**15 November 2018**

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# Tatton Asset Management PLC
# Interim Results for the six months ended 30 September 2018

**"Strong growth of AUM"**

Tatton Asset Management plc (the "Group") (AIM: TAM), the on-platform discretionary fund management (DFM) and support services business for independent financial advisers (IFAs), today issues its interim results for the six-month period ended 30 September 2018.

**Highlights**

- Tatton Investment Management's ("TIML") discretionary assets under management ("AUM") increased 29.5% to £5.7bn (2017: £4.4bn)
- Average AUM inflows increased to ~£90m per month, up from ~£80m per month at September 2017
- Group Revenue increased 15.7% to £8.45m (2017: £7.30m)
- Adjusted Operating profit[1] up 8.3% to £3.35m (2017: £3.09m)
- Reported profit before tax increased to £3.08m (2017: £0.56m)
- Interim dividend increased 27.3% to 2.80p (2017: 2.20p)
- Adjusted F.Dil EPS[2] increased 8.6% to 4.57p (2017: 4.21p)
- Strong financial position, with net cash of £11.6m (2017: £10.5m)

**Business Highlights**

- TIML delivered strong organic growth and client portfolio returns ahead of peer group averages
- TIML increased its member firms by 41.6% to 405 (2017: 286) and number of accounts by 21.5% to 53.5k (2017: 44.1k)
- Further investment and strengthened business development team
- Pipeline of new IFA businesses continues to grow, as more IFAs that are not clients of Paradigm Partners (or "PPL") use TIML. IFAs that use PPL account for 42% of the total number of TIML firms and 79% of the assets under management
- Paradigm Mortgages (or "PMS"), the Group's mortgage and protection distribution business, performed strongly, with gross lending via its channels during the period of £4.0bn (2017: £3.2bn), an increase of 25.0%. PMS now has 1,290 mortgage firms using its services (2017: 1,143)
- Balance sheet remains healthy with net assets as at 30 September 2018 totalling £13.9m (2017: 12.5m)

1. Operating profit before exceptional items and IFRS2 share-based costs
2. Adjusted for exceptional items and share based payments and the tax thereon

**Paul Hogarth, Chief Executive Officer, commented:**

*"We have delivered a positive first half with continued growth in revenue, profit and earnings underlining the strong demand by independent financial advisers for our low-cost discretionary fund management service for the mass affluent. This is particularly reflected in the strong growth of our assets under management and in the increasing number of IFAs and clients we are working with. We are an investment manager of choice for IFAs, who are attracted by our low-cost DFM proposition and consistent investment performance, while maintaining the*

*highest investment management standards. Paradigm Mortgages performed very well and continues to gain market share and we look forward to the re-branding of Paradigm Partners in January 2019. We remain confident of achieving further progress through the rest of the financial year."*


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**Analyst presentation**

An analyst briefing is being held at 9.30am on 15 November 2018 at the offices of Zeus Capital, 10 Old Burlington St, London, W1S 3AG.

## Strategic priorities and business objectives

The Group has delivered a good start to its first full year as a listed business with good growth in both revenue and profits. We continue to deliver increasing assets under management, new customer acquisition and improving financial results against the back drop of a volatile market. We operate three distinct businesses each with its own strategic goals and priorities.

- TIML, as the leading provider of platform only managed portfolio services, our goal is to make discretionary investment management accessible and affordable to Financial Advisers and their clients. We look to leverage demand by lowering the burden on the Financial Adviser, while lowering the cost for the client, providing consistent investment returns coupled with the highest levels of service;
- PPL strives to be the leading provider of compliance support and advice services to directly authorised financial advisers in the UK; and
- PMS aims to be the leading Mortgage Distributor in the UK providing intermediaries with access to lenders and a full range of mortgage related support services.

As the Group continues to develop we will also look to supplement our organic growth with acquisitions that fit the size and strategic direction of the business.

## Group Results

Group revenue for the period increased 15.7% to £8.45m (2017: £7.30m). Adjusted operating profit for the period increased 8.3% to £3.35m (2017: £3.09m) with margins decreasing to 39.6% (2017: 42.5%) as a consequence of central costs in 2017 not reflecting a full year of increased governance and compliance costs associated with being a listed company.

Operating profit after accounting for share based charges and exceptional items increased to £2.97m (2017: £0.57m). Pre-tax profit after exceptional items and share based charges increased 454.4% to £3.08m (2017: £0.56m).

Taxation charges for the period were £0.68m (2017: £0.43m). This gives an effective tax rate of 22.1% when measured against profit before tax. Adjusting for exceptional costs and share based payments the effective tax rate is 19.7%.

The basic earnings per share was 4.30p (2017: 0.21p). When adjusted for exceptional items and share based charges earnings per share was 4.97p (2017: 4.36p) and earnings per share fully diluted for the impact of share options was 4.57p (2017: 4.21p) an increase of 8.6%.

## Tatton Investment Management

TIML has had a very positive start to the new financial year with continuing momentum increasing assets under management by £1.3bn or 29.5% to £5.7bn (2017: £4.4bn). The strategy for TIML remains to be the DFM provider of choice for the IFA community. The platform agnostic approach of our discretionary portfolio management service as a centralised investment proposition continues to resonate with Financial Advisers as they seek to grow and expand their businesses. This coupled with consistent investment performance has seen the number of firms who use TIML increase to 405 (2017: 286) an increase of 41.6% year on year, and the number of associated clients increased 21.5% to 53.5k clients (2017: 44.1k) over the same period.

The pipeline of new IFA businesses continues to grow as we attract more IFAs that are not clients of PPL. IFA's that use PPL account for 42% of the total number of firms and 79% of the assets under management. Growth in new assets from new firms over the last calendar year has been 81.5% and now accounts for over £1.2bn of assets under management.

Revenue for TIML grew 45.0% to 4.03m (2017: £2.78m) and operating profit grew 60.2% to £2.05m (2017: £1.28m). Margins increased to 50.9% (2017: 46.0%) reflecting the operational gearing of the business, we anticipate that this will continue as the business continues to grow.

**Paradigm Partners**

The number of new firms in PPL grew 7.3% to 382 (2017: 356) in the period. New firm growth continues to give the Group reach into the IFA community and creates deep longstanding relationships through the quality of our proposition and level of service.

While the new firms have grown in the period revenue year on year was down 10.3% to £3.12m (2017: £3.48m) and operating profit reduced 14.4% to £1.54m (2017: £1.80m). The period has been a transition post the IPO and following the rebrand of the business in early 2019 it is expected to return to growth.

**Paradigm Mortgages**

PMS's strategy is to continue to assist Financial Advisers and intermediaries in benefiting from economies of scale in lending and insurance provision through access to lenders covering the whole of market, together with a full range of mortgage related support services delivered by a diverse range of commercial partners.

While data released by UK Finance (formerly Council of Mortgage Lenders) shows that gross mortgage lending fell slightly year on year, PMS's completion volume over the period under review grew 26.4%, with applications also up 24.1%. Our focus on member growth is key to this outperformance with 147 new firms joining PMS year on year with the number of firms increasing to 1,290 (2017: 1,143) at the end of the period.

Revenue for PMS grew 24.3% to £1.28m (2017: £1.03m) and operating profit grew 35.8% to £0.72m (2017: £0.53m). Margins increased to 56.3% (2017: 51.5%) as costs are maintained.

**Exceptional items**

The exceptional items in the period and in the prior year relate to costs incurred as a consequence of the IPO in July 2017.

**Balance sheet**

The balance sheet remains healthy with net asset at 30 September 2018 totalling £13.9m (2017: £12.5m) reflecting the improving profitability of the Group. Fixed assets have increased to £0.3m (2017: £0.1m) and predominantly reflect the investment in IT systems to support the growth and development of the Group.

**Cash resources**

The Group continued to see healthy cash generation and closing net cash was £11.6m (2017: £10.5m).

Net cash generated from operating operations was £4.4m (2017: £1.0m). During the period net cash interest received was £0.1m and relates to interest received on a £0.5m loan note which is redeemable on 28 December 2018. Income tax of £0.69m (2017: nil) was paid during the period and dividends paid in the period of £2.46m related to the prior year final dividend.

At the time of the successful IPO last year the Group raised an additional £10.0m. This cash remains in place and will be utilised for future capital investments to support growth and any potential acquisitions that fit the profile and strategic direction of the Group.

**Dividend**

The board is pleased to recommend an interim dividend of 2.8p per share, an increase of 27.3% on the prior period interim dividend. The interim dividend reflects both our cash performance and our underlying confidence in the business. The interim dividend of 2.8p per share will be paid on 14 December 2018 to shareholders on the register at close of business on 23 November 2018 and will have an ex-dividend date of 22 November 2018. In accordance with IFRS, the interim dividend has not been included as a liability in this interim statement.

**Employee incentives**

As the Group continues to grow the Board believe it is important to align employee remuneration and incentives with the interests of shareholders, principally by increasing the level of employee ownership of Tatton Asset Management Plc shares. In July 2017 the board approved an Enterprise Management Initiative (EMI) scheme for key staff and executives, and an all-employee save as you earn (SAYE) share save scheme. Both schemes allow staff to benefit from the execution of appropriate long-term strategies and growth in shareholder value over multi-year periods.

In August 2018 the board approved extensions of both schemes. New awards made under the EMI scheme will be in the form of zero cost options which give key staff and executives the opportunity to own shares at the end of a three-year period. The SAYE scheme will allow participating employees to acquire ordinary shares using savings of up to £500 per month.

**Business risk**

The Board identified principle risks and uncertainties which may have a material impact on the Group's performance in the Group's 2018 Annual Report and Accounts (pages 16 to 17) and believe that the nature of these risks remains largely unchanged at the half year. The board will continue to monitor and manage identified principle risks throughout the second half of the year.

The Board continues to closely monitor and evaluate the potential consequences of Brexit. It is the Boards assessment that direct impacts will be manageable due to the Group's strategic focus on UK markets, but remain conscious that the process may result in unforeseen challenges to which the Board will remain vigilant.

**Going concern**

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing these condensed financial statements.

**Summary and outlook**

The Group has delivered a good first half performance with growth in revenue, profit and earnings. Growth is supported by strong growth in asset under management and in partner firms and clients as we continue to support the Financial Adviser community and help to grow their businesses. We will continue to maintain a disciplined approach to executing our strategy of organic growth and are excited by the opportunities that exist in our chosen markets in the Financial Service sector. The Board remains optimistic regarding the prospects of the Group.

## Consolidated Statement of Total Comprehensive Income

For the six months ended 30 September 2018

| | Note | **Unaudited six months ended 30-Sep 2018 (£'000)** | Unaudited six months ended 30-Sep 2017 (£'000) | Audited year ended 31-Mar 2018 (£'000) |
|---|---|---|---|---|
| **Revenue** | | **8,445** | 7,298 | 15,507 |
| Administrative expenses | | **(5,095)** | (4,204) | (8,981) |
| **Adjusted operating profit (before separately disclosed items)[1]** | | **3,350** | 3,094 | 6,526 |
| – Share-based payment costs | 16 | **(365)** | (892) | (986) |
| – Exceptional items | 5 | **(13)** | (1,632) | (1,964) |
| **Total administrative expenses** | | **(5,473)** | (6,728) | (11,931) |
| **Operating profit** | | **2,972** | 570 | 3,576 |
| Finance income/(costs) | 6 | **112** | (14) | (26) |
| **Profit before tax** | | **3,084** | 556 | 3,550 |
| Taxation charge | 7 | **(681)** | (426) | (1,110) |
| **Profit for the year on continuing operations** | | **2,403** | 130 | 2,440 |
| Loss related to disposal of discontinued operations | | **-** | (14) | (164) |
| **Profit attributable to shareholders** | | **2,403** | 116 | 2,276 |
| **Earnings per share – Basic** | 8 | **4.30p** | 0.21p | 4.07p |
| **Earnings per share – Diluted** | 8 | **3.95p** | 0.20p | 3.85p |
| **Adjusted earnings per share – Basic[2]** | 8 | **4.97p** | 4.36p | 9.64p |
| **Adjusted earnings per share – Diluted[2]** | 8 | **4.57p** | 4.21p | 9.12p |

1 Adjusted for exceptional items and share based payments. See note 16.

2 Adjusted for exceptional items and share based payments and the tax thereon. See note 16.

There were no other recognised gains or losses other than those recorded above in the current or prior period and therefore a statement of other comprehensive income has not been presented.

## Consolidated Balance Sheet

For the six months ended 30 September 2018

| | Note | **Unaudited Period ended 30-Sep 2018 (£'000)** | Unaudited Period ended 30-Sep 2017 (£'000) | Audited Year ended 31-Mar 2018 (£'000) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Goodwill | 10 | **4,917** | 4,917 | 4,917 |
| Property, plant and equipment | 11 | **310** | 88 | 104 |
| Investments in joint venture | | **-** | (46) | - |
| **Total non-current assets** | | **5,227** | 4,959 | 5,021 |
| **Current assets** | | | | |
| Trade and other receivables | | **3,410** | 2,037 | 2,452 |
| Cash and cash equivalents | | **11,622** | 10,520 | 10,630 |
| **Total current assets** | | **15,032** | 12,557 | 13,082 |
| **Total assets** | | **20,259** | 17,516 | 18,103 |
| **Current liabilities** | | | | |
| Trade and other payables | | **(5,775)** | (3,704) | (3,922) |
| Corporation tax | | **(600)** | (1,302) | (605) |
| **Total current liabilities** | | **(6,375)** | (5,006) | (4,527) |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | | **(15)** | - | (15) |
| **Total non-current liabilities** | | **(15)** | - | (15) |
| **Total liabilities** | | **(6,390)** | (5,006) | (4,542) |
| **Net assets** | | **13,869** | 12,510 | 13,561 |
| **Equity attributable to equity holders of the company** | | | | |
| Share capital | 15 | **11,182** | 11,182 | 11,182 |
| Share premium account | | **8,718** | 8,718 | 8,718 |
| Other reserve | | **2,041** | 2,014 | 2,041 |
| Merger reserve | | **(28,968)** | (8,968) | (28,968) |
| Retained earnings | | **20,896** | (436) | 20,588 |
| **Total equity** | | **13,869** | 12,510 | 13,561 |

**Paul Edwards**

Director

Company registration number: 10634323

## Consolidated Statement of Changes in Equity

For the six months ended 30 September 2018

| | Share capital (£'000) | Share premium (£'000) | Other reserve (£'000) | Merger reserve (£'000) | Retained earnings (£'000) | Total equity (£'000) |
|---|---|---|---|---|---|---|
| **At 1 April 2017** | **11,182** | **8,718** | **2,133** | **(18,960)** | **–** | **3,073** |
| Profit and total comprehensive income | – | – | 598[1] | – | (482) | 116 |
| Dividends | – | – | (1,564) | – | – | (1,564) |
| Share based payments | – | – | 846 | – | 46 | 892 |
| Adjustments related to merger Accounting | – | – | 1 | (8) | – | (7) |
| Issue of share capital | – | – | – | 10,000 | – | 10,000 |
| **At 30 September 2017** | **11,182** | **8,718** | **2,014** | **(8,968)** | **(436)** | **12,510** |
| Profit and total comprehensive income | – | – | – | – | 2,160 | 2,160 |
| Dividends | – | – | – | – | (1,230) | (1,230) |
| Share based payments | – | – | – | – | 94 | 94 |
| Adjustments related to merger accounting | – | – | 27 | (20,000) | 20,000 | 27 |
| **At 31 March 2018** | **11,182** | **8,718** | **2,041** | **(28,968)** | **20,588** | **13,561** |
| Profit and total comprehensive income | – | – | – | – | 2,403 | 2,403 |
| Dividends | – | – | – | – | (2,460) | (2,460) |
| Share based payments | – | – | – | – | 365 | 365 |
| **At 30 September 2018** | **11,182** | **8,718** | **2,041** | **(28,968)** | **20,896** | **13,869** |

1 Retained profits have been put into pre and post IPO reserves for the purpose for identifying distributable reserves, both the other reserve and the merger reserve are non-distributable.

# Consolidated Statement of Cash Flows

For the six months ended 30 September 2018

| | Note | **Unaudited six months ended 30-Sep 2018 (£'000)** | Unaudited six months ended 30-Sep 2017 (£'000) | Audited year ended 31-Mar 2018 (£'000) |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Profit for the period | | **2,403** | 116 | 2,276 |
| Adjustments: | | | | |
| Income tax expense | | **681** | 426 | 1,110 |
| Depreciation of property, plant and equipment | | **46** | 24 | 53 |
| Share-based payment expense | | **365** | 892 | 986 |
| Share of (profit)/loss from joint venture | | **–** | 14 | (31) |
| Finance (income)/cost | | **(112)** | 14 | 26 |
| Changes in: | | | | |
| Change in trade & other receivables | | **(958)** | (71) | (544) |
| Change in trade & other payables | | **1,853** | (353) | (188) |
| **Cash generated from operations** | | **4,278** | 1,062 | 3,688 |
| Cash generated from operations before exceptional costs | | **4,291** | 2,694 | 5,652 |
| Exceptional costs | 5 | **(13)** | (1,632) | (1,964) |
| **Cash generated from operations** | | **4,278** | 1,062 | 3,688 |
| Income Tax paid | | **(687)** | – | (1,374) |
| **Net cash from operating activities** | | **3,591** | 1,062 | 2,314 |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | | **(251)** | (37) | (82) |
| **Net cash used in investing activities** | | **(251)** | (37) | (82) |
| **Financing activities** | | | | |
| Proceeds from the issue of shares | | **–** | 10,000 | 10,000 |
| Stamp duty paid on share transfer | | **–** | – | (10) |
| Finance (income)/cost | | **112** | (14) | (26) |
| Dividends paid | | **(2,460)** | (481) | (1,556) |
| **Net cash used in financing activities** | | **(2,348)** | 9,505 | 8,408 |
| **Net increase in cash and cash equivalents** | | **992** | 10,530 | 10,640 |
| Cash and cash equivalents at beginning of period | | **10,630** | (10) | (10) |
| **Net cash and cash equivalents at end of period** | | **11,622** | 10,520 | 10,630 |

# Notes to the Consolidated Financial Statements

### 1 General information

Tatton Asset Management plc ("the Company") is a public company limited by shares. The address of the registered office is Paradigm House, Brooke Court, Lower Meadow Road, Wilmslow, SK9 3ND, United Kingdom. The registered number is 10634323.

The Group comprises of the Company and its subsidiaries. The Group's principal activities are discretionary fund management, the provision of compliance and support services to independent financial advisers (IFAs), the provision of mortgage advisor support services and the marketing and promotion of Tatton Oak funds.

The condensed consolidated interim financial statements for the six months ended 30 September 2018 do not constitute statutory accounts as defined under Section 434 of the Companies Act 2006. The Annual Report and Financial Statements (the 'Financial Statements') for the year ended 31 March 2018 were approved by the Board on 27 June 2018 and have been delivered to the Registrar of Companies. The Auditor, Deloitte LLP, reported on these financial statements; their report was unqualified, did not contain an emphasis of matter paragraph and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

News updates, regulatory news, and financial statements can be viewed and downloaded from the Group's website, www.tattonassetmanagement.com. Copies can also be requested from: The Company Secretary, Tatton Asset Management plc, Paradigm House, Brooke Court, Lower Meadow Road, Wilmslow, SK9 3ND.

### 2 Accounting policies

The principal accounting policies applied in the presentation of the annual financial statements are set out below.

### 2.1 Basis of preparation

The unaudited condensed consolidated interim financial statements for the six months ended 30 September 2018 have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated interim financial statements should be read in conjunction with the Financial Statements for the year ended 31 March 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated interim financial statements were approved for release on 15 November 2018.

The condensed consolidated interim financial statements have been prepared on a going concern basis and prepared on the historical cost basis.

The condensed consolidated interim financial statements are presented in sterling and have been rounded to the nearest thousand (£000). The functional currency of the company is sterling.

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events may ultimately differ from those estimates.

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers became applicable from 1 January 2018. Neither standard has had a significant impact on the Group's financial statements. The key accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in the consolidated financial statements.

### 2.2 Going Concern

These financial statements have been prepared on a going concern basis. The Directors have prepared cash flow projections and are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group's forecasts and projections, which take into account reasonably possible changes in trading performance, show that the Group will be able to operate within the level of its current facilities. Accordingly, the Directors continue to adopt the going concern basis in preparing these condensed consolidated interim financial statements.

### 2.3 Basis of consolidation

On 23 February 2017, the Company was incorporated under the name Tatton Asset Management Limited. On 19 June 2017, Tatton Asset Management Limited acquired the entire share capital of Nadal Newco Limited via a share for share exchange with the shareholders of Nadal Newco Limited. On 19 June 2017, Tatton Asset Management Limited was re-registered as a public company with the name Tatton Asset Management plc. Following the share for share exchange referred to above, Tatton Asset Management plc became the ultimate legal parent of the Group.

In the absence of an IFRS which specifically deals with similar transactions, management judge it appropriate to refer to other similar accounting frameworks for guidance in developing an accounting policy that is relevant and reliable. The Directors consider the share for share exchange transaction to be a group reconstruction rather than a business combination in the context of IFRS 3 (revised), 'Business Combinations', which has been accounted for using merger accounting principles. Therefore, although the share for share exchange did not occur until 19 June 2017, the consolidated financial statements of Tatton Asset Management plc are presented as if the group of companies had always been part of the same group.

Accordingly, the following treatment was applied in respect of the share for share exchange:

- The assets and liabilities of Tatton Asset Management Limited and its subsidiaries were recognised in the consolidated financial statements at the pre-combination carrying amounts, without restatement to fair value; and
- The retained losses and other equity balance recognised in the consolidated financial statements for the year ended 31 March 2018 reflect the retained losses and other equity balances of Tatton Asset Management plc and its subsidiaries recorded before the share for share exchange. However, the equity structure (share capital and share premium balances) shown in the consolidated financial statements reflects the equity structure of the legal parent (Tatton Asset Management plc), including the equity instruments issued under the share for share exchange. The resulting difference between the parent's capital and the acquired Group's capital has been recognised as a component of equity being the 'merger reserve'.

The Company had no significant assets, liabilities or contingent liabilities of its own at the time of the share for share exchange and no such consideration was paid.

**2.4 Standards in issue not yet effective**

The following IFRS and IFRIC Interpretations have been issued but have not been applied by the Group in preparing the historical financial information, as they are not as yet effective. The Group intends to adopt these Standards and Interpretations when they become effective, rather than adopt them early.

- IFRS 16, 'Leases', effective date 1 January 2019.
- Annual improvements to IFRS 2014 – 2016 cycle – Relating to IFRS 1 First time adoption of IFRS and IAS 28 Investments in associates and joint ventures.

A number of IFRS and IFRIC interpretations are also currently in issue which are not relevant for the Group's activities and which have not therefore been adopted in preparing the annual financial statements.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, with the possible exception of IFRS 16.

IFRS 16 (effective for the year beginning 1 April 2019) will require all leases to be recognised on the balance sheet.
Currently, IAS 17 – Leases only requires leases categorised as finance leases to be recognised on the balance sheet.
Management will perform a detailed review of the impact of the standard during the year ending 31 March 2019.

**2 Accounting policies** continued

### 2.5 Revenue

IFRS 15 'Revenue from Contracts with Customers' was issued in May 2014, is effective for accounting periods beginning on or after 1 January 2018 and was adopted by the Group on 1 April 2018.

IFRS 15 has not materially impacted the way revenue from customer contracts is recognised. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Revenue is reduced for estimated rebates and other similar allowances. Under IFRS 15 customer contracts are broken down in to separate performance obligations, with contractual revenues being allocated to each performance obligation and revenue recognised on a basis consistent with the transfer of control of goods or services. Additional disclosure requirements include the reporting of disaggregated revenues, and the recognition of contract assets and contract liabilities on the face of the statement of financial position.

The Group's revenue is made up of the following principal revenue streams:

- Fees charged to IFAs for compliance consultancy services, which is recognised at the point at which the service is performed.
- Fees for providing investment platform services. Revenue is recognised daily based on the Assets under influence (AUI) held on the relevant investment platform.
- Fees for discretionary fund management services in relation to on-platform investment Assets Under Management (AUM). Revenue recognised daily based on the AUM.
- Fees for mortgage related services including commissions from mortgage and other product providers and referral fees from strategic partners. Commission is recognised at the point at which the service is performed.
- Fees for marketing services provided to providers of mortgage and investment products, which is recognised at the point at which the service is performed.

Contracts for marketing services are fixed for twelve month periods. Contracts for all other services are not fixed length and can be terminated by the customer at any time, the Group does therefore not expect to have material contract assets or liabilities to recognise on the balance sheet. An assessment of the impact of IFRS15 on the Group will be included as a disclosure in the financial statements for the year ended 31 March 2019.

### 2.6 Business combinations

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred to the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that: – deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquired, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets and liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

**2 Accounting policies** continued

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates at fair value with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously-held interest in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

**2.7 Share-based payments**

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of the Black-Scholes model or Monte Carlo model as appropriate.

**2.8 Operating segments**

The Group comprises the following three operating segments which are defined by trading activity:

- TIML – investment management services.
- PPL – the provision of compliance and support services to IFAs.
- PMS – the provision of mortgage advisor support services.

The Board is considered to be the chief operating decision maker.

**2.9 Significant judgements, key assumptions and estimates**

In the process of applying the Group's accounting policies, which are described above, management have made judgements and estimations about the future that have the most significant effect on the amounts recognised in the financial statements. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period. If the revision affects both current and future periods it is revised in the period of the revision and in future periods. Changes for accounting estimates would be accounted for prospectively under IAS10. There are no critical accounting estimates based on sources of estimation uncertainty.

The following judgements have the most significant effect on the financial statements.

Merger accounting

When applying the judgement in relation to applying merger accounting or acquisition accounting there were a number of elements taken into consideration. Key elements were that it is typically the preferred option, but also merger accounting will usually present more useful information for the users of the financial statements by presenting the results of a continuing business.

### 2.10 Trade receivables

Trade receivables do not carry interest and are stated at amortised cost as reduced by appropriate allowances for estimated irrecoverable amounts. They are recognised when the Group's right to consideration is only conditional on the passage of time. Allowances incorporate an expectation of life-time credit losses from initial recognition and are determined using an expected credit loss approach.

### 2.11 Impairment

IFRS 9 mandates the use of an expected credit loss model to calculate impairment losses rather than an incurred loss model, and therefore it is not necessary for a credit event to have occurred before credit losses are recognised. The Group has elected to measure loss allowances utilising probability-weighted estimates of credit losses for trade receivables at an amount equal to lifetime expected credit losses. As the Group's financial assets primarily comprise its portfolio of trade receivables which have a consistent history of low levels of impairment, the inclusion of specific expected credit loss considerations did not have a material impact on transition.

### 2.12 Alternative performance measures

In reporting financial information, the Group presents alternative performance measures, 'APMs' which are not defined or specified under the requirements of IFRS. The Group believes that these APMs provide users with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets. Each of the APMs, used by the Group are set out on page 27 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

### 3 Segment reporting

Information reported to the Board of Directors as the chief operating decision maker for the purposes of resource allocation and assessment of segmental performance is focused on the type of revenue. The principal types of revenue are discretionary fund management through Tatton Investment Management (or "TIML"), the provision of compliance and support services to independent financial advisors, Paradigm Partners (or "PPL"), the provision of mortgage advisor support services through Paradigm Mortgages Services (or "PMS").

The Group's reportable segments under IFRS 8 are therefore TIML, PPL, PMS, and "Central" which contains the Operating Group's central overhead costs.

The principal activity of TIML is that of Discretionary Fund Management ("DFM") of investments on-platform.

The principal activity of PPL is that of provision of support services to Independent IFAs.

The principal activity of PMS is that of a mortgage and protection distributor.

For management purposes, the Group uses the same measurement policies used in its financial statements.

The following is an analysis of the Group's revenue and results by reportable segment:

| Period ended 30 September 2018 | TIML (£'000) | PPL (£'000) | PMS (£'000) | Central (£'000) | Group (£'000) |
|---|---|---|---|---|---|
| **Revenue** | **4,025** | **3,118** | **1,278** | **24** | **8,445** |
| Administrative expenses | (1,975) | (1,581) | (560) | (979) | (5,095) |
| **Adjusted Operating profit** | **2,050** | **1,537** | **718** | **(955)** | **3,350** |
| IFRS2 share based payments | (95) | – | – | (270) | (365) |
| Exceptional charges | – | (13) | – | – | (13) |
| **Operational profit** | **1,955** | **1,524** | **718** | **(1,225)** | **2,972** |
| Finance (costs)/income | – | 117 | (6) | 1 | 112 |
| **Profit/loss before tax** | **1,955** | **1,641** | **712** | **(1,224)** | **3,084** |

**3 Segment reporting** continued

| **Period ended 30 September 2017** | TIML (£'000) | PPL (£'000) | PMS (£'000) | Central (£'000) | Group (£'000) |
|---|---|---|---|---|---|
| **Revenue** | **2,779** | **3,475** | **1,032** | **12** | **7,298** |
| Administrative expenses | (1,499) | (1,680) | (501) | (524) | (4,204) |
| **Adjusted Operating Profit** | **1,280** | **1,795** | **531** | **(512)** | **3,094** |
| IFRS2 share based payments | – | (845) | – | (47) | (892) |
| Exceptional charges | (45) | 245 | – | (1,832) | (1,632) |
| **Operating profit** | **1,235** | **1,195** | **531** | **(2,391)** | **570** |
| Finance costs | – | (10) | (4) | – | (14) |
| **Profit before tax** | **1,235** | **1,185** | **527** | **(2,391)** | **556** |

| **Year ended 31 March 2018** | **TIML (£'000)** | **PPL (£'000)** | **PMS (£'000)** | **Central (£'000)** | **Group (£'000)** |
|---|---|---|---|---|---|
| **Revenue** | **6,325** | **6,780** | **2,366** | **36** | **15,507** |
| Administrative expenses | (3,302) | (3,207) | (996) | (1,476) | (8,981) |
| **Adjusted Operating profit** | **3,023** | **3,573** | **1,370** | **(1,440)** | **6,526** |
| IFRS2 share based payments | – | (846) | – | (140) | (986) |
| Exceptional charges | – | – | – | (1,964) | (1,964) |
| **Operational profit** | **3,023** | **2,727** | **1,370** | **(3,544)** | **3,576** |
| Finance (costs)/income | – | (19) | (9) | 2 | (26) |
| **Profit/loss before tax** | **3,023** | **2,708** | **1,361** | **(3,542)** | **3,550** |

All turnover arose in the United Kingdom.

**4 Operating profit**

The operating profit and the profit before taxation are stated after:

| | **30-Sep 2018 (£'000)** | 30-Sep 2017 (£'000) | 31-Mar 2018 (£'000) |
|---|---|---|---|
| Operating lease rentals – land and buildings | **126** | 96 | 210 |
| Operating lease rentals – equipment and vehicles | **-** | 5 | 9 |
| Depreciation: property, plant and equipment | **46** | 24 | 53 |
| Separately disclosed items (note 5) | **378** | 2,524 | 2,950 |
| **Services provided to the Group's auditor** | | | |
| Audit of the statutory consolidated and company financial statements of Tatton Asset Management PLC | **17** | 15 | 31 |
| Audit of subsidiaries | **20** | 18 | 37 |
| Other fees payable to auditor: | | | |
| Tax services | **20** | 225 | 225 |
| Non-audit services | **15** | 443 | 443 |

Total audit fees in the six months to September 2018 were £37,000 (2017: £33,000) Total non-audit fees payable to the auditor were £20,000 (2017: £668,000).

Non audit services relate mainly to the IPO in July 2017.

**5 Separately disclosed items**

| | **30-Sep 2018 (£'000)** | 30-Sep 2017 (£'000) | 31-Mar 2018 (£'000) |
|---|---|---|---|
| IPO costs | **13** | 1,882 | 1,964 |
| Release of unused deferred income provision | **–** | (250) | - |
| **Total exceptional items** | **13** | 1,632 | 1,964 |
| Share based payments | **365** | 892 | 986 |
| **Total separately disclosed items** | **378** | 2,524 | 2,950 |

Separately disclosed items included within administrative expenses reflects costs and income that do not relate to the Group's normal business operations and that they are considered material (individually or in aggregate if of a similar type) due to their size of frequency.

Various legal and professional costs incurred in relation to the IPO of the Group in July 2017 are shown as part of separately disclosed items within administrative expenses in the Consolidated Statement of total comprehensive income.

### 6 Finance costs

| | 30-Sep 2018 (£'000) | 30-Sep 2017 (£'000) | 31-Mar 2018 (£'000) |
|---|---|---|---|
| Bank interest (paid)/income | **126** | 2 | (1) |
| Bank charges | **(14)** | (16) | (25) |
| | **112** | (14) | (26) |

### 7 Taxation

| | 30-Sep 2018 (£'000) | 30-Sep 2017 (£'000) | 31-Mar 2018 (£'000) |
|---|---|---|---|
| **Current tax expense** | | | |
| Current tax on profits for the period | **681** | 426 | 1,107 |
| | **681** | 426 | 1,107 |
| **Deferred tax expense** | | | |
| Origination and reversal of temporary differences | **–** | – | 3 |
| **Total tax expense** | **681** | 426 | 1,110 |

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the UK applied to profit for the year as follows:

| | 30-Sep 2018 (£'000) | 30-Sep 2017 (£'000) | 31-Mar 2018 (£'000) |
|---|---|---|---|
| Profit before taxation | **3,084** | 542 | 3,550 |
| Tax at UK corporation tax rate of 19% | **586** | 103 | 675 |
| Expenses not deductible for tax purposes | **115** | 321 | 279 |
| Capital allowances in excess of deprecation | **(20)** | 2 | (5) |
| Chargeable gains | **–** | – | 161 |
| **Total tax expense** | **681** | 426 | 1,110 |

The UK corporation tax rate will reduce to 17% with effect from 1 April 2020. This will reduce the Company's future current tax credit/charge accordingly. The deferred tax liability as at 31 March 2018 has been calculated based on a rate of 17% based on when the Company expects the deferred tax liability to reverse.

### 8 Earnings per share and dividends

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholder by the weighted average number of ordinary shares during the year.

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

| **Number of shares** | Sep-2018 | Sep-2017 | Mar-2018 |
|---|---|---|---|
| **Basic** | | | |
| Weighted average number of shares in issue | **55,907,513** | 55,907,513 | 55,907,513 |
| **Diluted** | | | |
| Share options | **6,192,450** | 4,394,259 | 4,394,259 |
| Weighted average number of shares (diluted) | **60,822,560** | 57,948,562 | 59,121,943 |

**8 Earnings per share and dividends** continued

| | **30-Sep 2018 (£'000)** | 30-Sep 2017 (£'000) | 31-Mar 2018 (£'000) |
|---|---|---|---|
| Earnings attributable to ordinary shareholders | | | |
| Basic and diluted profit for the period | **2,403** | 116 | 2,276 |
| Share based payments – IFRS2 option charges | **365** | 892 | 986 |
| Exceptional costs – see note 5 | **13** | 1,632 | 1,964 |
| Tax impact of adjustments | **–** | (201) | - |
| Adjusted basic and diluted profits for the period and attributable earnings | **2,781** | 2,439 | 5,226 |
| Earnings per share (pence) (basic) | **4.30** | 0.21 | 4.07 |
| Earnings per share (pence) (diluted) | **3.95** | 0.20 | 3.85 |
| Adjusted earnings per share (pence) (basic) | **4.97** | 4.36 | 9.64 |
| Adjusted earnings per share (pence) (diluted) | **4.57** | 4.21 | 9.12 |

**Dividends**

In January 2018 Tatton Asset Management plc paid an interim dividend of £1,229,965 (2017: £nil) and in August 2018 paid a final dividend of £2,459,931 (2017: £nil) to its equity shareholders.
This represents a total dividend payment of 6.6p per share.

In the prior period dividends of £1,563,575 relating to the Group's pre-IPO activity were paid prior to the IPO, which occurred in July 2017.

**9 Staff costs**

**Key Management Compensation**

The remuneration of the statutory directors who are the key management of the Group is set out below in aggregate for each of the key categories specified in IAS 24 Related Party Disclosures.

| | **30-Sep 2018 (£'000)** | 30-Sep 2017 (£'000) | 31-Mar 2018 (£'000) |
|---|---|---|---|
| Wages, salaries and bonuses | **434** | 429 | 875 |
| Social security costs | **59** | 58 | 111 |
| Pension costs | **13** | 10 | 20 |
| Benefits in kind | **1** | 1 | 3 |
| | **507** | 498 | 1,009 |

In addition to the remuneration above, the non-executive Chairman and non-executive directors have submitted invoices for their fees as follows:

| | **30-Sep 2018 (£'000)** | 30-Sep 2017 (£'000) | 31-Mar 2018 (£'000) |
|---|---|---|---|
| Total fees | **80** | 39 | 118 |

### 10 Goodwill and intangibles

| | Goodwill (£'000) |
|---|---|
| Cost | |
| Balance at 31 March 2017 | 4,917 |
| Adjustment for provisional fair value of consideration | – |
| Balance at 30 September 2017 | 4,917 |
| Adjustment for provisional fair value of consideration | – |
| Balance at 31 March 2018 | 4,917 |
| Adjustment for provisional fair value of consideration | – |
| Additions | – |
| **Balance at 30 September 2018** | **4,917** |
| Carrying value | |
| Balance at 31 March 2018 | 4,917 |
| Balance at 30 September 2017 | 4,917 |
| **Balance at 30 September 2018** | **4,917** |

The goodwill of £4.9 million relates to £2.9m arising from the acquisition in 2014 of an interest in Tatton Oak Limited by Tatton Capital Limited consisting of the future synergies and forecast profits of the Tatton Oak business and £2.0m arising from the acquisition in 2017 of an interest in Tatton Capital Group Limited. None of the goodwill is expected to be deductible for income tax purposes.

**Impairment loss and subsequent reversal**

Goodwill is subject to an annual impairment review based on an assessment of the recoverable amount from future trading. Where, in the opinion of the Directors, the recoverable amount from future trading does not support the carrying value of the goodwill relating to a subsidiary company an impairment charge is made. Such impairment is charged to the Combined Statement of Total Comprehensive Income.

**Impairment testing**

For the purpose of impairment testing, goodwill is allocated to the Group's operating companies which represents the lowest level within the Group at which the goodwill is monitored for internal management accounts purposes.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) or group of units that are expected to benefit from that business combination. The Directors test goodwill annually for impairment, or more frequently if there are indicators that goodwill might be impaired. The Directors have considered the carrying value of goodwill at 30 September 2018 and do not consider that it is impaired.

**Growth rates**

The value in use is calculated from cash flow projections based on the Group's forecasts for the year ending 31 March 2019 which are extrapolated for a further 4 years. The Group's latest financial forecasts which cover a 3 year period, are reviewed by the board.

**Discount rates**

The pre-tax discount rate used to calculate value is 8.3% (2017: 4%). The discount rate is derived from a benchmark calculated from a number of comparable businesses.

**10 Goodwill and intangibles** continued

### Cash flow assumptions

The key assumptions used for the value in use calculations are those regarding discount rate, growth rates and expected changes in margins. Changes in prices and direct costs are based on past experience and expectations of future changes in the market. The growth rate used in the calculation reflects the average growth rate experienced by the Group for the industry.

The headroom compared to the carrying value of goodwill as at 30 September 2018 is £223m. Increasing the discount rate to 177% and leaving all other factors the same would lead to the recoverable amount being equal to the carrying value of the goodwill attributed to the cash generating unit.

### 11 Property, plant and equipment

| | Computer, office equipment and motor vehicles (£'000) | Fixtures and fittings (£'000) | Total (£'000) |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 April 2017 | 353 | 214 | 567 |
| Additions | 37 | – | 37 |
| Balance at 30 September 2017 | 390 | 214 | 604 |
| Additions | 45 | – | 45 |
| Balance at 31 March 2018 | 435 | 214 | 649 |
| Additions | 133 | 119 | 252 |
| **Balance at 30 September 2018** | **568** | **333** | **901** |
| **Accumulated depreciation and impairment** | | | |
| Balance at 1 April 2017 | (278) | (214) | (492) |
| Charge for the period | (24) | – | (24) |
| Balance at 30 September 2017 | (302) | (214) | (516) |
| Charge for the period | (29) | – | (29) |
| Balance at 31 March 2018 | (331) | (214) | (545) |
| Charge for the period | (42) | (4) | (46) |
| **Balance at 30 September 2018** | **(373)** | **(218)** | **(591)** |
| **Carrying amount** | | | |
| As at 1 April 2017 | 75 | – | 75 |
| As at 30 September 2017 | 88 | – | 88 |
| As at 31 March 2018 | 104 | – | 104 |
| **As at 30 September 2018** | **195** | **115** | **310** |

All depreciation charges are included within administrative expenses in the Consolidated Statement of Total Comprehensive Income.

## Notes to the Consolidated Financial Statements continued

### 12 Provisions

At 31 March 2017, Paradigm Mortgage Services LLP made full provision of £1,251,000 against the recoverability of amounts due from Jargon Free Benefits LLP. Also, as at 31 March 2017, Paradigm Partners Limited ("PPL") made full provision of £350,000 against the recoverability of amounts due from Amber Financial Investments Limited, an entity controlled by Paul Hogarth.

The carrying value of the provision as at 30 September 2018 was £1,601,000. (2017: £1,601,000) There has been no movement in the carrying value during the period. A write-off equal to the amount of the provision is expected to be incurred in the second half of the year ended 31 March 2019.

### 13 Financial instruments

The Group finances its operations through a combination of cash resource and other borrowings. Short term flexibility is satisfied by overdraft facilities in PPL which are repayable on demand.

Fair value estimation IFRS 7 requires disclosure of fair value measurements of financial instruments by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group holds loan notes due from Perspective Financial Group Limited (see note 17). Due to the short term nature of the Loan notes, the carrying value is a reasonable approximation of their fair value.
The loan notes are repayable on demand, carry an interest rate of 6%, and are classified as level 2.

**Interest rate risk**

The Group finances its operations through a combination of retained profits and bank overdrafts. The Group has an exposure to interest rate risk, as the overdraft facility is at an interest rate of 3.2 % above the base rate. At 30 September 2018 total borrowings were £nil.

# Notes to the Consolidated Financial Statements continued

### 14 Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

| | Long-term borrowings ('£000) | Short-term borrowings (£'000) | Total (£'000) |
|---|---|---|---|
| At 1 April 2017 | – | 697 | 697 |
| **Cash flows:** | | | |
| Repayment | – | (697) | (697) |
| Proceeds | – | – | – |
| **Non-cash:** | | | |
| Reclassification | – | – | – |
| **At 30 September 2017** | **–** | **–** | **–** |
| At 31 March 2018 | **–** | **–** | **–** |
| **At 30 September 2018** | **–** | **–** | **–** |

### 15 Equity

| | **30-Sep 2018 (number)** | 30-Sep 2017 (number) | 31-Mar 2018 (number) |
|---|---|---|---|
| **Authorised, called up and fully paid** | | | |
| £0.20 Ordinary shares | **55,907,513** | 55,907,513 | 55,907,513 |
| | **55,907,513** | 55,907,513 | 55,907,513 |

Each share in Tatton Asset Management plc carries 1 vote and the right to a dividend. Of the shares in issue, 49,497,257 were issued in June 2017 prior to the IPO in order to acquire the three trading divisions and the remaining 6,410,256 were issued at the IPO in July 2017.

As noted above, the 55,907,513 Ordinary shares were issued in the prior period. See note 2.3 for an explanation of merger accounting treatment relating to earlier periods.

### 16 Share based payment

During the year, a number of share based payment schemes and share options schemes have been utilised by the company, all but two of which ceased as a result of the IPO in July 2017. The remaining live schemes are described under
(a) current schemes, below, while those schemes ceasing as a result of the IPO are described under (b) schemes closed prior to the IPO of Tatton Asset Management plc on pages 24 and 25.

**(a) Current Schemes**

(i) Tatton Asset Management plc EMI Scheme ("TAM EMI Scheme")

On 7 July 2017 the Group launched an EMI share option scheme relating to shares in Tatton Asset Management plc to enable senior management to participate in the equity of the Company. A total of 3,022,733 options with a weighted average exercise price of £1.83 were granted during the prior period, each exercisable in July 2020. A total of 111,815 options were forfeited in the period.

The scheme was extended on 8 August 2018 and a total of 1,720,138 zero cost options were granted during the period, each exercisable in August 2021. No options were exercised or forfeited or expired in the period. A total of 4,631,056 options remain outstanding at 30 September 2018, none of which are currently exercisable.

The options vest in July 2020 or August 2021 provided certain performance conditions and targets, set prior to grant, have been met. If the performance conditions are not met, the options lapse.

Within the accounts of the Company, the fair value at grant date is estimated using the appropriate models including both Black Scholes methodology and Monte Carlo modelling methodologies.

| | Number of share options granted (number) | Weighted average price (£) |
|---|---|---|
| **Outstanding at 1 April 2017** | – | – |
| Granted during the period | 3,022,733 | 1.83 |
| Forfeited during the period | – | – |
| Exercised during the period | – | – |
| **Outstanding at 30 September 2017** | **3,022,733** | **1.83** |
| **Exercisable at 30 September 2017** | **–** | **–** |
| Outstanding at 1 October 2017 | 3,022,733 | 1.83 |
| Granted during the period | – | – |
| Forfeited during the period | – | – |
| Exercised during the period | – | – |
| **Outstanding at 31 March 2018** | **3,022,733** | **1.83** |
| **Exercisable at 31 March 2018** | **–** | **–** |
| Outstanding at 1 April 2018 | 3,022,733 | 1.83 |
| Granted during the period | 1,720,138 | – |
| Forfeited during the period | (111,815) | 1.83 |
| Exercised during the period | – | – |
| **Outstanding at 30 September 2018** | **4,631,056** | **1.15** |
| **Exercisable at 30 September 2018** | **–** | **–** |

(ii) Tatton Asset Management plc Sharesave Scheme ("TAM Sharesave Scheme")

On 7 July 2017 the Group launched an all employee sharesave scheme for options over shares in Tatton Asset Management plc, administered by Yorkshire Building Society. Employees are able to save between £10 and £500 per month over a three-year life of the scheme to August 2020 at which point they each have the option to either acquire shares in the Company, or receive the cash saved.

During the period 9,132 options were forfeited. Over the life of the Sharesave scheme it is estimated that, based on current saving rates, 216,847 share options will be exercisable at an exercise price of £1.70.

On 8 August the Sharesave scheme was extended over a three year period to September 2021. It is estimated, based on current saving rates, 78,053 share options will be exercisable at an exercise price of £1.90. No options have been exercised, forfeited or expired in the period.

Within the accounts of the Company, the fair value at grant date is estimated using the Black Scholes methodology for 100% of the options. Key valuation assumptions and the costs recognised in the accounts during the period are noted in (c) and (d) overleaf respectively.

| | Number of share options granted (number) | Weighted average price (£) |
|---|---|---|
| **Outstanding at 1 April 2017** | – | – |
| Granted during the period | 14,076 | 1.70 |
| Forfeited during the period | – | – |
| Exercised during the period | – | – |
| **Outstanding at 30 September 2017** | **14,076** | **1.70** |
| **Exercisable at 30 September 2017** | **–** | **–** |
| Outstanding at 1 October 2017 | 14,076 | 1.70 |
| Granted during the period | 49,268 | 1.70 |
| Forfeited during the period | – | – |
| Exercised during the period | – | – |
| **Outstanding at 31 March 2018** | **63,344** | **1.70** |
| **Exercisable at 31 March 2018** | **–** | **–** |
| Outstanding at 1 April 2018 | 63,344 | 1.70 |
| Granted during the period | 40,502 | 1.72 |
| Forfeited during the period | (9,132) | 1.70 |
| Exercised during the period | – | – |
| **Outstanding at 30 September 2018** | **94,714** | **1.71** |
| **Exercisable at 30 September 2018** | **–** | **–** |

**(b) Schemes Closed prior to the IPO of Tatton Asset Management plc**

As a direct result of the corporate restructure that culminated in the IPO of Tatton Asset Management plc in July 2017, the following share based schemes were finalised and options exercised where relevant:

(i) Tatton Capital Group Limited EMI Scheme (“TCGL EMI Scheme”)

In October 2015, Tatton Capital Group Limited (TCGL), a subsidiary of the Company, launched an EMI share option scheme to enable senior management to participate in the equity of TCGL. A total of 1,580 options over F shares in TCGL with a weighted average exercise price of £1 were granted in October 2015, each exercisable upon sale of the company. Upon acquisition of TCGL during the restructuring ahead of the IPO in July 2017, all 1,580 options were exercised, and none remain outstanding.

Within the accounts of the Company, the fair value at grant date was estimated using the Black Scholes methodology for 100% of the options. Key valuation assumptions and the costs recognised in the accounts during the period are noted in (c) and (d) overleaf respectively.

## Notes to the Consolidated Financial Statements continued

**16 Share based payment** continued

| | Number of share options granted (number) | Weighted average price (£) |
|---|---|---|
| **Outstanding at 1 April 2017** | **1,580** | **1.00** |
| Granted during the period | – | – |
| Forfeited during the period | – | – |
| Exercised during the period | (1,580) | 1.00 |
| **Outstanding at 30 September 2017** | **–** | **–** |
| **Exercisable at 30 September 2017** | **–** | **–** |
| Outstanding at 31 March 2018 | – | – |
| Exercisable at 31 March 2018 | – | – |
| **Outstanding at 30 September 2018** | **–** | **–** |
| **Exercisable at 30 September 2018** | **–** | **–** |

(ii) Paradigm Partners Limited Employee Shareholder Scheme ("PPL ESS")

In March 2016, PPL issued employee shareholder status shares to enable senior management to participate in the equity of that business. A total of 14,350 C shares in PPL, with a weighted average exercise price of £0.01 were granted in March 2016, each exercisable upon sale of the company. Upon acquisition of PPL during the restructuring ahead of the IPO in July 2017, all 14,350 shares were sold, and none remain outstanding.

Within the accounts of the Company, the fair value at grant date was estimated using the Black Scholes methodology for 100% of the shares, which for accounting purposes were treated as options under IFRS2. Key valuation assumptions and the costs recognised in the accounts during the period are noted in (c) and (d) below respectively.

(iii) Paradigm Partners Limited D Share Options ("PPL D Options")

In June 2017, PPL issued to certain senior management options to acquire 2,500 D shares in Tatton Capital Group Limited (TCGL) to enable them to participate in the equity of that business. A total of 2,500 options over D shares in TCGL, with a weighted average exercise price of £1 were granted in June 2017, each exercisable upon sale of the company. Upon acquisition of PPL and TCGL during the restructuring ahead of the IPO in July 2017, all 2,500 options were exercised, and none remain outstanding.

Within the accounts of the Company, the fair value at grant date was estimated using the actual price paid for the shares of £826,728.

| | Number of share options granted (number) | Weighted average price (£) |
|---|---|---|
| **Outstanding at 1 April 2017** | **–** | **–** |
| Granted during the period | **2,500** | **1.00** |
| Forfeited during the period | **–** | **–** |
| Exercised during the period | **(2,500)** | **1.00** |
| **Outstanding at 31 March 2018** | **–** | **–** |
| Exercisable at 30 September 2017 | – | – |
| Outstanding at 30 September 2017 | – | – |
| Exercisable at 31 March 2018 | – | – |
| **Outstanding at 30 September 2018** | **–** | **–** |
| Exercisable at 30 September 2018 | – | – |

Assumptions used in the option valuation models to determine the fair value of options at the date of grant were as follows:

**(c) Valuation Assumptions**

Assumptions used in the option valuation models to determine the fair value of options at the date of grant were as follows:

| | TAM EMI Scheme 2018 | 2017 | TAM Sharesave Scheme 2018 | 2017 | TCGL EMI Scheme 2017 | PPL ESS 2017 |
|---|---|---|---|---|---|---|
| Share price at grant (£) | 2.40 | 1.89 | 2.40 | 1.89 | 1.56 | 55.00 |
| Exercise price (£) | 0.00 | 1.89 | 1.90 | 1.70 | 0.00 | 55.00 |
| Expected volatility (%) | 28.48 | 26.00 | 28.48 | 26.00 | 10.00 | 26.00 |
| Expected life (years) | 2.70 | 6.50 | 3.25 | 3.25 | 1.75 | 1.25 |
| Risk free rate (%) | 0.81 | 0.41 | 0.81 | 0.66 | 0.92 | 0.60 |
| Expected dividend yield (%) | 2.75 | 4.50 | 2.75 | 4.50 | 0.00 | 0.00 |

**(d) IFRS2 Share based option costs**

| | **30 September 2018 (£'000)** | 30 September 2017 (£'000) | 31 March 2018 (£'000) |
|---|---|---|---|
| TAM EMI Scheme | **355** | 42 | 124 |
| TAM Sharesave Scheme | **10** | 4 | 16 |
| PPL ESS | **-** | 19 | 19 |
| PPL D Options | **-** | 827 | 827 |
| | **365** | 892 | 986 |

## 17 Related party transactions

### Ultimate controlling party

The Directors consider there to be no ultimate controlling party.

### Relationships

The Group has trading relationships with the following entities in which Paul Hogarth, a Director, has a beneficial interest:

| Entity | Nature of transactions |
|---|---|
| Amber Financial Investments Limited | The Group provides discretionary fund management services, as well as accounting and administration services. |
| Jargon Free Benefits LLP | The Group provides accounting and administration services. |
| Perspective Financial Group Limited | The Group provides discretionary fund management services and compliance advisory services. |
| Suffolk Life Pensions Limited | The Group pays lease rental payments on an office building held in a pension fund by Paul Hogarth. |

**17 Related party transactions** continued

**Related parties balances**

| | **30-Sep 2018 Value of income/ (cost) (£'000)** | **30-Sep 2018 Balance receivable/ (payable) (£'000)** | 30-Sep 2017 Value of income/ (cost) (£'000) | 30-Sep 2017 Balance receivable/ (payable) (£'000) | 31-Mar 2018 Value of income/ (cost) (£'000) | 31-Mar 2018 Balance receivable/ (payable) (£'000) |
|---|---|---|---|---|---|---|
| Advisor Cloud Limited | **-** | **-** | - | 94 | - | 4 |
| Amber Financial Investments Limited | **160** | **6** | - | 21 | 523 | 27 |
| Jargon Free Benefits LLP | **24** | **28** | - | - | 20 | 19 |
| Paradigm Management Partners LLP | **-** | **4** | - | 1 | - | - |
| Paradigm Investment Management LLP | **-** | **(315)** | - | (1,282) | - | (363) |
| Perspective Financial Group Limited | **204** | **560** | (418) | 433 | 401 | 423 |
| Suffolk Life Pensions Limited | **(29)** | **(5)** | (29) | - | (55) | - |

**Key management personnel remuneration**

Key management includes Executive and Non-Executive Director. The compensation paid or payable to key management personnel is as disclosed in note 9 on page 18.

**18 Alternative performance measures**

**Income statement measures**

| APM | Closest equivalent measure | Reconciling items to their statutory measure | Definition and purpose |
|---|---|---|---|
| Adjusted Operating profit; before separately disclosed items | Operating profit | Exceptional costs and share based payments. See note 3 | Adjusted operating profit before separately disclosed items. This is considered to be an important measure where exceptional items distort the operating performance of the business. |
| Adjusted earnings per share – Basic | Earnings per share – basic | Exceptional costs and share based payments, and the tax thereon. See note 8 | Adjusted earnings per share – Basic. This is considered to be an important measure where exceptional items distort the operating performance of the business. |
| Adjusted earnings per share – fully diluted | Earnings per share – fully diluted | Exceptional costs and share based payments, and the tax thereon. See note 8 | Adjusted earnings per share fully diluted. This is considered to be an important measure where exceptional items distort the operating performance of the business. |
| Net cash generated from operations before exceptional costs | Net cash generated from operations | Exceptional costs | Net cash generated from operations before exceptional costs. To show underlying cash performance. |

**Other measures**

| APM | Closest equivalent measure | Reconciling items to their statutory measure | Definition and purpose |
|---|---|---|---|
| TIML – Assets under management | None | Not applicable | AUM is representative of the customer assets and is a measure of the value of the customer base. Movements in this base are indication of performance in the year and growth of the business to generate revenues going forward. |
| PPL members and growth | None | Not applicable | Alternative growth measure to revenue, giving an operational view of growth. |
| PMS member firms and growth | None | Not applicable | Alternative growth measure to revenue, giving an operational view of growth. |
| Dividend cover | None | Not applicable | Dividend cover (being ratio of earnings per share before exceptional items and share based charges) is 1.4 times demonstrating ability to pay. |

**19 Post balance sheet event**

There were no material post balance sheet events.

**20 Contingent Liabilities**

At 30 September 2018, the directors confirmed there were contingent liabilities of £nil (2017: £nil).