Mattioli Woods plc
WEALTH MANAGEMENT & EMPLOYEE BENEFITS

REACHING NEW HEIGHTS

Annual Report 2017

Welcome

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 £7.8bn

At a glance

Mattioli Woods plc

Our world is one in which financial advice is trusted, thoughtful and enriching.

Our clients

Supporting individuals, families and businesses

- Professionals
- Owner managers
- Senior executives
- Retirees
- Businesses

Wealth Management

Successful wealth management is the integration of financial planning and asset management

- Financial planning
- Investments
- Pensions
- Property
- Protection

Employee benefits

We help businesses to attract, motivate, retain and engage the best staff

- Flexible benefits
- Pensions & workplace benefits
- Financial education
- Health & wellbeing
- Employee engagement
- International
- Mergers & acquisitions

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Our mission

To provide the best Wealth Management and Employee Benefit outcomes for our clients

Our vision

To create a sustainable business that delivers financial expertise with integrity and passion, enabling all our stakeholders to achieve their goals

Our culture

Fair,fun and rewarding

→ How we create value page 08

Highlights

Financial highlights

Revenue	£50.5m	2016: £43.0m	+17.4%
Recurring revenues	85.1%	2016: 82.6%	
Adjusted EBITDA[1]	£10.9m	2016: £9.3m	+17.2%
EBITDA margin	20.8%	2016: 20.7%	
Adjusted EPS[2]	34.1p	2016: 30.6p	+11.4%
Proposed total dividend	14.1p	2016: 12.5p	+12.8%

Operational highlights and recent developments

- Organic revenue growth[3] of **11.6%** (2016: 8.5%)
  - **Over 1,200** new client wins
  - **115** (2016: 104) consultants at year end
- Total client assets up **17.5%** to **£7.77bn** (2016: £6.61bn)
  - Gross discretionary AuM up **39.3%** to **£1.63bn** (2016: £1.17bn)
  - **£98.4m** invested in new Mattioli Woods Structured Products Fund
  - **£76.0m** of new equity raised by Custodian REIT
- Acquisition of MC Trustees in September 2016
- Purchase of **49%** of Amati in February 2017, with option to acquire remaining 51%
- Extending strategic geographic footprint
  - New Manchester office opened in November 2016
  - Moved to new London office in December 2016
  - Moved to new Glasgow office in May 2017
- Reducing client costs while maintaining target EBITDA margin
- New management structure

1 Earnings before interest, taxation, depreciation, amortisation and acquisition-related costs.
2 Before acquisition-related costs, amortisation and impairment of acquired intangibles, and notional finance income and charges.
3 Excluding acquisitions completed in the current and prior financial years. Net organic revenue growth of 12.3% (2016: 11.3%) excluding banking income and acquisitions in the current and prior financial years.

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

Chairman's statement

Progressing towards ambitious goals

"I am delighted to report another year of growth, driven by a strong flow of organic new business"

Joanne Lake
Non-Executive Chairman

Delivering sustainable shareholder returns

Adjusted EPS

34.1p

2016: 30.6p **+11.4%**

Proposed total dividend

14.1p

2016: 12.5p **+12.8%**

This is my first statement to shareholders since being appointed as the Group's new Chairman at our Annual General Meeting in October 2016. On behalf of all of my colleagues, I would like to thank my predecessor and co-founder of Mattioli Woods, Bob Woods, for his immense contribution in building our business into one of the UK's leading providers of wealth management and employee benefit services.

Review of the year

I am delighted to report another year of growth, driven by a strong flow of organic new business and continued demand for advice from clients, which together with acquisitions completed in this and the prior financial year has seen the Group achieve a significant milestone in generating annual revenues of over £50m.

We have enjoyed further growth in our investment and asset management business, with gross discretionary assets under management[4] ("AuM") increasing by £460m during the year, with £190m of new monies invested in our discretionary portfolio management service. The Mattioli Woods Structured Products Fund was launched in November 2016 and its value now exceeds £100m. Custodian REIT, the UK real estate investment trust managed by our subsidiary Custodian Capital, raised £76m of new monies during the year and now has a market capitalisation of almost £400m.

One of our stated aims is to lower the cost of the range of services we provide to clients, while growing a long-term sustainable business. We were delighted to reduce the custody charge for all those clients using our core investment platform from 1 August 2017, which followed our previous announcement that the terms of the Investment Management Agreement between Custodian Capital and Custodian REIT have been amended to secure both a cost reduction for investors in Custodian REIT and an important long-term revenue stream for the Group.

Organic revenue growth of 11.6% (2016: 8.5%) or £4.4m was driven by our largely home-grown consultancy team, further accelerated by growth in our investment and asset management and property businesses. We continue to see demand for advice from clients, driven by lifestyle, increasing longevity, tax and other legislative changes, including the pension freedoms that introduced a major shift in how people can access their pensions, which in turn has driven further growth in pension consultancy and administration revenues.

Acquisitions continue to be a core part of our growth strategy. Our purchase of 49% of Amati Global Investors Limited ("Amati"), which we announced in February, is an exciting extension to our asset management business. Amati's total AuM has increased from £120m at acquisition to over £178m today.

In September 2016 we were pleased to announce the acquisition of MC Trustees, which is an excellent fit with our existing pension business and has contributed positively to the Group's trading result for the year. We believe further consolidation within our core markets remains likely and our strong balance sheet gives us the flexibility to make further value-enhancing acquisitions.

Strong revenue growth in the year translated into growth in Adjusted EPS of 11.4% to 34.1p (2016: 30.6p). We are proud of the strong shareholder returns we have delivered and remain committed to growing the dividend, while maintaining an appropriate level of dividend cover. Accordingly, the Board is pleased to recommend the payment of an increased final dividend of 9.4p per share (2016: 8.65 p). This makes a proposed total dividend for the year of 14.1p (2016: 12.5p), a year-on-year increase of 12.8%.

4 Excludes assets under management by Amati Global Investors Limited.

The market
The past 12 months have seen changes in many respects. The General Election result created fresh speculation around the shape of 'Brexit' and regulatory changes continue at considerable pace. Our immediate focus is on ensuring that we are fully compliant with those changes already in train, such as the Markets in Financial Instruments Directive II ("MiFID II"), the General Data Protection Regulations ("GDPR") and the Senior Managers Regime ("SMR").

The Financial Conduct Authority ("FCA") published its final report on the asset management market in June 2017, confirming its assessment that there is weak price competition in the asset management industry. In addition, the FCA has said it will assess firms' vertical integration and the entire value chain of investing, as well as the platform market, in its upcoming platform market review.

Improving client outcomes and reducing client costs are key objectives of ours and we strongly support the FCA's objectives of increased transparency and better alignment of interests between fund managers and investors.

Our 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.

Investment in our bespoke pension administration and wealth management platform continues in line with expected spend, while we continue to review the possibility of moving to a hosted IT infrastructure, which may offer improved data security, business continuity and scalability for future growth.

Construction of our new central Leicester office, which will provide our staff with a modern working environment and capacity for further growth, remains scheduled to complete around the end of this calendar year, with the move from our existing offices scheduled for the second quarter of 2018. Costs are in line with expectations.

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.

Our people
As an Investors in People company we are committed to developing our people and building the capacity to deliver sustainable growth. In the last financial year we moved into larger premises in London and opened a new office in Manchester, strengthening Mattioli Woods' position in the North West following the acquisition of Preston-based financial advisory firm Taylor Patterson in the prior financial year.

I would like to thank all our staff for their continued commitment, enthusiasm and professionalism in dealing with our new and existing clients' affairs.

Governance and the board
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. Following my appointment as the Group's first independent Non-Executive Chairman, we carried out internal and external reviews of the effectiveness of the Board, its sub-committees and the Group's senior executive management framework. We have created a new Senior Executive Team ("SET^{GO}") to execute the strategy determined by the Board, bringing together a senior team with responsibility for all our key operational areas. In addition, we have reduced the size of our Board to eliminate duplication between the Board and SET^{GO}, ensuring clearer lines of responsibility within the management team and creating a balanced Board of three executive directors and three non-executive directors.

As part of the implementation of these changes, Mark Smith and Alan Fergusson stepped down as directors in August 2017, with both remaining key members of SET^{GO}.

We believe these changes give the business the optimal management structure to secure continued growth.

Shareholders
We are fortunate to have a number of supportive institutional shareholders with a significant investment in the Group. We welcome opportunities to talk to all shareholders, large and small, and we will continue to maintain a regular and constructive dialogue with them, while seeking to broaden our shareholder base.

Outlook
We were delighted to see Bob and Ian recognised for their services to business and the community in Leicester through the award of MBEs in the Queen's New Year's Honours List.

Throughout its 25 year history, Mattioli Woods has demonstrated that in both good and bad economic conditions we have a robust business model, which delivers organic growth by winning new clients and developing new revenue streams, and also through the careful acquisition of similar or complementary businesses.

Our focus remains on ensuring the Group addresses our clients' changing needs and we continue to broaden our proposition through advice, innovative product development, organically and by acquisition. We believe our vertically-integrated models for wealth management and employee benefits, blending our capabilities as trusted adviser, administrator, product provider and asset manager, allow us to deliver improved and sustainable client outcomes, and we look forward to continuing our success over the next 25 years.

Joanne Lake
Non-Executive Chairman
4 September 2017

Amati case study

Award winning Amati Global Investors joins the Mattioli Woods Group

Amati Global Investors

Amati Global Investors, the award winning, Edinburgh based investment boutique, joined the Group when Mattioli Woods took a 49% stake in the business in February 2017. An exciting and dynamic business, Amati has a great track record and excellent performance in VCTs and the UK Smaller Companies Fund. The significant growth in funds since Amati joined the group is testament to Paul Jourdan and his team's track record and top-quartile performance*.

Amati have three strings to their very considerable bow:

- Amati Aim VCT and Amati Aim VCT 2
- TB Amati UK Smaller Companies Fund
- Amati AIM IHT Portfolio Service

Now managing more than £165m (as at 31 May 2017), there are exciting plans for the two VCTs, and the progress of the UK Smaller Companies Fund is in no small way down to the high regard in which Paul Jourdan, David Stephenson and Doug Lawson and their team are held by investors and peers alike.

TB Amati UK Smaller Companies Fund wins Money Observer Best UK Smaller/Mid Cap Equity Fund of the Year Award 2017

Amati Global Investors win Investment Week's Fund Manager of the Year Award 2017 for TB Amati UK Smaller Companies Fund

"We are thrilled to have Amati Global Investors as part of the Group and look forward to developing new and innovative investment opportunities and helping the existing trusts, fund and portfolio service in reaching a wider audience"

Simon Gibson,
Chief Investment Officer,
Mattioli Woods

"Bringing Mattioli Woods on board as a major shareholder in Amati has been a hugely significant step, and has already borne fruit in our development. The investment has coincided with a strong period of performance from our funds, which will help us to maximise the benefits of our strategic relationship"

Paul Jourdan,
Chief Executive Officer,
Amati Global Investors

* Performance quartiles based on 1yr, 3yr and 10yr cumulative performance of TB Amati UK Smaller Companies B Class to 31 May 2017 compared with peer group in the open "IA UK Smaller Companies" sector.

Our business

Integrated financial services

Wealth management

We provide wealth management and administration services to individuals and families, embracing all aspects of financial planning, pensions, personal and trust investment, coupled with estate planning.

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 client 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' life planning 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-class 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 ("Custodian Capital"), is the discretionary fund manager of Custodian REIT plc ("Custodian REIT"), a UK real estate investment trust listed on the Main Market of the London Stock Exchange. We believe investment in good quality properties with institutional grade 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.

In addition, Custodian Capital facilitates direct property ownership on behalf of pension schemes and private clients and also manages the "Mattioli Woods Private Investors Club", which offers alternative investment opportunities to suitable clients by way of private investment structures.

	Investment and asset management	Pension consultancy and administration	Property management
Segment revenue	£21.0m 2016: £17.0m **+23.5%**	£18.9m 2016: £16.6m **+13.9%**	£5.2m 2016: £4.1m **+26.8%**
Segment result	£5.0m 2016: £3.5m **+42.9%**	£3.6m 2016: £3.3m **+9.1%**	£1.2m 2016: £0.8m **+50.0%**
Segment margin	23.8% 2016: 20.6%	19.0% 2016: 19.9%	23.1% 2016: 19.5%
Percentage of Group revenue	41.6% 2016: 39.6%	37.4% 2016: 38.6%	10.3% 2016: 9.5%

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 in the delivery of these to their employees, along with advice, guidance and financial education. Recent changes in legislation are increasing demand for our financial education and wealth management services to be delivered through employers.

Segment revenue

£5.4m

2016: £5.3m

+1.9%

Segment result

£0.5m

2016: £0.5m

No movement

Segment margin

9.3%

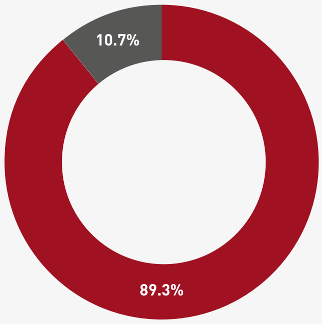
2016: 9.4%

Percentage of Group revenue

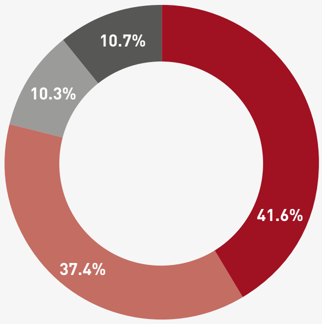
10.7%

2016: 12.3%

Operating segment revenue



- Wealth management **89.3%**
- Employee benefits **10.7%**



- Investment and asset management **41.6%**
- Pension consultancy and administration **37.4%**
- Property management **10.3%**
- Employee benefits **10.7%**

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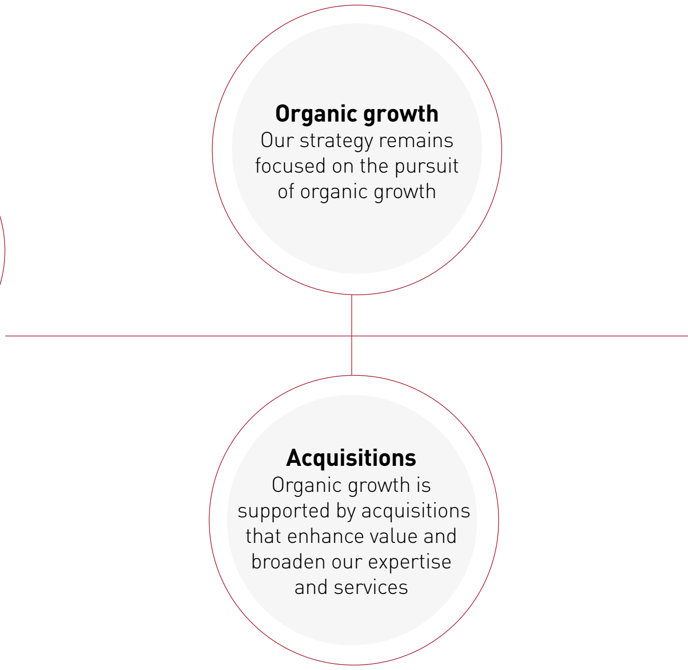
How we create value

A platform for sustainable growth

Producing great client outcomes and delivering sustainable shareholder returns.

Our business model

Our strategic aims



About our business model

We put our clients at the heart of everything we do, with the objective of growing and preserving their assets, while 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.

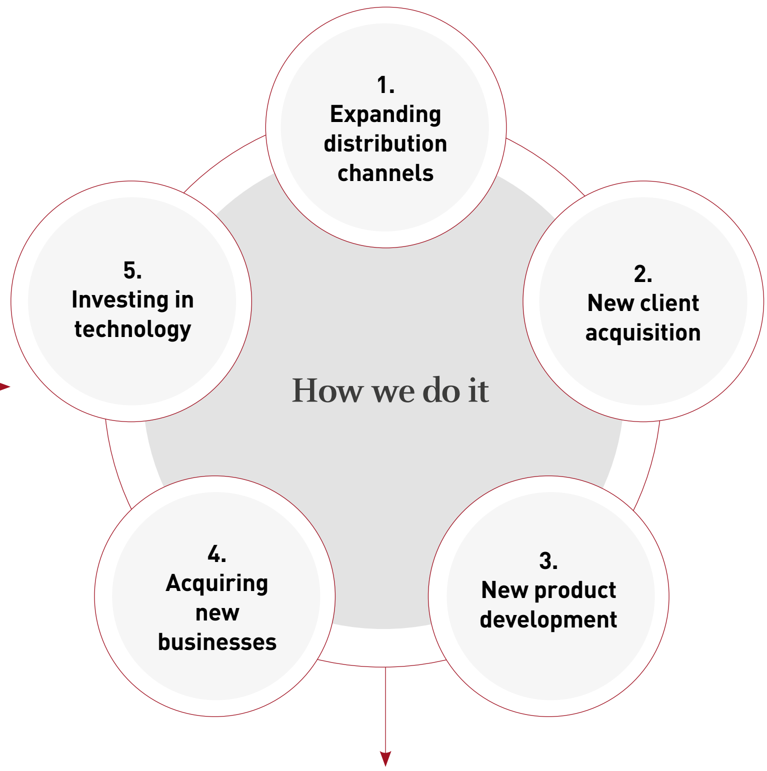
Our key drivers are:

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

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

Doing business with people tomorrow who we don't know today.

Our strategy for growth



Our strategy in action

1. Expanding distribution channels	2. New client acquisition	3. New product development	4. Acquiring new businesses	5. Investing in technology
115 consultants group-wide	Over 1,200 new clients during the year	Continued development and delivery of bespoke investment propositions	20 acquisitions completed since admission to AIM	First phase of bespoke client platform in place

Our achievements

Celebrating 25 years

1991

1991

» Mattioli Woods Pension Consultants formed

1995

» Launched the Mattioli Woods sponsored self-invested personal pension scheme ("SIPP")

2002

» Launched syndicated property investment initiative

2005

» Admission to AIM

2010

» Acquired City Trustees

2011

» Acquired Kudos Financial Services Limited

2012

» Turnover exceeded £20m

» Portfolio management service launch

2014

» Launch of Custodian REIT plc on the Main Market of the London Stock Exchange

2017

» Wins Best Corporate Pensions Advice Firm Award

» Purchase of 49% of Amati Global Investors
→ Read more on page 04

» Assets under advice and administration reach £7.7bn

» New offices in Leicester under construction

2017

2013

» Acquired Atkinson Bolton Consulting Limited

2015

» Acquired Taylor Patterson Group

» Acquired Boyd Coughlan Limited

2016

» Three-year sponsorship of the Leicester Tigers
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» Acquired MC Trustees

» Launch of structured products funds
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» Wins 25 years of Excellence Award

Chief Executive Officer's review

Achievement and evolution

> "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 which is one that recognises and rewards talent and hard work"

Ian Mattioli MBE
Chief Executive Officer

Recent developments

- » Extending strategic geographic footprint
- » Reducing client costs while maintaining target EBITDA margin
- » New management structure

Introduction

Still at the beginning of our journey... after 25 years

I am pleased to report another successful year, with revenue for the 12 months ended 31 May 2017 up 17.4% to £50.5m (2016: £43.0m). We are over half way towards our medium term goal of growing revenues to £100m and we continue to focus on delivering great outcomes for our clients, with one of our key aims being to reduce their total expense ratios ("TERs") while maintaining our target profit margin.

Sustained demand for advice, driven by our clients' desire for a better understanding of their financial position, and the continued development of our investment and asset management proposition have driven strong new business flows, which together with acquisitions completed in the current and prior financial year increased total client assets under management, administration and advice by 17.5% to £7.77bn (2016: £6.61bn) at the year end.

Organic growth was supplemented by £1.2m of revenues generated by the MC Trustees pension administration business acquired in September 2016, plus full-year revenues of £7.1m (2016: £5.2m) from the five businesses acquired in the prior year.

EBITDA[5] was up 18.0% to £10.5m (2016: £8.9m), maintaining EBITDA margin at 20.8% (2016: 20.7%) despite further investment in the infrastructure of our business and an expected fall in banking revenues.

Adjusted EPS[6] increased 11.4% to 34.1p (2016: 30.6p), while basic EPS was up 18.7% to 24.8p (2016: 20.9p), with growth in operating profits stated after £0.4m (2016: £0.3m) of acquisition-related costs and £0.3m (2016: £0.5m) of notional finance charges on the unwinding of discounts on long-term provisions. The effective rate of taxation was 16.9% (2016: 16.6%) due to the reversal of deferred tax liabilities on acquired intangibles following further cuts in the substantively enacted rate of UK corporation tax.

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 which is one that recognises and rewards talent and hard work.

Our recent achievements have been recognised with a number of industry awards for individual and corporate achievements nationally and locally, including Best Corporate Pensions Advice Firm at the Retirement Planner Awards 2017, as well as being highly commended with a 5-star SSAS rating at the Moneyfacts Awards 2017.

In addition to being an Investors in People organisation, the Group continues to be recognised for creating opportunities for young people and recently won Apprenticeship Employer of the Year at the 2017 Leicester Apprenticeship Hub Graduation Ceremony.

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 and regulation. As a result of changing customer needs the market for our services continues to grow, with there now estimated to be a record five million Britons paying higher or additional rate income tax[7].

5 Earnings before interest, taxation, depreciation and amortisation.
6 Before acquisition-related costs, notional finance costs and amortisation and impairment of intangible assets arising on acquisitions.
7 Source: HM Revenue & Customs – UK Income Tax Liabilities Statistics, 2016-17 projections.

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Royal seal of approval as Ian and Bob receive MBEs from Prince of Wales

Co-founders Ian Mattioli and Bob Woods were presented with MBEs by Prince Charles in an investiture ceremony at Buckingham Palace in May 2017.

They were named as recipients of the awards in the New Year's Honours List in recognition of their services to business and the community.

Both were given their insignia by His Royal Highness in front of their proud families in the palace's elegant ballroom.

"It was so nice to be there alongside so many people who were being recognised for their selfless actions, ordinary people who give freely of their time and efforts yet seek no reward."

Former chairman Bob Woods, now Senior Adviser to the company, said: "To be there, surrounded by so much history, and to think we were a small part of it was an incredible feeling and something I'll always cherish."

"It was an amazing occasion, a real mixture of excitement and adrenaline, but at the same time incredibly humbling"

Ian Mattioli MBE
Chief Executive Officer

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.

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.

The Financial Advice Market Review ("FAMR") published by the FCA and HM Treasury in March 2016 made a series of recommendations designed to tackle barriers to consumers engaging with financial advice and help the industry develop more cost-effective ways of delivering advice, particularly through the use of technology, while the FCA's recent review of the asset management market highlighted its concerns over pricing.

We continue to invest in the development of our IT platform and anticipate that the entry of new competitors with innovative technology (such as 'robo-advice') may drive some margin compression in the wider market. I expect this, coupled with regulatory and market concerns around the cost of financial services, to further validate our vertically-integrated model, where seeking operational efficiencies in administration and reducing investment management and administration costs are key elements of our drive to reduce our clients' TERs, while maintaining fair and sustainable profit margins for our shareholders.

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 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;
» Employee benefits; and
» Property management.

We aim to operate a seamless structure, allowing us to cover all aspects of wealth management and employee benefits, without confusing strategy for individual service lines, such as our advice-led SSAS and SIPP proposition.

Medium-term goals

Our vision is to create a long-term sustainable business, built on integrity and trust, and delivered with passion. Throughout our first 25 years we have stayed true to our core values, putting our clients at the heart of everything we do and doing what is right to build long-term shareholder value. To assist in the achievement of our long-term objectives, in early 2014 we announced the following medium-term goals:

» Revenue	£100m
» Assets under management, administration and advice	£15bn
» EBITDA margin	20%

We are making strong progress towards these goals and remain a business built on the integrity and expertise of our people. We will continue to focus on delivering great outcomes for our clients, with one of our key aims being to grow and preserve their investment assets.

SET^{GO}

The Board and Senior Executives have long debated the structure of our rapidly growing group. When we announced our medium-term goals to the market we had annual revenues of £23m and assets under management, administration and advice of £3.6bn.

The business has changed from a young entrepreneurial business into what I now call 'a small, friendly corporate'. Last year, my longstanding business partner Bob Woods stepped down after ten years in the role of Executive Chairman to focus on his client portfolio, new business development and acting as an ambassador for Mattioli Woods. Bob and I have now worked closely together for over 30 years.

Medium-term goals

Revenue

£100m

Assets under management, administration and advice

£15bn

EBITDA margin

20%

With Joanne Lake stepping into the Non-Executive Chairman role, it was a timely opportunity to look closely at the structure of the Group. We added to the executive team with the appointments of Sara Andrews as Chief Business Officer and Simon Gibson as Chief Investment Officer and created SET^{GO}, our Senior Executive Team, with the 'go' highlighting that we are set, ready and moving forward. The introduction of SET^{GO} gives all our people – clients, shareholders, employees and suppliers – a very clear operational structure that is enhancing our management of the Company and will enable it to further grow and develop. The new SET^{GO} structure combined with a smaller Board is logical, practical and in all our people's best interests.

Mark Smith and Alan Fergusson stepped down from the Board in August 2017, continuing in their full-time executive roles as key members of the SET^{GO} team. Mark's and Alan's experience adds great value to the Group and both have given their support to these changes, for which I am truly grateful – it shows their long-term commitment to realising our ambitions.

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Case study

New fund hits £100m in just six months

"Demand has surpassed our expectations and we have built a well-diversified portfolio of structured products within the fund"

Mark Fuller
Head of Structured Products

Mattioli Woods has seen huge demand for its industry-leading structured products fund, which has attracted over £100m of investment in its first six months.

The unique venture delivers substantial cost-savings and better returns for clients. It was created in association with Commerzbank AG, a leading commercial bank with branches and offices in more than 50 countries.

The fund – recognised by the Financial Conduct Authority (FCA) – offers greater security, an improved investment process, higher potential returns and instant diversification of products.

It builds on the company's long-standing track record of managing more than £250m in structured investments, which have provided average returns of more than 6% per annum.

Mark Fuller, explains the concept and why it has been such a runaway success.

Q Prior to the fund's launch, what did the company offer in terms of structured products?

A Previously, we offered individual structured products with individual pay-offs. However many clients held a number of these individual structured products, in effect giving them a 'fund' of structured products. The multiple structured product holdings of many clients gave us the premise for launching the fund.

Q Why did Mattioli Woods decide it was time to launch its own fund?

A We wanted to evolve our structured product offering by building on what we already had. SPs have provided steady attractive returns since 2005 at Mattioli Woods, but all the old structured products had a number of drawbacks - primarily credit exposure to the bank issuing the structured product and the administration associated with investing in structured products. The fund gives all the advantages of structured product investing without any credit exposure and the administration is now much less time consuming.

Q How long did it take to set up?

A Once we agreed on what we were going to do, it took around nine months. A big proportion of this time (more than three months) was taken up obtaining all the necessary regulatory approvals.

Q In what way does it differ from others on the market?

A Our fund was the first of its type to be offered to retail investors. The fund's exposure can be recreated by buying individual structured products, but the extra features such as the daily liquidity and collateralisation cannot. Our clients are only exposed to the movement of the structured products held by the fund, which makes our fund unique.

Q How would you describe its success to date?

A Improving the client experience of investing in structured products was at the core of what we set out to achieve. Clients can now buy units in the fund as easily as buying shares. Furthermore, we publish the price of the units in the fund every day and the fund's holdings are available on our dedicated website www.structuredproductsfund.com. The amount of money we have attracted into the fund shows how clients have understood and endorsed what we have created. For me, the amount raised is a secondary consideration. I am solely focussed in achieving the target return for clients – whether we have £1m in the fund or £100m.

Q The fund was seen as ground-breaking at the time of launch. Do you think it will be emulated by other companies?

A It has already been emulated by other structured product providers. A large French bank, Societe Generale, is launching its own fund in Q3 2017.

Q Who can invest in the Mattioli Woods fund – and how much do they need to put in?

A Any Mattioli Woods client can invest. The minimum investment is £3,000. This can be as a lump sum or in monthly instalments.

Q What is the minimum investment period?

A It is intended to be held for the long-term, and clients should invest with at least a two-year investment horizon. However, units in the fund can be bought and sold every day if clients need to access their investment in the fund.

Q What are the likely returns?

A We are targeting cash plus 6%. Cash means 3 month Libor – the standard cash benchmark. However, I view this is a minimum return – not a maximum.

Q Name one of the main advantages it has over other funds.

A The vast majority of funds rely on assets invested in going up to achieve a return. Our structured product fund can achieve a return if the underlying assets we invest in go up, down or stay the same. The fund is also collateralised, meaning we are not exposed to the insolvency of any of the banks we deal with.

Chief Executive Officer's review continued

Assets under management, administration and advice

Total client assets under management, administration and advice increased by 17.5% to £7.77bn at 31 May 2017 (2016: £6.61bn) as follows:

Assets under management, administration and advice[8]	SIPP and SSAS[9] £m	Employee benefits £m	Personal and other pension £m	**Total £m**
As at 1 June 2016	3,996.1	1,158.2	1,451.6	**6,605.9**
Acquisition of MC Trustees[10]	466.5	—	—	**466.5**
Net inflow/(outflow), including market movements	568.7	(55.9)	186.5	**699.3**
As at 31 May 2017	5,031.3	1,102.3	1,638.1	**7,771.7**

The acquisition of MC Trustees during the year added £466.5m of client assets, with a net inflow of £699.3m during the year comprising:

» An increase of £568.7m in SIPP and SSAS funds under trusteeship, following a period of strong investment returns and net organic growth of 7.6% in the number of schemes being administered at the year end. We enjoyed 11.8% net organic growth in direct11 schemes, with 1.6% net organic growth in the number of schemes the Group operates on an administration-only basis (excluding the acquisition of MC Trustees)
» A £186.5m increase in other personal and pension assets; and
» A £55.9m fall in the value of assets held in the corporate pension schemes advised by our employee benefits business, following the loss of a large client in the North Sea oil and gas industry, which has gone through a difficult period of cost-cutting and redundancies. It should be noted that 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.

We have extended our asset management business through our purchase of 49% of Amati, an award-winning specialist fund management business based in Edinburgh, focusing on UK small and mid-sized companies. Amati is the manager of the TB Amati UK Smaller Companies Fund; two AIM Venture Capital Trusts (Amati VCT plc and Amati VCT 2 plc); and an AIM IHT portfolio service. Amati's total AuM had increased from £120m at acquisition to over £165m at the year end. We anticipate further growth in the value of Amati's AuM, including the boards of the VCTs plans to launch a joint fundraising to raise around £20m between the two VCTs later this year.

Mattioli Woods has the option to acquire the remaining 51% of Amati in the two years commencing 6 February 2019 for a mixture of cash and Mattioli Woods' ordinary shares.

Segmental review

Investment and asset management

Investment and asset management revenues generated from advising clients on both pension and personal investments increased 23.5% to £21.0m (2016: £17.0m), representing 41.6% (2016: 39.6%) of total Group revenues. Income from both initial and ongoing portfolio management charges increased to £10.7m (2016: £8.8m), as the value of clients' assets in discretionary portfolios increased 29.5% to £1.14bn (2016: £0.88bn). The Group's gross discretionary assets under management, including Custodian REIT, the FP Mattioli Woods Balanced Fund (formerly the Thoroughbred OEIC) and the Mattioli Woods Structured Products Fund totalled £1.63bn (2016: £1.17bn) at the year end.

The Mattioli Woods Structured Products Fund was launched in November 2016 and has raised over £100m to date, generating fund management charges of £0.2m during the year. The fund has been designed around our core objective of delivering sustainable long-term returns to clients while lowering their costs and offers investors the benefits of collateralisation, instant diversification, continuous availability and liquidity.

Adviser charges based on the value of assets under advice were £10.1m (2016: £8.2m). The growth in funds under management and advice continues to enhance the quality of earnings through an increase in recurring revenues, with the proportion of investment and asset management revenues which are recurring being 81.0% (2016: 81.7%).

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, executives and members of the professions. Additional fees are generated from the provision of specialist consultancy services.

In July 2017, the work and pensions secretary announced that individuals born between 1970 and 1978 will now have to wait an extra year, until they are 68, to claim their state pension. 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.

Pension consultancy and administration revenues were up 13.9% to £18.9m (2016: £16.6m), representing 37.4% (2016: 38.6%) of Group revenues of which 92.6% (2016: 82.6%) were recurring, with additional one-off revenues earned in the prior year following significant changes in pension legislation. The growth in revenues was driven by the total number of SIPP and SSAS schemes administered by the Group increasing 27.3% to 10,021 (2016: 7,872) at the year end, with the acquisition of MC Trustees during the year adding 1,554 schemes.

Fees for direct pension consultancy and administration, where the Group deals directly with the client in all areas associated with their pension affairs, increased 11.0% to £14.1m (2016: £12.7m), with sustained demand for advice as more people look to take advantage of pension freedoms. The number of direct schemes administered by the Group increased 11.8% to 5,140 (2016: 4,598), with 764 (2016: 665)

8 Certain pension scheme assets, including clients' own commercial properties, are only subject to a statutory valuation at a benefit crystallisation event.
9 Value of funds under trusteeship in SIPP and SSAS schemes administered by Mattioli Woods and its subsidiaries.
10 Value as at 31 May 2017.
11 SIPP and SSAS schemes where the Group acts as pension consultant and administrator.

new schemes gained in the year (excluding acquisitions), representing 16.6% (2016: 17.3%) of the number of schemes at the start of the year.

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 £1.0m. We also maintained strong client retention, with an external loss rate[12] of 2.1% (2016: 2.4%) and an overall attrition rate[13] of 3.6% (2016: 3.6%).

Third party administration fees increased 31.4% to £4.6m (2016: £3.5m), with £1.2m of revenues generated by MC Trustees during the period. The number of SSAS and SIPP schemes the Group operates on an administration-only basis increased to 4,881 (2016: 3,274) 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 265 schemes lost during the period being more than offset by acquisition of MC Trustees' portfolio and organic growth.

Strong growth in pension fees was offset by an anticipated fall of £0.2m in banking revenues to £0.2m (2016: £0.4m), following the cut in the Bank of England base rate to a historic low of 0.25% in August 2016.

The introduction of increased regulatory capital requirements for SIPP operators on 1 September 2016 and the accelerating pace of consolidation within the SIPP market is putting some smaller operators under increasing pressure to join forces with larger firms.

Property management

Property management revenues increased 26.8% to £5.2m (2016: £4.1m) or 10.3% of total revenue (2016: 9.5%), of which 90.4% (2016: 91.6%) represented recurring annual management charges. Our subsidiary Custodian Capital is the external fund manager to Custodian REIT plc and also manages properties on behalf of pension schemes and private clients, managing an overall portfolio of property investments with a net asset value of £445.0m (2016: £328.1m) at the year end. The majority of our property management revenues are derived from the services provided to Custodian REIT, which now has a market capitalisation of almost £400m and offers one of the highest yields[14] among its UK property investment company peer group, coupled with the potential for capital growth from a balanced portfolio of real estate assets.

Custodian Capital manages our "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 £20.6m (2016: £9.9m) invested in seven (2016: eight) new syndicates completed during the year.

As part of our strategy to create a single, strong identity across our Group, Custodian Capital will be renamed Mattioli Woods Capital in the first half of the 2018 calendar year.

Employee benefits

At a time when the employee benefits market is going through extensive transition, we recognise the value that having a full employee benefits offering adds to the Group, allowing us to realise synergies between it and our wealth management business, with revenues of £0.7m (2016: £0.6m) generated in cross referrals between the two divisions during the last financial year.

Employee benefits revenues were up 1.9% to £5.4m (2016: £5.3m), representing 10.7% of total revenue (2016: 12.3%). I believe this is a major achievement, following the rebasing of our employee benefits business to create the platform to optimise our position in this market. The move to a fee-based proposition has been well-received by corporate clients, with 75.9% (2016: 78.7%) of employee benefits revenues recurring, and I expect our Executive Financial Counselling, Boardroom Pay and Financial Education initiatives to continue to gather pace.

There is rising recognition from organisations of the importance of investing in employee benefits. Employers are increasingly encouraging staff wellbeing and retirement savings, which we expect to drive a period of steady growth in the UK employee benefits market, and I am delighted over 100 new corporate clients were attracted to the Group's range of employee benefits services during the year.

In addition, the employee benefits work of our Aberdeen business is stabilising following several years of localised contraction in the oil and gas industry. Our membership of the Worldwide Broker Network, on which Alan Fergusson serves on the board, is driving an increasing number of referrals and we have grown our consultancy team to capitalise on these new opportunities.

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.

We believe the Government's emphasis on workplace advice presents new opportunities for us to realise further synergies between our employee benefits and wealth management businesses.

Financial performance and future developments

Group results

Revenues were up 17.4% to £50.5m (2016: £43.0m), 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:
» 41.6% investment and asset management (2016: 39.6%);
» 37.4% pension consultancy and administration (2016: 38.6%);
» 10.7% employee benefits (2016: 12.3%); and
» 10.3% property management (2016: 9.5%).

EBITDA increased 18.0% to £10.5m (2016: £8.9m), with EBITDA margin of 20.8% (2016: 20.7%) despite further investment in the infrastructure and sustainability 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 £0.4m (2016: £0.3m) incurred on acquisitions during the year have been added back in calculating adjusted EBITDA and adjusted profit before tax. Adjusted EBITDA[15] increased 17.2% to £10.9m (2016: £9.3m), while adjusted EBITDA margin was 21.6% (2016: 21.6%).

12 Direct schemes lost to an alternative provider as a percentage of average scheme numbers during the period.
13 Direct schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the period.
14 Dividend yield of 5.6% (peer group average of 4.9%) per Numis Securities Limited Datasheet, 1 September 2017.
15 Adding back £0.4m (2016: £0.3m) of acquisition-related costs.

Chief Executive Officer's review continued

Previously, I set out our aim to reduce the TERs incurred by clients and I see both a market expectation and possible regulatory or legislative pressure to reduce product costs, which could bring about some continued pressure on sector margins. We plan to manage this by realising operational efficiencies through the development of our IT platform and securing further reductions in investment management and platform costs.

Net finance costs
The Group has maintained a positive net cash position throughout the year, with net finance costs of £0.2m (2016: £0.3m) due to the impact of £0.3m (2016: £0.5m) of notional finance charges on the unwinding of discounts on long-term provisions.

Taxation
The effective rate of taxation on profit on ordinary activities of 16.9% (2016: 16.6%) was again below the standard rate of tax 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 18% to 17%. The net deferred taxation liability carried forward at 31 May 2017 was £2.8m (2016: £3.0m).

Earnings per share and dividend
Adjusted EPS[16] was up 11.4% to 34.1p (2016: 30.6p) with strong revenue growth and an increase in operating profits. Basic EPS increased 18.7% to 24.8p (2016: 20.9p), with a fall in the value of add backs to adjusted EPS as a result of a fall in notional finance charges on the unwinding of discounts on long-term provisions. Diluted EPS increased 18.2% to 24.7p (2016: 20.9p), with the exercise of 226,841 options issued under the Company's share option plans during the year and the issue of 256,061 new shares as consideration for acquisitions.

Dividends
The Board is pleased to recommend the payment of an increased final dividend of 9.4p per share (2016: 8.65p). This makes a proposed total dividend for the year of 14.1p (2016: 12.5p), a year-on-year increase of 12.8% (2016: 19.0%), demonstrating our desire to deliver value to shareholders and confidence in the outlook for our business. 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 27 October 2017 to shareholders on the register at the close of business on 22 September 2017.

Cash flow
Cash generated from operations fell to £10.5m or 100% of EBITDA (2016: £11.8m or 133%). A £1.8m increase in cash flows from operating activities before changes in working capital and provisions to £12.3m (2016: £10.5m) was offset by a £1.8m increase in the Group's working capital requirement (2016: decrease of £1.3m) following a £2.0m (2016: £0.5m) increase in trade and other receivables and a £1.5m decrease (2016: £0.2m increase) in provisions after the settlement of contingent deferred consideration on acquisitions and cash settled share-based payment awards during the year. The impact of the increase in receivables and decrease in provisions was partially offset by a £1.7m (2016: £1.6m) increase in trade and other payables, which was primarily due to:

- A £1.3m increase in accrued staff bonuses at the year end, following another successful year and an increase in headcount across the Group; and
- A £0.6m increase in trade payables at the year end, with a £0.9m stage payment on the New Walk office development outstanding at the year end.

The increase in trade and other receivables was due to:

- A £0.9m increase in accrued income and prepayments as a result of the increase in assets under management and advice during the year;
- A £0.7m increase in other receivables following an increase in property insurance premiums incurred by the Group to be recharged to clients at the year end; and
- A £0.4m increase in trade receivables following strong growth in direct pension consultancy and administration fees.

Net cash at 31 May 2017 was £23.0m (2016: £29.8m), with £2.8m of initial cash consideration paid and £0.2m cash acquired on the two transactions completed during the year, plus £2.3m (2016: £1.1m) of contingent deferred consideration paid in cash on historic acquisitions.

Outstanding trade receivables fell to 40 days' sales (2016: 46 days), with an increase in investment and asset management revenues and a continued focus on credit control, while trade payables remained at 52 days' purchases (2016: 52 days).

Capital expenditure in the year was £9.1m (2016: £1.7m), with the most significant costs being £7.4m incurred on the development of the Group's new offices in Leicester, £1.1m investment in new computer hardware, software and office equipment and £0.5m on 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 although taking longer than we initially anticipated, investment in our bespoke pension administration and wealth management platform continues in line with expected spend. We are reviewing the possibility of moving to a hosted IT infrastructure, which may offer improved data security, business continuity and scalability for future growth.

Bank facilities
The Group does not have an 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:

	2017 £000	2016 £000
Net cash	**(22,979)**	(29,809)
Shareholders' equity	**72,595**	65,581
Capital employed	**49,616**	35,772

The Group continues to maintain a net cash position, with net cash balances falling to £23.0m (2016: £29.8m) due to capital expenditure during the year, coupled with the initial cash outflows on the acquisition of MC Trustees and the Group's investment in Amati.

Regulatory capital
The Board considers it prudent for the Group to target headroom of circa 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.

The Group continues to enjoy significant headroom on its increased regulatory capital requirement following the acquisition of MC Trustees and its

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

investment in Amati during the year, allowing us to pursue further acquisition opportunities.

Acquisitions

We have invested £46m since our admission to AIM in 2005 in bringing 20 businesses or client portfolios into the Group, developing considerable expertise and a strong track record in the execution and its subsequent integration of such transactions.

In September 2016, we were pleased to acquire MC Trustees, bringing additional scale and expertise to our pension administration business. MC Trustees is a great fit culturally and strategically, serving a similar client base to the Group's existing business, while complementing our existing operations.

The Group's strategic investment in Amati announced in February 2017 brings a new dimension to our asset management business, which we expect to deliver significant synergies for each business.

The five businesses acquired during the previous financial year have integrated well and all have contributed positively to the Group's trading results since acquisition, increasing earnings and enhancing value. With increasing complexity and continuing consolidation across the key markets in which we operate, we expect there will be further opportunities to accelerate our strong organic growth by acquisition.

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 including SET^{GO}.

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 integrity, leading to responsible and ethical business practices. Structures for accountability from our administration and consultancy teams through to SET^{GO} and the Group's Board are clearly defined. The proper operation of the supporting processes and controls are regularly reviewed by the Audit, Risk and Compliance Committee and take into account ethical considerations, including procedures for 'whistle-blowing'.

Our people

Our friend and colleague, Ketan Radia

In September 2016, Mattioli Woods lost one of its very best. Our friend and colleague, Ketan Radia, passed away shortly after playing football with his beloved two boys and family. Ketan was a fantastic employee and ambassador for all things Mattioli Woods. Ketan's friends within the Group continue to help and provide support to his wife Reena and the boys. Ketan is so sadly missed.

As we continue to grow, our previous "Small to Big" employee engagement theme has evolved into our new "Big to Better" initiative, which will enable us to retain our core principles as a business built on the integrity, expertise and passion of our people. Our total headcount at 31 May 2017 had increased to 568 (2016: 504) and we continue to invest in our graduate recruitment programme, with 25 (2016: 25) new graduates and 16 (2016: 15) apprentices joining the Group during the year. We are also developing programmes for 'life served' people seeking exciting opportunities for a change in career or a return to work. We continue to expand our consultancy and technical teams to take advantage of new business opportunities, with the number of consultants having increased to 115 (2016: 104) at the year end.

With continued growth in our investment and asset management business, and to support our growth ambitions, we strengthened our SET^{GO} team through the appointments of Simon Gibson as the Group's Chief Investment Officer and Sara Andrews as Chief Business Officer. Simon is a well-respected fund manager with over 30 years' investing experience, while Sara brings more than 25 years' experience of developing people and managing change within fast-growing businesses.

We also welcomed 26 employees to the Group as part of the MC Trustees acquisition. As an Investors in People company we are committed to developing our people and building the capacity to deliver sustainable growth. Recent expansion has seen us move into larger premises in London and Glasgow, and open a new office in Manchester.

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. At the year end the proportion of eligible staff invested via the Plan remained high at 58% (2016: 61%) and we will continue to encourage broader participation in the Plan.

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

Chief Executive's Officers review continued

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, apprentice and life served recruitment programmes and by providing incentives to motivate and retain our existing employees. Throughout the Group, we have introduced Financial Assess, a web-based training programme provided through the Chartered Insurance Institute, written specifically from a financial services perspective. This training helps maintain staff competence and compliance within our organisation and brings a better understanding to all employees of the markets in which we operate.

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. Following the Bank of England's decision to cut the base rate to a historic low of 0.25% in August 2016 we have reviewed how we might enhance our client banking model and plan to launch a new pooled banking solution for our clients' pension scheme accounts later this year.

The Group has an indirect exposure to security price risk on investments held by clients, with discretionary portfolio management fees, fund 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 24 to 27 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.

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 a good platform for good corporate social responsibility.

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 continue sponsoring the Rothley 10k, one of the most celebrated charity road running races in Leicestershire, which attracted almost 800 runners in 2017, a new record for the race, which again 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 £127,000 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 National Three Peaks Challenge, 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 won two gold medals at the world para athletics championships in London in 2017 and now has her sights set on the 2018 Commonwealth Games.

In addition, we support many other smaller charities such as Newmarket's Open Door initiative, which provides vulnerable people with supported housing and training opportunities; Rainbow House in Preston, a comprehensive programme for children, young people and adults with neurological conditions and Project Luangwa, an international charity supported by our Solihull team that provides education in Zambia through the construction of schools, sponsoring of students and provision of educational materials.

The Group continues to create opportunities for young people through both its Financial Services Development scheme and apprenticeship recruitment, recently winning Apprenticeship Employer of the Year at the 2017 Leicester Apprenticeship Hub Graduation Ceremony. This year, we are looking to recruit 24 graduates and increase our apprentice intake to 25. We have also given 21 students the opportunity to work with us to gain valuable work experience during the year.

Finally, as our Chairman has stated, Bob and I were honoured in the Queen's New Year's Honours List and received MBEs for business and community services in Leicester – an honour greatly appreciated by us both.

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 MBE
Chief Executive Officer
4 September 2017

Investing in the future

Mattioli Woods brings new look to heart of Leicester city centre

Leicester's city landscape continues to transform as work forges ahead on the new home for Mattioli Woods' Leicester team.

Months of intensive construction work have completely reshaped the New Walk area as the company's new offices edge nearer completion.

The purpose-built structure will provide 50,000 sq ft of space and house more than 400 staff when they switch from Enderby next year.

The site was formerly the headquarters of Leicester City Council, whose offices were demolished in February 2015 after being declared unsafe.

Mattioli Woods' staff have been taken on a series of monthly visits to see first-hand how the building project is developing.

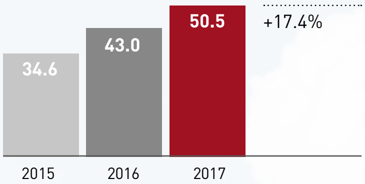
Other improvements in the area include new homes, retail outlets and a public area designed to complement tree-lined New Walk.

Key performance indicators

How we measure success

The Directors consider the key performance indicators (“KPIs”) for the Group are as follows:

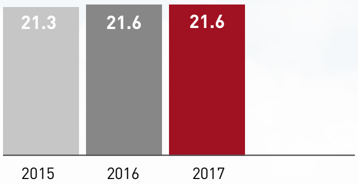
Revenue (£m)



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

Relevance to strategy:
Organic growth and growth by acquisition.

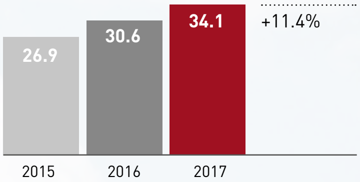
Adjusted EBITDA margin (%)



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

Relevance to strategy:
Operating efficiency.

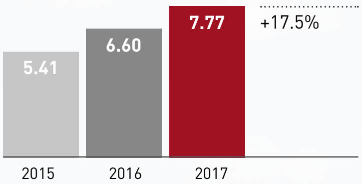
Adjusted EPS (p)



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.

Relevance to strategy:
Shareholder value and financial performance.

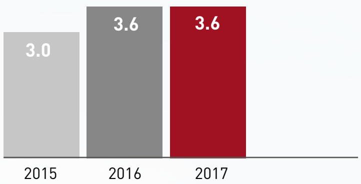
Assets under management, administration and advice (£bn)



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

Relevance to strategy:
Growth in the value of assets under management, administration and advice.

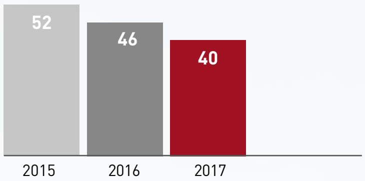
Client loss rate (%)



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.

Relevance to strategy:
Excellent client service and retention.

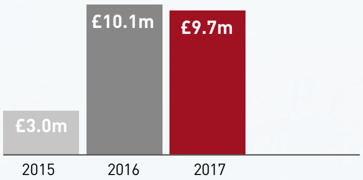
Debtors' days



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

Relevance to strategy:
Financial stability.

Surplus on regulatory capital requirement (£m)



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

Relevance to strategy:
Financial stability.

Principal risks

Minimising our risks

Industry risks

Risk type	Description	Mitigating factors	Chance	Impact	Change in risk
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; and » Market volatility is closely monitored by the Asset Management Executive Committee.	Medium	Medium	↑
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; and » Broad service offering gives diversified revenue streams.	High	High	→
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.	» We partner with leading software providers to assist in our systems development; » High awareness of the importance of technology at Board level; and » Expanded systems development with phased implementation of Group-wide platform.	Medium	Medium	↑
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; and » Financial strength provides comfort should capital resource requirements be increased.	Medium	Medium	↑
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; and » The development of the Group's investment and asset management services has reduced dependency on pension planning.	Low	Medium	→

Risk key

↑ Increase ↓ Decrease → Remain

Financial risks

Risk type	Description	Mitigating factors	Chance	Impact	Change in risk
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; and » All receivables are reviewed on an ongoing basis for risk of non-collection and any doubtful balances are provided against.	Medium	Medium	→
Bank default	The risk that a bank could fail.	» We only use banks with strong credit ratings; » Client deposits spread across multiple banks; and » Regular review and challenge of treasury policy by management.	High	High	→
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; and » Broad service offering gives diversified revenue streams.	Medium	Low	↓
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; and » Treasury management provides for the availability of liquid funds at short notice.	Low	Low	→
Interest rate risk	Risk of decline in earnings due to a decline in banking margin or deposit rates received on surplus cash. 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; and » Access to competitive interest rates due to scale of business.	Low	Low	→
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; and » Potential costs are carefully considered by the Investment Committee prior to the launch of each product.	Low	Low	→

Principal risks continued

Operational risks

Risk type	Description	Mitigating factors	Chance	Impact	Change in risk
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; and » Well-trained staff who ensure the interests of clients are met in the services provided.	Medium	High	↑
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; and » Experienced in-house team of IT professionals and established name suppliers.	High	High	↑
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; and » Disaster recovery plan and a disaster recovery team in place. Business impact analysis has been conducted by department.	Medium	Medium	→
Fraud risk	There is a risk an employee or third party 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, SET^{GO} approval for all expenditure greater than £5,000 and Board approval for all expenditure greater than £100,000; » Assessment of fraud risk every six months discussed with the Audit, Risk and Compliance Committee and external auditors; » Clients have view-only access to information; and » Ongoing review of risk of fraud due to external attack on the Group's IT systems.	Medium	Medium	→

Risk key

Increase Decrease Remain

Operational risks continued

Risk type	Description	Mitigating factors	Chance	Impact	Change in risk
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; and » Keyman cover for company founders.	Low	Medium	Remain
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; and » Restricted status for our consultants to enable the recommendation of our own products and others in the market.	Medium	Low	Remain
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; and » Ongoing review of relationships and concentration of risk with key business partners.	Low	Medium	Remain
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; and » Management has demonstrated a thorough understanding of the market and monitors this through regular meetings with clients.	Low	Low	Decrease
Corporate manslaughter risk	The risk of breaching corporate manslaughter laws as a result of management breach in duty of care.	» Policies and procedures in place to provide employee guidance when driving on company business; » Company cars regularly maintained and serviced with reputable and vetted companies; » Adequate insurance cover; and » Responsible employees.	High	Medium	New

Tigers case study

Mattioli Woods agrees three-year sponsorship deal with rugby giants

Mattioli Woods strengthened its brand with the announcement of a three-year deal with rugby giants, Leicester Tigers in August 2016.

The new agreement included 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.

> "We are very excited about this new strategic partnership with the Tigers. It is an excellent club and their ambition and family values fit very well with our own. We look forward to this being a linchpin in opening up new markets for us"

Ian Mattioli MBE
Chief Executive Officer


Mattioli Woods plc
PENSIONS | EMPLOYEE BENEFITS | FINANCIAL PLANNING | INVESTMENTS

Corporate social responsibility

Investing in a sustainable future

We have a long-standing commitment to support our staff in engaging with their local communities 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've forged valuable partnerships with other organisations and charities, including Rainbows, LOROS, County Air Ambulance Service, Age UK, Eye Camps, RNLI, and Macmillan amongst others.

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.

Sport plays an important part for our social and charity work, with many staff engaging in activities to raise money for good causes. The Mattioli Woods Rothley 10k continues to be one of the most celebrated charity road running races in Leicestershire,attracting over 700 runners. We also sponsor wheelchair racer Sammi Kinghorn, who clinched two global titles at the world para athletics championships in London in 2017.


1

2


3

4

1. Preston ladies lunch raises over £3,000 for Breast Cancer Now
Organised by Gillian Bardin from our Preston office, 75 of Lancashire's business and professional ladies came together for a very special Bring & Buy Lunch in recognition of National Breast Cancer Awareness Month in Oct 2016.

3. Mattioli Woods supports wheelchair racer Sammi Kinghorn
The wheelchair racer Sammi Kinghorn from the Scottish borders has been sponsored by Mattioli Woods for the past 4 years. Her mother, Elaine, said Mattioli Woods' sponsorship had been key to her daughter's success.

2. Mattioli Woods raises £87,790 for Breast Cancer Now
Employees at Mattioli Woods raised a staggering amount of funding to support Breast Cancer Now in the first year of the partnership. Activities ranged from a charity dinner to a group-wide bike ride, cake sales, dress down days and much more.

4. The Rothley 10k – a running success
In June 2016, the Rothley 10k charity road race celebrated its 30th anniversary and the event raised circa £15,000 for local charities including LOROS.

Project Luangwa

MC Trustees, part of the Mattioli Woods group, is very proud to be associated with Project Luangwa, previously known as the Kawaza School Charitable Trust.

This charity assists in the provision of education in Zambia by way of construction of schools, sponsoring students and providing educational materials.

All the costs of running the UK charity are met by MC Trustees so that every penny donated, and the tax we can reclaim, goes to help the children.

MCTRUSTEES
A MATTIOLI WOODS COMPANY

Project Luangwa

Board of Directors

Diverse and strong leadership

The Board now comprises three Executive and three independent Non-Executive Directors. We believe these changes give the business the optimal management structure to secure continued growth. A short biography of each director is set out below.

Joanne Lake
Non-Executive Chairman, Age 53

Joanne was appointed to the Board and as Chairman of the Audit Committee in July 2012. In June 2015, she became Deputy Chairman ahead of her 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 Institute of Chartered Accountants in England and Wales ("ICAEW"), and is a member of the ICAEW's Corporate Finance Faculty. Joanne is also deputy chairman of Main Market listed Henry Boot plc, a land development and construction group, and a non-executive director of Gateley (Holdings) Plc, the first UK commercial law firm to list on AIM, Morses Club plc, a 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.

Committees

A N R

→ Read more from Joanne on **pages 2 and 3**

Ian Mattioli MBE
Chief Executive Officer, Age 54

Ian has over 30 years' experience in the financial services industry and, together with Bob Woods, founded Mattioli Woods in 1991. Ian is responsible for the vision and leadership 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.

His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award and receiving an MBE from HRH Prince Charles in May 2017 in the Queen's 2017 New Year Honours list for his services to business and the community in Leicestershire. Ian is Non-Executive Chairman of K3 Capital Group plc, a non-executive director of Custodian REIT plc and Chairman of its discretionary investment manager, Custodian Capital.

→ Read more from Ian on **pages 12 to 20**

Nathan Imlach
Chief Financial Officer, Age 48

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 ICAEW. Nathan is a director of Custodian Capital and Company Secretary to Custodian REIT plc. Nathan is also Non-Executive and Senior Independent Director of AIM listed Mortgage Advice Bureau (Holdings) plc, a leading mortgage network, and a trustee of Leicester Grammar School.

→ Read more from Nathan on **pages 46 to 49**

Company Secretary:
Nathan Imlach

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

Registered number:
3140521

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

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

Auditor:
25 Farringdon Street
London
EC4 4AB

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

DWF LLP
2 Lochrin Square
96 Fountainbridge
Edinburgh
EH3 9QA

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

Committee key

A Audit, Risk and Compliance Committee

N Nominations Committee

R Remuneration Committee

● Committee Chair

Murray Smith

Group Managing Director, Age 48

Murray graduated with an MA in accountancy and has worked in the financial services industry since 1992. Moving to Mattioli Woods in 1995, Murray built his early career as a consultant, specialising in advising on all aspects of retirement and wealth planning, before taking management responsibility for the Group's sales and marketing functions, culminating in his appointment to the board in 2005.

As Group Managing Director, Murray is responsible for the strategic development and integration of the Group's wealth management division, together with the day-to-day delivery of the client proposition and consultancy functions. Murray is also actively involved in the Group's acquisition strategy.

Carol Duncumb

Non-Executive Director, Age 55

Carol has over 30 years' experience working in consumer-related companies and over the last six 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.

As part of her Non-Executive role, Carol currently chairs the Mattioli Woods Remuneration Committee.

Committees

A N R

→ Read more from Carol on **pages 40 to 45**

Anne Gunther

Non-Executive Director, Age 62

Anne was appointed to the Board in June 2016 and became Chairman of the Audit, Risk, and Compliance Committee at the Annual General Meeting in October 2016. Anne 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 Masthaven Bank board and chairs the Audit and Risk Committee, as well as being Non-Executive and Senior Independent Director and Chair of the Audit Committee for GBGI Limited, an AIM listed specialist health insurer.

Committees

A N R

Corporate governance report

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 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.

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 SET^{GO}, 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.

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 senior executive 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, with the role of Chairman having been separated from executive responsibilities with the appointment of Joanne Lake as independent Chairman, 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. Anne Gunther is the Senior Independent Director.

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.

Board committees

The Board has delegated authority to three 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, Risk and Compliance Committee

The Audit, Risk and Compliance Committee ("the Committee") comprises Anne Gunther (Chairman), Carol Duncumb and Joanne Lake. Anne Gunther is a Chartered Banker and the Board believes the Committee is independent, with all members being Non-Executive Directors.

The Committee meets together with the Chief Financial Officer, Nathan Imlach, and Chief Operating Officer, Mark Smith, 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.

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.

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 help us prepare for the upcoming General Data Protection Regulations legislation; 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 (or cyber) risks, including our resilience to prevent criminal attacks on our internal network. This 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 continue improving 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.

Corporate governance report 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[4]	Audit, Risk and Compliance Committee
Meetings in year	7	4	—	7
Joanne Lake	7	4	—	7
Ian Mattioli	6	—	—	—
Nathan Imlach	7	—	—	—
Murray Smith	7	—	—	—
Mark Smith[1]	6	—	—	—
Alan Fergusson[1]	5	—	—	—
Carol Duncumb	7	4	—	7
Anne Gunther[2]	6	4	—	6
Bob Woods[3]	3	—	—	—

Notes:
1. Resigned on 15 August 2017.
2. Appointed on 14 June 2016.
3. Resigned on 25 October 2016.
4. Meeting held on 21 July 2017.

Other committees

These committees form part of the Corporate Governance framework, but are not formally appointed Non-Executive committees of the Board. The main committees are SET^{GO} and the Asset Management Executive Committee.

SET^{GO}

The Board has delegated full authority to SET^{GO} subject to a list of matters which are reserved for decision by the full Board only. In particular, SET^{GO} is responsible to the Chief Executive for developing and monitoring all aspects of the Group's business on a continuing basis, for developing and implementing business strategy as agreed by the Board and ensuring that day-to-day operations are conducted in accordance with the relevant regulatory and statutory requirements. SET^{GO} meets at least monthly but more frequently if required.

SET^{GO} is chaired by the Chief Executive and during the year comprised the following members:
- Ian Mattioli MBE, Chief Executive Officer;
- Murray Smith, Group Managing Director;
- Nathan Imlach, Chief Financial Officer;
- Mark Smith, Chief Operating Officer;
- Alan Fergusson, Managing Director Employee Benefits;
- Sara Andrews, Chief Business Officer; and
- Simon Gibson, Chief Investment Officer.

Biographies of Ian Mattioli, Murray Smith and Nathan Imlach are set out on pages 32 and 33, with a short biography of the committee's other members set out below.

Mark Smith
Chief Operating Officer, Age 47

Mark has 30 years' experience in financial services and joined Mattioli Woods in 2000. Prior to his appointment, he had worked in a large insurance company, a small IFA firm, and specialist SIPP and SSAS consultancies.

As the Chief Operating Officer, he is responsible for the delivery of our client service proposition across the Group including our own SIPP and SSAS products. He also has compliance oversight responsibility for the Group and is our main liaison with the FCA and other bodies on all regulatory matters.

Simon Gibson
Chief Investment Officer, Age 51

Simon has spent the last 30 years in the financial services profession. In 1998, he set up Thoroughbred Financial Services, advising mainly private clients on wealth management. In 2004, the business merged with Atkinson Bolton Consulting, still focusing on wealthy clients and integrating their financial planning and asset management needs. Since then, asset management and the innovative use of technology have been core parts of Simon's delivery to clients, and today he leads Mattioli Woods' asset management structure.

As Chief Investment Officer, Simon leads both the Asset Management Executive Committee and the Asset Allocation Team and is a member of the Group's Senior Executive Team. Having both advised upon and directly managed assets, Simon is well-placed to recognise the needs of both the client and the business.

Alan Fergusson
Managing Director Employee Benefits, Age 46

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.

Sara Andrews
Chief Business Officer, Age 47

Sara has over 25 years' experience of working in a global capacity. She is qualified across many business functions with multi-sector experience including strategic planning, operations, programme delivery and human resources. Sara has worked with numerous high-profile organisations, including Jaguar Cars, Tom Walkinshaw Racing, Johnson Controls, Mettis Aerospace and Brush Electrical Machines.

Having joined Mattioli Woods in 2016 as HR Director, she subsequently became Chief Business Officer and part of the Group's Senior Executive Team. She is responsible for managing the delivery of the Group's core business support functions including People, Technology, Marketing, Compliance, Risk, Audit, Facilities and Support Services.

Sara is a Chartered Fellow of a number of leadership institutions, including the Chartered Institute of Personnel and Development, ILM and the Chartered Management Institute. Her accomplishments include speaking at the House of Lords and receiving a variety of industry awards.

Corporate governance report continued

Other committees continued

Asset Management Executive Committee

SET^{GO} has delegated authority to the Asset Management Executive Committee to oversee the Group's investment management approach, developing the 'house view' on economics, investment markets and asset allocation; and considering how the Group should best apply these views.

In particular, the Asset Management Executive Committee is responsible for developing and implementing the Group's asset management strategy, for developing and monitoring all aspects of the Group's investment business on a continuing basis, receiving reports from the board of Custodian Capital, the Structured Products Fund Oversight Committee and the Multi-Asset Team (including the Asset Allocation Committee). The committee is also responsible for ensuring that the Group's day-to-day investment and asset management operations are conducted in accordance with the relevant regulatory and statutory requirements through the investment research and investment operations teams.

The Asset Management Executive Committee meets at least six times a year but more frequently if required. The committee is chaired by the Chief Investment Officer and during the year comprised the following members:

» Simon Gibson, Chief Investment Officer;
» Ben Wattam, Investment Director;
» Ian Goodchild, Investment Director;
» Alex Nix, Assistant Fund Manager (Custodian Capital);
» Alex Brown, Wealth Management Director; and;
» David Thurlow, Director (Tax Strategies).

Biographies of the committee's members are available on our website: www.mattioliwoods.com.

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

Following the end of the financial year, an external review of the Board's effectiveness was undertaken by an independent third party. This involved one-to-one interviews with directors and a review of Board and Board committee papers and minutes. The key points raised in the review were around board composition and succession planning.

In response, we have reduced the size of our Board to eliminate duplication of documentation and discussion between the Board and SET^{GO}, ensuring clearer lines of responsibility within the management team and creating a balanced Board of three executive directors and three non-executive directors.

Individual appraisal of each director's performance is undertaken either by the Chief Executive Officer 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 Officer.

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 26 October 2017. In addition, the Chairman, Chief Executive Officer and Chief Financial Officer 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
Chief Financial Officer and Company Secretary
4 September 2017

Directors' remuneration report

Remuneration policy

Mattioli Woods recognises the importance of its employees to the success of the Group and consequently the remuneration policy is designed to be market competitive in order to attract, motivate and retain high calibre individuals. The main focus of the Group's remuneration policy is to align the interests of the Executive Directors with the Group's strategic priorities and the long-term creation of shareholder value.

The Remuneration Committee reviews the regulatory and legislative framework with the aim of ensuring that the remuneration policy is in line with best practice, including the FCA codes of practice ("the FCA Codes") which set out the standards and policies that regulated firms are required to meet when setting pay and bonus awards for staff. External third party data is used to validate rather than to benchmark the total reward and the Remuneration Committee takes into consideration the current economic climate, remuneration policies of comparable businesses and pay and employment conditions elsewhere in the Group when considering Executive Directors' and other senior management's pay.

The remuneration arrangements are designed to:

» Promote value creation;
» Support the business strategy;
» Promote the long-term success of the Group;
» Deliver a competitive level of pay for the Executive Directors and senior management;
» Encourage the retention of staff through deferred variable compensation, where appropriate;
» Ensure greater alignment between the interests of the Executive Directors and the long-term interests of shareholders through significant long-term equity participation;
» Be fair for both the director and the Group, with some element of discretion;
» Comply with financial services rules and regulations;
» Discourage excessive risk taking and short-termism;
» Encourage more effective risk management; and
» Support positive behaviours and a strong and appropriate conduct culture.

The Group's policy is to remunerate Executive Directors and senior management through basic salary and benefits, annual performance-related discretionary bonuses and participation in Long-Term Incentive Plans which promote the creation of sustainable shareholder value. The total reward is designed to include a balance of fixed and variable pay with an element of deferral.

Fees for the Non-Executive Directors are determined by the Board and are reviewed annually, having regard to fees paid to non-executive directors in other UK quoted companies, the time commitment and responsibilities of the role. Non-Executive Directors do not receive bonuses or share entitlements. No director is permitted to participate in decisions concerning their own remuneration.

During the year, the effective date for changes in directors' remuneration was reviewed and going forward will change from 1 June to 1 September, in line with the Group's other employees.

Shareholders will be asked to approve the remuneration policy, which applies to the directors and employees of the Group, at the Company's next AGM on 26 October 2017.

Single total figure of remuneration for each director

Directors' remuneration payable in respect of the years ended 31 May 2017 and 2016 was as follows:

	Salary and fees		Benefits		Bonus		Long-term incentive plan		Pension-related benefits		Share incentive plan		Total	
	2017 £000	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Executives														
Ian Mattioli[1,5]	**523**	457	**2**	2	**480**	440	**654**	—	**50**	44	**2**	—	**1,711**	943
Bob Woods[2,5]	**74**	298	**—**	—	**—**	228	**—**	—	**7**	28	**—**	—	**81**	554
Nathan Imlach[5,6]	**294**	285	**12**	11	**227**	228	**381**	—	**29**	28	**2**	2	**945**	554
Murray Smith[5,6]	**247**	240	**13**	11	**193**	192	**371**	—	**26**	24	**2**	—	**852**	467
Mark Smith[3,5,6]	**247**	240	**12**	10	**192**	192	**316**	—	**27**	24	**2**	2	**796**	468
Alan Fergusson[1,3,5]	**214**	208	**2**	2	**156**	161	**—**	—	**21**	20	**2**	2	**395**	393
Sub-total	**1,599**	1,728	**41**	36	**1,248**	1,441	**1,722**	—	**160**	168	**10**	6	**4,780**	3,379
Non-executives														
Joanne Lake[5]	**91**	84	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**91**	84
Carol Duncumb[5]	**45**	41	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**45**	41
Anne Gunther[4,5]	**45**	—	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**45**	—
Sub-total	**181**	125	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**181**	125
Total	**1,780**	1,853	**41**	36	**1,248**	1,441	**1,722**	—	**160**	—	**10**	6	**4,961**	3,504

Notes:
1. The benefit packages of Ian Mattioli and Alan Fergusson include a car allowance.
2. Bob Woods ceased to be a director on 25 October 2016.
3. Mark Smith and Alan Fergusson ceased to be directors on 15 August 2017.
4. Appointed 14 June 2016. Anne Gunther was paid consultancy fees of £16,250 in the year ended 31 May 2016.
5. The benefit package of each Executive Director includes the provision of life assurance under a group scheme.
6. The benefit packages of Nathan Imlach, Murray Smith and Mark Smith include the provision of a company car.

Notes to Directors' remuneration table

Salary

The base salaries of the Executive Directors are reviewed annually having regard to personal performance, divisional or Group performance, significant changes in responsibilities and competitive market practice in their area of operation.

Fees

The Non-Executive Directors are only paid fees, which are not pensionable. In addition to a basic fee, Non-Executive Directors also receive additional responsibility fees in recognition of them being a member of or chairing a committee or being the senior independent director.

Benefits

Benefits for Executive Directors principally relate to the provision of cars, death in service cover and permanent health insurance or cash allowances taken in lieu of such benefits.

Bonus

Awards to Executive Directors and some other senior employees of the Group of profit related bonuses are made from a pool of the Group's earnings before interest, taxation, depreciation and amortisation after payment of bonuses payable to all other staff. For the year ended 31 May 2017, the bonus 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 2018, 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	105.0%	50.0%	50.0%
Murray Smith	94.5%	50.0%	50.0%
Nathan Imlach	84.0%	50.0%	50.0%

Directors' remuneration report continued

Long-Term Incentive Plan

To assist the Group to attract and retain appropriately qualified staff, it adopted the Mattioli Woods 2010 Long-Term Incentive Plan ("the LTIP") to incentivise certain of its senior employees and Executive Directors. Awards made to the Executive Directors under the LTIP are set out below.

Pension related benefits

Executive Directors may participate in the pension arrangements of the Group or elect to have pension payments paid into a personal pension plan or as cash in lieu of pension on the same basis as other employees. Pension payments in respect of Executive Directors are currently 10% of base salary.

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.

This benefit is the value of the SIP matching shares made in the year. Employees may contribute up to £150 per month to buy partnership shares with contributions matched on a one-for-one basis by the Company.

Mattioli Woods 2010 Long-Term Incentive Plan

The current LTIP was approved by shareholders at the Company's 2010 AGM. During the year ended 31 May 2017 the Remuneration Committee granted further awards under the LTIP in respect of the year ended 31 May 2016. The LTIP allows a significant element of deferred variable remuneration to be paid in equity or a cash equivalent award.

Eligibility

Any employee (including an Executive Director) of the Company or any of its subsidiaries will be eligible to participate in the LTIP at the discretion of the Remuneration Committee.

Form of award

Awards under the LTIP may be in the form of an option granted to the participant to acquire ordinary shares with a nominal exercise price of 1p. Alternatively, the Remuneration Committee may at its discretion grant participants a right to receive a cash amount which relates to the value of a certain number of notional shares.

Performance conditions

Options granted under the LTIP are only exercisable subject to the satisfaction of the following performance conditions which will determine the proportion of the option that will vest at the end of the three-year performance period:

Compound annual growth in EBITDA over the three-year performance period	Percentage of maximum award vesting
‹5%	Nil
5%	30%
12%	100%

The percentage of maximum award vesting will be calculated pro rata between the minimum and maximum hurdles. 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).

Individual and overall limits

The maximum award for any eligible employee under the LTIP for any one year is 100% of salary. The LTIP is subject to an overall limit on the total number of shares which may be issued within a 10 year period under the LTIP or any other employee share plan operated by the Group of 10% of the issued ordinary share capital of the Company.

Clawback

Vested and unvested LTIP awards are subject to a formal malus and clawback mechanism.

Grant of equity share options under the LTIP

As at 31 May 2017, the Company had granted options to certain of its senior employees and Executive Directors to acquire (in aggregate) up to 3.13% (2016: 2.76%) of its share capital. The maximum entitlement of any individual was 0.57% (2016: 0.53%). The options are exercisable at 1p per share.

Grant of cash-settled options under the LTIP

At 31 May 2017, the Company had granted cash-settled options to Ian Mattioli and Bob Woods that are the equivalent of (in aggregate) up to 0.46% (2016: 1.06%) of its share capital. The maximum entitlement of any individual was 0.27% (2016: 0.62%). 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.

Terms of awards

Options may be granted over newly issued shares, treasury shares or shares purchased in the market. Options are not transferable other than on death. 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.
At 31 May 2017 the Company held no shares in treasury (2016: Nil).

Mattioli Woods Consultants' Share Option Plan

To attract and retain appropriately qualified staff the Group adopted the Mattioli Woods Consultants' Share Option Plan ("the Consultants' Share Option Plan") to incentivise certain of its senior consultants. 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.

At 31 May 2017, the Company had granted options under the Consultants' Share Option Plan to certain of its senior consultants to acquire (in aggregate) up to 0.39% (2016: 0.57%) of its share capital. The maximum entitlement of any individual was 0.17% (2016: 0.19%). 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.

Directors' interest in share options

Outstanding share options granted to Executive Directors under the 2010 LTIP are as follows:

Director	Note	Exercise price £	At 31 May 2016 No.	Granted during the year No.	Exercised during the year No.	Forfeited during the year No.	At 31 May 2017 No.
Ian Mattioli	1	0.01	71,836	76,313	—	—	**148,149**
	2	0.01	155,086	—	(85,706)	—	**69,380**
			226,922	76,313	(85,706)	—	**217,529**
Bob Woods[3]	1	0.01	37,224	12,019	—	—	**49,243**
	2	0.01	111,564	—	(62,443)	—	**49,121**
			148,788	12,019	(62,443)	—	**98,364**
Murray Smith	1	0.01	121,024	30,183	(48,975)	—	**102,232**
	2	0.01	—	—	—	—	**—**
			121,024	30,183	(48,975)	—	**102,232**
Mark Smith[4]	1	0.01	107,664	30,183	(41,628)	—	**96,219**
	2	0.01	—	—	—	—	**—**
			107,664	30,183	(41,628)	—	**96,219**
Nathan Imlach	1	0.01	134,602	35,842	(50,199)	—	**120,245**
	2	0.01	—	—	—	—	**—**
			134,602	35,842	(50,199)	—	**120,245**
Alan Fergusson[4]	1	0.01	26,247	25,273	—	—	**51,520**
	2	0.01	—	—	—	—	**—**
			26,247	25,273	—	—	**51,520**
Total equity settled			498,597	209,813	(140,802)	—	**567,608**
Total cash settled			266,650	—	(148,149)	—	**118,501**

Notes:
1. Equity settled awards.
2. Cash settled awards.
3. Bob Woods ceased to be a director on 25 October 2016.
4. Mark Smith and Alan Fergusson ceased to be directors on 15 August 2017.

Directors' remuneration report continued

Directors' interest in share options continued

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 2017.

Note 19 to the financial statements contains a detailed schedule of all options granted to directors and employees as at 31 May 2017. All of the options were granted for nil consideration.

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 appointment continues 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.

Directors' shareholdings

As at 31 May 2017, 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	2017 No.	%	2016 No.	%
Ian Mattioli[1]	3,235,264	12.55	3,234,315	12.83
Bob Woods[1,2]	2,574,171	9.98	2,573,703	10.21
Nathan Imlach[1]	104,396	0.40	138,618	0.55
Murray Smith[1]	88,649	0.34	108,042	0.43
Alan Fergusson[1,3]	66,950	0.26	66,411	0.26
Carol Duncumb[1]	6,280	0.02	6,280	0.02
Mark Smith[1,3]	4,846	0.02	4,344	0.02
Joanne Lake[1]	4,100	0.02	4,100	0.02
Anne Gunther[1]	4,000	0.02	—	—

Notes:
1. Directors' shareholdings include any shareholdings of trusts or family members deemed to be connected persons.
2. Bob Woods ceased to be a Director on 25 October 2016.
3. Alan Fergusson and Mark Smith ceased to be Directors on 15 August 2017.

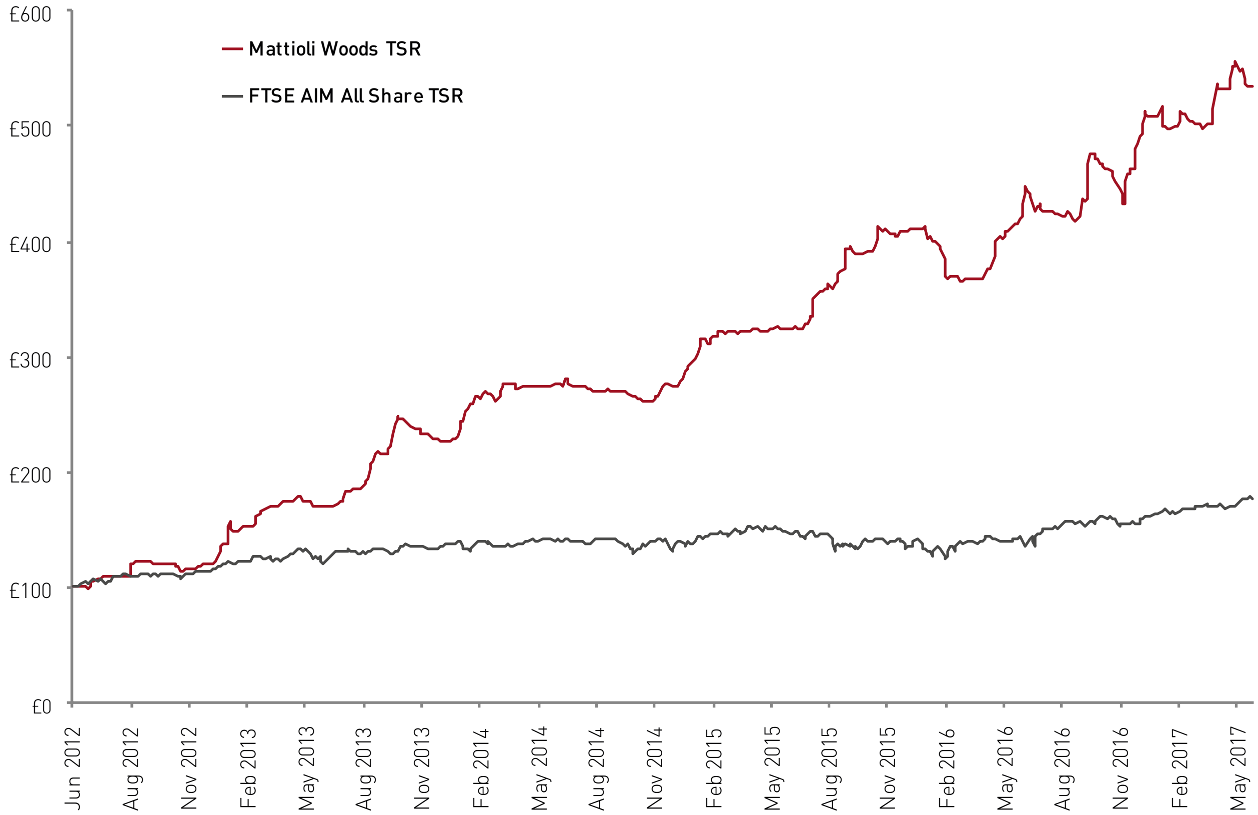
The mid-market closing price of the Company's ordinary shares at 31 May 2017 was 819.5p and the range during the financial year was 649.0p to 851.5p.

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 29 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 2017 and 4 September 2017.

Total shareholder return performance graph

The graph below illustrates the total shareholder return ("TSR") for the five years ended 31 May 2017 in terms of the change in value of an initial investment of £100 invested on 1 June 2012 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
4 September 2017

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 2017. 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 31 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 £6.4m (2016: £5.2m), up 23.1% on the previous year as a result of strong revenue growth, with revenues up 17.4% to £50.5m (2016: £43.0m). The effective rate of taxation was again below the standard rate of tax at 16.9% (2016: 16.6%), 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 18% to 17%.

The final dividend in respect of the year ended 31 May 2016 of 8.65p per share was paid in October 2016. An interim dividend in respect of the year ended 31 May 2017 of 4.7p per share was paid to shareholders in March 2017. The directors recommend a final dividend of 9.4p per share. This has not been included within the Group financial statements as no obligation existed at 31 May 2017. If approved, the final dividend will be paid on 27 October 2017 to ordinary shareholders whose names are on the register at the close of business on 22 September 2017.

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 2017 is shown in Note 23. 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 Taylor Patterson as a result of them entering into a lock-in deed with Mattioli Woods and 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;
» Restrictions on the former shareholder of Old Station Road Holdings Limited as a result of him entering into a lock-in deed with Mattioli Woods and Canaccord Genuity Limited, restricting sales of that part of the consideration comprising 38,081 ordinary shares in Mattioli Woods during the two years ending 7 September 2018; and
» Restrictions on the 51% shareholder in Amati Global Investors Limited, Amati Global Partners LLP ("the Seller") and its members as a result of the Seller and its members entering into a lock-in deed with Mattioli Woods and Canaccord Genuity Limited restricting sales of that part of the consideration comprising 224,427 ordinary shares in Mattioli Woods during the two years ending 6 February 2019.

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 4 September 2017, 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	3,235,264	12.5%
Investec Wealth and Investment Limited	2,582,756	10.0%
Liontrust Investment Partners LLP	2,576,707	10.0%
Bob Woods	2,574,171	10.0%
Standard Life Investments Limited	2,383,687	9.2%
BlackRock Investment Management (UK) Limited	2,203,984	8.5%
Schroder Investment Management Limited	1,282,340	5.0%
Unicorn Asset Management	1,138,803	4.4%

In addition to the above shareholdings, 560,683 ordinary 1p shares representing 2.2% 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 32 and 33. Nathan Imlach and Carol Duncumb retire and, being eligible, offer themselves for re-election.

The appointment of Anne Gunther as Non-Executive Director was announced on 14 June 2016. Bob Woods stepped down from the Board at the Annual General Meeting on 25 October 2016, following the appointment of Joanne Lake as Non-Executive Chairman. Mark Smith, Chief Operating Officer and Alan Fergusson, Managing Director Employee Benefits stepped down from the Board on 15 August 2017.

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 29.

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.

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.

Directors' report continued

Employees continued

The Group's pension scheme qualifies as an auto-enrolment scheme, with the Group applying the following minimum contribution rates:

Date	Minimum employer contribution	Minimum employee contribution
Up to 5 April 2018	2%	1%
6 April 2018 to 5 April 2019	3%	3%
6 April 2019 onwards	4%	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. 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, have expanded our apprenticeship scheme and increased numbers in The Mattioli Woods Business Academy from eight to 12. We have increased the number of short duration work experience places available to local schools and colleges, while continuing to work in partnership with Gateway College Leicester, offering those considering an alternative route to higher education worthwhile work experience. We were pleased to be awarded Apprentice Employer of the Year by Leicester Apprenticeship Hub, demonstrating our commitment in this area. 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.

We have launched an eLearning platform in conjunction with the Chartered Insurance Institute's Financial Assess for the continued professional development of our staff. We are committed to continual process improvement and intend to roll-out business improvement techniques across our locations, following an initial launch in Leicester.

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 29.

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 26 October 2017. 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 15 September 2017), 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 pages 19 to 20 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 39 of the review of Corporate Governance. The key risks and mitigating factors are set out on pages 24 to 27.

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.

Corporate governance
A full review of Corporate Governance appears on pages 32 to 39.

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 2017 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 32 and 33. 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 32.

On behalf of the Board

Nathan Imlach
Chief Financial Officer and Company Secretary
4 September 2017

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

Opinion

We have audited the financial statements of Mattioli Woods plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 May 2017 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 May 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

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

Business combinations and acquisition of investment in associate

Acquisitions of interests in other businesses have a material impact on the group financial statements. We reviewed the documented accounting rationale in respect of each acquisition and the purchase price allocation method applied, including reviewing the assets recognised for completeness. We audited the key assumptions made including conclusions on the nature of the interests acquired, assumptions used in valuations and the amortisation policy applied.

We note the financial statements include descriptions of significant judgements being made by management and that the accounting policies set the basis of accounting for these items.

Trade receivables and accrued income recovery

We reviewed the processes undertaken to identify potential doubtful realisation which could impact on reported profits. We audited samples of balances for recovery and tested balances where receivables are passed credit terms. We reviewed the ageing analysis and profile of realisations and recovery rates.

We note that the financial statements include disclosure of the significant judgements made by management for accrued income, time costs and disbursements, and the disclosure of balances past due but not impaired.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £800,000, which was not changed during the course of our audit. We agreed with the Audit, Risk and Compliance Committee that we would report to them all unadjusted differences in excess of £20,000, as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our Audit

Our group audit approach focused on the parent company and five active trading subsidiaries. The audit was scoped to support our audit opinion on the group and parent company financial statements of Mattioli Woods plc and was based on group materiality and an assessment of risk at group level.

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

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 50, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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.

David Fenton (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB

4 September 2017

Consolidated statement of comprehensive income for the year ended 31 May 2017

	Note	2017 £000	2016 £000
Revenue	4	**50,533**	42,950
Employee benefits expense	11	**(28,711)**	(24,552)
Other administrative expenses		**(9,465)**	(7,807)
Share based payments	19	**(1,902)**	(1,594)
Amortisation and impairment	16,17	**(1,996)**	(1,816)
Depreciation	15	**(606)**	(497)
Loss on disposal of property, plant and equipment		**(61)**	(56)
Operating profit before financing	10	**7,792**	6,628
Finance revenue	8	**45**	122
Finance costs	9	**(291)**	(459)
Net finance costs		**(246)**	(337)
Share of profit from associate, net of tax	17	**103**	—
Profit before tax		**7,649**	6,291
Income tax expense	12	**(1,293)**	(1,046)
Profit for the year		**6,356**	5,245
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year, net of tax		**6,356**	5,245
Attributable to:			
Equity holders of the parent		**6,356**	5,245
Earnings per ordinary share:			
Basic (pence)	13	**24.8**	20.9
Adjusted (pence)		**34.1**	30.6
Diluted (pence)	13	**24.7**	20.9
Proposed total dividend per share (pence)	14	**14.1**	12.5

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.

Consolidated and company statements of financial position as at 31 May 2017

	Note	2017 Group £000	2017 Company £000	2016 Group £000	2016 Company £000
Assets					
Property, plant and equipment	15	**9,671**	**2,209**	1,997	1,924
Intangible assets	16	**44,444**	**36,743**	43,410	28,973
Deferred tax asset	12	**798**	**777**	737	731
Investments in subsidiaries	17	**—**	**18,572**	—	15,187
Investment in associate	17	**3,476**	**3,476**	—	—
Derivative financial asset	21	**110**	**110**	—	—
Total non-current assets		**58,499**	**61,887**	46,144	46,815
Trade and other receivables	20	**15,692**	**22,767**	13,495	14,010
Investments	17	**86**	**86**	79	79
Cash and short-term deposits	22	**22,979**	**12,172**	29,809	21,381
Total current assets		**38,757**	**35,025**	43,383	35,470
Total assets		**97,256**	**96,912**	89,527	82,285
Equity					
Issued capital	23	**258**	**258**	252	252
Share premium	23	**30,314**	**30,314**	27,765	27,765
Merger reserve	23	**8,781**	**8,781**	8,531	8,531
Equity – share based payments	23	**2,571**	**2,571**	1,642	1,642
Capital redemption reserve	23	**2,000**	**2,000**	2,000	2,000
Retained earnings	23	**28,671**	**23,892**	25,391	22,487
Total equity attributable to equity holders of the parent		**72,595**	**67,816**	65,581	62,677
Non-current liabilities					
Deferred tax liability	12	**3,600**	**2,692**	3,724	2,127
Financial liabilities and provisions	26	**2,842**	**11,337**	5,738	5,738
Total non-current liabilities		**6,442**	**14,029**	9,462	7,865
Current liabilities					
Trade and other payables	25	**12,862**	**10,501**	10,047	8,397
Income tax payable		**957**	**259**	1,083	178
Financial liabilities and provisions	26	**4,400**	**4,307**	3,354	3,168
Total current liabilities		**18,219**	**15,067**	14,484	11,743
Total liabilities		**24,661**	**29,096**	23,946	19,608
Total equities and liabilities		**97,256**	**96,912**	89,527	82,285

The profit of the Company for the financial year, after taxation, was £4.5m (2016: £5.1m).

The financial statements on pages 53 to 100 were approved by the Board of directors and authorised for issue on 4 September 2017 and are signed on its behalf by:

Ian Mattioli MBE
Chief Executive Officer

Nathan Imlach
Chief Financial Officer

Registered number: 3140521

Consolidated and company statements of changes in equity for the year ended 31 May 2017

Group	Issued capital (Note 23) £000	Share premium (Note 23) £000	Merger reserve (Note 23) £000	Equity – share based payments (Note 23) £000	Capital redemption reserve (Note 23) £000	Retained earnings (Note 23) £000	Total equity £000
As at 1 June 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
Profit for the year	—	—	—	—	—	6,356	6,356
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**6,356**	**6,356**
Transactions with owners of the Group, recognised directly in equity							
Share of other comprehensive income from associated companies	—	—	—	—	—	5	5
Issue of share capital	6	2,549	250	—	—	—	2,805
Share-based payments	—	—	—	949	—	—	949
Deferred tax taken to equity	—	—	—	52	—	—	52
Current tax taken to equity	—	—	—	237	—	—	237
Dividends paid	—	—	—	—	—	(3,390)	(3,390)
Reserves transfer	—	—	—	(309)	—	309	—
As at 31 May 2017	**258**	**30,314**	**8,781**	**2,571**	**2,000**	**28,671**	**72,595**

Company	Issued capital (Note 23) £000	Share premium (Note 23) £000	Merger reserve (Note 23) £000	Equity – share based payments (Note 23) £000	Capital redemption reserve (Note 23) £000	Retained earnings (Note 23) £000	Total equity £000
As at 1 June 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
Profit for the year	—	—	—	—	—	4,481	4,481
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**4,481**	**4,481**
Transactions with owners of the Company, recognised directly in equity							
Share of other comprehensive income from associated companies	—	—	—	—	—	5	5
Issue of share capital	6	2,549	250	—	—	—	2,805
Share-based payments	—	—	—	949	—	—	949
Deferred tax taken to equity	—	—	—	52	—	—	52
Current tax taken to equity	—	—	—	237	—	—	237
Dividends paid	—	—	—	—	—	(3,390)	(3,390)
Reserves transfer	—	—	—	(309)	—	309	—
As at 31 May 2016	**258**	**30,314**	**8,781**	**2,571**	**2,000**	**23,892**	**67,816**

Consolidated and company statements of cash flows for the year ended 31 May 2017

	Note	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Operating activities					
Profit for the year					
Adjustments for:		**6,356**	**4,481**	5,245	5,053
Depreciation	15	**606**	**596**	497	482
Amortisation and impairment	16,17	**1,996**	**1,655**	1,816	1,411
Gain on bargain purchase	3	**—**	**—**	(105)	(105)
Investment income	8	**(45)**	**(150)**	(122)	(93)
Interest expense	9	**291**	**494**	459	785
Share of profit from associate	17	**(103)**	**(103)**	—	—
Gain on revaluation of derivative financial asset	17,31	**(93)**	**(93)**	—	—
Loss on disposal of property, plant and equipment		**61**	**61**	56	56
Equity-settled share-based payments	19	**1,241**	**1,241**	838	838
Cash-settled share-based payments		**661**	**661**	756	756
Dividend income		**—**	**(800)**	—	(2,497)
Income tax expense	12	**1,293**	**706**	1,046	625
Cash flows from operating activities before changes in working capital and provisions		**12,264**	**8,749**	10,486	7,311
Increase in trade and other receivables		**(2,018)**	**(9,140)**	(509)	(2,058)
Increase in trade and other payables		**1,762**	**1,944**	1,619	1,035
(Decrease)/increase in provisions		**(1,544)**	**(1,536)**	192	192
Cash generated from operations		**10,464**	**17**	11,788	6,480
Interest paid		**(2)**	**(2)**	—	—
Income taxes paid		**(1,700)**	**(875)**	(1,714)	(1,343)
Net cash flows from operating activities		**8,762**	**(860)**	10,074	5,137
Investing activities					
Proceeds from sale of property, plant and equipment		**126**	**126**	75	75
Purchase of property, plant and equipment	15	**(8,225)**	**(1,004)**	(1,115)	(1,107)
Purchase of software	16	**(616)**	**(612)**	(597)	(590)
Consideration paid on acquisition of subsidiaries	3	**(3,490)**	**(3,490)**	(6,911)	(6,911)
Investment in subsidiary	17	**—**	**(1,000)**	—	—
Consideration paid for shares in associate	17	**(1,646)**	**(1,646)**	—	—
Consideration paid on acquisition of business	3	**—**	**—**	(735)	(735)
Cash transferred on hive up of group companies		**—**	**1,289**	—	—
Cash received on acquisition of subsidiaries	3	**172**	**—**	3,217	—
Other investments	17	**—**	**—**	(16)	(16)
Loans advanced to property syndicates		**(541)**	**(541)**	(2,188)	(2,188)
Loan repayments from property syndicates		**571**	**571**	2,158	2,158
Interest received	8	**39**	**24**	122	93
Dividends received		**—**	**800**	—	800
Net cash flows from investing activities		**(13,610)**	**(5,483)**	(5,990)	(8,421)
Financing activities					
Proceeds from the issue of share capital		**524**	**524**	19,568	19,568
Payment of costs of share issue		**—**	**—**	(693)	(693)
Repayment of borrowings acquired in business combinations		**884**	**—**	(965)	—
Repayment of Directors' loans	25	**—**	**—**	(1)	(1)
Dividends paid	14	**(3,390)**	**(3,390)**	(2,754)	(2,754)
Net cash flows from financing activities		**(1,982)**	**(2,866)**	15,155	16,120
Net (decrease)/increase in cash and cash equivalents		**(6,830)**	**(9,209)**	19,239	12,836
Cash and cash equivalents at start of year	22	**29,809**	**21,381**	10,570	8,545
Cash and cash equivalents at end of year	22	**22,979**	**12,172**	29,809	21,381

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, 21 and 26), 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 4 September 2017.

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
Annual Improvements to IFRSs 2012-2014 Cycle		1 January 2016
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 10 (amended)	Consolidated Financial Statements – Applying the Consolidation Exception	1 January 2016
IFRS 11 (amended)	Joint Arrangements	1 January 2016
IFRS 12 (amended)	Disclosures of Interests in Other Entities	1 January 2016

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 2016 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:

Notes to the financial statements continued

2.2 Developments in reporting standards and interpretations continued

Standard or interpretation		Periods commencing on or after
Annual Improvements to IFRSs 2014-2016 Cycle		1 January 2017/2018
IAS 7	Disclosure Initiative	1 January 2017
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
IFRS 2 (amended)	Share Based Payments – Classification and measurement	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
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 to become mandatory for periods commencing on or after 1 January 2018. These standards have 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' is not expected to become mandatory for periods commencing before 1 January 2019. It 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.

Associates

The Company's share of profits from associates is reported separately in the Statement of Comprehensive income and the investment is recognised in the Statement of Financial Position using the equity method. The investment is initially recorded at cost and subsequently adjusted to reflect the Company's share of the cumulative profits of the associate since acquisition. Appropriate adjustments to the Company's share of the profits or losses after acquisition are made to account for additional amortisation of the associate's amortisable assets based on the excess of their fair values over their carrying amounts at the time the investment was acquired.

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.

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:

» Assets under construction	2% per annum straightline;
» Computer and office equipment	20/25% per annum on written down values;
» Fixtures and fittings	20% per annum on written down values;
» Motor vehicles	25% per annum on written down values; and
» Leasehold improvements	Straight line over the term of the lease.

Assets under construction are not depreciated until construction is complete. At the point when the asset becomes available for use, the assets will be transferred to the appropriate asset class and depreciated in line with the above policy.

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 using the cost model and investments in associates using the equity method.

Short-term investments

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

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 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.

Notes to the financial statements continued

2.3 Principal accounting policies continued

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
MC Trustees	7 September 2016	20 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

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.

Derivative financial assets
Derivative financial assets comprise an option contract to acquire the remaining ordinary share capital of an associate of the Group. Derivative financial assets are carried at fair value, with gains and losses arising from changes in fair value taken directly to the Statement of Comprehensive Income. Fair values of derivatives are determined using valuation techniques, including discounted cash flow models and option pricing models as appropriate.

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
Trade and other receivables are recognised at amortised cost, and 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.

Notes to the financial statements continued

2.3 Principal accounting policies 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.

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.

Notes to the financial statements continued

2.3 Principal accounting policies 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.

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% (2016: 2.5%), which management considers conservative against industry average long-term growth rates.

The key assumption used in arriving at a fair value less costs to sell requires a valuation 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 2017 was £25.2m (2016: £25.4m). No impairment provisions have been made during the year (2016: £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 2017 was £17.3m (2016: £16.4m). No impairment provisions have been made during the year (2016: £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 2017 was £1.1m (2016: £1.1m).

Notes to the financial statements continued

2.4 Key sources of judgements and estimation uncertainty continued

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 2017 was £0.8m (2016: £0.7m).

Interests in associates

Associates are entities in which the Group owns less than 100% of voting rights and has significant influence, but not control or joint control over the financial and operating policies. In determining whether control exists, this requires significant judgements in assessing factors such as the structure of the investment and the contractual agreement. The existence of significant influence is evidenced by the Group having representation on the board and the ability to participate in decisions but not being able to control the vote. The carrying amount of the investment in associate at 31 May 2017 was £3.5m (2016: £nil).

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 2017 was £4.5m (2016: £4.6m).

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 2017 was £3.2m (2016: £2.5m).

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 2017 was £4.4m (2016: £5.8m).

Provisions

As detailed in Note 26, 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.

3. Business combinations

The Group completed one acquisition during the year. Transaction costs of £0.1m incurred during the course of the 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 MC Trustees Limited

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"), a pension administration business based in Hampton-in-Arden in the West Midlands.

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

	Fair value recognised on acquisition £000	Fair value adjustments £000	Previous carrying value £000
Property, plant and equipment	18	—	18
Client portfolio	1,522	1,522	—
Cash at bank	172	—	172
Trade receivables	208	(68)	276
Other receivables	884	—	884
Assets	2,804	1,454	1,350
Trade and other payables	(112)	—	(112)
Accruals and deferred income	(625)	(10)	(615)
Other taxation and social security	(72)	—	(72)
Income tax	(108)	—	(108)
Provisions	(93)	(80)	(13)
Deferred tax liability	(278)	(274)	(4)
Liabilities	(1,288)	(364)	(924)

Total identifiable net assets at fair value	1,516
Goodwill	869
Total acquisition cost	2,385
Analysed as follows:	
Initial cash consideration	1,241
Adjustment to initial consideration	(14)
New shares in Mattioli Woods	250
Contingent consideration	1,000
Discounting of contingent consideration	(92)
Total acquisition cost	2,385

Cash outflow on acquisition	£000
Cash paid	1,241
Cash acquired	(172)
Acquired net assets adjustment	(14)
Acquisition costs	130
Net cash outflow	1,185

MC Trustees specialises in the provision of personal service and strong technical advice. It is an excellent cultural and strategic fit with Mattioli Woods' existing pension business, providing pension administration and trustee services to over 1,500 SIPP and SSAS clients with over £400m of assets under administration. The acquisition brings additional scale to Mattioli Woods' existing operations and offers the opportunity to transfer MC Trustees' business onto Mattioli Woods' bespoke pension administration platform.

Notes to the financial statements continued

3. Business combinations continued

Acquisition of MC Trustees Limited continued

Synergies include the ability to promote additional services to existing and prospective clients of MC Trustees. In addition, the acquisition added further specialist expertise to the Group and its experienced management team has remained with the business. The goodwill recognised above is attributed to the expected benefits from combining the assets and activities of MC Trustees 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 MC Trustees' modus operandi; and
- New opportunities available to the combined business, as a result of both MC Trustees 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 MC Trustees has contributed £1.22m to revenue and £0.21m to the Group profit for the year. If the combination had taken place at the beginning of the year, Group revenue from continuing operations would have been £51.0m and the profit for the year would have been £6.3m.

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 £2.8m (2016: £2.3m).

On 7 September 2016 the Group acquired MC Trustees for total consideration of up to £2.5m, comprising initial consideration of £1.23m in cash plus 38,081 new ordinary shares of 1p each in Mattioli Woods plus contingent consideration of up to £1.0m payable in cash in the two years following completion if certain financial target based on growth in earnings before interest, tax, depreciation and amortisation are met. The Group estimates the fair value of the remaining contingent consideration at 31 May 2017 to be £0.9m using cash flows approved by the Board covering the contingent consideration period and expects the maximum contingent consideration will be payable.

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 2017 to be £2.2m (2016: £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 2017 to be £1.2m (2016: £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 2017 to be £0.04m (2016: £0.04m) using cash flows approved by the Board covering the contingent consideration period and expects the remaining contingent consideration will be payable.

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. During the year £0.25m of the remaining consideration payable was released to the Statement of Comprehensive Income as the number of new scheme referrals were lower than target. The Group estimates that at 31 May 2017 no further consideration will be payable so the remaining consideration is £nil (2016: £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:

	2017 £000	2016 £000
Rendering of services	**49,070**	40,282
Commission income	**1,463**	2,668
	50,533	42,950

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, the Group transferred the trade and assets of the Taylor Patterson Group Limited and its subsidiaries into Mattioli Woods. The Group's operating segments 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 2017 and 2016 respectively.

Year ended 31 May 2017	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	18,869	21,079	5,178	5,407	50,533	—	50,533
Total revenue	18,869	21,079	5,178	5,407	50,533	—	50,533
Results							
Segment result	3,569	5,008	1,198	458	10,233	(2,584)	7,649

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

Notes to the financial statements continued

6. Segment information continued

Segment assets

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

	31 May 2017 £000	31 May 2016 £000
Pension consultancy and administration	**23,831**	21,977
Investment and asset management	**22,870**	19,683
Property management	**1,360**	898
Employee benefits	**11,649**	11,311
Total segments	**59,710**	53,869
Corporate assets	**37,546**	35,658
Total assets	**97,256**	89,527

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 2017 £000	31 May 2016 £000
Total segments	**10,233**	8,082
Acquisition costs	**(378)**	(339)
Depreciation	**(606)**	(497)
Amortisation and impairment	**(259)**	(247)
Loss on disposal of assets	**(61)**	(56)
Unallocated overheads	**(1,030)**	(298)
Gain on revaluation of derivative financial asset	**93**	—
Bank charges	**(22)**	(17)
Finance income	**45**	122
Finance costs	**(291)**	(459)
Dilapidations	**(75)**	—
Group profit before tax	**7,649**	6,291

Reconciliation of assets	31 May 2017 £000	31 May 2016 £000
Segment operating assets	**59,710**	53,869
Property, plant and equipment	**9,671**	1,997
Intangible assets	**1,964**	1,608
Investments	**86**	79
Deferred tax asset	**798**	737
Prepayments and other receivables	**1,938**	1,428
Derivative financial asset	**110**	—
Cash and short-term deposits	**22,979**	29,809
Total assets	**97,256**	89,527

Country-by-country reporting

HM Treasury has transposed the requirements set out under the Capital Requirements Directive IV ("CRD IV") and issued the Capital Requirements Country-by-Country Reporting Regulations 2013, effective 1 January 2014. The legislation requires Mattioli Woods plc (together with its subsidiaries) to publish certain additional information split by country, on a consolidated basis, for the year ended 31 May 2017.

Mattioli Woods plc and its subsidiaries (see Note 17) are all incorporated in and operate from the United Kingdom. All employees (see Note 11) of the Group hold contracts of employment in the United Kingdom. All turnover (revenue) and profit before tax is recognised on activities based in the United Kingdom. All tax paid and any subsidies received are paid to and received from UK institutions.

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 2017 £000	Company Associates of RSM UK Audit LLP 2017 £000	**Total 2017 £000**	Total 2016 £000
Audit-related services:				
Audit of the Company	50	—	**50**	50
Audit of subsidiaries	28	—	**28**	20
Interim review	15	—	**15**	14
Other assurance – CASS reporting	11	—	**11**	8
	104	—	**104**	92
Non-audit services:				
Corporate finance	—	62	**62**	29
Subsidiary statutory accounts preparation	—	25	**25**	—
Other non audit services	—	14	**14**	—
	—	101	**101**	29
Total	104	101	**205**	121

8. Finance revenue

	2017 £000	2016 £000
Bank interest receivable	**45**	122
	45	122

9. Finance costs

	2017 £000	2016 £000
Unwinding of discount on provisions	**291**	459
	291	459

10. Operating profit

Included in operating profit before financing:	**2017 £000**	2016 £000
Depreciation (Note 15)	**(606)**	(497)
Amortisation and impairment of intangible assets (Notes 16 and 18)	**(1,996)**	(1,816)
Minimum lease payments recognised as an operating lease expense (Note 27)	**(882)**	(803)
Gain on revaluation of derivative financial instrument (Notes 17 and 31)	**93**	—

Notes to the financial statements continued

11. Employee benefits expense

The average monthly number of employees during the year was:	Group 2017 No.	Company 2017 No.	Group 2016 No.	Company 2016 No.
Executive directors	**5**	**5**	6	6
Consultants	**116**	**100**	96	78
Administrators	**245**	**215**	231	196
Support staff	**187**	**166**	149	133
	553	**486**	482	413

Staff costs for the above persons were:	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Wages and salaries	**24,302**	**21,447**	20,857	18,226
Social security costs	**3,341**	**3,041**	2,629	2,446
Pension costs and life insurance	**503**	**361**	746	336
Other staff costs	**565**	**550**	320	330
	28,711	**25,399**	24,552	21,338

In addition, the cost of share based payments disclosed separately in the consolidated statement of comprehensive income was £1,901,936 (2016: £1,594,418).

Directors' remuneration:	2017 £000	2016 £000
Emoluments	**3,243**	3,433
Company contributions to personal pension schemes	**56**	68
Benefits in kind	**41**	36
	3,340	3,537

The amounts in respect of the highest paid director are as follows:	2017 £000	2016 £000
Emoluments	**1,077**	943
Company contributions to personal pension schemes	**—**	—
	1,077	943

Details of the remuneration payable to each director in respect of the year ended 31 May 2017 is disclosed in the Directors' Remuneration Report on page 40. Six directors (2016: six) accrued benefits under personal pension schemes, or through an equivalent cash award when they have reached their maximum lifetime allowance. During the year 209,813 share options were issued to directors (2016: 235,223) and five directors exercised 288,951 share or cash settled share options (2016: nil). No cash settled options were issued to directors during the year (2016: nil).

12. Income tax

The major components of income tax expense for the years ended 31 May 2017 and 2016 are:

Consolidated statement of comprehensive income	2017 £000	2016 £000
Current tax	**1,873**	1,968
Over provision in prior periods	**(169)**	(27)
	1,704	1,941
Deferred tax credit	**(289)**	(516)
Adjustments in respect of change in tax rate	**(154)**	(359)
Adjustments in respect of prior periods	**32**	(20)
Income tax expense reported in the statement of comprehensive income	**1,293**	1,046

For the year ended 31 May 2017, current tax recognised directly in equity was £237,480 (2016: £149,471). Deferred tax recognised directly in equity was £51,921 (2016: £60,799).

Factors affecting the tax charge for the period

The tax charge assessed for the period is lower (2016: lower) than the standard rate of corporation tax in the UK of 19.83% (2016: 20.00%). The differences are explained below:

	2017 £000	2016 £000
Accounting profit before income tax	**7,649**	6,291
Multiplied by standard rate of UK corporation tax of 19.83% (2016: 20.00%)	**1,517**	1,258
Effects of:		
Expenses not deductible for tax	**509**	211
Income not taxable	**(443)**	—
Deferred tax on share options	**—**	(24)
Under/(over) provision in prior periods	**(137)**	(27)
Deferred tax in respect of prior periods	**—**	(20)
Effects of changes in tax rates	**(154)**	(352)
Effects of other tax rates	**1**	—
Income tax expense for the year	**1,293**	1,046
Effective income tax rate	**16.9%**	16.6%

The UK Government reduced the rate of corporation tax from 21% to 20% with effect from 1 April 2015. Changes to the UK corporation tax rates were enacted as part of the Finance (No.2) Act 2015 which received Royal Assent on 18 November 2015, including the reduction of the main rate of corporation tax to 19% from 1 April 2017. A further reduction to 17% from 1 April 2020 was enacted in the Finance Act 2016 on 23 September 2016 and hence UK deferred tax has been recognised at 17%.

Deferred income tax

Deferred income tax at 31 May relates to the following:

Group	2017 £000	2016 £000
Deferred income tax liability		
Temporary differences on acquired intangibles	**(3,535)**	(3,707)
Temporary differences on accelerated capital allowances	**(48)**	(17)
Temporary differences on derivative financial assets	**(17)**	—
Deferred tax liability	**(3,600)**	(3,724)
Deferred income tax asset		
Temporary differences on provisions	**91**	92
Temporary differences on share based payments	**707**	645
Deferred tax asset	**798**	737
Net deferred tax liability	**(2,802)**	(2,987)

Reflected in the statement of financial position as follows:		
Deferred tax assets	**798**	737
Deferred tax liabilities	**(3,600)**	(3,724)
Net deferred tax liability	**(2,802)**	(2,987)

Notes to the financial statements continued

12. Income tax continued

Company	2017 £000	2016 £000
Deferred income tax liability		
Temporary differences on acquired intangibles	**(2,632)**	(2,110)
Temporary differences on accelerated capital allowances	**(43)**	(17)
Temporary differences on derivative financial asset	**(17)**	—
Deferred tax liability	**(2,692)**	(2,127)
Deferred income tax asset		
Temporary differences on provisions	**71**	86
Temporary differences on share based payments	**706**	645
Deferred tax asset	**777**	731
Net deferred tax liability	**(1,915)**	(1,396)

Reflected in the statement of financial position as follows:	2017 £000	2016 £000
Deferred tax assets	**777**	731
Deferred tax liabilities	**(2,392)**	(2,127)
Net deferred tax liability	**(1,915)**	(1,396)

There are no income tax consequences for the Group attaching to the payment of dividends by Mattioli Woods plc to its shareholders in either 2016 or 2017.

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 2017 are summarised as follows:

Deferred tax in statement of comprehensive income	2017 £000	2016 £000
Deferred tax on share options	**(38)**	(107)
Deferred tax on capital allowances	**(18)**	(16)
Deferred tax on derivative financial asset	**(17)**	—
Under provision for capital allowances in prior period	**32**	—
Deferred tax on provisions	**1**	(180)
Overprovision for provisions in prior period	**(4)**	(20)
Deferred tax on amortisation of client portfolios	**(66)**	(205)
Deferred tax on intangible assets	**(185)**	(8)
Under provision for intangibles	**1**	—
Effect of changes in the standard rate of tax	**(151)**	(359)
Deferred tax movement	**(445)**	(895)

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

Deferred tax reconciliation	2017 £000	2016 £000
Opening net deferred tax liability	**(2,987)**	(1,917)
Movement recognised in the statement of comprehensive income	**433**	876
Deferred tax movement recognised in equity	**52**	21
Deferred tax arising on acquisitions	**(278)**	(2,027)
Adjustment in respect of prior period	**(32)**	60
Closing net deferred tax liability	**(2,802)**	(2,987)

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:

	2017 £000	2016 £000
Net profit and diluted net profit attributable to equity holders of the Company	**6,356**	5,245
Weighted average number of ordinary shares:	**000s**	000s
Issued ordinary shares at start period	**25,205**	20,372
Effect of shares issued during the year ended 31 May 2016	**—**	4,430
Effect of shares issued during the year ended 31 May 2017	**455**	258
Basic weighted average number of shares	**25,660**	25,060
Effect of dilutive options at the statement of financial position date	**101**	90
Diluted weighted average number of shares	**25,761**	25,150

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 2017 the conditions attached to 777,480 options granted under the LTIP were not satisfied (2016: 696,574). If the conditions had been satisfied, diluted earnings per share would have been 24.0p per share (2016: 20.3p).

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 38,011 ordinary shares to satisfy the exercise of options under the Consultants' Share Option Plan;
» The issue of 19,352 ordinary shares under the Mattioli Woods plc Share Incentive Plan; and
» The issue of 9,819 ordinary shares to satisfy the exercise of options under the LTIP.

14. Dividends paid and proposed

	2017 £000	2016 £000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
– Final dividend for 2016: 8.65p (2015: 7.16p)	**2,187**	1,790
– Interim dividend for 2017: 4.7p (2016: 3.85p)	**1,203**	964
Dividends paid	**3,390**	2,754
Proposed for approval by shareholders at the AGM:		
Final dividend for 2017: 9.4p (2016: 8.65p)	**2,432**	2,187

Notes to the financial statements continued

15. Property, plant and equipment

Group	Assets under construction £000	Computer and office equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Gross carrying amount:					
At 1 June 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
Arising on Acquisitions	—	14	4	—	18
Additions	7,438	443	106	462	8,449
Disposals	—	(75)	(98)	(320)	(493)
At 31 May 2017	**7,438**	**2,024**	**930**	**1,211**	**11,603**
Depreciation:					
At 1 June 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
Charged for the year	—	306	80	220	606
On disposals	—	(51)	(87)	(168)	(306)
At 31 May 2017	**—**	**977**	**576**	**379**	**1,932**
Carrying amount:					
At 31 May 2017	**7,438**	**1,047**	**354**	**832**	**9,671**
At 31 May 2016	—	920	335	742	1,997
At 31 May 2015	—	534	374	522	1,430

Company	Leasehold improvements £000	Computer and office equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Gross carrying amount:					
At 1 June 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
Transfer from group companies	—	45	20	—	65
Additions	56	437	48	463	1,004
Disposals	—	(74)	(98)	(321)	(493)
At 31 May 2017	**56**	**1,868**	**796**	**1,202**	**3,922**
Depreciation:					
At 1 June 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
Charged for the year	1	301	78	216	596
On disposals	—	(51)	(88)	(166)	(305)
At 31 May 2017	**1**	**838**	**501**	**373**	**1,713**
Carrying amount:					
At 31 May 2017	**55**	**1,030**	**295**	**829**	**2,209**
At 31 May 2016	—	872	315	737	1,924
At 31 May 2015	—	534	374	522	1,430

Notes to the financial statements continued

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 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
Arising on acquisitions	—	—	1,522	869	—	2,391
Additions	155	461	—	23	—	639
At 31 May 2017	**1,589**	**1,541**	**33,354**	**17,253**	**35**	**53,772**
Amortisation and impairment:						
At 1 June 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
Amortisation during the year	145	114	1,737	—	—	1,996
At 31 May 2017	**494**	**671**	**8,128**	**—**	**35**	**9,328**
Carrying amount:						
At 31 May 2017	**1,095**	**870**	**25,226**	**17,253**	**—**	**44,444**
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

Company	Internally generated software £000	Software £000	Client portfolios £000	Goodwill £000	Total £000
Gross carrying amount:					
At 1 June 2015	1,051	766	19,658	10,771	32,246
Transfer from group companies	—	—	909	—	909
Additions	383	207	—	—	590
At 31 May 2016	1,434	973	20,567	10,771	33,745
Transfer from Group companies	—	—	4,693	4,120	8,813
Additions	155	457	—	—	612
At 31 May 2017	**1,589**	**1,430**	**25,260**	**14,891**	**43,170**
Amortisation and impairment:					
At 1 June 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
Amortisation during the year	145	106	1,404	—	1,655
At 31 May 2017	**494**	**591**	**5,342**	**—**	**6,427**
Carrying amount:					
At 31 May 2017	**1,095**	**839**	**19,918**	**14,891**	**36,743**
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

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 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
Investment in Old Station Road Holdings Limited	—	2,385
Investment in MC Trustees (Pensions)	—	1,000
At 31 May 2017	**—**	**18,572**

Notes to the financial statements continued

17. Investments continued

Details of the investments in subsidiaries 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	Ordinary	100%	Dormant
Mayflower Trustees Limited	Ordinary	100%	Trustee company
Custodian Capital Limited ("CCL")	Ordinary	100%	Property and fund management
CP SSAS Trustees Limited	Ordinary	100%	Trustee company
CP SIPP Trustees Limited	Ordinary	100%	Trustee company
City Pensions Limited	Ordinary	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	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	Ordinary	100%	Trustee company
Mattioli Woods (New Walk) Limited	Ordinary	100%	Property development
Boyd Coughlan Limited	Ordinary	100%	Wealth management and employee benefits
Taylor Patterson Group Limited ("TPG") (formerly Lanson House Limited)	Ordinary	100%	Non-trading subsidiary
Taylor Patterson Associates Limited (held by TPG)	Ordinary	100%	Non-trading subsidiary
Taylor Patterson Financial Planning Limited (held by TPG)	Ordinary	100%	Non-trading subsidiary
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
Old Station Road Holdings Limited ("OSRHL")	Ordinary	100%	Holding company
M C Trustees (Pensions) Limited (held by OSRHL)	Ordinary and preference	100%	Pension administration

Subsidiary undertakings	Share class held	Voting rights and shares held	Nature of business
M C Trustees (Administration) Limited (held by OSRHL)	Ordinary	100%	Pension administration
MCT (Properties) Limited (held by OSRHL)	Ordinary	100%	Non-trading subsidiary
M C Trustees Limited (held by OSRHL)	Ordinary	100%	Trustee company
MC Nominees Limited (held by OSRHL)	Ordinary	100%	Dormant
Custodian Capital (105) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (101) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (102) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (103) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (105) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (103) EPUT Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Beech Properties) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Peak Resort) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Welbeck Land) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (The Square) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Belfast Expedia 3) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Belfast Expedia 2) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Belfast Bridging Finance) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Expedia) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Belfast Expedia 4) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (The Priest House Hotel) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Springhill Meadows) Limited (held by CCL)	Ordinary	100%	Trustee company
APUK14001 Limited (held by CCL)	Ordinary	100%	Trustee company
APUK14002 Limited (held by CCL)	Ordinary	100%	Trustee company
APUK15001 Limited (held by CCL)	Ordinary	100%	Trustee company
APUK15002 Limited (held by CCL)	Ordinary	100%	Trustee company
APUK15003 Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Residential Property Portfolio) Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Equity (Rotherhill) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Walrus) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Climbing the Walls 1) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (CITU) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
CITU (Investors) Limited (held by CCL)	Ordinary	100%	Trustee company

The principal place of business of all the subsidiaries is the United Kingdom.

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

Notes to the financial statements continued

17. Investments continued

Investment in associate

On 6 February 2017 the Group acquired 49% of the ordinary share capital of Amati Global Investors Limited ("Amati") from Amati Global Partners LLP plus an option over the remaining ordinary share capital of Amati for a total consideration of £3.39m, comprising £1.65m in cash and £1.74m of new ordinary shares in Mattioli Woods.

Amati is a fund management firm founded in 2010 by Paul Jourdan and Douglas Lawson following the management buyout of Noble Fund Managers Limited. It focuses on small and mid-sized companies, with a universe ranging from fully listed constituents of the FTSE Mid 250 and FTSE Small Cap indices, to stocks quoted on AIM. At the date of acquisition it managed £120m of funds, including the TB Amati UK Smaller Companies Fund: ("TB Amati"); two AIM Venture Capital Trusts - Amati VCT and Amati VCT 2; and an AIM IHT portfolio service. Amati's principal place of business is the United Kingdom.

The Group exercises significant influence by virtue of its contractual right to appoint a minority of directors to Amati's board of directors. The option held by the Group to acquire the remaining shares in Amati is not exercisable until 6 February 2019. In addition, the Group has no other rights which would allow it to exercise control over Amati's operations. Therefore, the Group is not judged to control Amati and it is not consolidated.

The movement in the Group's investment in associate is as follows:

Investment in associate – Group and Company	2017 £000	2016 £000
At 1 June	—	—
Investment in Amati Global Investor Limited	3,368	—
Share of profit for the period	120	—
Share of other comprehensive income	5	—
Amortisation of fair value intangibles	(17)	—
At 31 May	3,476	—

Other comprehensive income represents a movement in Amati's revaluation reserve recognised directly in equity.

The results of Amati from the date of acquisition and its aggregated assets and liabilities as at 31 May 2017 are as follows:

Name	Country of incorporation	Assets £000	Liabilities £000	Revenue £000	Profit £000	Interest held
Amati Global Investors Limited	Scotland	1,832	468	781	245	49%
Group's share of profit					120	

The net assets of Amati as at the date of investment were £1,108,749. At 31 May 2017 the net assets of Amati had increased by £255,632 to £1,364,382, increasing the Group's interest in the associate by £125,260 during the period.

Derivative financial instruments

The fair value of the option contract at the date of acquisition was £16,859. At 31 May 2017, the fair value of the option contract was £109,974 (2016: £nil) (Note 21). The fair value of the option contract is calculated using an option valuation model (Note 31).

Other investments	Group £000	Company £000
At 1 June 2015	129	129
Impairment	(67)	(67)
Revaluation	1	1
Additions	16	16
At 31 May 2016	79	79
Revaluation	7	7
At 31 May 2017	**86**	**86**

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 2017 the Company's investment in Mainsforth was valued at £nil (2016: £nil).

At 1 June 2016 the Company owned 9.40% of the shareholding in MW Properties (No.25) Limited ("MWPS25"), acquired at a total cost of £90,769. MWPS25 owns part of the Development Land. At 31 May 2017 these shares are included within investments at a value of £24,402 (2016: £22,798), with an increase in value of £834 recognised in the statement of comprehensive income during the period (2016: £67,202 impairment).

At 1 June 2016 the Company owned 2.04% of the shareholding in MW Properties (Huntingdon Non-Geared) Limited, acquired at a total cost of £14,956. The company is incorporated in England and Wales and its principal activity is investment in real estate. At 31 May 2017 these shares are included within investments at a value of £14,787 (2016: £14,956), with an impairment of £169 recognised in the statement of comprehensive income during the period (2016: £nil).

Notes to the financial statements continued

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 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
Arising on acquisitions	869	—	—	—	869
Other adjustments	7	13	—	3	23
Reallocation	—	814	—	(814)	—
At 31 May 2017	**5,697**	**7,712**	**188**	**3,656**	**17,253**

Company	Pension consultancy and admin £000	Investment and asset management £000	Property management £000	Employee benefits £000	Total £000
At 1 June 2015 and 1 June 2016	3,510	3,456	188	3,617	10,771
Transferred from Group companies	1,318	2,471	—	331	4,120
Reallocation	—	814	—	(814)	—
At 31 May 2017	**4,828**	**6,741**	**188**	**3,134**	**14,891**

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 2017 of 819.5p, giving a market capitalisation of £211.3m. Comparing this to the net asset value of the Group of £72.6m, the directors believe the value of goodwill is not impaired at 31 May 2017.

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 2017 using a terminal growth rate of 2.5% (2016: 2.5%), which management considers conservative against actual average long-term growth rates, and discounting at a pre-tax discount rate of 6.9%.

The value in use calculated at 31 May 2017 was £149.5m. 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 2017. This accounting treatment resulted in an impairment loss of £nil (2016: £nil).

19. Share based payments

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 2016 No.	Exercised during the year No.	**At 31 May 2017 No.**
4 September 2007	2.79	68,113	(30,102)	**38,011**
8 September 2009	2.16	75,812	(13,470)	**62,342**
		143,925	(43,572)	**100,353**

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 year, 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 2017 Equity-settled No.**	**31 May 2017 Cash-settled No.**	31 May 2016 Equity-settled No.	31 May 2016 Cash-settled No.
Outstanding as at 1 June	**696,574**	**266,650**	410,032	266,650
Granted during the year	**294,340**	**—**	292,574	—
Exercised during the year	**(183,269)**	**(148,149)**	—	—
Forfeited during the year	**(200)**	**—**	(6,032)	—
Outstanding at 31 May	**807,445**	**118,501**	696,574	266,650
Exercisable at 31 May	**29,965**	**—**	—	—

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 94,392 (2016: 99,972) new ordinary shares were issued to the 308 (2016: 218) employees who participated in the SIP during the year. At 31 May 2017 the SIP held 553,658 (2016: 508,218) shares on their behalf.

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 2017 is £1,610,790 (2016: £1,351,505), of which £949,395 arises from equity-settled share based payment transactions (2016: £595,665) and £661,395 arises from cash-settled share based payment transactions (2016: £755,841).

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 2017 was £nil (2016: £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 23). The expense recognised during the year ended 31 May 2017 is £291,146 (2016: £242,913), which arises entirely from equity-settled share based payment transactions.

Notes to the financial statements continued

19. Share based payments continued

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	2017 No.	2017 WAEP £	2016 No.	2016 WAEP £
Outstanding as at 1 June	**840,499**	**0.43**	835,295	1.17
Granted during the year	**294,340**	**0.01**	292,574	0.01
Exercised	**(226,841)**	**1.57**	(281,338)	2.19
Forfeited during the year	**(200)**	**0.01**	(6,032)	—
Outstanding at 31 May	**907,798**	**0.27**	840,499	0.43
Exercisable at 31 May	**130,318**	**1.85**	143,925	2.46

The weighted average share price at the date of exercise for share options exercised during the year was £7.31 (2016: £5.48). For the share options outstanding as at 31 May 2017, the weighted average remaining contractual life is 4.0 years (2016: 4.0 years). The WAEP for options outstanding at the end of the year was £0.27 (2016: £0.43), 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 following table lists the inputs to the model used to estimate the fair value of options granted during the year ended 31 May 2017:

	LTIP
Share price at date of grant	£6.55
Option exercise price	£0.01
Expected life of option (years)	4.5
Expected share price volatility (%)	17.5
Dividend yield (%)	2.21
Risk-free interest rate (%)	0.81

The share price at date of grant for options issued under the LTIP is based on the market value of the shares on that date. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The share price at 31 May 2017 and movements during the year are set out in the Directors' Remuneration Report.

20. Trade and other receivables (current)

	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Trade receivables due from Group companies	**—**	**9,159**	—	1,824
Other trade receivables	**5,970**	**5,662**	5,459	5,039
Other receivables	**981**	**173**	255	148
Prepayments and accrued income	**8,741**	**7,773**	7,781	6,999
	15,692	**22,767**	13,495	14,010

Trade receivables due from related parties are recognised at amortised cost and eliminate on consolidation. Other receivables include Directors' loans of £2,553 (2016: £nil). For terms and conditions relating to related party loans, refer to Note 29. 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 2017, 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 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
As at 1 June	**701**	**695**	678	678
Transferred from Group companies	**—**	**1**	—	—
Charge/(release) for year	**316**	**212**	88	88
Utilised during the year	**(84)**	**(45)**	(78)	(71)
Acquired on acquisition	**118**	**—**	13	—
At 31 May	**1,051**	**863**	701	695

At 31 May 2017, 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
2017	**5,970**	**2,382**	**1,684**	**731**	**397**	**776**
2016	5,459	2,450	1,260	612	456	681

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

21. Derivative financial asset

	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Derivative financial asset (Notes 17 and 31)	**110**	**110**	—	—
	110	**110**	—	—

The only derivative financial instrument held by the Group is an option contract over shares in the Group's associate. The option contract is carried at fair value.

22. Cash and short-term deposits

For the purpose of the statement of cashflows, cash and cash equivalents comprise the following at 31 May 2017:

	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Cash at banks and on hand	**22,979**	**12,172**	29,809	21,381
Bank overdrafts	**—**	**—**	—	—
Cash and cash equivalents	**22,979**	**12,172**	29,809	21,381

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 £23.0m (2016: £29.8m).

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 continued

23. Issued capital and reserves

Share capital	Ordinary shares of 1p	Ordinary shares of 1p £
Authorised		
At 1 June 2015, 31 May 2016 and 31 May 2017	**30,000,000**	**300,000**
Issued and fully paid		
At 1 June 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
Exercise of employee share options	226,841	2,268
Shares issued under the SIP	94,392	944
Shares issued for consideration	262,508	2,625
At 31 May 2017	**25,789,164**	**257,891**

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;
» 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 former shareholder of Old Station Road Holdings Limited ("the MCT Seller") has 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 38,081 ordinary shares in Mattioli Woods during the two years ending 6 September 2018; and
» The former shareholders of Amati Global Investors Limited ("the Amati 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 224,427 ordinary shares in Mattioli Woods during the two years ending 7 February 2019.

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 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
Reserve transfer	—	—	(309)	—	309
Share based payments	—	—	949	—	—
Shares issued under the SIP	699	—	—	—	—
Shares issued as initial consideration for MC Trustees	—	250	—	—	—
Shares issued as initial consideration for 49% interest in Amati	1,737	—	—	—	—
Shares issued on exercise of options	113	—	—	—	—
Current tax taken to equity	—	—	237	—	—
Deferred tax taken to equity	—	—	52	—	—
Profit for the financial year	—	—	—	—	6,356
Dividends paid	—	—	—	—	(3,390)
Share of other comprehensive income from associated company	—	—	—	—	5
At 31 May 2017	**30,314**	**8,781**	**2,571**	**2,000**	**28,671**

Notes to the financial statements continued

23. Issued capital and reserves continued

Company	Share premium £000	Merger reserve £000	Equity – share based payments £000	Capital redemption reserve £000	Retained earnings £000
At 1 June 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
Reserve transfer	—	—	(309)	—	309
Share based payments	—	—	949	—	—
Shares issued as initial consideration for MC Trustees	—	250	—	—	—
Shares issued as initial consideration for 49% interest in Amati	1,737	—	—	—	—
Shares issued under the SIP	699	—	—	—	—
Shares issued on exercise of options	113	—	—	—	—
Deferred tax recognised in equity	—	—	52	—	—
Profit for the financial year	—	—	—	—	4,481
Dividends paid	—	—	—	—	(3,390)
Current tax charge taken to equity	—	—	237	—	—
Share of other comprehensive income from associated company	—	—	—	—	5
At 31 May 2017	**30,314**	**8,781**	**2,571**	**2,000**	**23,892**

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 less options exercised.
Retained earnings	All other net gains and losses and transactions with owners (e.g. dividends) not recognised elsewhere.

24. 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 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Cash receipts from customers	**48,514**	**31,128**	42,441	32,101
Cash paid to suppliers and employees	**(38,050)**	**(31,111)**	(30,653)	(25,621)
Cash generated from operations	**10,464**	**17**	11,788	6,480

25. Trade and other payables

Trade and other payables (current)	Group 2017 £000	Company 2017 £000	Group 2016 £000	Company 2016 £000
Trade payables due to related parties	**—**	**42**	—	42
Other trade payables	**2,035**	**1,260**	1,360	628
Other taxation and social security	**1,523**	**1,449**	2,002	1,711
Other payables	**400**	**279**	326	315
Accruals and deferred income	**8,904**	**7,471**	6,359	5,701
	12,862	**10,501**	10,047	8,397

Trade payables due to related parties eliminate on consolidation.

Other payables include Directors' loans of £nil (2016: £940). For terms and conditions relating to related party loans, refer to Note 29. 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.

26. 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	Total £000
At 1 June 2016	5,800	532	413	308	624	152	1,263	9,092
Unwinding of discount	242	—	—	—	—	—	31	273
Arising during the year	890	510	90	132	419	—	661	2,702
Acquisitions (Note 3)	—	63	30	—	—	—	—	93
Paid during the year	(2,250)	(387)	—	—	(306)	—	(1,111)	(4,054)
Unused amounts reversed	(264)	(191)	(16)	(316)	—	(77)	—	(864)
At 31 May 2017	**4,418**	**527**	**517**	**124**	**737**	**75**	**844**	**7,242**
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
Current 2017	**2,830**	**527**	**—**	**124**	**—**	**75**	**844**	**4,400**
Non-current 2017	**1,588**	**—**	**517**	**—**	**737**	**—**	**—**	**2,842**
At 31 May 2017	**4,418**	**527**	**517**	**124**	**737**	**75**	**844**	**7,242**

Notes to the financial statements continued

26. Financial liabilities and provisions continued

Company	Loan note £000	Contingent consideration £000	Client claims £000	Dilapidations £000	Clawbacks £000	Employers' NIC on share options £000	Onerous contracts £000	LTIP cash liability £000	Total £000
At 1 June 2016	—	5,800	457	350	294	624	118	1,263	8,906
Unwinding of discount	—	242	—	—	—	—	—	31	273
Arising during the year	8,525	890	489	90	127	419	—	661	11,201
Transfer from Group companies	—	—	50	62	1	—	35	—	148
Paid during the year	—	(2,250)	(353)	—	—	(306)	—	(1,111)	(4,020)
Unused amounts reversed	—	(264)	(191)	(15)	(316)	—	(78)	—	(864)
At 31 May 2017	**8,525**	**4,418**	**452**	**487**	**106**	**737**	**75**	**844**	**15,644**
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
Current 2017	**—**	**2,830**	**452**	**—**	**106**	**—**	**75**	**844**	**4,307**
Non-current 2017	**8,525**	**1,588**	**—**	**487**	**—**	**737**	**—**	**—**	**11,337**
At 31 May 2017	**8,525**	**4,418**	**452**	**487**	**106**	**737**	**75**	**844**	**15,644**

For terms and conditions relating to related party loan notes, refer to Note 29.

Loan notes due to subsidiary undertakings
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.

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 £2.8m (2016: £2.3m).

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%.

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.

27. 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 £148,000;
» 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;
» Investment House, 22-26 Celtic Court, Ballmoor, Buckingham, which expires on 11 April 2022. The annual rental is £35,000;
» Glasgow, 120 West Regent Street, which expires on 31 January 2022. The annual rent is £48,844 plus £2,500 per annum for car parking;
» Manchester (Fully serviced office), 13th Floor, Piccadilly Plaza, License expires on 31 October 2017, the annual rent is £16,200;
» London, 3rd Floor, 87/89 Baker Street, Lease expires on 31 October 202. The annual rent is £92,500; and
» Solihull, Enterprise House, Unit 1, 2 & 3, lease expires on 13 June 2022, with a break on 14 June 2019. The annual rent is £63,434.

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	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Not later than one year	**1**	2	**867**	706
After one year but not more than five years	**1**	2	**3,052**	1,724
More than five years	**—**	—	**966**	1,130
	2	4	**4,885**	3,560

	Office equipment		Land and buildings	
Company	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Not later than one year	**1**	2	**804**	627
After one year but not more than five years	**1**	2	**2,798**	1,476
More than five years	**—**	—	**964**	1,057
	2	4	**4,566**	3,160

Group operating lease charges during the year were £863,044 (2016: £797,604) for land and buildings and £18,553 (2016: £5,685) for office equipment.

Capital commitments

At 31 May 2017 the Group had capital commitments amounting to £7.6m (2016: £14.0m). In August 2015, Mattioli Woods (New Walk) Limited entered into a development agreement with Ingleby (1245) Limited, a company owned and controlled by Sowden Group Limited to build a new 50,000 square foot office on the site of the former Leicester City Council 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.

There are pre-existing conditions retained by Leicester City Council over the transfer of title of the land to Mattioli Woods, which the directors are confident will be satisfied on completion of the development.

Sponsorship agreement

In July 2016, the Group entered in to a three-year sponsorship agreement with rugby giants Leicester Tigers to strengthen the Group's brand awareness. The agreement includes 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. As at 31 May 2017 this agreement still had just over two years to run.

Notes to the financial statements continued

27. Commitments and contingencies continued

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 27).

In-specie pension contributions

As has been widely reported in the media, HMRC has recently challenged all SIPP providers on whether pension contributions could be made in-specie. As a result there are a number of tax relief claims made on behalf of our clients that have been challenged and we expect to receive assessment notices which could amount to £0.9m. These will be appealed.

Irrespective of the result of HMRC's claims, the impact on the financial position of the Group is expected to be neutral.

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 2017.

28. 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 £435,056 (2016: £390,510).

29. Related party disclosures

Loan notes due to subsidiary undertakings

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 in exchange for loan notes. The loan notes attract annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

Custodian REIT plc

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

The Company's Chief Executive Officer, Ian Mattioli, is a non-independent Non-Executive Director of Custodian REIT and the Company's Chief Financial Officer and Company Secretary, Nathan Imlach, is Company Secretary of Custodian REIT. Ian Mattioli received £27,500 (2016: £27,083) 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, Nathan Imlach, Alan Fergusson, Richard Shepherd-Cross (the Managing Director of Custodian Capital) and the private pension schemes of Ian Mattioli, Nathan Imlach, Richard Shepherd-Cross, Murray Smith, Mark Smith, Alan Fergusson, Joanne Lake and Carole Duncumb have a beneficial interest in Custodian REIT.

During the year the Group received revenues of £3.3m (2016: £2.6m) in respect of annual management charges, administration and marketing fees from Custodian REIT. Custodian REIT owed the Group £13,377 at 31 May 2017 (2016: £nil).

During the year the Group paid rent of £348,000 (2016: £348,000) in respect of its office premises at MW House and Gateway House, Leicester where Custodian REIT is the lessor.

Amati Global Investors Limited

On 6 February 2017 the Company purchased 49% of the issued share capital of Amati Global Investors Limited ("Amati"). The Company has also entered into an option agreement to acquire the remaining 51% of the issued share capital of Amati in the two years commencing 6 February 2019 for a mixture of cash and Mattioli Woods' ordinary shares.

Three of the Company's senior management team were appointed to the board of Amati on the date of investment. Ian Mattioli is Deputy Chairman, the Group's Chief Investment Officer, Simon Gibson, is a Non-Executive Director and Chief Operating Officer, Mark Smith is an Executive Director. During the year each of these individuals were paid £1,592 of directors' fees by Amati.

Gateley (Holdings) Plc
The Company's Chairman, 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 £87,425 (2016: £95,061) in respect of corporate legal services provided to the Group and its subsidiaries. In addition, the Group received revenues of £43,462 (2016: £6,400) in respect of employee benefits services provided to Gateley plc during the year.

Worldwide Broker Network Limited
The Company's Managing Director Employee Benefits, Alan Fergusson, is an executive director of Worldwide Broker Network Limited. Worldwide Broker Network Limited is the holding company of Worldwide Broker Network (US) Inc., an international network of financial services introducers. During the year, the Group paid £19,803 (2016: £17,840) to Worldwide Broker Network (US) Inc. in respect of network membership fees.

Vista Insurance Brokers Limited
Vista Insurance Brokers Limited, a broker of insurance products, is party to a dormant joint venture agreement with the Company. The Group received revenues of £3,748 (2016: £4,850) in respect of employee benefits services provided to Vista Insurance Brokers Limited during the year.

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 those Executive Directors that served throughout the year and 16 (2016: 16) other executives, received total compensation of £6.8m for the year ended 31 May 2017 (2016: £6.9m). Total compensation is included in "employee benefits expense" and analysed as follows:

	2017 £000	2016 £000
Wages and salaries	**5,548**	5,846
Social security costs	**977**	782
Pension	**109**	191
Benefits in kind	**139**	117
	6,773	6,936

In addition, the cost of share based payments disclosed separately in the statement of comprehensive income was £0.8m (2016: £1.2m).

Transactions with other related parties
At 31 May 2017, Ian Mattioli owed £2,553 to the Company (2016: £nil was owed to the Company). This Director's expense account carries no coupon and has no fixed repayment date.

During the year, fees of £4,230 (2016: £3,330) were paid to Jane Woods, wife of Bob Woods, in respect of support services performed for Mattioli Woods.

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 Mattioli Woods Balanced Fund (formerly FP Thoroughbred Alpha Fund)
The Company is the investment manager of the FP Mattioli Woods Balanced 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 2017 the Group held an investment with a market value of £46,959 (2016: £40,860) in the FP Mattioli Woods Balanced Fund.

Notes to the financial statements continued

30. 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 2017 the value of financial instruments on the Group's statement of financial position exposed to interest rate risk was £23.0m (2016: £29.8m) 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
2017		
£ Sterling	+100	**155**
£ Sterling	-100	**(155)**
2016		
£ Sterling	+100	244
£ Sterling	-100	(244)

(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 2017, the fair value of investments and derivative financial assets recognised on the Group's statement of financial position was £196,122 (2016: £79,405). 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's 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.

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 2017 and 2016 based on contractual undiscounted payments:

At 31 May 2017	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	—	12,862	—	—	—	12,862
Contingent consideration	40	1,241	1,549	1,588	—	4,418
	40	14,103	1,549	1,588	—	17,280

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

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 2017 was £72.6m (2016: £65.6m). 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 2017 the total regulatory capital requirement across the Group was £10.0m (2016: £8.5m) and the Group had an aggregate surplus of £9.7m (2016: £10.1m) 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.

Notes to the financial statements continued

31. 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:

Group and Company	Carrying amount as at 31 May 2017 £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 assets				
Derivative financial instruments	110	—	—	110
At 31 May 2017	**110**	**—**	**—**	**110**
Financial liabilities LTIP cash liability	844	—	844	—
Contingent consideration	4,418	—	—	4,418
At 31 May 2017	**5,262**	**—**	**844**	**4,418**

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

Derivative financial instruments

The fair value of the option contract is calculated using an option valuation model. The key assumptions used to value the option in the model are the value of shares in the associate (based on growth of funds under management and the valuation multiples of similar businesses), the option exercise price, the expected life of the option, the expected share price volatility of similar businesses, forecast dividends and the risk-free interest rate. Management has assessed that changing one or more of the key assumptions to reasonably possible alternatives would have an immaterial effect on the fair value of the contract.

The gain relating to the derivative financial instrument is included within 'operating profit'. There were no other gains or losses arising from changes in the fair value of financial instruments categorised as level 3 within the fair value hierarchy.

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 £4.4m (2016: £5.8m).

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 2017	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	**22,979**	—	—	—	—	—	**22,979**
Bank overdrafts	—	—	—	—	—	—	—

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	—	—	—	—	—	—	—

Company 31 May 2017	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	**12,172**	—	—	—	—	—	**12,172**
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	—	—	—	—	—	—	—

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.

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 2017, 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 £4.4m (2016: £5.8m).

32. Events after the reporting date

Taxation

On 15 September 2016 the Finance Bill 2016 received Royal Assent, therefore enacting proposals that were announced in the 2016 budget, Autumn Statement 2015 and Summer Budget 2015. The rate of corporation was 20% from April 2015. This reduced to 19% from April 2017 and will reduce to 17% 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 the Group's deferred tax assets and liabilities in the Group's statement of financial position.

33. Ultimate controlling party

The Company has no controlling party.

Company information

Directors:	Joanne Lake Ian Mattioli MBE Nathan Imlach Murray Smith Carol Duncumb Anne Gunther	Non-Executive Chairman Chief Executive Officer Chief Financial Officer Group Managing Director Non-Executive Director Non-Executive Director
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** 25 Farringdon Street London EC4A 4AB	
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	

Five year summary

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Revenue	**50,533**	42,950	34,565	29,347	23,405
Employee benefits expense	**(28,711)**	(24,552)	(20,042)	(16,857)	(12,832)
Other administrative expenses	**(9,465)**	(7,807)	(6,604)	(5,423)	(4,693)
Share based payments	**(1,902)**	(1,594)	(790)	(386)	(102)
Loss on disposal of property, plant and equipment	**(61)**	(56)	(44)	(64)	(23)
Share of profit from associates	**103**	—	—	—	—
EBITDA	**10,497**	8,941	7,085	6,617	5,755
Acquisition-related costs	**378**	339	272	157	175
Adjusted EBITDA	**10,875**	9,280	7,357	6,774	5,930
Amortisation and impairment	**(1,996)**	(1,816)	(1,279)	(1,176)	(854)
Depreciation	**(606)**	(497)	(387)	(367)	(304)
Operating profit before financing	**7,895**	6,628	5,419	5,074	4,597
Net financing (costs)/income	**(246)**	(337)	(129)	41	41
Profit before tax	**7,649**	6,291	5,290	5,115	4,638
Income tax expense	**(1,293)**	(1,046)	(1,268)	(834)	(1,031)
Profit for the year	**6,356**	5,245	4,022	4,281	3,607
Assets under management, administration and advice (£m)	**7,771.6**	6,605.9	5,410.4	4,626.2	3,644.3
Headline debtors' ratio (days)	**39.5**	46.4	52.2	54.9	51.5
External client loss rate	**2.1%**	2.4 %	2.8%	3.2%	3.6%
EBITDA margin	**20.8%**	20.8%	20.5%	22.6%	24.6%
Adjusted EBITDA margin	**21.6%**	21.6%	21.3%	23.1%	25.3%
Basic EPS (pence)	**24.8**	20.9	19.4	21.5	19.2
Adjusted EPS (pence)	**34.1**	30.6	26.9	26.7	24.1
Dividends paid and proposed (pence)	**14.1**	12.5	10.5	9.1	7.0

Financial calendar

5 September 2017	Announcement of final results for the year ended 31 May 2017
21 September 2017	Ex-dividend date for ordinary shares
22 September 2017	Record date for final dividend
26 October 2017	Annual General Meeting
27 October 2017	Payment of final dividend on ordinary shares

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