rationale for benchmark applied	We determined profit before tax excluding acquisition costs as our benchmark for materiality on the basis that profit before tax is a key performance indicator used by the market. Acquisition costs are considered non-recurring.	We considered an asset based measure to best reflect the nature of the parent company which acts as a parent holding company for the group.

Where financial information from components was audited separately, component materiality levels were set for this purpose at lower levels varying from 16% to 88% of group materiality.

In considering individual account balances and classes of transactions we apply a lower level of materiality (performance materiality) in order reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality was set at £280,000 (2017: £375,000) for the group, representing 70% of materiality. The same % was applied to each component materiality including the parent company.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £16,000 (2017: £25,000), being 4% (2017: 5%) of group materiality. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group comprises the parent company, six trading subsidiaries and five intermediate holding companies all based in the United Kingdom, together with a Jersey based trust controlled by the parent company, which contains the group's Employee Benefit Trust. Full scope audits of all entities were carried out by the group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 57 –** the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on pages 40 and 41 –** the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on pages 34 to 39 –** the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 57, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the audit committee, we were re-appointed by the shareholders on 14 September 2017 to audit the financial statements for the year ending 31 March 2018. The period of total uninterrupted engagement is five years, covering the years ending 31 March 2014 to 31 March 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

BDO LLP

Christopher Pooles
(Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Reading
United Kingdom

27 June 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income
for the year ended 31 March 2018

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Revenue	9	**63,965**	49,490
Other operating income	5	**472**	–
Administrative expenses	10	**(58,765)**	(54,931)
Profit/(loss) from operating activities		**5,672**	(5,441)
Finance income	15	**23**	475
Finance costs	15	**(1,473)**	(9,121)
Profit/(loss) before tax		**4,222**	(14,087)
Income tax (expense)/credit	16	**(1,230)**	558
Profit/(loss) and total comprehensive income/(loss) for the year		**2,992**	(13,529)
Profit on discontinued operation, net of tax	17	**8,836**	738
Profit/(loss) after tax		**11,828**	(12,791)

	Note	Pence	Pence
Earnings/(loss) per share attributable to the ordinary equity holders of the Company:			
Profit or loss:			
Basic earnings/(loss) per share	37	**7.9**	(12.5)
Diluted earnings/(loss) per share	37	**7.6**	(12.4)
Adjusted basic earnings per share	37	**9.6**	8.1
Adjusted diluted earnings per share	37	**9.3**	8.0
Profit or loss from continuing operations:			
Basic earnings/(loss) per share	37	**2.0**	(13.2)
Diluted earnings/(loss) per share	37	**1.9**	(13.1)
Adjusted basic earnings per share	37	**9.2**	7.3
Adjusted diluted earnings per share	37	**8.9**	7.2

The notes on pages 72 to 100 form part of these Financial Statements.

Consolidated Statement of Financial Position
as at 31 March 2018

	Note	31 March 2018 £'000	31 March 2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	18	**1,017**	1,342
Intangible assets	19	**215,692**	58,595
Deferred tax assets	20	**774**	36
		217,483	59,973
Current assets			
Trade and other receivables	21	**27,964**	12,320
Current income tax asset	22	**–**	597
Cash and cash equivalents	23	**9,404**	4,880
		37,368	17,797
Total assets		**254,851**	77,770
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	30	**102**	68
Share premium	31	**116,782**	49,958
Merger relief reserve	31	**48,687**	–
Investment in own shares held in trust	31	**(465)**	(465)
Accumulated deficit	31	**(11,531)**	(20,612)
Total equity		**153,575**	28,949
Liabilities			
Non-current liabilities			
Loans and borrowings	24	**55,072**	32,829
Deferred income tax liabilities	20	**17,942**	6,542
		73,014	39,371
Current liabilities			
Loans and borrowings	24	**27**	22
Provisions for other liabilities and charges	28	**1,459**	1,069
Trade and other payables	26	**16,641**	8,359
Current income tax liabilities	27	**1,803**	–
Deferred consideration	29	**8,332**	–
		28,262	9,450
Total liabilities		**101,276**	48,821
Total equity and liabilities		**254,851**	77,770

The notes on pages 72 to 100 form part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on 27 June 2018 and were signed on its behalf by:

Mike Ainslie
Chief Financial Officer
27 June 2018

Registered number: 08279139

Consolidated Statement of Changes in Equity
for the year ended 31 March 2018

	Share capital £'000	Share premium £'000	Investment in own shares £'000	Merger relief reserve £'000	Accumulated deficit £'000	Total equity/ (deficit) £'000
Balance at 1 April 2016	40	–	(2,717)	–	(18,669)	(21,346)
Comprehensive loss and total comprehensive loss for the year	–	–	–	–	(12,791)	(12,791)
Contributions by and distributions to owners						
Bonus issue of shares	10	–	–	–	(10)	–
Share capital issued	18	51,267	–	–	–	51,285
Share issue costs	–	(1,309)	–	–	–	(1,309)
Shares sold by employee benefit trust for cash	–	–	86	–	519	605
Share-based payment expense – equity settled from employee benefit trust	–	–	2,166	–	10,310	12,476
Share-based payment expense – IFRS2 charge in respect of long-term incentives	–	–	–	–	29	29
Total contributions by and distributions to owners	28	49,958	2,252	–	10,848	63,086
Balance at 31 March 2017	68	49,958	(465)	–	(20,612)	28,949
Balance at 1 April 2017	68	49,958	(465)	–	(20,612)	28,949
Comprehensive income and total comprehensive income for the year	–	–	–	–	11,828	11,828
Contributions by and distributions to owners						
Share capital issued	34	69,979	–	48,687	–	118,700
Share issue costs	–	(3,155)	–	–	–	(3,155)
Dividends paid	–	–	–	–	(3,822)	(3,822)
Share-based payment expense – IFRS2 charge in respect of long-term incentives	–	–	–	–	1,051	1,051
Deferred tax movement in respect of long-term incentives	–	–	–	–	24	24
Total contributions by and distributions to owners	34	66,824	–	48,687	(2,747)	112,798
Balance at 31 March 2018	**102**	**116,782**	**(465)**	**48,687**	**(11,531)**	**153,575**

The notes on pages 72 to 100 form part of these Financial Statements.

Consolidated Statement of Cash Flows
for the year ended 31 March 2018

	Note	**Year ended 31 March 2018 £'000**	Year ended 31 March 2017 £'000
Cash flows from operating activities			
Profit/(loss) for the year		**11,828**	(12,791)
Adjustments for:			
Depreciation	18	**577**	631
Amortisation	19	**5,299**	4,077
Finance income	15	**(23)**	(475)
Finance costs	15	**1,473**	9,121
Gain on sale of discontinued operations, net of tax	17	**(8,160)**	–
Share-based payment expense	14	**1,051**	12,505
Other operating income	5	**(472)**	–
Income tax expense/(credit)	16	**1,388**	(373)
		12,961	12,695
Decrease/(Increase) in trade and other receivables		**2,654**	(458)
Decrease in trade and other payables		**(4,889)**	(189)
Increase in provisions		**390**	678
		11,116	12,726
Income tax paid		**(628)**	(1,327)
Net cash inflow from operating activities		**10,488**	11,399
Cash flows from investing activities			
Finance income received	15	**23**	11
Acquisition of a subsidiary, net of cash acquired	4	**(88,886)**	–
Disposal of discontinued operations	17	**262**	–
Purchases of property, plant and equipment	18	**(241)**	(444)
Purchases of software	19	**(1,103)**	(732)
Net cash outflow from investing activities		**(89,945)**	(1,165)
Cash flows from financing activities			
Proceeds from the issue of share capital net of share issue costs		**66,858**	49,976
Proceeds from new loans net of capitalised costs		**41,070**	–
Repayment of financial derivative		**–**	(504)
Repayment of loans		**(19,250)**	(53,261)
Sale of own shares		**–**	605
Interest paid		**(841)**	(4,876)
Payment of finance lease liabilities		**(34)**	(34)
Dividends paid to the holders of the parent		**(3,822)**	–
Net cash inflow/(outflow) from financing activities		**83,981**	(8,094)
Net increase in cash and cash equivalents		**4,524**	2,140
Cash and cash equivalents at start of the year		**4,880**	2,740
Cash and cash equivalents at end of year	23	**9,404**	4,880

The notes on pages 72 to 100 form part of these Financial Statements.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2018

1 Accounting policies

XPS Pensions Group plc (the 'Company') is a public limited company incorporated in the UK. On 16 May 2018 Xafinity plc changed its name to XPS Pensions Group plc. The principal activity of the Group is employee benefit consultancy and related business services. The registered office is Phoenix House, 1 Station Hill, Reading RG1 1NB. The Group Financial Statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group').

Basis of preparation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS – IC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The Consolidated Financial Statements have been prepared under the going concern basis.

The preparation of Financial Statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed at the end of this section.

The principal accounting policies adopted in the preparation of the Financial Statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

Functional and presentation currency

The Financial Statements are presented in British Pounds which is the Company's functional currency. Figures are rounded to the nearest thousand.

Measurement convention

The financial information is prepared on the historical cost basis except for the measurement of certain financial instruments.

Basis of consolidation

Where the Company has control over an investee, it is classified as a subsidiary. The Company controls an investee if all 3 of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Company considers all relevant facts and circumstances, including:

- The size of the Company's voting rights relative to both the size and dispersion of other parties who hold voting rights
- Substantive potential voting rights held by the Company and by other parties
- Other contractual arrangements
- Historic patterns in voting attendance.

The consolidated financial information presents the results of the Company and its subsidiaries ('the Group') as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial information incorporates the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of the acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date on which control ceases.

Derivative financial instruments

Derivatives have previously been to hedge the Group's exposure to fair value interest rate risk. The hedged item is remeasured to take into account the gain or loss attributable to the hedged risk with the gains or losses arising recognised in profit or loss. This offsets the gain or loss arising on the hedging instrument which is measured at fair value through profit or loss.

Third party valuations are used to fair value the Group's derivatives.

Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation. For items acquired as part of a business combination, cost comprises the deemed fair value of those items at the date of acquisition. Depreciation on those items is charged over their estimated remaining useful lives from that date.

Depreciation is charged to profit and loss in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Estimated useful lives are as follows:

– Office equipment	3 to 10 years
– Leasehold improvements	5 years
– Fixtures and fittings	3 to 10 years

1 Accounting policies continued

Going concern

Accounting standards require the Directors to consider the appropriateness of the going concern basis when preparing the Financial Statements. The Directors have taken notice of the Financial Reporting Council guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2010' which requires the reasons for this decision to be explained.

The Directors have prepared cash flow forecasts for a period including 12 months from the date of approval of these Financial Statements which show that during that period the Group is expected to generate sufficient cash from its operations to settle its liabilities as they fall due without the requirement for additional borrowings. Therefore the Directors conclude that the Group has adequate resources to continue in operational existence for the foreseeable future and they continue to adopt the going concern basis of accounting in preparing these annual financial statements.

Intangible assets and goodwill

Goodwill represents amounts arising on acquisition, being the difference between the cost of the acquisition and the net fair value of the identifiable assets and liabilities acquired on a business combination. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units for the purposes of impairment testing and is not amortised. It is tested annually for impairment.

Externally acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired software is valued based on replacement cost valuations where identifiable or at cost less accumulated amortisation and impairment. Internally produced software is valued at cost less accumulated amortisation and impairment.

Customer relationships are valued based on the net present value of the excess earnings generated by the revenue streams over their estimated useful lives.

Brands valuation is based on net present value of estimated royalty returns.

Amortisation is charged to profit and loss in the statement of comprehensive income over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life, such as goodwill, are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. Estimated useful lives are as follows:

– Goodwill	Indefinite life
– Customer relationships (excluding Punter Southall Holdings Actuarial CGU)	10 years, reducing balance method
– Customer relationships (Punter Southall Holdings Actuarial CGU)	20 years, reducing balance method
– Brands (excluding Punter Southall Holdings)	10 years, straight line method
– Brands (Punter Southall Holdings)	2 years, straight line method
– Software	3 to 4 years, straight line method

Contingent consideration

Contingent consideration is included in cost at its acquisition date fair value and is classified as a financial liability, re-measured at fair value subsequently through profit or loss. Contingent consideration classified as equity is not re-measured.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

Fair value through profit or loss

This category comprises out-of-the-money derivatives (see 'Financial assets' for in-the-money derivatives). The out-of-the-money derivatives are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes.

1 Accounting policies continued

Loans and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment and are included in non-current assets as their maturity is greater than 12 months after the end of the reporting period.

Trade receivables are stated initially at fair value then measured at amortised cost less provisions for impairment. Provisions for impairment are recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The impairment recorded is the difference between the carrying value of the receivables and the estimated future cash flows discounted where appropriate. Any impairment required is recorded in the statement of comprehensive income within administrative expenses.

Cash and cash equivalents comprise cash balances and call deposits.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises out-of-the-money derivatives (see 'Financial assets' for in-the-money derivatives). They are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. The group has a contingent consideration liability relating to the acquisition of Punter Southall. This is included in cost at its acquisition date fair value and is classified as a financial liability, re-measured at fair value subsequently through profit or loss.

Other financial liabilities

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis. When borrowings are extinguished, any difference between the cash paid and the carrying value is recognised in the statement of comprehensive income.

Trade payables and other short term monetary liabilities represent liabilities for goods and services received by the Group prior to the end of the financial year which are unpaid. The amounts within trade payables are unsecured. They are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

Dilapidations provisions relate to the estimated cost to put leased premises back to the required condition expected under the terms of the lease. These include provisions for wear and tear along with provisions where leasehold improvements have been made that would require reinstatement back to the original status on exit. These are uncertain in timing as leases may be terminated early or extended. To the extent that exits of premises are expected within 12 months of the end of the year they are shown as current.

Professional indemnity provisions relate to complaints against the Group. The amount provided is based on management's best estimate of the likely liability and is capped to the excess on the Group's professional indemnity insurance on a case by case basis where covered and settled on a net basis.

Social security costs provisions represent estimates of the Group's national insurance contributions liability on the cost of the Group's Performance Share Plan.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Retirement benefits: Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the consolidated statement of comprehensive income in the year to which they relate.

1 Accounting policies continued

Employee Benefit Trust (EBT)

As the Group is deemed to have control of its EBT, it is treated as a subsidiary and consolidated for the purposes of the Consolidated Financial Statements. The EBT's investment in the Group's shares is deducted from equity in the consolidated statement of financial position as if it were treasury shares. Consideration paid (or received) for the purchase (or sale) of these shares is recognised directly in equity. The cost of shares held is presented as a separate reserve (the 'investment in own shares'). Any excess of the consideration received on the sale of these shares over the weighted average cost of the shares sold is credited to retained earnings.

The equity-settled share-based payment expense represents the amount of share awards made by the Employee Benefit Trust on behalf of the Company as instructed by the Company. Proceeds from the subsequent sale of the share awards were transferred to employees via payroll on their behalf the values being based on the share price at IPO.

EBT equity settled awards, which vest immediately on issue, are measured at the fair value of the shares issued on the date of the award, representing the bid price of the shares, the share-based payment expense is charged to the consolidated statement of comprehensive income.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors and in the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

Revenue

Revenue, which excludes value added tax, represents the invoiced value of employee benefit consultancy and related business services supplied. Revenue is derived mainly from sales made in the United Kingdom. Revenue derived from outside the United Kingdom is immaterial.

Amounts recognised as revenue but not yet billed are reflected in the statement of financial position as accrued income. Amounts billed in advance of work performed are deferred in the statement of financial position as deferred income.

Revenue in respect of time and materials contracts is recognised as the services are performed. Revenue relating to fixed fee contracts is recognised evenly over the contract period. Commission income is recognised on renewal of scheme membership.

Expenses

Exceptional costs

Exceptional costs are items which due to their size, incidence and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the Financial Statements and, in management's judgement, to show more accurately the underlying profits of the Group. Such items are included within the statement of comprehensive income caption to which they relate, and are separately disclosed in the notes to the Financial Statements.

Operating lease payments

Payments made under operating leases are recognised in profit and loss in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense and are spread over the term of the lease.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Foreign exchange policy

Transactions entered into by Group entities in a currency other than the functional currency (GBP) are recorded at the rates ruling when the transactions occur.

Any exchange rate differences are recognised immediately through the statement of comprehensive income.

Net finance costs

Net finance costs comprise interest payable, interest receivable on own funds, foreign exchange gains and losses and costs directly related to the raising of loans.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

1 Accounting policies continued

Share-based payment costs – Performance Share Plan

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from the Executive Directors and key management personnel in consideration for equity instruments of the Group. The fair value of the services received in exchange for the grant of the awards is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the awards granted:

- including any market performance conditions (for example, an entity's share price); and
- including the impact of any service and non-market performance vesting conditions (for example, profitability and remaining a Director for a specified period of time);

See the Employee Benefit Trust (EBT) policy above for information on the Employee Benefit Trust element of share-based payment costs.

Discontinued operations

The results of operations disposed during the year are included in the consolidated statement of comprehensive income up to the date of disposal. A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquire exclusively with a view to resale, that has been disposed of, has been abandoned, or that meets the criteria to be classified as held for sale. Discontinued operations are presented in the consolidated statement of comprehensive income as a single line which comprises the post-tax profit or loss of the discontinued operation along with the post-tax gain or loss recognised on the re-measurement to fair value less costs to sell or on disposal of the assets or disposal groups constituting discontinued operations.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in profit and loss in the statement of comprehensive income except to the extent that it relates to items recognised in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards, and interpretations are not effective for 2018, and therefore have not been applied in preparing XPS Pension Group's Financial Statements.

- **IFRS 9 Financial Instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all 3 aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted.

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company expects to apply the simplified approach and record lifetime expected losses on all trade receivables.

The Company plans to adopt the new standard on the required effective date. The Company expects no significant impact on its balance sheet and equity.

- **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Company plans to adopt the new standard on the required effective date. The Company has performed an assessment of IFRS 15, and has elected to apply a full retrospective application for the annual period commencing 1 April 2018.

1 Accounting policies continued

The main revenue stream impacted by the introduction of IFRS15 relates to triennial valuations of pensions. Historically, the revenue from a customer contract has been released evenly throughout the life of the contract. Under IFRS 15, the Company will need to separate the triennial valuations from the contract, and account for this element over the period of time that the work on the triennial valuation is done. Because of the number of customers and the different dates of the triennial valuations, the overall impact of this change to the timing of revenue recognised in total is not material. In the PSHL Group, there are significant implementation fees and costs which have been recognised at the start of the contract – following a review of process in line with IFRS 15, it is considered that this accounting treatment remains consistent with the new standard and so no adjustment is required.

- **IFRS 16 Leases**

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (eg personal computers) and short-term leases (ie leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (ie the lease liability) and an asset representing the right to use the underlying asset during the lease term (ie the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (eg a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group has entered into a number of long-term leases in respect of land and buildings. The Group has assessed the leases under IFRS 16 and expects an impact as the right of use assets and lease liabilities will come onto the consolidated statement of financial position for the first time in respect of its current operating leases. The Group expects that IFRS 16 will have a material impact on the financial statements of the Group, however the Group are currently assessing the impact. To see the volume of operating leases please see Note 33 to the Group's consolidated financial statements for the year ended 31 March 2018 for more information.

The other standards, interpretations and amendments issued by the IASB (of which some still subject to endorsement by the European Union), but not yet effective, are not expected to have a material impact on the Group's consolidated financial statements.

Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Fair values of intangible assets

Goodwill and intangibles are tested for impairment at the cash generating unit level on an annual basis at the year end and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a cash generating unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgement, including the identification of cash generating units, assignment of assets and liabilities to such units, assignment of goodwill to such units and determination of the fair value of a unit. The fair value of each cash generating unit or asset is estimated using the income approach, on a discounted cash flow methodology. This analysis requires significant judgements, including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the business, estimation of the useful life over which cash flows will occur and determination of our weighted average cost of capital.

Revenue recognition

Dependent upon the income stream and nature of the engagement, revenue is recognised on either a time costs incurred, fixed fee or rateably over the period of providing the service basis.

Revenue is billed on a monthly, quarterly or, in the case of SSAS and SIPP services, on an annual basis. Services may be billed in arrears, as in the case of pensions advisory work, or in advance as is the case with SSAS and SIPP revenues. As a result of such arrangements, critical accounting judgements are made in determining the timing of revenue recognition.

Deferred tax

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Throughout the current and prior periods the Directors consider that the IAS 12 recognition criteria have been satisfied.

1 Accounting policies continued

Provisions

Dilapidations provisions have been made for properties which the Group currently lease based upon the cost to make good the property in accordance with lease terms where applicable. Provisions are made for claims in respect of complaints against the Group. The amount provided is based on management's best estimate of the likely liability. The cost to the business is capped to the excess on the Group's professional indemnity insurance in respect of each individual claim.

Useful lives of intangible assets

Intangible assets are amortised over their estimated useful lives with the charge recorded in administrative expenses. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods.

Business combinations

The Directors determine and allocate the purchase price of an acquired business to the assets acquired and liabilities assumed as of the business combination date. The purchase price allocation process requires the use of significant estimates and assumptions, including the estimated fair value of the acquired intangible assets.

While the Directors use their best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the date of acquisition, our estimates and assumptions are inherently uncertain and subject to refinement. Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:
- future expected Cash flows from customer relationships and brands; and
- discount rates.

Exceptional costs

Exceptional costs are recognised to the extent that they meet the definition outlined in the accounting policy above. This requires a certain amount of judgement that is applied consistently by management.

Contingent consideration

Contingent consideration is recognised at its acquisition date fair value, and is classified as a financial liability. At each reporting period the liability is re-measured at fair value through profit or loss. This remeasurement is based on movement in the Group share price, as well as management's expectation of future performance. Therefore, judgement is necessary in assessing the amount of consideration that will be payable in the future. As a result of the inherent uncertainty in this evaluation process, actual gains or losses may be different from the originally estimated consideration.

2 Financial risk management

The XPS Pensions Group's operations expose it to a variety of financial risks including credit risk, liquidity risk and the effects of changes in interest rates on debt. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs.

The Group's principal financial instruments comprise sterling cash, bank deposits, bank loans, overdrafts and shareholder loans together with trade receivables and trade payables that arise directly from its operations.

The Group has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk
- cash flow interest rate risk.

Risk management policies are established for the XPS Pensions Group of companies and the Group Audit Committee oversees how management monitors compliance with these policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty, including brokers, to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Due to the nature of the business the majority of the trade receivables are with trustees of pension schemes and large institutions and losses have occurred infrequently over previous years.

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 the Group will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

2 Financial risk management continued

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and equity prices will affect the Group's income or the value of its financial instruments. Interest rate risks are discussed in the cash flow interest rate risk below.

The Group's financial instruments are currently in sterling, hence foreign exchange movements do not have a material effect on the Group's performance.

The Group is exposed to movements in interest rate in its net finance costs and also in a small element of its operating revenue. Senior loans are linked to LIBOR. The Group earns income in relation to client and shareholder deposits as well as interest income on its own deposits.

The Group does not hold its own position in trading securities, being involved only in arranging transactions on behalf of its clients.

The Group does not engage in holding speculative financial instruments or derivatives. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

Cash flow interest rate risk

The XPS Pensions Group is exposed to cash flow interest rate risk in two main respects. Firstly corporate and client bank deposits, which earn interest at a variable rate, although not at a material level. Secondly, interest expense arising on bank facilities at a margin over LIBOR.

3 Capital risk management

The Group is focused on delivering value for its shareholders whilst ensuring the Group is able to continue effectively as a going concern. Value adding opportunities to grow the business are continually assessed, although strict and careful criteria are applied.

The policies for managing capital are to increase shareholder value by maximising profits and cash. The policy is to set budgets and forecasts in the short and medium term that the Group feels are achievable. The process for managing capital are regular reviews of financial data to ensure that the Group is tracking the targets set and to reforecast as necessary based on the most up to date information. This then contributes to the XPS Pensions Group's forecast which ensures future covenant test points are met. The Group continues to meet these test points and they have been achieved over the last year.

Due to the nature of some of the services provided, 3 subsidiaries within the Group are regulated by the Financial Conduct Authority (FCA). They are required to hold a minimum level of capital and this is monitored on a monthly basis. Formal compliance returns are submitted to the FCA in line with their reporting requirements.

4 Business combinations during the period

On 11 January 2018 the Group acquired 100% of the voting equity instruments of Punter Southall Holdings Limited, and its subsidiary companies PS Administration Holdings Limited, PS Administration Limited, Punter Southall Investment Consulting Limited, and Punter Southall Limited (together, 'the PSH Group'). The acquired companies' principal activities are actuarial consulting, pensions administration and investment consulting. The rationale for the acquisition was to create a new leading mid-market player in the provision of actuarial, investment advisory and administration services, with the potential to challenge and more effectively compete with the global consultancies.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book value £'000	Adjustment £'000	Fair value £'000
Brand right-of-use	–	5,408	5,408
Customer relationships	–	65,082	65,082
Property, Plant & Equipment	12	(1)	11
Deferred Tax Asset	151	(151)	–
Receivables	20,603	(1,843)	18,760
Payables	(15,099)	1,968	(13,131)
Cash	4,160	(136)	4,024
Deferred tax liability	–	(12,259)	(12,259)
Total net assets	9,827	58,068	67,895

Fair value of consideration paid

	£'000
Cash	92,910
Consideration shares	48,699
Sale of HR Trustees business (Note 17)	8,480
Contingently issuable ordinary shares	6,932
Deferred cash consideration	1,677
Total consideration	158,698
Goodwill (Note 19)	90,803

4 Business combinations during the period continued

In accordance with IFRS 3 Business Combinations, the consideration paid in shares is based on the share price at the date on which the company obtained control of the PSH Group. The share premium amount is booked to the Merger Relief Reserve within the consolidated statement of financial position.

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as the assembled workforce of the acquired entities and the expected growth in the business generated by new customers, which do not qualify for separate recognition.

The goodwill arising on the PSH Group acquisition is not deductible for tax purposes.

As part of the acquisition of PSH Group, XPS Pensions Group has been granted the right to use the 'Punter Southall' brand on a royalty-free basis for a period of up to two years post acquisition.

Since the acquisition date, the PSHL Group has contributed £12,835,000 to group revenues and £2,774,000 to group profit after tax. If the acquisition had occurred on 1 April 2017, group revenue would have been £107,618,000 and group profit after tax for the period would have been £17,944,000.

Contingent consideration

The contingent consideration comprises up to 6,134,969 shares in the Group, payable to the vendors depending on the revenue performance of the combined Group over the 12 months to 31 March 2019. Based on the transaction date share price of £1.89, the maximum fair value of the earn-out shares is £11.6m. The fair value of the consideration of £6,932,000 has been determined by incorporating Group revenue forecasts through IRR cash flows.

The contingent shares which will be issued depend on the revenue outcome for the year ending 31 March 2019. The revenue must meet a minimum target before any shares are issued, and the shares issued will then be issued on a pro-rata basis up to a maximum of 6,134,969 shares.

At year end the contingent consideration was revalued using the year end share price. The discount was also unwound for the period since acquisition. Further detail can be found in Note 29.

Deferred cash consideration

Deferred cash consideration of £1,677,000 relates to the fair value of acquired working capital and cash over and above the estimated amounts as set out in the Share Purchase Agreement as to be included within the upfront consideration. This will be paid in July 2018.

The net cash outflow in respect of acquisition comprised:

	£'000
Cash paid	92,910
Net cash acquired	(4,024)
Total cash outflow in respect of acquisition	88,886

Acquisition expenses

Costs relating to the acquisition of the PSHL Group totalled £3,683,000, and are included within exceptional costs.

5 Other operating income

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Fair value adjustment of contingently issuable ordinary shares	**472**	–

6 Auditors' remuneration

During the period the following services were obtained from the Group's auditor at a cost detailed below:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Audit services		
Fees payable in respect of the parent company and consolidated accounts	78	67
Fees payable in respect of the subsidiary accounts	74	23
	152	90
Non-audit services		
Corporate finance fees	–	281
Tax advisory	2	188
Tax compliance	–	17
Other assurance services	28	53
Other services	–	6
	30	545
Total	182	635

7 Adjusted profit after tax from continuing operations

	Note	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Profit/(loss) from operating activities		5,672	(5,441)
Adjustments to administrative expenses			
Exceptional costs	8	4,373	2,959
Share-based payment cost	14	3,614	14,253
Amortisation of acquired intangible assets	19	4,773	3,716
Depreciation of tangible assets	18	577	628
Amortisation of software	19	526	361
		13,863	21,917
Other operating income	5	(472)	–
Adjusted EBITDA – Earnings before interest, tax, depreciation and amortisation, share-based payment costs, fair value adjustment of contingent consideration and exceptional costs		19,063	16,476
Depreciation of tangible assets	18	(577)	(628)
Amortisation of software	19	(526)	(361)
Finance income	15	23	475
Finance costs	15	(1,473)	(9,121)
Add back unamortised loan arrangement fees written-off as part of re-financing exercises	15	220	2,892
Add back unwinding of discount on contingent consideration	15	195	–
Adjusted profit before tax, amortisation of acquired intangible assets, share-based payment costs, fair value adjustment of contingent consideration and exceptional costs		16,925	9,733
Tax		(1,230)	558
Adjustments to tax			
Tax on exceptional costs		(427)	(192)
Tax on share-based payment costs equity settled from EBT		(651)	(2,863)
Tax on written-off loan arrangement fees		(42)	(579)
Less deferred tax not recognised	16	–	1,477
Deferred tax related to acquired intangibles	20	(834)	(648)
Adjusted profit after tax from continuing operations		13,741	7,486

Earnings have been adjusted for the tax impact of the adjusting items set out in Note 7 by applying the statutory tax rate of 19%. Unrecognised deferred tax in respect of unutilised non-trading losses carried forward have been adjusted for as these would have been relieved had the adjusting items not occurred.

8 Exceptional costs

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Acquisition related costs	3,683	–
IPO costs	–	1,939
Professional indemnity related claim	–	500
Restructuring costs	228	520
Exceptional bonus settled from EBT in cash	462	–
Total	4,373	2,959

9 Operating segments

In accordance with IFRS 8 'Operating Segments', an operating segment is defined as a business activity whose operating results are reviewed by the chief operating decision maker ('CODM') and for which discrete information is available. The Group's CODM is the Board of Directors.

The Group has several operating segments based on geographical location and revenue streams, but one reporting segment due to the nature of services provided across the whole business being the same, pension and employee benefit solutions. The Group's revenues, costs, assets, liabilities and cash flows are therefore totally attributable to this reporting segment.

Following the acquisition of the PSH Group, the Group has decided to split out the Pensions, Administration and Investment operating segments into three separate segments (previously these were included as one), to align reporting with the way the business is analysed internally.

Operating segments

Revenue from external customers	Year ended 31 March 2018	Year ended 31 March 2017
Pensions	37,927	31,550
Administration	13,673	7,286
Investment	4,963	3,972
National Pension Trust	957	682
SSAS and SIPP	5,427	4,967
Healthcare	1,018	1,033
Total – Continuing operations	63,965	49,490
HR Trustees – Discontinued operation	2,073	2,548
Total	66,038	52,038

10 Administrative expenses

Included in the operating profit/(loss) for the year are the following:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Expenses by nature		
Staff costs (Note 11)	35,419	37,886
Depreciation and amortisation	5,876	4,705
Operating lease costs	870	938
Premises costs (excluding rent under operating leases)	1,374	818
Exceptional costs (see Note 8)	4,373	2,959
Other general business costs	10,853	7,625
Total	58,765	54,931

11 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Year ended 31 March 2018 Number of employees	Year ended 31 March 2017 Number of employees
Operational	**508**	384
Administration	**31**	28
Sales and marketing	**16**	17
	555	429

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Wages and salaries	**28,847**	19,866
Social security contributions and similar taxes	**2,962**	2,106
Defined contribution pension cost	**1,333**	1,011
Other long-term employee benefits	**783**	589
Share-based payment costs (see Note 14)	**1,494**	14,314
	35,419	37,886

12 Employee benefits

Defined contribution plan

The Company operates a defined contribution pension plan. Outstanding contributions at the year end were £418,000 (2017: £217,000).

13 Directors' emoluments

The Directors were remunerated for their services by the Group and their emoluments are disclosed below.

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Aggregate emoluments	**2,271**	8,278
Company contributions to money purchase pension plans	**30**	36
Compensation for loss of office	**–**	–
	2,301	8,314

	Year ended 31 March 2018 Number of Directors	Year ended 31 March 2017 Number of Directors
At 31 March 2018, retirement benefits are accruing to the following number of Directors under:		
Money purchase schemes	**3**	3

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
The emoluments of the highest paid Director, including benefits and share-based payments	**546**	4,180

14 Share-based payment costs

The Group operates a number of equity-settled share-based remuneration schemes for employees: Performance Share Plans (PSP) for Executive Directors and other key senior personnel. All employees are also eligible to participate in the Save as You Earn (SAYE) scheme, the only vesting condition being that the individual remains an employee of the Group over the savings period.

The Executive PSP award expense relates to annual awards over shares that vest subject to certain, stretching performance conditions, measured over a three-year period. Maximum "normal" grant level is 150% of salary, capped at a maximum of 200% in exceptional circumstances. Malus and clawback provisions apply. The fair value of awards granted during the year was determined using certain assumptions around vesting. More information about the Executive PSP can be found in the Remuneration Report section of this Annual Report.

14 Share-based payment costs continued

There is a further PSP for key senior staff which relates to annual awards over shares that vest subject to certain performance conditions, measured over a three-year period. The fair value of awards granted during the year was determined using certain assumptions around vesting.

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Share-based payment expense equity settled from EBT	–	12,476
Social security cost on equity settled share-based payment expense	–	1,742
Performance Share Plan awards and SAYE scheme	1,051	29
Social security cost on Performance Share Plan awards and SAYE scheme	151	6
Share-based payments	1,202	14,253
Accrued bonus to be settled from EBT	2,120	–
Social security cost on accrued bonus to be settled from EBT	292	–
Total	3,614	14,253

The fair value of PSP options granted during the period were calculated using the Stochastic valuation method. The inputs to the model were as follows:

	Year ended 31 March 2018
Weighted average exercise price of options issued during the period (pence)	0.5
Expected volatility (%)	34%
Expected life beyond vesting date (years)	2
Risk free rate (%)	0.25%
Dividend yield (%)	–

The fair value of SAYE options granted during the period were calculated using the Black-Scholes valuation method. The inputs to the model were as follows:

	Year ended 31 March 2018
Weighted average exercise price of options issued during the period (pence)	130.2
Expected volatility (%)	33%
Expected life beyond vesting date (years)	3.35
Risk free rate (%)	0.25%
Dividend yield (%)	3.8%

As at 31 March 2018 the following options had been granted and remained outstanding in respect of the Group's ordinary shares of 0.05p each under the Groups PSP and SAYE Option schemes:

	Share options granted	Price granted (p)
Scheme		
Executive PSP	447,840	90
Executive PSP	447,840	139
Staff PSP	1,838,776	163
SAYE	910,386	37.6
Staff PSP	146,834	187
Executive PSP	15,675	90
Executive PSP	15,674	139
Staff PSP	64,357	163
Staff PSP	1,533,742	163
Staff PSP	53,681	163
	5,474,805	

14 Share-based payment costs continued

		2018 Weighted average Exercise price (pence)	2018 Number	2017 Weighted average Exercise price (pence)	2017 Number
Executive PSP	Outstanding at 1 April	0.05	895,680	–	–
	Granted during the year	0.05	31,349	0.05	895,680
	Outstanding at 31 March	0.05	927,029	0.05	895,680
Staff PSP	Outstanding at 1 April	–	–	–	–
	Granted during the year	0.05	3,637,390	–	–
	Outstanding at 31 March	0.05	3,637,390	–	–
SAYE	Outstanding at 1 April	–	–	–	–
	Granted during the year	130.20	929,738	–	–
	Forfeited during the year	130.20	(19,352)	–	–
	Outstanding at 31 March	130.20	910,386	–	–

The exercise price of options outstanding at 31 March 2018 ranged between £0.0005 (ie the nominal value of an ordinary share) in the case of the PSPs and £1.302 in the case of the SAYE scheme (2017: £0.0005). Their weighted average contractual life was 3 years (2017: 3 years).

Of the total number of options outstanding at 31 March 2018, Nil (2017: Nil) had vested and were exercisable.

The weighted average fair value of each option granted during the year was £1.34 (2017 £1.15).

15 Finance income and expense

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Interest income on bank deposits	23	11
Income on interest rate swap valuation	–	464
Finance income	23	475
Interest expense on bank loans	802	4,509
Other costs of borrowing	192	806
Amortisation of loan arrangement fees written-off as part of re-financing exercises	220	2,892
Interest on finance leases	12	16
Other finance expense	52	32
Expense on interest rate swap valuation	–	866
Unwinding of discount on contingent consideration	195	–
Finance expenses	1,473	9,121

Other costs of borrowing largely represent the amortisation expense of capitalised loan arrangement fees on the Group's previous bank debt.

16 Income tax expense/(credit)

Recognised in the statement of comprehensive income

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Current tax expense		
Current year	2,903	(19)
Income tax payable by the EBT	–	353
Adjustment in respect of prior year	16	(30)
Total current tax expense	2,919	304
Deferred tax credit		
Origination and reversal of temporary differences	(1,531)	(677)
Total income tax expense/(credit)	1,388	(373)

Notes to the Consolidated Financial Statements continued
for the year ended 31 March 2018

16 Income tax expense/(credit) continued

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Continuing and discontinued operations:		
Income tax expense/(credit) from continuing operations	1,230	(558)
Income tax expense from discontinued operation (excluding gain on sale) (Note 17)	158	185
	1,388	(373)

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Profit/(Loss) for the year	11,828	(12,791)
Total tax expense/(credit)	1,388	(373)
Profit/(loss) before income tax	13,216	(13,164)
Tax using the UK corporation tax rate of 19% (2017: 20%)	2,511	(2,633)
Non-deductible expenses	378	409
Gain on disposal not allowable	(1,550)	–
Deferred tax not recognised	–	1,477
Fixed asset differences	17	(29)
Income tax payable by the EBT	–	353
Adjustment in respect of prior periods	16	(30)
Amounts (charged)/credited directly to equity or otherwise transferred	24	–
Effect of tax rate change	(8)	80
Total tax expense/(credit)	1,388	(373)

The standard rate of Corporation tax in the UK was 19% (2017: 20%). Deferred tax assets and liabilities have been measured at the rate they are expected to unwind at, using a rate substantively enacted at 31 March 2018, which is not lower than 17% (2017: 17%). The deferred tax not recognised relates to finance expense losses in the previous year and their future recoverability is uncertain.
At 31 March 2018 the total unrecognised deferred tax asset in respect of these losses was approximately £1.2m (2017: £1.5m).

17 Discontinued Operations

On 11 January 2018, the Group sold its 100% interest in HR Trustees Limited, as part of the deal with the Punter Southall Group for an agreed consideration of £8.5m which is based on an agreed multiple of normalised EBITDA.

Result of discontinued operations	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Cash consideration received	262	–
Other consideration received (Note 4)	8,480	–
Total consideration received	8,742	–
Net assets disposed (other than cash)		
Trade and other receivables	(600)	–
Trade and other payables	18	–
	(582)	–
Pre-tax gain on disposal of discontinued operation	8,160	–

17 Discontinued Operations continued

The profit from disposal of discontinued operations was determined as follows:

Result of discontinued operations	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Revenue to 11 January 2018 (2017 year ended 31 March 2017)	2,073	2,548
Expenses to 11 January 2018 (2017 year ended 31 March 2017)	(1,239)	(1,625)
Profit before tax	834	923
Tax expense	(158)	(185)
Gain from selling discontinued operations after tax	8,160	–
Profit for the year	8,836	738

Earnings per share from discontinued operations

	Year ended 31 March 2018 £	Year ended 31 March 2017 £
Basic earnings per share	0.06	0.01
Diluted earnings per share	0.06	0.01

Statement of cash flows

The statement of cash flows includes the following amounts relating to discontinued operations:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Operating activities	741	1,157
Net cash from discontinued operations	741	1,157

Adjusted profit before tax from discontinued operations:	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Profit/(loss) from operating activities in discontinued operations	834	923
Adjustments to administrative expenses		
Exceptional costs	–	61
Depreciation of tangible assets	2	3
	2	64
Adjusted EBITDA – Earnings before interest, tax, depreciation and amortisation, share-based payment costs, fair value adjustment of contingent consideration and exceptional costs	836	987
Adjustments to administrative expenses		
Depreciation of tangible assets	(2)	(3)
Adjusted profit before tax, amortisation of acquired intangible assets, share-based payment costs and exceptional costs	834	984
Tax	(158)	(185)
Adjustments to tax		
Tax on exceptional costs	–	(12)
Adjusted profit after tax	676	787

18 Property, plant and equipment

	Leasehold improvements £'000	Office equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
Balance at 1 April 2017	1,028	636	894	2,558
Acquired through business combinations	–	–	11	11
Additions	34	190	17	241
Disposals	(2)	(193)	(1)	(196)
Balance at 31 March 2018	**1,060**	**633**	**921**	**2,614**
Accumulated depreciation				
Balance at 1 April 2017	498	324	394	1,216
Depreciation charge for the year	209	186	182	577
Disposals	(2)	(193)	(1)	(196)
Balance at 31 March 2018	**705**	**317**	**575**	**1,597**
Net book value				
Balance at 31 March 2017	530	312	500	1,342
Balance at 31 March 2018	**355**	**316**	**346**	**1,017**

	Leasehold improvements £'000	Office equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
Balance at 1 April 2016	896	1,190	943	3,029
Additions	132	187	125	444
Disposals	–	(741)	(174)	(915)
Balance at 31 March 2017	1,028	636	894	2,558
Accumulated depreciation				
Balance at 1 April 2016	309	785	406	1,500
Depreciation charge for the year	189	280	162	631
Disposals	–	(741)	(174)	(915)
Balance at 31 March 2017	498	324	394	1,216
Net book value				
Balance at 1 April 2016	587	405	537	1,529
Balance at 31 March 2017	530	312	500	1,342

The net book value of property, plant and equipment includes the following amounts held under finance lease: Office equipment: £22,000 (2017: £42,000). The depreciation charged in the year relating to these assets was £20,000 (2017: £20,000).

19 Intangible assets

Group	Goodwill £'000	Customer relationships £'000	Brands £'000	Software £'000	Total £'000
Cost					
Balance at 1 April 2017	24,782	49,898	628	1,463	76,771
Acquired through business combinations	90,803	65,082	5,408	–	161,293
Additions	–	–	–	1,103	1,103
Disposals	–	–	–	(318)	(318)
Balance at 31 March 2018	**115,585**	**114,980**	**6,036**	**2,248**	**238,849**
Accumulated amortisation					
Balance at 1 April 2017	–	17,447	258	471	18,176
Amortisation for the year	–	4,118	655	526	5,299
Disposals	–	–	–	(318)	(318)
Balance at 31 March 2018	**–**	**21,565**	**913**	**679**	**23,157**
Net book value					
Balance at 1 April 2017	24,782	32,451	370	992	58,595
Balance at 31 March 2018	**115,585**	**93,415**	**5,123**	**1,569**	**215,692**

	Goodwill £'000	Customer relationships £'000	Brands £'000	Software £'000	Total £'000
Cost					
Balance at 1 April 2016	24,782	49,898	628	1,008	76,316
Additions	–	–	–	732	732
Disposal	–	–	–	(277)	(277)
Balance at 31 March 2017	24,782	49,898	628	1,463	76,771
Accumulated amortisation					
Balance at 1 April 2016	–	13,794	195	387	14,376
Amortisation for the year	–	3,653	63	361	4,077
Disposals	–	–	–	(277)	(277)
Balance at 31 March 2017	–	17,447	258	471	18,176
Net book value					
Balance at 1 April 2016	24,782	36,104	433	621	61,940
Balance at 31 March 2017	24,782	32,451	370	992	58,595

At 31 March 2018, the remaining amortisation period for customer relationships assets held at the start of the year was 6 years. The customer relationship asset acquired as part of the purchase of the PSHL Group of companies for the actuarial CGU will be amortised over 20 years, and for the administrative CGU over 10 years.

Impairment test

Goodwill represents the excess of the consideration over the fair value of the net assets acquired on the purchase of the subsidiary companies listed in Note 38. In accordance with IFRS, this balance is not amortised and is subject to annual impairment reviews. Goodwill has been allocated to its cash generating units which comprises Xafinity Consulting Limited, Xafinity SIPP Services Limited, Xafinity Pensions Consulting Limited and their subsidiaries (CGU 1); Punter Southall Holdings Limited, PS Administration Holdings Limited, PS Administration Limited, Punter Southall Investment Consulting Limited, Punter Southall Limited (CGU 2); and PS Administration Holdings Limited, PS Administration Limited (CGU 3).

19 Intangible assets continued

The cash generating unit at each year/period end was assessed on the basis of value in use using the following assumptions, which reflect past experience of the Group:

	2018			2017
	CGU 1	**CGU 2**	**CGU 3**	CGU 1
Discount rate pre-tax	**15%**	**12%**	**37%**	15%
Terminal value after period 8	**2.0%**	**2.0%**	**2.0%**	2.0%
Period on which detailed forecasts are based	**3 years**	**3 years**	**3 years**	3 years
Growth rate during detailed forecast period (average)	**5.3%**	**5.2%**	**47.3%**	5.5%
Growth rate applied beyond approved forecast period to year 8	**6.0%**	**4.4%**	**4.4%**	5.0%

The growth rate beyond the forecast period is based on a blend of average growth rates experienced by the Group and management's assessment of industry and macro-economic outlooks. Such forecast rates have been accurate in the past. Therefore the Directors believe they can be used.

The growth rate in CGU 3 of 47.3% is made up of revenue growth of 12.2% over the 3 year period and operating costs savings due to synergies of being part of the enlarged group.

Goodwill allocated to cash generating units:	**2018 £'000**	2017 £'000
Goodwill – Xafinity Consulting Limited, Xafinity SIPP Services Limited, Xafinity Pensions Consulting Limited and subsidiaries (CGU 1)	**24,782**	24,782
Goodwill – PS Administration Holdings Limited, PS Administration Limited (CGU 3)	**11,564**	–
Goodwill – Punter Southall Holdings Limited, PS Administration Holdings Limited, PS Administration Limited, Punter Southall Investment Consulting Limited, Punter Southall Limited: (CGU 2)	**79,239**	–
	115,585	24,782

On 11 January 2018 the Group acquired 100% of the voting equity instruments of Punter Southall Holdings Limited, and its subsidiary entities PS Administration Holdings Limited, PS Administration Limited, Punter Southall Investment Consulting Limited, and Punter Southall Limited. Further details relating to this acquisition can be found in Note 4.

On review, the Directors are satisfied that no impairment has taken place throughout the historical financial period.

Sensitivity analysis of assumptions

No sensitivity analysis has been performed on the Xafinity CGU business unit on the basis that there were no reasonably foreseeable changes in the above assumptions which would result in the recoverable amount falling below the carrying amount. Due to close proximity of the value in use calculation of the Punter Southall actuarial and administration CGUs to their acquisition, the headroom is not significant and therefore relatively small changes to any of the assumptions above would result in such headroom being reduced to zero.

20 Deferred income tax

Analysis of the breakdown and movement of deferred tax during the year is as follows:

	Balance at 1 April 2017 £'000	Recognised in income £'000	Recognised in equity £'000	Acquired 11 January 2018 £'000	**31 March 2018 £'000**	**31 March 2018 Assets £'000**	**31 March 2018 Liabilities £'000**
Property, plant and equipment	25	(110)	–	–	**(85)**	**85**	**–**
Capital gains	717	–	–	–	**717**	**–**	**717**
Short-term temporary differences	–	(629)	(24)	–	**(689)**	**689**	**–**
Business combinations	5,800	(834)	–	12,259	**17,225**	**–**	**17,225**
	6,542	(1,573)	(24)	12,259	**17,168**	**774**	**17,942**

	Balance at 1 April 2016 £'000	Recognised in income £'000	31 March 2017 £'000	31 March 2017 Assets £'000	31 March 2017 Liabilities £'000
Property, plant and equipment	54	(29)	25	–	25
Capital gains	717	–	717	–	717
Short-term temporary differences	(36)	–	(36)	36	–
Business combinations	6,448	(648)	5,800	–	5,800
	7,183	(677)	6,506	36	6,542

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable. Deferred tax assets and liabilities have been measured at the rate they are expected to unwind at, using a rate substantively enacted at 31 March 2018, which is not lower than 17% (2017: 17%).

21 Trade and other receivables

	31 March 2018 £'000	31 March 2017 £'000
Trade receivables	**16,382**	6,468
Less: provision for impairment of trade receivables	**(293)**	(229)
Net trade receivables	**16,089**	6,239
Accrued income	**9,498**	4,071
Total financial assets other than cash and cash equivalents classified as loans and receivables	**25,587**	10,310
Prepayments	**1,967**	1,902
Other receivables includes £186,000 (2017: £53,000) of capitalised loan arrangement fees	**410**	108
Total trade and other receivables	**27,964**	12,320

The carrying value of trade and other receivables classified as loans and receivables approximates to fair value.

22 Current income tax asset

	31 March 2018 £'000	31 March 2017 £'000
Tax receivable	**–**	597
	–	597

The tax receivable balance in the prior year arose primarily due to a deduction for share-based payments paid to staff as part of the IPO and the accelerated charge on loan arrangement fees relating to the previous senior debt of £86,000,000. This loan was repaid as part of the IPO re-financing exercise and the related fees were expensed to the comprehensive statement of income. The resulting tax liability for the year fell below the payments on account which the Group had already made.

23 Cash and cash equivalents

	31 March 2018 £'000	31 March 2017 £'000
Cash and cash equivalents per statement of financial position	**9,404**	4,880
Cash and cash equivalents per statement of cash flows	**9,404**	4,880

The balance comprises solely of cash at bank and on hand.

24 Loans and borrowings

31 March 2018	**Due within 1 year (current) £'000**	**Due between 1 and 2 years £'000**	**Due after 2 years £'000**	**Sub-total (non current) £'000**	**Total £'000**
Revolving Credit Facility	**–**	**–**	**55,750**	**55,750**	**55,750**
Capitalised debt arrangement fees	**–**	**(186)**	**(500)**	**(686)**	**(686)**
Finance lease	**27**	**8**	**–**	**8**	**35**
Sub-total	**27**	**(178)**	**55,250**	**55,072**	**55,099**
Capitalised debt arrangement fees shown as current assets on balance sheet	**(186)**	**–**	**–**	**–**	**(186)**
Total	**(159)**	**(178)**	**55,250**	**55,072**	**54,913**

31 March 2017	Due within 1 year (current) £'000	Due between 1 and 2 years £'000	Due after 2 years £'000	Sub-total (non current) £'000	Total £'000
Senior Debt (secured)	–	–	15,000	15,000	15,000
Revolving Credit Facility	–	–	18,000	18,000	18,000
Capitalised Senior debt arrangement fees	–	(53)	(155)	(208)	(208)
Finance lease	22	28	9	37	59
Sub-total	22	(25)	32,854	32,829	32,851
Capitalised debt arrangement fees shown as current assets on balance sheet	(53)	–	–	–	(53)
Total	(31)	(25)	32,854	32,829	32,798

24 Loans and borrowings continued

The book value and fair value of loans and borrowings are not materially different.

Terms and debt repayment schedule

31 March 2018	Amount £'000	Currency	Nominal interest rate	Year of maturity
Revolving Credit Facility – A	**38,000**	**GBP**	**1.25% above LIBOR**	**2022**
Revolving Credit Facility – B	**17,750**	**GBP**	**1.25% above LIBOR**	**2022**

31 March 2017	Amount £'000	Currency	Nominal interest rate	Year of maturity
Senior Debt B	15,000	GBP	1.75% above LIBOR	2022
Revolving Credit Facility	18,000	GBP	1.75% above LIBOR	2022

At 31 March 2018 the Group held senior debt of £nil (2017: £15,000,000) and a drawn revolving credit facility of £55,750,000 (2017: £18,000,000).

At 31 March 2018 the Group had access to a further undrawn rolling facility loan in the amount of £24,250,000 (2017: £5,000,000). The related fees for access to the facility are included in the consolidated statement of comprehensive income.

Capitalised loan related costs are amortised over the life of the loan to which they relate.

Bank debt is secured by way of debentures in the group companies which are obligors to the loans. These are Xafinity (Reading) Limited, Xafinity Consulting (Reading) Limited, Xafinity Consulting Limited (and its subsidiaries), Xafinity Pension Consulting Limited (and its subsidiaries), Xafinity SIPP Services Limited, and Punter Southall Holdings Limited (and its subsidiaries).

25 Reconciliation of liabilities arising from financing activities

	31 March 2017 £'000	Cashflows £'000	Non-cash change Fair value changes £'000	**31 March 2018 £'000**
Long-term borrowings	33,000	22,750	–	**55,750**
Capitalised debt arrangement fees	(261)	(930)	319	**(872)**
Lease liabilities	59	(34)	10	**35**
Total liabilities from financing activities	32,798	21,786	329	**54,913**

26 Trade and other payables

	31 March 2018 £'000	31 March 2017 £'000
Trade payables	**963**	1,821
Accrued expenses	**8,105**	3,294
Interest payable	**138**	80
Total financial liabilities excluding loans and borrowings, classified as financial liabilities less amortised cost	**9,206**	5,195
Other payables – tax and social security payments	**2,415**	636
Other payables – VAT	**2,913**	1,072
Deferred income	**1,428**	1,207
Other payables	**679**	249
Total trade and other payables	**16,641**	8,359

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates to fair value.

27 Current income tax liabilities

	31 March 2018 £'000	31 March 2017 £'000
Tax payable	**1,803**	–
	1,803	–

28 Provisions for other liabilities and charges

31 March 2018	**Social security costs on Performance Share Plan £'000**	**Dilapidations £'000**	**Professional Indemnity £'000**	**Total £'000**
Current				
Balance at 1 April 2017	**6**	**190**	**873**	**1,069**
Provisions made during the year	**152**	**52**	**335**	**539**
Provisions used during the year	**–**	**–**	**(31)**	**(31)**
Provisions released unused during the year	**–**	**–**	**(118)**	**(118)**
Balance at 31 March 2018	**158**	**242**	**1,059**	**1,459**

31 March 2017	Social security costs on Performance Share Plan £'000	Dilapidations £'000	Professional Indemnity £'000	Total £'000
Current				
Balance at 1 April 2016	–	139	252	391
Provisions made during the year	6	51	834	891
Provisions used during the year	–	–	(102)	(102)
Provisions released unused during the year	–	–	(111)	(111)
Balance at 31 March 2017	6	190	873	1,069

The Group is involved in a number of potential professional indemnity claims. The amount provided represents the Directors' best estimate of the Group's liability having taken legal advice. Uncertainties relate to whether claims will be settled out of court or if not whether the Group is successful in defending any action. Because of the nature of the disputes, the Directors have not disclosed future information on the basis that they believe that this would be seriously prejudicial to the Group's position in defending the cases brought against it.

29 Deferred consideration

	Balance at 1 April 2017 £'000	Acquisition £'000	Fair value adjustment £'000	Unwinding of discount £'000	**31 March 2018 £'000**
Contingently issuable ordinary shares	–	6,932	(472)	195	**6,655**
Deferred cash consideration	–	1,677	–	–	**1,677**
Balance at 31 March 2018	–	8,609	(472)	195	**8,332**

There was no deferred consideration in the previous year.

30 Share capital

	Ordinary shares ('000) 31 March 2018	**Ordinary shares (£'000) 31 March 2018**	Ordinary shares ('000) 31 March 2017	Ordinary shares (£'000) 31 March 2017
In issue at the beginning of the year	**136,896**	**68**	3,971	40
Bonus issue (per ratio 1.259:1)	**–**	**–**	1,029	10
Subdivision of shares (per ratio 20:1)	**–**	**–**	95,000	–
Balance after bonus issue	**136,896**	**68**	100,000	50
Issued during the year	**66,943**	**34**	36,896	18
Cancellation of share capital	**–**	**–**	–	–
In issue at the end of the year	**203,840**	**102**	136,896	68

30 Share capital continued

On 11 January 2018, the Company issued a total of 66,720,358 ordinary shares of £0.0005 per share. This issue related to the acquisition of the Punter Southall Holdings Limited Group.

	31 March 2018 ('000)	31 March 2018 (£'000)	31 March 2017 ('000)	31 March 2017 (£'000)
Allotted, called up and fully paid				
Ordinary shares of 0.05p (2017: 0.05p) each	**202,003**	**101**	135,059	67
Shares held by the Group's Employee Benefit Trust				
Ordinary shares of 0.05p (2017: 0.05p) each	**1,837**	**1**	1,837	1
Shares classified in shareholders' funds	**203,840**	**102**	136,896	68

The Group has invested in the shares for its Employee Benefit Trust (EBT). These shares are held on behalf of employees and legal ownership will transfer to those employees on the exercise of an award. This investment in own shares held in trust is deducted from equity in the consolidated statement of changes in equity.

31 Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	Description and purpose
Accumulated deficit:	All net gains and losses recognised through the consolidated statement of comprehensive income.
Share premium:	Amounts subscribed for share capital in excess of nominal value.
Investment in own shares:	Cost of own shares held by the EBT.
Merger relief reserve:	The merger relief reserve represents the difference between the fair value and nominal value of shares issued on the acquisition of subsidiary companies.

32 Financial instruments

The fair values and the carrying values of financial assets and liabilities are the same.

Third party valuations are used to fair value the Group derivatives and intangible assets. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

The Group only has one Level 3 financial liability being the contingent consideration.

The Group's finance team perform valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. The finance team reports directly to the Chief Financial Officer.

The valuation techniques used for instruments categorised in Level 3 are described below.

The fair value of deferred consideration related to the acquisition of the PSH Group (see Note 29) was based on the expected revenues earned by the entire business in the 12 months to 31 March 2019.

The discount rate used is based on the IRR calculated for the acquired companies.

Management has recalculated the fair value of the deferred consideration at the end of the accounting period, and the movement in fair value has been put through profit or loss.

32 Financial instruments continued

Credit risk

The maximum exposure to credit risk at the reporting date was:

	Carrying Amount 31 March 2018 £'000	Carrying Amount 31 March 2017 £'000
Trade receivables	**16,382**	6,468
Provision for impairment of trade receivables	**(293)**	(229)
Net trade receivables due	**16,089**	6,239
Accrued income	**9,498**	4,071
Cash and cash equivalents	**9,404**	4,880
	34,991	15,190

Credit risk mitigation

The ageing of trade receivables at the reporting date was:

	31 March 2018 £'000	31 March 2017 £'000
Not past due	**10,734**	4,720
Past due 0-30 days	**2,721**	1,020
Past due 31-90 days	**2,118**	392
Past due more than 90 days	**809**	336
	16,382	6,468

Movement in impairment allowance for trade receivables

Balance at start of the year	**229**	139
Increase during the year	**78**	165
Receivable written off during the year as uncollectable	**(6)**	(11)
Reversal of allowances	**(8)**	(64)
Balance at end of the year	**293**	229

Based on historic performance of these contracts, the Group believes that an impairment allowance of £293,000 (2017: £229,000) is adequate in respect of trade receivables. All impaired debts are more than 90 days past due. Those debts which have not been provided against are considered recoverable by the Group.

Cash flow risk

The XPS Pensions Group is exposed to cash flow interest rate risk in 2 main respects. Firstly corporate and client bank deposits, which earn interest at a variable rate, although not at a material level. Secondly, interest expense arising on bank facilities at a margin over LIBOR.

Interest rate risk

The interest rate on long-term borrowings is a margin over LIBOR and as such the Company is at risk from LIBOR increases.

Liquidity risk

Liquidity risk arises from the Group's working capital and the finance charges and principal repayments on its debt instruments. It is the risk the Group will encounter difficulty in meeting its financial obligations as they fall due.

The following table sets out the contractual maturities (representing undiscounted cash flows) of financial liabilities:

	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000	31 March 2018 £'000
Trade and other payables	9,206	–	–	–	–	**9,206**
Finance leases	8	25	8	–	–	**41**
Loans and borrowings	–	–	–	55,750	–	**55,750**
Bank interest	328	1,038	1,123	2,392	–	**4,881**
	9,542	1,063	1,131	58,142	–	**69,878**

Notes to the Consolidated Financial Statements continued
for the year ended 31 March 2018

32 Financial instruments continued

	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000	31 March 2017 £'000
Trade and other payables	5,195	–	–	–	–	5,195
Finance leases	8	25	34	9	–	76
Loans and borrowings	–	–	–	33,000	–	33,000
Bank interest	174	465	411	1,029	–	2,079
	5,377	490	445	34,038	–	40,350

Capital risk
The Group's objectives when managing capital is to maximise shareholder value whilst safeguarding the Group's ability to continue as a going concern. Total capital is calculated as total equity in the statement of financial position.

Management of capital

	31 March 2018 (£'000)	31 March 2017 (£'000)
Total equity	**153,575**	28,949

33 Operating leases
The future aggregate minimum lease payments are payable as follows:

	31 March 2018 (£'000)	31 March 2017 (£'000)
Within 1 year	**813**	834
Between 2 and 5 years	**331**	1,057
	1,144	1,891

Leasing commitments in respect of land and buildings amounted to £1,144,000 (2017: £1,891,000).

34 Finance leases
The Group holds a lease for some of its photocopying and printing equipment. These assets are classified as finance leases as the rental period amounts to the useful economic life of the assets.

Future lease payments are due as follows:

	Minimum lease payments 31 March 2018 £'000	Interest 31 March 2018 £'000	Present value 31 March 2018 £'000
Not more than 1 year – current liabilities	**34**	**7**	**27**
Between 1 and 5 years – non-current liabilities	**8**	**–**	**8**
	42	**7**	**35**

	Minimum lease payments 31 March 2017 £'000	Interest 31 March 2017 £'000	Present value 31 March 2017 £'000
Not more than 1 year – current liabilities	34	12	22
Between 1 and 5 years – non-current liabilities	42	5	37
	76	17	59

35 Notes supporting statement of cash flows

Cash and cash equivalents for purposes of the statement of cash flows comprise:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Cash at bank available on demand	**9,404**	4,880

Significant non-cash transactions from investing activities are as follows:

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Equity consideration for business combination (Note 4)	**48,699**	–

Non-cash transactions from financing activities are shown in the reconciliation of liabilities from financing transactions:

	Non-current loans and borrowings (Note 24) £'000	Current loans and borrowings (Note 24) £'000	Total £'000
At 1 April 2017	**32,829**	**(31)**	**32,798**
Cashflows	**21,821**	**(34)**	**21,787**
Non-cash flows			
– Fair value changes	**636**	**(319)**	**317**
– Loans and borrowings classified as non-current at 31 March 2017 becoming current by 31 March 2018	**(214)**	**214**	**–**
– Interest accruing in period	**–**	**11**	**11**
At 31 March 2018	**55,072**	**(159)**	**54,913**

36 Related party transactions

Key management emoluments during the year

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Emoluments	**1,998**	1,024
Share-based payments	**–**	7,178
Company contributions to money purchase pension plans	**30**	36
Social security costs	**143**	1,136
	2,171	9,374

Non-executive emoluments during the year

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Emoluments	**273**	76
Social security costs	**34**	9
	307	85

Non-executive fees during the year

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Fees from Non-executive Directors	**–**	88

Notes to the Consolidated Financial Statements continued
for the year ended 31 March 2018

36 Related party transactions continued

Share issues to management

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Issues of shares to management at fair value	–	7,178

Services provided to related parties during the year

	31 March 2018 £'000	31 March 2017 £'000
PSFM Limited	6	–
PS Independent Trustees Limited	2	–
PSFM SIPP Limited	1	–
Punter Southall Group Limited	16	–
Psigma Investment Management Limited	2	–
Punter Southall Analytics Limited	32	–
Punter Southall Defined Contribution Consulting Limited	51	–
	110	–

During the period the Group provided services of £112,550 (2017: £Nil) to other related parties. These transactions were included in turnover.

All companies listed above are part of the Punter Southall Group Limited group with key management common to XPS Pensions Group.

Services received from related parties during the year

	31 March 2018 £'000	31 March 2017 £'000
Punter Southall Group Limited	981	–
CAMRADATA Analytical Services Limited	7	–
Independent Transition Management Limited	535	–
	1,523	–

During the period the Group paid administration costs of £1,523,596 (2017: £Nil) to other related parties. These transactions were included in administrative expenses.

All companies listed above are part of the Punter Southall Group.

Amounts receivable/(payable) to related parties at the balance sheet date

	31 March 2018 £'000	31 March 2017 £'000
PSFM Limited	4	–
Punter Southall Group Limited	(1,107)	–
PS Independent Trustees Limited	34	–
Punter Southall Defined Contribution Consulting Limited	56	–
Punter Southall Analytics Limited	38	–
Independent Transition Management Limited	(510)	–
CAMRADATA Analytical Services Limited	(8)	–
	(1,493)	–

All companies listed above are part of the Punter Southall Group.

All transactions with related parties are made in the ordinary course of business and balances outstanding at the reporting date are unsecured.

37 Earnings per share

	Continuing operations 31 March 2018 £'000	Discontinued operations 31 March 2018 £'000	Total 31 March 2018 £'000	Continuing operations 31 March 2017 £'000	Discontinued operations 31 March 2017 £'000	Total 31 March 2017 £'000
Profit/(loss) for the year	**2,992**	**8,836**	**11,828**	(13,529)	738	(12,791)

	'000	'000	'000	'000	'000	'000
Weighted average number of ordinary shares in issue	**150,649**	**150,649**	**150,649**	102,510	102,510	102,510
Diluted weighted average number of ordinary shares	**155,414**	**155,414**	**155,414**	103,406	103,406	103,406
Basic earnings/(loss) per share (pence)	**2.0**	**5.9**	**7.9**	(13.2)	0.7	(12.5)
Diluted earnings/(loss) per share (pence)	**1.9**	**5.7**	**7.6**	(13.1)	0.7	(12.4)

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period.

895,680 shares have been awarded to the executive board members and vest in 2020 subject to certain conditions. 1,838,776 shares were awarded during the year to key management personnel and vest in 2020 subject to certain conditions. A further 1,533,742 shares were awarded in January 2018 to key personnel within the acquired PS companies. These vest in 2021. Dividend yield shares relating to the above awards totaling 149,387 will also be awarded upon vesting of the main awards in 2020 and 2021 respectively. A further 200,355 shares have been issued under a SAYE share scheme, which will vest in 2020. These shares are reflected in the diluted number of shares and diluted earnings per share calculations.

Adjusted earnings per share

	Continuing operations 31 March 2018 £'000	Discontinued operations 31 March 2018 £'000	Total 31 March 2018 £'000	Continuing operations 31 March 2017 £'000	Discontinued operations 31 March 2017 £'000	Total 31 March 2017 £'000
Adjusted profit after tax (Notes 7, 17)	**13,741**	**676**	**14,417**	7,486	787	8,273
Adjusted basic earnings per share (pence)	**9.2**	**0.4**	**9.6**	7.3	0.8	8.1
Adjusted diluted earnings per share (pence)	**8.9**	**0.4**	**9.3**	7.2	0.8	8.0

38 Subsidiaries

The following is the list of wholly owned companies consolidated within the Financial Statements of XPS Pensions Group plc

Company Name	Company Number	Principal activity	Registered address
XPS Pensions Group plc	08279139	Holding company	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Xafinity Financing (Reading) Limited	08279274	Holding company	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Xafinity (Reading) Limited	08279362	Holding company	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Xafinity Consulting (Reading) Limited	08287502	Holding company	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Xafinity Consulting Limited	02459442	Employee benefit consultancy	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Xafinity SIPP Services Limited	SC069096	Employee benefit consultancy	Scotia House, Castle Business Park, Stirling, Stirlingshire, FK9 4TZ
Xafinity Pensions Consulting Limited	04436642	Dormant	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Xafinity PT Limited	00232565	Dormant	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Entegria Limited	05777554	Dormant	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Xafinity Pensions Trustees Limited	01450089	Dormant	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Hazell Carr (AT) Services Limited	SC420031	Employee benefit consultancy	Scotia House, Castle Business Park, Stirling, Stirlingshire, FK9 4TZ
Hazell Carr (SG) Services Limited	01867603	Dormant	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Hazell Carr (ES) Services Limited	02372343	Dormant	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Hazell Carr (PN) Services Limited	00236752	Dormant	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Hazell Carr (SA) Services Limited	SC086807	Dormant	Scotia House, Castle Business Park, Stirling, Stirlingshire, FK9 4TZ
Xafinity Trustees Limited	04305500	Dormant	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB
Xafinity Employee Benefit Trust 2013	N/A	Trust	JTC Trustees Limited, Elizabeth House, 9 Castle Street, St Helier, Jersey, JE4 2QP

38 Subsidiaries continued

Company Name	Company Number	Principal activity	Registered address
Punter Southall Holdings Limited	04807951	Holding company	11 Strand, London, WC2N 5HR
PS Administration Holdings Limited	09655671	Holding company	11 Strand, London, WC2N 5HR
PS Administration Limited	09428346	Employee benefit consultancy	11 Strand, London, WC2N 5HR
Punter Southall Investment Consulting Limited	06242672	Employee benefit consultancy	11 Strand, London, WC2N 5HR
Punter Southall Limited	03842603	Employee benefit consultancy	11 Strand, London, WC2N 5HR

39 Dividends

Amounts recognised as distributions to equity holders of the parent in the year

	31 March 2018 £'000	31 March 2017 £'000
Final dividend for the year ended 31 March 2017: 0.73p per share (2016: Nil)	986	–
Interim dividend for the year ended 31 March 2018: 2.1p (2017: Nil) per ordinary share was paid during the year	2,836	–
	3,822	–

The recommended final dividend payable in respect of the year ended 31 March 2018 is £8.5m or 4.2p per share (2017: £1m).

The proposed dividend has not been accrued as a liability as at 31 March 2018 as it is subject to approval at the Annual General Meeting.

	31 March 2018 £'000	31 March 2017 £'000
Proposed final dividend for year ended 31 March 2018	8,484	1,000

The Company statement of changes in equity shows that the Company has positive reserves of £890,000. There are sufficient distributable reserves in subsidiary companies to pass up to XPS Pensions Group plc in order to pay the proposed final dividend.

Prior to declaring the payment of the interim dividend made on 8 February 2018, the Board prepared interim accounts to 30 November 2017 for the Parent Company which showed that distributable reserves of £3,048,000 were available and sufficient to enable the payment of the dividend. However, due to an administrative oversight those interim accounts were not filed with the Register of Companies as required by S838(6) Companies Act 2006 and, as a result, the interim dividend paid is deemed an unlawful distribution. On becoming aware of this situation the Board has taken steps to rectify this position as follows:

a) the interim accounts prepared, confirming sufficient distributable reserves were available at the time the dividend was declared by the Board, have now been filed with the Registrar of Companies satisfying the requirements of S838(6) Companies Act 2006, and
b) at the forthcoming Annual General Meeting on 13 September shareholders will be asked to pass a special resolution:
   - ratifying and confirming the payment of the unlawful dividend;
   - releasing shareholders from claims by the Company in relation to the unlawful dividend and directing the Company to enter into a deed poll in respect of the same;
   - providing that if the release is treated as a distribution that it be justified by reference to the profits at the time the unlawful dividend to which it relates was declared; and
   - releases past and present Directors from claims in relation to the unlawful dividend and directs the Company to enter into a deed of release in respect of the same.

The Directors have no reason to believe that the above resolution will not be passed at the Annual General Meeting and therefore have accounted for the interim dividend as a legal distribution in these financial statements.

40 Ultimate controlling party

The Directors do not consider that there is an ultimate controlling party.

41 Post balance sheet events

There are no material subsequent events to report.

Statement of Financial Position – Company
as at 31 March 2018

	Note	31 March 2018 £'000	31 March 2017 £'000
Assets			
Non-current assets			
Investments	5	**14,443**	13,338
		14,443	13,338
Current assets			
Trade and other receivables	6	**178,371**	48,791
		178,371	48,791
Total assets		**192,814**	62,129
Equity and liabilities			
Share capital	8	**102**	68
Share premium		**116,782**	49,958
Merger relief reserve		**48,687**	–
Other reserve		**13,581**	12,476
Retained profit/(accumulated deficit)		**890**	(1,725)
Total equity/(deficit)		**180,042**	60,777
Liabilities			
Current liabilities			
Trade and other payables	7	**12,772**	1,352
		12,772	1,352
Total liabilities		**12,772**	1,352
Total equity and liabilities		**192,814**	62,129

The notes on pages 104 to 106 form part of these Financial Statements.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own statement of comprehensive income. The profit for the financial year, of the holding Company, as approved by the Board, was £6,437,000 (2017: £760,000).

These Financial Statements were approved by the Board of Directors on 27 June 2018 and were signed on its behalf by:

Mike Ainslie
Chief Financial Officer
27 June 2018
Registered number: 08279139

Statement of Changes in Equity – Company

for the year ended 31 March 2018

	Share capital £'000	Share premium £'000	Merger relief reserve £'000	Other reserve £'000	Accumulated deficit £'000	Total £'000
Balance at 1 April 2016	40	–	–	–	(2,475)	(2,435)
Comprehensive income and total comprehensive income for the year	–	–	–	–	760	760
Contributions by and distributions to owners						
Share capital issued	18	51,267	–	–	–	51,285
Share issue costs	–	(1,309)	–	–	–	(1,309)
Bonus issue of shares	10	–	–	–	(10)	–
Share-based payment expense–equity settled from Employee Benefit Trust	–	–	–	12,476	–	12,476
Total contributions by and distributions to owners	28	49,958	–	12,476	(10)	62,452
Balance at 31 March 2017	68	49,958	–	12,476	(1,725)	60,777
Balance at 1 April 2017	68	49,958	–	12,476	(1,725)	60,777
Comprehensive income and total comprehensive income for the year	–	–	–	–	6,437	6,437
Contributions by and distributions to owners						
Share capital issued	34	69,979	48,687	–	–	118,700
Share issue costs	–	(3,155)	–	–	–	(3,155)
Share-based payment expense – IFRS2 charge in respect of long-term incentives	–	–	–	1,081	–	1,081
Deferred tax movement in respect of long-term incentives	–	–	–	24	–	24
Dividends paid	–	–	–	–	(3,822)	(3,822)
Total contributions by and distributions to owners	34	66,824	48,687	1,105	(3,822)	112,828
Balance at 31 March 2018	**102**	**116,782**	**48,687**	**13,581**	**890**	**180,042**

The notes on pages 104 to 106 form part of these Financial Statements.

Statement of Cash Flows – Company
for the year ended 31 March 2018

The Company does not operate a bank account and therefore there were no cash flows during the year. All movements of funds have been dealt with through subsidiary companies.

The notes on pages 104 to 106 form part of these Financial Statements.

Notes to the Financial Statements – Company
for the year ended 31 March 2018

1 Accounting policies
XPS Pensions Group plc (the 'Company') is a public company incorporated in the UK. The principal activity of the Company is that of a holding company. The registered office is Phoenix House, 1 Station Hill, Reading, RG1 1NB.

Basis of preparation
These Financial Statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS – IC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The Financial Statements have been prepared under the going concern basis.

The preparation of Financial Statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed at the end of this section.

Measurement convention
The Financial Statements are prepared on the historical cost basis.

Investments in subsidiaries
Investments in subsidiaries are carried at cost, plus capital contributions to the Group's subsidiary companies in respect of share-based payment charges, less any provisions for impairment.

Share capital
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.

Dividends
Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors and in the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

Taxation
Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in profit and loss in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

New standards and interpretations adopted and not yet adopted
Details of new standards and interpretations adopted and not yet adopted are contained in the Group accounting policies.

2 Financial risk management
The Company is a holding company and has limited exposure to financial risks. Details of the financial risks are contained in the Group accounts.

3 Capital risk management
The Company is a holding company and will apply the risk management policies of the Group contained in the Group's Financial Statements.

4 Staff numbers and costs
The Company had no employees other than Directors in the year to 31 March 2018 (2017: nil).

No Directors received remuneration for their services to the Company during the year. Directors were remunerated for their services to the Group by a subsidiary company.

Pension contributions of £nil (2017: £nil) were paid on behalf of the Directors.

5 Investments in subsidiaries

	31 March 2018 £'000	31 March 2017 £'000
At the beginning of the year	13,338	862
Investment in Xafinity Consulting Limited	873	12,276
Investment in Xafinity SIPP Services Limited	26	200
Investment in Punter Southall Limited	149	–
Investment in Punter Southall Administration Limited	52	–
Investment in Punter Southall Investment Consulting Limited	5	–
At the end of the year	14,443	13,338

Subsidiary	Ownership	Country of Incorporation	Class of shares held	Principal Activities	Registered address
Xafinity Financing (Reading) Limited	100%	England and Wales	Ordinary	Holding company	Phoenix House, 1 Station Hill, Reading, Berkshire, RG1 1NB

The additions to investments during the year represents the amount in respect of the equity-settled awards made by the Employee Benefit Trust to subsidiary companies as instructed by the Company.

All other subsidiaries disclosed in Note 38 of the Group accounts are indirectly owned by other Group companies.

6 Trade and other receivables

	31 March 2018 £'000	31 March 2017 £'000
Receivables due from related parties	178,371	48,791

7 Trade and other payables

	31 March 2018 £'000	31 March 2017 £'000
Accrued expenses	175	125
Payables due to related parties	12,238	1,187
Other payables – VAT	359	40
Total trade and other payables	12,772	1,352

8 Share capital

Details on the share capital of the Company are contained in the Group Financial Statements.

9 Reserves

Reserve	Description and purpose
Other reserve:	The other reserve represents the amount in respect of the equity-settled awards made by the Employee Benefit Trust to subsidiary companies as instructed by the Company.
Merger relief reserve:	The merger relief reserve represents the difference between the fair value and nominal value of shares issued on the acquisition of subsidiary companies.

10 Financial instruments

The fair values and the carrying values of financial assets are the same.

Credit risk

The maximum exposure to credit risk at the reporting date was:

	Carrying Amount 31 March 2018 £'000	Carrying Amount 31 March 2017 £'000
Receivables due from related parties	178,371	48,791

Loans from related parties are repayable on demand.

10 Financial instruments continued

Capital risk management

As part of the XPS Pensions Group, the Company is focused on delivering value for its shareholders whilst ensuring the Group is able to continue effectively as a going concern. Total capital for the Company comprises total equity.

The policies for managing capital are to increase shareholder value by maximising profits and cash. The policy is to set budgets and forecasts in the short and medium term that the Company ensures are achievable. The process for managing capital are regular reviews of financial data to ensure that the Company is tracking the targets set and to reforecast as necessary based on the most up to date information. This then contributes to the XPS Pensions Group's forecast which ensures future covenant test points are met. The XPS Pensions Group continues to meet these test points and they have been achieved over the last 12 months. Further information can be found within the Consolidated Financial Statements of XPS Pensions Group plc.

Management of capital	31 March 2018 £'000	31 March 2017 £'000
Total equity	**180,042**	60,777

11 Related party transactions

Share issues to management

	Year ended 31 March 2018 £'000	Year ended 31 March 2017 £'000
Issues of shares to management at fair value	–	7,178
	–	7,178

Amounts receivable from related parties at the balance sheet date

	31 March 2018 £'000	31 March 2017 £'000
Loans to related parties	**178,371**	48,791
	178,371	48,791

12 Ultimate controlling party

The Directors do not consider that there is an ultimate controlling party.

Company Information

Registered Office and Directors' Address
Phoenix House
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Notes

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