



xafinity

Annual Report and Accounts 2017

**We believe
in better**

Xafinity is an independent, FTSE listed, UK pensions specialist.

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.

We believe that we should all expect more from the pensions market.

Contents

Strategic Report

- 2 At a Glance
- 4 Chairman's Statement
- 6 Market Overview
- 10 Business Model
- 12 Ambition and Strategy
- 16 Strategy in Action
- 18 Co-Chief Executive Officers' Q&A
- 22 Financial Review
- 24 Principal Risks and Uncertainties

Governance

- 26 Board of Directors
- 28 Governance
- 33 Audit and Risk Committee Report
- 35 Directors' Remuneration Report
- 48 Directors' Responsibility Statement
- 49 Directors' Report

Financial Statements

- 53 Independent Auditors' Report to the Members of Xafinity plc
- 57 Consolidated Statement of Comprehensive Income
- 58 Consolidated Statement of Financial Position
- 59 Consolidated Statement of Changes in Equity
- 60 Consolidated Statement of Cash Flows
- 61 Notes to the Consolidated Financial Statements
- 84 Statement of Financial Position - Company
- 85 Statement of Changes in Equity - Company
- 86 Statement of Cash Flows - Company
- 87 Notes to the Financial Statements - Company

Company Information

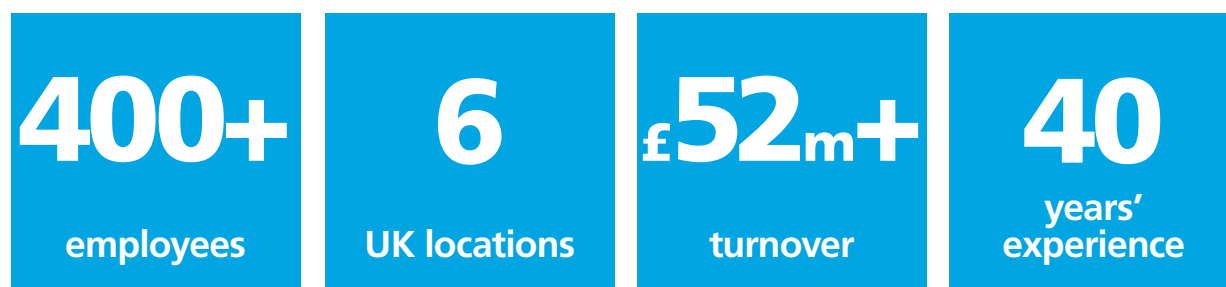
- 90 Company Information

At a Glance

We believe in better

As the need to create financial security in later life becomes increasingly important for us all, Xafinity is changing the way that we think about pensions and the way that they are structured, protected and delivered. We believe in better.

**Better schemes, information, technology and decisions.
Better service expectations and ultimately better financial
outcomes for trustees, businesses, members and our shareholders.**



Our services

Pensions advisory and administration

82% of revenues

Comprehensive service offering for defined benefit pension scheme trustees, spanning actuarial, investment and wider pensions advice.

Complementary administration services provided to pensions advisory clients, to provide a 'one stop shop' for pensions support.

National Pension Trust (NPT)

1% of revenues

Multi-employer Defined Contribution scheme, governed by a Board of Professional Trustees to remove governance and compliance burden for participating employers.

One of only 3 schemes nationally that hold the new Retirement Quality Mark.

Although a small proportion of revenues, NPT is a strategic growth area.

Other

17% of revenues

Provision, operation and administration of SSAS and SIPP schemes for several thousand small groups or individual members.

Provision of professional trustee services to occupational pension schemes.

Consulting services to employers on healthcare benefits.

Why invest in Xafinity?

Large core market and opportunities for growth

£2 trillion

Liabilities of private UK defined benefit pension schemes

40+ years

Longevity of private UK defined benefit pension schemes

£380bn

Funds in UK defined contribution schemes

Robust long-term financial performance

4.7%

Average annual growth in revenue since 2013

6.1%

Average annual growth in adjusted EBITDA¹ since 2013

¹ Adjusted EBITDA used so as to provide a comparable figure to previous years. See Note 5 to the Financial Statements for calculation.

Longstanding client relationships

520+

Corporate clients

80%

Of top 20 fee payers have been clients for 10+ years

Predictable and recurring revenues

82%

Recurring revenue

99%

Of revenue is repeatable in nature

Experienced, young management team

21 years

Average experience of senior leadership team

46 years

Average age of senior leadership team

Cash generative

£11.6m

Cash generated from operating activities before Tax and after Capex

91%

Cash conversion measured as a % of Earnings before Interest, Tax, Depreciation and Amortisation

Chairman's Statement

A better way for sustainable growth



Tom Cross Brown
Chairman

Overview

I am pleased to introduce Xafinity's 2017 Annual Report and present my first statement as Chairman, having been appointed to lead the new Board shortly before the Company's listing on the London Main Market in February this year. Our successful listing in an IPO market dampened by concerns over Brexit was testament to Xafinity's quality of earnings and growth potential, with the Offer at 139p per ordinary share being fully subscribed by a shareholder base of longer-term investors.

The Group achieved a creditable performance for the year ended 31 March 2017, continuing a strong track record of delivering revenue growth, healthy operating margin and strong cash generation, while investing in its operational capabilities to underpin future growth.

"The Company has a clear strategic vision and goals for organic revenue growth, a sound financial base, high quality employees and the capability for scaling its business model"

On behalf of the Board, I would like to thank our colleagues across Xafinity for their contribution to meeting the business challenges in a significant year of innovation, growth and change.

Dividend Policy

The Board are proposing a final dividend of 0.73p per share, effectively a post-listing dividend for the period from Market admission to 31 March 2017. This final dividend will be payable on 28 September 2017 to shareholders on the register at the close of business on 1 September 2017.

The Board intend to pursue a progressive dividend policy, with a two-thirds/one-third approximate split of the total annual dividend for the final and interim dividends respectively and, subject to prudent financial discipline and future Group results, expect to pay as dividends each year up to 67 per cent of adjusted profits after tax.

Strategy and Culture

Xafinity combines expertise, insight and technology to address the needs of pension scheme clients. The Company has a clear strategic vision and goals for organic revenue growth, a sound financial base, high quality employees and the capability for scaling its business model through appropriate and timely investment and market consolidation. In particular, the Board's near-term strategy addresses the potential of an increasing market for de-risking services to defined benefit pension schemes and the optimal use in the defined contribution market of Xafinity's leading NPT master trust platform.

Implementing the Board's strategy for the Group is an experienced and dynamic management team, with an agile client-facing corporate culture which puts the customer at the heart of the Xafinity business, aligned with colleagues united and motivated to go the extra mile in delivering market leading solutions to a diversified client base.

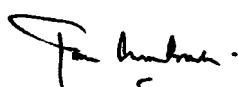
I am confident that our business strategy and strong management, allied with the can-do culture and commitment of our colleagues, will advance Xafinity's client base and the services provided, to deliver growing returns for our shareholders.

Grown revenue to over £52m in 2017

Current Trading and Prospects

The Group's performance since 31 March 2017 has remained in line with the Board's expectations and, notwithstanding the prevailing macroeconomic uncertainties, we believe Xafinity's core markets and pipeline of business opportunities continue to offer the potential for real growth. Management remains focused on implementing the strategy for market penetration and organic revenue growth across the pensions business, resulting in a healthy momentum of new client wins and commissioning of de-risking projects, and the Board remains confident about the future prospects of the Group.

I look forward to participating with colleagues in the next phase of sustained growth for Xafinity.



Tom Cross Brown

Chairman

27 June 2017

Market Overview

A better way to capitalise on market trends

The drivers in our markets provide a favourable backdrop and opportunities for growth

The defined benefit market remains large and challenging, and is not going away

Defined benefit (DB) pension schemes have frequently made headlines in the business sections of UK newspapers, and more recently they have reached the front pages too, with high profile problems at companies like BHS (where members of the scheme will not receive their full benefits after the corporate insolvency) and Tata Steel (where the large pension scheme presented challenges in the restructuring).

Increasing life expectancy combined with an outlook of expected low asset growth mean the cost of meeting DB pension promises has risen dramatically in recent years. It is against this backdrop that DB schemes frequently present a very big challenge for company sponsors, and for the trustees who shoulder the responsibility of looking after the best interests of pension scheme members.

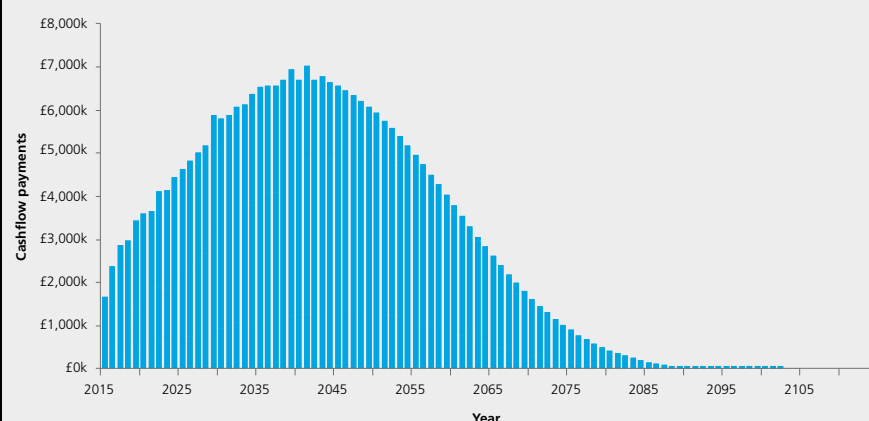
The challenges are widespread. There are more than 6,000 UK DB schemes with aggregate liabilities of approximately £2.0 trillion. There are 11m members of DB schemes in the UK private sector.

Due to the growing costs and risks of running such schemes, most UK DB schemes are now closed to new entrants, and the number that have closed to the build up of any further benefit is increasing. But pension promises must be honoured; closing a scheme does not remove the liabilities built up in the past,

often over a period of decades. These liabilities are expected to take a long time to 'run off' - based on aggregate data for all DB schemes in the UK private sector, benefit payments out of schemes to members are expected to rise between now until beyond 2040.

The market for services supporting DB schemes is large. Aggregate fees for providing advisory services to DB pension scheme trustees and corporate sponsors are estimated to have been £1.7 bn in 2015.

Chart 1: Pension payments from example representative closed pension scheme



Source: Management information



In recent years, there has been an increased appetite among scheme trustees and sponsors to implement de-risking strategies to manage the costs and risks associated with UK DB schemes. Aside from the closure of schemes to new entrants and the build up of further benefits, initiatives include investment strategies to hedge interest rate or inflation risk, and member option exercises, whereby members can choose alternative ways to access their benefits that are preferable to them (versus the default pension offered by their scheme), often at lower risk to the scheme and its sponsor.

The scale of DB problems referred to above will likely drive an increase in de-risking projects as companies and trustees seek to proactively address the issues for the benefit of all stakeholders.

Schemes operate in a complex and highly regulated environment. Historically, UK governments have made frequent changes to pensions legislation and the pensions tax environment, generating a need for advice on the implications, as well as projects to communicate changes to members. This continues to happen. For example, the Department of Work and Pensions recently published a Green Paper on DB pension schemes. This report covered a wide range of topics relating to DB pensions, and it is possible that further changes in pensions regulation will follow once the consultation process on this

paper has concluded. As another example, in May 2017 the Pensions Regulator published their Annual Funding Update, which acts to increase the pressure on corporate sponsors by making targeted remarks about the balance between pension contributions and dividends to shareholders.

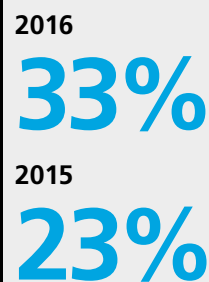
In the arena of investment advice for DB schemes, in 2016, the FCA looked at the activities of consultants as part of a wider review of the asset management industry. It expressed particular interest in consultants' involvement in fiduciary management, where - instead of the traditional model of advising pension scheme trustees on investment issues - they make and implement investment decisions directly. Key issues raised include value for money and a variety of conflicts of interest, including where investment consultants are advising on their in-house fiduciary management services. Data from KPMG shows that the fiduciary market has grown tenfold since 2007 (see Chart 2) with three-quarters of those contracts managed by investment consultants.

Xafinity does not provide any fiduciary management services, and so the criticism of the FCA does not apply. Rather, there are clear opportunities for firms - such as Xafinity - able to offer genuinely independent advice about fiduciary management, and demand for such advice has increased (Chart 3).

Chart 2: Fiduciary management mandates
(Source: KPMG)



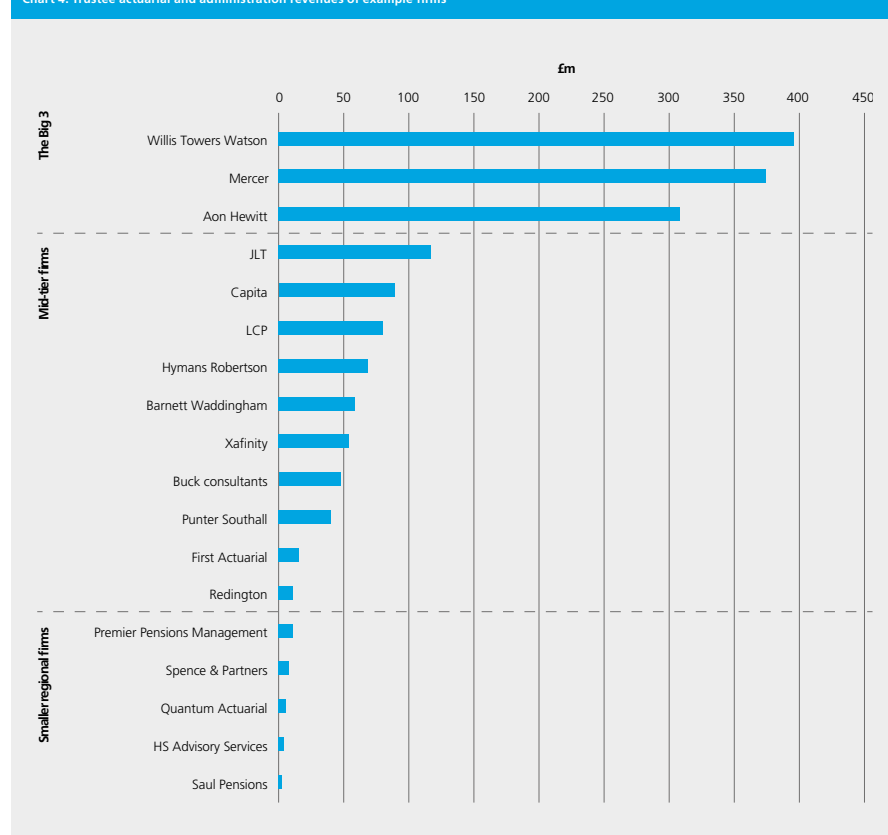
Chart 3: Fiduciary management advisors for new appointments
(Source: KPMG)



of new appointments this year were advised by an independent third party

Market Overview continued

Chart 4: Trustee actuarial and administration revenues of example firms



The complexity of pension regulation means that barriers to entry are high. The market for trustee and administrative services to UK DB Schemes can be segmented into three categories:

- the 'Big 3' employee benefits divisions of global consultancies Willis Towers Watson, Mercer and Aon Hewitt, who typically serve the largest corporates and pension schemes
- mid-tier firms, largely comprising privately owned firms and divisions of larger groups who tend to advise smaller pension schemes than the Big 3
- smaller regional firms.

Chart 4, above, compares the revenues of firms in these three segments during their 2015 financial year¹. Xafinity competes primarily with other mid-tier firms, but also with larger and smaller firms, from whom it sees opportunities to gain share. Xafinity estimates that its share of the market for trustee and administrative services to UK DB schemes is between 3 to 4%.

The defined contribution market presents opportunities for growth

UK DC schemes are operated either under trust or as a contract-based arrangement through an insurer such as a stakeholder scheme or a group personal pension. Trust based arrangements are either individual standalone arrangements set up by employers to be their own DC pension scheme, or are a 'Master Trust' where there is a common administration and investment platform that multiple employers share. Contract-based arrangements are provided by insurance companies as platforms for companies to offer DC pension provision to their employees.

There are currently approximately 35,000 UK workplace DC schemes with AUM of approximately £380bn. Total contributions into UK DC schemes during the period of 2012 to 2016 increased from £2.1bn per annum to £3.6bn per annum as a result of 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 £600bn by 2030.

Fees for the administration and fund management of such arrangements can vary but are commonly determined on an AUM basis for Master Trusts or contract-based arrangements. The average annual management charge in the industry is around 0.5%, which gives an estimated total fee market of approximately £2bn per annum.

Historically, DC schemes operated in a simple manner. The majority of members invested contributions made by them or their employer until their retirement, at which point they were required to purchase an annuity. In April 2015, UK pension regulations were fundamentally changed such that pension scheme members are no longer required to purchase an annuity

¹ The information in this chart is sourced from company accounts, PensionsWorld, and MandateWire. This analysis does not include advisory services provided by PricewaterhouseCoopers, Deloitte, KPMG and Ernst & Young due to a lack of segmental information; data was also unavailable for 5-10 regional companies. For the purposes of this chart, the market is defined as trustee actuarial and administration services.

upon retirement, providing additional flexibility as to how individuals may use their DC pension pots ('Freedom and Choice'). 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 to which Freedom and Choice gives rise, the trustees and sponsoring employers of UK DC schemes may either upgrade their existing arrangements, which has an up-front cost and also 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 leading to an increasing popularity of Master Trusts, which provide such flexibility, as the preferred solution for UK DC Schemes. 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 the flexibilities introduced by Freedom and Choice.

There are approximately 84 Master Trusts in the UK. Of these, only 13 are on the Pensions Regulator's 'Master Trust Assurance' list. Only 8 Master Trusts have received both the Pensions Regulator's Master Trust Assurance accreditation and the Pensions and Lifetime Savings Association's PQMReady mark. Currently only 3 of these 8 Master Trusts have also received the Pensions and Lifetime Savings Association's Retirement Quality Mark, of which Xafinity's NPT (with AUM of approximately £250m) is one.

As Xafinity's NPT offers the full range of retirement flexibilities made available by Freedom and Choice, the Directors believe that NPT is positioned to achieve significant growth in the coming years as employers offer it to their employees as their 'employer branded' de-cumulation vehicle. Alternatively, employers may seek to use NPT as their main arrangement for both accumulation and de-cumulation.

There are consolidation opportunities in the SSAS and SIPP markets

A SSAS is an occupational pension scheme with no more than 11 members at any time and is established by an employer for the benefit of some or all of its key employees. They are typically best suited to limited companies where the shares are mainly or wholly owned by directors employed in that business. All members of the SSAS are required to be trustees in the scheme.

A SIPP is a type of personal pension plan which allows an individual to make their own investment decisions, with or without support from a pension adviser. A SIPP allows investments in a wide range of instruments, including unit trusts, open-ended investment companies and investment trusts, stocks and shares in the UK and overseas and commercial property, and therefore offers greater investment flexibility than traditional occupational and personal pensions.

While SSASs have remained a more niche product, the SIPP has become a mainstream pension product and according to MoretoSIPPs, it is estimated that approximately 1.4m SIPPs exist with assets of approximately £175bn. The SIPP market has grown significantly in the past decade, 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 that exist in the market, which has in turn led to much stronger regulation and, more recently, market consolidation.

Xafinity provides SSAS and SIPP products and services, including administration of such products. Distribution is almost exclusively conducted via regulated independent financial advisers. Both SSASs and SIPPs allow for the full flexibilities brought about by Freedom and Choice. Xafinity is primarily positioned at the 'full-service', more bespoke end of SIPP products, where product flexibility and personal service allow the firm to charge premium fees and to build long-term relationships.

There is an on-going trend towards using professional trustee services

Each UK DB Scheme will typically have a number of individual trustees on its trustee board. Given the increased requirements and complexity of running a UK DB Scheme, there is an increasing trend towards pension schemes including at least one professional trustee on their trustee board. Even where a professional trustee is not appointed to the trustee board, some pension schemes will use the services of a professional trustee in certain situations such as significant ad hoc projects. Xafinity provides professional trustee services through its HR Trustees business.

Business Model

A better way to create value

Xafinity is a UK pensions actuarial, consulting and administration business that serves a wide range of clients from 6 offices across the UK.

A better way...

...to operate

What we do

Our principal businesses are:

- Pensions Advisory and Administration (82% of revenues)
- NPT, Defined Contribution Master Platform (1% of revenues)
- SSAS and SIPP (10% of revenues)
- HR Trustees (5% of revenues)
- Healthcare (2% of revenues)

Who we work with

We address the needs of both pension trustees and sponsoring companies, with schemes ranging in size from less than £20m in assets to multi-billion pound pension funds

Clients

520+

Where we operate

Our >400 colleagues work from 6 offices across the UK. Reading, Leeds, Stirling, Belfast, London and Manchester.

UK offices

6

...to be different



Problem Solvers

The combination of our expertise, creative and commercial approach and industry-leading technology provides better decision making for trustees, businesses and members.



Creative and Commercial

We are committed to changing the way people think and manage pensions, and treat each situation uniquely to do the right thing for clients.



People First

If you truly care, this changes the way you think and behave. We understand about helping people and developing relationships that last.



Smart Technology

Our technology delivers superior data, at pace, to inform smarter decisions and improved outcomes, and at better value.

...to generate value that is shared with our stakeholders



For clients

- greater insight leading to better outcomes
- excellent service
- value for money

Our clients

80%

Of our top 20 fee payers have been clients for over 10 years

For shareholders

- strong cash generation
- track record of growth

Adjusted EBITDA



For employees

- a stimulating working environment
- world class training
- attractive career prospects
- competitive remuneration and benefits

No. employees

400+

How we will maximise value

Our strategy

- Read about our ambition and performance against our 6 strategic objectives on page 12

Risk management

- Read about our principal risks and uncertainties on page 24

Ambition and Strategy

A better way to achieve our ambition

We aim to become the pre-eminent 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 pensions, operating at scale and yet nimbly to provide clients with superior service at better value than our larger rivals.

We will achieve this by pursuing 6 strategic objectives:



Strategic objective



**Growth through
expanding
our services**

Strategic objective



**Growth through
increasing our
client base,
including NPT**

Strategic objective



**Growth through
existing clients**



Strategic objective



Growth through technology

Strategic objective



Growth through market consolidation

Strategic objective



Growth through improving quality and efficiency

Read more on page 14

Ambition and Strategy continued

A better way to maximise value

We are committed to continued and sustainable growth by focusing on our core areas of business and further investing in our services and people.

Our strategic objectives

Growth through expanding our services

 [Read more on page 16](#)

Growth through increasing our client base, including NPT

 [Read more on page 17](#)

Growth through existing clients

Growth through technology

 [Read more on page 17](#)

Growth through market consolidation

Growth through improving quality and efficiency

Progress

We have invested heavily in technology and infrastructure to provide a holistic range of services and solutions to help our pension scheme clients manage the challenges and risks they face in the current economic and regulatory environment. NPT and trivial commutation are 2 of our more recently added services that gathered momentum over the year.

Towards the end of the financial year we enhanced our efforts to target new long-term annuity clients in our core business of actuarial, administration and investment consulting services. Instrumental to this was the ability to leverage the benefits of previous investment in our services and technology, and also the appointment in October of Paul Cuff. We were awarded work by 8 new long-term clients, several of whom defected from our Big 3 competitors.

We also gained a number of new clients for our de-risking services. A particular highlight was being engaged to run an exercise for an £11bn scheme. Our unique 'Centre of Excellence' was instrumental in us being appointed. [Read more on page 16.](#)

NPT had a strong year, growing in revenue by 49% and adding 28 new employers as participants. The scheme received the important Retirement Quality Mark from The Pensions and Lifetime Savings Association (PLSA), one of only three Master Trusts to have this accreditation. At the Professional Pensions annual awards, NPT was 'Highly Commended' in the category of Retirement Income Provider of the Year. [Read more on page 9.](#)

Our clients face a very challenging environment, and we are committed to supporting them fully. Much of our growth last year arose from us maintaining and developing existing client relationships. Targeting new clients became a priority towards the end of the financial year, when our full portfolio of services and Radar software were ready to launch. Although our growth was dampened by the loss of the one-off contract with the Pensions Protection Fund, our underlying business still drove a 5% increase in Adjusted EBITDA.

During the year we developed Radar, our proprietary software that fundamentally changes the interaction between actuarial and investment advice, allowing advice to be integrated rather than being provided separately. We anticipate Radar will help us serve our clients better bringing greater insight and thus more value-add services. We also expect Radar to drive more new client wins.

The mid-tier of the pensions consulting market is highly fragmented and is ripe for consolidation. We have previously completed and integrated several strategic acquisitions, and successfully administered and integrated books of business that we have acquired.

We did not complete any acquisitions in 2017, but have reviewed prospective acquisition targets and will be looking to enter discussions. Our IPO has given us potential access to capital to be the driver of consolidation in our market.

We enhanced our approach to marketing, to focus on building relationships and offering clients what they need, rather than being product led. 45 of our staff participated in the 'consultants masterclass', a programme designed to help colleagues build deep relationships so they are better placed to provide clients with the solutions they need.

Where tasks are common across clients, we have standardised our templates. This improves customer service, reduces risk and increases efficiency, as work can be handled by different offices according to capacity, and more easily delegated to the appropriate level within the organisation or specialists in technical analysis.

Priorities



We will continue to develop our technology, infrastructure and services, with the aim of becoming a recognised leader of pensions consulting and de-risking solutions. We have scale but are nimble; a perfect combination in our market.

We aim to expand our DB pension scheme advisory and administration client base by:

- targeting new 'full services' or 'ongoing appointments' by building relationships with independent trustees, intermediaries and directly with pension schemes. We believe that, with the investment in our holistic service offering, the quality and efficiency of our delivery, our experience of new business activities and competitive pricing, we are well placed to win new appointments
- building on our track record of working on de-risking projects for existing clients, together with the experience of our senior management, we will be marketing such expertise to new clients for one-off projects.

In addition, we believe that HR Trustees can continue to win new clients as an increasing number of DB Schemes seek to appoint an independent trustee(s). We also aim to continue growing our SIPP business through new sales.

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
- a vehicle to enable trustees of UK DB Schemes to discharge their duties in relation to additional voluntary contributions; and
- a vehicle to receive transfers in respect of individuals who wish to transfer from a client's DB pension scheme.

We will aim to expand on the high quality, longstanding relationships we have established with existing clients, the majority of whom access only some of our services.

We see a particular opportunity to provide more de-risking services, an area of demand that provides greater 'value add' to clients (being good for pension scheme members and sponsoring employers) and thus has the potential to generate higher margins.

Radar will be introduced across our client base during 2017/18. We will continue to enhance it as it is adopted and we gather feedback from our people and our clients.

Technology will continue to be a key focus in all areas of our business.

We plan to enter discussions with a select number of prospective acquisition candidates, and - in light of our track record in making strategic acquisitions and potential access to capital - believe we are well positioned to continue to review the market for further consolidation opportunities.

Acquisitions must be right from the perspective of our people and our clients.

We will continue to utilise staff more effectively across our network of offices, for example by centralising functions where tasks are common across multiple clients or are not 'scheme specific'.

We will invest in a wide range of training programs, both technical and more widely to empower our people to make a difference to the clients they serve.

Strategy in Action



Case study



Growth through expanding our services



Trivial commutation

Many pension schemes have members with an entitlement to a small pension. Maybe someone worked for an employer for only a couple of years in the 1980s and might now be entitled to a pension of £10 per month or so. Such members have the option to swap this pension for a one off cash sum – in this example, the pension might be swapped for around £2,500. This is known as ‘trivial commutation’.

This might well suit the member, and also makes sense for a pension scheme as shrinking the membership reduces the administration burden - in some cases, the cost of administering the pension can be greater than the pension itself!

At Xafinity, we have invested time and effort to be the very best at running bulk exercises to communicate this option to members. We developed our “Centre of Excellence”. At the heart of this is the idea that a bulk exercise like this is about people, not spreadsheets. So we developed a world class approach to communications, and trained a dedicated team armed with the best technology to deliver these exercises.

We have run over 80 such bulk exercises. Our largest win was in January 2017, when we were appointed without a tender process to run an exercise on an £11bn scheme, to communicate with 10,000 members. We have a strong prospect list for future trivial commutation exercises.



Case study



Growth through technology

**Radar**

Radar is our proprietary pensions modelling software. We developed it during the year to meet the needs of our clients – to be better at bringing them insight into what is happening and why, and crucially to help them make decisions about how to improve things.

Historically, and still too often today, pension trustees and sponsors do not have up to date information. They are at the mercy of their consultants, who have a “black box” that they own that produces pension deficit numbers that move around but with precious little insight as to why. Some trustees will wait weeks for an update when they ask for one, and then get a bill sent with it. It’s a consulting model that is past its sell by date, and Radar changes all this, answering key questions such as where is my scheme today, how did we get here, and what levers can we pull to improve things?

Radar brings 21st Century governance and risk control, and unashamedly puts clients in the driving seat. No more “black box”; Radar is intuitive, easy to understand and available online to our clients.



Case study



Growth through increasing our client base

**Winning against the Big 3**

We were invited to pitch to provide full services (actuarial, administration and investment consulting services) to a longstanding client of a Big 3 firm. We engaged the prospect by loading their scheme onto our proprietary software, Radar, and approached the pitch as if we had been hired and this was our first meeting. We were able to bring insight immediately – highlighting market opportunities missed through a lack of proactive advice in the past, and more importantly even right there in the room we were able to identify actions that could materially improve the financial position of the pension scheme.

We won the appointment. The client noted that we were like nobody else in the way we came across – we were focused on the client, not us, we were hungry and have world class technology designed to bring insight. Finally, we were materially better value than the incumbent. The client remarked that switching had in the end been an easy decision.



Co-Chief Executive Officers' Q&A

A better way to drive growth

Our Co-Chief Executive Officers Ben Bramhall and Paul Cuff review a landmark year for Xafinity and discuss the outlook for the Group.



Paul Cuff
Co-Chief Executive Officer



Ben Bramhall
Co-Chief Executive Officer

Q: Why does Xafinity have Co-Chief Executives, and how do you divide responsibilities?

Ben: There is a clear distinction between our roles. I run the business day-to-day, looking after big client accounts and making sure we implement our best ideas across the business. Paul focuses on new business and investment in new technology. We both work on strategic M&A, although Paul does more of the earlier stages of investigating prospective targets.

Paul: We have known each other for twenty years since our first days' training as actuaries, and we've worked together for most of those. We both spend a fair amount of time with clients, and having 2 of us gives us the bandwidth to do what we need to on this. In our market it is not unusual to have 2 CEOs or wider partnership structures.

Q: What was the rationale for the IPO?

Paul: This was the logical next step on our journey. We are a thriving independent business that flourished under private equity ownership. We benefited hugely from the investment we received from our private equity owners following our separation from Equiniti, but we're about long-term relationships with staff and clients, so it made sense to have stakeholders and a financial structure that also looks to the long term.

Ben: Remaining independent was really important to us, our people and our clients. Transparency, reputation and profile are really important in our industry, and we see being a PLC as a real edge, as many of our competitors are privately owned. It enables us to continue investing in our services while still having an attractive dividend, and is also a structure that is better suited to being able to incentivise our people.

Paul: Being a publicly owned company also gives us access to capital to pursue our strategic vision of becoming the pre-eminent mid-tier firm, whether through acquisitions or other forms of investment.

Q: How did the business perform in 2017?

Paul: Revenue for the year was £52.04m, a 1% increase compared with the prior year (2016: £51.77m). Adjusted EBITDA grew by 5% to £17.46m (2016: £16.7m) representing a margin of 33.5%. We are pleased with the levels of new business generation – our wins and forward looking pipeline were transformed relative to the beginning of the year. Revenue growth was disappointing, however, partly suppressed by the impact of a contract with the Pensions Protection Fund not being renewed.

Ben: We achieved a great deal to set ourselves up for the future. In addition to some great momentum in terms of new business wins, NPT saw some strong growth, and of course the IPO was a significant milestone. We are rolling out our new software system, Radar (read more on page 17), and some talented people joined the business. Having begun to offer trivial commutation to existing clients 2 years ago, in the last year we took our proposition to new clients. We have seen great success, culminating in being awarded an exercise on an £11bn scheme that made us the market leader in this field.

Q: What have been the principal developments in the market?

Ben: Last year saw pensions hitting the headlines for all the wrong reasons, with problems at the likes of BHS and Tata Steel. There were serious risks that the members of their pension schemes would see material reductions in benefits. This has made pensions a high profile issue, and kept it very high on the agenda for our clients and sponsoring employers. Trustees have a harder job than ever before. We think this will drive a need for ever more support, and we are right by the sides of our clients to provide this.

Paul: In DB, there is a move from the Big 3 providers to mid-tier firms. By way of example, Aon Hewitt's decision, announced in February, to withdraw from providing standalone pension administration services to keep only clients where they provide wider services is a significant step. They have resigned the appointments of administration only clients. Competitors withdrawing from certain areas of the market will allow us to gain market share.

Co-Chief Executive Officers' Q&A continued

“The IPO is the logical next step in our strategy, enhancing our public profile and status with existing and potential clients and providing access to the capital markets to aid future growth if required.”

Ben: The recent highly critical FCA report about fiduciary management as a model within investment advisory services also plays to our strengths. The Big 3 do a lot of fiduciary management, and there is a real need for better governance in this market. Because we don't provide services in that way, we can offer proper independent oversight to advise people on which fiduciary manager to pick. The market is growing, and we're part of the solution.

Paul: Beyond DB, our view is that the wider pensions industry has not stepped up to the challenge of the Freedom and Choice reforms introduced in April 2015. People in defined contribution schemes no longer have to buy an annuity, but the industry has not filled the void. NPT is a brilliant solution, but we don't see at the moment that the industry, employers or trustees are moving quickly enough to make sure that DC scheme members, or indeed DB scheme members who transfer out of their schemes, are properly protected and finding cost effective, well governed, fully flexible vehicles. NPT is ahead of its time in that regard, but the market has been slow to move. We see that changing.

Ben: There is also the Department of Work and Pensions' Green Paper on the future of the pensions industry, which supported our view that standards need to improve. It particularly highlighted that smaller schemes are poorly served as running costs are too high; they don't have the purchasing power to get the best solutions, and the outcomes they get are challenged. We've launched DB Sense as a fantastic solution for small schemes. We were already developing this to meet a market need, so we're launching this at the perfect time given the DWP's Green Paper that draws out the challenges faced by small schemes.

Q: How would you summarise the Group's primary objective?

Ben: We strive to become the pre-eminent mid-tier firm, the best for staff and the best for clients. At a simple level, it's about providing a better service, using technology to bring insight, at a lower cost than the Big 3. We have scale to do things but remain nimble – it's a powerful combination.

Q: What sets Xafinity apart from rivals?

Ben: The world of pensions is changing massively, and the speed at which you can react is really important. Relative to our larger rivals whose pension arms are parts of much larger businesses, our pure focus on pensions is a key source of competitive advantage. Versus our mid-tier competitors, the fact that we are a PLC means we can get investment into the business much more readily and quickly than if we were a partnership. That drives our focus on technology.

Paul: Also, a number of our mid-tier competitors are looking to diversify, and are looking to new markets. We think that the pensions market for DB in particular is going to continue to grow for many years as we rise to the challenge of meeting members' benefit promises in full. Our clients' expectations will grow; they'll want more technology, they'll want more specialism and for some, their problems are bigger than ever. We are unashamedly focused on helping clients solve those problems. This is a market where, if you take your eye off the ball, you'll lose. Some of our competitors are in danger of doing that in the unfounded belief that because there are no new DB schemes being set up, you'd better find something else to do. The reality is that these schemes will be around for 50+ years, and clients need more help than ever.

Ben: In our business we have high levels of client loyalty. Partly this is a characteristic of our industry. But while clients are loyal to firms, they are also loyal to individuals, so our very high levels of staff retention are key; more than half of our people have been with the firm for more than 5 years. Our culture is really important. More than anywhere else I've worked, our people care massively about their clients. People are proud to work here, and our clients stay because our people stay. Doing the right thing for clients has always been the ethos of our firm.

Q: Looking ahead, where do you see the greatest opportunities?

Paul: Winning market share is a huge opportunity for us. We've been doing a lot of work to raise our profile among intermediaries, which is starting to generate more and more opportunities for us to tender. What we've demonstrated this year is that when we get introductions, with our approach to pitches and the technology we can show people, we're successful. We're very optimistic about new business levels. Looking at specific services, the fact that we were able to win a trivial commutation project on one of the UK's biggest pension funds has made other prospects view us in a different light. We are also starting to do a lot to get our message out in relation to NPT. We believe that the UK DC market presents opportunities for growth given the growing popularity of Master Trusts, and the increasing desire to offer pension scheme members access to the flexibilities introduced by the Government in April 2015 under its Freedom and Choice agenda.

Ben: In terms of other market drivers, external factors such as Brexit or new regulations tend to be favourable to our sector, because they typically give our clients more challenges. Our issue is to make sure we're developing the right solutions for our clients. Providing we keep doing that, we see great opportunities.

Having said this, a general issue with our market is that things move quite slowly. It takes people quite a long time to make decisions and do things; however we are perfectly placed for the long-term.

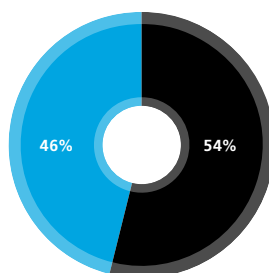
Q: Where does corporate responsibility fit within your way of working?

Ben: In our quest for Xafinity to be the best place for people to work and the best partner for our clients, we engage with colleagues, act upon feedback from our employee survey, and invest in development to ensure that each individual can perform to the best of their ability. As we touched upon earlier, our culture of doing the right thing for clients permeates our business, and begins with us doing the right thing for our people. We are an equal opportunities employer and do not differentiate on the grounds of gender, ethnicity, sexual orientation, religion or physical ability. 46% of our headcount of 429 colleagues are female. Behaving ethically is an essential part of working at Xafinity, fundamental to our reputation and success, and the foundation of doing the right thing for clients.

Paul: In relation to sustainability, given the size of our group and the office-based nature of what we do, we believe the direct environmental impact of our people and operations is relatively low. Having said that, we strive to work in a responsible and sustainable manner, and encourage our people to minimise their environmental impact in their day-to-day activities.

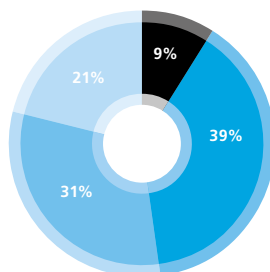
Ben: On behalf of both of us I wish to thank our people for their contribution and dedication. Their genuine commitment to clients is at the heart of our business, and critical to our future success. With our enhanced team, market leading technology and portfolio of services that are centered on pensions, we are well placed to support existing and prospective clients, and we look forward with optimism.

Employee diversity



● Male ● Female

Employee tenure



● 0-1 years ● 2-5 years
● 6-10 years ● 11+ years

Training

2500+

hours of training
(excluding technical training)

Paul Cuff
Co-Chief Executive Officer
27 June 2017

Ben Bramhall
Co-Chief Executive Officer
27 June 2017

Financial Review

A better way to deliver expectations



Mike Ainslie
Chief Financial Officer

We saw underlying growth in revenue and adjusted EBITDA, and paid down debt with proceeds of the IPO.

Revenue increased

1%+

to £52.04m

Revenue

Revenue for the Group consists of fees charged, on a time and materials basis or fixed fee arrangement, for pensions actuarial and consulting services and administration.

It also includes the annual management charge for NPT clients, and fees and commission earned from our SIP, independent trustee and healthcare activities.

Revenue increased 1% to £52.04m in 2017 (2016: £51.77m).

Adjusted EBITDA

Adjusted EBITDA represents earnings before interest, tax, depreciation and amortisation, share based payment costs and exceptional costs. Exceptional costs relate to costs of the IPO and other exceptional items.

We consider this measure provides a comparable figure to 2016 as it does not include the exceptional items and other non-cash items which were largely driven by the IPO this year.

In the year to 31 March 2017 Adjusted EBITDA increased 5% to £17.46m (2016: £16.70m).

Loss before tax

The loss before tax for the year was £13.2m (2016: Profit £3.3m) after charging share based payment costs of £14.3m (2016: £nil) and exceptional costs of £3.0m (2016: £0.5m).

Interest and financing costs

Net interest and financing costs totalled £8.6m and included interest £4.5m, swap costs of £0.4m, and write-off of previous refinancing costs £3.7m.

The Group's debt reduced from £82.5m at the start of the year to £33m at the end of the year, by utilising the proceeds of the IPO.

As discussed in the Prospectus produced at the IPO the margin on the new facility is 1.75% over LIBOR which has led to substantially reduced financing costs

Financial and Operational Highlights - Key Performance Indicators

£'millions (EPS in pence)	Year ended 31 March 2017	2016	Change
Revenue	52.04	51.77	1%
Adjusted* EBITDA	17.46	16.70	5%
Basic Earnings per share	(12.5)	3.1	
Adjusted Basic Earnings per share	8.1	7.8	

* Adjusted EBITDA represents profit from operating activities before depreciation, amortisation, shared-based payment costs and exceptional costs. See Note 5 to the Financial Statements on page 69.

Taxation

The tax credit in 2017 of £0.4m arose from current tax of £0.3m, offset by a deferred tax credit of £0.7m.

EPS

The EPS for 2017 is a loss per share of 12.5p (2016: EPS of 3.1p).

We have shown an adjusted EPS in 2017 of 8.1p (2016: 7.8p) which removes exceptional and other, mainly IPO related, items so as to be able to compare the business on a like for like basis. The adjusted earnings figure used in the calculation of Adjusted EPS is the driver for the dividend policy. Full details can be found in the notes to the Financial Statements.

Dividend

A final dividend of 0.73p is being proposed by the Board. The dividend covers the period from IPO (16 February 2017) to year-end (31 March 2017).

The final dividend, if approved, which amounts to £1m, will be paid on 28 September 2017 to those shareholders on the register on 1 September 2017.

Balance sheet

At 31 March 2017 the Group had net assets of £29m (31 March 2016: Net liabilities £21m). The increase in net assets arises from the impact of the IPO offset by the loss for the year.

Capital Expenditure

Capital expenditure remains low and for 2017 was £1.2m (2016: £0.6m), largely driven by software purchases and development.

Cash flow and cash position

At 31 March 2017 the Group had £4.9m cash balances and generated £11.6m of cash from its operating activities before tax and after capital expenditure. These, combined with a £38m committed financing facility until February 2022, mean the Group is well placed to meet future working capital cash requirements.

The Group had net cash outflows from financing activities of £8.1m (2016: £16.6m) which was the net position of £50.0m proceeds from the issue of share capital on the IPO and the repayment of bank borrowings and associated finance costs of £58.1m.

Subsidiary undertakings

The subsidiary undertakings of the Group in the year are listed in note 33 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 51.






Mike Ainslie
Chief Financial Officer
27 June 2017

Principal Risks and Uncertainties

The Group laid out the principal risks affecting it in the IPO prospectus. The risks are grouped here under 7 main headings along with mitigating controls.

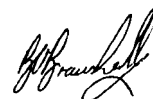
Principal Risk 	Description 	Mitigation 
Staff retention	The Group is dependent on the continued services of its senior management team and key employees for the growth and success of the business. The loss of, or inability to recruit key personnel could have a material adverse effect on the Group's 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 to be rolled out in July 2017. 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 permeates throughout the organisation.
Data loss/ security breach	<p>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.</p> <p>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.</p>	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	<p>The Group's principal market, being the professional services market to UK pensions arrangements, is competitive.</p> <p>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.</p>	<p>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.</p>
Regulatory change/ compliance	<p>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.</p> <p>The Group's clients operate in an evolving regulatory environment.</p>	<p>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.</p>
Crime/ external events/ market, economic, political	<p>The Group may be susceptible to crime which could materially and adversely affect its results of operations.</p> <p>The Group's operations could be adversely affected by external events and amounts recoverable under its insurance policies may be limited.</p> <p>The Group may be subject to litigation or regulatory claims and its insurance arrangements may not be adequate to protect the Group.</p> <p>Certain parts of the Group's business may be adversely affected by economic, political and market factors that are beyond the Group's control.</p>	<p>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.</p>

The Directors confirm in the Directors' Responsibility Statement on page 48 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 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 2017



Ben Bramhall
Co-Chief Executive Officer
27 June 2017

Board of Directors



Paul Cuff



Jonathan Bernstein



Margaret Snowdon OBE



Tom Cross Brown

Tom Cross Brown

Independent Non-executive Chairman

Tom Cross Brown was appointed Chairman of Xafinity in January 2017. He is currently non-executive Deputy Chairman of Just Group plc (formerly Just Retirement Group plc, of which he also previously served as Chairman), 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. Tom is Chairman of the Nomination Committee, and a member of the Audit and Remuneration Committees.

Paul Cuff

Co-Chief Executive Officer

Paul, who is a qualified actuary with almost 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 Xafinity in October 2016. Immediately prior to joining Xafinity, 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 Xafinity 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.

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. Since joining Xafinity in April 2014, he played a key role in implementing the changes that have taken place following CBPE's acquisition of the Company and subsequent separation from Equiniti. This includes the development and implementation of the strategy for Xafinity as well as the hiring of key staff and development of new services and infrastructure. Ben joined Xafinity 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.

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 Xafinity in October 2015 and as CFO, Mike is responsible for the finance, legal and compliance functions.

**Mike Ainslie****Alan Bannatyne****Ben Bramhall****Jonathan Bernstein****Head of Pensions**

Jonathan is a senior actuary with over 25 years' experience in the pensions industry. He joined Xafinity in June 2015 and was made Head of Pensions at Xafinity Consulting in January 2016. Jonathan is responsible for the pensions consulting/actuarial, investment and administration businesses, as well as wider business matters. His main responsibility is to ensure there is effective management of the pensions business at all 6 locations of the wider group where such business is carried on, so that the business runs efficiently and as "one team" of highly motivated staff and that Xafinity's strategy is successfully implemented. Jonathan provides advice on all aspects of UK pension schemes for some of Xafinity's largest clients. Prior to joining Xafinity, Jonathan was a senior partner at Mercer, UK. He has extensive experience of operational management, having run Mercer's Tower Retirement Unit for approximately 5 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.

Alan Bannatyne**Senior Independent Non-executive Director**

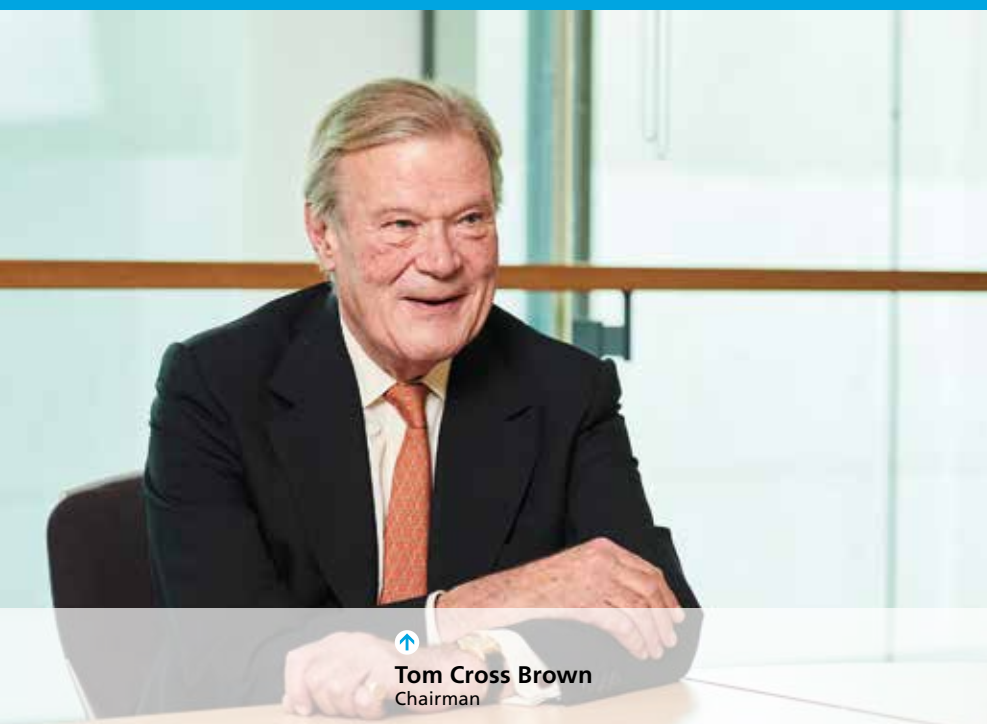
After qualifying as a Chartered Accountant with Deloitte & Touche, Alan was Commercial Manager of Primecom and then Financial Director of Foresight, both subsidiaries of Primedia, a listed South African Media Group. Alan joined Robert Walters plc as Group Financial Controller in September 2002 and was appointed to the Board of Robert Walters plc as Group Finance Director in March 2007.

Margaret Snowden OBE**Independent Non-executive Director**

Margaret is a Pensions professional and experienced non-executive Director. She is a non-executive Director of the Pensions Regulator and a non-executive member of the Phoenix Group Independent Governance Committee. She previously held Partner and Director level positions with leading employee benefit consultancies, as well as running her own pensions management consulting business. She is Chairman of the Pensions Administration Standards Association and also Chair of the Monitoring Board on Incentive Exercises and chairs the Pension Liberation Industry Group that developed the Combating Pension Scams Code of Good Practice. She is a Governor and member of the Council of the Pensions Policy Institute and is a Fellow and former Vice President of the PMI as well as Fellow and past Chairman of The Pensions Advisory Service. She was recently appointed by HM Treasury as an independent member of the Steering Group for the national Pensions Dashboard. She recently joined the Transparency Task Force to focus on costs and charges borne by members and trustees and is a Charter Partner of the newly formed Retirement Income Alliance, an independent organisation set up to help people make well informed decisions around their finances for later life. Margaret was appointed an OBE in 2010 and has, uniquely, for 6 years running been named as one of the Top 50 Influential People in Pensions and was awarded for her outstanding contribution to the pensions industry by the PMI in 2012. In 2013 she was listed as one of the Top 100 Women in Finance in Europe and in 2014 was named Pensions Personality of the Year.

Governance

Chairman's Introduction



Tom Cross Brown
Chairman

I am pleased to introduce our first Corporate Governance report. As we noted in the IPO Prospectus, the Group Board is committed to the highest standards of corporate governance and maintaining a sound framework for the control and management of the business activities of Xafinity plc.

The Company listed on the London Stock Exchange Main Market on 16 February 2017, so it is not practicable for the financial year under review to have full compliance with certain provisions of the UK Corporate Governance Code. Accordingly, in the Governance report to shareholders that follows, we have included a description of how the Company has applied the principles of the Code since admission to listing and how it intends to apply those principles throughout the 2017/18 financial year.

In preparing for listing, the Board constituted appropriate Committees and adopted relevant policies and procedures to support the development of a robust governance structure and compliance with the obligations under the Code and as a listed Company. We believe that the structure we have put in place is robust, but recognise that establishing a sound corporate governance framework requires further work over the medium term to ensure that it embeds transparency, accountability and challenge in the culture and values of the Company.

Debates and decisions at our Board meetings since listing 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. As part of this approach, the Board, Nomination Committee and Management are focusing on addressing the vitally important contributions that developing talent, succession planning and diversity can bring to the effective governance and long-term success of the Company.

I look forward to reporting on our progress next year.

Tom Cross Brown
Chairman
27 June 2017

Statement of compliance with the UK Corporate Governance Code

The Company adopted 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 admission to listing, 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 except as indicated below:

Code provision	Explanation
B.2.4 – The description of the work of the Nomination Committee does not include a description of the Board's policy on diversity	Page 30
B.6.1 – The Board has not carried out a performance evaluation	Page 32
B.6.3 – The Non-Executive Directors have not formally evaluated the Chairman's performance	Page 32

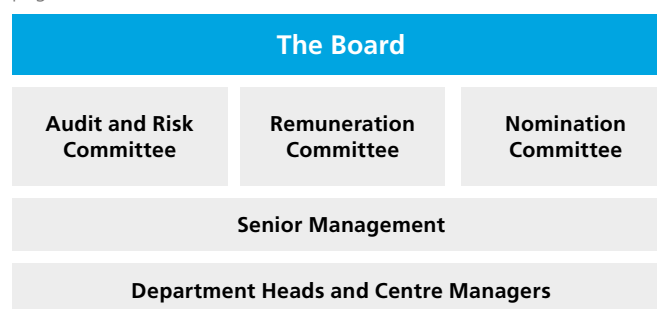
Group Governance Framework

Board Composition and Independence

The Board is composed of seven members, including the Chairman, four Executive Directors and two independent Non-executive Directors. The Board used Skillcapital to provide external search consultancy services in connection with the appointments of the three independent Directors; Skillcapital has no other connection with the Company. The Board concluded that Tom Cross Brown met the independence criteria set out in the Code on his appointment as Chairman.

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 considers that the Non-executive Directors Alan Bannatyne and Margaret Snowden 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 benefits from the wide experience of its Non-executive Directors. Biographical details of all Board members are given on pages 26 and 27.



Board Committees

The Board operates in accordance with the Company's Articles of Association and has established 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.xafinity.com.

Governance continued

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 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 Snowden 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 33.

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 will, within the terms of the Directors' Remuneration Policy to be approved by shareholders at the AGM in September 2017, determine and agree 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 35.

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 Xafinity to deliver its strategic goals and compete effectively.

As the Nomination Committee has only been established for a short time, an annual performance evaluation has not been conducted. It is intended that a performance evaluation will be conducted in this financial year and reported in the Company's Annual Report for 2017/18. The Committee plans to meet twice a year, and otherwise as required, to fulfil its role. It met once in the period following Admission and focused on the way forward regarding succession planning for Board and senior management appointments and the Group's approach to gender balance and ethnic diversity.

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. As the Non-executive Directors were appointed only one month before the listing in February 2017, the Board believes that a meaningful approach to diversity can only take place after it has been working together for a reasonable time, therefore an agreed approach to diversity and any imbalance will be developed during the 2017/18 financial year.

The Nomination Committee has commenced a process for the collation and analysis of Group and comparative data on diversity in order to obtain a more detailed view of diversity in the context of Xafinity's business, organisation, culture and values. This will provide a more meaningful insight into where the particular challenges or opportunities may be and will facilitate the consideration of a new diversity policy and appropriate targets for subsequent recommendation to the Board for approval.

Group Executive Committee

The Co-Chief Executive Officers 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 and Jonathan Bernstein. The Group Executive Committee also holds monthly management calls with the senior management team comprising the leads 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, value 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
- 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 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
- ensuring effective communication with shareholders.

The Co-CEO's 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 Xafinity 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 eight 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. All Directors have attended the four Board meetings and one strategy session held since the Company's admission to listing, with the Chairman and two Non-executive Directors attending all seven Committee meetings held in the same period (being one Nomination Committee, three Remuneration Committee and three Audit & Risk Committee).

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 three times in the period following Admission and at one meeting 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.

The Board did not consider it appropriate to carry out an annual performance evaluation of the Board, its Committees and of individual Directors prior to publication of the Annual Report for 2016/17, given that the Non-executive Directors were appointed only one month before the listing in February 2017. The Board believes that a meaningful evaluation can only take place after it has been working together for a reasonable time, and therefore an agreed approach to evaluation will be developed and implemented before the end of the 2017/18 financial year. This will include consideration as to whether it is appropriate to carry out an externally facilitated evaluation process.

In addition to the role of the Non-executive Directors to constructively challenge and facilitate the development of the Group's strategy, they will also meet in 2017/18 and annually thereafter (led by the SID and excluding the Chairman) to evaluate the performance of the Chairman, taking into account the views of the Executive Directors, with the results of that process communicated to the Board by the SID. 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 during the year without the Executive Directors being present.

In preparation for listing, all Directors received an induction briefing from the Company's legal advisor, Reed Smith LLP, on their duties and responsibilities as directors 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, will ensure that the development and ongoing training needs of individual directors and the Board as a whole are reviewed and agreed at least annually.

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, with effect from Admission, 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, those employees formally identified as insiders, and for one year from Admission, all members of staff, are required to comply with the Company's securities dealing code.

As part of its developing 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 first Annual General Meeting ('AGM') since Admission to listing will take place at Noon on Thursday 14 September 2017 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 sent to shareholders at least 20 working days prior to the date of the meeting. 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. Documents relating to the AGM are available on the Company's website at www.xafinity.com.

Audit and Risk Committee Report



Dear Shareholder,

I am pleased to present the first report of the Audit and Risk Committee since the Initial Public Offering (IPO) in February 2017. The committee has met 3 times since the IPO and intends to meet at least 3 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 4 to the Financial Statements on page 68.

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 issues 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.

Professional Indemnity (PI) claims

We reviewed management's assessments of provisions required to meet potential losses arising on PI claims. We considered the judgements taken by management and were satisfied that no changes were necessary.

IPO transaction reporting

The IPO 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 and the treatment of share-based payments. No changes in treatment were needed.

Audit and Risk Committee Report continued

Impact of future Accounting Standards

See Note 1 to the Financial Statements. Some of these new accounting standards will apply for the financial year 2018 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 2017 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.

Xafinity 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, Xafinity 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.

At its scheduled meeting in May this year, the Committee considered the need for an internal audit function and noted that, given the current scale of the Business and the internal controls assurance framework in place, a separate function was not necessary. The Committee further noted that during the year the CFO would examine the potential within the Business to establish an Internal Audit function.

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 2017

Directors' Remuneration Report



↑
Margaret Snowdon OBE
Chair of the Remuneration Committee

The principal objectives of our Directors' Remuneration policy are to provide incentives that support our strategy as it evolves and are aligned to long-term shareholder value.

Dear Shareholder,

I am pleased to welcome you to the first Directors' Remuneration Report which Xafinity has prepared since its IPO in February 2017.

The Report comprises 2 sections:

- the Directors' Remuneration Policy; and
- the Directors' Report on Remuneration.

The Directors' Remuneration Policy will be subject to a binding vote of shareholders at the forthcoming AGM, with the Annual Report on Remuneration being subject to an advisory vote.

The Group has performed well in 2017 and been through a very successful IPO and the pay outcomes in respect of the Executive Directors reflect this as the Directors' Remuneration Report shows.

The Group achieved a creditable performance for the year ended 31 March 2017, continuing a strong track record of delivering profitable revenue growth, healthy operating margin and strong cash generation, while investing in its operational capabilities to underpin future growth.

Summary of the Directors' Remuneration Policy

As part of the IPO process, Xafinity undertook a review of the Group's remuneration policy for its senior management team, including the Executive Directors, to ensure that it is appropriate for a UK-listed company and took due account of the Company's particular circumstances. Following this review, a new remuneration policy was established, some of the features of which were outlined in the IPO Prospectus.

The principal objectives of our Directors' Remuneration Policy are to attract, retain and motivate the Executive Directors and the Group's senior management, provide incentives that align with, and support, the Group's business strategy as it evolves, and align incentives with the creation 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.

Directors' Remuneration Report continued

I have set out below some key points of our approach to the remuneration of the Executive Directors which we believe will deliver against these objectives.

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 – £240,000 Paul Cuff – £240,000 Mike Ainslie – £210,000 Jonathan Bernstein – £210,000
Pension	Defined contribution/cash supplement of between 6% and 8% 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
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 of the Company's employee share plans, including the Share Save Plan, on the same terms as other employees
Share ownership guidelines	200% of salary

The Remuneration Committee's other activities

In addition to designing the Remuneration Policy and generally dealing with the remuneration-related matters arising as a consequence of the IPO, the Committee undertook a number of other activities.

These key activities included:

- Agreeing the first awards to be made under the PSP following Admission. As set out later in this Report, awards were made to Ben Bramhall and Paul Cuff over shares of a value equal to 150% of their annual salary and to Mike Ainslie and Jonathan Bernstein with a value equal to 125% of salary which vest subject to performance against a blend of relative TSR and EPS targets;
- The initiation of a people strategy;
- Overseeing the introduction of a Share Save plan for all employees due to launch in July 2017; and
- Determining the annual bonus outturn for 2016/17 for the Executive Directors, as follows:

Executive Director	% of salary	% of bonus maximum
Ben Bramhall	15.5%	31%
Paul Cuff	8%	31% ¹
Mike Ainslie	9%	31%
Jonathan Bernstein	9%	31%

1. Paul Cuff's bonus was pro-rated for time to reflect his appointment on 1 October 2016.

These activities were undertaken in the context of a transformational year for Xafinity, as evidenced by:

- strong day-to-day financial and operating management of the business
- robust underlying financial performance and growth in EBITDA
- an expansion of the services offered to clients
- the restructuring of the business and new business wins
- preparing the business for, and executing, the IPO.

We trust that you find this Report to be informative and transparent, and we hope to receive your support for both the Directors' Remuneration Policy and the Directors' Report on Remuneration at our forthcoming AGM. Indeed, we are very keen to encourage an open dialogue with our shareholders on executive remuneration.



Margaret Snowden OBE
Chair of the Remuneration Committee
27 June 2017

Directors' Remuneration Policy

This Remuneration Policy, which has been approved by the Board, 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 as set out in this section of the Directors' Remuneration Report will take effect for all payments made to Directors with effect from the conclusion of the forthcoming AGM. This policy has been developed with reference to the UK Corporate Governance Code and is appropriate to support the long-term success of the Company while ensuring that it does not promote inappropriate risk-taking.

Executive Directors

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 Group's financial and strategic business target over a one-year operating cycle	<p>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 (e.g. corporate acquisitions, other major transactions) where the Committee considers it to be necessary in its opinion to make appropriate adjustments.</p> <p>The Remuneration Committee retains the flexibility to pay annual bonus outcomes in cash and/or deferred shares (which may allow for dividend roll-up).</p> <p>Clawback and malus provision apply as explained in more detail in the notes to this Policy table.</p>	<p>The maximum annual bonus opportunity is 150% of base salary. For 2017/18, the maximum opportunity will be 150% of base salary for the Co-CEOs and 112.5% of salary for the other Executive directors.</p>	<p>Bonuses will be payable subject to the achievement of performance conditions which will be set by the Remuneration Committee.</p> <p>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.</p>
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	<p>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.</p> <p>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).</p> <p>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.</p> <p>Clawback and malus provisions applied are explained in more detail in the notes to this Policy table.</p>	<p>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.</p>	<p>The Remuneration Committee may impose such conditions as it considers appropriate which must be satisfied before any award will vest.</p> <p>All awards made to Executive Directors will be subject to performance conditions which measure performance over a period normally no less than 3 years.</p> <p>No more than 25% of awards vest for attaining the threshold level of performance.</p>

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	<p>The share ownership guidelines encourage Executive Directors to build or maintain (as appropriate) a shareholding in the Company.</p> <p>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.</p>	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	<p>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.</p> <p>These all-employee share plans are established under HMRC tax-advantaged regimes and follows the usual form for such plans.</p>	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	<p>The fees paid to the Chairman and Non-executive Directors aim to be competitive with other listed companies of equivalent size and complexity.</p> <p>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.</p> <p>The Chairman and Non-executive Directors do not participate in any new cash or share incentive plans.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>Any increases in fee levels made will be appropriately disclosed.</p>	n/a

Directors' Remuneration Report continued

Notes to the policy table

1. Stating maxima for each element of the Remuneration Policy

The Regulations and related investor guidance encourage companies to disclose a cap within which each element of the Directors' Remuneration Policy will operate. Where maximum amounts for elements of remuneration have been set within the Policy, these will operate simply as caps and are not indicative of any aspiration.

2. Travel and hospitality

While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality, whether paid for by the Company or another, and business travel for Directors (and in exceptional circumstances their families) may technically come within the applicable rules, and so the Committee expressly reserves the right for the Committee to authorise such activities.

3. Past obligations

In addition to the above elements of remuneration, any commitment made prior to, but due to be fulfilled after, the approval and implementation of this Remuneration Policy will be honoured.

4. Malus/clawback

The Committee may apply malus (being the ability to withhold or reduce a payment/vesting) and clawback (the ability to reclaim some or all of a payment/vesting) to an award under the annual bonus or PSP where there are circumstances which would justify such action, such as those relating to material misstatement of accounts, errors in calculating a payment/vesting and a participant's misconduct.

5. Performance conditions

The performance-related elements of remuneration take into account the Group's risk policies and systems, and are designed to align the senior executives' interests with those of shareholders. The Committee reviews the metrics used and targets set for the Group Executive Team and senior management (not just the Executive Directors) every year, in order to ensure that they are aligned with the Group's strategy and to ensure an appropriate level of consistency.

6. Committee discretions

The Committee will operate the annual bonus plan and PSP according to their respective rules and the above Remuneration Policy table. The Committee retains discretion, consistent with market practice, in a number of respects, in relation to the operation and administration of these plans. This discretion includes, but is not limited to, the following:

- The selection of participants;
- The timing of grant of awards;
- The size of an award/bonus opportunity subject to the maximum limits set out in the Remuneration Policy table and the rules of the relevant plan;
- The determination of performance against targets and resultant vesting/pay-outs;
- Discretion required when dealing with a change of control or restructuring of the Company;
- Determination of the treatment of leavers based on the rules of the relevant plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. rights issue, corporate restructuring events and special dividends); and
- The annual review of performance measures, weightings and targets from year to year.

In addition, while performance measures and targets used in the annual bonus plan and PSP will generally remain unaltered, if events occur which the Committee determines would make a different or amended target a fairer measure of performance, such amended or different targets can be set provided they are not materially more or less difficult to satisfy, having regard to the event in question.

Any use of the above discretion would, where relevant, be explained in the Annual Report on Directors' Remuneration and may, where appropriate and practicable, be the subject of consultation with the Company's major shareholders.

The Committee may make minor amendments to the Remuneration Policy set out above for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

The Remuneration Policy for Executive Directors is broadly in line with the Remuneration Policy for all Xafinity's employees and any differences arise from differences in responsibilities and market practice.

Remuneration Policy on Recruitment

The Company's recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment and promotion of high calibre executives to strengthen the management team and secure the skill sets to deliver our strategic aims.

In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to apply the Remuneration Policy for Executive Directors as set out above and structure a package in accordance with that Policy. Consistent with the DRR Regulations, any caps contained within the policy for fixed pay do not apply to new recruits, although the Committee would not envisage exceeding these caps in practice unless absolutely necessary.

The annual bonus plan and PSP, including the maximum award levels, will operate as detailed in the general Remuneration Policy in relation to any newly-appointed Executive Director. For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

For both external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

For external candidates, it may be necessary to make additional awards in connection with the recruitment to buy out awards forfeited by the individual on leaving a previous employer. Any recruitment-related awards which are not buy-outs will be subject to the limits of the annual bonus plan and PSP as stated in the general policy. Details of any recruitment-related awards will be appropriately disclosed.

For any buy-outs the Company will not pay more than is necessary in the view of the Committee and will be limited in value to what the Committee considers to be a fair estimate of the value of the awards foregone. The Committee will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing annual bonus plan and PSP. It may, however, be necessary in some cases to make buy-out awards on terms that are more bespoke than the existing annual bonus plan and PSP.

All buy-outs, whether under the annual bonus plan, PSP or otherwise, will take due account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. The Committee will seek, where it is practicable to do so, to make buy-outs subject to what are, in its opinion, comparable requirements in respect of service and performance. However, the Committee may choose to relax this requirement in certain cases, such as where the service and/or performance requirements are materially completed, or where such factors are, in the view of the Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited, and where the Committee considers it to be in the interests of shareholders.

Service Contracts

Executive Directors

Each of the Executive Directors 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 (6 months for CFO and Head of Pensions) or immediately upon payment in lieu of notice, and contains 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 Chairman and Non-Executive Directors' appointments are subject to the terms of letters of appointment agreed between each of them and the Company dated 24 January 2017. 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.

Remuneration Policy on Termination

The Committee will consider treatments on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatments that the Committee may choose to apply under the discretions available to it under the terms of the annual bonus plan and PSP. The potential treatments on termination under these plans are as follows:

Annual Bonus Plan

If an Executive Director resigns or is dismissed for cause before the bonus payment date, the right to receive any bonus normally lapses (unless the Committee determines otherwise). If an Executive Director ceases employment before the bonus date because of death, injury, ill health, disability or any other reason determined by the Committee, such bonus will be payable as the Committee in its absolute discretion determines taking into account the circumstances for leaving, time in employment and performance. Similar treatment will apply in the event of a change in control of the Company.

Performance Share Plan (PSP)

The Committee's Policy is in accordance with the rules of the Performance Share Plan 2017 and summarised in the Xafinity Prospectus published in February 2017. If, during the performance or vesting period, a participant:

- resigns or is dismissed for cause, awards will normally lapse in full; and
- ceases to be employed due to death, ill health, injury or disability, retirement with the agreement of the participant's employer, redundancy, the sale or transfer of the participant's employing company or business out of the Group (other than on change of control), or for other reasons specifically approved by the Committee, the award will vest immediately to the extent that the Committee determines. The Committee will determine the extent to which an award will vest taking into account the extent to which the performance conditions have been met and, where appropriate, the period that has expired to the date of cessation.

The all-staff Share Save scheme provides treatments for leavers in line with HMRC rules for such plans.

The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements.

Directors' Remuneration Report continued

External Appointments

The Company's policy on external appointments permits an Executive Director, subject to the approval of the Chairman, to serve as a non-executive director for normally no more than one other organisation where this does not conflict with the individual's duties to the Company. When an Executive Director takes such a role, they may be entitled to retain any fees which they earn from that appointment.

Differences between the Policy in respect of Remuneration for Directors and the Policy on Remuneration for Other Staff

Pay and employment conditions generally in the Company will be taken into account when setting Executive Directors' remuneration. The Committee will receive regular updates on overall pay and conditions in the Company, including (but not limited to) changes in base pay and any staff bonuses in operation. There is also oversight of the all-employee share plans in which Executive Directors and all other staff can participate on the same terms and conditions. Reflecting standard practice, the Company does not currently consult with staff in drawing up the Company's Remuneration Report or when determining the underlying policy, although it will continue to monitor developments in this area.

Statement of Consideration of Employment Conditions elsewhere in the Company

The Remuneration Policy for other employees is based on broadly consistent principles as described above. Annual salary reviews across the Company take into account Company performance, relevant pay and market conditions and salary levels for similar roles in comparable companies.

Other members of senior management participate in similar annual bonus arrangements to the Executive Directors, although award sizes vary by organisational level. PSP awards may also be granted to a broader population than the Executive Directors. The Company operates discretionary bonus schemes for eligible groups of employees under which a bonus is payable subject to the achievement of appropriate targets. All eligible employees may participate in the Company's Share Save scheme on identical terms.

Statement of Consideration of Shareholders' Views

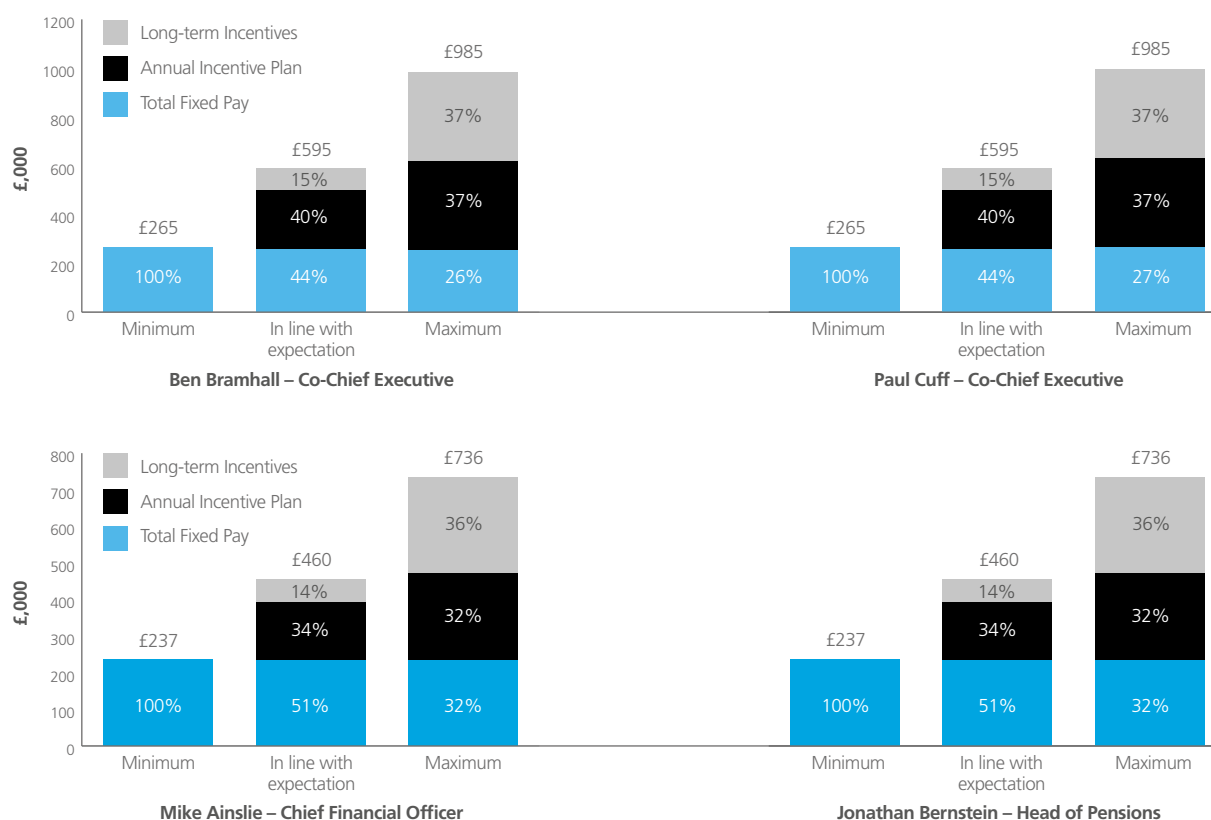
The 2017 AGM is the first occasion at which the Company will seek the formal support of its shareholders on matters relating to the remuneration of Directors. The Committee will ensure that it considers all of the feedback which it receives from its shareholders during this process.

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 2017/18 based on 3 performance scenarios and using the assumptions below. There are no plans to make an award under the Performance Share Plan but the charts – in respect of target and maximum performance – illustrate the impact of awards under the Plan.

Minimum	<ul style="list-style-type: none"> Consists of base salary, benefits and pension Base salary is the salary to be paid in the 2017/18 financial year Benefits measured as benefits paid in the year ending 31 March 2017 Pension measured as the defined contribution or cash allowance in lieu of Company contributions of 6-8% of salary
Target	<p>Based on what the Executive Director would receive if performance was on-target (excluding share price appreciation and dividends):</p> <ul style="list-style-type: none"> 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	<p>Based on the maximum remuneration receivable (excluding share price appreciation and dividends):</p> <ul style="list-style-type: none"> 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 Paul Cuff'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 2017.

Remuneration Committee Membership

The Remuneration Committee is chaired by Margaret Snowden 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.xafinity.com

Advisers

FIT Remuneration Consultants LLP ("FIT"), signatories to the Remuneration Consultants Group's Code of Conduct, were appointed by the Committee towards the end of the year 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. No work was requested by the Committee of the adviser during the financial year and hence FIT's fees in respect of the 2016/17 financial year were nil. FIT's fees will be charged on the basis of the firm's standard terms of business for advice provided.

Directors' Remuneration Report continued

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, full details of which are set out on page 47 of this report.

As the Company listed in February 2017, a significant part of the 2017 and all of the 2016 remuneration related to the period when the Group was privately owned.

Director		Salary/fees £	Taxable benefits ⁽⁶⁾ £	Bonus £	Long-term incentives ⁽⁷⁾ £	Pension £	Total remuneration £
Executive Directors							
Ben Bramhall ⁽¹⁾	2017	204,718	9,408	60,999	0	11,757	286,882
	2016	200,000	8,884	72,581	0	11,700	293,165
Paul Cuff ⁽²⁾	2017	104,718	4,704	15,501	4,048,893	5,879	4,179,695
	2016	0	0	0	0	0	0
Mike Ainslie ⁽³⁾	2017	165,897	9,389	14,880	1,390,755	11,248	1,592,169
	2016	80,000	4,083	25,240	105,113	6,400	220,836
Jonathan Bernstein ⁽⁴⁾	2017	192,359	9,389	17,670	1,738,442	14,569	1,972,429
	2016	0	0	0	0	0	0
Non-Executive Directors							
Tom Cross Brown ⁽⁵⁾	2017	22,769	0	0	0	0	22,769
	2016	0	0	0	0	0	0
Alan Bannatyne ⁽⁵⁾	2017	14,231	0	0	0	0	14,231
	2016	0	0	0	0	0	0
Margaret Snowden ⁽⁵⁾	2017	12,333	0	0	0	0	12,333
	2016	0	0	0	0	0	0
Past Directors ⁽⁸⁾							
Robert Birmingham	2017	100,000	18,010	9,407	0	7,600	135,017
	2016	207,644	21,410	54,594	0	39,452	323,100
Jeff Hunt	2017	36,667	7,424	5,789	0	7,500	57,380
	2016	150,000	8,970	39,438	0	9,000	207,408
Alastair McLeish	2017	27,000	0	0	0	0	27,000
	2016	75,000	0	0	0	0	75,000
Ian Moore	2017	0	0	0	0	0	0
	2016	0	0	0	0	0	0
Anne Noble	2017	0	0	0	0	0	0
	2016	105,000	8,998	13,806	0	17,850	145,654
Jim Thomas	2017	9,699	1,570	236	0	3,071	14,576
	2016	174,585	18,803	30,604	0	36,857	260,849
Richard Thompson	2017	0	0	0	0	0	0
	2016	0	0	0	0	0	0
Total	2017	890,391	59,894	124,782	7,178,090	61,624	8,314,481
	2016	992,229	71,148	236,263	105,113	121,259	1,526,012

(1) The Single Total Figure for Ben Bramhall reflects the one-off payment of £30,000 made to him in lieu of a salary increase on his appointment as Joint Managing Director on 1 April 2016.

(2) Paul Cuff joined the company on 1 October 2016 and became a director on 3 October 2013. His award under the pre-Admission Incentive Share Plan was disclosed in the Prospectus on page 148.

(3) Mike Ainslie joined the company on 1 October 2015 and became a director on 1 November 2015.

(4) Jonathan Bernstein joined the company on 30 June 2015 and became a director on 7 April 2016.

(5) The non-executive directors joined the company on 14 January 2017 and became directors on 24 January 2017.

(6) 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.

(7) The directors received these amounts as a result of the vesting on Admission of awards previously granted to them under the pre-IPO Incentive Share Plan. A portion of their holdings are subject to a lock-in agreement and the shares relating to these amounts cannot be sold for a period of 12 months after IPO. The lock-in amount represents 50% of the post-tax value of their pre-IPO holdings.

(8) The resignation dates of the past directors are as follows: Robert Birmingham and Jeff Hunt 24 January 2017; Alistair McLeish 30 September 2016; Ian Moore 24 January 2017; Anne Noble 21 November 2015; Jim Thomas 6 April 2016; Richard Thompson 24 January 2017.

Note that no element of annual bonus was deferred in respect of bonuses shown in the table. The pension values shown all relate either to pension contributions or to cash allowances in lieu of pension.

2016/17 Annual Bonus (audited)

The 2017 amounts relate to the Company bonus scheme under which the targets were set at the beginning of the financial year prior to Admission. Pay outs under the scheme were based on the Group's adjusted EBITDA performance relative to budget.

The Committee has not disclosed the targets for these bonus awards as the targets were set at a time when the Company was private and in private equity ownership. The Board considers the underlying targets remain commercially sensitive. In other words we think that there is a risk that our competitors may be able to use the information to their advantage. It will, however, be the Committee's policy going forward to disclose annual bonus targets retrospectively, at the same time as the performance outcome is disclosed in the Remuneration Report after the end of each financial year provided that they are not considered commercially sensitive.

This performance resulted in recommended annual bonuses of £30,999 (£60,999 with the addition of a one-off payment in lieu of a salary increase on his promotion to Joint Managing Director on 1 April 2016) for Ben Bramhall and £15,501 for Paul Cuff, with £14,880 payable to Michael Ainslie and £17,670 to Jonathan Bernstein. As a % of salary, the bonuses range from 8% to 15.5%.

Statement of Directors' Shareholding and Share Interests (audited)

For each Director, the total number of Directors' interests in shares at 31 March 2017 was as follows:

Director	Ben Bramhall	Paul Cuff	Michael Ainslie	Jonathan Bernstein	Tom Cross Brown	Alan Bannatyne	Margaret Snowdon
Number of ordinary shares held as at 31 March 2017	1,509,380	713,534	252,637	315,796	35,971	32,374	0

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 2017 and 26 June 2017.

Under the share ownership guidelines, the Executive Directors will be required to build and maintain a shareholding equivalent to at least 200% of salary. The shares detailed above are subject to a lock up arrangement which expires in February 2018. The holdings of all the Executive Directors are in line with or in excess of the guidelines.

Awards Granted in the Year under the PSP (audited)

Director	Date of grant	Interests held at Admission	Interests awarded during the year	Grant share price	Interests vested during the year	Interests lapsed during the year	Interests held at 24 March 2017	Interests at face value at grant
Ben Bramhall	16 February 2017	–	258,992	£1.39	–	–	258,992	£359,999
Paul Cuff	16 February 2017	–	258,992	£1.39	–	–	258,992	£359,999
Michael Ainslie	16 February 2017	–	188,848	£1.39	–	–	188,848	£262,499
Jonathan Bernstein	16 February 2017	–	188,848	£1.39	–	–	188,848	£262,499

These awards comprise nominal cost options with an exercise price of 0.05p per option and vest in 2020 following announcement of annual results in 2020 subject to performance relating to (i) adjusted Earnings per Share (EPS) (see note 5 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 original intention, as disclosed in the Prospectus, was that the EPS target range should be as shown in brackets below. With the agreement of the Executive Directors, the Remuneration Committee has raised the level of EPS growth required in the light of the strategic business planning work done since February 2017. The details of the new target range is shown in the table below. There has been no change to the operation of the relative TSR measure for Executive Directors.

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% (3%) above CPI	0%
CAG of 8% (3%) above CPI	25%
CAG between 8% (now 3%) and 18% (7%) above CPI	Between 25% and 100% on a straight line basis
CAG of 18% (7%) or more above CPI	100%
Xafinity's TSR ranking vs a Comparator Group of Companies	Portion of award vesting
Below median	0%
Median	25%
Between median and upper quartile	Pro-rata on straight-line basis between 25% and 100%
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 2016/17 (2015/16: nil)

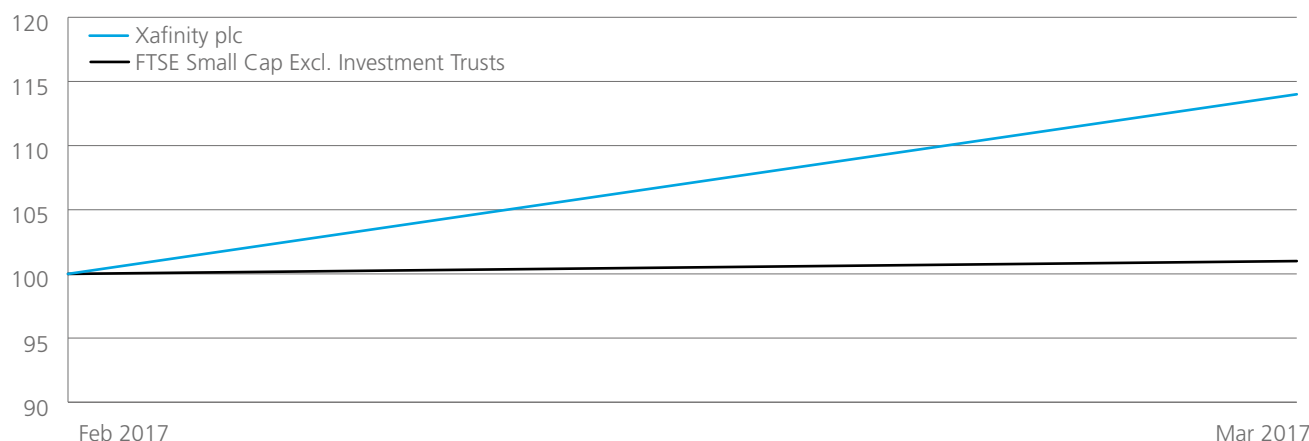
Directors' Remuneration Report continued

Payments for Loss of Office (audited)

No payments were made to any Director in respect of loss of office in the financial year 2016/17 (2015/16: £43,000).

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 2017. This is considered an appropriate comparator for Xafinity which is a constituent of the FTSE SmallCap.



The table below details certain elements of the CEOs' remuneration over the year:

	Single total figure of remuneration	Annual bonus pay-out as % of maximum	Long-term incentive vesting rates as % of maximum
2016/17			
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 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 Xafinity staff.

	Ben Bramhall	Paul Cuff	All Xafinity staff
Salary	2.4%	n/a	2.4%
Annual bonus	(16.0%)	n/a	(38.6%)
All taxable benefits (total remuneration)	(2.1%)	n/a	(0.1%)

Relative Importance of Spend on Pay (unaudited)

The table below details the change in total staff pay between financial years 2015/16 and 2016/17 as detailed in note 9 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	2016/17 £'000	2015/16 £'000
Total gross staff pay	(2.2%)	21,635	22,120
Distributions to shareholders	(100%)	0	20,597

Implementation of Policy for 2017/18 (unaudited information)

Base salary

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

- Ben Bramhall: £240,000
- Paul Cuff: £240,000
- Michael Ainslie: £210,000
- Jonathan Bernstein: £210,000

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 44.

There is no intention to introduce additional benefits in 2018.

Pension

Contribution rates will be between 6% and 8% of base salary depending on age. 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-Chief Executive Officers 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 bonus in next year's report.

PSP awards

It is not intended to make PSP Awards to the Executive Directors in the financial year 2017/2018.

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 Snowden 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 2017 and were signed on its behalf by:



Margaret Snowden OBE

Chair of the Remuneration Committee

27 June 2017

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the 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 and Article 4 of the IAS Regulation. 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 Company and of the profit or loss of the Company for that period. In preparing these Financial Statements, the Directors are required to:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- Make an assessment of the Company's ability to continue as a going concern; 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. 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 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 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 report are undertaken by members of the Executive Board and senior management team; and
- the final draft is reviewed by the Audit Committee prior to consideration by the Board.

Responsibility statement

We confirm that to the best of our knowledge:

- the Financial Statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken 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 2017

Overview

The Directors present their annual report on the activities of Xafinity plc ('the Group'), together with the audited financial statements for the year ended 31 March 2017. The Governance section on pages 28 to 32 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.

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 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 trade under the ticker symbol XAF and are registered under ISIN GB00BDDN1T20, SEDOL number BDDN1T2, and LEI 2138004Y80BPJEAACJ11. Xafinity 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 12 to 17)
Equality and diversity	Co-Chief Executive Officers' Q&A (page 18)
Employee involvement	Co-Chief Executive Officers' Q&A (page 18)
Directors' shares interests	Directors' Remuneration Report (page 45)
Financial risk management objectives and policies	Note 2 to the financial statements (page 67)

Results and dividend

The Group's audited financial statements for the year ended 31 March 2017 are set out on pages 57 to 83 and the Company's audited financial statements are set out on pages 84 to 89. The Group's loss after taxation for the year ended 31 March 2017 was £(12.79m) (2016: Profit £2.99m).

The Directors recommend a final dividend for the year of 0.73p per ordinary share to be paid on 28 September 2017 to shareholders on the register on 1 September 2017. Further information regarding dividend policy and payments can be found in the Financial Review on page 23 and in note 34 to the Financial Statements on page 83.

Post balance sheet events

There have been no significant post balance sheet events to report since 31 March 2017.

Directors

The current Directors of the Company, with summaries of their key skills and experience, are set out in the Governance section on pages 26 and 27. Directors on the Board during the year and up to the date of this report are as follows:

Ben Bramhall
 Mike Ainslie
 Jonathan Bernstein (appointed 7/4/16)
 Paul Cuff (appointed 3/10/16)
 Tom Cross Brown (appointed 24/1/17)
 Alan Bannatyne (appointed 24/1/17)
 Margaret Snowdon (appointed 24/1/17)
 John Thomas (resigned 26/4/16)
 Alastair McLeish (resigned 30/9/16)
 Robert Birmingham (resigned 24/1/17)
 Jeffrey Hunt (resigned 24/1/17)
 Ian Moore (resigned 24/1/17)
 Richard Thompson (resigned 24/1/17)

Details of the Directors' service contracts are shown in the Report of the Remuneration Committee on page 41.

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 45.

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 during the remainder of 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.

Directors' Report continued

Capital structure

The Company's issued ordinary share capital and total voting rights on Admission, at 31 March 2017 and the date of this report were 136,896,244 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 26 on page 78.

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.xafinity.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, have each undertaken, for a 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 does not seek to exercise the voting rights on those shares.

Major interests in shares

As of 31 March 2017, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company:

Shareholder	Percentage of voting rights and issued share capital	No. of ordinary shares
Schroder Investment Management Ltd	11.37	15,568,201
BlackRock Investment Management (UK) Ltd	8.32	11,391,851
Invesco Asset Management Ltd	7.85	10,755,395
Axa Investment Managers	6.32	8,657,838
Franklin Templeton Fund Management Ltd	6.07	8,309,352
Threadneedle Asset Management Ltd	6.05	8,276,708
Wellington Management Company LLP	6.01	8,220,797

During the period between 31 March and 26 June 2017, the Company received the following notifications under Chapter 5 of the Disclosure and Transparency Rules:

Shareholder	Percentage of voting rights and issued share capital	No. of ordinary shares
Schroder Investment Management Ltd	10.88	14,889,780
BlackRock, Inc.	10.01	13,705,330
Unicorn Asset Management Limited	5.01	6,864,151

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 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 2017 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. As set out in the Prospectus for Admission, 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 AGM.

Political donations

No political contributions were made, or political expenditure incurred, by the Company and its subsidiaries during the year (2016: £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 change of control provisions in the following significant agreements:

The Company's £38m agreement with HSBC Bank plc for a £15m term loan facility and a £23m multicurrency revolving facility, with a further uncommitted facility of up to £10m, 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 49 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 2020. 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 24 and 25. In addition, Note 2 on page 67 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 £4.9m of cash at 31 March 2017 and a £38m committed financing facility until February 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.

Directors' Report continued

Annual General Meeting

Details of the forthcoming Annual General Meeting are given on page 32 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 36
Waiver of emoluments by a Director	None
Waiver of future emoluments by a Director	None
Non pre-emptive issues of equity for cash	None
Non pre-emptive issues of equity for cash in relation to major subsidiary undertakings	None
Contracts of significance in which a director is or was interested	None
Provision of services by a controlling Shareholder	Not applicable
Shareholder waiver of dividends	No such waiver at time final dividend declared
Shareholder waiver of future dividends	No such waiver
Agreements with controlling Shareholder	Not applicable

The Directors' Report was approved by the Board of Directors of Xafinity plc.

By order of the Board:



Mike Ainslie
Chief Financial Officer
27 June 2017

Xafinity plc, registered in England and Wales (number 08279139)

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

Independent Auditors' Report to the Members of Xafinity plc

Strategic Report

Governance

Financial Statements

Company Information

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2017 and of the group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) 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.

The Financial Statements comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in the preparation of the group and parent company Financial Statements is applicable law and IFRSs as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

This report is made solely to the 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 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 company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our assessment of risks of material misstatement and overview of the scope of our audit

A description of the scope of an audit of Financial Statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the Financial Statements at the group level.

We set out below the risks that had the greatest impact on our audit strategy and scope. The Risk and Audit Committee's consideration of these matters is set out on page 33:

Independent Auditors' Report to the Members of Xafinity plc continued

Revenue recognition and accrued income

Risk

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.

Billing occurs 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.

Based on the above revenue is accrued or deferred appropriately. 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 deferred revenue on SSAS services;
- Recoverability of accrued income in respect of pension advisory services;
- Completeness of revenue captured within the timecard system and subsequently recorded in the accounting system.

Response

We reviewed the Group's revenue streams and the revenue recognition policy applied to each and ensured they are in accordance with IAS18 'Revenue'.

We reviewed revenue transactions which did not appear to arise from standard billing arrangements. In doing so we engaged the use of our IT audit specialists who performed computer assisted audit testing as part of our audit procedures.

We tested revenue for each material income stream using substantive procedures to check the existence of revenue and that it was accurately recorded.

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

We reviewed the completeness of timecards recorded within the timecard system and the subsequent recognition of related revenue within the accounting system.

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

Professional indemnity claims

Risk

Due to the industry in which the Group operates there is a risk of possible professional indemnity claims, leading to potential provisions and contingent liabilities which may require disclosure in or adjustment to the Financial Statements.

The Group's exposure is limited to the excess per claim where the claim is covered by the Group's insurance policy.

Response

We made enquiries of management, reviewed management's records of all ongoing claims, reviewed board minutes and correspondence to check completeness of that population. We conducted a review of significant legal fees incurred to highlight claims in progress.

We obtained confirmation from the Group's solicitors of the estimated costs to settle a sample of claims which are ongoing or recently settled to ensure that they are recorded or disclosed in the Financial Statements in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

We also reviewed the listing of claims for potential understatement and selected a sample of other claims to review in more detail. Our testing did not identify any material misstatements in the recognition or disclosure of provisions.

Listing fees, share issue costs and other exceptional items

Risk

Significant costs were incurred in the Initial Public Offering ("IPO") process. There is a risk these fees are not correctly accounted for as either a deduction to share premium or a charge to the statement of comprehensive income.

Furthermore, there is a risk that non-IPO related costs may be incorrectly included within exceptional costs.

Response

We reviewed the IPO related costs incurred and agreed a sample of costs to supporting documentation. We considered the appropriateness of the treatment of fees in accordance with the accounting standards.

We reviewed and agreed management's basis of apportioning the listing costs between a deduction to share premium and a charge to the statement of comprehensive income.

We reviewed other costs categorised as exceptional and agreed their treatment.

Our testing did not identify any material misstatements in the amounts or classification of exceptional items.

Audit Scope

The Group comprises the parent company and 4 trading subsidiaries, Xafinity Consulting Limited, Xafinity SIPP Services Limited, HR Trustees Limited and Hazell Carr (AT) Services Limited and 3 intermediate holding companies. All subsidiary entities are based in the United Kingdom and full scope audits of those components were carried out by BDO LLP. The company also controls a Jersey based trust which contains the group's Employee Benefit Trust. The component was also subject to a full scope audit by us for the purposes of the group audit. There have been no significant changes in scope since the prior year.

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.

The materiality for the group Financial Statements as a whole was set at £500,000. This was determined with reference to the group's EBITDA prior to exceptional costs and share-based payment costs (of which it represents 3%). EBITDA prior to exceptional costs and share-based payment costs is considered the most appropriate measure in assessing the performance of the group given the transition of the business from a highly geared Private Equity owned business to a UK Listed plc during the latter part of the year. Performance materiality was set at 75% of the above materiality levels.

Where financial information from components was audited separately, component materiality levels were set for this purpose at lower levels varying from 3% to 95% of group materiality.

Materiality has reduced by 37.5% from the previous year to reflect the shift from a privately owned group to a UK Listed plc.

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £25,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Opinion 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 directors' report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the strategic report and Directors' Report have been prepared in accordance with applicable legal requirements; and
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA rules.

Statement regarding the directors' assessment of principal risks, going concern and longer term viability of the company

We have nothing material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, 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 entity 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.

Independent Auditors' Report to the Members of Xafinity plc continued

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Report and Accounts is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

We have nothing to report in respect of these matters.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Report and Accounts is fair, balanced and understandable and whether the Report and Accounts appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

In the light of the knowledge and understanding of the group and the 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; and
- the information about internal control and risk management systems in relation to financial reporting processes and share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of these matters.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the 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; or
- a Corporate Governance Statement has not been prepared by the company.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules of the Financial Conduct Authority for review by the auditor. The Listing Rules also require that we review the directors' statements set out on pages 51 regarding going concern and longer term viability.

We have nothing to report in respect of these matters.



Christopher Pooles

(Senior Statutory Auditor)

For and on behalf of BDO LLP, statutory auditor

Reading

United Kingdom

27 June 2017

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 2017

Strategic Report

Governance

Financial Statements

Company Information

	Note	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Revenue	7	52,038	51,769
Administrative expenses	8	(56,556)	(40,602)
Adjusted EBITDA – Earnings before interest, tax, depreciation and amortisation, share-based payment costs and exceptional costs		17,463	16,703
Share-based payment costs	12	(14,314)	–
Exceptional costs	6	(2,959)	(534)
Depreciation of tangible assets	15	(631)	(651)
Amortisation of software	16	(361)	(245)
Amortisation of acquired intangible assets	16	(3,716)	(4,106)
(Loss)/profit from operating activities		(4,518)	11,167
Finance income	13	475	46
Finance costs	13	(9,121)	(7,907)
(Loss)/profit before tax		(13,164)	3,306
Income tax credit/(expense)	14	373	(315)
(Loss)/profit and total comprehensive, (loss)/income for the year		(12,791)	2,991
		Pence	Pence
(Loss)/earnings per share attributable to the ordinary equity holders of the Company:			
Basic and diluted (loss)/earnings per share	32	(12.5)	3.1
Adjusted basic earnings per share	32	8.1	7.8
Adjusted diluted earnings per share	32	8.0	7.8

The notes on pages 61 to 83 form part of these Financial Statements.

Consolidated Statement of Financial Position as at 31 March 2017

	Note	31 March 2017 £'000	31 March 2016 £'000
Assets			
Non-current assets			
Property, plant and equipment	15	1,342	1,529
Intangible assets	16	58,595	61,940
Deferred tax assets	18	36	36
		59,973	63,505
Current assets			
Trade and other receivables	19	12,320	12,510
Current income tax asset	20	597	–
Cash and cash equivalents	21	4,880	2,740
		17,797	15,250
Total assets		77,770	78,755
Equity and liabilities			
Equity attributable to owners of the parent			
Share capital	26	68	40
Share premium	27	49,958	–
Investment in own shares held in trust	27	(465)	(2,717)
Accumulated deficit	27	(20,612)	(18,669)
Total equity/(deficit)		28,949	(21,346)
Liabilities			
Non-current liabilities			
Loans and borrowings	22	32,829	83,282
Deferred income tax liabilities	18	6,542	7,219
		39,371	90,501
Current liabilities			
Loans and borrowings	22	22	18
Provisions for other liabilities and charges	25	1,069	391
Trade and other payables	23	8,359	8,664
Current income tax liabilities	24	–	425
Derivative financial liabilities	17	–	102
		9,450	9,600
Total liabilities		48,821	100,101
Total equity and liabilities		77,770	78,755

The notes on pages 61 to 83 form part of these Financial Statements.

The Financial Statements were approved by the Board of Directors on 27 June 2017 and were signed on its behalf by:



Mike Ainslie
Chief Financial Officer
27 June 2017

Registered number: 08279139

Consolidated Statement of Changes in Equity

for the year ended 31 March 2017

	Share capital £'000	Share premium £'000	Investment in own shares £'000	Accumulated deficit £'000	Total equity/ (deficit) £'000
Balance at 1 April 2015	1,022	–	(50)	(2,095)	(1,123)
Comprehensive income and total comprehensive income for the year	–	–	–	2,991	2,991
Contributions by and distributions to owners					
Share capital issued	50	–	–	–	50
Investment in own shares held in trust	–	–	(2,667)	–	(2,667)
Share capital cancellation	(1,032)	–	–	1,032	–
Dividends paid	–	–	–	(20,597)	(20,597)
Total contributions by and distributions to owners	(982)	–	(2,667)	(19,565)	(23,214)
Balance at 31 March 2016	40	–	(2,717)	(18,669)	(21,346)
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

The notes on pages 61 to 83 form part of these Financial Statements.

Consolidated Statement of Cash Flows for the year ended 31 March 2017

	Note	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Cash flows from operating activities			
(Loss)/profit for the year		(12,791)	2,991
<i>Adjustments for:</i>			
Depreciation	15	631	651
Amortisation	16	4,077	4,351
Finance income	13	(475)	(46)
Finance costs	13	9,121	7,907
Share-based payment expense	12	12,505	–
Income tax (credit)/expense	14	(373)	315
		12,695	16,169
Increase in trade and other receivables		(458)	(455)
Decrease in trade and other payables		(189)	(691)
Increase in provisions		678	303
		12,726	15,326
Income tax paid		(1,327)	(2,063)
Net cash inflow from operating activities		11,399	13,263
Cash flows from investing activities			
Finance income received	13	11	13
Purchases of property, plant and equipment	15	(444)	(184)
Purchases of software	16	(732)	(403)
Net cash outflow from investing activities		(1,165)	(574)
Cash flows from financing activities			
Proceeds from the issue of share capital		49,976	50
Proceeds from new loans net of capitalised costs		–	82,493
Repayment of financial derivative		(504)	–
Repayment of loans		(53,261)	(71,522)
Sale/(repurchase) of own shares		605	(2,667)
Interest paid		(4,876)	(4,345)
Payment of finance lease liabilities		(34)	(34)
Dividends paid		–	(20,597)
Net cash outflow from financing activities		(8,094)	(16,622)
Net increase/(decrease) in cash and cash equivalents		2,140	(3,933)
Cash and cash equivalents at start of the year		2,740	6,673
Cash and cash equivalents at end of year	21	4,880	2,740

The notes on pages 61 to 83 form part of these Financial Statements.

Notes to the Consolidated Financial Statements

for the year ended 31 March 2017

1 Accounting policies

Xafinity plc (the "Company") is a public limited company incorporated in the UK. On 6 February 2017 Xafinity Group Holdings (Reading) Limited changed its name to Xafinity plc and the Company re-registered as a public limited company. 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 and Statement of compliance with IFRS

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 defacto 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 been used 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

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

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 | 10 years, reducing balance method |
| • Brands | 10 years, straight line method |
| • Software | 3 to 4 years, straight line method |

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 1 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 only in-the-money derivatives (see "Financial liabilities" section for out-of-the-money derivatives). They are carried in the statement of financial position at fair value with changes in fair value recognised in the consolidated statement of comprehensive income in the finance income or expense line. Other than derivative financial instruments which are not designated as hedging instruments, the Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

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.

1 Accounting policies continued

Financial liabilities

The Group classifies its financial liabilities into 1 of 2 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 only 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. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value 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.

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.

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

1 Accounting policies continued

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, gains and/or losses on the Group's interest rate swaps, 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.

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 in consideration for equity instruments of the Group. The fair value of the director 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);
- Share-based payment costs in respect of the Performance Share Plan in the year were not material.

Share-based payment costs in respect of the Performance Share Plan in the year were not material.

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

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 other comprehensive income, in which case it is recognised in other comprehensive income.

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.

1 Accounting policies continued

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 2017, and therefore have not been applied in preparing Xafinity'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 is still assessing the impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

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

IFRS 15 was issued in May 2014 and establishes a 5-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 January 1, 2018. The Company plans to adopt the new standard on the required effective date. The Company has not yet performed a preliminary assessment of IFRS 15, but plans to do so by December 2017, which will then be subject to changes arising from a more detailed ongoing analysis. Once the analysis is performed, the transition method will be chosen. Based on the current sales contracts, both methods are feasible from implementation perspective. Furthermore, the Company is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

- **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 2 recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., 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 (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., 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 (e.g., 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 January 1, 2019, subject to endorsement by the European Union. 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 an 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 29 to the Group's Consolidated Financial Statements for the year ended March 31, 2017 for more information.

Xafinity is currently reviewing the impact of the above-mentioned Standards and Interpretations and is yet to conclude on whether any such standards will have a significant impact on the Financial Statements of the Group in the year of initial application.

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.

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

1 Accounting policies continued

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 judgment, 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 judgments, 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.

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 judgment 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.

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
- the fair value of the property, plant and equipment; 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.

2 Financial risk management

The Xafinity 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 Xafinity 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.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and equity prices will effect 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.

Exposure to interest rate fluctuations are partly managed through the use of interest rate swaps. Objectives are established by the Board so as to seek to reduce the impact of variations in interest rates on the Group's profit and cash flow.

During the majority of the year the Group's senior bank debt was covered by fixed interest rates, achieved by way of a financial instrument (interest rate swap). The balance of bank debt interest is at current market rates. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

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 Xafinity 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.

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

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 Xafinity 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, 2 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 Auditors' remuneration

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

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
<i>Audit services</i>		
Fees payable in respect of the parent company and consolidated accounts	52	22
Fees payable in respect of the subsidiary accounts	23	23
	75	45
<i>Non-audit services</i>		
Corporate finance fees	281	–
Tax advisory	188	40
Tax compliance	17	17
Other assurance services	53	29
Other services	6	6
	545	92
Total	620	137

5 Adjusted EBITDA and adjusted profit after tax

	Note	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
(Loss) / profit from operating activities		(4,518)	11,167
Adjustments to administrative expenses			
Exceptional costs	6	2,959	534
Share-based payment cost	12	14,314	–
Amortisation of acquired intangible assets	16	3,716	4,106
Depreciation of tangible assets	15	631	651
Amortisation of software	16	361	245
		21,981	5,536
Adjusted EBITDA – Earnings before interest, tax, depreciation and amortisation, share-based payment costs and exceptional costs		17,463	16,703
Adjustments to administrative expenses			
Depreciation of tangible assets	15	(631)	(651)
Amortisation of software	16	(361)	(245)
Finance income	13	475	46
Finance costs	13	(9,121)	(7,907)
Add back unamortised loan arrangement fees written-off as part of re-financing exercises	13	2,892	1,962
Adjusted profit before tax, amortisation of acquired intangible assets, share-based payment costs and exceptional costs		10,717	9,908
Tax		373	(315)
Adjustments to tax			
Tax on exceptional costs		(204)	(107)
Tax on share-based payment costs equity settled from EBT		(2,863)	–
Tax on written-off loan arrangement fees		(579)	(392)
Less deferred tax not recognised	14	1,477	–
Deferred tax related to acquired intangibles	18	(648)	(1,518)
Adjusted profit after tax		8,273	7,576

Earnings have been adjusted for the tax impact of the adjusting items set out in note 5 by applying the statutory tax rate of 20%. 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.

6 Exceptional costs

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Re-financing costs	–	169
IPO costs	1,939	–
Professional indemnity related claim	500	–
Restructuring costs	520	365
Total	2,959	534

IPO costs comprise the expenses incurred to get the Company listed on the London Stock Exchange. The professional indemnity related claim is a provision for a potential claim in respect of the administration of a particular scheme and is exceptional in nature due to its size. The potential liability is capped at £500,000 being the value of the insurance policy excess. The restructuring costs are mainly made up of redundancy costs.

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

7 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 1 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.

Operating segments

	Year ended 31 March 2017	Year ended 31 March 2016
Revenue from external customers		
Pensions Advisory and Administration	42,808	42,786
National Pension Trust	682	459
SSAS and SIPP	4,967	4,881
HR Trustees	2,548	2,494
Healthcare	1,033	1,149
Total	52,038	51,769

8 Administrative expenses

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

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Expenses by nature		
Staff costs (note 9)	39,270	25,645
Depreciation and amortisation	4,708	5,002
Operating lease costs	938	922
Premises costs (excluding rent under operating leases)	818	702
Exceptional costs (see note 6)	2,959	534
Other general business costs	7,863	7,797
Total	56,556	40,602

9 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 2017 Number of employees	Year ended 31 March 2016 Number of employees
Operational	384	384
Administration	28	27
Sales and marketing	17	17
Total	429	428

The aggregate payroll costs of these persons were as follows:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Wages and salaries	21,019	21,621
Social security contributions and similar taxes	2,237	2,333
Defined contribution pension cost	1,084	1,192
Other long-term employee benefits	616	499
Share based payment costs (See note 12)	14,314	—
Total	39,270	25,645

10 Employee benefits

Defined contribution plan

The Company operates a defined contribution pension plan. Outstanding contributions at the year end were £217,000 (2016: £207,000).

11 Directors' emoluments

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

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Aggregate emoluments	8,278	1,401
Company contributions to money purchase pension plans	36	82
Compensation for loss of office	—	43
	8,314	1,526

	Year ended 31 March 2017 Number of directors	Year ended 31 March 2016 Number of directors
At 31 March 2017, retirement benefits are accruing to the following number of directors under: Money purchase schemes	3	5

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
The emoluments of the highest paid director, including benefits and share-based payments	4,180	323

12 Share-based payment costs

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Share-based payment expense – equity settled from EBT	12,476	—
Social security cost on equity settled share-based payment expense	1,803	—
Performance Share Plan awards	29	—
Social security cost on Performance Share Plan awards	6	—
	14,314	—

Performance Share Plan "PSP"

Grant date/Vest date	Expiry date year	Number of shares 2017 '000	Number of shares 2016 '000
2017-2020	2022	896	—
		896	—

The cash flows in respect of the equity share-based payment expense awarded by the Employee Benefit Trust were operated by the Group on behalf of the employees and processed through the Group's payroll making the necessary tax deductions and delivering the proceeds to the relevant individuals. 8,975,000 shares were sold on behalf of staff and directors at a price of £1.39 per share.

The Performance Share Plan (PSP) award expense relates to annual awards over shares that vest subject to certain, stretching performance conditions, measured over a 3-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 PSP can be found in the Remuneration report section of this Annual Report.

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

13 Finance income and expense

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Interest income on bank deposits	11	13
Income on interest rate swap valuation	464	33
Finance income	475	46
Interest expense on loans from related parties	–	1,535
Interest expense on bank loans	4,509	3,185
Other costs of borrowing	806	1,112
Amortisation of loan arrangement fees written-off as part of re-financing exercises	2,892	1,962
Interest on finance leases	16	20
Other finance expense	32	2
Expense on interest rate swap valuation	866	91
Finance expenses	9,121	7,907

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

14 Income tax (credit)/expense

Recognised in the statement of comprehensive income

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Current tax expense		
Current year	(19)	1,641
Income tax payable by the EBT	353	–
Adjustment in respect of prior year	(30)	253
Total current tax expense	304	1,894
Deferred tax credit		
Origination and reversal of temporary differences	(677)	(1,579)
Total income tax (credit)/expense	(373)	315

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
(Loss)/profit for the year	(12,791)	2,991
Total tax (credit)/expense	(373)	315
(Loss)/profit before income tax	(13,164)	3,306
Tax using the UK corporation tax rate of 20% (2016: 20%)	(2,633)	661
Non-deductible expenses	409	167
Deferred tax not recognised	1,477	–
Fixed asset differences	(29)	–
Income tax payable by the EBT	353	–
Adjustment in respect of prior periods	(30)	253
Other timing differences	–	(41)
Effect of tax rate change	80	(725)
Total tax (credit)/expense	(373)	315

The standard rate of Corporation tax in the UK was 20% (2016: 20%). Deferred tax assets and liabilities have been measured at the enacted rate of 17% at 31 March 2017 (2016: 18%).

The deferred tax not recognised relates to finance expense losses in the current year and their future recoverability is uncertain. At 31 March 2017 the total unrecognised deferred tax asset in respect of these losses was approximately £1.5m (2016: Nil) representing gross losses of £7.4m (2016 : Nil).

15 Property, plant and equipment

	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 31 March 2016	587	405	537	1,529
Balance at 31 March 2017	530	312	500	1,342

	Leasehold improvements £'000	Office equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
Balance at 1 April 2015	896	1,039	910	2,845
Additions	–	151	33	184
Balance at 31 March 2016	896	1,190	943	3,029

Accumulated depreciation

Balance at 1 April 2015	134	436	279	849
Depreciation charge for the year	175	349	127	651
Balance at 31 March 2016	309	785	406	1,500

Net book value

Balance at 1 April 2015	762	603	631	1,996
Balance at 31 March 2016	587	405	537	1,529

The net book value of property, plant and equipment includes the following amounts held under finance lease: Office equipment: £42,000 (2016: £62,000). The depreciation charged in the year relating to these assets was £20,000 (2016: £20,000).

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

16 Intangible assets

Group	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
Disposals	–	–	–	(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

Group	Goodwill £'000	Customer relationships £'000	Brands £'000	Software £'000	Total £'000
Cost					
Balance at 1 April 2015	24,782	49,898	628	605	75,913
Additions	–	–	–	403	403
Balance at 31 March 2016	24,782	49,898	628	1,008	76,316
Accumulated amortisation					
Balance at 1 April 2015	–	9,751	132	142	10,025
Amortisation for the year	–	4,043	63	245	4,351
Balance at 31 March 2016	–	13,794	195	387	14,376
Net book value					
Balance at 1 April 2015	24,782	40,147	496	463	65,888
Balance at 31 March 2016	24,782	36,104	433	621	61,940

At 31 March 2017, the remaining amortisation period for customer relationships was 7 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 33. In accordance with IFRS, this balance is not amortised and is subject to annual impairment reviews. Goodwill has been allocated to its cash generating unit which comprises Xafinity Consulting Limited, Xafinity SIPP Services Limited, Xafinity Pensions Consulting Limited and their subsidiaries.

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:

	2017	2016
Discount rate pre-tax	15%	12.5%
Terminal value after period 8	2.0%	2.0%
Period on which detailed forecasts are based	3 years	3 years
Growth rate during 3 year detailed forecast period (average)	5.5%	4.7%
Growth rate applied beyond approved forecast period to year 8	5.0%	5.8%

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.

16 Intangible assets continued

	2017 £'000	2016 £'000
Goodwill allocated to cash generating units:		
Goodwill – Xafinity Consulting Limited, Xafinity SIPP Services Limited, Xafinity Pensions Consulting Limited and subsidiaries	24,782	24,782

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 basis that there was no reasonably foreseeable changes in the above assumptions which would result in the recoverable amount falling below the carrying amount.

17 Derivative financial assets and liabilities

	31 March 2017 £'000	31 March 2016 £'000
Current liability		
Interest rate swap derivative	–	(102)
	–	(102)
Net interest rate swap derivative asset/(liability)	–	(102)

The Group previously entered into floating-to-fixed interest rate swaps to hedge the fair value interest rate risk arising where it had borrowed at floating rates.

The Group no longer has any outstanding interest rate swaps at 31 March 2017. The notional principal amounts of the 2 interest rate swap contracts at 31 March 2016 were £36,292,000 and £18,129,000. Their net fair value was a liability of £102,000.

The net expense recognised in the consolidated statement of comprehensive income that arises from movements in the fair value of the derivatives amounts to £402,000 (2016: £58,000).

The interest rate swap derivatives were valued by the financial institutions that issued the instruments and were calculated at the present value of the estimated future cash flows based on observable yield, using level 2 inputs. They were accounted for as fair value through profit and loss.

18 Deferred income tax

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

	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

	Balance at 1 April 2015 £'000	Recognised in income £'000	31 March 2016 £'000	31 March 2016 Assets £'000	31 March 2016 Liabilities £'000
Property, plant and equipment	75	(21)	54	–	54
Capital gains	717	–	717	–	717
Short-term temporary differences	(36)	–	(36)	36	–
Other timing differences	40	(40)	–	–	–
Business combinations	7,966	(1,518)	6,448	–	6,448
	8,762	(1,579)	7,183	36	7,219

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 has been recognised at 31 March 2017 using a rate of 17%.

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

19 Trade and other receivables

	31 March 2017 £'000	31 March 2016 £'000
Trade receivables	6,468	6,845
Less: provision for impairment of trade receivables	(229)	(139)
Net trade receivables	6,239	6,706
Accrued income	4,071	4,104
Total financial assets other than cash and cash equivalents classified as loans and receivables	10,310	10,810
Prepayments	1,902	916
Other receivables includes £53,000 (2016: £701,000) of capitalised loan arrangement fees	108	784
Total trade and other receivables	12,320	12,510

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

20 Current income tax asset

	31 March 2017 £'000	31 March 2016 £'000
Tax receivable	597	–
	597	–

The tax receivable balance has arisen 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.

21 Cash and cash equivalents

	31 March 2017 £'000	31 March 2016 £'000
Cash and cash equivalents per statement of financial position	4,880	2,740
Cash and cash equivalents per statement of cash flows	4,880	2,740

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

22 Loans and borrowings

The book value and fair value of loans and borrowings are as follows:

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 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

22 Loans and borrowings continued

	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
31 March 2016					
Senior Debt (secured)	–	–	86,000	86,000	86,000
Capitalised Senior debt arrangement fees	–	(701)	(2,074)	(2,775)	(2,775)
Finance lease	18	22	35	57	75
Sub-total	18	(679)	83,961	83,282	83,300
<i>Capitalised debt arrangement fees shown as current assets on balance sheet</i>	(701)	–	–	–	(701)
Total	(683)	(679)	83,961	83,282	82,599

Terms and debt repayment schedule

	Amount £'000	Currency	Nominal interest rate	Year of maturity
31 March 2017				
Senior Debt B	15,000	GBP	1.75% above LIBOR	2022
Revolving Credit Facility	18,000	GBP	1.75% above LIBOR	2022
31 March 2016				
Senior Debt B	86,000	GBP	5.25% above LIBOR	2021

On 17 February 2017, as part of the IPO related re-financing exercise, the Group replaced its existing £86,000,000 bank loan with new senior debt of £15,000,000 and a drawn revolving credit facility of £18,000,000.

At 31 March 2017 the Group had access to a further undrawn rolling facility loan in the amount of £5,000,000 (2016: £3,000,000). 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) and Xafinity SIPP Services Limited.

23 Trade and other payables

	31 March 2017 £'000	31 March 2016 £'000
Trade payables	1,821	287
Accrued expenses	3,294	4,223
Interest payable	80	226
Total financial liabilities excluding loans and borrowings, classified as financial liabilities less amortised cost	5,195	4,736
Other payables – tax and social security payments	636	1,005
Other payables – VAT	1,072	1,481
Deferred income	1,207	1,196
Other payables	249	246
Total trade and other payables	8,359	8,664

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

24 Current income tax liabilities

	31 March 2017 £'000	31 March 2016 £'000
Tax payable	–	425
	–	425

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

25 Provisions for other liabilities and charges

	Social security costs on Performance Share Plan £'000	Dilapidations £'000	Professional Indemnity £'000	Total £'000
31 March 2017				
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
	Social security costs on Performance Share Plan £'000	Dilapidations £'000	Professional Indemnity £'000	Total £'000
31 March 2016				
Current				
Balance at 1 April 2015	–	88	–	88
Provisions made during the year	–	51	252	303
Balance at 31 March 2016	–	139	252	391

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.

The increase in professional indemnity provisions made in the period to March 2017 includes an exceptional charge of £0.5m to provide for a potential claim in respect of the administration of a particular scheme.

26 Share capital

	Ordinary shares ('000) 31 March 2017	Ordinary shares (£'000) 31 March 2017	Ordinary shares ('000) 31 March 2016	Ordinary shares (£'000) 31 March 2016
In issue at the beginning of the year	3,971	40	102,215	1,022
Bonus issue (per ratio 1.259:1)	1,029	10	–	–
Subdivision of shares (per ratio 20:1)	95,000	–	–	–
Balance after bonus issue	100,000	50	102,215	1,022
Issued during the year	36,896	18	4,947	50
Cancellation of share capital	–	–	(103,191)	(1,032)
In issue at the end of the year	136,896	68	3,971	40
Ordinary shares	136,896	68	–	–
Class A and B shares	–	–	2,586	26
Class C Shares	–	–	910	9
Class D shares	–	–	475	5
Total	136,896	68	3,971	40

On 3 February 2017, the Company made a bonus issue of 1,028,823 ordinary shares of £0.01 per share for £10,288 through the capitalisation of reserves, to increase the nominal value of the share capital to £50,000, as required by the London Stock Exchange, to become a public limited company. On 10 February 2017 the Company converted its existing A to D shares to 1 class of ordinary shares and subdivided these £0.01 ordinary shares into £0.0005 ordinary shares.

26 Share capital continued

	31 March 2017 (£'000)	31 March 2017 (£'000)	31 March 2016 (£'000)	31 March 2016 (£'000)
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 0.05p (2016: 1p) each	135,059	67	3,577	36
<i>Shares held by the Group's Employee Benefit Trust</i>				
Ordinary shares of 0.05p (2016: 1p) each	1,837	1	394	4
Shares classified in shareholders' funds	136,896	68	3,971	40

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.

27 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.

28 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. The valuation techniques use inputs such as interest rate yield curves and currency prices/yields, volatilities of underlying instruments and correlations between inputs.

Credit risk

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

	Carrying Amount 31 March 2017 £'000	Carrying Amount 31 March 2016 £'000
Trade receivables	6,468	6,845
Provision for impairment of trade receivables	(229)	(139)
Net trade receivables due	6,239	6,706
Accrued income	4,071	4,104
Cash and cash equivalents	4,880	2,740
	15,190	13,550

Credit risk mitigation

The ageing of trade receivables at the reporting date was:

	31 March 2017 £'000	31 March 2016 £'000
Not past due	4,720	5,000
Past due 0-30 days	1,020	1,389
Past due 31-90 days	392	316
Past due more than 90 days	336	140
	6,468	6,845

Movement in impairment allowance for trade receivables

Balance at start of the year	139	167
Increase/(decrease) during the year	165	(10)
Receivable written off during the year as uncollectable	(11)	(14)
Reversal of allowances	(64)	(4)
Balance at end of the year	229	139

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

28 Financial instruments continued

Based on historic performance of these contracts, the Group believes that an impairment allowance of £229,000 (2015: £139,000) 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 Xafinity 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.

In the previous year, this risk has been mitigated by hedging 100% of the bank debt using 3 fixed rate interest rate swap derivatives. The rates were fixed at 0.671%, 1.079% and 0.895%. The net loss on the interest rate swap recognised in the consolidated statement of comprehensive income for the year ended 31 March 2017 was £402,000 (2016: £58,000).

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 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

	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 2016 £'000
Trade and other payables	4,736	—	—	—	—	4,736
Finance leases	9	25	34	42	—	110
Loans and borrowings	—	—	—	86,000	—	86,000
Bank interest	—	5,201	5,216	15,419	—	25,836
	4,745	5,226	5,250	101,461	—	116,682

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 2017 (£'000)	31 March 2016 (£'000)
Total equity	28,949	(21,346)

29 Operating leases

The future aggregate minimum lease payments are payable as follows:

	31 March 2017 (£'000)	31 March 2016 (£'000)
Within 1 year	834	852
Between 2 and 5 years	1,057	1,836
	1,891	2,688

Leasing commitments in respect of land and buildings amounted to £1,891,000 (2016: £2,681,000)

30 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 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

	Minimum lease payments 31 March 2016 £'000	Interest 31 March 2016 £'000	Present value 31 March 2016 £'000
Not more than 1 year – current liabilities	34	16	18
Between 1 and 5 years – non-current liabilities	76	19	57
	110	35	75

31 Related party transactions

Key management emoluments during the year

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Emoluments	1,024	1,401
Share-based payments	7,178	–
Termination payments	–	43
Company contributions to money purchase pension plans	36	82
Social security costs	1,136	194
	9,374	1,720

Non-executive emoluments during the year

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Emoluments	76	75
Social security costs	9	–
	85	75

Non-executive fees during the year

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Fees from Non-executive Directors	88	160

These fees represent charges from the former controlling shareholder, CBPE Capital LLP, in respect of monitoring services provided by their appointed Non-executive Directors.

Notes to the Consolidated Financial Statements continued

for the year ended 31 March 2017

31 Related party transactions continued

Interest on shareholder loans

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Interest expense during the year on investor loan notes	–	1,533
Interest paid during the year on investor loan notes	–	1,162

Shareholder loan repayments during the year

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Principal loan capital repaid	–	11,607

During the year there were no shareholder loans outstanding. £11,607,000 was repaid in the year ended 31 March 2016.

Share issues to management

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Issues of shares to management at fair value	7,178	501

Amounts payable to related parties at the balance sheet date

	31 March 2017 £'000	31 March 2016 £'000
Payables to related parties	–	34
	–	34

Payables to related parties represent outstanding Non-executive Director fees to then shareholders, CBPE Capital LLP.

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

32 Earnings per share

	31 March 2017 £'000	31 March 2016 £'000
(Loss)/profit for the year	(12,791)	2,991
	000	000
Weighted average number of ordinary shares in issue	102,510	96,615
Diluted weighted average number of ordinary shares	103,406	96,615
Basic and diluted (loss)/earnings per share (pence)	(12.5)	3.1

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. In accordance with IAS 33 the weighted average number of shares in issue during the prior period has been retrospectively adjusted for the proportionate change in the number of the shares outstanding as a result of the bonus issue and share sub-division (see note 26), as if the event had occurred at the beginning of the earliest period presented.

895,680 shares have been awarded to the Executive Board members and vest in 2020 subject to certain conditions. These shares are reflected in the diluted number of shares and diluted earnings per share calculation.

Adjusted earnings per share

	Note	31 March 2017 £'000	31 March 2016 £'000
Adjusted profit after tax	5	8,273	7,576
Adjusted earnings per share (pence)		8.1	7.8
Diluted adjusted earnings per share (pence)		8.0	7.8

33 Subsidiaries

The following is the list of wholly owned companies consolidated within the Financial Statements of Xafinity plc

Company Name	Company Number	Principal activity	Registered address
Xafinity 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
HR Trustees Limited	00745598	Independent trustee services	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

34 Dividends

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

	31 March 2017 £'000	31 March 2016 £'000
Interim dividend of Nil (2016: 21p) per ordinary share was paid during the year	–	20,597
	–	20,597

The recommended final dividend payable in respect of the year ended 31 March 2017 is £1m or 0.73p per share (2016: Nil).

The proposed dividend has not been accrued as a liability as at 31 March 2017 as it is subject to approval at the Annual General Meeting.

	31 March 2017 £'000	31 March 2016 £'000
Proposed final dividend for year ended 31 March 2017	1,000	–

The Company statement of changes in equity shows that the Company has negative reserves of £1,725,000. There are sufficient distributable reserves in subsidiary companies to pass up to Xafinity plc in order to pay the proposed final dividend.

35 Ultimate controlling party

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

36 Post balance sheet events

There are no material subsequent events to report.

Statement of Financial Position - Company as at 31 March 2017

	Note	31 March 2017 £'000	31 March 2016 £'000
Assets			
Non-current assets			
Investments	5	13,338	862
		13,338	862
Current assets			
Trade and other receivables	6	48,791	51
Tax receivable	7	–	2
		48,791	53
Total assets		62,129	915
Equity and liabilities			
Share capital	9	68	40
Share premium		49,958	–
Other reserve		12,476	–
Accumulated deficit		(1,725)	(2,475)
Total equity/(deficit)		60,777	(2,435)
Liabilities			
Current liabilities			
Trade and other payables	8	1,352	3,350
		1,352	3,350
Total liabilities		1,352	3,350
Total equity and liabilities		62,129	915

The notes on pages 87 to 89 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 profit and loss account. The profit for the financial year, of the holding Company, as approved by the Board, was £760,000 (2016 – £19,954,000).

These Financial Statements were approved by the Board of Directors on 27 June 2017 and were signed on its behalf by:



Mike Ainslie

Chief Financial Officer

27 June 2017

Registered number: 08279139

Statement of Changes in Equity - Company

for the year ended 31 March 2017

	Share capital £'000	Share premium £'000	Other reserve £'000	Accumulated deficit £'000	Total £'000
Balance at 1 April 2015	1,022	–	–	6	1,028
Comprehensive income and total comprehensive income for the year	–	–	–	19,954	19,954
Contributions by and distributions to owners					
Share capital cancellation	(1,032)	–	–	1,032	–
Share capital issued	50	–	–	–	50
Dividends paid (includes amount paid to EBT)	–	–	–	(21,000)	(21,000)
Capital contribution	–	–	–	(2,467)	(2,467)
Total contributions by and distributions to owners	(982)	–	–	(22,435)	(23,417)
Balance at 31 March 2016	40	–	–	(2,475)	(2,435)
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

The notes on pages 87 to 89 form part of these Financial Statements.

Statement of Cash Flows - Company for the year ended 31 March 2017

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 87 to 89 form part of these Financial Statements.

Notes to the Financial Statements - Company

for the year ended 31 March 2017

1 Accounting policies

Xafinity 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 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 2017 (2016: 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 (2016: £nil) were paid on behalf of the directors.

5 Investments in subsidiaries

	31 March 2017 £'000	31 March 2016 £'000
At the beginning of the year	862	862
Investment in Xafinity Consulting Limited	12,276	–
Investment in Xafinity SIPP Services Limited	200	–
At the end of the year	13,338	862

Notes to the Financial Statements - Company continued

for the year ended 31 March 2017

5 Investments in subsidiaries continued

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 33 of the Group accounts are indirectly owned by other Group companies.

6 Trade and other receivables

	31 March 2017 £'000	31 March 2016 £'000
Receivables due from related parties	48,791	51

7 Current tax assets

	31 March 2017 £'000	31 March 2016 £'000
Group relief receivable	–	2

8 Trade and other payables

	31 March 2017 £'000	31 March 2016 £'000
Accrued expenses	125	–
Payables due to related parties	1,187	3,350
Other payables – VAT	40	–
Total trade and other payables	1,352	3,350

9 Share capital

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

10 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.

11 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 2017 £'000	Carrying Amount 31 March 2016 £'000
Receivables due from related parties	48,791	51

Loans from related parties are repayable on demand.

11 Financial instruments continued

Capital risk management

As part of the Xafinity 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 Xafinity Group's forecast which ensures future covenant test points are met. The Xafinity Group continue 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 Xafinity plc.

	31 March 2017 £'000	31 March 2016 £'000
Management of capital		
Total equity	60,777	(2,435)

12 Related party transactions

Share issues to management

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Issues of shares to management at fair value	7,178	501
	7,178	501

Amounts receivable from related parties at the balance sheet date

	31 March 2017 £'000	31 March 2016 £'000
Loans to related parties	48,791	51
	48,791	51

13 Ultimate controlling party

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

Company Information

Registered Office and Directors' Address

Phoenix House
1 Station Hill
Reading
Berkshire
RG1 1NB

Company Secretary

Prism CoSec

42-50 Hersham Road
Walton-on-Thames
Surrey
KT12 1RZ

Sponsor and Financial Adviser

Deloitte Corporate Finance

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Financial Adviser and Broker

Zeus Capital Limited

82 King Street
Manchester
M2 4WQ

Legal Advisers to the Company

Reed Smith LLP

Broadgate Tower
20 Primrose Street
London
EC2A 2RS

Legal Advisers to Management of the Company

Macfarlanes LLP

20 Cursitor Street
London
EC4A 1LT

Auditor

BDO LLP

Kings Wharf
20-30 Kings Road
Reading
Berkshire
RG1 3EX

Registrar

Equiniti Limited

Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Bankers

HSBC Bank plc

Apex Plaza, Block D, 5th Floor
Forbury Road
Reading
RG1 1AX

Notes

Notes





Registered Office

Phoenix House
1 Station Hill
Reading
Berkshire
RG1 1NB

www.xafinity.com