Mattioli Woods plc

WEALTH MANAGEMENT & EMPLOYEE BENEFITS

A world in which financial advice is trusted, thoughtful and enriching

Annual Report 2016

Mattioli Woods plc

Mattioli Woods is one of the UK's leading providers of wealth management and employee benefit services, with total assets under management, administration and advice of over £6.6bn

Great people Great potential

We have created a business our clients are proud to be a part of, and our people feel proud to work for. We are investing in training, building capacity and our technical expertise. We pride ourselves in our community, supporting staff and local and national charity initiatives.

See more on page 22

A platform for sustainable growth

We also welcomed 76 new employees to the Group as part of the acquisitions completed during the period. As an Investors in People company we are committed to developing our people and building the capacity to deliver sustainable growth. Once complete, our new office in Leicester will provide our staff there with a modern working environment and capacity for further growth.

See more on page 08

Highlights

Revenue

£43.0m

(2015: £34.6m) 24.3%

Adjusted EPS[2,3]

31.0p

(2015: 27.2p) 14.0%

Adjusted EBITDA[1]

£9.3m

(2015: £7.4m) 25.7%

Proposed total dividend

12.5p

(2015: 10.5p) 19.0%

Financial highlights

- Adjusted EBITDA[1] up 25.7% to £9.3m (2015: £7.4m):
  - Adjusted EBITDA margin[1] of 21.6% (2015: 21.3%)
  - Adjusted EPS[2,3], up 14.0% to 31.0p (2015: 27.2p)
- Revenue up 24.3% to £43.0m (2015: £34.6m)
- Recurring revenues represent 82.6% (2015: 81.4%)
- Proposed total dividend up 19.0% to 12.5p (2015: 10.5p)
- Strong financial position with net cash of £29.8m (2015: £10.6m)

Operational highlights

- Total client assets up 22.2% to £6.61bn (2015: £5.41bn):
  - Discretionary AuM up 15.8% to £1.17bn (2015: £1.01bn)
  - £98.4m of new equity raised by Custodian REIT
- Net organic revenue growth[4] of 11.3% (2015: 19.2%)
  - Over 1,100 new client wins
  - 104 (2015: 81) consultants at year end
- June 2015 placing raised gross proceeds of £18.6m:
  - Earnings enhanced by five acquisitions completed in year
  - All businesses integrating well
  - Increased headroom on regulatory capital requirements
- Broadening proposition as adviser, manager and provider

Recent developments and outlook

- Expect increasing demand for advice post-Brexit
- Acquisition of MC Trustees in September 2016
- Strong pipeline of further acquisition opportunities
- Planned launch of new structured product fund
- Appointment of Anne Gunther as Non-Executive Director
- Building work on new Leicester office started in May 2016
- Opening new Manchester office

1 Earnings before interest, taxation, depreciation, amortisation and acquisition-related costs.
2 Basic EPS up 7.7% to 21.1p (2015: 19.6p).
3 Before acquisition-related costs, amortisation and impairment of acquired intangibles, and notional finance income and charges.
4 Excluding banking income.

For more information, visit our website:
www.mattioliwoods.com

At a glance

Integrated financial services

Mattioli Woods has established a reputation for professionalism and bespoke personal service

Our vision	A world in which financial advice is trusted, thoughtful and enriching
Our objective	We are driven with passion and integrity to deliver profitable and sustainable growth year on year
Our strategy	Key goals are to secure strong client retention and attract new clients

Wealth management

Description and market focus

Investment and asset management

Discretionary management and the provision of bespoke investment advice sit at the heart of our investment proposition. Continuing growth in the quantum of assets under management and advice has enhanced the quality of the Group's earnings through an increase in recurring revenues, while the migration of clients' assets under advice to assets under management allows us to deliver a more efficient wealth management service to those clients.

Our services are delivered by a dedicated team, with many years' experience in finance and investment.

Pension consultancy and administration

Mattioli Woods is a leader in the provision of Self-Invested Personal Pension ("SIPP") and Small Self-Administered Pension Scheme ("SSAS") arrangements, which are often central to our clients' pension strategies. We have established a reputation for technical excellence, widely acknowledged within our industry. We maintain our technical edge through our in-depth understanding of UK pension legislation, which translates into meaningful advice given to clients by our consultancy team.

The provision of first-rate client service through personalised and proactive administration further differentiates us from our competitors, with our bespoke SIPP product having been awarded the Defaqto 5-star rating.

Property management

Our property management business, Custodian Capital Limited, is the discretionary fund manager of Custodian REIT plc, a UK real estate investment trust listed on the Main Market of the London Stock Exchange.

In addition, Custodian Capital facilitates direct property ownership on behalf of pension schemes and private clients and also manages the "Private Investors Club", which offers alternative investment opportunities to suitable clients by way of private investor syndicates. We believe investment in good quality properties, with strong leases and good quality tenants, typically provides stable returns over the long term and our property team offers years of experience in commercial property investment to help deliver this.

Employee benefits

Mattioli Woods assists its corporate clients with employee engagement, with the aim of improving recruitment, retention and workplace morale. This encompasses consultancy and administration on areas such as defined contribution and defined benefit pension schemes, workplace savings, healthcare, international benefit solutions and risk benefits, in addition to the design, implementation and administration of these schemes.

The Group also offers its clients total reward and flexible benefit systems, assisting its clients to deliver these to their employees, along with advice, guidance and financial education. Recent changes in legislation, such as the new pension freedoms, are increasing demand for our financial education and wealth management services to be delivered through employers.

TAKING CARE OF OVER
£6 BILLION
OF OUR CLIENTS' ASSETS

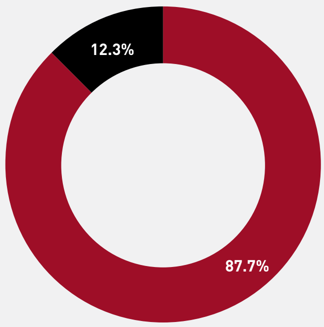
WE EMPLOY OVER
500 STAFF

THROUGHOUT OUR
7 LOCATIONS

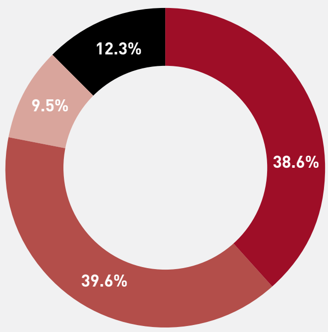
ABERDEEN
BUCKINGHAM
GLASGOW
LEICESTER
LONDON
NEWMARKET
PRESTON

Revenues	Segment results	Percentage revenue increase
£17.0m 2015: £11.4m	£3.5m	+49.1%
£16.6m 2015: £15.6m	£3.3m	+6.4%
£4.1m 2015: £2.8m	£0.8m	+46.4%
£5.3m 2015: £4.8m	£0.5m	+10.4%

Segment revenues



- Wealth management 87.7%
- Employee benefit 12.3%



- 38.6% Direct pension consultancy and administration Direct & Third party pension administration
- 39.6% Investment and asset management
- 9.5% Property management
- 12.3% Employee benefits

Year in review

Broadening our proposition

Acquisition of Taylor Patterson

Mattioli Woods acquires Taylor Patterson Group Limited and its subsidiaries.

Taylor Patterson was founded in 1979 and provides wealth management and employee benefits services to a broad range of personal and corporate clients. Based in Preston, Lancashire, and employing 38 staff, the business specialises in providing strategic financial planning.

Taylor Patterson's wealth management operations include SSAS and SIPP administration, which together with its employee benefits capabilities, strengthen the Group's existing client proposition.

> Boyd Coughlan and Taylor Patterson are both a great fit culturally, and strategically serve a similar client base to our existing business. These key acquisitions will enable us to expand our proposition and geographic footprint across the UK.
>
> **Ian Mattioli**
> Chief Executive

Strengthened proposition with rebrand

Mattioli Woods plc rebrands new subsidiary, Boyd Coughlan Limited.

Boyd Coughlan has been part of the Mattioli Woods Group since July 2015 and the move signals the ambition of the Group to build a strong, consistent, and recognisable core brand, benefitting both its clients and standing within the marketplace.

2015 | Jun > Jul > Aug > Sep > Oct > Nov > Dec > 2016 | Jan >

Breast Cancer Now, chosen as charity of the year

In 2015 we chose our first national charity, Breast Cancer Now. Breast Cancer Now is the UK's largest breast cancer research charity and it is their ambition that by 2050, everyone who gets breast cancer will live.

See **page 22** to read more on our progress for the charity

Acquisition of Lindley Trustees

Founded in 1979, the Pension Business provides trustee and administration services to over 130 Small Self-Administered Pension Schemes ("SSAS"), with assets under administration of over £116m.

The acquisition is expected to be earnings enhancing in the first full year of ownership, following the realisation of synergies and other benefits from combining the activities of the Pension Business with those of Mattioli Woods.

Acquisition of Boyd Coughlan

Mattioli Woods acquires Boyd Coughlan, which is based in Buckingham and provides advice to both corporate and personal clients. The acquisition provides the Group with a wider audience for its products and services, and extends the Group's employee benefits proposition, at the time when the drive towards total reward and flexible benefits is expected to create new business opportunities in the corporate market.

Acquisition of Maclean Marshall Healthcare

Mattioli Woods has acquired Maclean Marshall Healthcare (MMH). MMH are a specialised healthcare and protection business with circa 80 corporate clients based in the Aberdeen area.

Alan Fergusson, Employee Benefits Director, commented "This addition to the group will add to our significant client bank in this location, providing new opportunities to advise on other services."

"We have been highlighting the importance of SIPP providers ensuring they are well capitalised, ever since they have been regulated by the FCA back in 2007, and it is great to see that our financial strength in this market is recognised."

Mark Smith
Operations Director

Mattioli Woods rated 'A' in financial stability table

Mattioli Woods has been identified as a top three SIPP provider in terms of stability by independent research consultancy Finalytiq in its first review of the sustainability of the bespoke SIPP market.

New Walk under construction

Groundworks have started for the new 60,000 sq. ft. group office on the site of the former Leicester City Council headquarters New Walk, Leicester. The office will be able to accommodate circa 600 staff at full capacity with occupation expected in winter 2017.

Feb > Mar > Apr > May > Jun > Jul > Aug

Mattioli Woods appointed to administer £100m Stadia SIPP portfolio

Mattioli Woods plc appointed to administer nine SIPP schemes by the Schemes' operator, Stadia Trustees Limited, working in conjunction with the Financial Conduct Authority.

Mattioli Woods has worked closely with Stadia to secure its appointment to administer the wind-up of the Schemes and transfer members' assets to new pension arrangements. The estimated total value of clients' assets is £100m, held between circa 1,200 separate arrangements.

Mattioli Woods wins 25 Years of Business Excellence Award

Leicester Mercury Business Awards 2016 celebrates success, recognises achievement, and highlights the innovative people and companies in Leicestershire who are putting the region on the map by boosting the economy, whilst making a positive contribution to the local community.

New three-year sponsorship with rugby giants, Leicester Tigers

Mattioli Woods strengthens its brand with the announcement of a three-year deal with Leicester Tigers.

The new agreement will include shirt sponsorship on the Tigers' home and away shirts, a dedicated Mattioli Woods stand at the 26,000 strong Welford Road stadium, corporate hospitality rights and the provision of exclusive content to Tigers fans from the start of the 2016/17 season.

Wins best Wealth Management advisor award

See **page 19**

Chairman's statement

Building on strong foundations

Bob Woods
Chairman

"Another year of strong growth"

I am delighted to report another year of strong growth, with revenues up 24.3% to £43.0m (2015: £34.6m) despite unsettled markets. Adjusted EPS[5] for the year was up 14.0% to 31.0p (2015: 27.2p). As a result of this strong performance the Board is pleased to recommend an increased final dividend of 8.65p (2015: 7.16p) up 20.8% on the prior year.

Last year, I announced I would be stepping-down as Executive Chairman and so this is my last report after 11 years as an AIM listed business. I am immensely proud of our team, which has grown in strength and delivered consistent growth throughout this period. We are very fortunate in having appointed Joanne Lake to succeed me. Joanne has known the business since we first considered floating and has served as an independent Non-Executive Director since July 2012. She has a great understanding of our business and I know her formidable diligence will be of immense value in helping our executive team drive the business towards its goals.

Over the last 25 years, we have shown in good and bad economic conditions that we have a robust business model, which can deliver additional shareholder value through organic growth, the development of new revenue streams and the acquisition of similar or complementary businesses. We have continued to enjoy strong organic growth in our wealth management business, winning a record number of new wealth management cases during the year, comprising over 1,000 new SIPP, SSAS and personal clients with total assets under management, administration and advice of over £350m. In addition, our employee benefits business won over 100 new corporate clients.

The Government's new pension freedoms created additional demand for advice, which more than offset an anticipated fall in banking income, following further cuts in the interest margins available from our banking partners.

As in previous times of change, our proposition as adviser, administrator, product provider and asset manager sets us apart and positions us well to deal with the challenges of changing investment markets to secure better outcomes for our clients.

Carefully considered acquisitions continue to contribute to our growth. In June 2015, we raised £18.6m (before expenses) by way of a placing with institutional investors ("the Placing") to allow us to pursue further acquisition opportunities. At the same time, we announced the acquisition of Boyd Coughlan Limited ("Boyd Coughlan"), which was followed by the purchase of the Taylor Patterson Group Limited ("Taylor Patterson") in September 2015, the Lindley Trustees pension business in October 2015, Maclean Marshall Healthcare, a specialist healthcare and protection business in January 2016 and Stadia Trustees' pension business in February 2016.

The five businesses acquired during the year are integrating well and have all contributed positively to the Group's trading results since acquisition, increasing earnings and enhancing value.

The acquisition of Old Station Road Holdings Limited and its subsidiaries (together "MC Trustees"), which we announced today, is another excellent strategic and cultural fit with our existing pension business. MC Trustees provides trustee and administration services to over 1,500 SIPP and SSAS schemes and offers the opportunity to realise synergies from the merger of its business onto Mattioli Woods' bespoke pension administration platform.

In addition, the Company has signed heads of terms to acquire MC Holdings (Malta) Limited and its subsidiary (together "MC Malta"). MC Malta operates Qualifying Recognised Overseas Pension Schemes ("QROPS"), providing arrangements suitable for expatriates from the UK or people who have earned a pension in the UK and now live abroad, extending the Group's existing pension offering. The acquisition of MC Malta is expected to complete following approval of the proposed transaction by the Malta Financial Services Authority.

The accelerating pace of consolidation within the SIPP market is putting smaller operators under increasing pressure to join forces with larger firms. I expect this trend to continue following the introduction of increased regulatory capital requirements for SIPP operators on 1 September 2016. We continue to seek further value-enhancing acquisitions and were delighted to be one of only three operators to be awarded an "A" rating in a recent independent report on the sustainability of the bespoke SIPP market.

One of the Group's subsidiaries, Custodian Capital Limited ("Custodian Capital"), is the discretionary investment manager of Custodian REIT plc ("Custodian REIT"), a closed-ended property investment company listed on the Main Market of the London Stock Exchange. Custodian Capital's management fees are based on the net asset value of Custodian REIT, which now has a market capitalisation of over £300m following £98.4m of new share issues during the last financial year. Following the UK referendum Custodian REIT has maintained a premium to net

5 Before acquisition-related costs, amortisation and impairment of acquired intangibles, and notional finance income and charges.

asset value, against a backdrop of mass redemptions across the open-ended property funds. I anticipate the long-term secure income it offers investors will ensure it remains an attractive investment, given the likelihood that low interest rates will endure for some time to come.

In August 2015, we announced plans to build a new central Leicester office on the site of the former Leicester City Council headquarters at New Walk. Construction commenced in May 2016, with completion scheduled for the end of 2017.

In July 2016, we announced a three-year deal with rugby giants Leicester Tigers to strengthen the Group's brand awareness. The new agreement will include shirt sponsorship on the Tigers' home and away shirts, a dedicated Mattioli Woods stand at the 26,000 capacity Welford Road stadium, corporate hospitality rights and the provision of exclusive content to Tigers fans from the start of the 2016/17 season.

Our recent achievements have been recognised with a number of industry awards for individual and corporate achievements nationally and locally, including Best Wealth Management Adviser at the Money Marketing Awards 2016, as well as being highly commended as Best Investment Adviser. Our focus is on ensuring we continue to address our clients' changing needs and our ambition is to see our brand become an even stronger force in the UK financial services sector.

Acquisitions

We have invested over £40m since our admission to AIM in 2005 in bringing 18 businesses or client portfolios into the Group. Accordingly, we have developed considerable expertise and a strong track record in the execution and subsequent integration of such deals.

The Boyd Coughlan and Taylor Patterson acquisitions have provided the Group with a wider audience for its products and services and extended our wealth management and employee benefits capabilities, with the experienced management teams of both companies remaining part of the enlarged Group.

Lindley Trustees provided trustee and administration services to over 130 SSAS schemes, and post-acquisition we have integrated this business into Taylor Patterson's operations. The acquisition of Maclean Marshall Healthcare brought additional scale and expertise to our corporate healthcare proposition.

In February 2016, we worked closely with the Financial Conduct Authority ("FCA") to secure our appointment to administer the wind-up of the SIPP schemes operated by Stadia Trustees and transfer the members' assets to new pension arrangements, including a default arrangement provided by Mattioli Woods. We had completed the transfer of 287 active schemes into the default arrangement at 31 May 2016, with a further 174 schemes transferring over since the year end.

With increasing complexity and continuing consolidation across the key markets in which we operate, we are confident there will be further opportunities to expand our operations by acquisition, accelerating our already strong growth.

STRATEGY IN ACTION

MATTIOLI WOODS RATED "A" IN FINANCIAL STABILITY TABLE

Mattioli Woods	A
AJ Bell	A
James Hay	A
Xafinity	B
Dentons	B
Curtis Banks	B
Suffolk Life	B
Talbot & Muir	B
Rowanmoor	C
MW Pensions	C
Momentum	C
Morgan Lloyd	C
Hornbuckle (embark)	C
Barnett Waddingham	C
Liberty	C
@SIPP	C
Careys	C
L&C	C

Source: "Survival of the fittest" by Finalytiq.

Mattioli Woods has been identified as a top three SIPP provider in terms of stability by independent research consultancy Finalytiq in its first review of the sustainability of the bespoke SIPP market.

The review comes ahead of the impending changes in the SIPP market, where in September 2016 the regulator, the Financial Conduct Authority ("FCA"), will introduce a number of changes to the existing rules. These will have a significant impact on SIPP providers, especially those that have focused heavily on the non-standard market, and have a high number of clients in that category.

The FCA has highlighted inadequate risk processes, poor quality management information, an increase in the number of non-standard investments held by some operators, and inadequate due diligence being undertaken for introducers and investments. Therefore, the new rules with the enhancement of capital resources are aimed at providing better outcomes and protection for clients.

"Our ambition is to see our brand become an even stronger force in the UK financial services sector"

Chairman's statement continued

Assets under management, administration and advice

Total client assets under management, administration and advice increased by 22.2% to £6.61bn at 31 May 2016 (2015: £5.41bn) as follows:

	SIPP and SSAS[6] £m	Employee benefits £m	Personal and other pension £m	**Total £m**
At 1 June 2015	3,376.2	1,059.4	974.8	**5,410.4**
Boyd Coughlan	–	89.6	166.9	**256.5**
Taylor Patterson	336.3	87.5	263.3	**687.1**
Lindley Trustees	112.8	–	–	**112.8**
Stadia Trustees	24.7	–	–	**24.7**
Acquisitions during the year[7]	473.8	177.1	430.2	**1,081.1**
Net inflow/(outflow), including market movements	146.1	(78.3)	46.6	**114.4**
Assets under management, administration and advice[8]	3,996.1	1,158.2	1,451.6	**6,605.9**

Acquisitions during the year added £1,081.1m of client assets, with a net inflow of £114.4m during the period comprising:

- An increase of £146.1m in SIPP and SSAS funds under trusteeship, following net organic growth of 3.6% in the number of schemes being administered at the year end. We enjoyed 12.4% organic growth in direct[9] schemes, which was partly offset by a net loss in the number of schemes the Group operates on an administration-only basis (before acquisitions during the year). In recent years, we have been appointed to operate or wind-up a number of distressed SIPP portfolios following the failure of the previous operator, with lost schemes including the transfer of members of these distressed portfolios to alternative arrangements;
- A £46.6m increase in other personal and pension assets, with over 350 new personal clients won during the period; and
- A £78.3m fall in the value of assets held in the corporate pension schemes advised by our employee benefits business, primarily due to retrenchment amongst our clients in the North Sea oil and gas industry. However, revenues in our employee benefits business are not linked to the value of client assets in the same way that certain of our wealth management revenue streams are.

Staff

We continue our transition from small to big, retaining our core principles as a business built on the integrity and expertise of our people.

Our total headcount at 31 May 2016 had increased to 504 (2015: 406) and we continue to invest in our graduate recruitment programme, with 25 (2015: 14) new graduates and 15 (2015: 8) apprentices joining the Group during the year. We continue to expand our consultancy and technical teams to take advantage of new business opportunities, with the number of consultants having increased to 104 (2015: 81) at the year end.

We also welcomed 76 new employees to the Group as part of the acquisitions completed during the period. As an Investors in People company we are committed to developing our people and building the capacity to deliver sustainable growth.

Once complete, our new office in Leicester will provide our staff there with a modern working environment and capacity for further growth.

We enjoy a strong team spirit and facilitate employee equity ownership through the Mattioli Woods plc Share Incentive Plan ("the Plan") and other share schemes. I am delighted that the proportion of eligible staff investing via the Plan has increased to 61% (2015: 59%) and we will continue to encourage broader participation in the Plan. I would like to thank all our staff for their continued commitment, enthusiasm and professionalism in dealing with our new and existing clients' affairs.

Board changes

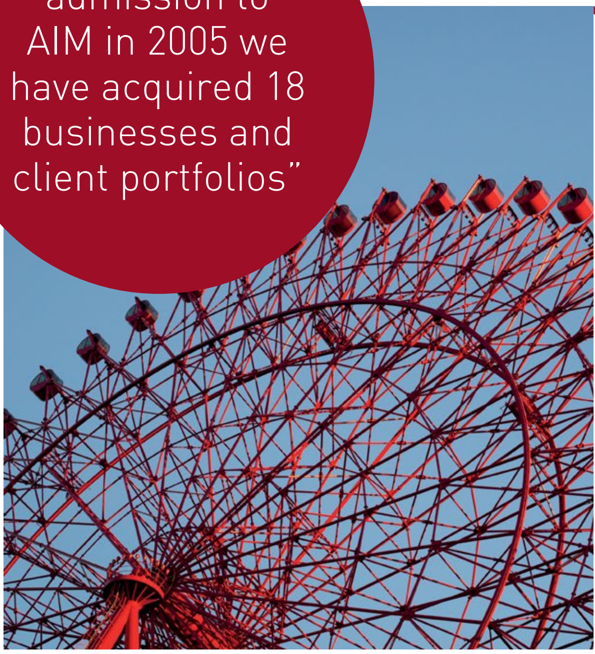
Following the retirement of the Group's senior Non-Executive Director, John Redpath, earlier this year, we were delighted to welcome Anne Gunther as a Non-Executive Director in June 2016. Anne's many years' experience in banking and private client asset management will be a great asset to the Group as we continue to grow and develop our business.

In June 2015 we announced the appointment of Joanne Lake as Deputy Chairman, as an interim step prior to her proposed appointment as Non-Executive Chairman at the Annual General Meeting in October 2016. The period since then has allowed a considered handover of responsibilities and I believe this is the optimal time for the role of Chairman to be separated from executive responsibilities.

Joanne has a broad understanding of financial services with over 30 years of corporate finance and City experience. She has been an Non-Executive Director and Chairman of the audit committee since July 2012 and I wish her every success in her new role.

6 Value of funds under trusteeship in SIPP and SSAS schemes administered by Mattioli Woods and its subsidiaries.
7 Value at 31 May 2016.
8 Certain pension scheme assets, including clients' own commercial properties, are only subject to a statutory valuation at a benefit crystallisation event.
9 SIPP and SSAS schemes where the Group acts as pension consultant and administrator.

"Since our admission to AIM in 2005 we have acquired 18 businesses and client portfolios"



STRATEGY IN ACTION

MATTIOLI WOODS PLC HAS BEEN APPOINTED TO ADMINISTER NINE SIPP SCHEMES

Mattioli Woods plc has been appointed to administer nine SIPP schemes by the Schemes' operator, Stadia Trustees Limited, working in conjunction with the Financial Conduct Authority. Following a variation of permission in 2013, Stadia was forced to cease accepting new business and now intends to wind-up the Schemes, securing the benefits of members by transferring their assets to alternative pension arrangements.

Mattioli Woods has worked closely with Stadia to secure its appointment to administer the wind-up of the Schemes and transfer members' assets to new pension arrangements. The estimated total value of clients' assets is £100m, held between circa 1,200 separate arrangements.

On stepping down from the Board, I will continue in a full-time executive role as Senior Adviser to the Group. As previously announced, my focus will be on my client portfolio, new business development and acting as an ambassador for Mattioli Woods. I will also support the development of the Group's high end corporate and private clients.

Dividends

The Board is pleased to recommend the payment of an increased final dividend of 8.65p per share (2015: 7.16p). This makes a proposed total dividend for the year of 12.5p (2015: 10.5p), a year-on-year increase of 19.0% (2015: 15.4%). The Board remains committed to growing the dividend, while maintaining an appropriate level of dividend cover. If approved, the final dividend will be paid on 1 November 2016 to shareholders on the register at the close of business on 23 September 2016.

Strategy

Our strategy remains focused on the pursuit of strong organic growth, supplemented by strategic acquisitions that enhance value and broaden or deepen our expertise and services. Our distribution channels include our consultancy team, a nationwide network of professional introducers and, increasingly, our workplace financial educational programmes.

We continue to invest in our bespoke pension administration and wealth management platform, with the first phase of a new customer relationship management system in the final stages of testing. This is expected to realise operational efficiencies across the Group and we recognise the increasing consumer requirement for a strong advisory service blended with on-line functionality, visibility and product availability.

Our focus is on ensuring we continue to address our clients' changing needs and our ambition is to see our brand become an even stronger force in the UK financial services sector.

Outlook

I am very proud that throughout the 25 years since Ian Mattioli and I founded Mattioli Woods, delivering great client outcomes has remained at the heart of everything we do. Successive Governments have instigated pension reform and I expect further legislative changes to support growth in our advice-led business, where we are recognised experts in the field of wealth management and retirement planning.

We saw some slowdown in investment activity over the summer months as investors held their breath following the UK referendum. Last week, the International Monetary Fund reported that while the short-term turbulence in financial markets triggered by the Brexit vote has subsided, recent data points to an even more modest pace of global growth this year. Although further volatility in financial markets may impact how our investment and asset management revenues are derived, it remains a great strength of our business that we can continue to derive income from investments in all asset classes, while ensuring our clients' investment strategies are appropriately aligned to the prevailing conditions and suitable for their financial needs.

I believe Mattioli Woods' vertically-integrated models for wealth management and employee benefits, combining our capabilities as adviser, administrator, product provider and asset manager, positions us well to secure further profitable growth going forward.

Bob Woods
Chairman
7 September 2016

How we create value

A platform for sustainable growth

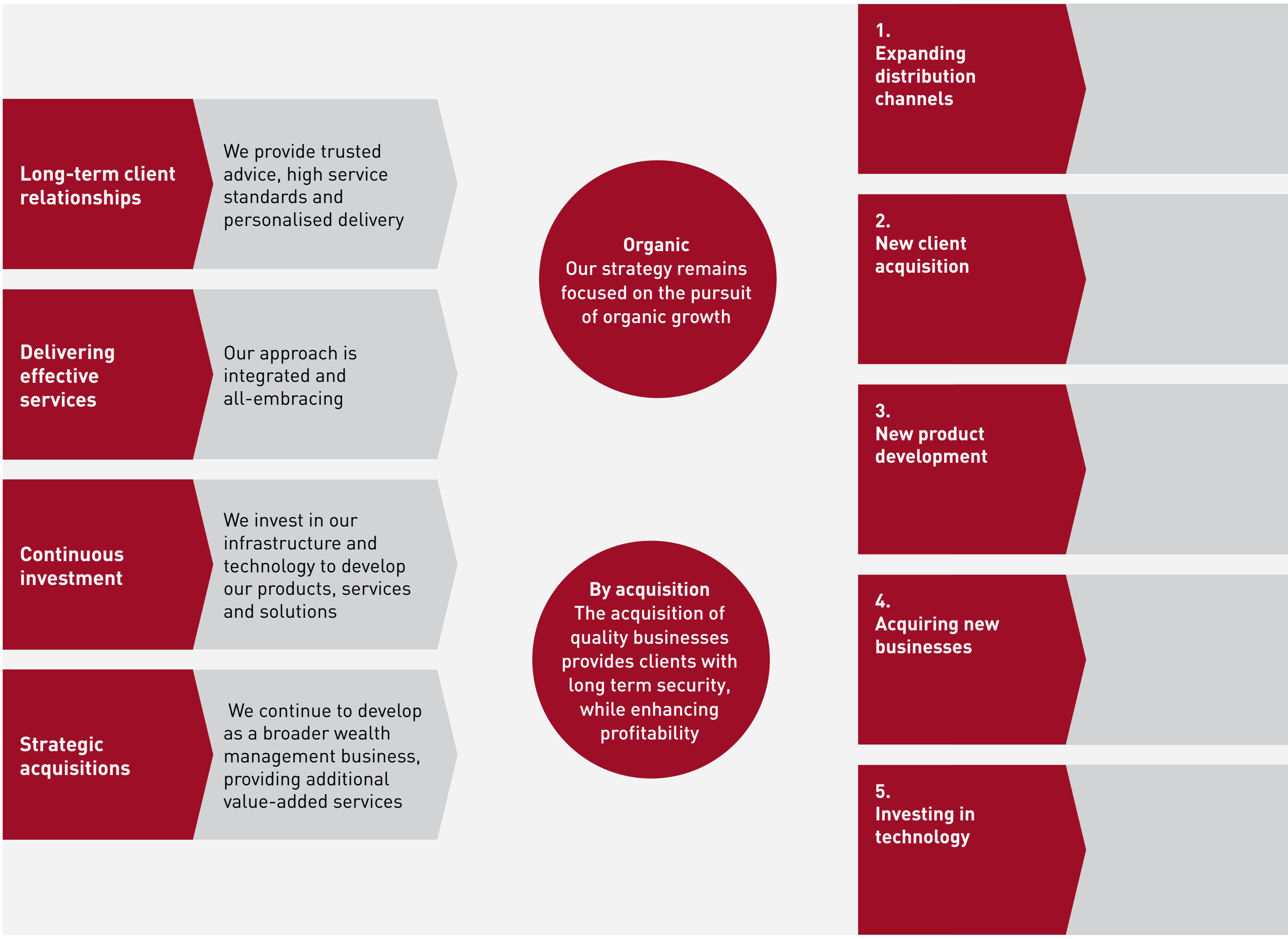
Imagine a world in which financial advice is trusted, thoughtful and enriching – that is our vision

Mattioli Woods is one of the UK's leading providers of wealth management and employee benefit services, with total assets under management, administration and advice of over £6.6bn. We put our clients at the core of everything we do, with the objective of growing their assets and giving them control and understanding of their overall financial position. At the same time, we are growing our business, both organically and by acquisition, to deliver strong, sustainable shareholder returns over the long term.

Our focus is on holistic planning and providing the highest levels of personal service, maintaining very close relationships with all our clients. Our key drivers are:

- Our desire to maintain long-term relationships and deliver great outcomes for our clients;
- Proactively anticipating our clients' needs to deliver on their expectations;
- Investing in our people and technology to service greater business volumes at a lower cost;
- Profitably sharing knowledge and ideas between ourselves and others;
- The development of our market standing through the integrity and expertise of our people;

Business model | **Strategy for growth**



- Being proud of our charitable and community spirit, supporting staff and local and national charities; and
- Extending our range of products and services, seeking to attract new clients both organically and via strategic acquisitions.

We plan to continue developing complementary services around our core specialisms, blending advice, investment and asset management with product provision to progress as a 21st century financial services business aligned to our clients' needs, producing great client outcomes and lowering costs.

"We plan to continue developing complementary services around our core specialisms"

What we've done

Number of consultants:

104
group-wide

Our distribution channels include our consultancy team, a nationwide network of professional introducers and, increasingly, our workplace financial educational programmes. We continue to expand our consultancy team to take advantage of new business opportunities and in the past year we have recruited an additional 23 consultants across the Group.

Number of new clients

1,100
during the year

Our strategy remains focused on the pursuit of strong organic growth. We have a robust business model, which can deliver additional shareholder value through organic growth and the development of new revenue streams. We have continued to enjoy strong organic growth in our wealth management business, winning a record number of new wealth management cases during the year.

Continued development of bespoke investment propositions

Our proposition as adviser, administrator, product provider and asset manager sets us apart and positions us well to deal with the challenges of changing investment markets. We have developed bespoke investment propositions, including our Private Investors Club, structured product and property investment initiatives, which all have the benefit of low correlation with mainstream equity and bond markets. These initiatives, in conjunction with further product development, will help us deliver positive investment returns despite what are expected to be difficult mainstream markets.

Number of new acquisitions:

18
since admission to AIM

Our growth strategy is complimented by strategic acquisitions that enhance value and broaden or deepen our expertise and services. With increasing complexity and continuing consolidation across the key markets in which we operate, we are confident there will be further opportunities to expand our operations by acquisition, accelerating our already strong growth.

New technology: bespoke platform in testing phase

The continued development of the Group's technology infrastructure is a key part of our strategy and we continue to invest in our bespoke pension administration and wealth management platform. This is expected to realise operational efficiencies across the Group and we recognise the increasing consumer requirement for a strong advisory service blended with on-line functionality, visibility and product availability.

Chief Executive's review

Looking forward with confidence

Introduction

I am pleased to report another very successful year, with revenue in the year ended 31 May 2016 up 24.3% to £43.0m (2015: £34.6m). We have made strong progress towards our medium term goal of growing revenues to £100m and remain a business built on the integrity and expertise of our people. We continue to focus on delivering great outcomes for our clients, with one of our key aims being to grow and preserve their investment assets.

Strong demand for advice and the continued development of our consultancy team has driven increased new business flows, with organic revenue growth of 8.7% (2015: 16.5%) despite an anticipated fall in banking revenues within our pension consultancy and administration business to £0.4m (2015: £1.2m). The Bank of England's decision to cut the base rate to a historic low of 0.25% last month has eliminated the small banking margin we had retained until then, with client rates on our core pension scheme accounts also falling to zero. With some commentators speculating that we might see the introduction of negative interest rates in the UK, we are reviewing how we might enhance our existing client banking model.

In recent years our clients have increasingly focused on income-generating alternatives to cash and I anticipate this further reduction in base rates will stimulate growth in our investment and asset management business.

Ian Mattioli
Chief Executive

"A business built on the integrity and expertise of our people"

We have developed bespoke investment propositions, including our Private Investors Club, structured product and property investment initiatives, which all have the benefit of low correlation with mainstream equity and bond markets. I believe these initiatives, in conjunction with further product development, will help us deliver positive investment returns despite what are expected to be difficult mainstream markets.

Subject to regulatory approval, we plan to launch a new structured product fund later this year, and have strengthened our client proposition with the launch of a new inheritance service, "Progression", which will complement our existing estate planning provision.

Organic growth was supplemented by £5.2m of revenues generated by the five businesses acquired during the year, plus full-year revenues of £0.5m (2015: £0.2m) from the UK Wealth Management and Torquil Clark pension administration businesses acquired in August 2014 and January 2015 respectively.

EBITDA[10] was up 25.4% to £8.9m (2015: £7.1m), with a small increase in EBITDA margin to 20.7% (2015: 20.5%) despite further investment in the infrastructure of our business and the fall in banking revenues.

Adjusted EPS[11] increased 14.0% to 31.0p (2015: 27.2p), while basic EPS increased 7.7% to 21.1p (2015: 19.6p), with 22.3% growth in operating profits offset by the dilutive effect of issuing of 3,795,918 shares under the Placing and 655,630 shares as initial consideration on the Boyd Coughlan and Taylor Patterson acquisitions. Basic EPS was also impacted by £0.5m of notional finance charges (2015: £0.2m) on the unwinding of discounts on long-term provisions and £0.3m (2015: £0.3m) of acquisition-related costs. The effective rate of taxation fell to 16.5% (2015: 24.0%) due to the recalculation of deferred tax liabilities on acquired intangibles following cuts in the UK corporation tax rate.

Our success is based upon the delivery of quality advice, services and products, growing our clients' assets and enhancing their financial outcomes. The foundation of this success is the development of our people and I am delighted we have created a business our clients are proud to be a part of, our people feel proud to work for and is one that recognises and rewards talent and hard work.

Industry overview

Mattioli Woods operates within the UK's financial services industry, which is subject to the effects of volatile markets and economic conditions. In recent years, we have seen a period of unprecedented change in legislation, regulation and customer needs. We continue to be proactive in relation to the opportunities this creates, with our specialists dedicated to keeping up with the pace of change. Our entrepreneurial model allows us to adapt and advise our clients accordingly.

10 Earnings before interest, taxation, depreciation and amortisation.
11 Before acquisition–related costs, notional finance costs and amortisation and impairment of intangible assets arising on acquisitions.

Our markets are highly fragmented and serviced by a wide range of suppliers offering diverse services to both individual and corporate clients. These markets remain highly competitive, with recent regulatory changes, including the abolition of provider commissions on corporate pensions in April 2016 and increased capital requirements for SIPP operators from 1 September 2016, driving further consolidation across the industry.

We continue to invest in the development of our IT platform and I believe the entry of new competitors with innovative technology (such as "robo-advice") may drive some margin compression in the wider market. The FCA's "regulatory sandbox", which opened in May 2016, provides firms with an opportunity to test innovative products, services, business models and delivery mechanisms in a live environment without immediately incurring all the normal regulatory consequences of pilot activities.

In addition, some commentators believe the Government and FCA's joint report on the financial advice market ("the FAMR") published in March 2016 may lead to further regulatory or legislative pressure to reduce the cost to consumers. I expect regulatory and market concerns over pricing to further validate our vertically-integrated model, where seeking operational efficiencies in the back office and reducing investment management and platform costs are key elements of our drive to reduce our clients' total expense ratios ("TERs") while maintaining our target profit margin.

Our services

Our core pension and wealth management offering serves the higher end of the market, including controlling Directors and owner-managed businesses, professionals, Executives and affluent retirees. Our broad range of employee benefit services is targeted towards medium-sized and larger corporates.

In recent years, the Group has developed a broader wealth management proposition, grown from its strong pensions advisory and administration expertise, with the Group's income now derived from four key service lines:

- Investment and asset management;
- Pension consultancy and administration;
- Property management; and
- Employee benefits.

Investment and asset management

Investment and asset management revenues generated from advising clients on both pension and personal investments increased 49.1% to £17.0m (2015: £11.4m), representing 39.6% (2015: 32.9%) of total Group revenues. Income from initial and ongoing portfolio management charges increased to £8.8m (2015: £5.4m), as the value of assets held in clients' discretionary portfolios increased 7.3% to £0.88bn (2015: £0.82bn).

I am pleased with the investment performance delivered by both our core portfolio management service and Custodian REIT during the period. The Group's total discretionary assets under management, including Custodian REIT and the Thoroughbred OEIC, totalled £1.17bn (2015: £1.01bn) at the year end.

Adviser charges (including legacy investment commissions and revenues from protection business) increased to £8.2m (2015: £6.0m), with adviser charges primarily based on the value of assets under advice during the period. Assets under advice include over £111.4m of clients' assets held in structured products. Our structured product initiative has been a great success, delivering returns of over 6% per annum on average for matured plans since inception in 2005. We plan to launch a new structured product fund later this year to build on this foundation by targeting similar returns, but with the benefits of collateralisation, instant diversification, continuous availability and liquidity that are not available under our current plan arrangements.

The growth of funds under management and advice has enhanced the quality of earnings through an increase in recurring revenues, with the proportion of investment and asset management revenues which are recurring increasing to 81.7% (2015: 78.2%). As with other firms, these income streams are linked to the value of funds under management and advice, and are therefore affected by the performance of financial markets.

Pension consultancy and administration

Retirement planning is often central to our clients' wealth management strategies. We maintain our technical edge through our widely acknowledged understanding of UK pension legislation, which allows our consultancy team to deliver meaningful guidance to our clients. Our client base primarily comprises owner-managers, senior executives and members of the professions. Additional fees are generated from the provision of specialist ad hoc consultancy services.

Pension consultancy and administration revenues were up 6.4% to £16.6m (2015: £15.6m), representing 38.6% (2015: 45.1%) of Group revenues, of which 82.6% (2015: 86.1%) are recurring. This increase was driven by the total number of SIPP and SSAS schemes administered by the Group increasing 19.6% to 7,872 (2015: 6,580) at the year end, with acquisitions completed during the year adding 1,054 new schemes.

Direct pension consultancy[12] and administration fees increased 9.5% to £12.7m (2015: £11.6m), with additional one-off revenues earned following significant changes in pension legislation, including restrictions on contributions for high earners and a further reduction in the lifetime allowance. The number of direct schemes administered by the Group increased 19.4% to 4,598 (2015: 3,850), with 665 (2015: 455) new schemes gained in the year (excluding acquisitions), representing 17.3% (2015: 12.9%) growth on the number of schemes at the start of the year. Client wins included 162 new Mattioli Woods Personal Pensions, a product launched last year to provide a wrapper allowing smaller pension funds efficient access to our discretionary portfolio management service, and we extended this initiative through the launch of a new discretionary investment proposition for employees earlier this year.

12 SIPP and SSAS schemes where the Group acts as pension consultant and administrator.

Chief Executive's review continued

Pension consultancy and administration continued

Our focus remains on the quality of new business, with an average new SIPP value of over £0.3m and average new SSAS value of over £0.70m. We also maintained strong client retention, with an external loss rate[13] of 2.4% (2015: 2.8%) and an overall attrition rate[14] of 3.6% (2015: 3.0%).

In July 2015 the Government published a Green Paper on the possibility of a radical departure from the current tax regime, such as replacing up front tax relief on pension contributions with tax-free pension payments. The consultation on tax relief reform has led to heated debate and while continual change (and talk of change) to the UK pensions system may work against the Government's aim to ensure all individuals save for their retirement, I expect it to drive sustained demand for advice, benefiting our core pensions business.

The number of SSAS and SIPP schemes the Group operates on an administration-only basis increased to 3,274 (2015: 2,730) at the year end. In recent years, Mattioli Woods has been appointed to operate or wind-up a number of distressed SIPP portfolios following the failure of the previous operator. Lost schemes include the planned transfer of members of these distressed SIPP portfolios to alternative arrangements, with the 324 lost schemes during the period being more than offset by the 783 administration-only schemes acquired as part of the Taylor Patterson, Lindley Trustees and Stadia Trustees portfolios plus organic growth. Overall, third party administration fees increased 25.0% to £3.5m (2015: £2.8m).

The strong growth in direct and third party administration fees was offset by a £0.8m fall in banking revenues to £0.4m (2015: £1.2m).

Property management

Property management revenues increased to £4.1m (2015: £2.8m) or 9.5% of total revenue (2015: 8.1%), of which 91.6% (2015: 90.3%) represented recurring annual management charges. The majority of our property management revenues are derived from the services provided by Custodian Capital to Custodian REIT.

Following the UK referendum, Custodian REIT has maintained a premium to net asset value, with its market capitalisation now over £300m. As manager, Custodian Capital charges annual management fees based on the net asset value of the investment company, with the Group's recurring revenues being enhanced as a result of Custodian REIT raising £98.4m (2015: £50.2m) of new equity during the year.

A strong income focus allows Custodian REIT to offer one of the highest yields[15] among its UK property investment company peer group, coupled with the potential for capital growth from a balanced portfolio of real estate assets. I anticipate the long-term secure income it offers investors will remain very attractive given the further cut in what were already historically low interest rates post referendum.

In addition, Custodian Capital continues to facilitate direct property ownership on behalf of pension schemes and private clients and also manages the "Private Investors Club", which offers alternative investment opportunities to suitable clients by way of private investor syndicates. This continues to be well received by clients, with £9.9m (2015: £4.0m) invested in eight (2015: four) new syndicates completed during the year.

13 Direct schemes lost to an alternative provider as a percentage of average scheme numbers during the period.
14 Direct schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period.
15 Source: Numis Securities Limited, Investment Companies Daily News dated 24 August 2016.

Employee benefits

The employee benefits market has adjusted following the abolition of provider commissions in April 2016 and I am delighted over 100 new corporate clients were attracted to the Group's broader range of employee benefits services during the year.

Employee benefits revenues were up 10.4% to £5.3m (2015: £4.8m), representing 12.3% of total revenue (2015:13.9%). The move to a fee-based proposition has been well-received by corporate clients and has led to an increase in recurring revenues, with 78.7% (2015: 68.5%) of employee benefits revenues now recurring. The oil and gas sector is cyclical and has been in a downward phase over the last year, with a number of cost control measures implemented by the industry, including redundancies. This has impacted revenues from clients operating in the oil and gas industry, but we continue to diversify our revenue streams within employee benefits through growth in different locations and by acquisition.

We continue to seek opportunities to enhance our revenues from non-pension related areas and recent acquisitions have diversified our employee benefits revenues, both geographically and through the addition of new specialisms, such as the charity sector and health insurance. We have also extended our reach through the launch earlier this year of a new discretionary investment proposition for employees, using the MW Private Pension.

We are delighted to confirm the appointment of Saira Chambers to our employee benefits team, who joins the business next month to lead our newly created International Desk. Saira brings a wealth of experience in international employee benefits and her focus will be on developing our international reach and additional growth opportunities. She will be based in our new Manchester office, which will act as a hub for both wealth management and employee benefits consultants.

We are also delighted to announce the strengthening of our Aberdeen, Leicester, Newmarket and London teams with the appointment of new consultants in each area. At a time when the employee benefits market is going through extensive transition, we are growing our consultancy team as we believe the opportunities are extensive.

The need for advice from both corporates and their staff is likely to increase following the UK referendum result, and I expect our Executive Financial Counselling, Boardroom Pay and Financial Education initiatives to continue to gather pace. In addition, the FAMR highlighted concerns around a developing 'advice gap', driven by:

- Increasing responsibility on individuals to manage their own financial affairs;
- The ability of individuals to pay for advice; and
- Advice needs arising from pensions' liberalisation and auto-enrolment.

The aim of the FAMR was to set out measures to improve the affordability and access to advice for consumers. While the RDR has been effective in moving the industry to a fee-based model, there has been a reduction in the number of financial advisers and advice in relation to the investment of smaller amounts is expensive. As a result, the main recommendations of the review focus on affordability and accessibility, with a significant emphasis on workplace advice and funding this pre-retirement and annually.

Complementing this initiative, in the last Budget the Government announced a consultation to increase the tax-free contribution employers can make to employees for employer-arranged pension advice from April 2017 from £150 to £500, making the provision of comprehensive financial advice a viable employee benefit without incurring a P11D liability. I believe the opportunities this presents to our employee benefits business will enable us to realise further synergies with our wealth management business, building on the £0.6m of revenues generated in cross referrals between the two divisions during the last financial year.

Financial performance and future developments

Group results

Revenues were up 24.3% to £43.0m (2015: £34.6m), with sustained demand for the Group's services. We are particularly pleased with the continued development of our broader wealth management proposition and the integration of recently acquired businesses during the year. The mix between the Group's key revenue streams changed during the period, summarised as follows:

- 39.6% investment and asset management (2015: 32.9%);
- 38.6% pension consultancy and administration (2015: 45.1%);
- 12.3% employee benefits (2015: 13.9%); and
- 9.5% property management (2015: 8.1%).

Unadjusted EBITDA increased 25.4% to £8.9m (2015: £7.1m), with an increase in EBITDA margin to 20.7% (2015: 20.5%) despite further investment in the infrastructure of our business, a fall in banking revenues and costs associated with the completion and integration of recent acquisitions.

To facilitate a like-for-like comparison with prior years, acquisition costs of £0.3m (2015: £0.3m) incurred on acquisitions during the year have been added back in calculating adjusted EBITDA and adjusted profit before tax. Adjusted EBITDA[16] increased 25.7% to £9.3m (2015: £7.4m), while adjusted EBITDA margin increased to 21.6% (2015: 21.4%).

As highlighted in my Industry Overview, I see both a market expectation and possible regulatory or legislative pressure to reduce product costs. Previously, I have set out our aim to reduce the TERs incurred by clients and I anticipate we will see some continued pressure on margins, which we plan to offset by securing operational efficiencies through the further development of our IT platform and by reducing investment management and platform costs.

Net finance costs

Net finance costs were £0.3m (2015: £0.1m) due to the impact of £0.5m (2015: £0.2m) of notional finance charges on the unwinding of discounts on long term provisions. The Group has maintained a positive net cash position, with average balances significantly higher than the prior year following the Placing in June 2015, putting us in strong position to continue acquiring suitable businesses.

Taxation

The effective rate of taxation on profit on ordinary activities decreased to 16.5% (2015: increased to 24.0%) primarily due to the recalculation of deferred tax liabilities on acquired intangibles following a cut in the substantively enacted rate of UK corporation tax from 20% to 18%. The net deferred taxation liability carried forward at 31 May 2016 was £3.0m (2015: £1.9m).

Earnings per share and dividend

Adjusted EPS[17] was up 14.0% at 31.0p (2015: 27.2p), with basic EPS increased 7.7% to 21.1p (2015: 19.6p), due to the impact of strong revenue growth and an increase in underlying operating profits being offset by notional finance charges on the unwinding of discounts on long term provisions and an increase in acquisition-related costs during the year. Diluted earnings per share increased 8.8% to 21.1p (2015: 19.4p), with the exercise of 281,338 options issued under the Company's share option plans during the period. A proposed increase of 19.0% in the total dividend for the year to 12.5p (2015: 10.5p) demonstrates our desire to deliver value to shareholders and confidence in the outlook for our business.

Cash flow

Cash generated from operations increased to £11.8m or 133% of EBITDA (2015: £7.6m or 107%), with the cash conversion ratio improving due to:

- EBITDA for the period being stated after a £1.1m increase in non-cash costs, being a £0.80m increase in share-based payment costs and a £0.3m increase in notional interest costs, representing the unwinding of discounting on long term provisions; and
- A £1.3m fall in the Group's working capital requirement (2015: increase of £0.3m), with a £0.5m (2015: £1.7m) increase in trade and other receivables being offset by a £1.6m (2015: £1.4m) increase in trade and other payables and a £0.2m (2015: £0.01m) increase in provisions.

New client wins and recent legislative changes led to increased activity and hence an increase in accrued income and trade receivables in our direct pension business (where fees are typically invoiced six months in arrears), with higher discretionary funds under management increasing accrued income in investment and asset management (including property management).

Trade and other payables increased due to:

- A £0.7m increase in trade payables at the year end due to a higher value of property insurance invoices outstanding at the year end following strong growth in our property management business, the timing of expenditure on legal and professional fees, and a general increase in overheads as a result of continued growth;
- A £0.5m increase in accrued staff bonuses at the year end, following a successful year where results are ahead of target; and
- A £0.3m increase in deferred income following growth in our third party administration business, (where annual fees are typically paid annually in advance).

Net cash at 31 May 2016 was £29.8m (2015: £10.6m) after the Placing raised net proceeds of £17.9m, with £6.8m cash outflow and £3.2m cash acquired on the five acquisitions completed during the year, plus £1.1m (2015: £2.4m) of deferred consideration paid in cash on historic acquisitions, with £0.95m being an accelerated payment of deferred consideration on the Atkinson Bolton acquisition to complete its integration into the Group's wealth management and employee benefits divisions.

16 Adding back £0.3m (2015: £0.3m) of acquisition-related costs.

17 Before acquisition-related costs, amortisation and impairment of acquired intangibles, and notional finance income and charges.

Chief Executive's review continued

Cash flow continued
Outstanding trade receivables fell to 46 days' sales (2015: 52 days), with a continued focus on credit control, while trade payables increased to 52 days' purchases (2015: 32 days) due to the higher value of invoices for property insurances, legal and professional fees and other overheads outstanding at the year end.

Capital expenditure in the year was £1.7m (2015: £1.0m), with the most significant costs being investment in new computer hardware and software and the purchase of new company cars following continued expansion of the consultancy team. The continued development of the Group's technology infrastructure is a key part of our strategy and we continue to invest in our bespoke pension administration and wealth management platform. The first phase of our new customer relationship management system is in the final stages of user acceptance testing and is expected to realise operational efficiencies across the Group. Although the development of our platform is taking longer than we initially anticipated, the expected development costs remain in line with our initial estimates.

Bank facilities
The Group previously maintained borrowing facilities with Lloyds Bank plc ("Lloyds"), which comprised a £5.0m overdraft facility. The facility was repayable upon demand and expired on 31 January 2016.

We did not renew the overdraft facility due to the headroom the Group's current cash balances provide on its working capital requirements. Management will continue to review the level of bank facilities the Group may require going forward.

Capital structure
The Group's capital structure is as follows:

	2016 £000	2015 £000
Net cash	**(29,809)**	(10,570)
Shareholders' equity	**65,581**	39,467
Capital employed	**35,772**	28,897

The Group continues to maintain a net cash position and net cash balances have increased to £29.8m (2015: £10.6m) following the Placing and an increase in trade and other payables to £10.0m (2015: £8.0m).

Regulatory capital
The Board considers it prudent for the Group to maintain headroom of at least 25% over the FCA regulatory capital requirement. The Group's regulatory capital requirement has increased in recent years, and in addition its capital is eroded when it makes acquisitions due to the requirement for intangible assets arising on acquisition to be deducted from Tier 1 Capital.

To provide the flexibility to take advantage of further acquisition opportunities, the Company raised net proceeds of £17.9m pursuant to the Placing, which has been allocated as follows:
- £4.0m to satisfy the initial cash consideration and deal costs payable on the acquisition of Boyd Coughlan, plus £2.5m of contingent deferred consideration payable in cash in the two years following completion;
- £2.2m to satisfy the initial cash consideration and deal costs payable on the acquisition of Taylor Patterson, plus £3.3m of contingent deferred consideration payable in cash in the three years following completion;
- £0.3m to satisfy the cash consideration and deal costs payable on the acquisition of Lindley Trustees;
- £0.2m to satisfy the cash consideration and deal costs payable on the acquisition of Maclean Marshall Healthcare; and
- £0.1m to satisfy the cash consideration and deal costs payable on the acquisition of Stadia Trustees.

The balance of the Placing proceeds has given the enlarged Group greater headroom on its increased regulatory capital requirement following these acquisitions, allowing us to pursue further acquisition opportunities.

Acquisitions
The five businesses acquired during the year continue to integrate well. The rebranding of Boyd Coughlan was completed in December 2015 and the trade and assets of Taylor Patterson were hived-up into Mattioli Woods following the year end. Both acquisitions have provided the Group with a wider audience for its products and services and extended our wealth management and employee benefits capabilities, with the experienced management teams of both businesses remaining part of the enlarged Group.

Lindley Trustees provides trustee and administration services to a portfolio of SSAS schemes, and following its acquisition we have integrated this business into Taylor Patterson's operations.

Maclean Marshall Healthcare has brought additional scale and expertise to our corporate healthcare proposition, with our appointment to administer the wind-up of the SIPP schemes operated by Stadia Trustees and transfer the members' assets to new pension arrangements adding scale to our SIPP administration business.

We are confident there will be further opportunities to expand our operations by acquisition, accelerating our already strong growth.

Relationships
The Group's performance and value to our shareholders are influenced by other stakeholders, principally our clients, suppliers, employees, the Government and our strategic partners. Our approach to all these parties is founded on the principle of open and honest dialogue, based on a mutual understanding of needs and objectives.

Relationships with our clients are managed on an individual basis through our client relationship managers and consultants. Employees have performance development reviews and employee forums also provide a communication route between employees and management. Mattioli Woods also participates in trade associations and industry groups, which give us access to client and supplier groups and decision-makers in Government and other regulatory bodies. Mattioli Woods is a member of the Association of Member-directed Pension Schemes and the Quoted Companies Alliance.

Resources

The Group aims to safeguard the assets that give it competitive advantage, including its reputation for quality and proactive advice, its technical competency and its people.

Our core values provide a framework for responsible and ethical business practices. Structures for accountability from our administration teams through to the operational management team and the Group's Board are clearly defined. The proper operation of the supporting processes and controls are regularly reviewed by the Audit Committee and take into account ethical considerations, including procedures for "whistle-blowing".

> "Our core values provide a framework for responsible and ethical business practices"

Forward-looking statements

The strategic report is prepared for the members of Mattioli Woods and should not be relied upon by any other party for any other purpose. Where the report contains forward-looking statements these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. Consequently, such statements should be treated with caution due to the inherent uncertainties, including both economic and business risks underlying such forward-looking statements and information. The Group undertakes no obligation to update these forward-looking statements.

Principal risks and uncertainties

There are a number of potential risks which could hinder the implementation of our strategy and have a material impact on our long term performance. These arise from internal or external events, acts or omissions which could pose a threat to the Group.

We are proud of our consistently high client retention rate, but continue seeking ways to strengthen this. We believe the most significant risk we face is potential damage to our reputation as a result of poor client service and we are determined not to let standards slip. We address this through ongoing quality control procedures and the provision of regular training for all our staff.

Pension regulations will continue to be reviewed. Future changes may not produce an environment that is advantageous to the Group and any changes in regulation may be retrospective. To address this risk, we are committed to ensuring that our views are expressed during consultation exercises and that we respond positively and rapidly to new regulations.

We also recognise that a significant skills shortage would represent a risk to growth. We are mitigating this risk through investment in our graduate and apprentice recruitment programmes and by providing incentives to motivate and retain our existing employees.

One source of revenue is based on the value of cash balances held in clients' schemes. These balances are not included in the Consolidated or Company statements of financial position. In recent years, lower banking margins due to a continued low interest rate environment have resulted in a decline in these revenues. We are reviewing our banking relationships to ensure we can access competitive interest rates for our clients, but the Bank of England's decision to cut the base rate to a historic low of 0.25% last month has eliminated the small banking margin we had retained until then, with client rates on our core pension scheme accounts also falling to zero. With some commentators speculating that we might see the introduction of negative interest rates in the UK, we are reviewing how we might enhance our client banking model.

The Group has an indirect exposure to security price risk on investments held by clients, with discretionary portfolio management fees, adviser charges (including legacy investment commissions) and property management fees being based on the value of clients' assets under management, administration or advice. Periods of volatility in a particular asset class may see changes in how our investment revenues are derived. However, a great strength of our business is that we can continue to derive income from investments in all asset classes, while ensuring our clients' investment strategies are appropriately aligned to the prevailing market conditions and suitable for their financial needs.

The table on pages 20 to 21 outlines the current risk factors for the business identified by the Group. The risk factors mentioned do not purport to be exhaustive as there may be additional risks that materialise over time that the Group has not yet identified or deemed to have a potentially material adverse effect on the business.

Approval

In accordance with Section 414(c) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Company has prepared a Strategic Report, which includes information that would have been previously included in the Directors' Report.

The Strategic Report in its entirety has been approved by the Board of Directors and signed on its behalf by:

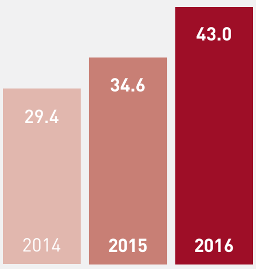
Ian Mattioli
Chief Executive
7 September 2016

Key performance indicators

The Directors consider the key performance indicators ("KPIs") for the Group are as follows.

Revenue (£m)

£43.0m

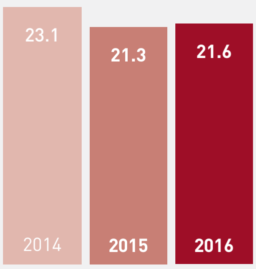


Comment:
Total income (excluding VAT) from all revenue streams.

Strategy/objective:
Organic growth and growth by acquisition

Adjusted EBITDA margin (%)

21.6%

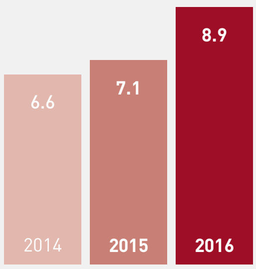


Comment:
Profit generated from the Group's operating activities before financing income or costs, taxation, depreciation amortisation and acquisition-related costs, divided by revenue.

Strategy/objective:
Operating efficiency

EBITDA (£m)

£8.9m

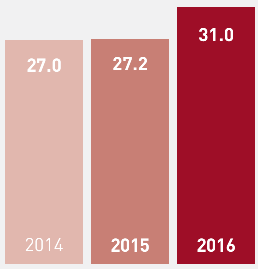


Comment:
Profit generated from the Group's operating activities before any financing income or costs, taxation, depreciation and amortisation.

Strategy/objective:
Shareholder value and financial performance

Adjusted EPS (p)

31.0p



Comment:
Total comprehensive income for the year, net of taxation, attributable to equity holders of the Company, adjusted to add back acquisition-related costs, notional finance charges on the unwinding of discounts on long term provisions and the amortisation of acquired intangible assets, divided by the number of ordinary shares in issue.

Strategy/objective:
Shareholder value and financial performance

MATTIOLI WOODS WINS BEST WEALTH MANAGEMENT ADVISER AWARD

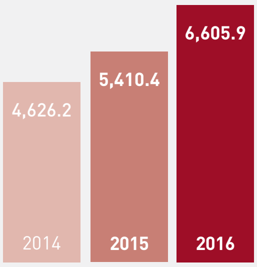
Mattioli Woods has been awarded Best Wealth Management Adviser at the Money Marketing Awards 2016.

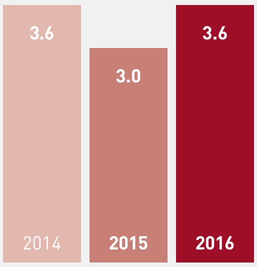
The judges unanimously agreed that Mattioli Woods stood out from the rest. They were impressed with the professionalism of the firm, highlighting it has a "very convincing and good business". In particular, the judges flagged up the charging structure, which was lower than most and "flexible and reasonable".

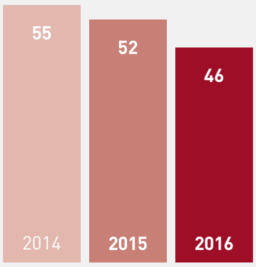
The performance of portfolios at Mattioli Woods backed up strong processes, with the judges also impressed by the range of funds and portfolios available to clients. One judge noted the company's approach to fact-finding and risk questionnaires stood out from the competition.

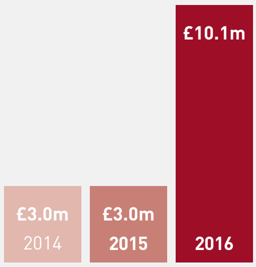
"One judge noted the company's approach to fact-finding and risk questionnaires stood out from the competition"

Assets under management, administration and advice (£m)	Client loss rate (%)	Debtors' days	Surplus on regulatory capital requirement (£m)
£6,605.9m	3.6%	46 days	£10.1m









Comment:
The value of all client assets the business gives advice upon, manages or administers.

Comment:
The number of direct SSAS and SIPP schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period.

Comment:
This is the average number of days' sales outstanding in trade receivables at any time.

Comment:
This is the aggregate surplus on the total regulatory capital requirement of the Group.

Strategy/objective:
Growth of the value of assets under management, administration and advice

Strategy/objective:
Excellent client service and retention

Strategy/objective:
Financial stability

Strategy/objective:
Financial stability

Principal risks

Industry risks

Risk type	Description	Mitigating factors
Changes in investment markets and poor investment performance	Volatility may adversely affect trading and/or the value of the Group's assets under management, administration and advice, from which we derive revenues.	• Majority of clients' funds held within registered pension schemes or ISAs, where less likely to withdraw funds and lose tax benefits. • Broad range of investment solutions enables clients to shelter from market volatility through diversification, while continuing to generate revenues for the Group. • Market volatility is closely monitored by the Investment Committee.
Changing markets and increased competition	The Group operates in a highly competitive environment with evolving characteristics and trends.	• Consolidating market position develops the Group's pricing power. • Control over scalable and flexible bespoke pension administration platform. • Experienced management team with a strong track record. • Loyal customer base and strong client retention. • Broad service offering gives diversified revenue streams.
Evolving technology	The Group's technology could become obsolete if we are unable to develop our systems to accommodate changing client needs, new products and the emergence of new industry standards.	• Track record of successful development. • High awareness of the importance of technology at Board level. • Expanded systems development with phased implementation of Group-wide platform.
Regulatory risk	The Group may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations.	• Strong compliance culture. • External professional advisers are engaged to review and advise upon control environment. • Business model and culture embraces FCA principles, including treating clients fairly. • Financial strength provides comfort should capital resource requirements be increased.
Changes in tax law	Changes in tax legislation could reduce the attractiveness of long-term savings via pension schemes, particularly SSASs and SIPPs.	• The Government has a desire to encourage long-term savings to plan for an ageing population, which is currently under-provided for. • Changes in pension legislation create the need for clients to seek advice. • The development of the Group's investment and asset management services has reduced dependency on pension planning.

Operational risks

Damage to the Group's reputation	There is a risk of reputational damage as a result of employee misconduct, failure to manage inside information or conflicts of interest, fraud, improper practice, poor client service or advice.	• Strong compliance culture with a focus on positive customer outcomes. • High level of internal controls, including checks on new staff. • Well trained staff who ensure the interests of clients are met in the services provided.
Errors, breakdown or security breaches in respect of the Group's software or information technology systems	Serious or prolonged breaches, errors or breakdowns in the Group's software or information technology systems could negatively impact customer confidence. It could also breach contracts with customers and data protection laws, rendering us liable to disciplinary action by governmental and regulatory authorities, as well as to claims by our clients.	• Ongoing review of data security. • IT performance, scalability and security are deemed top priorities by the Board. • Experienced in-house team of IT professionals and established name suppliers.
Business continuity	In addition to the failure of IT systems, there is a risk of disruption to the business as a result of power failure, fire, flood, acts of terrorism, re-location problems and the like.	• Periodic review of Business Continuity Plan, considering best practice methodologies. • Disaster recovery plan and a disaster recovery team in place. Business impact analysis has been conducted by department.
Key personnel risk	The loss of, or inability to recruit, key personnel could have a material adverse effect on the Group's business, results of operations or financial condition.	• Succession planning is a key consideration throughout the Group. • Success of the Group should attract high calibre candidates. • Share-based schemes in operation to incentivise staff and encourage retention. • Recruitment programmes in place to attract appropriate new staff. • Cross functional acquisition team brought into acquisition projects at an early stage. • Keyman cover for company founders.

Operational risks continued

Risk type	Description	Mitigating factors
Fraud risk	There is a risk an employee defrauds either the Group or a client.	• The Group ensures the control environment mitigates against the misappropriation of client assets. • Strong corporate controls require dual signatures for all payments and Board approval for all expenditure greater than £15,000. • Assessment of fraud risk every six months discussed with the Audit Committee and external auditors. • Clients have view-only access to information. • Ongoing review of risk of fraud due to external attack on the Group's IT systems.
Litigation or claims made against the Group	Risk of liability related to litigation from clients or third parties and assurance that a claim or claims will not be covered by insurance or, if covered, will exceed the limits of available insurance coverage, or that any insurer will become insolvent and will not meet its obligations to provide the Group with cover.	• Appropriate levels of Professional Indemnity insurance cover regularly reviewed with the Group's advisers. • Comprehensive internal review procedures, including compliance sign-off, for advice and marketing materials. • Maintenance of three charging models; time cost, fixed and asset based, which are aligned to specific service propositions and agreed with clients. • Restricted status for our consultants to enable the recommendation of our own products versus others in the market.
Reliance on third parties	Any regulatory breach or service failure on the part of an outsourced service provider could expose the Group to the risk of regulatory sanctions and reputational damage.	• Due diligence is part of the selection process for key suppliers. • Ongoing review of relationships and concentration of risk with key business partners.
Strategic risk	Risk that management will pursue inappropriate strategies or implement the Group's strategy ineffectively.	• Experienced management team with successful track record to date. • Management has demonstrated a thorough understanding of the market and monitors this through regular meetings with clients.

Financial risks

Counterparty default	That the counterparty to a financial obligation will default on repayments.	• The Group trades only with recognised, creditworthy third parties. • Customers who wish to trade on credit terms are subject to credit verification procedures. • All receivables are reviewed on an ongoing basis for risk of non-collection and any doubtful balances are provided against.
Bank default	The risk that a bank could fail.	• We only use banks with strong credit ratings. • Client deposits spread across multiple banks. • Regular review and challenge of treasury policy by management.
Concentration risk	A component of credit risk, arising from a lack of diversity in business activities or geographical risk.	• The client base is broad, without significant exposure to any individual client or group of clients. • Broad service offering gives diversified revenue streams.
Liquidity risk	The risk the Group is unable to meet liabilities as they become due because of an inability to liquidate assets or obtain adequate funding.	• Cash generative business. • Group maintains a surplus above regulatory and working capital requirements. • Treasury management provides for the availability of liquid funds at short notice.
Interest rate risk	Risk of decline in earnings due to a decline in interest turn. Low interest rates make it harder to structure compelling capital-protected products for clients. Low interest rates make it harder to structure compelling capital-protected products for clients.	• Interest rates being at historic lows has resulted in associated income streams no longer being material. • Good relationships with key banking partners. • Access to competitive interest rates due to scale of our business.
Underwriting risk	When arranging new products for promotion to the Group's clients, the Group may need to guarantee a minimum aggregate investment to secure appropriate terms for the product. If actual client investment is less than the underwritten amount, we would incur the cost of either acquiring the unsold element of the product or unwinding any hedges underlying the unsold element of the product.	• New products created in line with client demand. • Potential costs are carefully considered by the Investment Committee prior to the launch of each product.

Corporate social responsibility

We believe that running a profitable and growing business, which creates jobs and contributes to the economic success of the areas in which it operates, is the basis for good corporate social responsibility

OUR DEVOTED EMPLOYEES HAVE HELPED US RAISE
OVER £90,000
FOR OUR FIRST NATIONAL CHARITY BREAST CANCER NOW

Newmarket Hilly Cycle Sportive was a 25 and 50 mile cycling fund raising event in aid of Breast Cancer Now

Mattioli Woods' team at Tough Mudder UK charity fundraising event for Breast Cancer Now

Mattioli Woods are proud sponsors of the Rothley 10k

Mattioli Woods has a long-standing commitment to ensure our staff can engage with their local communities, playing a valuable role by forming innovative partnerships with other organisations and charities. This social awareness is present throughout the business, from our employees to our clients, our professional connections and the suppliers we use.

We have a high level of engagement within our local communities. Each year, we sponsor both business, sports and community awards. Our business has benefited greatly from winning numerous awards and we feel its right to help other businesses reap the rewards of such accolades. In addition, we sponsor a variety of local clubs, business and sports related events across the country. We believe this brings many benefits to the local community and beyond.

The Group is pleased to sponsor the Rothley 10k, one of the most celebrated charity road running races in Leicestershire, which attracted over 700 runners in 2016, a new record for the race, which raised over £20,000 of essential funds for a variety of local causes, including LOROS, Rainbows, County Air Ambulance Service, Age UK, Eye Camps and RNLI.

In 2015 we chose our first national charity, Breast Cancer Now, the UK's largest breast cancer charity dedicated to funding research into this devastating disease. By tackling the disease in the labs, on the political agenda, through public health information and with the health service, it believes it can transform the outlook for everyone affected by breast cancer. To date, the Group has raised over £90,000 for the charity.

Employees across the country have been involved in a number of activities to raise essential funding for this great cause, including a group wide cycling challenge, Tough Mudder in the Midlands, the London and Edinburgh marathons, Glack Attack in Aberdeen and numerous cake sales and challenges.

We also continue to sponsor wheelchair racer Sammi Kinghorn, who represented Scotland in the 2014 Commonwealth Games in Glasgow and is representing Team GB at the Paralympic games in Rio de Janeiro this month.

The Mattioli Woods Business Academy ("the Academy") operates in partnership with Gateway College, Leicester. The Academy has been developed to create opportunities locally for young people and assist the Group in recruiting and developing staff with the right skills, experience and values. The Academy offers two-year placements to 10 of the brightest students each year, leading to Level 3 qualifications in Business and Finance and a wealth of workplace experience.

In addition, we continue to expand our Financial Services Development Scheme, aimed at graduates, apprentices and school leavers, with plans to enrol up over 20 new joiners this year.

Board of Directors

Building value for shareholders

The Board comprises six Executive and three Non-Executive Directors

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Company Secretary:
Nathan Imlach

Registered office:
MW House
1 Penman Way
Grove Park
Enderby
Leicester
LE19 1SY

Registered number:
3140521

Nominated adviser and broker:
Canaccord Genuity Limited
88 Wood Street
London
EC2V 7QR

Auditor:
RSM UK Audit LLP (formerly
Baker Tilly UK Audit LLP)
2 Whitehall Quay
Leeds
LS1 4HG

Principal solicitors:
Walker Morris LLP
Kings Court
12 King Street
Leeds
LS1 2HL

DWF LLP
2 Lochrin Square
96 Fountainbridge
Edinburgh
EH3 9QA

Principal bankers:
Lloyds Bank plc
1 Lochrin Square
92 Fountainbridge
Edinburgh
EH3 9QA

Bank of Scotland plc
1 Lochrin Square
92 Fountainbridge
Edinburgh
EH3 9QA

Registrars:
Capita Registrars
Capita Asset Services
40 Dukes Place
London
EC3A 7NH

01 Bob Woods, Chairman, age 62

Bob has over 30 years' experience in investment planning and chairs the Group's Investment Committee. Bob has been key to the development of Mattioli Woods' investment ethos, believing that sound strategies need to avoid the 'noise' of the immediate and instead be based on an in-depth understanding of the long-term economic outlook. Bob founded Mattioli Woods in partnership with Ian Mattioli in 1991. He has been responsible for developing Group strategy and identifying new growth areas. His personal achievements include winning the London Stock Exchange AIM entrepreneur of the year award jointly with Ian Mattioli. Bob steps down from the Board in October 2016, but will continue in a full-time Executive role as Senior Adviser to the Group, focussing on his client portfolio, new business development and acting as an ambassador for Mattioli Woods.

02 Ian Mattioli, Chief Executive, age 53

Ian has over 30 years' experience in the financial services industry and, together with Bob Woods, founded Mattioli Woods. Ian is responsible for the vision and operational management of the Group. He instigated the development of the investment proposition, including the structured products initiative, and was instrumental in the development of Custodian REIT plc, a UK real estate investment trust listed on the London Stock Exchange. Ian is a Director of both Custodian REIT and its discretionary investment manager, Custodian Capital. His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award.

03 Nathan Imlach, Finance Director and Company Secretary, age 47

Nathan is responsible for all financial aspects of Mattioli Woods' operations and leads the Group's acquisition activity. He qualified as a Chartered Accountant in 1993 with Ernst & Young, specialising in providing mergers and acquisitions advice to a broad range of quoted and unquoted clients in the UK and abroad. He is a Fellow of the Chartered Institute for Securities & Investment and holds the Corporate Finance qualification from the Institute of Chartered Accountants in England and Wales ("ICAEW"). Nathan is a Director of Custodian Capital and Company Secretary to Custodian REIT. Nathan is also senior independent Director of Mortgage Advice Bureau (Holdings) plc and a trustee of Leicester Grammar School.

04 Murray Smith, Sales and Marketing Director, age 47

Murray graduated with an MA in Accountancy and has worked in the financial services industry since 1995. Murray specialises in advising on all aspects of retirement and wealth planning and progressed from being a consultant at Mattioli Woods to his appointment to the Board. Murray's responsibilities include managing the Group's consultancy team, marketing and public relations activities. He is also a Director of Custodian Capital Limited.

05 Mark Smith, Operations Director, age 46

Mark joined Mattioli Woods in 2000, after gaining 12 years' experience in the financial services industry with a large insurance company, a small IFA firm and specialist SSAS and SIPP consultancies. As the Group's Compliance Officer, he is responsible for liaison with the FCA on all regulatory issues. He is also a Director of Custodian Capital. Mark has responsibility for all the support functions of the Group including systems, compliance, recruitment and service delivery to our clients.

06 Alan Fergusson, Employee Benefits Director, age 45

Alan is responsible for the strategic development of employee benefits within the Mattioli Woods Group, continuing the role he started within Kudos Financial Services Limited, prior to its acquisition in 2011. Alan has worked in the financial services industry since 1989 and has spent the last 15 years advising corporate clients on their employee benefits design, structure, implementation and ongoing administration. He also sits on the board of the Worldwide Broker Network, representing both the UK and employee benefits on the global network.

07 Joanne Lake, Deputy Chairman, age 52

Joanne was appointed to the Board in July 2012 and is Chairman of the Audit Committee. In June 2015, she was appointed as Deputy Chairman ahead of her intended appointment as Non-Executive Chairman at the Group's Annual General Meeting in October 2016. Joanne has over 30 years' experience in accountancy and investment banking, including with Panmure Gordon, Evolution Securities, Williams de Broë and Price Waterhouse. She is a Chartered Accountant and a Fellow of both the Chartered Institute for Securities & Investment and the ICAEW, and is a member of the ICAEW's Corporate Finance Faculty. Joanne is also a Non-Executive Director of Main Market listed Henry Boot PLC, a land development and construction group, Gateley (Holdings) Plc, the first UK commercial law firm to list on AIM, Morses Club PLC, a leading UK non-standard consumer finance company and Accrol Group Holdings plc, a leading independent tissue converter, she is also a trustee of The Hepworth Wakefield gallery.

08 Carol Duncumb, Non-Executive Director, age 54

Carol has 30 years' experience working in consumer-related companies and over the last five years has focused on online transactional companies to gain greater experience of changing consumer behaviours. Previously, Carol was the Chief Executive of Intimas plc and Managing Director of Wolsey Limited and has a strong understanding of managing businesses. More recently, her activities have included business angel investing into online consumer businesses. She manages a portfolio of investments, whilst advising successful entrepreneurs and management teams on developing their businesses.

09 Anne Gunther, Non-Executive Director, age 61

Anne was appointed to the Board in June 2016. She has spent nearly 40 years in retail financial services in the UK, with Executive experience across all sectors from lending to wealth management and including IPO and merger/acquisition activity. Anne has a significant background in direct channel delivery, her team having launched Lloyds Internet Banking, and then as Chief Executive of both Standard Life Bank and Standard Life Healthcare. She was a founding Director of Standard Life Wealth. Anne is a Chartered Banker and holds an MBA from Warwick Business School and a degree in Physics from Nottingham University. In her Non-Executive career Anne has chaired Audit, Risk and Remuneration Committees in both the charitable and commercial sectors and has also chaired Warwick Business School. In addition to her Mattioli Woods role Anne now sits on the MBNA board and chairs Audit and Risk Committee for Masthaven Bank as well as being Non-Executive/lay member for finance and probity with the NHS Northern, Eastern and Western Devon Clinical Commissioning Group.

Directors' report

Report and financial statements

The Directors have pleasure in presenting their report together with the financial statements for the year ended 31 May 2016. For the purposes of this report, the expression 'Company' means Mattioli Woods plc and the expression 'Group' means the Company and its subsidiaries.

Business review

The Group's principal activities continue to be the provision of pension consulting and administration, wealth management, asset management and employee benefits consultancy. The Strategic Report on pages 1 to 23 includes further information about the Group's principal activities, financial performance during the year and indications of likely future developments.

The Directors believe they have adequately discharged their responsibilities under section 414(c) of the Companies Act 2006 to provide a balanced and comprehensive review of the development and performance of the business.

Results and dividends

Group profit for the year after taxation amounted to £5.2m, up 30.0% on the previous year as a result of strong revenue growth, up 24.3% to £43.0m (2015: £34.6m) coupled with a fall in the effective tax rate to 16.5% (2015: 24.0%), primarily due to the recalculation of deferred tax liabilities on acquired intangibles following a cut in the substantively enacted rate of UK corporation tax from 20% to 18%.

The final dividend in respect of the year ended 31 May 2015 of 7.16p per share was paid in October 2015. An interim dividend in respect of the year ended 31 May 2016 of 3.85p was paid to shareholders in March 2016. The Directors recommend a final dividend of 8.65p per share. This has not been included within the Group financial statements as no obligation existed at 31 May 2016. If approved, the final dividend will be paid on 1 November 2016 to ordinary shareholders whose names are on the register on 23 September 2016.

Share capital

Mattioli Woods plc is a public limited company incorporated in England and Wales and its shares are quoted on the AIM market of London Stock Exchange plc. The Company's authorised and issued share capital during the year and as at 31 May 2016 is shown in Note 22. The ordinary shares rank pari passu in all respects. Save as agreed at the Annual General Meeting of the shareholders, the ordinary shares have pre-emption rights in respect of any future issues of ordinary shares to the extent conferred by section 561 of the Companies Act 2006.

There are no restrictions on the transfer of ordinary shares in the Company, other than:

- Certain restrictions that may be imposed from time to time by laws and regulations and pursuant to the Listing Rules of the FCA, whereby certain Directors, officers and employees of the Group require the approval of the Group to deal in ordinary shares of the Company;
- Restrictions on the former shareholders of Thoroughbred Wealth Management Limited ("the TWM Sellers") as a result of the TWM Sellers entering into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 946,256 ordinary shares in Mattioli Woods during the four years ending 29 July 2017;
- Restrictions on the former shareholders of Boyd Coughlan Limited ("the BCL Sellers") as a result of the BCL Sellers entering into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 235,742 ordinary shares in Mattioli Woods during the two years ending 23 June 2017; and
- Restrictions on the former shareholders of Taylor Patterson ("the Taylor Patterson Sellers") as a result of the Taylor Patterson Sellers entering into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 419,888 ordinary shares in Mattioli Woods during the three years ending 8 September 2018.

The Group is not aware of any other agreements between holders of securities that may result in restrictions on the transfer of ordinary shares.

CREST

Mattioli Woods plc share dealings are settled in CREST, the computerised system for the settlement of share dealings on the London Stock Exchange. CREST reduces the amount of documentation required and makes the trading of shares faster and more secure. CREST enables shares to be held in an electronic form instead of the traditional share certificates. CREST is voluntary and shareholders can keep their share certificates if they wish. This may be preferable for shareholders who do not trade in shares on a frequent basis.

Substantial shareholdings

At 7 September 2016, the Company had been notified of the following interests representing 3% or more of its issued share capital:

Shareholder	Number of ordinary shares	Percentage holding
Ian Mattioli	3,234,315	12.8%
Bob Woods	2,573,703	10.2%
BlackRock, Inc.	2,326,997	9.2%
Liontrust Asset Management	2,405,749	9.5%
Standard Life Investments	2,408,277	9.5%
Investec Wealth and Investment	2,322,561	9.2%
Schroders plc	1,104,928	4.4%
FIL Limited	1,202,875	4.8%
Unicorn Asset Management	1,171,426	4.6%

In addition to the above shareholdings, 517,294 ordinary 1p shares representing 2.0% of the issued share capital are held by employees via the Mattioli Woods plc Share Incentive Plan ("the SIP"). The Group intends to actively encourage wider share ownership by its employees through the SIP and other share-based incentive schemes.

Directors

A list of current serving Directors and their biographies is given on pages 24 to 25. Nathan Imlach, Mark Smith and Murray Smith retire and, being eligible, offer themselves for re-election.

John Redpath retired from the Board on 7 April 2016 and the appointment of Anne Gunther as Non-Executive Director was announced on 14 June 2016. Bob Woods, Executive Chairman, intends to step down from the Board to focus on his executive responsibilities at the Company's next Annual General Meeting and will formally leave the Board on 25 October 2016, following the appointment of Joanne Lake, currently Deputy Chairman, as Non-Executive Chairman.

Directors' interests

Directors' emoluments, beneficial interests in the shares of the Company and their options to acquire shares are disclosed in the Directors' Remuneration Report. During the period covered by this report, no Director had a material interest in a contract to which the Company or any of its subsidiaries was a party (other than their own service contract), requiring disclosure under the Companies Act 2006 other than in respect of Custodian REIT plc and the rental of the office premises at MW House and Gateway House as disclosed in Note 28.

Conflicts of interest

There are procedures in place to deal with any Directors' conflicts of interest arising under section 175 of the Companies Act 2006 and such procedures have operated effectively since the Company adopted new Articles of Association on 22 October 2009.

Directors' indemnity

All Directors and officers of the Company have the benefit of the indemnity provision contained in the Company's Articles of Association. The provision, which is a qualifying third party indemnity provision, was in force throughout the last two financial years and is currently still in force. The Group also purchased and maintained throughout the financial period Directors' and Officers' liability insurance in respect of itself and its Directors and Officers, although no cover exists in the event Directors or officers are found to have acted fraudulently or dishonestly.

Employees

The Group continues to involve its staff in the future development of the business. Information is provided to employees through briefing sessions, the Group's website and its intranet, "MWeb", which is continually updated.

The Group operates "MyWay", an online flexible benefits platform. Employees can change elements of their benefits choice annually or if they have any lifestyle events. MyWay offers a variety of benefits covering health and wellbeing, finance and lifestyle choices, in addition to a 'core' benefits package, and employees are able to purchase these benefits at group rates. MyWay shows employees the value of their salary and all other benefits as part of a total reward statement. The platform allows individuals to select options to meet their personal needs and since its launch we have seen an increasing take up of flexible benefits each year.

Directors' report continued

Employees continued

The Group operates a Group Personal Pension plan available to all employees and contributes to the pension schemes of Directors and employees. Following the introduction of auto-enrolment every employer must automatically enrol eligible jobholders into a workplace pension scheme. Employers are then required to make contributions to pension schemes, adding to the savings made by employees. Eligible employees may choose to opt out after they have been automatically enrolled. Employers cannot avoid their obligation to automatically enrol eligible employees into a qualifying scheme.

The Group's pension scheme qualifies as an auto-enrolment scheme. Mattioli Woods' first staging date was 1 April 2014, with the Group introducing the following minimum contribution rates:

Date	Minimum employer contribution	Minimum employee contribution
From staging date (1 April 2014) to 30 September 2017	1%	1%
1 October 2017 to 30 September 2018	2%	3%
1 October 2018 onwards	3%	5%

The Group operates an Enterprise Management Incentive scheme, Share Incentive Plan and Long Term Incentive Plan, details of which are given in the Directors' Remuneration Report and the financial statements.

The Group is committed to the principle of equal opportunity in employment, regardless of a person's race, creed, colour, nationality, gender, age, marital status, sexual orientation, religion or disability. Employment policies are fair, equitable and consistent with the skills and abilities of the employees and the needs of the business.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. Group policy is that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

We continue to run a successful graduate training programme and an apprenticeship scheme, The Mattioli Woods Business Academy, in partnership with Gateway College Leicester, which gives opportunities to school leavers and people who have taken an alternative route through education or work. Apprenticeships offer work-based training programmes to develop new and existing staff across a range of business areas, fulfilling the Group's commitment to creating opportunities that offer a clear progression path both in the short and long term.

Research and development

In response to the need for an increasingly sophisticated software solution to manage the broader range of products and services offered by Mattioli Woods, the Group has continued to develop its technology infrastructure, extending the development of its bespoke pension administration and wealth management platform to include employee benefits, with the aim of enhancing the services offered to clients and realising operational efficiencies across the Group as a whole. The costs of this development are capitalised where they are recognised as having an economic value that will extend into the future and they meet the criteria of IAS 38 to be capitalised.

Related party transactions

Details of related party transactions are given in Note 28.

Environmental

The Board believes good environmental practices, such as the recycling of paper waste and purchase of fuel efficient motor vehicles, will support its strategy by enhancing the reputation of the Group. However, due to the nature of its business generally, the Group does not have a significant environmental impact.

Annual General Meeting

The Annual General Meeting ("AGM") of the Company will be held on 25 October 2016. The Notice of Meeting is included with this document and contains further information on the ordinary and special business to be proposed at the meeting. Resolutions 9 and 10 are the only special business being proposed. Resolution 9 renews the authorities previously granted to the Directors to (a) allot shares in the Company in connection with a rights issue or other pre-emptive offer and (b) otherwise allot shares in the Company for cash up to a maximum nominal amount (representing approximately 5% of the share capital of the Company in issue at 14 September 2016), in each case as if the pre-emption rights of section 561 of the Act did not apply.

Resolution 10 seeks separate and additional authority in accordance with the Statement of Principles ("Statement of Principles") issued by the Pre-Emption Group. The Statement of Principles states that in addition to the previous standard annual disapplication of pre-emption rights of up to a maximum equal to 5% of issued ordinary share capital, the Pre-Emption Group is supportive of companies extending the general disapplication authority by an additional 5% for certain purposes. The Company intends to use the additional 5% only in connection with an acquisition or specified capital investment.

On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote unless the proxy is appointed by more than one shareholder and has been instructed by one or more shareholders to vote for the resolution and by one or more shareholders to vote against the resolution, in which case the proxy has one vote for and one vote against. This is to reflect the Shareholders' Rights Regulations which have amended the Companies Act 2006.

On a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. None of the ordinary shares carry any special voting rights with regard to control of the Company. The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. The relevant proxy votes are counted and the number for, against or withheld in relation to each resolution are announced at the AGM.

Principal risks and uncertainties

The Directors' view of the principal risks and uncertainties facing the business is summarised on page 17 of the Chief Executive's Review.

Financial risk management

The Company and certain of its subsidiaries are supervised in the UK by the Financial Conduct Authority ("FCA"). The Group must comply with the regulatory capital requirements set by the FCA and manages its regulatory capital through continuous review of the capital requirements of the Company and its regulated subsidiaries, which are monitored by the Group's management and reported monthly to the Board.

The Group's financial risk management is based upon sound economic objectives and good corporate practice. The Board has overall responsibility for risk management and internal control. Our process for identifying and managing risks is set out in more detail on page 17 of the review of Corporate Governance. The key risks and mitigating factors are set out on pages 20 to 21.

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet the identifiable needs of the Group and to invest cash assets safely and profitably. If required, short term flexibility is achieved through the use of bank overdraft facilities. The Group does not undertake any trading activity in financial instruments. All activities are transacted in Sterling. The Group does not engage in any hedging activities.

The Group reviews the credit quality of customers and limits credit exposures accordingly. All trade receivables are subject to credit risk exposure. However, there is no specific concentration of credit risk as the amounts recognised represent a large number of receivables from various customers.

In agreeing budgets, the Board sets limits for debtors' days and doubtful debts expense against which performance is monitored.

Loans may be advanced to investment syndicates to secure new investment opportunities. In the event that a syndicate fails to raise sufficient funds to complete the investment, the Group may either take up ownership of part of the investment or lose some, or all, of the loan. However, to mitigate this risk, loans are only approved by the Board under strict criteria, which include confirmation of client demand for the investment.

Directors' report continued

Corporate governance
A full review of Corporate Governance appears on pages 31 to 35.

Auditor
RSM UK Audit LLP, who have been the Group's auditor since 2005, have confirmed their willingness to continue in office as auditor in accordance with Section 489 of the Companies Act 2006. The Group is satisfied that RSM UK Audit LLP are independent and there are adequate safeguards in place to safeguard their objectivity. A resolution to re-appoint RSM UK Audit LLP as the Company's auditor will be proposed at the 2016 AGM. In line with good corporate governance, the Audit Committee periodically reviews whether to put the audit services contract out to tender, to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms.

Directors' statement as to disclosure of information to the auditor
The Directors who were members of the Board at the time of approving the Directors' Report are listed on pages 24 to 25. Having made enquiries of fellow Directors and of the Company's auditor, each of these Directors confirms that:
- To the best of each Director's knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has taken all the steps they might reasonably be expected to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Going concern
The Directors believe the Group is well placed to manage its business risks successfully. The Group's forecasts and projections show that the Group should continue to be cash generative and able to operate within the level of its current financing arrangements. Accordingly, the Directors continue to adopt the going concern basis for the preparation of the financial statements.

Events after the balance sheet date
Details of significant events occurring after the end of the reporting period are given in Note 31.

On behalf of the Board

Nathan Imlach
Finance Director and Company Secretary
7 September 2016

Corporate governance

Introduction

The Board is committed to achieving high standards of corporate governance, integrity and business ethics. Under the AIM Rules the Group is not required to comply with the provisions of the new edition of UK Corporate Governance Code issued by the Financial Reporting Council in September 2014 ("the Code"). The Code has not been applied in full, however, the Board has taken into consideration the Guidance for Smaller Quoted Companies on the Code produced by the Quoted Companies Alliance, and taken steps to apply the principles of the Code in so far as it can be applied practically, given the size of the Group and the nature of its operations.

The Board and its committees

Board composition and independence

The Board of Directors comprises six Executive Directors and three independent Non-Executive Directors. Their biographies on pages 24 to 25 demonstrate a range of experience which is vital to the success of the Group.

The roles of Chairman and Chief Executive are distinct, as set out in writing and agreed by the Board. The Chairman is responsible for the effectiveness of the Board, directing strategy and ensuring communication with shareholders. The Chief Executive is responsible for overseeing the delivery of this strategy and the day-to-day management of the Group by the management team. The Board is committed to developing the corporate governance and management structures of the Group to ensure they continue to meet the changing needs of the business. Consequently, the role of Chairman is to be separated from executive responsibilities at the next AGM, in line with conventional corporate governance standards.

The Non-Executive Directors are considered by the Board to be independent of management and free from any relationship which might materially interfere with the exercise of independent judgement. The Board does not consider the Non-Executive Directors' shareholdings to impinge on their independence. The Non-Executive Directors provide a strong independent element to the Board and bring experience at a senior level of business operations and strategy. Joanne Lake is currently the Senior Independent Director and will hand this role over to Anne Gunther at the Group's next AGM.

All Directors have access to the Company Secretary, who is responsible for ensuring that Board procedures and applicable rules and regulations are observed. Any Director, on appointment and throughout their service, is entitled to receive any training they consider necessary to fulfil their responsibilities effectively.

The Board meets regularly throughout the year as well as on an ad hoc basis, as required by time critical business needs, and is the principal forum for directing the business of the Group.

Operation of the Board

The Board is responsible to shareholders for the proper management of the Group and has a formal schedule of matters specifically reserved to it for decision. These include strategic planning, business acquisitions and disposals, authorisation of major capital expenditure and material contractual arrangements, setting policies for the conduct of business and approval of budgets and financial statements. Other matters are delegated to management, supported by policies for reporting to the Board. The Company maintains appropriate insurance cover in respect of legal action against the Company's Directors, but no cover exists in the event that a Director is found to have acted fraudulently or dishonestly.

The agenda and relevant briefing papers are distributed by the Company Secretary on a timely basis, usually a week in advance of each Board meeting.

Board committees

The Board has delegated authority to four committees. The Chairman of each committee provides a report of any meeting of that committee at the next Board meeting. The Chairman of each committee is present at the Annual General Meeting to answer questions from shareholders.

Audit Committee

The Audit Committee comprises Joanne Lake (Chairman), Carol Duncumb and Anne Gunther. Joanne Lake is a chartered accountant and the Board believes the Committee is independent, with all members being Non-Executive Directors. Anne Gunther will be appointed Chairman of the Audit Committee following Joanne Lake's proposed appointment to Chairman at the Group's next AGM.

The Committee meets together with the Finance Director, Nathan Imlach, not less than twice a year. It is responsible for ensuring the financial performance of the Group is properly reported on and monitored. The Committee considers the appointment of, and fees payable to, the external auditor and discusses with them the scope of the annual audit. The Committee also reviews the external auditor's management letter and detailed presentations are made to the Committee by the Company's auditor at least once a year. An analysis of fees payable to the external audit firm in respect of audit and non-audit services during the year is set out in Note 7 to the financial statements. The Company is satisfied the external auditor remains independent in the discharge of their audit responsibilities.

Corporate governance continued

Audit Committee continued

The Committee reviews the Interim Report and annual financial statements for compliance with accounting standards, statutory obligations and the requirements of the AIM Rules. The Committee also reviews the effectiveness of the internal controls of the Group. The presence of other senior executives from the Group may be requested.

In September 2015, the Group appointed a new Head of Internal Audit, John Macdonald, who reports to the Committee. John has a proven track record in financial services, and comes with experience of auditing companies such as Zurich Insurance, Friends Provident and Barclaycard. In addition, a new Head of Compliance and Risk Management has been recruited and will join the Group in October 2016.

The Committee has reinforced its mission for risk management and embarked on a path to substantially evolve the main components of its three lines of defence. The Head of Internal Audit is responsible for providing assurance on the internal controls related to the Group's key activities, and during the year has engaged in a number of activities:

- Audits over data privacy, to assess how well we safeguard our corporate and client personal data; and payments processing, to validate the control environment in which we process client and corporate payments through our various banking partners. Both reviews identified control improvements to enhance our business operations.
- Consultancy-style reviews, where internal audit has partnered with the business to strengthen a number of key processes, including disaster recovering planning and our human resources recruitment process. In addition, the internal audit function has worked closely with the Board to provide training and awareness over the Group's evolving business and IT risks, which has included a number of workshops to update the Group Risk Register and the Board's statement of Risk Appetite.
- As the third line of defence, the Internal Audit function (together with the external auditors for financial reporting) is building risk awareness within the organisation by challenging the first and second lines of defence to improve the controls framework.

Remuneration Committee

The Remuneration Committee comprises Carol Duncumb (Chairman), Joanne Lake and Anne Gunther. The Committee meets not less than twice a year. It is responsible for determining and reviewing the Group's policy on executive remuneration and other benefits and terms of employment, including performance related bonuses and share options. The Committee also administers the operation of the share option and share incentive schemes established by the Company.

The members of the Remuneration Committee have no personal interest in the outcome of their decisions and seek to serve the interests of shareholders to ensure the continuing success of the Company.

The remuneration of the Non-Executive Directors is determined by the Board itself. No Director is permitted to participate in decisions concerning their own remuneration.

The Committee has reviewed the Group's long term incentive plans in conjunction with external consultants to ensure it can continue to attract, retain and incentivise appropriately qualified staff to achieve its goals.

Nominations Committee

The Nominations Committee comprises Joanne Lake (Chairman), Carol Duncumb and Anne Gunther. The Committee is responsible for reviewing the size, structure and composition of the Board, establishing appropriate succession plans for the Executive Directors and other senior executives in the Group and for the nomination of candidates to fill Board vacancies where required. The Committee works in close consultation with the Executive Directors, with its main priorities being Board structure and management succession.

Investment Committee

The Investment Committee comprises Bob Woods (Chairman), Ben Wattam (Investment Manager), Simon Gibson (Investment Manager), David Thurlow (Investment Manager), Richard Smith (Investment Manager) and Scott Wylie (Investment Manager). The Committee's principal terms of reference are to oversee the Group's investment management approach, set the 'house view' on economics, investment markets and asset allocation; and consider how the Group should best apply these views.

HOW WE GOVERN OUR BUSINESS

The Board is committed to achieving high standards of corporate governance, integrity and business ethics. Under the AIM Rules the Group is not required to comply with the provisions of the new edition of UK Corporate Governance Code issued by the Financial Reporting Council in September 2014 ("the Code"). The Code has not been applied in full, however, the Board has taken into consideration the Guidance for Smaller Quoted Companies on the Code produced by the Quoted Companies Alliance, and taken steps to apply the principles of the Code in so far as it can be applied practically, given the size of the Group and the nature of its operations.

Board

The Board is responsible to shareholders for the proper management of the Group and has a formal schedule of matters specifically reserved to it for decision. These include strategic planning, business acquisitions and disposals, authorisation of major capital expenditure and material contractual arrangements, setting policies for the conduct of business and approval of budgets and financial statements. The Board has delegated authority to four committees:

Audit Committee

The Audit Committee is responsible for ensuring the financial performance of the Group is properly reported on and monitored.

The Committee reviews the Group's financial statements for compliance with accounting standards, statutory obligations and the requirements of the AIM Rules.
The Committee also reviews the effectiveness of the internal controls of the Group.

Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing the Group's policy on executive remuneration and other benefits and terms of employment, including performance related bonuses and share options.

The remuneration of the Non-Executive Directors is determined by the Board itself. No Director is permitted to participate in decisions concerning their own remuneration.

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The Nominations Committee is responsible for reviewing the size, structure and composition of the Board, establishing appropriate succession plans for the Executive Directors and other senior executives in the Group and for the nomination of candidates to fill Board vacancies where required.
The Committee works in close consultation with the Executive Directors, with its main priorities being Board structure and management succession.

Investment Committee

The Investment Committee's principal terms of reference are to oversee the Group's investment management approach, set the "house view" on economics, investment markets and asset allocation; and consider how the Group should best apply these views.

Corporate governance continued

Meetings and attendance
All Directors are encouraged to attend all Board meetings and meetings of Committees they are members of. Directors' attendance at Board and Committee meetings during the year (including the AGM) was as follows:

	Board	Remuneration Committee	Nominations Committee	Investment Committee	Audit Committee
Meetings in year	7	6	1	12	4
Bob Woods	7	—	—	12	—
Ian Mattioli	7	—	—	—	—
Nathan Imlach	6	—	—	—	—
Murray Smith	7	—	—	—	—
Mark Smith	7	—	—	—	—
Alan Fergusson	6	—	—	—	—
John Redpath[1]	5	3	1	—	3
Joanne Lake	7	6	1	—	4
Carol Duncumb	7	6	1	—	4
Anne Gunther[2]	—	—	—	—	—

Notes:
1. Retired on 7 April 2016.
2. Appointed after the year end, on 14 June 2016.

Induction, training and performance evaluation
New Directors receive an induction on their appointment covering the activities of the Group, its key business and financial risks, the terms of reference of the Board and its Committees and the latest financial information.

The Chairman ensures Directors update their skills, knowledge and familiarity with the Group as required to fulfil their roles on the Board and its Committees. Ongoing training is provided as necessary and includes updates from the Company Secretary on changes to the AIM Rules, requirements under the Companies Acts and other regulatory matters. All Directors have access to independent professional advice at the Company's expense where they judge it necessary to discharge their duties, with requests for such advice being authorised by the Chairman or two other Directors, one of whom is a Non-Executive.

Evaluation of the Board's performance
Individual appraisal of each Director's performance is undertaken either by the Chief Executive or Chairman each year and involves meetings with each Director on a one-to-one basis. The Non-Executive Directors, led by the Senior Independent Director, carry out an appraisal of the performance of the Chairman and Chief Executive.

Retirement and re-election
All Directors are subject to election by shareholders after their appointment and to re-election thereafter at intervals of no more than three years.

Non-Executive Directors' appointments are initially for 12 months, and continue thereafter until terminated by either party giving three months' prior written notice to expire at any time on or after the initial 12 month period. The terms and conditions of appointment of the Non-Executive Directors are available for inspection at MW House during normal business hours and prior to the AGM.

Communications with shareholders
The Board is committed to maintaining an ongoing dialogue with the Company's shareholders. The principal methods of communication with private investors remain the Annual Report and financial statements, the Interim Report, the AGM and the Group's website (www.mattioliwoods.com).

It is intended that all Directors will attend each AGM and shareholders will be given the opportunity to ask questions at the AGM on 25 October 2016. In addition, the Chairman, Chief Executive and Finance Director welcome dialogue with individual institutional shareholders to understand their views and feed these back to the Board. General presentations are also given to analysts and investors covering the annual and interim results.

Internal control and risk management
The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can only provide reasonable not absolute assurance against material misstatement or loss.

In accordance with the guidance of the Turnbull Committee on internal control, an ongoing process has been established for identifying, evaluating and managing significant risks faced by the Group. This process has been in place throughout the year under review and up to the date of approval of the Annual Report and financial statements.

The Board routinely reviews the effectiveness of the system of internal control and risk management to ensure controls react to changes in the nature of the Group's operations.

The Group maintains appropriate insurance cover and reviews the adequacy of the cover regularly, in conjunction with the Group's insurance brokers.

There are clearly defined procedures for reviewing and approving all bids, acquisitions and capital expenditure within the Group.

On behalf of the Board

Nathan Imlach
Finance Director and Company Secretary
7 September 2016

Directors' remuneration report

Remuneration policy

The policy of the Remuneration Committee is to set basic salaries at a level which is competitive with that of comparable businesses, with a substantial proportion of the overall remuneration package being linked to performance through participation in short term and long term incentive schemes. The overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhance shareholder value.

The FCA has published codes of practice ("the FCA Codes"), setting out the standards and policies that certain firms are required to meet when setting pay and bonus awards for staff. The aims of the FCA Codes are to:

- Ensure greater alignment between risk and individual reward;
- Discourage excessive risk taking and short-termism;
- Encourage more effective risk management; and
- Support positive behaviours and a strong and appropriate conduct culture within firms.

There are four FCA Codes tailored to different types of firm. FCA Remuneration Code SYSC 19A ("the Remuneration Code") sets out the standards and policies that solo-regulated IFPRU investment firms within scope of the Capital Requirements Directive ("CRD") IV, such as the Company, have to meet when setting pay and bonus awards for staff. The FCA has adopted a proportionate approach to implementing the code and disclosure, allowing firms to comply in a way and to the extent that is appropriate to their size, nature and complexity of their activities.

Although Mattioli Woods is not required to apply the Remuneration Code principles because it is a Tier 4 firm, the Remuneration Committee believes the Group's policy is very much in accordance with the spirit of the Remuneration Code, delivering appropriate remuneration structures for the Group's most senior executives.

Salaries, fees and benefits

Salaries for Executive Directors are determined by the Remuneration Committee and reviewed annually, taking into account individual performance over the previous 12 months, external benchmark salary data and pay and employment conditions elsewhere in the Group.

Fees for the Non-Executive Directors are determined by the Board, having regard to fees paid to Non-Executive Directors in other UK quoted companies, the time commitment and responsibilities of the role. No options are held by the Non-Executive Directors. Individuals cannot vote on their own remuneration.

Benefits relate to the provision of cars for certain Directors, pension contributions and life assurance.

Short term incentive arrangements

For the year ended 31 May 2016, the short term incentive arrangements for the Executive Directors comprised:

- A corporate award based on actual profit achieved compared to target profit; and
- A personal award based on the achievement of personal objectives assessed on a discretionary basis, considering each executive's performance against their key objectives.

The payment of corporate award at its maximum level is dependent on outperformance of the Board's approved internal budget for the period. For the year ending 31 May 2017, the short-term incentive arrangements for each Executive Director are as follows:

Director	Maximum award as a proportion of salary	Linked to corporate objectives	Linked to personal objectives
Ian Mattioli	100%	50%	50%
Bob Woods	80%	30%	70%
Nathan Imlach	80%	50%	50%
Murray Smith	80%	50%	50%
Mark Smith	80%	50%	50%
Alan Fergusson	80%	50%	50%

Long term incentives

It is a priority for the Group to continue to attract and retain appropriately qualified staff and to assist in this, it has adopted the Mattioli Woods Consultants' Share Option Plan ("the Consultants' Share Option Plan") and the Mattioli Woods 2010 Long-Term Incentive Plan ("the LTIP") to incentivise certain of its senior employees and Directors. Where possible, and to the limits applied by the legislation, the Consultants' Share Option Plan benefits from the tax advantages under an Enterprise Management Initiative ("EMI") scheme.

During the year ended 31 May 2016 the Remuneration Committee granted further awards under the LTIP in respect of the year ended 31 May 2015. This allows a significant element of deferred variable remuneration to be paid in equity or a cash equivalent award.

Grant of equity share options under the LTIP

At 31 May 2016, the Company had granted options to certain of its Executive Directors, senior managers and consultants to acquire (in aggregate) up to 2.76% (2015: 2.01%) of its share capital. The maximum entitlement of any individual was 0.53% (2015: 0.48%). The options are exercisable at 1p per share.

Grant of cash-settled options under the LTIP

At 31 May 2016, the Company had granted cash-settled options to certain Executive Directors to acquire the equivalent of (in aggregate) up to 1.06% (2015: 1.31%) of its share capital. The maximum entitlement of any individual was 0.62% (2015: 0.76%). The options are exercisable at 1p per share. The amount of any cash entitlement on vesting of an award will be directly linked to the value of a specified number of the Company's shares at the vesting date.

The options are only exercisable subject to performance conditions. If the performance conditions are not met over the three financial years commencing on 1 June before the date of grant, the options lapse. The options will generally be exercisable after approval of the financial statements for the financial year two years after the year of grant, or on a change of control (if earlier).

The Remuneration Committee intends to grant additional awards under the LTIP following the announcement of the Group's results for the year ended 31 May 2016.

Shares acquired through the LTIP may be delivered to participants by the trustees of the Mattioli Woods 2010 Employee Benefit Trust ("the EBT"), which was established for this purpose. The trustees may either subscribe for new shares from the Company or purchase shares on the market. The EBT may never hold more than 5% of the ordinary share capital of the Company at any time.

Directors' remuneration report continued

Grant of options under the Consultants' Share Option Plan

At 31 May 2016, the Company had granted options to certain of its senior consultants to acquire (in aggregate) up to 0.57% (2015: 1.83%) of its share capital. The maximum entitlement of any individual was 0.19% (2015: 0.31%). The options are exercisable at various prices, depending upon the date the options were granted.

Unapproved share scheme

Options issued under the Consultants' Share Option Plan are intended to be qualifying options for EMI purposes. If they are not qualifying options (for example, because they exceed the statutory limit at the date of grant) then they will take effect as unapproved options which cannot benefit from the preferential tax treatments afforded to options granted pursuant to an EMI scheme. The rules for these options will be identical to those for the Consultants' Share Option Plan.

Share incentive plan

The Mattioli Woods plc Share Incentive Plan ("the SIP") enables employees to buy shares in the Company at an effective discount to the Stock Exchange price by having an amount deducted from pre-tax salary each month. In addition, the Company can grant participating employees matching and/or free shares.

Directors' remuneration

Directors' remuneration payable in respect of the year ended 31 May 2016 was as follows:

Director	Basic salary and fees £	Performance related short term incentives £	Pension contributions £	Benefits[1, 2] £	Total emoluments 2016 £	Total emoluments 2015 £
Ian Mattioli[3]	501,153	440,000	—	1,356	942,509	706,559
Bob Woods[3]	326,000	228,000	—	—	554,000	455,166
Nathan Imlach[3]	313,500	228,000	—	11,370	552,870	443,944
Murray Smith	240,000	192,000	24,000	11,078	467,078	385,499
Mark Smith	240,000	192,000	24,000	10,441	466,441	328,332
Alan Fergusson	207,760	160,768	20,096	1,529	390,153	302,509
John Redpath[4]	38,333	—	—	—	38,333	41,500
Joanne Lake	84,000	—	—	—	84,000	43,750
Carol Duncumb	41,000	—	—	—	41,000	26,250
Anne Gunther[5]	—	—	—	—	—	—

Notes:
1. The benefit package of each Executive Director includes the provision of life assurance under a group scheme.
2. The benefit packages of Nathan Imlach, Murray Smith and Mark Smith include the provision of a company car.
3. Ian Mattioli, Bob Woods and Nathan Imlach have received additional basic salary in lieu of pension contributions.
4. Retired on 7 April 2016.
5. Appointed 14 June 2016. Anne Gunther was paid consultancy fees of £16,250 in the year ended 31 May 2016.

Service contracts

It is the Group's policy for all Executive Directors to have contracts of employment that contain a termination notice period not exceeding 12 months. Ian Mattioli's and Bob Woods' appointments continue until terminated by either party on giving not less than 12 months' notice to the other party. The other Executive Directors' appointments continue until termination by either party on giving not less than six months' notice to the other party.

Joanne Lake, Carol Duncumb and Anne Gunther do not have service contracts. A letter of appointment provides for an initial period of 12 months and continues until terminated by either party giving three months' prior written notice to expire at any time on or after the initial 12 month period. The remuneration of Non-Executive Directors takes the form solely of fees, which are set by the Board having taken advice on appropriate levels.

Retirement benefits

Where an Executive Director has not reached their maximum life time allowance, the Group will pay minimum contributions into a personal pension plan nominated by each Executive Director at a rate of 10% of their basic salary, provided the Director pays contributions of not less than 5% of such salary in to the same personal pension plan. If the maximum life time allowance has been reached the Director will receive the equivalent in basic salary.

The Remuneration Committee may, on an exceptional basis, award additional corporate pension contributions to an Executive Director as part of its ongoing review of executive remuneration arrangements.

Directors' shareholdings

As at 31 May 2016, the interest of the Directors in the issued shares of the Company, as shown in its register maintained under section 809 (2) and (3) of the Companies Act 2006 were:

Director	2016 No.	%	2015 No.	%
Ian Mattioli	3,234,315	12.83	3,393,703	16.66
Bob Woods	2,573,703	10.21	3,073,703	15.09
Nathan Imlach	138,618	0.55	167,911	0.82
Murray Smith	108,042	0.43	223,814	1.10
Alan Fergusson	66,411	0.26	65,787	0.32
Carol Duncumb	6,280	0.02	—	—
Mark Smith	4,344	0.02	1,296	0.01
John Redpath[2]	4,200	0.02	13,000	0.06
Joanne Lake	4,100	0.02	—	—
Anne Gunther[3]	—	—	—	—

Notes:
1. Directors' shareholdings include any shareholdings of trusts or family members deemed to be connected persons.
2. Retired on 7 April 2016.
3. Appointed on 14 June 2016.

Directors' remuneration report continued

Interest in options

The Group operates the LTIP by which certain of the Executive Directors and other senior executives are able to subscribe for ordinary shares in the Company. The interests of the Directors were as follows:

Director		Exercise price £	At 31 May 2015 No.	Granted during the year No.	Exercised during the year No.	Forfeited during the year No.	At 31 May 2016 No.
Ian Mattioli	(a)	0.01	—	71,836	—	—	71,836
	(b)	0.01	155,086	—	—	—	155,086
			155,086	71,836	—	—	226,922
Bob Woods	(a)	0.01	—	37,224	—	—	37,224
	(b)	0.01	111,564	—	—	—	111,564
			111,564	37,224	—	—	148,788
Murray Smith	(a)	0.01	89,678	31,346	—	—	121,024
	(b)	0.01	—	—	—	—	—
			89,678	31,346	—	—	121,024
Mark Smith	(a)	0.01	76,318	31,346	—	—	107,664
	(b)	0.01	—	—	—	—	—
			76,318	31,346	—	—	107,664
Nathan Imlach	(a)	0.01	97,378	37,224	—	—	134,602
	(b)	0.01	—	—	—	—	—
			97,378	37,224	—	—	134,602
Alan Fergusson	(a)	0.01	—	26,247	—	—	26,247
	(b)	0.01	—	—	—	—	—
			—	26,247	—	—	26,247
Total equity settled			263,374	235,223	—	—	498,597
Total cash settled			266,650	—	—	—	266,650

Notes:
(a) Equity settled awards.
(b) Cash settled awards.

Note 19 to the financial statements contains a detailed schedule of all options granted to Directors and employees as at 31 May 2016. All of the share options were granted for nil consideration.

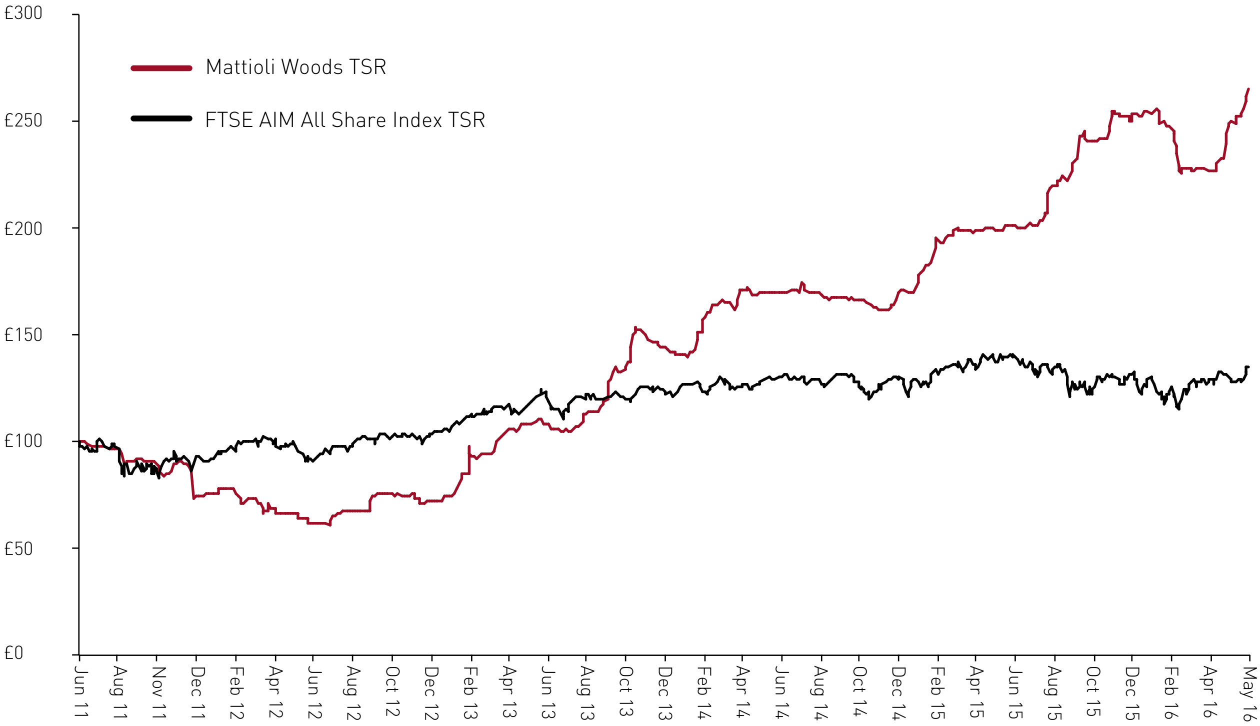
The mid-market closing price of the Company's ordinary shares at 31 May 2016 was 649p and the range during the financial year was 514p to 649p.

None of the Directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year, other than those disclosed in Note 28 to the financial statements.

There was no change in the Directors' shareholdings (all of which are beneficial) or their interests in share options between 31 May 2016 and 7 September 2016.

Total shareholder return performance graph

The graph below illustrates the total shareholder return for the five years ended 31 May 2016 in terms of the change in value of an initial investment of £100 invested on 1 June 2011 in a holding of the Company's shares against the corresponding total shareholder returns in hypothetical holdings of shares in the FTSE AIM All Share Index.



The Company is a member of the FTSE AIM All Share Index and considers this to be the most appropriate broad equity market index for the purpose of measuring the Company's relative performance.

On behalf of the Board

Carol Duncumb
Chairman of the Remuneration Committee
7 September 2016

Directors' responsibilities for the financial statements

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

UK company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing each of the Group and Company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Mattioli Woods plc website.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Mattioli Woods plc

We have audited the Consolidated and parent company financial statements ("the financial statements") which comprise the Consolidated and Parent Company Statements of Financial Position, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRS") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 42, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APB's") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:
- The financial statements give a true and fair view of the state of the Group's and the parent's affairs as at 31 May 2016 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The parent financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Andrew Allchin FCA (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP (formerly Baker Tilly UK Audit LLP), Statutory Auditor
Chartered Accountants
2 Whitehall Quay
Leeds
LS1 4HG

7 September 2016

Consolidated Statement of Comprehensive Income
For the year ended 31 May 2016

	Note	2016 £000	2015 £000
Revenue	4	**42,950**	34,565
Employee benefits expense	11	**(24,552)**	(20,042)
Other administrative expenses		**(7,807)**	(6,604)
Share based payments	19	**(1,594)**	(790)
Amortisation and impairment	16,17	**(1,816)**	(1,279)
Depreciation	15	**(497)**	(387)
Loss on disposal of property, plant & equipment		**(56)**	(44)
Operating profit before financing	10	**6,628**	5,419
Finance revenue	8	**122**	46
Finance costs	9	**(459)**	(175)
Net finance costs		**(337)**	(129)
Profit before tax		**6,291**	5,290
Income tax expense	12	**(1,046)**	(1,268)
Profit for the year		**5,245**	4,022
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year, net of tax		**5,245**	4,022
Attributable to:			
Equity holders of the parent		**5,245**	4,022
Earnings per ordinary share:			
Basic (pence)	13	**21.1**	19.6
Adjusted (pence)		**31.0**	27.2
Diluted (pence)	13	**21.1**	19.4
Proposed total dividend per share (pence)	14	**12.5**	10.5

The operating profit for each period arises from the Group's continuing operations. The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own statement of comprehensive income in these financial statements. The profit of the Company for the financial year, after taxation, was £5.1m (2015: £2.5m).

Consolidated and Company Statements of Financial Position As at 31 May 2016

		2016		2015	
	Note	**Group £000**	**Company £000**	Group £000	Company £000
Assets					
Property, plant and equipment	15	**1,997**	**1,924**	1,430	1,430
Intangible assets	16	**43,410**	**28,973**	28,852	28,818
Deferred tax asset	12	**737**	**731**	422	422
Investments	17	**—**	**15,187**	—	17,617
Total non-current assets		**46,144**	**46,815**	30,704	48,287
Trade and other receivables	20	**13,495**	**14,010**	12,355	11,922
Investments	17	**79**	**79**	129	129
Cash and short-term deposits	21	**29,809**	**21,381**	10,570	8,545
Total current assets		**43,383**	**35,470**	23,054	20,596
Total assets		**89,527**	**82,285**	53,758	68,883
Equity					
Issued capital	22	**252**	**252**	204	204
Share premium	22	**27,765**	**27,765**	8,689	8,689
Merger reserve	22	**8,531**	**8,531**	4,838	4,838
Equity - share based payments	22	**1,642**	**1,642**	997	976
Capital redemption reserve	22	**2,000**	**2,000**	2,000	2,000
Retained earnings	22	**25,391**	**22,487**	22,739	20,048
Total equity attributable to equity holders of the parent		**65,581**	**62,677**	39,467	36,755
Non-current liabilities					
Deferred tax liability	12	**3,724**	**2,127**	2,339	2,332
Financial liabilities and provisions	25	**5,738**	**5,738**	2,393	21,195
Total non-current liabilities		**9,462**	**7,865**	4,732	23,527
Current liabilities					
Trade and other payables	24	**10,047**	**8,397**	7,979	7,297
Income tax payable		**1,083**	**178**	624	348
Financial liabilities and provisions	25	**3,354**	**3,168**	956	956
Total current liabilities		**14,484**	**11,743**	9,559	8,601
Total liabilities		**23,946**	**19,608**	14,291	32,128
Total equities and liabilities		**89,527**	**82,285**	53,758	68,883

The financial statements on pages 44 to 91 were approved by the Board of Directors and authorised for issue on 7 September 2016 and are signed on its behalf by:

Bob Woods
Executive Chairman

Nathan Imlach
Finance Director

Registered number 3140521

Consolidated and Company Statements of Changes in Equity
For the year ended 31 May 2016

Group	Issued capital (Note 22) £000	Share premium (Note 22) £000	Merger reserve (Note 22) £000	Equity – share based payments (Note 22) £000	Capital redemption reserve (Note 22) £000	Retained earnings (Note 22) £000	Total equity £000
As at 1 June 2014	200	8,001	4,040	1,046	2,000	20,257	35,544
Profit for the year	—	—	—	—	—	4,022	4,022
Total comprehensive income	—	—	—	—	—	4,022	4,022
Transactions with owners of the Group, recognised directly in equity							
Issue of share capital	4	688	798	—	—	—	1,490
Share-based payments	—	—	—	256	—	—	256
Deferred tax taken to equity	—	—	—	2	—	—	2
Current tax taken to equity	—	—	—	34	—	—	34
Dividends paid	—	—	—	—	—	(1,881)	(1,881)
Reserves transfer	—	—	—	(341)	—	341	—
As at 31 May 2015	204	8,689	4,838	997	2,000	22,739	39,467
Profit for the year	—	—	—	—	—	5,245	5,245
Total comprehensive income	—	—	—	—	—	5,245	5,245
Transactions with owners of the Group, recognised directly in equity							
Issue of share capital	48	19,076	3,693	—	—	—	22,817
Share-based payments	—	—	—	596	—	—	596
Deferred tax taken to equity	—	—	—	61	—	—	61
Current tax taken to equity	—	—	—	149	—	—	149
Dividends paid	—	—	—	—	—	(2,754)	(2,754)
Reserves transfer	—	—	—	(161)	—	161	—
As at 31 May 2016	**252**	**27,765**	**8,531**	**1,642**	**2,000**	**25,391**	**65,581**

Company	Issued capital (Note 22) £000	Share premium (Note 22) £000	Merger reserve (Note 22) £000	Equity – share based payments (Note 22) £000	Capital redemption reserve (Note 22) £000	Retained earnings (Note 22) £000	Total equity £000
As at 1 June 2014	200	8,001	4,040	1,040	2,000	19,105	34,386
Profit for the year	—	—	—	—	—	2,483	2,483
Total comprehensive income	—	—	—	—	—	2,483	2,483
Transactions with owners of the Company, recognised directly in equity							
Issue of share capital	4	688	798	—	—	—	1,490
Share-based payments	—	—	—	241	—	—	241
Deferred tax taken to equity	—	—	—	2	—	—	2
Current tax taken to equity	—	—	—	34	—	—	34
Dividends paid	—	—	—	—	—	(1,881)	(1,881)
Reserves transfer	—	—	—	(341)	—	341	—
As at 31 May 2015	204	8,689	4,838	976	2,000	20,048	36,755
Profit for the year	—	—	—	—	—	5,053	5,053
Total comprehensive income	—	—	—	—	—	5,053	5,053
Transactions with owners of the Company, recognised directly in equity							
Issue of share capital	48	19,076	3,693	—	—	—	22,817
Share-based payments	—	—	—	596	—	—	596
Deferred tax taken to equity	—	—	—	61	—	—	61
Current tax taken to equity	—	—	—	149	—	—	149
Dividends paid	—	—	—	—	—	(2,754)	(2,754)
Reserves transfer	—	—	—	(140)	—	140	—
As at 31 May 2016	**252**	**27,765**	**8,531**	**1,642**	**2,000**	**22,487**	**62,677**

Consolidated and Company Statements of Cash Flows
For the year ended 31 May 2016

	Note	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
Operating activities					
Profit for the year					
Adjustments for:		**5,245**	**5,053**	4,022	2,486
Depreciation	15	**497**	**482**	387	339
Amortisation and impairment	16,17	**1,816**	**1,411**	1,279	2,775
Gain on bargain purchase	3	**(105)**	**(105)**	(92)	(92)
Investment income	8	**(122)**	**(93)**	(46)	(23)
Interest expense	9	**459**	**785**	175	411
Loss on disposal of property, plant and equipment		**56**	**56**	44	44
Equity-settled share-based payments	19	**838**	**838**	466	451
Cash-settled share-based payments		**756**	**756**	324	324
Dividend income		**—**	**(2,497)**	—	(1,750)
Income tax expense	12	**1,046**	**625**	1,268	927
Cash flows from operating activities before changes in working capital and provisions		**10,486**	**7,311**	7,827	5,892
Increase in trade and other receivables		**(509)**	**(2,058)**	(1,699)	(1,010)
Increase in trade and other payables		**1,619**	**1,035**	1,442	1,176
Increase in provisions		**192**	**192**	10	30
Cash generated from operations		**11,788**	**6,480**	7,580	6,088
Interest paid		**—**	**—**	(1)	(1)
Income taxes paid		**(1,714)**	**(1,343)**	(1,441)	(1,096)
Net cash flows from operating activities		**10,074**	**5,137**	6,138	4,991
Investing activities					
Proceeds from sale of property, plant and equipment		**75**	**75**	69	69
Purchase of property, plant and equipment	15	**(1,115)**	**(1,107)**	(603)	(579)
Purchase of software	16	**(597)**	**(590)**	(374)	(374)
Consideration paid on acquisition of subsidiaries	3	**(6,911)**	**(6,911)**	(2,383)	(2,383)
Consideration paid on acquisition of business	3	**(735)**	**(735)**	(363)	—
Cash transferred on hive up of group companies		**—**	**—**	—	3,373
Cash received on acquisition of subsidiaries	3	**3,217**	**—**	32	—
Other investments	17	**(16)**	**(16)**	(90)	(90)
Loans advanced to property syndicates		**(2,188)**	**(2,188)**	—	—
Loan repayments from property syndicates		**2,158**	**2,158**	—	—
Interest received	8	**122**	**93**	46	23
Dividends received		**—**	**800**	—	1,750
Net cash flows from investing activities		**(5,990)**	**(8,421)**	(3,666)	1,789
Financing activities					
Proceeds from the issue of share capital		**19,568**	**19,568**	467	467
Payment of costs of share issue		**(693)**	**(693)**	—	—
Repayment of borrowings acquired in business combinations		**(965)**	**—**	—	—
Repayment of Directors' loans	24	**(1)**	**(1)**	(2)	(2)
Dividends paid	14	**(2,754)**	**(2,754)**	(1,881)	(1,881)
Net cash flows from financing activities		**15,155**	**16,120**	(1,416)	(1,416)
Net increase in cash and cash equivalents		**19,239**	**12,836**	1,056	5,364
Cash and cash equivalents at start year	21	**10,570**	**8,545**	9,514	3,181
Cash and cash equivalents at end of year	21	**29,809**	**21,381**	10,570	8,545

Notes to the financial statements

1. Corporate information

Mattioli Woods plc ("the Company") is a public limited company incorporated and domiciled in England and Wales, whose shares are publicly traded on the AIM market of the London Stock Exchange plc. The nature of the Group's operations and its principal activities are set out in the Chief Executive's Review.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and in accordance with the requirements of the Companies Act applicable to companies reporting under IFRS.

The financial statements comprise the financial statements of Mattioli Woods plc and its subsidiaries ("the Group") as at 31 May each year. The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value (Notes 17 and 25), and are presented in pounds, with all values rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The principal accounting policies adopted are set out in this note and, unless otherwise stated, have been applied consistently to all periods presented in the financial statements. The financial statements were authorised for issue in accordance with a resolution of the Directors on 7 September 2016.

2.2 Developments in reporting standards and interpretations

Standards affecting the financial statements

There have been no new or revised standards and interpretations that have been adopted in the current year and have affected the amounts reported in these financial statements.

Standards not affecting the financial statements

The following new and revised standards and interpretations have been adopted in the current year:

Standard or interpretation		Periods commencing on or after
IFRS 2 (amended)	Share-based Payment	1 July 2014
IFRS 3 (amended)	Business Combinations	1 July 2014
IFRS 8 (amended)	Operating Segments	1 July 2014
IFRS 13 (amended)	Fair Value Measurement	1 July 2014
IAS 16 (amended)	Property, Plant and Equipment	1 July 2014
IAS 24 (amended)	Related Party Disclosures	1 July 2014
IAS 38 (amended)	Intangible Assets	1 July 2014

Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements, or give rise to additional disclosures.

Future new standards and interpretations

A number of new standards and amendments to standards and interpretations will be effective for future annual periods commencing after 1 June 2015 and, therefore, have not been applied in preparing these consolidated financial statements. At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

Standard or interpretation		Periods commencing on or after
IAS 1	Presentation of financial statements	1 January 2016
IAS 16 (amended)	Property, Plant and Equipment	1 January 2016
IAS 27 (revised)	Separate Financial Statements	1 January 2016
IAS 28 (amended)	Investments in Associates and Joint Ventures	1 January 2016
IAS 38 (amended)	Intangible Assets	1 January 2016
IFRS 9	Financial Instruments	1 January 2018
IFRS 10 (amended)	Consolidated Financial Statements	1 January 2016
IFRS 11 (amended)	Joint Arrangements	1 January 2016
IFRS 12 (amended)	Disclosures of Interests in Other Entities	1 January 2016
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases" are expected to have the most significant effect on the consolidated financial statements of the Group.

IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" are not expected to become mandatory for periods commencing before 1 January 2018. IFRS 16 "Leases" is not expected to become mandatory for periods commencing before 1 January 2019. These standards have not yet been adopted by the EU and the Group does not plan to adopt these standards early. IFRS 9 "Financial Instruments" could change the classification and measurement of financial assets and the timing and extent of credit provisioning. IFRS 15 "Revenue from Contracts with Customers" could change how and when revenue is recognised from contracts with customers. The extent of their impact has not yet been fully determined.

IFRS 16 "Leases" eliminates the classification of leases as either operating leases or finance leases. The Group will be required to recognise all leases with a term of more than 12 months as a lease asset in its statement of financial position, together with a financial liability representing its obligation to make future lease payments. The extent of its impact has not yet been fully determined.

Other than to expand certain disclosures within the financial statements, the Directors do not expect the adoption of the other standards and interpretations listed above will have a material impact on the financial statements of the Group in the future periods.

2.3 Principal accounting policies

Basis of consolidation

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Business combinations

Business combinations are accounted for using the purchase accounting method. This involves assessing whether any assets acquired meet the criteria for recognition as separately identifiable intangible assets. Intangible assets are measured on initial recognition at their fair value at the date of acquisition. Client portfolios are valued by discounting their expected future cash flows over their expected useful lives, based on the Group's historic experience. Expected future cash flows are estimated based on the historic revenues and costs associated with the operation of that client portfolio. The discount rates used estimate the cost of capital, adjusted for risk.

Group re-organisation

During the year ended 31 May 2015 the trade and assets of City Pensions Limited, Thoroughbred Wealth Management Limited, Atkinson Bolton Consulting Limited and Kudos Financial Services Limited were transferred to the Company. The net asset and results for the transferred businesses are reflected in the parent company financial statements at the same values as they would have been reflected in the Group accounts had the transfer not taken place. Each transfer of trade and assets resulted in any goodwill, client portfolios recognised as intangible assets and associated deferred tax balances that arose on consolidation, being recognised in the parent company statement of financial position. The trade and assets were exchanged for loan notes attracting annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate. On 30 November 2015 the loan notes were waived and the capital and reserves in City Pensions Limited, Thoroughbred Wealth Management Limited, Atkinson Bolton Consulting Limited and Kudos Financial Services Limited were reduced to £1.

Notes to the financial statements

2.3 Principal accounting policies continued

Property, plant and equipment

Plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is provided on all property, plant and equipment at rates calculated to write each asset down to its estimated residual value over its expected useful life as follows:

- Computer and office equipment — 20/25% per annum on written down values;
- Fixtures and fittings — 20% per annum on written down values[18]; and
- Motor vehicles — 25% per annum on written down values.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Investments

The Group accounts for its investments in subsidiaries and associates using the cost model.

Short term investments

Short term investments include units in private property syndicates, which are valued at fair value.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated:

- Represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on the Group's reporting format determined in accordance with IFRS 8 Operating Segments.

If a cash generating unit was to be sold, the difference between the selling price and the net assets and amortised goodwill would be recognised in the statement of comprehensive income. Where the Group reorganises its reporting structure in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill is reallocated to the units affected.

18. Other than leasehold improvements, which are depreciated in a straight line over the shorter of lease period and estimated useful life.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets assessed as having finite lives are amortised over their useful economic life as follows:

- Purchased software — 25% per annum on written down values; and
- Internally generated software — Straight line over 10 years.

Intangible assets assessed as having finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income.

The Group amortises individual client portfolios acquired through business combinations on a straight-line basis over an estimated useful life based on the Group's historic experience.

Client portfolios acquired through business combinations are as follows:

Client portfolio	Date of acquisition	Estimated useful life
Mattioli Woods Pension Consultants ("the Partnership Portfolio")	2 September 2003	25 Years
Geoffrey Bernstein	20 June 2005	25 Years
Suffolk Life	27 January 2006	25 Years
PCL	10 July 2007	25 Years
JBFS	18 February 2008	25 Years
CP Pensions	30 April 2010	25 Years
City Pensions	9 August 2010	20 Years
Kudos	26 August 2011	20 Years
Ashcourt Rowan	23 April 2013	10 Years
Atkinson Bolton	29 July 2013	20 Years
UK Wealth Management	8 August 2014	10 Years
Torquil Clark	23 January 2015	10 Years
Boyd Coughlan	23 June 2015	20 Years
Taylor Patterson	8 September 2015	20 Years
Lindley Trustees	5 October 2015	10 Years
Maclean Marshall Healthcare	22 January 2016	10 Years
Stadia Trustees	15 February 2016	10 Years

A summary of the policies applied to the Group's goodwill and intangible assets is as follows:

	Goodwill	Client portfolios	Software	Other intangibles
Useful life	Indefinite	Finite	Finite	Finite
Measurement method used	Annual impairment review	Amortised over a useful economic life of between 10 and 25 years on a straight-line basis	Amortised over a useful economic life of four years on a reducing balance basis or 10 years on a straight-line basis if internally generated	Amortised over a useful economic life of three years
Internally generated or acquired	Acquired	Acquired	Both	Both

Notes to the financial statements

2.3 Principal accounting policies continued

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's, or cash generating unit's fair value less cost to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those of other assets or group of assets.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations are recognised in the statement of comprehensive income.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at revalued amount, in which case reversal is treated as a revaluation increase, except in relation to goodwill.

The following criteria are also applied in assessing impairment of specific non-financial assets:

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 May.

Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method, less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Trade and other receivables

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account.

Impaired debts are derecognised when they are assessed as not being collectible.

Impairment of financial assets continued

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as a difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the statement of comprehensive income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Trade and other payables

Trade and other payables are recognised at cost, due to their short term nature. Accruals and deferred income are normally settled monthly throughout the financial year, with the exemption of bonus accruals which are typically paid annually.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease, only if one of the following applies:

a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
d) There is substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b). The Group has no finance lease arrangements.

Group as a lessee

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Contingent consideration

Where the Group has entered into an acquisition agreement under which contingent consideration may be payable, management reviews the agreement and monitors the financial and other targets to be met to estimate the fair value of any amounts payable. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Notes to the financial statements

2.3 Principal accounting policies continued

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate which reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passing of time is recognised as a finance cost.

Provisions include financial liabilities. Where the Group has entered into certain acquisition agreements that provide for contingent consideration to be paid the Board estimates the net present value of contingent consideration payable.

Share based payments

The Group engages in share-based payment transactions in respect of services received from certain employees. In relation to equity settled share based payments, the fair value of services received is measured by reference to the fair value of the shares or share options granted on the date of grant and is recognised, together with a corresponding increase in equity, as an expense over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The fair value of share options is determined using the Black Scholes Merton pricing model.

The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense if the terms had not been modified. An expense is recognised for any modification, which increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

For cash-settled share-based payments, a liability is recognised for the services received, measured initially at the fair value of the liability. At the date on which the liability is settled, and at the date of each statement of financial position between grant date and settlement, the fair value of the liability is remeasured with any changes in fair value recognised in the statement of comprehensive income for the year.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in Note 13).

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised.

Rendering of services

Mattioli Woods generally invoices its pension clients six months in arrears for time costs incurred in advising on and administering their affairs. Revenue is recognised as time is spent/incurred on the provision of services, with an estimate being made of what proportion of uninvoiced time costs will be recoverable. Recoverability is measured as a percentage of the total time costs incurred on clients' affairs compared to the proportion of these time costs actually invoiced during the year. No revenue is recognised if there are significant uncertainties regarding recovery of the time incurred.

Revenue recognition continued

Commission income and adviser charges

Commission (less provision for clawbacks) and adviser charges are recognised as being earned at the point when an investment of funds has been made by the client and submitted to the product provider.

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or repaid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax balances are recognised for all taxable temporary differences, except where the deferred income tax balance arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income. Deferred income tax assets related to temporary differences arising on share-based payments to employees are based on the market value of the Company's shares at the year end.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Notes to the financial statements

2.3 Principal accounting policies continued

Dividend recognition

Dividend distributions to the Company's shareholders are recognised in the accounting period in which the dividends are declared and paid, or if earlier, in the accounting period when the dividend is approved by the Company's shareholders at the Annual General Meeting.

Pension costs

The Group makes discretionary payments into the personal pension schemes of certain employees. Contributions are charged to the statement of comprehensive income as they are payable.

2.4 Key sources of judgements and estimation uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities. If in the future such estimates and assumptions, which are based on management's best judgement at the date of preparation of the financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change. The areas where a higher degree of judgement or complexity arises, or where assumptions and estimates are significant to the consolidated financial statements, are discussed below.

Impairment of client portfolios

The Group reviews whether acquired client portfolios are impaired at least on an annual basis. This comprises an estimation of the fair value less cost to sell and the value in use of the acquired client portfolios. In assessing value in use, the estimated future cash flows expected to arise from each client portfolio are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset.

The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and costs during the period covered by the calculations. Changes to revenue and costs are based upon management's expectation. The Group prepares its annual budget and five-year cash flow forecasts derived therefrom, thereafter extrapolating these cash flows using a terminal growth rate of 2.5% (2015: 2.5%), which management considers conservative against industry average long-term growth rates.

The key assumption used in arriving at a fair value less cost of sale are those around valuations based on earnings multiples and values based on assets under management. These have been determined by looking at valuations of similar businesses and the consideration paid in comparable transactions. Management has used a range of multiples resulting in an average of 7.5x EBITDA to arrive at a fair value.

The carrying amount of client portfolios at 31 May 2016 was £25.4m (2015: £16.9m). No impairments have been made during the year (2015: £nil) based upon the Directors' review.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill has been allocated. In assessing value in use, the estimated future cash flows expected to arise from the cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset. Details of the cash-generating units are contained in Note 18.

The key assumptions used in respect of value in use calculations are those regarding growth rates and anticipated changes to revenues and costs during the period covered by the calculations, based upon management's expectation. The carrying amount of goodwill at 31 May 2016 was £16.4m (2015: £10.8m). No impairments have been made during the year (2015: £nil) based upon the Directors' review.

Internally generated capitalised software

The costs of internal software developments are capitalised where they are judged to have an economic value that will extend into the future and meet the recognition criteria in IAS 38. Internally generated software is then amortised over an estimated useful life, assessed by taking into consideration the useful life of comparable software packages. The carrying amount of internally generated capitalised software at 31 May 2016 was £1.1m (2015: £0.8m).

Deferred tax assets

Deferred tax assets include temporary differences related to employee benefits settled via the issue of share options. Recognition of the deferred tax assets assumes share options will have a positive value at the date of vesting, which is greater than the exercise price. The carrying amount of deferred tax assets at 31 May 2016 was £0.7m (2015: £0.4m).

Recoverability of accrued time costs and disbursements

The Group recognises accrued income in respect of time costs and disbursements incurred on clients' affairs during the accounting period, which have not been invoiced at the reporting date. This requires an estimation of the recoverability of the time costs and disbursements incurred but not invoiced to clients. The carrying amount of accrued time costs and disbursements at 31 May 2016 was £4.6m (2015: £4.5m).

Accrued income

Accrued income is recognised in respect of fees, adviser charges and commissions due to the Group on investments and bank deposits placed during the accounting period which have not been received at the reporting date. This requires an estimation of the amount of income that will be received subsequent to the reporting date in respect of the accounting period, which is based on the value of historic receipts and investments placed by clients under management and advice. The carrying amount of accrued income at 31 May 2016 was £2.5m (2015: £2.2m).

Acquisitions and business combinations

When an acquisition arises the Group is required under IFRS to calculate the Purchase Price Allocation ("PPA"). The PPA requires companies to report the fair value of assets and liabilities acquired and it establishes useful lives for identified assets. The identification and the valuation of the assets and liabilities acquired involves estimation and judgement when determining whether the recognition criteria are met. The classification of consideration payable as either purchase consideration or remuneration is an area of judgement and estimate.

Subjectivity is also involved in PPA with the estimation of the future value of brands, technology, customer relationships and goodwill.

Contingent consideration payable on acquisitions

The Group has entered into certain acquisition agreements that provide for a contingent consideration to be paid. A financial instrument is recognised for all amounts management anticipates will be paid under the relevant acquisition agreement. This requires management to make an estimate of the expected future cash flows from the acquired business and determine a suitable discount rate for the calculation of the present value of any deferred contingent consideration payments. The carrying amount of contingent consideration provided for at 31 May 2016 was £5.8m (2015: £1.5m).

Provisions

As detailed in Note 25, the Group recognises provisions for client claims, contingent consideration payable on acquisitions, commission clawbacks, cash-settled share based payment awards and other obligations which exist at the reporting date. These provisions are estimates and the actual amount and timing of future cash flows are dependent on future events. Management reviews these provisions at each reporting date to ensure they are measured at the current best estimate of the expenditure required to settle the obligation. Any difference between the amounts previously recognised and the current estimate is recognised immediately in the statement of comprehensive income.

Notes to the financial statements

3. Business combinations

The Group completed five acquisitions during the year. Transaction costs incurred during the course of each acquisition have been expensed and are included in administrative expenses in the consolidated statement of comprehensive income and operating cash flows in the consolidated statement of cash flows in the period in which they were incurred.

Acquisition of Boyd Coughlan Limited

On 23 June 2015, Mattioli Woods acquired 100% of the voting equity interests of Boyd Coughlan Limited ("Boyd Coughlan"), an employee benefits and wealth management business based in Buckingham. Boyd Coughlan provides advice to both high net worth individuals and companies on all aspects of financial planning.

The acquisition has been accounted for using the acquisition method. The fair value of the identifiable assets and liabilities of Boyd Coughlan as the date of acquisition was:

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Property, plant and equipment	7	(26)	33
Client portfolio	4,270	4,270	—
Cash at bank	2,656	—	2,656
Trade and other receivables	144	—	144
Deferred tax	1	—	1
Assets	7,078	4,244	2,834
Trade and other payables	(73)	—	(73)
Accruals and deferred income	(58)	(20)	(38)
Other taxation and social security	(40)	—	(40)
Income tax	(121)	—	(121)
Provisions	(38)	(38)	—
Deferred tax liability	(854)	(854)	—
Liabilities	(1,184)	(912)	(272)
Total identifiable net assets at fair value	5,894		
Goodwill	1,493		
Total acquisition cost	7,387		
Analysed as follows:			
Initial cash consideration	3,300		
Adjustment to initial consideration	561		
New shares in Mattioli Woods	1,200		
Deferred contingent consideration	2,500		
Discounting of deferred contingent consideration	(174)		
Total acquisition cost	(7,387)		

Cash outflow on acquisition	£000
Cash paid	3,861
Cash acquired	(2,656)
Acquisition costs	131
Net cash outflow	1,336

Acquisition of Boyd Coughlan Limited continued

Boyd Coughlan is an excellent cultural and strategic fit with Mattioli Woods, providing advice to both corporate and personal clients, and generating strong margins and recurring revenues. The acquisition has provided a wider audience for the Group's products and services, extending its employee benefits proposition at a time when the drive towards total reward and flexible benefits is creating new business opportunities in the corporate market.

Synergies include the ability to promote additional services to existing and prospective clients of each business. In addition, the acquisition added further specialist expertise to the Group and its experienced management team has been retained by Mattioli Woods. The goodwill recognised above is attributed to the expected benefits from combining the assets and activities of Boyd Coughlan with those of the Group. The primary components of this residual goodwill comprise:

- Revenue synergies expected to be available to Mattioli Woods as a result of the transaction;
- The workforce;
- The knowledge and know-how resident in Boyd Coughlan's modus operandi; and
- New opportunities available to the combined business, as a result of both Boyd Coughlan and the existing business becoming part of a more sizeable listed company.

None of the recognised goodwill is expected to be deductible for income tax purposes. The client portfolio is being amortised on a straight-line basis over an estimated useful life based on the Group's historic experience.

From the date of acquisition Boyd Coughlan has contributed £2.5m to revenue and £0.7m to the Group profit for the period. If the combination had taken place at the beginning of the period, Group revenue from continuing operations would have been £43.1m and the profit for the period would have been £5.3m.

Acquisition of Taylor Patterson Group Limited

On 8 September 2015, Mattioli Woods acquired 100% of the voting equity interests of Taylor Patterson Group Limited and its subsidiaries (together "Taylor Patterson"), a financial advisory firm based in Preston. Taylor Patterson provides wealth management, strategic financial planning, employee benefits and pension services to businesses and individuals.

The acquisition has been accounted for using the acquisition method. The fair value of the identifiable assets and liabilities of Taylor Patterson as the date of acquisition was:

Notes to the financial statements

3. Business combinations continued

Acquisition of Taylor Patterson Group Limited continued

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Property, plant and equipment	72	(3)	75
Client portfolio	4,941	4,941	—
Cash at bank	561	—	561
Trade and other receivables	458	—	458
Assets	6,032	4,938	1,094
Trade and other payables	(110)	—	(110)
Accruals and deferred income	(100)	—	(100)
Income tax	(262)	—	(262)
Provisions	(147)	(116)	(31)
Deferred tax liability	(999)	(999)	—
Loans	(965)	—	(965)
Liabilities	(2,583)	(1,115)	(1,468)
Total identifiable net assets at fair value	3,449		
Goodwill	4,098		
Total acquisition cost	7,547		

Analysed as follows:	
Initial cash consideration	2,500
Adjustment to initial consideration	(396)
New shares in Mattioli Woods	2,500
Deferred contingent consideration	3,300
Discounting of contingent consideration	(357)
Total acquisition cost	7,547

Cash outflow on acquisition	£000
Cash paid	2,104
Cash acquired	(561)
Acquisition costs	124
Net cash outflow	1,667

Taylor Patterson has been another excellent cultural and strategic acquisition, which extended the Group's geographic footprint into the North-West of England and has delivered the opportunity to offer discretionary investment management to Taylor Patterson's clients.

The business has brought further specialist expertise into the Group's wealth management and employee benefits operations and its experienced management team has been retained by Mattioli Woods. The goodwill recognised above is attributed to the expected benefits from combining the assets and activities Taylor Patterson with those of the Group. The primary components of this residual goodwill comprise:

- Revenue synergies expected to be available to Mattioli Woods as a result of the transaction;
- The workforce;
- The knowledge and know-how resident in Taylor Patterson's modus operandi; and
- New opportunities available to the combined business, as a result of both Taylor Patterson and the existing business becoming part of a more sizeable listed company.

None of the recognised goodwill is expected to be deductible for income tax purposes. The client portfolio is being amortised on a straight-line basis over an estimated useful life based on the Group's historic experience.

Acquisition of Taylor Patterson Group Limited continued

From the date of acquisition Taylor Patterson has contributed £2.4m to revenue and £0.7m to the Group profit for the period. If the combination had taken place at the beginning of the period, Group revenue from continuing operations would have been £43.8m and the profit for the period would have been £5.5m.

Acquisition of Lindley Trustees

On 5 October 2015 the Group acquired the pension administration business of Lindley Group and 100% of the voting equity interests of Lindley Trustees Limited (together "Lindley Trustees"), which provides trustee and administration services to over 130 small self-administered pension ("SSAS") schemes.

The acquisition has been accounted for using the acquisition method. The fair value of the identifiable assets and liabilities of Lindley Trustees as the date of acquisition was:

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Client portfolio	271	271	—
Assets	271	271	—
Provisions	(18)	(18)	—
Deferred tax liability	(54)	(54)	—
Liabilities	(72)	(72)	—
Total identifiable net assets at fair value	199		
Total acquisition cost	199		
Analysed as follows:			
Cash consideration	199		
Total acquisition cost	199		

Cash outflow on acquisition	£000
Cash paid	199
Acquisition costs	36
Cash outflow	235

The acquisition delivered synergies from combining the activities of Lindley Trustees with those of Mattioli Woods, extending those existing relationships the Group had with intermediaries like the Lindley Group. The goodwill recognised above is attributed to the expected benefits from combining the assets and activities of Lindley Trustees with those of the Group. The primary components of this residual goodwill comprise:

- Operational synergies expected to be realised as a result of combining the activities of Lindley Trustees onto the same pension administration platform that is used by Mattioli Woods;
- The workforce; and
- The knowledge and know-how resident in Lindley Trustees' modus operandi.

The client portfolio is being amortised on a straight-line basis over an estimated useful life based on the Group's historic experience.

From the date of acquisition Lindley Trustees has contributed £0.2m to revenue and £0.1m to the Group profit for the period. If the combination had taken place at the beginning of the period, Group revenue from continuing operations would have been £43.1m and the profit for the period would have been £5.3m.

Notes to the financial statements

3. Business combinations continued

Acquisition of Maclean Marshall Healthcare

On 22 January 2016 the Group acquired the business and assets of Maclean Marshall Healthcare "MMH" for a cash consideration of £0.225m. Based in Aberdeen, MMH provides advice to personal and corporate clients on all aspects of private medical insurance.

The acquisition has been accounted for using the acquisition method. The fair values to be attributed to the assets acquired and liabilities assumed will be finalised during the 12 months following acquisition. The provisional fair value of the identifiable assets and liabilities of MMH as the date of acquisition was:

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Client portfolio	278	278	—
Assets	278	278	—
Deferred tax liability	(53)	(53)	—
Liabilities	(53)	(53)	—
Total identifiable net assets at fair value	225		
Total acquisition cost	225		
Analysed as follows:			
Cash consideration	225		
Total acquisition cost	225		

Cash outflow on acquisition	£000
Cash paid	225
Acquisition costs	5
Net cash outflow	230

The acquisition introduced an experienced manager and over 130 new corporate and personal clients to the Group, adding further scale to its employee benefits business. The client portfolio is being amortised on a straight-line basis over an estimated useful life based on the Group's historic experience.

From the date of acquisition MMH has contributed £0.03m to revenue and £0.01m to the Group profit for the period. If the combination had taken place at the beginning of the period, Group revenue from continuing operations would have been £43.0m and the profit for the period would have been £5.3m.

Acquisition of Stadia Trustees

Following a variation of permission in 2013, Stadia Trustees Limited, was forced to cease accepting new business by the FCA. Stadia Trustees Limited was one of eight small SIPP operators inspected by the FCA (when it was the Financial Services Authority) in 2011, as part of the regulator's efforts to tackle the risks posed by small firms and unregulated collective investment schemes.

Mattioli Woods worked closely with Stadia Trustees Limited and the FCA to complete its acquisition of Stadia Trustees' business ("Stadia Trustees") on 15 February 2016, with a mandate to administer the wind-up of the Stadia SIPP, Noisnep SIPP, Essential SIPP, Essex Community Foundation SIPP, Hero SIPP, Investor Club SIPP, Ipswich SIPP, Liberator SIPP and Munro SIPP ("the Schemes") and transfer members' assets to new pension arrangements, including a default arrangement provided by Mattioli Woods.

The acquisition has been accounted for using the acquisition method. The fair value of the identifiable assets and liabilities of Stadia Trustees as the date of acquisition was:

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Client portfolio	359	359	—
Assets	359	359	—
Deferred income	(66)	(66)	—
Deferred tax liability	(68)	(68)	—
Liabilities	(134)	(134)	—
Total identifiable net assets at fair value	225		
Gain on bargain purchase recognised in administrative expenses in the statement of comprehensive income	(105)		
Total acquisition cost	120		
Analysed as follows:			
Cash consideration	120		
Total acquisition cost	120		

Cash outflow on acquisition	£000
Cash paid	120
Acquisition costs	10
Cash outflow	130

The acquisition gives Mattioli Woods the opportunity to secure new business, having proven to be a sound strategic partner with the expertise, scale and systems to give quality SIPP administration, delivering an enhanced service and long-term security for clients. Stadia Trustees was acquired for a consideration of £0.12m, as the regulator and seller recognised the Group's ability to deal with the complexities associated with the winding up of the SIPPs operated by Stadia Trustees Limited and transfer of their members to alternative pension arrangements. This resulted in a gain on bargain purchase of £0.11m being recognised in the statement of comprehensive income.

From the date of acquisition Stadia Trustees has contributed £0.09m to revenue and £0.05m to the Group profit for the period. If the combination had taken place at the beginning of the period, Group revenue from continuing operations would have been £43.2m and the profit for the period would have been £5.4m.

Notes to the financial statements

3. Business combinations continued

Contingent consideration

The Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. These agreements and the basis of calculation of the net present value of the contingent consideration are summarised below. While it is not possible to determine the exact amount of contingent consideration (as this will depend on the performance of the acquired businesses during the period), the Group estimates the fair value of contingent consideration payable within the next 12 months is £2.3m (2015: £0.1m).

On 8 September 2015 the Group acquired Taylor Patterson for an initial consideration comprising cash of £2.1m (excluding cash acquired with the business) and 419,888 shares in Mattioli Woods, plus contingent consideration of £3.3m payable in cash in the three years following completion if certain revenue and profit targets are met. The Group estimates the fair value of the remaining contingent consideration at 31 May 2016 to be £3.1m using cash flows approved by the Board covering the contingent consideration period and expects the maximum contingent consideration will be payable.

On 23 June 2015 the Group acquired Boyd Coughlan for initial consideration comprising cash of £3.9m (excluding cash acquired with the business) and 235,742 shares in Mattioli Woods, plus contingent consideration of £2.5m payable in cash in the two years following completion if certain profit targets are met. The Group estimates the fair value of the remaining contingent consideration at 31 May 2016 to be £2.4m using cash flows approved by the Board covering the contingent consideration period and expects the maximum contingent consideration will be payable.

On 11 August 2014 the Group acquired UKWM Pensions for initial cash consideration of £0.28m (excluding cash acquired with the business) plus contingent consideration of £0.08m payable in cash in the two years following completion if certain revenue targets are met. The Group estimates the net present value of the remaining contingent consideration at 31 May 2016 to be £0.04m using cash flows approved by the Board covering the contingent consideration period and expects the remaining contingent consideration will be payable.

On 29 July 2013, Mattioli Woods acquired 100% of the voting equity interests of TWM and its subsidiary Atkinson Bolton Consulting Limited (together "Atkinson Bolton"). The share purchase agreement ("the Agreement") stated contingent deferred consideration of up to £2.75m was payable in cash in the four years following completion if certain financial targets were met. To facilitate the earlier integration of Atkinson Bolton into the Group's wealth management and employee benefits divisions, the parties agreed to vary the Agreement on 26 August 2014 such that:

- £1.6m of contingent consideration was paid in September 2014 as £0.8m in cash and £0.8m through the allotment and issue of new ordinary shares in Mattioli Woods, following the achievement of certain financial targets based on growth in the EBITDA generated by Atkinson Bolton in the year from 1 August 2013 to 31 July 2014; and
- Up to £1.15m of contingent consideration was to be payable in cash if certain financial targets are met based on compound annual growth in the EBITDA generated by Mattioli Woods in the three years from 1 August 2014 to 31 July 2017.

To facilitate the exit of one of the vendors, the parties agreed a further variation of the Agreement on 29 April 2016 to accelerate the payment of the remaining contingent consideration for a discounted payment of £0.945m, with the balance of the provision released to the consolidated statement of comprehensive income. At 31 May 2016 there are no further amounts payable under the Agreement.

On 23 April 2013, the Group acquired the trade and certain assets of Ashcourt Rowan Administration Limited, 100% of the share capital of Ashcourt Rowan Pension Trustees Limited and 100% of the share capital of Robinson Gear (Management Services) Limited for an initial cash consideration of £0.66m plus contingent consideration of up to £0.625m payable in cash in the five years following completion if certain targets are met based on growth in revenues and client retention during that period. The Group estimates the net present value of the remaining contingent consideration at 31 May 2016 to be £0.25m using cash flows approved by the Board covering the contingent consideration period.

4. Revenue

Revenue disclosed in the consolidated statement of comprehensive income is analysed as follows:

	2016 £000	2015 £000
Rendering of services	**40,282**	28,164
Commission income	**2,668**	6,401
	42,950	34,565

5. Seasonality of operations

Historically, revenues in the second half-year have been typically higher than in the first half, primarily due to SSAS scheme year ends being linked to the sponsoring company's year end, which is often in December or March, coupled with the end of the fiscal year being 5 April. Despite growth in the number of SIPP schemes under administration and further diversification of the Group's wealth management and employee benefits revenue streams, the Directors believe there is still some seasonality of operations, although a substantial element of the Group's revenues are geared to the prevailing economic and market conditions.

6. Segment information

The Group's objective is to fully integrate the businesses it acquires, to enable it to deliver holistic solutions across its wide and diverse client base. During the year ended 31 May 2015, the Group harmonised it's legal and operational structures, transferring the trade and assets of City Pensions Limited, Atkinson Bolton Consulting Limited and Kudos Financial Services Limited into Mattioli Woods.

The Group's operating segments now comprise the following:

- Pension consultancy and administration – fees earned by Mattioli Woods for setting up and administering pension schemes. Additional fees are generated from consultancy services provided for special one-off activities and the provision of bespoke scheme banking arrangements. In prior years, fees earned for setting up and administering pension schemes under an advice led model were reported separately for setting up and administering pension schemes under an administration only model. Following the transfer of the trade and assets of City Pensions Limited to Mattioli Woods, these fees are reported as one operating segment;
- Investment and asset management – income generated from the management and placing of investments on behalf of clients;
- Property management – income generated where Custodian Capital manages collective property investment vehicles, facilitates direct commercial property investments on behalf of clients or acts as the external discretionary manager for Custodian REIT plc; and
- Employee benefits – income generated by the Group's employee benefits operations.

Each segment represents a revenue stream subject to risks and returns that are different to other operating segments, although each operating segment's products and services are offered to broadly the same market. The Group operates exclusively within the United Kingdom.

Operating segments

The operating segments defined above all utilise the same intangible assets, property, plant and equipment and the segments have been financed as a whole, rather than individually. The Group's operating segments are managed together as one business. Accordingly, certain costs are not allocated across the individual operating segments, as they are managed on a group basis. Segment profit or loss reflects the measure of segment performance reviewed by the Board of Directors (the Chief Operating Decision Maker).

The following tables present revenue and profit information regarding the Group's operating segments for the two years ended 31 May 2016 and 2015 respectively.

Year ended 31 May 2016	Pension consultancy and administration £000	Investment and asset management £000	Property management £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
Revenue							
External client	16,563	17,054	4,066	5,267	42,950	—	42,950
Total revenue	16,563	17,054	4,066	5,267	42,950	—	42,950
Results							
Segment result	3,279	3,498	814	491	8,082	(1,791)	6,291

Year ended 31 May 2015	Pension consultancy and administration £000	Investment and asset management £000	Property management £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
Revenue							
External client	15,545	11,430	2,790	4,800	34,565	—	34,565
Total revenue	15,545	11,430	2,790	4,800	34,565	—	34,565
Results							
Segment result	3,348	2,221	433	637	6,639	(1,349)	5,290

Notes to the financial statements

6. Segment information continued

Segment assets

The following table presents segment assets of the Group's operating segments:

	31 May 2016 £000	31 May 2015 £000
Pension consultancy and administration	**21,977**	18,071
Investment and asset management	**19,683**	11,088
Property management	**898**	1,196
Employee benefits	**11,311**	9,061
Total segments	**53,869**	39,416
Corporate assets	**35,658**	14,342
Total assets	**89,527**	53,758

Segment assets exclude property, plant and equipment, certain items of computer software, investments, current and deferred tax balances, and cash balances, as these assets are considered corporate in nature and are not allocated to a specific operating segment. Acquired intangibles and amortisation thereon relate to a specific transaction and are allocated between individual operating segments based on the headcount or revenue mix of the cash generating units at the time of acquisition. The subsequent delivery of services to acquired clients may be across a number or all operating segments, comprising different operating segments to those the acquired intangibles have been allocated to.

Liabilities have not been allocated between individual operating segments, as they cannot be allocated on anything other than an arbitrary basis.

Corporate costs

Certain administrative expenses including acquisition costs, amortisation of software, depreciation of property, plant and equipment, irrecoverable VAT, legal and professional fees and professional indemnity insurance are not allocated between segments that are managed on a unified basis and utilise the same intangible and tangible assets.

Finance income and expenses, gains and losses on the disposal of assets, taxes, intangible assets and certain other assets and liabilities are not allocated to individual segments as they are managed on a group basis. Capital expenditure consists of additions of property, plant and equipment and intangible assets, including assets from the acquisition of subsidiaries.

Reconciliation of profit	31 May 2016 £000	31 May 2015 £000
Total segments	**8,082**	6,639
Acquisition costs	**(339)**	(272)
Depreciation	**(497)**	(387)
Amortisation and impairment	**(247)**	(139)
Loss on disposal of assets	**(56)**	(44)
Unallocated overheads	**(298)**	(355)
Bank charges	**(17)**	(23)
Finance income	**122**	46
Finance costs	**(459)**	(175)
Group profit before tax	**6,291**	5,290

Reconciliation of assets	31 May 2016 £000	31 May 2015 £000
Segment operating assets	**53,869**	39,416
Property, plant and equipment	**1,997**	1,430
Intangible assets	**1,608**	1,191
Investments	**79**	129
Deferred tax asset	**737**	422
Prepayments and other receivables	**1,428**	600
Cash and short-term deposits	**29,809**	10,570
Total assets	**89,527**	53,758

7. Auditor's remuneration

Remuneration paid by the Group to its auditor for the audit of the financial statements, fees other than for the audit of the financial statements and the total of non-audit fees for the Group were as follows:

	Company RSM UK Audit LLP 2016 £000	Company Associates of RSM UK Audit LLP 2016 £000	**Total 2016 £000**	Total 2015 £000
Audit-related services:				
Audit of the Company	50	—	**50**	32
Audit of subsidiaries	20	—	**20**	34
Interim review	14	—	**14**	14
Other assurance – CASS reporting	8	—	**8**	4
	92	—	**92**	84
Non-audit services:				
Corporate finance	—	29	**29**	45
	—	29	**29**	45
Total	92	29	**121**	129

8. Finance revenue

	2016 £000	2015 £000
Bank interest receivable	**122**	46

9. Finance costs

	2016 £000	2015 £000
Bank loans and overdrafts	**—**	2
Unwinding of discount on provisions	**459**	173
	459	175

10. Operating profit

Included in operating profit before financing:	**2016 £000**	2015 £000
Depreciation (Note 15)	**497**	387
Amortisation and impairment of intangible assets (Notes 16 and 17)	**1,816**	1,279
Minimum lease payments recognised as an operating lease expense (Note 26)	**803**	836

Notes to the financial statements

11. Employee benefits expense

The average monthly number of employees during the year was:	2016 No.	2015 No.
Executive Directors	**6**	6
Consultants	**96**	74
Administrators	**231**	186
Support staff	**149**	131
	482	397

Staff costs for the above persons were:	2016 £000	2015 £000
Wages and salaries	**20,857**	17,242
Social security costs	**2,629**	2,014
Pension costs and life insurance	**746**	491
Other staff costs	**320**	295
	24,552	20,042

In addition, the cost of share based payments disclosed separately in the statement of comprehensive income was £1,594,418 (2015: £789,823).

Directors' remuneration:	2016 £000	2015 £000
Emoluments	**3,433**	2,628
Company contributions to personal pension schemes	**68**	78
	3,501	2,706

The amounts in respect of the highest paid Director are as follows:	2016 £000	2015 £000
Emoluments	**943**	707
Company contributions to personal pension schemes	**—**	—
	943	707

Details of the remuneration payable to each Director in respect of the year ended 31 May 2016 is disclosed in the Directors' Remuneration Report on page 36. Six Directors (2015: six) accrued benefits under personal pension schemes, or through an equivalent cash award when they have reached their maximum lifetime allowance. During the year 235,223 share options were issued to Directors (2015: 122,572) and no Director exercised any share options (2015: nil). No cash settled options were issued to Directors during the year (2015: 118,501).

12. Income tax

The major components of income tax expense for the years ended 31 May 2016 and 2015 are:

Consolidated statement of comprehensive income	2016 £000	2015 £000
Current tax	**1,968**	1,434
(Over)/under provision in prior periods	**(27)**	13
	1,941	1,447
Deferred tax credit	**(516)**	(158)
Adjustments in respect of change in tax rate	**(359)**	—
Adjustments in respect of prior periods	**(20)**	(21)
Income tax expense reported in the statement of comprehensive income	**1,046**	1,268

For the year ended 31 May 2016, current tax recognised directly in equity was £149,471 (2015: £34,118). Deferred tax recognised directly in equity was £60,799 (2015: £1,633).

Factors affecting the tax charge for the period

The tax charge assessed for the period is lower (2015: higher) than the standard rate of corporation tax in the UK of 20.00% (2015: 20.83%). The differences are explained below:

	2016 £000	2015 £000
Accounting profit before income tax	**6,291**	5,290
Multiplied by standard rate of UK corporation tax of 20.00% (2015: 20.83%)	**1,258**	1,102
Effects of:		
Expenses not deductible for tax	**211**	133
Deferred tax on share options	**(24)**	29
(Over)/under provision in prior periods	**(27)**	13
Deferred tax in respect of prior periods	**(20)**	(21)
Effects of changes in tax rates	**(352)**	7
Transfer of non-qualifying assets	**—**	5
Income tax expense for the year	**1,046**	1,268
Effective income tax rate	**16.6%**	24.0%

The UK Government reduced the rate of corporation tax from 21% to 20% with effect from 1 April 2015. UK deferred tax has been recognised at 18%, following the Finance (No.2) Bill 2015.

Deferred income tax

Deferred income tax at 31 May relates to the following:

Group	**2016 £000**	2015 £000
Deferred income tax liability		
Temporary differences on acquired intangibles	**(3,707)**	(2,310)
Temporary differences accelerated capital allowances	**(17)**	(29)
Deferred tax liability	**(3,724)**	(2,339)
Deferred income tax asset		
Temporary differences on provisions	**92**	55
Temporary differences on share based payments	**645**	367
Deferred tax asset	**737**	422
Net deferred tax liability	**(2,987)**	(1,917)

Reflected in the statement of financial position as follows:		
Deferred tax assets	**737**	422
Deferred tax liabilities	**(3,724)**	(2,339)
Net deferred tax liability	**(2,987)**	(1,917)

Notes to the financial statements

12. Income tax continued

Deferred income tax continued

Company	2016 £000	2015 £000
Deferred income tax liability		
Temporary differences on acquired intangibles	**(2,110)**	(2,310)
Temporary differences on accelerated capital allowances	**(17)**	(22)
Deferred tax liability	**(2,127)**	(2,332)
Deferred income tax asset		
Temporary differences on provisions	**86**	55
Temporary differences on share based payments	**645**	367
Deferred tax asset	**731**	422
Net deferred tax liability	**(1,396)**	(1,910)
Reflected in the statement of financial position as follows:		
Deferred tax assets	**731**	422
Deferred tax liabilities	**(2,127)**	(2,332)
Net deferred tax liability	**(1,396)**	(1,910)

There are no income tax consequences for the Group attaching to the payment of dividends by Mattioli Woods plc to its shareholders in either 2015 or 2016.

The primary components of the entity's recognised deferred tax assets include temporary differences related to employee benefits, provisions and other items. The primary components of the entity's deferred tax liabilities include temporary differences related to property, plant and equipment and intangible assets.

The recognition of deferred tax in the statement of comprehensive income arises from the origination and the reversal of temporary differences and the effects of changes in tax rates. The components of the deferred tax credit for the year ended 31 May 2016 are summarised as follows:

Deferred tax in statement of comprehensive income	2016 £000	2015 £000
Deferred tax on share options	**(107)**	(74)
Deferred tax on capital allowances	**(16)**	34
Under provision for capital allowances in prior period	**—**	(6)
Deferred tax on provisions	**(180)**	36
Overprovision for provisions in prior period	**(20)**	(16)
Deferred tax on amortisation of client portfolios	**(205)**	(85)
Deferred tax on intangible assets	**(8)**	(73)
Effect of changes in the standard rate of tax	**(359)**	5
Deferred tax movement	**(895)**	(179)

The total deferred tax movement in the statement of financial position is summarised as follows:

Deferred tax reconciliation	2016 £000	2015 £000
Opening net deferred tax liability	**(1,917)**	(2,097)
Movement recognised in the statement of comprehensive income	**876**	158
Deferred tax movement recognised in equity	**21**	(2)
Deferred tax arising on acquisitions	**(2,027)**	—
Adjustment in respect of prior period	**60**	24
Closing net deferred tax liability	**(2,987)**	(1,917)

13. Earnings per ordinary share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The income and share data used in the basic and diluted earnings per share computations is as follows:

	2016 £000	2015 £000
Net profit and diluted net profit attributable to equity holders of the Company	**5,245**	4,022

Weighted average number of ordinary shares:	000s	000s
Issued ordinary shares at start period	**20,372**	19,990
Effect of shares issued during the year ended 31 May 2015	**—**	297
Effect of shares issued during the year ended 31 May 2016	**4,430**	215
Basic weighted average number of shares	**24,802**	20,502
Effect of dilutive options at the statement of financial position date	**90**	237
Diluted weighted average number of shares	**24,892**	20,739

The Company has granted options under the Share Option Plan, the Consultants' Share Option Plan and the LTIP to certain of its senior managers and Directors to acquire (in aggregate) up to 3.33% of its issued share capital (see Note 19). Under IAS 33 Earnings Per Share, contingently issuable ordinary shares are treated as outstanding and included in the calculation of diluted earnings per share if the conditions (the events triggering the vesting of the option) are satisfied. At 31 May 2016 the conditions attached to 696,574 options granted under the LTIP were not satisfied (2015: 410,032). If the conditions had been satisfied, diluted earnings per share would have been 20.5p per share (2015: 19.0p).

Since the reporting date and the date of completion of these financial statements the following transactions have taken place involving ordinary shares or potential ordinary shares:

- The issue of 14,000 ordinary shares to satisfy the exercise of options under the Consultants' Share Option Plan; and
- The issue of 17,636 ordinary shares under the Mattioli Woods plc Share Incentive Plan.

14. Dividends paid and proposed

	2016 £000	2015 £000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
– Final dividend for 2015: 7.16p (2014: 6.00p)	**1,790**	1,202
– Interim dividend for 2016: 3.85p (2015: 3.34p)	**964**	679
Dividends paid	**2,754**	1,881
Proposed for approval by shareholders at the AGM:		
Final dividend for 2016: 8.65p (2015: 7.16p)	**2,184**	1,790

Notes to the financial statements

15. Property, plant and equipment

Group	Computer and office equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Gross carrying amount:				
At 1 June 2014	850	911	813	2,574
Additions	248	90	265	603
Disposals	(29)	(119)	(213)	(361)
At 31 May 2015	1,069	882	865	2,816
Arising on Acquisitions	51	25	7	83
Additions	582	39	494	1,115
Disposals	(60)	(28)	(297)	(385)
At 31 May 2016	1,642	918	1,069	3,629
Depreciation:				
At 1 June 2014	408	510	330	1,248
Charged for the year	149	95	143	387
On disposals	(22)	(97)	(130)	(249)
At 31 May 2015	535	508	343	1,386
Charged for the year	238	100	159	497
On disposals	(51)	(25)	(175)	(251)
At 31 May 2016	**722**	**583**	**327**	**1,632**
Carrying amount:				
At 31 May 2016	**920**	**335**	**742**	**1,997**
At 31 May 2015	534	374	522	1,430
At 31 May 2014	442	401	483	1,326

Company	£000	£000	£000	£000
Gross carrying amount:				
At 1 June 2014	670	783	812	2,265
Transfer from group companies	71	67	—	138
Additions	234	81	264	579
Disposals	(29)	(119)	(213)	(361)
At 31 May 2015	946	812	863	2,621
Additions	574	39	494	1,107
Disposals	(60)	(25)	(297)	(382)
At 31 May 2016	**1,460**	**826**	**1,060**	**3,346**
Depreciation:				
At 1 June 2014	312	458	330	1,100
Charged for the year	123	73	143	339
On disposals	(23)	(93)	(132)	(248)
At 31 May 2015	412	438	341	1,191
Charged for the year	227	98	157	482
On disposals	(51)	(25)	(175)	(251)
At 31 May 2016	588	511	323	1,422
Carrying amount:				
At 31 May 2016	**872**	**315**	**737**	**1,924**
At 31 May 2015	534	374	522	1,430
At 31 May 2014	358	325	482	1,165

16. Intangible assets

Group	Internally generated software £000	Software £000	Client portfolios £000	Goodwill £000	Other £000	Total £000
Gross carrying amount:						
At 1 June 2014	809	734	20,956	10,771	35	33,305
Arising on acquisitions	—	—	756	—	—	756
Additions	242	132	—	—	—	374
At 31 May 2015	1,051	866	21,712	10,771	35	34,435
Arising on acquisitions	—	—	10,120	5,590	—	15,710
Additions	383	214	—	—	—	597
At 31 May 2016	1,434	1,080	31,832	16,361	35	50,742
Amortisation and impairment:						
At 1 June 2014	155	411	3,716	—	22	4,304
Amortisation during the year	88	72	1,106	—	13	1,279
At 31 May 2015	243	483	4,822	—	35	5,583
Amortisation during the year	106	74	1,569		—	1,749
At 31 May 2016	349	557	6,391	—	35	7,332
Carrying amount:						
At 31 May 2016	**1,085**	**523**	**25,441**	**16,361**	**—**	**43,410**
At 31 May 2015	808	383	16,890	10,771	—	28,852
At 31 May 2014	654	323	17,240	10,771	13	29,001

Company	Internally generated software £000	Software £000	Client portfolios £000	Goodwill £000	Total £000
Gross carrying amount:					
At 1 June 2014	809	593	7,124	4,335	12,861
Transfer from group companies	—	41	12,340	6,436	18,817
Arising on acquisitions	—	—	194	—	194
Additions	242	132		—	374
At 31 May 2015	1,051	766	19,658	10,771	32,246
Arising on acquisitions	—	—	909	—	909
Additions	383	207	—	—	590
At 31 May 2016	1,434	973	20,567	10,771	33,745
Amortisation and impairment:					
At 1 June 2014	155	364	2,150	—	2,669
Amortisation during the year	88	53	618	—	759
At 31 May 2015	243	417	2,768	—	3,428
Amortisation during the year	106	68	1,170	—	1,344
At 31 May 2016	349	485	3,938	—	4,772
Carrying amount:					
At 31 May 2016	**1,085**	**488**	**16,629**	**10,771**	**28,973**
At 31 May 2015	808	349	16,890	10,771	28,818
At 31 May 2014	654	229	4,974	4,335	10,192

Notes to the financial statements

16. Intangible assets continued

Software

Software is amortised over its useful economic life of four years on a reducing balance basis. Internally generated software represents the development costs of the Group's bespoke customer relationship management, administration and trading platform. The Directors believe this technology will be the principal technology platform used throughout the Group for the foreseeable future. Internally generated software is amortised on a straight-line basis over an estimated useful life of 10 years.

Client portfolios

Client portfolios represent individual client portfolios acquired through business combinations. Client portfolios are amortised on a straight-line basis over an estimated useful life of between 10 and 25 years, based on the Group's historic experience.

Goodwill

Goodwill arises where the price paid for an acquisition is greater than the fair value of the net assets acquired. Goodwill arising on business combinations is subject to annual impairment testing (see Note 18).

Other intangibles

Other intangibles represent external costs incurred in obtaining a licence. Other intangibles are amortised on a straight-line basis over a useful economic life of three years.

17. Investments

Investments in subsidiaries	Group £000	Company £000
At 1 June 2014	—	19,623
Reduction in value of Thoroughbred Wealth Management Limited	—	(379)
Reduction in value of Kudos Financial Services Limited	—	(1,637)
Transfer of investments from Group companies	—	10
At 31 May 2015	**—**	**17,617**
Investment in Boyd Coughlan Limited	—	7,388
Investment in Taylor Patterson Group	—	7,547
Reduction in value of City Pensions Limited	—	(3,192)
Reduction in value of TCF Global Independent Financial Services Limited	—	(8,627)
Reduction in value of Thoroughbred Wealth Management Limited	—	(5,546)
At 31 May 2016	**—**	**15,187**

During the prior year the trade and assets of City Pensions Limited, Thoroughbred Wealth Management Limited, Atkinson Bolton Consulting Limited and Kudos Financial Services Limited were transferred to the Company. The net asset and results for the transferred businesses are reflected in the parent company financial statements at the same values as they would have been reflected in the Group accounts had the transfer not taken place. Each transfer of trade and assets resulted in any goodwill, client portfolios recognised as intangible assets and associated deferred tax balances that arose on consolidation, consolidation being recognised in the parent company's statement of financial position.

The trade and assets were exchanged for loan notes attracting annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate. On 30 November 2015 the loan notes were waived and the capital and reserves in City Pensions Limited, Thoroughbred Wealth Management Limited, Atkinson Bolton Consulting Limited and Kudos Financial Services Limited were reduced to £1.

Other investments	Group £000	Company £000
At 1 June 2014	39	—
Transfer of other investments from group companies	—	39
Additions	90	90
At 31 May 2015	**129**	**129**
Impairment	(67)	(67)
Revaluation	1	1
Additions	16	16
At 31 May 2016	**79**	**79**

Details of the investments in which the Group and the Company (unless indicated) holds 20% or more of the nominal value of any class of share capital are as follows:

Subsidiary undertakings	Share class held	Voting rights and shares held	Nature of business
GB Pension Trustees Limited	Ordinary	100%	Trustee company
Great Marlborough Street Pension Trustees Limited	Ordinary	100%	Trustee company
MW Trustees Limited	Ordinary	100%	Trustee company
SLT Trustees Limited	Ordinary	100%	Trustee company
Professional Independent Pension Trustees Limited	Ordinary	100%	Trustee company
Pension Consulting Limited ("PCL")	Ordinary	100%	Holding company
PC Trustees Limited (held by PCL)	Ordinary	100%	Trustee company
Bank Street Trustees Limited	Ordinary	100%	Trustee company
JB Trustees Limited	Ordinary	100%	Trustee company
John Bradley Financial Services Limited	Ordinary	100%	Dormant
Mattioli Woods Legal Limited (formerly Polaris Pensions Limited)	Ordinary	100%	Dormant
Mayflower Trustees Limited	Ordinary	100%	Trustee company
Custodian Capital Limited	Ordinary	100%	Property management
CP SSAS Trustees Limited	Ordinary	100%	Trustee company
CP SIPP Trustees Limited	Ordinary	100%	Trustee company
City Pensions Limited	Ordinary and preference	100%	Dormant
City Trustees Limited	Ordinary	100%	Trustee company
TCF Global Independent Financial Services Limited ("TCF")	Ordinary	100%	Holding company
Kudos Financial Services Limited (held by TCF)	Ordinary	100%	Dormant
AR Pension Trustees Limited (formerly Ashcourt Rowan Pension Trustees Limited)	Ordinary	100%	Trustee company
Robinson Gear (Management Services) Limited	Ordinary	100%	Trustee company
Thoroughbred Wealth Management Limited ("TWM")	Ordinary	100%	Holding company
Atkinson Bolton Consulting Limited (held by TWM)	Ordinary	100%	Dormant
Simmonds Ford Trustees Limited	Ordinary	100%	Trustee company
Acomb Trustees Limited	Ordinary	100%	Trustee company
Ropergate Trustees Limited	Ordinary	100%	Trustee company
Chapel Trustees Limited (formerly Torquil Clark Pension Trustees Limited)	Ordinary	100%	Trustee company
Mattioli Woods (New Walk) Limited	Ordinary	100%	Property development company
Boyd Coughlan Limited	Ordinary	100%	Wealth management and employee benefits
Taylor Patterson Group Limited ("TPG") (formerly Lanson House Limited)	Ordinary	100%	Wealth management and employee benefits
Taylor Patterson Associates Limited (held by TPG)	Ordinary	100%	Pension administration
Taylor Patterson Financial Planning Limited (held by TPG)	Ordinary	100%	Wealth management and employee benefits
Taylor Patterson Trustees Limited (held by TPG)	Ordinary	100%	Trustee company
Lanson House Limited ("LH") (formerly Taylor Patterson Group Limited) (held by TPG)	Ordinary	100%	Dormant
Lanson Enterprises Limited (held by LH)	Ordinary	100%	Dormant
Lindley Trustees Limited	Ordinary	100%	Trustee company
MWV Solutions Limited	Ordinary	50%	Dormant

The Company accounts for its investments in subsidiaries using the cost method.

Notes to the financial statements

17. Investments continued

Other Investments

Mattioli Woods owns 15% of the issued share capital of Mainsforth Developments Limited ("Mainsforth"), a company incorporated in England and Wales with its principal activity being the development and selling of real estate. Mainsforth had entered into two conditional sale agreements ("the Agreements") to acquire freehold land with vacant possession (the "Development Land"). However, the Agreements have been terminated and at 31 May 2016 the Company's investment in Mainsforth was valued at £nil (2015: £15).

At 1 June 2015 the Company owned 9.09% of the shareholding in MW Properties (No.25) Limited ("MWPS25"), acquired at a cost of £90,000. On 9 December 2015 the Company acquired an additional 0.31% at a cost of £769. MWPS25 owns part of the Development Land. At 31 May 2016 these shares are included within investments at a value of £22,798, with an impairment of £67,202 recognised in the statement of comprehensive income during the period.

On 9 December 2015 the Company acquired 2.04% of the shareholding in MW Properties (Huntingdon Non-Geared) Limited for £14,956, which is a company incorporated in England and Wales with its principal activity being investment in real estate.

18. Impairment of goodwill and intangibles with indefinite lives

Goodwill arising on acquisitions is allocated to the cash generating units comprising the acquired businesses. Where the Group reorganises its operating and reporting structures in a way that changes the composition of one or more cash-generating units to which goodwill has been allocated, the goodwill is reallocated to the units affected.

During the year ended 31 May 2015, the Group reorganised its structure in such a way that the composition of the cash-generating units to which goodwill had been previously allocated was altered. Accordingly, goodwill was reallocated to cash-generating units based on headcount or revenues at the date of acquisition.

The cash-generating units now comprise the same groups of assets as the four operating segments, which represent the smallest individual groups of assets generating cash flows. Goodwill has been allocated between the Group's operating segments for impairment testing, as follows:

Group	Pension consultancy and admin £000	Investment and asset management £000	Property management £000	Employee benefits £000	Total £000
At 1 June 2014 and 1 June 2015	3,510	3,456	188	3,617	10,771
Arising on acquisitions	1,311	3,429	—	850	5,590
At 31 May 2016	**4,821**	**6,885**	**188**	**4,467**	**16,361**

Company	Pension consultancy and admin £000	Investment and asset management £000	Property management £000	Employee benefits £000	Total £000
At 1 June 2014	2,414	1,411	188	322	4,335
Transferred from Group companies	1,096	2,045	—	3,295	6,436
At 31 May 2015 and 31 May 2016	**3,510**	**3,456**	**188**	**3,617**	**10,771**

The determination of whether goodwill is impaired requires an assessment of the fair value less cost to sell and estimation of the value in use of the operating segments to which the goodwill has been allocated. The recoverable amount of goodwill on a fair value less costs to sell calculation is based on the closing share price of the Group on 31 May 2016 of 649p, giving a market capitalisation of £163.6m. Comparing this to the net asset value of the Group of £65.6m, the Directors believe the value of goodwill is not impaired at 31 May 2016.

In assessing value in use, the estimated future cash flows of each operating segment are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The estimated cash flows are derived by extrapolating the actual cash flows for the year ended 31 May 2016 using a terminal growth rate of 2.5% (2015: 2.5%), which management considers conservative against actual average long-term growth rates, and discounting at a pre-tax discount rate of 7.1%.

The value in use calculated at 31 May 2016 was £141.4m. Comparing this to the net asset value of the operating segments identified above, the Directors believe the value of goodwill is not impaired at 31 May 2016. This accounting treatment resulted in an impairment loss of £nil (2015: £nil).

19. Share based payments

Share Option Plan

The Company operated the Share Option Plan by which certain of the Executive Directors and other senior executives are able to subscribe for ordinary shares in the Company at an exercise price of £1.32 per share, equal to the placing price of the shares issued on 15 November 2005. The options vested when profit-based performance conditions were fulfilled. All options vesting under the Share Option Plan were exercised prior to the option expiry date of 31 October 2015 and hence at 31 May 2016 there were no options outstanding under the Share Option Plan (2015: 52,950).

Consultants' Share Option Plan

The Company also operates the Consultants' Share Option Plan by which certain senior executives are able to subscribe for ordinary shares in the Company. Options granted under the Consultants' Share Option Plan are summarised as follows:

Date of grant	Exercise price £	At 1 June 2015 No.	Granted during the year No.	Exercised during the year No.	Lapsed during the year No.	**At 31 May 2016 No.**
5 September 2006	2.21	122,347	—	(122,347)	—	**—**
4 September 2007	2.79	142,124	—	(74,011)	—	**68,113**
8 September 2009	2.16	107,842	—	(32,030)	—	**75,812**
		372,313	—	(228,388)	—	**143,925**

The exercise price of the options is equal to the market price of the shares at the close of business on the day immediately preceding the date of grant. The options vest when the option holders achieve certain individual performance hurdles. No options vested during the year as a result of the associated performance conditions being fulfilled. If the performance hurdles, which are linked to individual sales revenues, are not met over the five financial years commencing on 1 June before the date of grant, the options lapse.

Long Term Incentive Plan

During the period, Mattioli Woods granted awards to the Company's Executive Directors and certain senior employees under the LTIP. Conditional share awards ("Equity-settled") grant participating employees a conditional right to become entitled to options with an exercise price of 1p over ordinary shares in the Company. Conditional cash awards ("Cash-settled") grant participating employees a conditional right to be paid a cash amount based on the proceeds of the sale of a specified number of Ordinary Shares following the vesting of the award. Movements in the LTIP scheme during the period were as follows:

LTIP options	**31 May 2016 Equity-settled No.**	**31 May 2016 Cash-settled No.**	31 May 2015 Equity-settled No.	31 May 2015 Cash-settled No.
Outstanding as at 1 June	**410,032**	**266,650**	217,519	148,149
Granted during the year	**292,574**	**—**	235,901	118,501
Exercised during the year	**—**	**—**	—	—
Forfeited during the year	**(6,032)**	**—**	(43,388)	—
Outstanding at 31 May	**696,574**	**266,650**	410,032	266,650
Exercisable at 31 May	**—**	**—**	—	—

The LTIP awards are subject to the achievement of corporate profitability targets measured over a three year performance period and will vest following publication of the Group's audited results for the final performance year. The amounts shown above represent the maximum opportunity for the participants in the LTIP.

Share Incentive Plan

The Company introduced the Mattioli Woods plc Share Incentive Plan ("the SIP") in July 2008. Participants in the SIP are entitled to purchase, at market value, up to a prescribed number of new 1p ordinary shares in the Company at the end of each month for which they will receive a like for like matching share. These ordinary shares rank pari passu with existing issued ordinary shares of the Company.

A total of 99,972 (2015: 110,134) new ordinary shares were issued to the 218 employees who participated in the SIP during the year. At 31 May 2016 the SIP held 508,218 shares on their behalf.

Notes to the financial statements

19. Share based payments

Share based payments expense

The expense for share based payments made in respect of employee services under the LTIP is recognised over the expected vesting period of the awards. The expense recognised during the year ended 31 May 2016 is £1,351,505 (2015: £567,966), of which £595,664 arises from equity-settled share based payment transactions (2015: £243,454) and £755,841 arises from cash-settled share based payment transactions (2015: £324,512).

The expense for share based payments made in respect of employee services under the Share Option Plan and the Consultants' Share Option Plan is recognised over the expected vesting period of the awards. The expense recognised during the year ended 31 May 2016 was £nil (2015: £nil), which arises entirely from equity-settled share based payment transactions.

The expense for share based payments in respect of "Matching shares" issued under the SIP is recognised in the period the shares are granted to the participating employee (see Note 22). The expense recognised during the year ended 31 May 2016 is £242,913 (2015: £221,857), which arises entirely from equity-settled share based payment transactions.

Summary of share options

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year.

Share options	**2016 No.**	**2016 WAEP £**	2015 No.	2015 WAEP £
Outstanding as at 1 June	**835,295**	**1.17**	733,934	2.23
Granted during the year	**292,574**	**0.01**	235,901	0.01
Exercised	**(281,338)**	**2.19**	(91,152)	1.99
Forfeited during the year	**(6,032)**	**—**	(43,388)	—
Outstanding at 31 May	**840,499**	**0.43**	835,295	1.17
Exercisable at 31 May	**143,925**	**2.46**	425,263	2.28

The weighted average share price at the date of exercise for share options exercised during the year was £5.48. For the share options outstanding as at 31 May 2016, the weighted average remaining contractual life is 4.0 years (2015: 3.4 years). The WAEP for options outstanding at the end of the year was £0.43 (2015: £1.17), with the option exercise prices ranging from £0.01 to £2.79.

The fair value of equity-settled share options granted is estimated as at the date of grant using the Black Scholes Merton model, taking into account the terms and conditions upon which the options were granted. The share price at 31 May 2016 and movements during the year are set out in the Directors' Remuneration Report.

20. Trade and other receivables (current)

	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
Trade receivables due from Group companies	**—**	**1,824**	—	477
Other trade receivables	**5,459**	**5,039**	4,940	4,452
Other receivables	**255**	**148**	72	44
Prepayments and accrued income	**7,781**	**6,999**	7,343	6,949
	13,495	**14,010**	12,355	11,922

Trade receivables due from related parties are recognised at amortised cost and eliminate on consolidation. Other receivables include Directors' loans of £nil (2015: £1,264). For terms and conditions relating to related party loans, refer to Note 28. None of the related party receivables were overdue at the reporting date.

Non-related party trade receivables are non-interest bearing and are generally on 30-90 days' terms. As at 31 May 2016, the nominal value of non-related party trade receivables impaired and fully provided for, and movements in the provision for impairment of receivables were as follows:

	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
As at 1 June	**678**	**678**	621	375
Transferred from group companies	**—**	**—**	—	246
Charge/(release) for year	**88**	**88**	57	57
Used during the year	**(78)**	**(71)**	—	—
Acquired on acquisition	**13**	**—**	—	—
At 31 May	**701**	**695**	678	678

At 31 May 2016, the analysis of non-related party trade receivables that were past due but not impaired is as follows:

			Past due but not impaired			
	Total £000	Neither past due nor impaired £000	< 30 days £000	30-60 days £000	60-90 days £000	> 90 days £000
2016	**5,459**	**2,450**	**1,260**	**612**	**456**	**681**
2015	4,940	2,500	1,027	472	289	652

For all receivables above, including neither past due nor impaired, the carrying amount is deemed to reflect the fair value.

21. Cash and short-term deposits

For the purpose of the statement of cashflows, cash and cash equivalents comprise the following at 31 May 2016:

	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
Cash at banks and on hand	**29,809**	**21,381**	10,570	8,545
Bank overdrafts	**—**	**—**	—	—
Cash and cash equivalents	**29,809**	**21,381**	10,570	8,545

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and short-term deposits is £29.8m (2015: £10.6m).

Due to the headroom the Group's current cash balances provide on its projected working capital requirements, the Group has not renewed its overdraft facility. Management will continue to review the level of bank facilities the Group may require going forward.

Notes to the financial statements

22. Issued capital and reserves

Share capital	Ordinary shares of 1p	Ordinary shares of 1p £
Authorised		
At 1 June 2014, 31 May 2015 and 31 May 2016	**30,000,000**	**300,000**
Issued and fully paid		
At 1 June 2014	19,989,872	199,899
Exercise of employee share options	91,152	912
Shares issued under the SIP	110,134	1,101
Shares issued for consideration	181,407	1,814
At 31 May 2015	20,372,565	203,726
Placing	3,795,918	37,959
Exercise of employee share options	281,338	2,813
Shares issued under the SIP	99,972	1,000
Shares issued for consideration	655,630	6,556
At 31 May 2016	**25,205,423**	**252,054**

Rights, preferences and restrictions on shares

All ordinary shares carry equal rights and no privileges are attached to any shares in the Company. All the shares are freely transferable, except as otherwise provided by law. However:

- The former shareholders of Thoroughbred Wealth Management Limited ("the TWM Sellers") have entered into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 946,256 ordinary shares in Mattioli Woods during the four years ending 29 July 2017;
- The former shareholders of Boyd Coughlan Limited the ("BCL Sellers") have entered into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 235,742 ordinary shares in Mattioli Woods during the two years ending 23 June 2017; and
- The former shareholders of Taylor Patterson ("the Taylor Patterson Sellers") have entered into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 419,888 ordinary shares in Mattioli Woods during the three years ending 8 September 2018.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Share schemes and share incentive plan

The Company has three share schemes under which options to subscribe for the Company's shares have been granted to certain Executives and senior employees (Note 19).

The Company also operates a share incentive plan. Participants in the SIP are entitled to purchase up to a prescribed number of new ordinary shares in the Company in any year. At the Directors' discretion, the Company may also award additional shares to participants in the SIP. Ordinary shares issued under the SIP rank pari passu with existing issued ordinary shares of the Company. Dividends paid on shares held within the SIP are used to buy new ordinary shares in the Company of 1p each.

Other reserves

Group	Share premium £000	Merger reserve £000	Equity – share based payments £000	Capital redemption reserve £000	Retained earnings £000
At 1 June 2014	8,001	4,040	1,046	2,000	20,257
Reserve transfer	—	—	(341)	—	341
Share based payments	—	—	256	—	—
Shares issued under the SIP	508	—	—	—	—
Shares issued as deferred consideration for TWM	—	798	—	—	—
Shares issued on exercise of options	180	—	—	—	—
Deferred tax recognised in equity	—	—	2	—	—
Profit for the financial year	—	—	—	—	4,022
Dividends paid	—	—	—	—	(1,881)
Current tax charge taken to equity	—	—	34	—	—
At 31 May 2015	8,689	4,838	997	2,000	22,739
Reserve transfer	—	—	(161)	—	161
Share based payments	—	—	596	—	—
Shares issued under the SIP	594	—	—	—	—
Shares issued as initial consideration for BCL and TPL	—	3,693	—	—	—
Shares issued on exercise of options	613	—	—	—	—
Costs of issuing new shares	(693)	—	—	—	—
Current tax taken to equity	—	—	149	—	—
Deferred tax taken to equity	—	—	61	—	—
Profit for the financial year	—	—	—	—	5,245
Dividends paid	—	—	—	—	(2,754)
New shares issued	18,562	—	—	—	—
At 31 May 2016	**27,765**	**8,531**	**1,642**	**2,000**	**25,391**

Company	Share premium £000	Merger reserve £000	Equity share based payments £000	Capital–redemption reserve £000	Retained earnings £000
At 1 June 2014	8,001	4,040	1,040	2,000	
Reserve transfer	—	—	(341)		341
Share based payments	—	—	241	—	—
Shares issued as deferred consideration for TWM	—	798	—	—	—
Shares issued under the SIP	508	—	—	—	—
Shares issued on exercise of options	180	—	—	—	—
Deferred tax recognised in equity	—	—	2	—	—
Profit for the financial year	—	—	—	—	2,483
Dividends paid	—	—	—	—	(1,881)
Current tax charge taken to equity	—	—	34	—	—
At 31 May 2015	8,689	4,838	976	2,000	20,048
Reserve transfer	—	—	(140)	—	140
Share based payments	—	—	596	—	—
Shares issued as initial consideration for BCL and TPL	—	3,693	—	—	—
Shares issued under the SIP	594	—	—	—	—
Shares issued on exercise of options	613	—	—	—	—
Deferred tax recognised in equity	—	—	61	—	—
Profit for the financial year	—	—	—	—	5,053
Dividends paid	—	—	—	—	(2,754)
Current tax charge taken to equity	—	—	149	—	—
Costs of issuing new shares	(693)	—	—	—	—
New shares issued	18,562	—	—	—	—
At 31 May 2016	**27,765**	**8,531**	**1,642**	**2,000**	**22,487**

Notes to the financial statements

22. Issued capital and reserves continued

The Company has issued options to subscribe for the Company's shares under three employee share schemes (Note 19). The cost of exercised or lapsed share options has been derecognised from equity-share based payments and re-allocated to retained earnings as required by IFRS 2 Share-based Payments.

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

Reserve	Description and purpose
Share premium	Amounts subscribed for share capital in excess of nominal value less any associated issue costs that have been capitalised.
Merger reserve	Where shares are issued as consideration for shares in another company, the excess of the fair value of the shares acquired over the nominal value of the shares issued is recognised in the merger reserve.
Capital redemption reserve	Amounts transferred from share capital on redemption of issued shares.
Equity – share based payments	The fair value of equity instruments granted by the Company in respect of share based payment transactions.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

23. Cash flows from operating activities using the direct method

IAS 7 Cash Flow Statements permits entities to present the cash flow from operating activities under the indirect method by showing the revenues and expenses disclosed on the statement of comprehensive income and the changes during the period in operating receivables and payables. Alternatively, the cash generated from operations may be presented under the direct method as follows:

Cash flows from operating activities	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
Cash receipts from customers	**42,441**	**32,101**	32,865	23,786
Cash paid to suppliers and employees	**(30,653)**	**(25,620)**	(25,285)	(17,698)
Cash generated from operations	**11,788**	**6,481**	7,580	6,088

24. Trade and other payables

Trade and other payables (current)	Group 2016 £000	Company 2016 £000	Group 2015 £000	Company 2015 £000
Trade payables due to related parties	**—**	**42**	—	—
Other trade payables	**1,360**	**628**	682	223
Other taxation and social security	**2,002**	**1,711**	1,714	1,617
Other payables	**326**	**315**	161	212
Accruals and deferred income	**6,359**	**5,701**	5,422	5,245
	10,047	**8,397**	7,979	7,297

Trade payables due to related parties eliminate on consolidation.

Other payables include Directors' loans of £940 (2015: £1,706). For terms and conditions relating to related party loans, refer to Note 28. Terms and conditions of the other financial liabilities set out above are as follows:

- Trade payables are non-interest bearing and are normally settled on 30-day terms;
- Other taxation and social security becomes interest bearing if paid late and are settled on terms of one or three months; and
- Accruals and deferred income are non-interest bearing and are normally settled monthly throughout the financial year.

25. Financial liabilities and provisions

Group	Contingent consideration £000	Client claims £000	Dilapidations £000	Clawbacks £000	Employers' NIC on share options £000	Onerous contracts £000	LTIP cash liability £000	Other £000	Total £000
At 1 June 2015	1,446	345	285	294	316	61	484	118	3,349
Unwinding of discount	436	—	—	—	—	—	23	—	459
Arising during the year	5,269	375	65	—	308	56	756	—	6,829
Acquisitions (Note 3)	—	75	63	14	—	35	—	18	205
Paid during the year	(1,136)	(263)	—	—	—	—	—	—	1,399
Unused amounts reversed	(215)	—	—	—	—	—	—	(136)	(351)
At 31 May 2016	**5,800**	**532**	**413**	**308**	**624**	**152**	**1,263**	**—**	**9,092**
Current 2015	138	345	—	294	—	61	—	118	956
Non-current 2015	1,308	—	285	—	316	—	484	—	2,393
At 31 May 2015	1,446	345	285	294	316	61	484	118	3,349
Current 2016	**2,299**	**532**	**63**	**308**	**—**	**152**	**—**	**—**	**3,354**
Non-current 2016	**3,501**	**—**	**350**	**—**	**624**	**—**	**1,263**	**—**	**5,738**
At 31 May 2016	**5,800**	**532**	**413**	**308**	**624**	**152**	**1,263**	**—**	**9,092**

Company	Loan notes £000	Contingent consideration £000	Client claims £000	Dilapidations £000	Clawbacks £000	Employers' NIC on share options £000	Onerous contracts £000	LTIP cash liability £000	Other £000	Total £000
At 1 June 2015	18,802	1,446	345	285	294	316	61	484	118	22,151
Unwinding of discount	—	436	—	—	—	—	—	23	—	459
Arising during the year	—	5,269	375	65	—	308	57	756	—	6,831
Waiver of loan notes	(18,802)	—	—	—	—	—	—	—	—	(18,802)
Paid during the year	—	(1,136)	(263)	—	—	—	—	—	—	1,399
Unused amounts reversed	—	(215)	—	—	—	—	—	—	(118)	(333)
At 31 May 2016	**—**	**5,800**	**457**	**350**	**294**	**624**	**118**	**1,263**	**—**	**8,906**
Current 2015	—	138	345	—	294	—	61	—	118	956
Non-current 2015	18,802	1,308	—	285	—	316	—	484	—	21,195
At 31 May 2015	18,802	1,446	345	285	294	316	61	484	118	22,151
Current 2016	**—**	**2,299**	**457**	**—**	**294**	**—**	**118**	**—**	**—**	**3,168**
Non-current 2016	**—**	**3,501**	**—**	**350**	**—**	**624**	**—**	**1,263**	**—**	**5,738**
At 31 May 2016	**—**	**5,800**	**457**	**350**	**294**	**624**	**118**	**1,263**	**—**	**8,906**

Loan notes due to subsidiary undertakings

During the prior year the trade and assets of City Pensions Limited, Thoroughbred Wealth Management Limited, Atkinson Bolton Consulting Limited and Kudos Financial Services Limited were transferred to the Company in exchange for loan notes attracting annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

On 30 November 2015 the loan notes were waived and the capital and reserves in City Pensions Limited, Thoroughbred Wealth Management Limited, Atkinson Bolton Consulting Limited and Kudos Financial Services Limited were reduced to £1.

Contingent consideration

The Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. Details of these agreements and the basis of calculation of the net present value of the contingent consideration is summarised in Note 3.
The Group estimates the net present value of the financial liability payable within the next 12 months is £2.3m (2015: £0.1m).

Client claims

A provision is recognised for the estimated potential liability when the Group becomes aware of a possible client claim. No discount rate is applied to the projected cash flows due to their short term nature.

Dilapidations

Under the terms of the leases for the Group's premises, the Group has an obligation to return the properties in a specified condition at the end of the lease term. The Group provides for the estimated net present value of the cost of any dilapidations. The discount rate applied to the cash flow projections is 5.0%.

Notes to the financial statements

25. Financial liabilities and provisions continued

Clawbacks

The Group receives certain initial commissions on indemnity terms and hence the Group provides for the expected level of clawback, based on past experience. No discount rate is applied to the projected cash flows due to their short term nature.

Onerous contracts

The Group acquired onerous contracts for the provision of certain IT systems on the acquisition of Ashcourt Rowan's pension business and on the acquisition of UKWM Pensions. Management has assessed the expected benefits and costs associated with these contracts and concluded that the costs of the obligation exceed the benefits to the extent that it is appropriate to provide against these contracts in full.

LTIP cash liability

The Group has granted cash settled options to certain Executive Directors. The amount of any cash entitlement on vesting of an award will be directly linked to the value of a specified number of the Company's shares at the vesting date.

Other

Prior to the Group's acquisitions of Ashcourt Rowan's pension business and UKWM Pensions, employees of the businesses to be acquired had been notified that the businesses were to be restructured, creating a potential liability for certain employee-related costs. Post-acquisition the Group became liable for those employee-related costs relating to each restructuring, which have now been paid in full.

26. Commitments and contingencies

Operating lease agreements – Group as lessee

Mattioli Woods plc has entered into three commercial leases for its premises at Grove Park, Enderby. The lease for the Head Office, MW House, has a duration of 20 years, from 10 June 2005. The amount of annual rental is to be reviewed at three-yearly intervals. The first lease for part of the ground floor of Gateway House (an office building adjacent to MW House) has a duration of ten years from 1 February 2008. A second lease for part of the ground floor of Gateway House has a duration of ten years from 1 December 2009. For both leases, the amount of annual rental is to be reviewed at the end of the fifth year.

Mattioli Woods plc has also entered into commercial leases for its premises at:

- 8 Queens Terrace, Aberdeen, which expires 31 May 2023. The annual rental is £147,000;
- Cheveley House, Fordham Road, Newmarket, which expires on 24 December 2023, with next break clause of 24 December 2018. The annual rental is £115,500;
- Lanson House, Winckley Gardens, Mount Street, Preston, which expires on 31 July 2022. The annual rental is £62,000; and
- Investment House, 22-26 Celtic Court, Ballmoor, Buckingham, which expires on 11 April 2017. The annual rental is £20,000.

As part of certain acquisitions, the Group acquired operating lease obligations for office equipment. No restrictions were placed upon the Group by entering into these leases. Future minimum rentals payable under non-cancellable operating leases as at 31 May are as follows:

	Office equipment		Land and buildings	
Group	**2016 £000**	2015 £000	**2016 £000**	2016 £000
Not later than one year	**2**	7	**706**	634
After one year but not more than five years	**2**	8	**1,724**	1,635
More than five years	**—**	—	**1,130**	1,390
	4	15	**3,560**	3,659

	Office equipment		Land and buildings	
Company	**2016 £000**	2015 £000	**2016 £000**	2016 £000
Not later than one year	**2**	7	**627**	634
After one year but not more than five years	**2**	8	**1,476**	1,635
More than five years	**—**	—	**1,057**	1,390
	4	15	**3,160**	3,659

Group operating lease charges during the year were £797,604 (2015: £820,939) for land and buildings and £5,685 (2015: £14,632) for office equipment.

Capital commitments
At 31 May 2016 the Group had capital commitments amounting to £14.0m (2015: £0.1m). In August 2015, Mattioli Woods (New Walk) Limited ("MW New Walk") entered into a development agreement with Ingleby (1245) Limited ("Ingleby"), a company owned and controlled by Sowden Group Limited ("Sowden") to build a new 50,000 square foot office on the site of the former Leicester City Council ("LCC") headquarters at New Walk, Leicester.

The expected expenditure for the development is circa £15.0m including fit out costs and irrecoverable VAT, which will be funded through a combination of existing cash resources, bank funding and future operating cashflows. Construction commenced in May 2016, with construction scheduled to complete in late 2017 for occupancy in 2018.

Initial development costs are expected to reduce budgeted profit after tax by circa £0.10m in the current financial year, with further reductions of circa £0.40m and £0.20m in the following two years respectively.

Client claims
The Group operates in a legal and regulatory environment that exposes it to certain litigation risks. As a result, the Group occasionally receives claims in respect of products and services provided and which arise in the ordinary course of business. The Group provides for potential losses that may arise out of contingencies (Note 25).

FSCS levy
The arrangements put in place by the Financial Services Compensation Scheme ("FSCS") to protect depositors and investors from loss in the event of failure of financial institutions has resulted in significant levies on the industry in recent years.

There is uncertainty over the level of future FSCS levies as they depend on the ultimate cost to the FSCS of industry failures. The group contributes to the investment intermediation levy class and accrues levy costs for future levy years when the obligation arises. No provision has been made in these financial statements for any FSCS interim levy in the year ended 31 May 2016.

27. Pension costs
The Group makes discretionary and contractual payments into the personal pension schemes of employees and contributions are charged in the statement of comprehensive income as they become payable. The charge for the year was £390,510 (2015: £356,112).

28. Related party disclosures
Loan notes due to subsidiary undertakings
During the prior year the trade and assets of City Pensions Limited, Thoroughbred Wealth Management Limited, Atkinson Bolton Consulting Limited and Kudos Financial Services Limited were transferred to the Company in exchange for loan notes. The loan notes attracted annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

On 30 November 2015 the loan notes were waived and the capital and reserves in City Pensions Limited, Thoroughbred Wealth Management Limited, Atkinson Bolton Consulting Limited, TCF Global Independent Financial Services Limited and Kudos Financial Services Limited were reduced to £1.

Custodian REIT plc
In March 2014 the Company's subsidiary, Custodian Capital, was appointed as the discretionary investment manager of Custodian REIT plc ("Custodian REIT"), a new closed-ended property investment company listed on the Main Market of the London Stock Exchange.

The Company's Chief Executive, Ian Mattioli, is a non-independent Non-Executive Director of Custodian REIT and the Company's Finance Director and Company Secretary, Nathan Imlach, is Company Secretary of Custodian REIT. Ian Mattioli received £27,083 (2015: £26,167) of Director's fees from Custodian REIT during the year. Fees for Nathan Imlach's services are charged by Custodian Capital directly to Custodian REIT and are included in the annual management charges noted below.

Ian Mattioli, Bob Woods, Nathan Imlach, Alan Fergusson, Richard Shepherd-Cross (the Managing Director of Custodian Capital) and the private pension schemes of Ian Mattioli, Bob Woods, Nathan Imlach, Richard Shepherd-Cross, Murray Smith, Mark Smith, Alan Fergusson, John Redpath, Joanne Lake and Carole Duncumb have a beneficial interest in Custodian REIT.

During the year the Group received revenues of £2.6m (2015: £1.7m) in respect of annual management charges, company secretarial and administration fees. Custodian REIT owed the Group £nil at 31 May 2016 (2015: £0.4m).

Gateley (Holdings) Plc
The Company's Non-Executive Director, Joanne Lake, became a Non-Executive Director of Gateley (Holdings) Plc on 1 June 2015. Gateley (Holdings) Plc is the holding company of Gateley Plc, a provider of commercial legal services. During the year, the Group paid Gateley Plc a total of £95,061 in respect of corporate legal services provided to the Group and its subsidiaries. In addition, the Group received revenues of £6,400 in respect of employee benefits services provided to Gateley plc during the year.

Notes to the financial statements

28. Related party disclosures continued

Key management compensation

Key management personnel receive compensation in the form of short-term employee benefits and equity compensation benefits (see Note 11). Key management personnel, representing the Executive Directors and sixteen (2015: eleven) other Executives, received total compensation of £7.1m for the year ended 31 May 2016 (2015: £5.3m). Total remuneration is included in "employee benefits expense" and analysed as follows:

	2016 £000	2015 £000
Wages and salaries	**6,009**	4,487
Social security costs	**801**	597
Pension	**191**	120
Benefits in kind	**117**	85
	7,118	5,289

Transactions with other related parties

At 31 May 2016, Ian Mattioli owed £nil to the Company (2015: £1,264 was owed to the Company) and Bob Woods was owed £940 by the Company (2015: £2,972). These Directors' expense accounts carry no coupon and have no fixed repayment date.

During the year the Company paid £23,584 to Ian Mattioli's wife, Clare Mattioli, for use of her London apartment by certain Directors and senior employees while on Group business. The costs incurred are comparable with the cost of alternative accommodation used for business travel. During the year the Company paid £3,780 to Bob Woods' partner, Jane Kedar, for secretarial services.

Following the transfer of Mattioli Woods' property syndicate business to Custodian Capital, the legal structure of the arrangements offered to investors changed to a limited partnership structure, replacing the previous trust-based structure. Each limited partnership is constituted by its general partner and its limited partners (the investors), with the general partner being a separate limited company owned by Custodian Capital.

The general partner and the initial limited partner enter into a limited partnership agreement, which governs the operation of the partnership and also sets out the rights and obligations of the investors. The general partners have appointed Custodian Capital as the operator of the partnerships pursuant to an operator agreement between the general partner and Custodian Capital.

FP Thoroughbred Core Alpha Fund

The Company is the investment manager of the FP Thoroughbred Core Alpha Fund, an open ended investment company which aims to achieve long-term growth while managing volatility so that, other than on very short term measures, outperformance comes with a lower beta than the benchmark. As at 31 May 2016 the Group held an investment with a market value of £40,860 (2015: £39,502) in the FP Thoroughbred Core Alpha Fund.

29. Financial risk management

Financial assets principally comprise trade and other receivables, cash and short-term deposits, which arise directly from its operations. Financial liabilities comprise certain provisions and trade and other payables. The main risks arising from financial instruments are market risk (including interest rate risk, foreign exchange risk and price risk), credit risk, and liquidity risk. Each of these risks is discussed in detail below.

The Group monitors financial risks on a consolidated basis, with its financial risk management based upon sound economic objectives and good corporate practice. No hedging transactions have taken place during the years presented.

Market risk

(a) Interest rate risk

Interest rate risk is the risk that the Group will sustain losses from adverse movements in interest bearing assets. There is an exposure to interest rates on banking deposits held in the ordinary course of business. At 31 May 2016 the value of financial instruments on the Group's statement of financial position exposed to interest rate risk was £29.8m (2015: £10.6m) comprising cash, cash equivalents and financial assets. This exposure is monitored to ensure that the Group is maximising its interest earning potential within accepted liquidity and credit constraints. Other than short term overdrafts, the Group has no external borrowings and as such is not exposed to interest rate or refinancing risk on borrowings. Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are also made for varying periods of between one day and 12 months depending on the immediate cash requirements of the Group and earn interest at the respective fixed term deposit rates.

A source of revenue is based on the value of client cash under administration. The Group has an indirect exposure to interest rate risk on these cash balances held for clients. These balances are not on the Company or Group statements of financial position.

The following table demonstrates the sensitivity to a 100bps (1%) change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate deposits). There is no impact on the Group's equity.

	Increase/decrease in basis points	Effect on profit before tax £000
2016		
£ Sterling	+100	**244**
£ Sterling	-100	**(244)**
2015		
£ Sterling	+100	89
£ Sterling	-100	(89)

(b) Foreign exchange translation and transaction risk

Foreign currency risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates. With all of the Group's business located within the UK, the Group is not exposed to foreign exchange translation or transaction risk and does not hedge any foreign current assets or liabilities.

(c) Price risk

Price risk is the risk that a decline in the value of assets adversely impacts the profitability of the Group as a result of an asset not meeting its expected value. The Group is exposed to price risk on corporate investments held on the Group's statement of financial position. At 31 May 2016, the fair value of investments recognised on the Group's statement of financial position was £79,405 (2015: £129,521). Any move in the value of these investments would not have a material impact on the Group balance sheet or results.

Property administration fees, discretionary management charges and adviser charges for intermediation are based on the value of client assets under administration and hence the Group has an indirect exposure to security price risk on investments held by clients. These assets are not on the Group' statement of financial position. The risk of lower revenues is partially mitigated by asset class diversification. The Group does not hedge its revenue exposure to movements in the value of client assets arising from these risks and so the interests of the Group are aligned to those of its clients.

Credit risk

The Group trades only with third parties it recognises as being creditworthy. In addition, receivable balances are monitored on an ongoing basis.

Credit risk from the other financial assets of the Group, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Notes to the financial statements

29. Financial risk management continued

Liquidity risk

The Group monitors its risk to a shortage of funds by considering the maturity of both its financial investments and financial assets (e.g. accounts receivables, other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and leases. The table below summarises the maturity profile of the Group's financial liabilities at 31 May 2016 and 2015 based on contractual undiscounted payments:

At 31 May 2016	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	Total £000
Trade and other payables	—	10,047	—	—	—	10,047
Contingent consideration	—	1,279	1,021	3,500	—	5,800
	—	11,326	1,021	3,500	—	15,847

At 31 May 2015	On demand £000	Less than 3 months £000	3 to 12 months £000	1 to 5 years £000	More than 5 years £000	Total £000
Trade and other payables	—	7,979	—	—	—	7,979
Contingent consideration	—	138	—	1,308	—	1,446
	—	8,117	—	1,308	—	9,425

Capital management

The Company and certain of its subsidiaries are supervised in the UK by the Financial Conduct Authority ("FCA"). The Group manages its capital through continuous review of the capital requirements of the Company and its regulated subsidiaries, which are monitored by the Group's management and reported monthly to the Board. The Group's objectives when managing capital are:

- To comply with the regulatory capital requirements set by the FCA;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital at 31 May 2016 was £65.6m (2015: £39.5m). The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

Regulatory capital is determined in accordance with the requirements of the Capital Requirements Directive ("the CRD") prescribed in the UK by the FCA, and the Group's regulatory capital comprises Tier 1 capital, which is the total of issued share capital, retained earnings and reserves created by appropriations of externally verified retained earnings, net of the book value of goodwill and other intangible assets. The Group does not hold any Tier 2 or Tier 3 capital.

From 30 April 2012, all regulated entities within the Group have been required to meet the Pillar 1 Capital Resources Requirements set out in the CRD. The Group is also required to comply with the CRD's requirements under Pillar 2 (Operational Risk) and Pillar 3 (Disclosure). The CRD requires continual assessment of the Group's risks to ensure that the higher of Pillar 1 and 2 requirements is met. Under the Pillar 3 requirements, the Group must disclose regulatory capital information and has done so by making the disclosures available on the Group's website at www.mattioliwoods.com.

The latest version of the CRD legislation ("CRD IV") came into effect on 1 January 2014. The aim of CRD IV is to minimise the negative effects of firms failing by ensuring that firms hold enough financial resources to cover the risk associated with their business. CRD IV is the fourth amendment of the CRD legislation. Each amendment strengthens the prudential framework for individual institutions and responds to financial stability concerns that arose during the banking crisis.

The Company and regulated subsidiary companies submit quarterly returns to the FCA relating to their capital resources. At 31 May 2016 the total regulatory capital requirement across the Group was £8.5m (2015: £5.1m) and the Group had an aggregate surplus of £10.1m (2015: £3.0m) across all regulated entities. All the regulated firms within the Group maintained surplus regulated capital throughout the year. The regulated subsidiaries are limited in the distributions that can be paid up to the Company by each of their individual capital resource requirements.

30. Financial instruments

Fair values

The Directors consider that the carrying value of financial instruments in the Company's and the Group's financial statements is equivalent to fair value. The following table summarises the fair value measurements recognised in the statement of financial position by class of asset or liability and categorised by level according to the significance of the inputs used in making the measurements:

At 31 May 2016	Carrying amount as at 31 May 2016 £000	Quoted prices in active markets for identical instruments Level 1 £000	Significant other observable inputs Level 2 £000	Significant unobservable inputs Level 3 £000
Financial liabilities				
LTIP cash liability	1,263	—	1,263	—
Contingent consideration	5,800	—	—	5,800
Total	7,063	—	1,263	5,800

The fair value of cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short-term nature.

Interest rate risk

The following table sets out the carrying amount after taking into account provisions for impairment, by maturity, of the Company's and the Group's financial instruments that are exposed to interest rate risk:

Group 31 May 2016	**Less than 1 year £000**	**1-2 years £000**	**2-3 years £000**	**3-4 years £000**	**4-5 years £000**	**More than 5 years £000**	**Total £000**
Floating rate							
Financial assets (current)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Cash assets	**29,809**	**—**	**—**	**—**	**—**	**—**	**29,809**
Bank overdrafts	**—**	**—**	**—**	**—**	**—**	**—**	**—**

Group 31 May 2015	Less than 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
Floating rate							
Financial assets (current)	—	—	—	—	—	—	—
Cash assets	10,570	—	—	—	—	—	10,570
Bank overdrafts	—	—	—	—	—	—	—

Company 31 May 2016	**Less than 1 year £000**	**1-2 years £000**	**2-3 years £000**	**3-4 years £000**	**4-5 years £000**	**More than 5 years £000**	**Total £000**
Floating rate							
Financial assets (current)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Cash assets	**21,381**	**—**	**—**	**—**	**—**	**—**	**21,381**
Bank overdrafts	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Loan notes	**—**	**—**	**—**	**—**	**—**	**—**	**—**

Company 31 May 2015	Less than 1 year £000	1-2 years £000	2-3 years £000	3-4 years £000	4-5 years £000	More than 5 years £000	Total £000
Floating rate							
Financial assets (current)	—	—	—	—	—	—	—
Cash assets	8,545	—	—	—	—	—	8,545
Bank overdrafts	—	—	—	—	—	—	—
Loan notes	18,802	—	—	—	—	—	18,802

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Other financial instruments of the Company and Group that are not included in the above table are non-interest bearing and therefore not subject to interest rate risk.

Notes to the financial statements

30. Financial instruments continued

Credit risk

The Group's principal financial assets are cash and short term deposits and trade and other receivables. The only significant concentrations of credit risk relate to the Group's bank deposits and exposure to credit risk arising from default of the counterparty. The maximum exposure is equal to the carrying amount of these deposits. At 31 May 2016, the Group's bank deposits were held with Royal Bank of Scotland plc, Lloyds Bank plc, Bank of Scotland plc and Clydesdale Bank plc.

Given the nature of the Group's operations, it does not have significant concentration of credit risk in respect of trade receivables, with exposure spread over a large number of customers. An allowance for impairment for trade receivables is made where there is an identified loss event, which based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Details of trade receivables and the associated provision for impairment are disclosed in Note 20.

Contingent consideration

As set out in Note 3, the Group has entered into certain acquisition agreements that provide for contingent consideration to be paid. While the exact amounts payable cannot be determined (as these depend on the future performance of the acquired businesses) the Group estimates the fair value of contingent consideration payable on acquisitions to be £5.8m (2015: £1.5m).

31. Events after the reporting date

Taxation

The UK Government has announced tax changes which will have a significant effect on the Group's future tax position. The rate of corporation tax reduced from 21% to 20% from 1 April 2015 and the summer budget of 8 July 2015 announced further reductions to 19% in April 2017 and then 18% from April 2020. These rate changes will affect the amount of future cash tax payments to be made by the Group and will also reduce the size of deferred tax assets and liabilities in the Group's statement of financial position.

Group re-organisation

On 31 August 2016 the trade and assets of the Taylor Patterson Group Limited and its subsidiaries Taylor Patterson Financial Planning Limited and Taylor Patterson Associates Limited (together "the Business") were transferred to the Company. The trade and assets were exchanged for loan notes equal to the book value of the assets and assumed liabilities of the Business as at 31 August 2016, attracting annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

Acquisition of MC Trustees

On 7 September 2016, Mattioli Woods plc acquired the entire issued share capital of Old Station Road Holdings Limited and its subsidiaries (together "MC Trustees") from its shareholder ("the Seller") for a total consideration of up to £2.2m

MC Trustees was founded in 1986 and provides pension administration and trustee services to over 1,500 SIPP and SSAS clients with over £400m of assets under administration. Based in Hampton-in-Arden in the West Midlands and employing 26 staff, the business specialises in the provision of personal service and strong technical advice. MC Trustees' experienced management team will be retained by Mattioli Woods following the acquisition, which is expected to be earnings enhancing in the first full year of ownership.

In the year ended 31 December 2015, MC Trustees generated a profit before taxation of £0.4m on revenues of £1.6m. At 31 December 2015 MC Trustees' net assets were £0.3m.

The total consideration comprises:

- An initial consideration of £1.2m (subject to adjustment for the value of net assets acquired), comprising £0.95m in cash plus 38,081 new ordinary shares of 1p each in Mattioli Woods ("the Consideration Shares"), which are valued at £0.25m based on the closing price of a Mattioli Woods share on 7 September 2016; and
- Deferred consideration of up to £1.0m payable in cash in the two years following completion, subject to certain financial targets being met based on growth in earnings before interest, tax, depreciation and amortisation generated during that period.

Payment of the initial cash consideration, deal costs and estimated net asset adjustment resulted in a cash outflow at completion of £1.35m.

Application has been made to AIM for the admission of the Consideration Shares to trading ("Admission"). Admission of the Consideration Shares, which will rank parri passu in all respects with Mattioli Woods' existing shares in issue, is expected to become effective on 14 September 2016.

The Seller has entered into a lock-in deed with Mattioli Woods and its nominated adviser and broker, Canaccord Genuity Limited, restricting sales of the Consideration Shares during the two years following completion.

In addition to the acquisition of MC Trustees, the Company has reached agreement in principle, subject to contract, to acquire MC Holdings (Malta) Limited and its subsidiary (together "MC Malta") for a total consideration of up to £0.6m payable partly in cash and partly through the issue of new Ordinary Shares. MC Malta operates Qualifying Recognised Overseas Pension Schemes ("QROPS"), providing pension arrangements suitable for expatriates from the UK or people who have earned a pension in the UK and now live abroad.

The acquisition of MC Malta is subject to agreement of legally binding documentation and will be conditional upon approval of the proposed transaction by the Malta Financial Services Authority.

Due to the proximity of the date of acquisition of MC Trustees to the date of announcement of the Group's final results for the year ended 31 May 2016, the Directors are unable to provide the disclosure requirements of IFRS 3 relating to acquisitions after the end of the reporting period but before the financial statements are authorised for issue.

32. Ultimate controlling party

The Company has no controlling party.

Five year summary

	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Revenue	**42,950**	34,565	29,347	23,405	20,482
Employee benefits expense	**(24,552)**	(20,042)	(16,857)	(12,832)	(11,194)
Other administrative expenses	**(7,807)**	(6,604)	(5,423)	(4,693)	(4,010)
Share based payments	**(1,594)**	(790)	(386)	(102)	(141)
Loss on disposal of property, plant and equipment	**(56)**	(44)	(64)	(23)	(24)
EBITDA	**8,941**	7,085	6,617	5,755	5,113
Acquisition-related costs	**339**	272	157	175	263
Adjusted EBITDA	**9,280**	7,357	6,774	5,930	5,376
Amortisation and impairment	**(1,816)**	(1,279)	(1,176)	(854)	(707)
Depreciation	**(497)**	(387)	(367)	(304)	(275)
Operating profit before financing	**6,628**	5,419	5,074	4,597	4,131
Net financing (costs)/income	**(337)**	(129)	41	41	49
Profit before tax	**6,291**	5,290	5,115	4,638	4,180
Income tax expense	**(1,046)**	(1,268)	(834)	(1,031)	(1,101)
Profit for the year	**5,245**	4,022	4,281	3,607	3,079
Assets under management, administration and advice (£m)	**6,605.9**	5,410.4	4,626.2	3,644.3	3,106.7
Headline debtors' ratio (days)	**46.4**	52.2	54.9	51.5	66.8
External client loss rate	**2.4%**	2.8%	3.2%	3.6%	5.2%
EBITDA margin	**20.8%**	20.5%	22.6%	24.6%	25.0%
Adjusted EBITDA margin	**21.6%**	21.3%	23.1%	25.3%	26.3%
Basic EPS (pence)	**21.1**	19.6	21.7	18.9	16.4
Adjusted EPS (pence)	**31.0**	27.2	27.0	23.8	21.2
Dividends paid and proposed (pence)	**12.5**	10.5	9.1	7.0	5.55

FINANCIAL CALENDAR

8 September 2016	Announcement of final results for the year ended 31 May 2016
22 September 2016	Ex-dividend date for ordinary shares
23 September 2016	Record date for final dividend
25 October 2016	Annual General Meeting
1 November 2016	Payment of final dividend on ordinary shares

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