

PERMAL INVESTMENT MANAGEMENT SERVICES LIMITED

Annual Report for the year ended 31 March 2015

Registered number: 03535219

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Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31 March 2015.

Principal activities

The principal activities of the Company are the provision of investment management services and the distribution of funds operated by the Permal Group. The Company has a branch in Dubai (opened June 2005).

There has been no change in the principal activities of the Company during the year or those of the Company's wholly owned subsidiaries.

The Company is authorised and regulated by the Financial Conduct Authority to conduct investment business as a BIPRU limited licence firm. The FCA extended the scope of the Company's permissions in July 2014, with the Company becoming registered as an alternative investment fund manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD"). The Company is licensed and regulated by the Dubai Financial Services Authority as a Category 4 firm. The Company is authorised by the Central Bank of Ireland as a Service Provider to Funds.

Financial results

The Company's turnover from management and incentive fees for the year was \$267.1 million (*31 March 2014: \$284.6 million*). The Company's profit on ordinary activities before interest and taxation increased to \$41.4 million for the year (*31 March 2014: \$21.6 million*).

At 31 March 2015, unearned incentive fee revenue in respect of performance periods ending after 31 March 2015 amounted to \$9.3 million (*31 March 2014: \$9.3 million*). As required under United Kingdom Generally Accepted Accounting Practice, this income has not been included in these financial statements as it is not yet due to the Company (Note 1j).

Pillar 3 disclosures

In accordance with the rules of the Financial Conduct Authority, the Company as part of the Permal Group has published information on its risk management objectives and policies, remuneration disclosure policy and on its regulatory requirements and resources ("Pillar 3 disclosures"). This information is available on the group's website {www.permal.com}.

Financial risk management

Risk is inherent in the business and activities of the Company. The Company's approach to risk management involves the identification and assessment of the risks, to which the Company is exposed, and monitoring and managing such risks. The Company has identified different risks that could impact directly or indirectly on the Company's financial position. The Company aims to mitigate the impact of each of the risks noted below by implementing control policies and procedures.

- **Credit risk** is the risk that a counterparty will be unable or unwilling to meet a commitment in full when due. Financial assets which potentially subject the Company to concentrations of credit risk consist principally of money market funds, bank balances, amounts due from Permal sponsored funds and amounts due from group undertakings.

The table below shows the credit ratings of the bank balances at the balance sheet date.

	2015	2014
Financial institutions with external credit rating (Standard & Poor's)	\$'000	\$'000
A	26,501	36,198
Not rated	233,877	54,932
	<u>260,378</u>	<u>91,130</u>

For the amounts due from group undertakings and Permal funds, the directors consider the credit risk to be low as the group undertakings and Permal funds are financially viable and monthly settlement of receivables are closely monitored.

Report of the directors (continued)

The Company limits its exposure to credit risk by transacting the majority of its contractual commitment activities with banks and counterparties which the directors believe to have acceptable credit ratings and which the Company considers to be well established.

- **Market risk** is the risk that arises from fluctuation in values of investment assets due to changes in market prices or exchange rates. The Company's indirect market risk typically arises from the use of Permal Group cash to seed new investment funds sponsored or managed by the Company. The Company's reduction in fee revenues is an indirect market risk, which may result from adverse performance in investment portfolios. Direct market risk is mitigated by limiting and diversifying seed investments. Indirect market risk is mitigated by providing a large selection of diversified investment products with performance that is not correlated.
- **Operational risk** is the risk of loss resulting from inadequate or failed processes, people and systems from external events. Due to the importance of maintaining effective operational controls in respect of its business activities, the Company will only regard "low degree" as an acceptable level of post control operational risk.
- **Interest rate risk** is the risk that arises from fluctuation in values of assets and liabilities from changes in interest rates. The Company's indirect interest rate risk is mainly related to clients' investment portfolio exposure to fixed income securities. To mitigate interest rate risk, the Company and the Permal Group has a disciplined and rigorous investment selection process, including an Investment Committee that unanimously approves all investments and a Risk Management Team that scrutinises investment returns and consequent risk by quantitative and qualitative analysis. The Company's activities that relate directly to interest rate risk include inter-company loans and cash management exposure. The Company keeps its excess cash at banks and receives a floating rate of interest on these deposits. The directors of the Company do not consider it necessary to actively manage interest rate risk, apart from placing excess cash in banks with a market interest rate.
- **Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's business is impacted through its exposure to non-U.S. Dollar denominated income, expense, assets and liabilities. The currency exposure is monitored and is actively managed when required.
- **Liquidity risk** is the risk that the Company will encounter difficulty in meeting obligations with financial liabilities. It is the Company's policy to have enough cash on hand to meet its current obligations.

Dividends

No interim dividend was paid during the year (2014: \$148.4 million). The directors recommend that no final dividend be paid in respect of the financial year (2014: Nil).

Share capital

There was no change to the share capital during the year (2014: 606,652 £1 ordinary shares issued).

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

O. Kodmani
T.M. DeLitto (resigned 23 July 2014)
F. Becquaert

None of the above directors had any disclosable interest in the share capital of the Company during the year.

The interests of O. Kodmani and F. Becquaert, who are also directors of Permal UK Limited, are shown in the financial statements of that company.

Report of the Directors (continued)

T. M. DeLitto holds nil (2014: nil) ordinary shares of \$0.10 each in Legg Mason Inc., 9,185 share options in Legg Mason Inc. and had no interests in the shares of any other company within the Permal Group Limited Group.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

Statement of disclosure of information to auditors

In accordance with Section 418, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

- (a) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- (b) he/she has taken all the steps that he/she ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This statement is made subject to all provisions of section 418, Companies Act 2006.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General meeting.

On behalf of the Board

F. Becquaert
Director
26 June 2015

Strategic report

The directors present their strategic report on the Company for the year ended 31 March 2015.

Review of the business and future developments

For the year ended 31 March 2015, Permal Group saw its assets under management increase from \$19.8 billion to \$19.9 billion.

On 31 July 2014 the Company became registered as an alternative investment fund manager ('AIFM') under the Alternative Investment Fund Managers Directive ('AIFMD').

On 4 March 2015 Permal announced the launch of an Irish Collective Asset Management Vehicle ('ICAV') for a selection of underlying managed accounts.

The directors believe the primary challenges of the Company are, and will continue to be, maintaining the value proposition of alternative investments, competition in the space, increasing regulatory requirements, and the impact of rising costs. The directors believe that by staying relevant through constant development, bespoke investment solutions, expansion of the Permal Managed Account Platform ('PMAP'), increasing levels of technology, creation of onshore alongside offshore options, and through intelligent cost management, the Company will be well placed to mitigate these challenges.

The Company's financial position remains solid and the Company will continue to differentiate its business from industry peers through the aforementioned actions.

Key performance indicators ("KPIs")

Permal's executive committee manages the Group's operations on a consolidated basis. For this reason, the Company's directors believe that further analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company.

On behalf of the board

F. Becquaert
Director
26 June 2015

Independent auditors' report to the members of Permal Investment Management Services Limited

Report on the financial statements

Our opinion

In our opinion, Permal Investment Management Services Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Permal Investment Management Services Limited's financial statements comprise:

- the Balance Sheet as at 31 March 2015;
- the Profit and Loss Account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Permal Investment Management Services Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

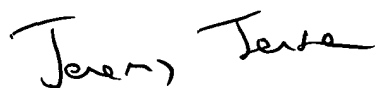
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 June 2015

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PERMAL INVESTMENT MANAGEMENT SERVICES LIMITED

Profit and Loss Account for the year ended 31 March 2015

		Year ended 31 Mar 2015	Year ended 31 Mar 2014
	Notes	\$'000	\$'000
Turnover		267,091	284,563
Cost of sales		(166,582)	(194,449)
Gross profit		100,509	90,114
Administrative expenses	2	(60,219)	(69,103)
Other operating income	5	929	169
Operating profit	2	41,219	21,180
Income from other fixed asset investments	6	141	405
Profit on ordinary activities before interest and taxation		41,360	21,585
Interest receivable and similar income	7	746	678
Interest payable and similar charges	8	(42)	(8)
Profit on ordinary activities before taxation		42,064	22,255
Tax on profit on ordinary activities	9	(375)	(177)
Profit for the financial year	19	41,689	22,078

The results were derived from continuing operations.

There are no recognised gains or losses other than the profit for the financial years stated above and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the profit on ordinary activities before interest and taxation and the profit for the financial years stated above and their historical cost equivalents.

The notes on pages 11 to 22 form part of these financial statements

PERMAL INVESTMENT MANAGEMENT SERVICES LIMITED

Balance Sheet as at 31 March 2015

Registered in England No. 03535219

	Notes	2015 \$'000	2014 \$'000
Fixed assets			
Intangible assets	11	100,398	106,399
Tangible assets	15	4,543	4,259
Investments	16	2,248	2,248
		<u>107,189</u>	<u>112,906</u>
Current assets			
Debtors	13	56,522	173,423
Cash at bank and in hand		260,378	91,130
		<u>316,900</u>	<u>264,553</u>
Creditors amounts falling due within one year	14	(51,492)	(46,551)
Net current assets		<u>265,408</u>	<u>218,002</u>
Total assets less current liabilities		372,597	330,908
Net assets		<u>372,597</u>	<u>330,908</u>
Capital and reserves			
Called up share capital	17	13,544	13,544
Share premium account	18	179,000	179,000
Other reserves	22	138,364	138,364
Profit and loss account	19	41,689	-
Total shareholders' funds	20	<u>372,597</u>	<u>330,908</u>

The financial statements on pages 11 to 22 were approved by the board of directors on 26 June 2015 and are signed on their behalf by:

F. Becquaert
Director



The notes on pages 11 to 22 form part of these financial statements

Notes to the Financial Statements for the year ended 31 March 2015

1. Accounting policies

a) Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

The financial statements are prepared in U.S. Dollars which, in the opinion of the directors, is the currency of the primary economic environment in which the Company operates.

b) Consolidation, cash flow statement and related party disclosures

The Company is a wholly-owned subsidiary of Permal Group Limited incorporated in the United Kingdom. Permal Group Limited is a wholly-owned subsidiary of Legg Mason Global Holdings Ltd., incorporated in the Cayman Islands and is included in the consolidated financial statements of Legg Mason Inc., incorporated in the U.S., which are publicly available. Consequently, under the provisions of section 401 of the Companies Act 2006, the Company is exempt from the requirements to prepare and deliver to the Registrar of Companies consolidated financial statements of the Company and its subsidiaries.

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1. The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Legg Mason Inc. consolidated group.

c) Cash at bank and in hand

Cash at bank and in hand are highly liquid investments with original maturities of 90 days or less. Excess cash is generally invested in institutional money market funds.

d) Fixed assets

Fixed assets are depreciated on a straight line basis over their estimated useful lives at the following annual rates:

Computer equipment	- 33.3%
Office furniture and equipment	- 33.3%
Software	- 33.3%
Internally developed software	- 33.3%
Telephone equipment	- 25%
Leasehold fittings	- over the term of the lease or useful economic life

e) Software

Software costs are written off as incurred, except for purchases from third parties and internally developed software in respect of major systems. In such cases, the costs are amortized over a period of three years from the date of implementation.

f) Investments

Fixed asset investments relate to the Company's wholly-owned subsidiaries. The holdings are included in the financial statements at cost less any provision for diminution in value. Impairment reviews are undertaken when events or circumstances indicate a potential impairment.

g) Goodwill

Goodwill arises on the acquisition or transfer of Permal Group subsidiaries and represents the excess of the consideration over the net fair value of identifiable assets, liabilities and contingent liabilities. Goodwill is amortised over its expected useful life of 20 years. Goodwill impairment reviews are undertaken when events or circumstances indicate a potential impairment.

h) Finance costs

Finance costs are expensed in the year they are incurred.

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

1. Accounting policies (continued)

i) Turnover

Turnover consists of five major categories, corresponding to the various types of fees and other turnover received by the Company under its management agreements with the Funds:

- Fixed fees are based on a percentage of average assets under management, and are calculated monthly and paid monthly or quarterly. Fixed fee turnover is recognised over the period in which services are performed.
- Performance fees are based on a percentage of the return achieved by the relevant Fund and are calculated monthly and paid quarterly or annually. They are subject to high water mark provisions or hurdle rates. The performance fees are recognised at the end of the performance measurement period when the performance fee crystallises and therefore becomes due to the Company.
- Distribution fees are based on a percentage of average assets under management, and are calculated monthly and paid monthly or quarterly. Distribution fee turnover is recognised over the period in which services are performed.
- Shareholder service fees are based on a percentage of average assets under management, and are calculated monthly and paid monthly or quarterly. Shareholder service fee turnover is recognised over the period in which services are performed.
- Other turnover consists of either non-recurring fees paid by the Funds, other turnover unconnected with the Company's management agreements and intercompany turnover from the Company's subsidiaries. This turnover is recognised over the period in which the services are performed.

j) Rebates

Rebates represent ongoing payments made to the distributors of the Funds under fee sharing agreements. Such agreements are generally based on a fixed percentage of the assets under management which are attributable to the distributor. They are recognised and presented in the same way as the associated revenue (fixed, performance and other) and are paid on a quarterly basis.

Permal offers its employees a discount equivalent to the full management fee and the shareholder service fee of the Fund. The discount is paid to the employee as a rebate. During the year the Company paid rebates to employees and directors of the Permal Group of \$129,872 (2014: \$69,325).

k) Foreign currency transactions

Income and expenditure arising from foreign currency transactions are translated into U.S. Dollars at the average exchange rate in operation during the month in which the transaction occurred.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into U.S. Dollars at the rate of exchange prevailing on that date. The closing rate as at 31 March 2015 was £1:\$1.4793 (2014: £1:\$1.6648). All exchange differences arising are included in the profit and loss account.

l) Operating leases

Rent payable is charged to expenses on a straight line basis over the term of the lease. The effects of scheduled and specified rent increases are recognised on a straight-line basis over the term of the lease.

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

1. Accounting policies (continued)

m) Taxation

Current tax, including U.K. Corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date other than those differences regarded as permanent. Deferred tax assets are not recognised to the extent that the transfer of economic benefits is uncertain. Any asset or liability for deferred tax is provided at the average rate of tax expected to apply when the asset or liability crystallises. Deferred tax assets and liabilities are not discounted.

n) Pensions

The Company operates a Group Personal Pension scheme and continues to charge contributions to the profit and loss account when payable.

o) Share-based payments

Under the deferred compensation plan, the Company's ultimate parent, Legg Mason Inc. (Parent), awards eligible employees restricted shares in the Parent. The Company has accounted for such share-based payments in line with FRS 20 as equity-settled transactions. The fair value of shares vested and recharged from the Parent has been recorded as an inter-company payable position. The fair value measured is amortised over the period during which employees become unconditionally entitled to the shares with no adjustment for changes in market value of the Parent shares granted.

Legg Mason Inc. issues stock options to directors and key employees. Options under Legg Mason's employee stock plans have been granted at prices not less than 100% of the fair market value at the time of the grant. Options are generally exercisable in equal increments over 3 to 5 years and expire within 5 to 10 years from the date of grant. Options are valued using the Black-Scholes option-pricing model. The Company has accounted for such stock options in line with FRS 20 as equity-settled transactions. The fair value of options recharged from the Parent has been recorded as an inter-company payable position. The fair value measured is amortised over the period during which employees become unconditionally entitled to the options with no adjustment for changes in market value of the Parent options granted.

p) Creditor payment policy

It is the policy of the Company to pay all invoices in accordance with contract and payment terms. Unless agreed otherwise, these terms are taken to be 30 days from the date of the invoice. The number of days represented by trade creditors falling due for payment within one year compared to the total amounts invoiced by suppliers during the year is 1 day (2014:0 days).

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

	Year ended 31 Mar 2015 \$'000	Year ended 31 Mar 2014 \$'000
2. Operating profit		
Operating profit is stated after charging:		
Wages and salaries	19,809	22,642
Social security costs	2,232	3,295
Other pension costs	1,040	982
Staff costs	<u>23,081</u>	<u>26,919</u>
Exchange losses	350	288
Depreciation of tangible fixed assets	1,422	2,534
Amortisation of intangible fixed assets	6,001	6,927
Operating lease charges:		
- Land and buildings	5,740	5,115
- Other	-	71

Services provided by the company's auditor

During the year the Company (including its subsidiaries) obtained the following services from the Company's auditors and their associates:

- Fees payable for the audit of Company	317	298
- Fees payable for the audit of Company's subsidiaries	135	69
- Fees payable for other services	-	-

	Year ended 31 Mar 2015 \$'000	Year ended 31 Mar 2014 \$'000
3. Directors' emoluments		
Directors' total remuneration was made up as follows:		
- aggregate amount of emoluments	1,831	3,868
- contributions to directors' personal pension schemes	94	69
	<u>1,925</u>	<u>3,937</u>
Highest paid director:		
- total amount of emoluments	1,245	2,921
- contributions to director's personal pension scheme	<u>94</u>	<u>69</u>

Retirement benefits are accruing under a defined contribution pension scheme for one director (2014: 1).

The directors did not exercise any share options during the year.

During the year, the directors were awarded Legg Mason stock options.

4. Employee information

The average monthly number of employees (including directors) during the year was 81 (31 March 2014: 75).

	2015 \$'000	2014 \$'000
5. Other operating income		
Sublease rental income	<u>929</u>	<u>169</u>

PERMAL INVESTMENT MANAGEMENT SERVICES LIMITED

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

	Year ended 31 Mar 2015	Year ended 31 Mar 2014
6. Income from other fixed asset investments		
<u>Dividends received</u>	\$'000	\$'000
20 June 2013 – Permal (Singapore) Pte. Ltd \$4.02 per share	-	250
27 June 2013 – Permal (Hong Kong) Ltd \$32.26 per share	-	155
29 September 2014 – Fauchier Partners Corporation \$0.71 per share	141	-
	<u>141</u>	<u>405</u>
7. Interest receivable and similar income		
	Year ended 31 Mar 2015	Year ended 31 Mar 2014
	\$'000	\$'000
Interest receivable – Bank	2	64
Interest receivable – Group undertakings	744	614
	<u>746</u>	<u>678</u>
8. Interest payable and similar charges		
	Year ended 31 Mar 2015	Year ended 31 Mar 2014
	\$'000	\$'000
Interest payable – Group undertakings	42	8
9. Tax on profit on ordinary activities		
a) Analysis of charge in the year:	Year ended 31 Mar 2015	Year ended 31 Mar 2014
Current tax:	\$'000	\$'000
U.K. corporation tax (credit) / charge on profits of the year	8,833	6,371
Credit for corporation tax group relief	(8,833)	(6,371)
Prior year adjustment	839	-
Total current tax	<u>839</u>	<u>-</u>
Deferred tax:		
Origination and reversal of timing differences	(487)	109
Impact of change in tax rate	23	68
Tax charge on profit on ordinary activities	<u>375</u>	<u>177</u>

The tax assessed for the year is the same as (2014: lower than) the standard rate of Corporation tax in the United Kingdom of 21% (2014: 23%).

During the year, the Company paid corporation tax of \$839,000 on behalf of its 2 liquidated subsidiaries, Fauchier Partners Management Company Ltd and Fauchier Partners Ltd.

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

9. Tax on profit on ordinary activities (continued)

	Year ended 31 Mar 2015 \$'000	Year ended 31 Mar 2014 \$'000
b) Factors affecting tax charge in the year:		
Profit on ordinary activities before taxation	42,064	22,255
Profit on ordinary activities at 21% (2014: 23%)	8,833	5,119
Effects of:		
Credit for corporation tax group relief	(8,833)	(5,026)
Non-taxable dividends received from subsidiaries	-	(93)
Prior year adjustment	839	-
Current tax charge for year	839	-

10. Provision for deferred tax

	Accelerated capital allowances \$'000	Other timing differences \$'000	Total \$'000
Asset at 1 April 2014 at 21% (2014: 23%)	223	141	364
Deferred tax credit / (charge) in profit and loss account for year	497	(33)	464
Asset at 31 March 2015 at 20% (2014: 21%)	720	108	828

A reduction in the rate of UK corporation tax from 21% to 20% from 1 April 2015 was substantively enacted by 31 December 2014. The valuation of the deferred tax asset in the UK reflects these changes.

11. Intangible assets

	2015 \$'000	2014 \$'000
At 1 April	106,399	-
Goodwill on transfer of group assets	-	113,326
Accumulated amortisation	(6,001)	(6,927)
At 31 March	100,398	106,399

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

12. Disposals

(a) Liquidation of subsidiaries

Permal Investment Consulting (Shanghai) Ltd is currently in liquidation. Fauchier Partners Ltd is currently in liquidation.

(b) Disposal of subsidiary

On the 21 April 2015, the Company liquidated Fauchier Partners Management Company Ltd.

13. Debtors	2015 \$'000	2014 \$'000
Due within one year:		
Trade debtors	51,530	34,789
Amounts owed by group undertakings	867	133,334
VAT recoverable	374	637
Other debtors	935	1,877
Corporation tax receivable	68	68
Prepayments and accrued income	1,920	2,354
	<u>55,694</u>	<u>173,059</u>
Due after more than one year:		
Deferred tax asset (note 10)	828	364
	<u>56,522</u>	<u>173,423</u>

Amounts due from group undertakings relate to inter-company loans and accrued interest. The interest rate on the loans is one month LIBOR +50bp and the interest is received quarterly in arrears.

14. Creditors amounts falling due within one year:	2015 \$'000	2014 \$'000
Trade creditors	23,900	33,053
Amounts owed to ultimate parent company	-	-
Amounts owed to group undertakings	24,038	10,145
Taxation and social security	2,077	1,280
Accruals and deferred income	1,477	2,073
	<u>51,492</u>	<u>46,551</u>

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

15. Tangible assets

	Computer equipment \$'000	Office furniture & equipment \$'000	Telephone equipment \$'000	Leasehold fittings \$'000	Software \$'000	Total \$'000
Cost:						
At 1 Apr 2014	1,855	1,613	237	2,979	8,595	15,279
Additions	38	95	-	64	100	297
Disposals	-	-	-	-	-	-
At 31 Mar 2015	<u>1,893</u>	<u>1,708</u>	<u>237</u>	<u>3,043</u>	<u>8,695</u>	<u>15,576</u>
Accumulated depreciation:						
At 1 Apr 2014	1,819	1,517	237	1,402	6,045	11,020
Charge for year	32	62	-	220	1,108	1,422
Disposals	-	-	-	-	-	-
At 31 Mar 2015	<u>1,851</u>	<u>1,579</u>	<u>237</u>	<u>1,622</u>	<u>7,153</u>	<u>12,442</u>
Fixed Assets work in Progress						
At 1 Apr 2014	-	-	-	-	-	-
Additions	-	-	-	-	1,409	1,409
At 31 Mar 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,409</u>	<u>1,409</u>
Net book value:						
At 31 Mar 2015	<u>42</u>	<u>129</u>	<u>-</u>	<u>1,421</u>	<u>2,951</u>	<u>4,543</u>
At 31 Mar 2014	<u>36</u>	<u>96</u>	<u>-</u>	<u>1,577</u>	<u>2,550</u>	<u>4,259</u>

The Fixed Assets work in progress additions relate to internally developed software which was capitalized during the year.

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

16. Investments	2015	2014
	\$'000	\$'000
<u>Permal (Hong Kong) Ltd ("PHK") (incorporated in Hong Kong)</u>	643	643
The fixed asset investment represents 100% of the issued capital of 5,000,000 HKD\$1 ordinary shares in PHK. The principal activity of PHK is the marketing of Permal funds.		
<u>Permal (Singapore) Pte. Ltd ("PSG") (incorporated in Singapore)</u>	1,005	1,005
The fixed asset investment represents 100% of the issued capital of 1,005,001 USD\$1 ordinary shares in PSG. The principal activity of PSG is the marketing of the Permal funds.		
<u>Permal (Isle of Man) Ltd. ("PIOM") (incorporated in Isle of Man)</u>	-	-
The fixed asset investment represents 100% of the issued capital of 1 £1 ordinary share in PIOM. The principal activity of PIOM is an employment company.		
<u>Permal Business Consulting (Beijing) Company Ltd ("PBG") (incorporated in China)</u>	100	100
The fixed asset investment represents 100% ownership of PBG (2013: nil). The principle activity of PBN is the marketing of Permal funds.		
<u>Permal Investment Consulting (Shanghai) Ltd ("PCN") (incorporated in China)</u>	400	400
The fixed asset investment represents 100% ownership of PCN (2013: nil). The principle activity of PCN is the marketing of Permal funds.		
<u>Fauchier Partners Corporation ("FPC") (incorporated in Delaware, USA)</u>	100	100
The fixed asset investment represents 100% of the issued capital of 100,000 USD\$1 ordinary shares in FPC (2013: nil).		
<u>Fauchier Partners Management Company Ltd ("FPMCL") (incorporated in the UK)</u>	-	-
The fixed asset investment represents 100% of the issued capital of 1 £1 ordinary share in FPMCL (2013: nil).		
<u>Fauchier Partners Ltd ("FPL") (incorporated in the UK)</u>	-	-
The fixed asset investment represents 100% of the issued capital of 1 £1 ordinary share in FPL (2013: nil).		
	<u>2,248</u>	<u>2,248</u>

The Directors believe that the carrying value of the investments is supported by its underlying net assets.

PERMAL INVESTMENT MANAGEMENT SERVICES LIMITED

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

17. Called up share capital	2015	2014
	\$'000	\$'000
Ordinary shares of £1 each		
10,000,000 Authorised shares (2014: 10,000,000)	17,920	17,920
Allotted and fully paid 7,000,000 shares (2014: 7,000,000) (£/\$:1.792). The company issued an additional 606,652 shares (£/\$1.648) on the 24 March 2014.	13,544	13,544
18. Share premium account	2015	2014
	\$'000	\$'000
At 1 April	179,000	-
No new shares were issued during the year (2014: 606,652)	-	179,000
At 31 March	179,000	179,000
19. Profit and loss account	2015	2014
	\$'000	\$'000
At 1 April	-	126,269
Profit for the financial year	41,689	22,078
Dividends paid (note 21)	-	(148,347)
At 31 March	41,689	-
20. Reconciliation of movements in shareholders' funds	2015	2014
	\$'000	\$'000
At 1 April	330,908	138,813
Profit for the financial year	41,689	22,078
Proceeds of issue of ordinary share capital	-	180,000
Other reserves (note 22)	-	138,364
Dividends paid (note 21)	-	(148,347)
At 31 March	372,597	330,908
21. Dividends paid	2015	2014
	\$'000	\$'000
No dividends were paid during the year (2014: 148,347)	-	148,347
22. Other reserves	2015	2014
	\$'000	\$'000
At 1 April	138,364	-
Common control reserve	-	72,814
Capital contribution	-	65,550
At 31 March	138,364	138,364

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

23. Share-based payments

The following share-based award program which is settled in equity is in operation by the Company for eligible directors and key employees:

Legg Mason Inc. share option plan

Legg Mason Inc. issues stock options to directors and key employees. Options under Legg Mason's employee stock plans have been granted at prices not less than 100% of the fair market value. Options are generally exercisable in equal increments over 3 to 5 years and expire within 5 to 10 years from the date of grant. Options are valued using the Black-Scholes option-pricing model.

Certain directors and employees hold options to subscribe for shares in Legg Mason Inc. at prices ranging from \$27.45 to \$100.77. The total stock option expense for the year ended 31 March 2015 was \$134,091 (31 March 2014: \$87,373).

The fair value per option granted and the assumptions used in the option-pricing model are as follows:

	2014	2012	2011	2010	2009	2008
Grant date	16-May-14	16-May-11	17-May-10	27-Jul-09	21-Jul-08	21-Jul-07
Share price at grant date	\$48.10	\$33.99	\$33.01	\$27.71	\$32.31	\$100.24
Exercise price	\$47.64	\$33.99	\$33.25	\$33.25	\$33.97	\$100.77
Number of employees	9	4	2	5	3	3
Shares under option	16,536	11,348	3,324	12,500	9,000	14,000
Vesting period (years)	4	4	5	5	5	5
Expected volatility	29.53%	47.16%	2011	54.35%	56.65%	29.17%
Expected life (years)	4.94	5.12	5.18	5.03	5.28	4.95
Risk-free rate	1.51%	1.95%	2.41%	2.87%	3.46%	4.71%
Expected dividend yield	1.04%	1.39%	1.39%	1.47%	0.89%	0.81%
Fair value per option	\$12.03	\$13.13	\$14.44	\$12.16	\$13.69	\$29.82

The fair value of the stock options granted during the year at 31 March 2015 is \$198,928 (31 March 2014: nil).

	2015		2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	48,489	\$47.65	48,489	\$47.65
Granted	16,536	\$47.64	-	-
Outstanding at 31 March	65,025	\$47.65	48,489	\$47.65

PERMAL INVESTMENT MANAGEMENT SERVICES LIMITED

Notes to the Financial Statements for the year ended 31 March 2015 (continued)

24. Operating lease commitments	2015	2014
	\$'000	\$'000
Land and buildings		
Annual commitments under non-cancellable operating leases expiring:		
Within less than one year	217	-
Within two to five years	-	2,552
After five years	3,833	4,314
Other		
Annual commitments under non-cancellable operating leases expiring:		
Within two to five years	-	510
	<u>4,050</u>	<u>7,376</u>

Societe Generale provide the Company with a rent deposit guarantee of £6 million for the operating leases for 12 St. James's Square London at a cost of \$71,328 per annum.

25. Parent and ultimate controlling party

The immediate parent undertaking is Permal UK Limited. The ultimate parent undertaking and controlling party is Legg Mason Inc. a U.S. asset management group which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of Legg Mason Inc.'s consolidated financial statements can be obtained from 100 International Drive, Baltimore, MD 21202.