Mattioli Woods plc

Annual Report 2018

Annual reporting is a key part of providing effective communication to our stakeholders. We are proud to present our latest results in this Report

Highlights

Welcome
to Mattioli Woods

Revenue £58.7m 2017: £50.5m +16.2%	EBITDA margin 21.6% 2017: 20.6%	Total client assets[1] £8.73bn 2017: £7.93bn +10.1%
EBITDA[2] £12.7m 2017: £10.4m +22.1%	Adjusted EBITDA[3] £12.5m 2017: £10.8m +15.7%	Profit before tax £9.8m 2017: £7.7m +27.3%
Basic EPS 31.2p 2017: 24.5p +27.3%	Adjusted EPS[4] 37.0p 2017: 33.3p +11.1%	Proposed total dividend 17.0p 2017: 14.1p +20.6%

Operational highlights and recent developments

- Reducing client costs while maintaining target EBITDA margin:
  - Lowered custody charges for all clients using our core investment platform
  - Gross discretionary AuM up **29.3%** to **£2.34bn** (2017: £1.81bn)
  - **£115.4m** (2017: £98.4m) inflows into the Mattioli Woods Structured Products Fund
  - **£103.8m** inflows into Amati funds
  - **£49.1m** (2017: £76.0m) of new equity raised by Custodian REIT
- **Over 1,300** (2017: 1,200) new clients chose the Group's services in year
- **134** (2017: 115) consultants at year end
- Recent acquisitions performing well
- Extending strategic geographic footprint:
  - Moved to new Manchester office in May 2018
  - Opening new Edinburgh office in September 2018
  - Moving to new Leicester office in October 2018
- Continued investment in technology, compliance and training

Financial highlights

- Organic revenue growth[5] of **15.6%** (2017: 11.6%)
- Recurring revenues[6] of **84.8%** (2017: 85.1%)
- Adjusted EBITDA margin of **21.3%** (2017: 21.4%)
- Strong financial position with net cash[7] of **£20.2m** (2017: £23.0m)

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

Contents

Mattioli Woods is one of the UK's leading providers of wealth management and employee benefit services, with total assets under management, administration and advice of over £8.7bn

1. Includes £286.0m (2017: £153.8m) of funds under management by the Group's associate, Amati Global Investors Limited, excluding £27.0m (2017: £12.1m) of Mattioli Woods' client investment and £12.1m (2017: £9.8m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.
2. Earnings before interest, taxation, depreciation, amortisation and impairment, excluding share of profit from associates.
3. Earnings before interest, taxation, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition-related costs, including share of profit from associates (net of tax).
4. Before acquisition–related costs, amortisation and impairment of acquired intangibles, changes in valuation of derivative financial instruments and notional finance income and charges.
5. Excluding acquisitions completed in the current and prior financial years.
6. Annual pension consultancy and administration fees; ongoing adviser charges; level and renewal commissions; banking income; property, discretionary portfolio and other annual management charges.
7. Excluding £3.5m of VAT reclaimed on behalf of and to be repaid to clients.

At a glance

Overview
of our business

Where we operate
Our clients benefit from the backing of the Mattioli Woods group while receiving a local, personalised service from each of our offices. The recent acquisition of Broughtons Financial Planning and a new office in Edinburgh give us new opportunities to grow and develop our client offering.

11
offices
Aberdeen
Edinburgh
Glasgow
Preston
Manchester
Leicester
Solihull
Birmingham
Newmarket
Buckingham
London

Number of employees
622
2017: 568
+9.5%

Our strategy

Read more on pages 8 and 9

1 **Expanding distribution channels**

2 **New client acquisition**

3 **New product development**

4 **Acquiring new businesses**

5 **Investing in our people and technology**

Our business areas

Wealth management
- Investment and asset management
- Pension consultancy and administration
- Property management

Employee benefits

At a glance

Our people

Our success is underpinned by dedicated, versatile and experienced individuals whose personal approach has fuelled sustained organic growth over our 27 year history. Most importantly, we are a team, working together to deliver great outcomes for our clients.

Our marketplace

Providing integrated services for individuals, we embrace pension consultancy that covers a strong specialism in both self-invested personal and small self-administered pension schemes, as well as personal investment and estate planning. For corporate clients, we provide a comprehensive range of employee benefits services, founded on a strong culture of client care.

Great client outcomes

A key difference between Mattioli Woods and many of our larger competitors is our hands-on, tailored approach to financial advice. There is a genuine focus on providing the highest level of personal advice and maintaining close relationships with all clients, which has led to high levels of satisfaction, retention and referrals.

Our goals

Ambitious medium-term goals:
- » £15bn total client assets
- » £100m revenue
- » 20% EBITDA margin

Investing for growth by:
- » broadening our proposition
- » increasing organic operations
- » integrating recent acquisitions

Lowering clients' total expense ratios:
- » lowering investment costs on model portfolios
- » reducing our charges
- » using the best of what we and others have

Our services

Guidance
for life

Birth and childhood

Education and workplace

Business start-up

Here are some examples of how our services are useful throughout your life...

Childhood pensions – Anyone can invest into a pension on behalf of a child if the plan is established by a parent or legal guardian. A simple (and affordable) yearly contribution will give a child/grandchild a fantastic starting position for their pension – and one that could almost set them up for life.

Trusts – When appropriate to their circumstances, we include trust planning as part of our clients' overall financial plans.

Junior ISAs – ISAs give increased flexibility for investment on behalf of minors and, ultimately, tax efficiency on death. When combined, the benefits of an ISA portfolio are becoming hard to ignore for many investors who may have overlooked them previously.

Financial education and wellbeing – An employee worrying about financial problems can cause them stress and, in some cases, lead to them taking time off. Through our employee benefits packages, we provide education to help staff plan their financial present and future.

School fees – We are seeing more and more clients planning for their children's futures. Whether it be for school or university, a plan made early enough can mitigate the often large costs of education.

Employee benefits – Delivering cost-effective and flexible packages, Mattioli Woods designs and provides benefits for companies employing anywhere from 10 to 10,000 employees.

Property – Our subsidiary company Custodian Capital facilitates direct property ownership on behalf of pension schemes and private clients and also manages the Mattioli Woods Private Investors Club.

Established business and maturity

Financial planning – At its best when integrated with asset management, financial planning is about dealing with the unknown – tax, protection for a catastrophic event, changes to one's family, and so on. The financial plans we build for our clients are for now as well as the future.

Loanbacks – with appropriate planning clients can access their pension assets to provide an alternative source of finance for their business.

Family life

Protection, Wills and Powers of Attorney – MWProtect is designed to support our clients' protection and estate planning needs. Protection planning provides cover for unexpected life events, because the financial implications surrounding illness or death can be significant. Our wills and powers of attorney service ensures our clients' wishes remain up to date and relevant.

Mortgage – We can manage mortgage applications from commencement until completion, handling all paperwork on our clients' behalf.

Retirement

Pensions – We provide retirement and pensions planning advice and support services including trusteeship, administration, consultancy and investment advice. We maintain our technical edge through our in-depth understanding of UK pension legislation, which translates into meaningful advice given to clients by our team of consultants.

Investments – We use a broad range of investment fund managers – from large well-known investment houses to small, boutique firms – as well as designing and building our own focused funds, ensuring high-quality diversified portfolios.

These are a selection of our services, for more information, please visit www.mattioliwoods.com

Operating segments

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.

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.

Segment revenue

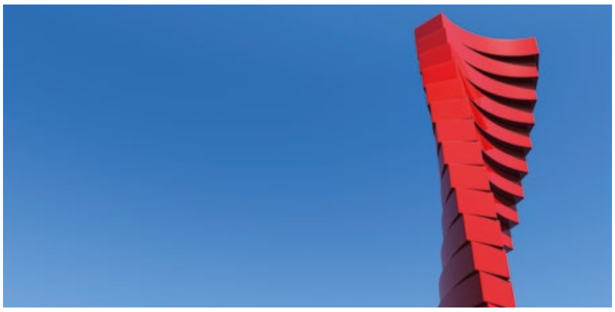
£21.8m

2017: £18.9m +15.3%

% of Group revenue

37.1%

2017: 37.4%



Investment and asset management
Discretionary management and the provision of bespoke investment advice sit at the heart of our investment proposition. In meeting our clients' investment needs we generally use third parties' funds, but where we have the particular expertise required we look to meet those needs in-house. This approach has led to the development of our Private Investors Club, Custodian REIT plc and the Mattioli Woods Structured Products Fund, in addition to the funds managed by our associate company Amati Global Investors Limited. Where appropriate, we intend to expand upon these opportunities in the future.

Continuing growth in the quantum of assets under management and advice has enhanced the quality of the Group's earnings by generating a high proportion of 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.

Segment revenue

£25.1m

2017: £21.0m +19.5%

% of Group revenue

42.7%

2017: 41.6%

We put our clients at the core 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.

Property management

Our subsidiary company Custodian Capital Limited ("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.

In addition, Custodian Capital is the discretionary fund manager of Custodian REIT plc, a UK real estate investment trust listed on the Main Market of the London Stock Exchange. 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.

Segment revenue

£5.9m

2017: £5.2m

+13.5%

% of Group revenue

10.1%

2017: 10.3%

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

£5.9m

2017: £5.4m

+9.3%

% of Group revenue

10.1%

2017: 10.7%

Business model and strategy

A platform
for sustainable growth

Our key drivers

- 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
- Developing 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 through strategic acquisitions
- Being proud of our charitable and community spirit, supporting staff and local and national charities

Clients at the core

1 Adviser

2 Asset manager

3 Product provider

4 Platform

5 Administrator

Our strategic aims

Organic growth

Our strategy remains focused on the pursuit of organic growth

Acquired growth

Organic growth is supported by acquisitions that enhance value and broaden our expertise and services

We are growing our business to deliver strong, sustainable shareholder returns over the long term.

We plan to continue developing complementary services around our core specialisms, blending advice, 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 clients' costs.

Our strategy for growth	Our strategy in action
Expanding distribution channels	134 consultants group-wide
New client acquisition	> 1,300 new clients during the year
New product development	Development and delivery of bespoke investment propositions
Acquiring new businesses	21 acquisitions completed since admission to AIM in 2005
Investing in our people and technology	Moved to cloud-based technology

Our risk management strategy
Read more on pages 38 and 39

Our high standards of corporate governance
Read more on page 34

Chairman's statement

Focussed
on delivering great client outcomes

"I am delighted with the performance of our business over the last financial year"

Joanne Lake
Non-Executive Chairman

Another year of growth

I am pleased to report another successful year of growth for Mattioli Woods, with a strong flow of organic new business from individuals and corporates choosing to use the range of specialist services we provide, coupled with continued demand for advice from existing clients. Revenue growth of 16.2% on the prior year translated into growth in Adjusted EPS[8] of 11.1% to 37.0 pence (2017: 33.3 pence).

We are proud of the strong shareholder returns we have delivered over many years 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 11.5 pence per share (2017: 9.4 pence). This makes a proposed total dividend for the year of 17.0 pence (2017: 14.1 pence), a year-on-year increase of 20.6%.

Our aim is to create a long-term sustainable business of which our clients, shareholders, people and suppliers are proud to be a part and the Group's recent achievements have been recognised with a number of professional awards for individual and corporate achievements. I would like to congratulate Paul Jourdan on being named best UK Smaller Companies Fund Manager at the FE Alpha Manager of the Year Awards in May, Mark Fuller and Ben Wattam on the Mattioli Woods' Structured Products Fund being named Retail Investment Product of the Year at the Risk Awards 2018 and Ian Mattioli on winning CEO of the Year at the 2018 City of London Wealth Management Awards. Other achievements included the Group winning Apprenticeship Employer of the Year at the 2017 Leicester Apprenticeship Hub Graduation Ceremony.

8 Basic EPS up 27.3% to 31.2p (2017: 24.5p).

Our strategy

Previously, we have set out our ambitions to grow revenue to £100m and total client assets to £15bn, while maintaining an EBITDA margin of 20%. As we work towards these goals our strategy remains focussed on the pursuit of organic growth, supplemented by strategic acquisitions that enhance value and broaden or deepen our expertise and services. Recent acquisitions are performing well and we were delighted to announce the acquisition of Broughtons Financial Planning last month. We continue to review a diverse pipeline of potential acquisition opportunities, believing further consolidation within our core markets remains likely.

Our focus remains on delivering great outcomes for our clients as we address their changing needs, with our ambition being to see our brand become an even stronger force in the UK financial services sector.

Our people

We are a business built on the integrity and expertise of our people. As an Investors in People company we are committed to developing our people and building the capacity to deliver sustainable growth. Over the past year our people have responded admirably as the business has evolved and the financial services industry continues to go through a period of unprecedented regulatory change, including the changes brought about by the Markets in Financial Instruments Directive II ("MiFID II"), the General Data Protection Regulation ("GDPR") and Packaged Retail and Insurance-Based Investment Products ("PRIIPs").

We are dedicated to maintaining our culture of putting clients first, encouraging a collegiate approach and preserving our integrity. I would like to thank all our staff for their continued commitment, enthusiasm and professionalism in dealing with our clients' affairs.

Governance and the board

During the year, as part of the Board's commitment to developing the corporate governance and management structures of the Group to ensure they continue to meet the changing needs of the business we undertook internal and external reviews of the effectiveness of the Board, its sub-committees and the Group's senior executive management framework. We 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.

As part of these changes, Mark Smith and Alan Fergusson stepped down from the Board in August 2017 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. We believe these changes give the business the optimal management structure to secure continued growth.

Shareholders

During the year we have engaged with shareholders through various channels, including company-hosted events, group meetings and one-to-one meetings. We are fortunate to have a number of supportive institutional shareholders with a significant investment in the Group and welcome opportunities to talk to all our shareholders, large and small. We will continue to maintain a regular and constructive dialogue with them, while seeking to broaden our shareholder base.

Outlook

We continue to invest in the Group as we look to build upon our success to date and grow our business both organically and through strategic acquisitions that share our culture and values. I am delighted with the performance of our business over the last financial year and believe we are well-positioned to progress further towards the ambitious longer-term goals we have set.

Joanne Lake
Non-Executive Chairman
3 September 2018

Chief Executive's review

Achievement
and evolution

"We continue to create a long-term sustainable business"

Ian Mattioli MBE
Chief Executive Officer

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

Introduction

I am pleased to report another year of strong and sustainable growth, with revenue for the year ended 31 May 2018 up 16.2% to £58.7m (2017: £50.5m). Organic revenue growth of 15.6% or £7.7m (2017: 11.6% or £4.4m) was primarily driven by the flow of new business generated by our consultancy team with over 1,300 new SIPP, SSAS and personal clients choosing Mattioli Woods during the year.

We continue to enjoy strong client retention and have seen sustained demand for advice from clients, driven by lifestyle, increasing longevity, tax and other legislative changes, including the pension freedoms that introduced more flexibility as to how and when people can access their pension savings.

Total client assets under management, administration and advice increased by over 10% to £8.73bn (2017: £7.93bn) and we continue to develop our investment and asset management proposition. Strong inflows of new money combined with positive investment performance to increase the Group's gross discretionary assets under management to £2.34bn (2017: £1.81bn) at the year end.

In meeting our clients' investment needs we generally use third parties' funds, but where we have the particular expertise required we look to meet those needs in-house. This approach has led to the development of our Private Investors Club, Custodian REIT plc ("Custodian REIT") and the Mattioli Woods Structured Products Fund, in addition to the funds managed by our associate company Amati Global Investors Limited ("Amati"). Where appropriate, we intend to expand upon these opportunities.

The value of assets held within our Discretionary Portfolio Management service increased by 17.5% to £1.34bn (2017: £1.14bn), of which £121.0m or 9.0% is invested within funds managed by the Group and its associates. We reduced the custody charge for all those clients using our core investment platform with effect from 1 August 2017, which coincided with the launch of our new range of multi asset funds designed to improve investment efficiency, administration and reporting for clients.

Prior to this, in June 2017 we renewed the terms of the Investment Management Agreement for Custodian REIT, the UK real estate investment trust managed by our subsidiary Custodian Capital, to secure both a cost reduction for investors and an important long-term revenue stream for the Group.

New Walk

27 years into the evolving story

"We have a soul. We have a culture. We have values. And our clients are absolutely at our core"

Ian Mattioli MBE
Chief Executive Officer

We're 27 years into the evolving Mattioli Woods story – and now set for the next 50 thanks to one of the biggest projects in our comparatively short, but proud history.

That's the significance of our move from the split-site premises we have now outgrown in Enderby to new purpose-built offices five miles away in Leicester city centre.

It will give us much-needed capacity to grow in line with our business aspirations and set Mattioli Woods at the heart of a vibrant, exciting community where we will be ideally placed to partner with so many of its prosperous companies.

It's a commitment to Leicester, where we were founded in 1991, but moreover to the very people who make us tick – our loyal and greatly valued staff and clients.

Our switch to New Walk has already prompted business commentators to herald it as a major coup for the city.

City mayor Peter Soulsby said the Company's decision to relocate to the 50,000 sq ft, glass-fronted offices would make Leicester "a great place to work and invest".

The new development – which also includes apartments and commercial premises – occupies the site of the former Leicester City Council headquarters, which was demolished amid concerns over its structural safety.

It forms an integral part of one of the city's most important gateways and lies a short distance from the Welford Road home of Mattioli Woods-sponsored Leicester Tigers.

Observers say it will breathe new life into an area that is a significant cornerstone of Leicester's business, academic and retail quarter.

Chief Executive Officer Ian Mattioli MBE said the move was a statement of the Company's intent to be "a long-term, sustainable business".

"It gives us the opportunity and scope to grow for the next 50 years and beyond", he said.

Chief Executive's review
continued

In addition to being manager of Custodian REIT, Custodian Capital facilitates direct property ownership on behalf of pension schemes and private clients and manages our Private Investors Club, which offers alternative investment opportunities to suitable clients by way of private investor syndicates. The value of Custodian Capital's assets under management increased to £0.54bn at the year end (2017: £0.45bn).

The Mattioli Woods' Structured Products Fund was named Retail Investment Product of the Year at the Risk Awards 2018, with the fund offering investors the benefits of collateralisation, instant diversification, continuous availability and liquidity. A combination of new client investment and money from maturing structured product plans increased the fund's value to £213.8m at 31 May 2018 (2017: £98.4m).

I believe securing economies of scale, such as rebates on fund managers' charges, and the benefits of operating our integrated model will allow us to further improve client outcomes and reduce clients' total expense ratios ("TERs"), while maintaining our target profit margin.

Recent acquisitions and investments continue to perform well. Organic growth was supplemented by full-year revenues of £1.7m (2017: £1.2m) from the MC Trustees pension administration business acquired in September 2016 and our share of profits from Amati increased to £0.2m (2017: £0.1m). We were delighted when Amati's Paul Jourdan was named best UK Smaller Companies Fund Manager at the FE Alpha Manager of the Year Awards in May. Paul is manager of the TB Amati UK Smaller Companies Fund, which won the UK Smaller Companies category at the Investment Week Fund Manager of the Year Awards last year. Amati has enjoyed strong growth in gross assets under management, which increased from £175.7m at the start of the year to £325.1m at the year end.

We are delighted to welcome Gary Bond and his experienced team into the Group following the acquisition of Broughtons Financial Planning Limited ("Broughtons") earlier this month. Broughtons adds a further 250 clients with over £120m of assets under advice and the transaction is expected to be earnings enhancing in the first full year of ownership.

Our success has been based upon the delivery of quality advice, growing our clients' assets and enhancing their financial outcomes. As the business grows, we will continue to develop new products and services so we can better deal with our clients' needs, using the best of what we have and what other providers can offer.

We have many challenges coming up, including further changes in regulation and legislation, moving to new offices in Leicester and the ongoing development of our technology infrastructure. The foundation of our success has been the development of our people and I am very proud of how we deal with our clients and how we interact between ourselves. I believe we have created a business our clients are proud to be a part of, our people feel proud to work for and is one that recognises and rewards talent and hard work.

Market overview

Mattioli Woods operates within the UK's financial services industry, which is subject to the effects of volatile markets and economic conditions. 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 and in recent years we have seen changes in regulation, legislation and client needs as the demand for advice and the potential market for our products and services continue to grow. We continue to be proactive in relation to the opportunities this creates, with our specialists dedicated to keeping up with the pace of change.

Both MiFID II and the GDPR came into effect in the first half of this calendar year and we continue to prepare for other regulatory and legislative changes already in train, such as the Senior Managers and Certification Regime ("SM&CR").

The Financial Conduct Authority ("FCA") recently published proposals in response to the findings of its Retirement Outcomes Review ("ROR"), which are designed to help people think about their drawdown choices earlier, create investment pathways to help them with their choices and make costs and charges easier to understand, including the possible introduction of a charge cap. I believe our advice-led model, integrating administration and investment management, is aligned with the regulator's proposals and positions us well to continue reducing client costs and deliver improved client outcomes.

The ROR and the latest consultation are part of a wider package of FCA activity covering the pensions and retirement income sectors, including work on defined benefit pension transfers. As previously reported, following consideration of the increasing costs of professional indemnity insurance, additional regulatory controls and the resources we would have to dedicate to this small part of our business, we have stopped giving pension transfer advice to individuals with safeguarded or defined benefits. The impact of this decision on the Group's financial performance is not expected to be material, with pension transfer advice to individuals with safeguarded benefits contributing approximately 1.6% of direct revenues for the year, and less to profit given the significant compliance costs associated with this activity.

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 profession 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 and interim report on its investment platform market study published in July this year both highlight concerns over pricing.

We continue to invest in the development of our IT platform and anticipate that the adoption of innovative technology may drive some margin compression in the wider market. Although development of the Group's technology infrastructure has taken longer than we initially anticipated, the costs of this development remain in line with our original expectations. Investing in technology, while securing the economies of scale and operational efficiencies that we have previously outlined are key elements of our stated aim to reduce clients' TERs, while maintaining fair and sustainable profits for our shareholders.

Our industry is experiencing a period of significant regulatory change. The fair treatment of clients is at the core of all that we do and we will further invest in our regulatory and compliance capabilities to ensure we can continue to deliver great client outcomes.

Total clients assets

Increased by 10.1% to £8.73bn at 31 May 2018 (2017: £7.93bn) as follows:

Assets under management, administration and advice[9]	SIPP and SSAS[10] £m	Employee benefits £m	Personal wealth and other assets £m	Sub-total £m	Amati[11] £m	Total £m
At 1 June 2017	5,031.3	1,102.3	1,638.1	7,771.7	153.8	7,925.5
Net inflow, including market movements	454.6	135.6	81.3	671.5	132.2	803.7
At 31 May 2018	5,485.9	1,237.9	1,719.4	8,443.2	286.0	8,729.2

9 Certain pension scheme assets, including clients' own commercial properties, are only subject to a statutory valuation at a benefit crystallisation event.

10 Value of funds under trusteeship in SIPP and SSAS schemes administered by Mattioli Woods and its subsidiaries.

11 Assets under management of £286.0m (2017: £153.8m) excludes £27.0m (2017: £12.1m) of Mattioli Woods' client investment included within SIPP and SSAS, employee benefits and personal wealth and other assets and excludes £12.1m (2017: £9.8m) of cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.

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. The Group has developed a broader wealth management proposition in recent years, grown from its strong pensions advisory and administration expertise. The mix of income derived from the Group's four key revenue streams changed slightly during the year, summarised as follows:

» 42.7% investment and asset management (2017: 41.6%);

» 37.1% pension consultancy and administration (2017: 37.4%);

» 10.1% employee benefits (2017: 10.7%); and

» 10.1% property management (2017: 10.3%).

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.

Assets under management, administration and advice

The growth in total assets under management, administration and advice of £803.7m during the year is analysed as follows:

» An increase of £454.6m in SIPP and SSAS funds under trusteeship, with net organic growth of 5.1% in the number of schemes being administered at the year end, comprising a 13.5% (2017: 11.8%) increase in the number of direct[12] schemes to 5,834 (2017: 5,140) and a 3.7% decrease (2017: 1.6% increase) in the number of schemes the Group operates on an administration-only basis to 4,699 (2017: 4,881). In recent years we have been appointed to operate or wind-up a number of SIPP portfolios following the failure of their previous operators, with lost schemes including the transfer of certain members of these distressed portfolios to more appropriate arrangements;

» An £135.6m increase in the value of assets held in the corporate pension schemes advised by our employee benefits business, although revenues in our employee benefits business are not linked to the value of client assets in the way certain of our wealth management revenue streams are;

» An £81.3m increase in personal wealth and other assets under management and advice, with the 291 (2017: 350) new personal clients won during the year driving a 3.4% increase in the total number of personal clients to 4,925 (2017: 4,763); and

» An £132.2m increase in Amati's funds under management (excluding Mattioli Woods' client investments), primarily through the growth of the TB Amati UK Smaller Companies Fund to £166.3m (2017: £69.3m) at 31 May 2018.

We extended our asset management business through our purchase of 49% of Amati in February 2017, 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; Amati AIM VCT plc and an AIM IHT portfolio service.

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

Chief Executive's review
continued

Sustainable
and continued success

Key performance indicators

The directors consider the key performance indicators ("KPIs") for the Group are as follows:

Strategy/objective	Key performance indicator	Performance	Further explanation
Organic growth and growth by acquisition	**Revenue** – total income (excluding VAT) from all revenue streams.	2016 £43.0m 2017 £50.5m **2018 £58.7m**	See 'Introduction' on page 12.
Operating efficiency	**Adjusted EBITDA margin** – profit generated from the Group's operating activities before financing income or costs, taxation, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition-related costs, including share of profit from associates (net of tax), divided by revenue.	2016 21.6% 2017 21.4% **2018 21.3%**	See 'Profit for the year and earnings per share' on page 19.
Shareholder value and financial performance	**Adjusted Earnings Per Share ("EPS")**[13] – total comprehensive income for the year, net of taxation, attributable to equity holders of the Company, adjusted to add back acquisition-related costs, gain on revaluation of derivative financial assets, notional finance charges on the unwinding of discounts on long-term provisions and the amortisation of acquired intangible assets, divided by the weighted average number of ordinary shares in issue.	2016 30.3p 2017 33.3p **2018 37.0p**	See 'Profit for the year and earnings per share' on page 19.

13 Before acquisition-related costs, amortisation and impairment of acquired intangibles, changes in valuation of derivative financial instruments and notional finance income and charges.

Strategic report
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Strategy/objective	Key performance indicator	Performance	Further explanation
Growth in the value of assets under management, administration and advice	**Assets under management, administration and advice** – the value of all client assets the business gives advice upon, manages or administers.	2016: £6.6bn 2017: £7.9bn **2018: £8.7bn**	See 'Assets under management, administration and advice' on page 15.
Excellent client service and retention	**Client loss rate** – 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.	2016: 3.6% 2017: 3.6% **2018: 2.6%**	See 'Segmental review' on pages 20 and 21.
Financial stability	**Debtors' days** – this is the average number of days' sales outstanding in trade receivables at any time.	2016: 46days 2017: 40days **2018: 32days**	See 'Cash flow' on pages 19 and 20.
	Surplus on regulatory capital requirement – this is the aggregate surplus on the total regulatory capital requirement of the Group (see Note 30).	2016: £10.1m 2017: £13.4m **2018: £18.8m**	See Note 30 on pages 104 and 105.

Chief Executive's review
continued

Financial performance and future developments

Revenue
Total Group revenue was up 16.2% to £58.7m (2017: £50.5m), with sustained demand for the Group's services reflected by revenue growth across each of the Group's operating segments, as explained in more detail below.

Employee benefits expense
As in previous years, the major component of the Group's operating costs is our employee benefits expense of £32.1m (2017: £28.7m) representing 54.7% of revenue (2017: 56.8%). During the year we saw an increase in the average number of employees from 553 to 618. We continue to invest in our IT systems, compliance and training across all parts of the Group, with the aim of delivering further operational efficiencies and benefiting from further economies of scale.

Other administrative expenses
Other administrative expenses increased to £12.3m (2017: £9.5m), primarily due to additional costs associated with the impending move from the Group's existing offices at Grove Park to a new office in the centre of Leicester, increased IT costs as a result of moving to a hosted infrastructure, changes in revenue mix increasing irrecoverable VAT and various other costs increasing in line with headcount.

Share-based payments
Share-based payments costs fell to £1.5m (2017: £1.9m) following the settlement of all outstanding cash-settled options during the period, with strong share price growth having increased the costs associated with these options in the prior year.

Net finance costs
The Group has maintained a positive net cash position throughout the year, with net finance costs of £0.1m (2017: £0.2m) reflecting the impact of £0.2m (2017: £0.3m) of notional finance charges on the unwinding of discounts on long-term provisions.

Taxation
The effective rate of taxation on profit on ordinary activities was 16.2% (2017: 16.9%), below the standard rate of tax, primarily due to research and development relief claimed for the two years ended 31 May 2017, with a lower effective rate in the equivalent period last year resulting from the reversal of deferred tax liabilities on acquired intangibles following cuts in the UK corporation tax rate. The net deferred taxation liability carried forward at 31 May 2018 was £2.8m (2017: £2.8m).

Calculation of Adjusted PAT/Adjusted EPS

	Profit 2018 £m	EPS 2018 pps	Profit 2017 £m	EPS 2017 pps
Statutory profit before tax	**9.8**	**37.2**	7.7	29.5
Income tax expense	**(1.6)**	**(6.0)**	(1.3)	(5.0)
Statutory PAT / Basic EPS	**8.2**	**31.2**	6.4	24.5
Amortisation on acquired intangibles	**1.7**	**6.7**	1.7	6.7
Gain on revaluation of Amati option	**(0.5)**	**(2.0)**	(0.1)	(0.4)
Notional finance costs	**0.2**	**0.6**	0.3	1.0
Acquisition-related costs	**0.1**	**0.5**	0.4	1.5
Adjusted PAT / Adjusted EPS	**9.7**	**37.0**	8.7	33.3

Profit for the year and earnings per share

Strong growth in revenue translated into strong growth in EBITDA, up 22.1% to £12.7m (2017: £10.4m), with EBITDA margin of 21.6% (2017: 20.6%) despite further investment in the infrastructure and sustainability of our business.

Adjusted EBITDA, adjusted profit after tax and adjusted EPS are non-GAAP alternative performance measures, considered by the Board to be a better reflection of true business performance than looking at the Group's results on a statutory basis only. These measures are widely used by research analysts covering the Company.

Adjusted EBITDA[14] increased 15.7% to £12.5m (2017: £10.8m), while adjusted EBITDA margin was 21.3% (2017: 21.4%). To facilitate a like-for-like comparison with prior years, a gain of £0.5m (2017: £0.1m) on revaluation of the Amati option, £0.2m (2017: £0.3m) of notional finance costs on the unwinding of discounts on long term provisions and acquisition-related costs of £0.1m (2017: £0.4m) have been added back in calculating adjusted EBITDA, with amortisation of acquired intangibles added back in the calculation of adjusted profit after tax ("PAT") and adjusted EPS, which are reconciled to the statutory figures in the table above.

As explained in note 16, client portfolios acquired through business combinations are recognised as intangible assets. The total amortisation charge for the year of £1.7m (2017: £1.7m) associated with these intangible assets has been excluded from adjusted PAT and adjusted EPS as the directors consider these costs can distort the results of a particular period.

14 Earnings before interest, taxation, depreciation, amortisation, impairment, changes in valuation of derivative financial instruments and acquisition-related costs, including share of profit from associates (net of tax).

Adjusted EPS[15] increased 11.1% to 37.0p (2017: 33.3p), while basic EPS was up 27.3% to 31.2p (2017: 24.5p), with growth in operating profits stated after recognising a gain on revaluation of the Amati option, notional finance costs and acquisition-related costs.

Diluted EPS increased 27.5% to 31.1p (2017: 24.4p), with the exercise of 256,686 options issued under the Company's share option plans during the year.

Dividends

The Board is pleased to recommend the payment of an increased final dividend of 11.5 pence per share (2017: 9.4 pence). This makes a proposed total dividend for the year of 17.0 pence (2017: 14.1 pence), a year-on-year increase of 20.6% (2017: 12.8%), 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 26 October 2018 to shareholders on the register at the close of business on 21 September 2018 having an ex-dividend date of 20 September 2018.

The Company offers shareholders the option to invest their dividends in a Dividend Reinvestment Plan ("DRIP"). The DRIP is administered by the Company's registrar, Link Asset Services ("Link"), which uses cash dividend payments to which participants in the DRIP are entitled to purchase shares in the market, which means the Company does not need to issue new shares and avoids diluting existing shareholdings.

15 Before acquisition–related costs, amortisation and impairment of acquired intangibles, changes in valuation of derivative financial instruments and notional finance costs.

For the DRIP to apply to the proposed final dividend for the year ended 31 May 2018, shareholders' instructions must be received by Link by 5 October 2018.

Cash flow

Cash generated from operations increased to £18.2m or 143% of EBITDA (2017: £10.4m or 100%), with an improved cash conversion ratio despite a slight fall in the Group's operating profit margin before changes in working capital and provisions to 23.3% (2017: 24.3%).

The Group's working capital requirement fell by £4.5m (2017: increase of £1.8m) following the receipt of a further £3.3m of VAT reclaimed on behalf of clients prior to the year end and improved credit control, with the decrease in working capital comprising:

- £5.1m (2017: £1.8m) increase in trade and other payables, primarily due to:
  - £3.3m increase in other payables due to VAT reclaims received on behalf of clients, which were repaid to clients following the year end
  - £1.3m increase in accruals and deferred income, with a £1.0m increase in accrued staff bonuses following another successful year, a change to the timing of directors' bonus payments and increased headcount across the Group
  - £0.3m increase in other trade payables due to the timing of stage payments payable on the fit-out of the Group's new office in Leicester
  - £0.1m increase in social security and other taxes outstanding at the year end

Chief Executive's review
continued

- £1.0m (2017: £2.0m) increase in trade and other receivables (excluding a £0.3m increase in loans advanced to investment syndicates) following further growth in our direct pension business (where fees are typically invoiced six months in arrears), with the higher value of clients' assets under management and advice increasing accrued income in our investment and asset management business
- £0.4m increase (2017: £1.5m decrease) in provisions, with the recognition of additional costs associated with exiting the Group's existing premises in Leicester offsetting the settlement of contingent deferred consideration on acquisitions and cash-settled LTIP awards during the year

Cash balances at 31 May 2018 totalled £23.7m (2017: £23.0m), with £3.5m (2017: £2.3m) of contingent deferred consideration on historic acquisitions paid during the year and a total of £3.5m of client VAT reclaims to be repaid following the year end.

Outstanding trade receivables fell to 32 days' sales (2017: 40 days), with an increase in investment and asset management revenues and a continued focus on credit control, while trade payables reduced to 24 days' purchases (2017: 52 days).

Capital expenditure of £8.8m (2017: £8.8m) was in line with expected spend, with the most significant cash outflows being £7.0m incurred on the development of the Group's new offices in Leicester, £1.2m investment in new computer hardware, software and office equipment and £0.5m on the purchase of new company cars following further expansion of the consultancy team.

Investment in the Group's infrastructure continues as we progress the implementation of our hosted IT architecture, which offers enhanced data security, business continuity and scalability for future growth. Our Manchester office moved to a new central city location to accommodate our expanding team in May and we have also agreed terms to move into a new Edinburgh office, which will house both Mattioli Woods' consultants and the Amati team.

The move to our new Leicester premises is scheduled to commence this month. We are delighted that construction of the 50,000 sq ft office was completed to our specification and at the budgeted total cost of £12.4m, with the subsequent fit-out of the new site currently running slightly ahead of schedule and in line with expected total costs of £1.6m. This development enables the Group to maintain its regulatory capital whilst efficiently using its surplus cash not available for distribution to shareholders. In addition, we will benefit from future rental savings of £0.85m per annum and a more flexible working environment, which will allow us to continue to grow the business and realise further operational efficiencies. The bespoke infrastructure of our new building will assist us to ensure our client services continue to be first class.

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:

	2018 £000	2017 £000
Cash and short-term deposits	**(23,668)**	(22,979)
Shareholders' equity	**78,950**	72,595
Capital employed	**55,282**	49,616

The Group continues to maintain a net cash position, with net cash balances increasing to £23.7m (2017: £23.0m).

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 allowing us to pursue further acquisition opportunities.

Segmental review
Investment and asset management
Investment and asset management revenues generated from advising clients on both pension and personal investments increased 19.5% to £25.1m (2017: £21.0m), representing 42.7% (2017: 41.6%) of total Group revenues.

Investment and asset management
The Group's gross discretionary assets under management ("AuM"), including the multi asset funds which now sit at the heart of our discretionary portfolio management service ("DPM"), Custodian REIT, the Mattioli Woods Structured Products Fund ("MW SPF") and the funds managed by our associate company, Amati, increased by 29.3% to £2.34bn (2017: £1.81bn) as follows:

Assets under management	DPM £m	Custodian REIT £m	MW SPF £m	Amati £m	Gross AuM £m	Cross-holdings in DPM[16] £m	Cross-holdings in Amati Funds[17] £m	Net AuM £m
At 1 June 2017	1,144.8	391.4	98.4	175.7	1,810.3	(76.9)	(9.8)	1,723.6
Inflows	273.7	49.1	115.4	103.8	542.0	(44.1)	(2.3)	495.6
Outflows	(88.7)	–	–	(2.9)	(91.6)	–	–	(91.6)
Market movements	11.3	22.1	–	48.5	81.9	–	–	81.9
At 31 May 2018	1,341.1	462.6	213.8	325.1	2,342.6	(121.0)	(12.1)	2,209.5

16 Comprises £30.4m (2017: £28.3m) invested in Custodian REIT, £69.2m (2017: £36.7m) in MW SPF and £21.4m (2017: £11.9m) in Amati funds.
17 Cross-holdings between the TB Amati Smaller Companies Fund and the Amati AIM VCT plc.

Income from both initial and ongoing portfolio management charges increased to £14.2m (2017: £10.7m), as the value of clients' assets in discretionary portfolios increased 17.5% to £1.34bn (2017: £1.14 bn).

Fees for services provided by Custodian Capital to Custodian REIT are included in the 'Property management' segment, with annual management charges on the MW SPF increasing to £0.8m (2017: £0.2m) due to growth in the fund's AuM to £213.8m (2017: £98.4m).

Adviser charges based on the value of assets under advice were £10.1m (2017: £10.1m), with the revenue impact of gross assets under advice increasing to £2.04bn (2017: £1.52bn) offset by an increasing proportion of assets under advice being invested in Custodian REIT, the MW SPF and Amati funds, which has resulted in lower client adviser charges and TERs. We continue to see some migration of assets under advice to AuM as clients from acquired portfolios engage with our DPM service.

Growth in total assets 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 81.7% (2017: 81.0%). 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

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. Our client base primarily comprises owner-managers, executives and members of the professions. Additional fees are generated from the provision of specialist consultancy services.

Pension consultancy and administration revenues were up 15.3% to £21.8m (2017: £18.9m), representing 37.1% (2017: 37.4%) of Group revenues of which 87.7% (2017: 91.0%) were recurring, with the growth in revenues driven by the total number of SIPP and SSAS schemes administered by the Group increasing 5.1% to 10,533 (2017: 10,021).

New client wins, sustained demand for advice, increased staff utilisation and improved billing recoveries helped drive direct[18] pension consultancy and administration fees up 17.7% to £16.6m (2017: £14.1m). Retirement planning is often central to our clients' wealth management strategies and the number of direct schemes increased to 5,834 (2017: 5,140), with 875 new schemes gained in the year (2017: 764), continuing the momentum of new business wins seen in prior periods. Our focus remains on the quality of new business, with the average value of a new scheme maintained at £0.4m (2017: £0.4m). We also maintained strong client retention, with an external loss rate[19] of 1.5% (2017: 2.1%) and an overall attrition rate[20] of 2.6% (2017: 3.6%).

The number of SSAS and SIPP schemes the Group operates on an administration-only basis fell to 4,699 (2017: 4,881) at the year end, with lost schemes including the transfer of members of distressed portfolios acquired in the last few years to alternative arrangements. Mattioli Woods was appointed to administer the SIPPs previously operated by Stadia Trustees Limited in 2016. A number of clients who transferred illiquid pension fund assets from their Stadia Trustees' SIPP to a Mattioli Woods scheme have now received compensation from the Financial Services Compensation Scheme due to the failings of Stadia Trustees Limited and we continue to process claims on behalf of over 400 other clients. Similar to the way in which the Group dealt with members of the HD SIPP, these clients' pension funds may now be reactivated, generating additional revenues for the Group.

Work also continues in connection with the wind up of the Freedom SIPP, which we were appointed to provide administration and consultancy services to by the scheme's liquidators, PricewaterhouseCoopers, in 2010. Overall, third party administration fees increased 4.3% to £4.8m (2017: £4.6m), with £0.4m of additional revenues representing the impact of a full year's contribution from MC Trustees.

The Group's banking revenue was £0.4m (2017: £0.2m), reflecting that the Bank of England base rate increased to 0.5% from a historic low of 0.25% at the start of November 2017.

18 SIPP and SSAS schemes where Mattioli Woods acts as pension consultant and administrator.
19 Direct schemes lost to an alternative provider as a percentage of average scheme numbers during the year.
20 Direct schemes lost as a result of death, annuity purchase, external transfer or cancellation as a percentage of average scheme numbers during the year.

Property management

Property management revenues increased 13.5% to £5.9m (2017: £5.2m), representing 10.1% of total revenue (2017: 10.3%), with our subsidiary Custodian Capital having assets under management and administration of £542.9m (2017: £444.8m) at 31 May 2018. Recurring annual management charges represented 89.8% (2017: 90.4%) of property management revenues, the majority of which are derived from the services provided by Custodian Capital to Custodian REIT. The fund seeks to provide investors with an attractive level of income, coupled with the potential for capital growth from a diversified portfolio of commercial real estate properties in the UK.

In addition, Custodian Capital continues to facilitate direct property ownership on behalf of pension schemes and private clients and also manages our "Private Investors Club", which offers alternative investment opportunities to suitable clients by way of private investor syndicates. This initiative continues to be well supported, with £26.3m (2017: £20.4m) invested in the eight (2017: five) new syndicates completed during the year.

Employee benefits

Employee benefits revenues were up 9.3% to £5.9m (2017: £5.4m), representing 10.1% of total revenue (2017: 10.7%). There is growing 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 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.

Acquisitions

We have invested £50m since our admission to AIM in 2005 in bringing 21 businesses or client portfolios into the Group, developing considerable expertise and a strong track record in the execution and subsequent integration of such transactions.

The two businesses acquired during the previous financial year have integrated well and contributed positively to the Group's trading results since acquisition, increasing earnings and enhancing value.

Chief Executive's review
continued

Our most recent acquisition, Broughtons, has a similar culture to Mattioli Woods and the transaction gives us new opportunities to grow and develop the client offering of the combined business.

With increasing complexity and continuing consolidation across the key markets in which we operate, we expect there will be further opportunities to accelerate our growth by acquisition. Our strong balance sheet gives us the flexibility to make further value-enhancing acquisitions.

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
As we continue to grow, our "Big to Better" initiative 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 2018 had increased to 622 (2017: 568) and we continue to invest in our graduate recruitment programme, with 20 (2017: 25) new graduates and 24 (2017: 16) 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 134 (2017: 115) at the year end.

In June 2018 we were delighted to announce the appointment of Saira Chambers to lead our employee benefits team as Employee Benefits Director. Saira brings extensive experience across all aspects of employee benefits, both as a consultant and in senior leadership roles, and this blend of knowledge and experience will enable us to transform this area of our business as part of our long-terms plans.

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% (2017: 58%) 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 the Group's strategy and have a material impact on its long-term performance. These arise from internal or external events, acts or omissions which could pose a threat to the Group. The principal risks identified as having a potential material impact on the Group are detailed in the following table, together with the principal means of mitigation. 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:

Managing
our risks

Key of change

- Increase
- No change
- Decrease

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 that we derive revenues.	» Majority of clients' funds held within registered pension schemes or ISAs, where less likely to withdraw funds and lose tax benefits. » Broad range of investment solutions enables clients to shelter from market volatility through diversification, while continuing to generate revenues for the Group. » Market volatility is closely monitored by the Asset Management Executive Committee.	Medium	Medium	No change
Changing markets and increased competition	The Group operates in a highly competitive environment with evolving characteristics and trends.	» Consolidating market position develops the Group's pricing power. » Control over scalable and flexible bespoke pension administration platform. » Experienced management team with a strong track record. » Loyal customer base and strong client retention. » Broad service offering gives diversified revenue streams.	High	High	No change
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. » Expanded systems development with phased implementation of Group-wide platform.	Medium	High	No change
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. » Decision to withdraw from providing advice on safeguarded pensions. » Financial strength provides comfort should capital resource requirements be increased.	Medium	Medium / High	Increase
Changes in tax law	Changes in tax legislation could reduce the attractiveness of long-term savings via pension schemes, particularly SSASs and SIPPs.	» The Government has a desire to encourage long-term savings to plan for an ageing population, which is currently under-provided for. » Changes in pension legislation create the need for clients to seek advice. » The development of the Group's investment and asset management services has reduced dependency on pension planning.	Low	Medium	No change

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. » 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. » Experienced in-house team of IT professionals and established name suppliers.	High	High	
Data quality	Inaccurate data or voids in our data could result in inaccurate regulatory and/or client reporting.	» Ongoing initiatives to clean data. » Development of data warehouse to standardise data tables and create 'one source of truth'.	High	Medium	New risk
Business continuity	In addition to the failure of IT systems, there is a risk of disruption to the business as a result of power failure, fire, flood, acts of terrorism, re-location problems and the like.	» Periodic review of Business Continuity Plan, considering best practice methodologies. » Disaster recovery plan and a disaster recovery team in place. Business impact analysis has been conducted by each department. » Business interruption insurance.	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 Committee, Risk and Compliance Committee and external auditors. » Clients have view-only access to information. » Ongoing review of risk of fraud due to external attack on the Group's IT systems.	Medium	Medium	

Key of change

- Increase
- No change
- Decrease

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. » Keyman cover for company founders.	Low	Medium	No change
Litigation or claims made against the Group	Risk of liability related to litigation from clients or third parties and assurance that a claim or claims will not be covered by insurance or, if covered, will exceed the limits of available insurance coverage, or that any insurer will become insolvent and will not meet its obligations to provide the Group with cover.	» Appropriate levels of Professional Indemnity insurance cover regularly reviewed with the Group's advisers. » Comprehensive internal review procedures, including compliance sign-off, for advice and marketing materials. » Maintenance of three charging models; time cost, fixed and asset based, which are aligned to specific service propositions and agreed with clients. » Restricted status for our consultants to enable the recommendation of our own products and others in the market.	High	Medium	Increase
Reliance on third parties	Any regulatory breach or service failure on the part of an outsourced service provider could expose the Group to the risk of regulatory sanctions and reputational damage.	» Due diligence is part of the selection process for key suppliers. » Ongoing review of relationships and concentration of risk with key business partners.	Low	High	Increase
Strategic risk	Risk that management will pursue inappropriate strategies or implement the Group's strategy ineffectively.	» Experienced management team with successful track record to date. » Management has demonstrated a thorough understanding of the market and monitors this through regular meetings with clients.	Low	Low	No change
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. » Responsible employees.	High	Medium	No change

Principal risks
continued

Emerging risks, including legislative and regulatory change, have the potential to impact the Group and its strategy.

The senior management team continues to monitor emerging risks and threats to the financial services sector including, for example, cyber threats, regulatory change and scenarios potentially arising from geopolitical developments, including Brexit.

Management's current assessment is that the direct impacts of Brexit are not expected to have a direct material adverse impact on our business, given the Group's UK-based business model. However, we are conscious this position might change and could raise unexpected challenges, including those arising from any broader impact that Brexit might have on the UK economy as a whole.

Key of change

⇧ Increase

⇨ No change

⇩ Decrease

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. » 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. » Regular review and challenge of treasury policy by management.	Medium	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. » Broad service offering gives diversified revenue streams.	Medium	Medium	⇨
Liquidity risk	The risk the Group is unable to meet liabilities as they become due because of an inability to liquidate assets or obtain adequate funding.	» Cash generative business. » Group maintains a surplus above regulatory and working capital requirements. » Treasury management provides for the availability of liquid funds at short notice.	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.	» Market expectation that interest rates will rise. » Good relationships with key banking partners. » Access to competitive interest rates due to scale of business.	Low	Medium	⇧
Underwriting risk	When arranging new products for promotion to the Group's clients, the Group may need to guarantee a minimum aggregate investment to secure appropriate terms for the product. If actual client investment is less than the underwritten amount, we would incur the cost of either acquiring the unsold element of the product or unwinding any hedges underlying the unsold element of the product.	» New products created in line with client demand. » Potential costs are carefully considered by the Investment Committee prior to the launch of each product.	Low	Low	⇨

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.

Charities and communities

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 business, sports and community awards. Our business has benefited greatly from winning numerous awards and we feel it's 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. This year proved to be a record-breaking year, with the race attracting a best ever 1,171 runners in June 2018, raising over £28,000 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 £200,000 for the charity.

We also continue to sponsor wheelchair racer Sammi Kinghorn, who set a new 200m T53 world record last year. Sammi helped us celebrate our switch to new offices in the heart of Glasgow and proudly displayed two gold medals and a bronze won at the world para athletics championships in London in 2017.

In addition, we support many other smaller charities. An employee at our Solihull office has set up a 'Little Free Library' in the village she lives in to provide a free book exchange for local children. We continue to support 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.

Employees

The Group continues to create opportunities for young people through both its Financial Services Development Scheme and apprenticeship recruitment, winning Apprenticeship Employer of the Year at the 2017 Leicester Apprenticeship Hub Graduation Ceremony. This year, we are looking to recruit 24 graduates and 20 apprentices. We have also given 19 students the opportunity to work with us to gain valuable work experience during the year.

During the year we lost a well-respected leader in our Employee Benefits business when Mike Reid sadly lost his battle against cancer. Mike will be greatly missed by all his workmates, clients and suppliers that he worked with during his 12 years with the Group.

Diversity and inclusion

We are an equal opportunities employer and it is our policy to ensure that all job applicants and employees are treated fairly and on merit regardless of race, sex, marital/civil partnership status, age, disability, religious belief, pregnancy, maternity, gender reassignment or sexual orientation.

Modern slavery

Mattioli Woods is committed to preventing modern slavery and human trafficking in all its activities, and to ensuring its supply chains are free from modern slavery and human trafficking. We welcomed the introduction of the Modern Slavery Act 2015 and publish a Modern Slavery and Human Trafficking Statement on our website. We have also developed policies, reviewed our due diligence processes for suppliers and provided training to staff.

A copy of our Modern Slavery and Human Trafficking Statement can be found on our website.

Anti-bribery policy

We value our reputation for ethical behaviour and upholding the utmost integrity and we comply with the FCA's clients' best interests rule. We understand that in addition to the criminality of bribery and corruption, any such crime would also have an adverse effect on our reputation and integrity.

Mattioli Woods has a zero-tolerance approach to bribery and corruption and we ensure all our employees and suppliers are adequately trained as to limit our exposure to bribery by:

» setting out clear anti-bribery and corruption policies
» providing mandatory training to all employees
» encouraging our employees to be vigilant and report any suspected cases of bribery in accordance with the specified procedures
» escalating and investigating instances of suspected bribery and assisting the police or other appropriate authorities in their investigations

Gender pay reporting

The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 requires all employers with 250 or more employees in the UK to publish details of their gender pay gap. Its aim is to achieve greater transparency about gender pay difference. The analysis is based on data as at 5 April of each year and shows the differences in the average pay between men and women. The Group has submitted its data on gender pay to the government and published these details on our website.

Approval

The strategic report contains certain forward-looking statements, which are made by the Directors in good faith based on the information available to them at the time of their approval of this annual report. Statements contained within the strategic report should be treated with some caution due to the inherent uncertainties (including but not limited to those arising from economic, regulatory and business risk factors) underlying any such forward-looking statements. The strategic report has been prepared by Mattioli Woods to provide information to its shareholders and should not be relied upon for any other purpose.

Pages 1 to 31 constitute the strategic report, which has been approved by the Board of Directors and signed on its behalf by:

Ian Mattioli MBE
Chief Executive Officer
3 September 2018

Corporate social responsibility

Operating
responsibly

We have a long-standing commitment to supporting our staff in engaging with their local communities and charities.

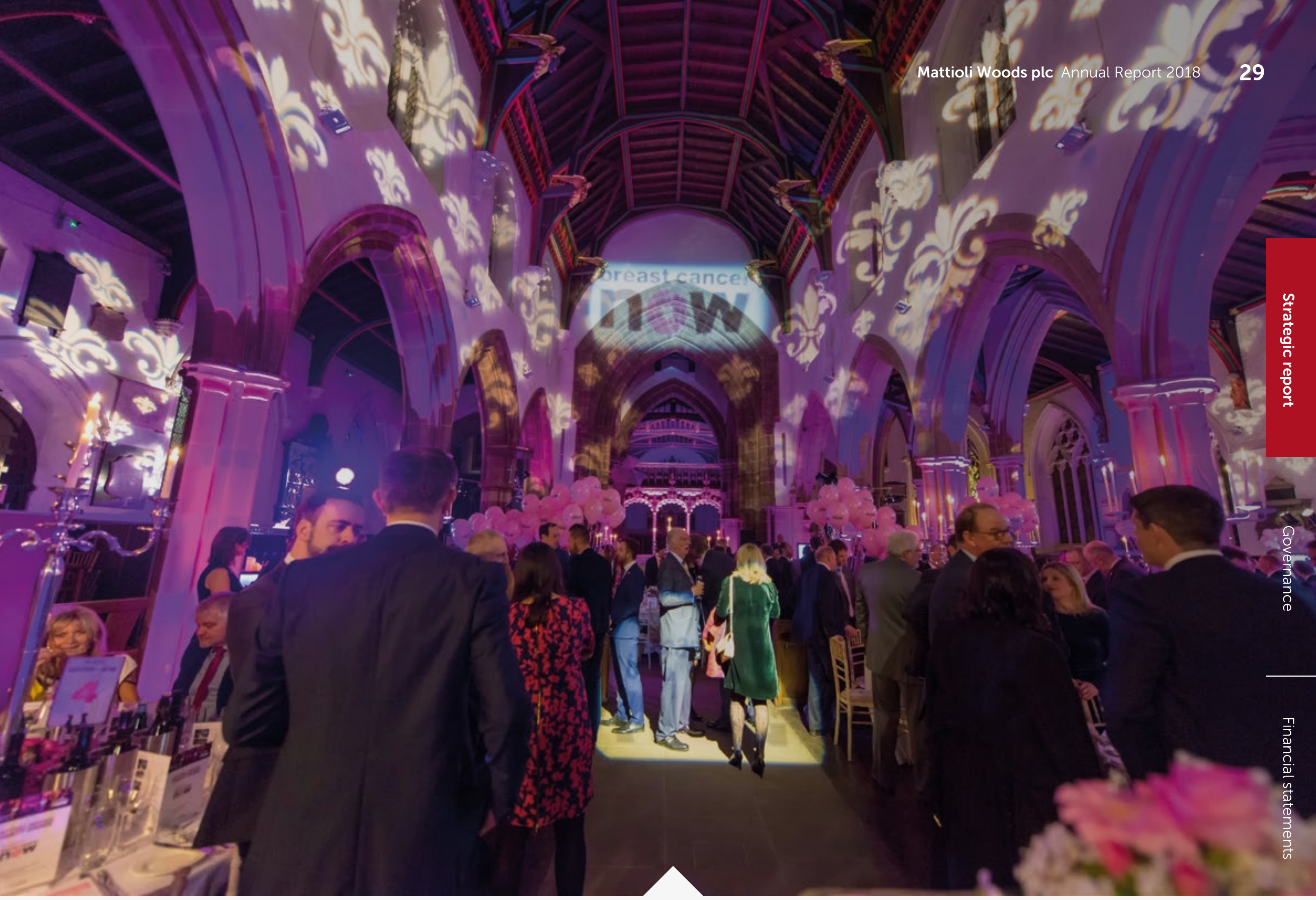
This social awareness is present throughout the business, from our employees to our clients, our professional connections, and the suppliers we use.




A shared sense of compassion and empathy with many charitable causes helps our clients feel a genuine connection with our brand.

Charity work brings our teams together and fosters a sense of togetherness.

A worthwhile cause can trigger powerful emotional reactions in our clients as well as our employees.



Breast Cancer Now

Over £200,000 raised

"We have always been aware of our corporate social responsibility and have supported many local charities and organisations"

Ian Mattioli MBE
Chief Executive Officer

In 2015, we chose our first national charity as Breast Cancer Now (BCN), with staff across the country getting involved in a number of activities to raise essential funding for this great cause. Our pledge to help stop women dying from breast cancer has seen us raise over £200,000 in just two years.

The latest tranche of money – more than £40,000 – came in when Mattioli Woods staged its annual charity dinner in aid of the organisation.

The dinner – attended by more than 200 guests – was held at Leicester Cathedral. It followed a Champagne reception at adjoining St Martins House.

Ian Mattioli MBE, the company's chief executive officer and co-founder, said he was delighted with the figure.

"From the outset, we have always been aware of our corporate social responsibility and have supported many local charities and organisations, including Rainbows, LOROS and the county air ambulance.

"In 2015 we became a national partner with Breast Cancer Now, a charity whose aim is for everyone who develops breast cancer to live and live well.

We are proud to play our part in that mission by raising money to fund the vital research needed to make sure BCN achieves its goal".

Natasha Goodman – who has faced breast cancer twice and now acts as an ambassador for Breast Cancer Now – told guests of the charity dinner how 11,500 women lose their lives to the disease each year.

Natasha, 38, was first diagnosed and overcame breast cancer seven years ago. Then in April 2017, she was told she had another primary breast cancer, and underwent a double mastectomy.

She said: "I just want to do as much as I can to raise awareness of BCN and the wonderful work they do to ensure that, by 2050, no-one dies from the disease".

Breast Cancer Now is the UK's largest breast cancer charity and is dedicated to funding research into this devastating disease. It funds research into four critical areas: prevention, early detection and diagnosis, treatments and secondary breast cancer. Breast Cancer Now's researchers are working to discover how to prevent breast cancer, how to detect it earlier and how to treat it effectively at every stage so we can stop the disease taking lives. This year, more than 55,000 women will be told they have the disease, while around 1,000 will die.

Values
underpin and govern our actions

"As wealth management continually evolves, we remain innovative while putting our clients and the security of their assets first"

Murray Smith
Group Managing Director

Enhanced client experience
Background
Clients are open to switching to other wealth management providers in search of better user experiences, thus forcing firms to innovate to keep up with their demands.

How we respond
We remain uniquely placed thanks to our consultant-led approach, where there is a genuine focus on providing the highest levels of personal advice and maintaining close relationships with clients. We are committed to our personalised approach, while adopting new technology to enhance our clients' experience.

Innovation
Background
To keep pace with the changes in technology, our clients deserve the very best in product innovation.

How we respond
Our new portal, Total Wealth, is due for launch in the near future. It is a fully interactive digital experience specially designed to allow clients to access their Mattioli Woods-managed finances in one place, while also being able to view all their other financial assets such as property, insurances, bank accounts and credit cards.

Cybersecurity
Background
Wealth management firms hold huge amounts of highly sensitive information, which has made cyber-defence essential as data theft can lead to significant reputational and financial damages. Increasing digitisation, outsourcing and reliance on emerging technologies such as the internet and the cloud increase exposure risk.

How we respond
We have spent the last year reviewing our infrastructure which has allowed us to move to cloud-based technology. Not only does this give us the benefit of the cyber security investment a large cloud provider like Microsoft has made, but it provides us with seamless disaster recovery and business continuity. Leveraging modern technologies is key to ensuring our clients feel their relationship and data is secure.

People are at the heart of everything we do. Without the people in our business we could not provide an excellent service to clients or each other. In addition, we want to ensure our workplace is fair, fun and rewarding. The Investors in People framework underpins this and is aligned with our growth ambitions.

Q&A with Tara Smith

Client relationship manager

Tara Smith is one of many success stories to come out of our celebrated graduate recruitment programme.

Less than two years after completing it, she's forging a career as a client relationship manager (CRM) – and helping to train other newcomers to the business.

She was born in Leicester the year before the company was founded in her home city. Tara studied at Bishop Grosseteste University in Lincoln.

Q What's the best thing about being a CRM?

A Something I particularly like is that it is so varied – no two days are the same.

Q How did you first hear of Mattioli Woods?

A I attended an open day at Mattioli Woods and really liked what I saw.

Q What was your first role at the company?

A I was accepted onto the graduate programme and, within a year, was a trainer. The progression and development within the company is exceptional. Everyone is so supportive.

Q What do you like most about working for Mattioli Woods?

A I'm proud to be part of the team – they're a lovely group of people, with different levels of experience and knowledge. Everyone has always got somebody there to help.

Governance

Contents 32 – 59

Chairman's introduction to governance

Trusted
and respected leadership

"Sound and effective governance is at the heart of our business"

Joanne Lake
Non-Executive Chairman

Governance overview
Sound and effective governance is at the heart of our business, focussed on ensuring good outcomes for our clients and looking after the interests of the Group's shareholders and other stakeholders.

During the year the Group reviewed its management and governance structure, resulting in changes designed to improve the management and governance of the Group's key areas of operation. Historically, each subsidiary has been managed by its own board and each operating segment has been run by a separate committee. We simplified the organisational structure, reflecting our focus on building an integrated business with clear accountabilities across the Group. The Group's Senior Executive Team ("SET^GO^") was created, with the 'go' highlighting we are set, ready and moving forward to execute the strategy determined by the Board, bringing together the day-to-day management of all key operational areas of the Group under one organisation.

As a result of our improved governance arrangements, our investment and asset management business is now managed through a single management committee, the Asset Management Executive Committee. This has enhanced investment governance by ensuring our risk and investment controls are applied consistently across our various products and services.

Corporate governance code
The Board is committed to achieving high standards of corporate governance, integrity and business ethics. Under the AIM Rules, all AIM companies are required to apply a recognised corporate governance code from 28 September 2018. In July 2018 the Board resolved to adopt the Quoted Companies Alliance ("QCA") revised corporate governance code ("QCA Code"), which requires the Group to apply 10 principles focused on the pursuit of medium to long-term value for shareholders and also to publish certain related disclosures.

In preparing to adopt the QCA Code, the Board considered whether the Group's risk management framework identifies and addresses all relevant risks in order to execute and deliver strategy. One of the Board's key objectives is to maintain governance structures and processes that are fit for purpose and support good decision-making. Accordingly, in July 2018 the Board also resolved to split the existing Audit, Risk and Compliance Committee into two separate committees with immediate effect: an Audit Committee, whose membership consists of the independent Non-Executive Directors, and a separate Risk and Compliance Committee, whose membership comprises the three independent Non-Executive Directors, Ian Mattioli as CEO and Mark Smith as Compliance Oversight Function, reflecting the continued improvement of the Group's three lines of defence model.

The Group's other governance arrangements remain unchanged.

Joanne Lake
Non-Executive Chairman
3 September 2018

Board

Risk and Compliance Committee

Chaired by
Anne Gunther

This Committee is principally responsible for monitoring identified risks and the effectiveness of mitigating action, keeping risk assessment processes under review, reviewing the impact of key regulatory changes on the Group, assessing material breaches of risk limits and regulations as well as reviewing client complaints.

Committee meeting attendance

Anne Gunther
6/6

Carol Duncumb
5/6

Joanne Lake
6/6

For more information go to page 38

Audit Committee

Chaired by
Anne Gunther

This Committee is responsible for reviewing the Group's accounting procedures and internal financial controls, reviewing the reporting of financial and other information to the shareholders of the Company and monitoring the integrity of the financial statements, reviewing the effectiveness of the external audit process and the independence and objectivity of the external auditors

Committee meeting attendance

Anne Gunther
6/6

Carol Duncumb
5/6

Joanne Lake
6/6

For more information go to page 39

Remuneration Committee

Chaired by
Carol Duncumb

This Committee is responsible for determining and reviewing the Group's policy on executive remuneration and other benefits and terms of employment, including performance related bonuses and share options. The Committee also administers the operation of the share option and share incentive schemes established by the Company.

Committee meeting attendance

Carol Duncumb
5/5

Joanne Lake
5/5

Anne Gunther
5/5

For more information go to page 40

Nomination Committee

Chaired by
Joanne Lake

This 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.

Committee meeting attendance

Joanne Lake
1/1

Carol Duncumb
1/1

Anne Gunther
1/1

For more information go to page 41

Board of Directors

Strong
and diverse team

Joanne Lake
Non-Executive Chairman, Age 54

Joanne was appointed to the Board 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 ("CISI") 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.

Committees

A C N R

Read more from Joanne on pages 10 and 11

Ian Mattioli MBE
Chief Executive Officer, Age 55

Ian has over 35 years' experience in financial svices, wealth management and property businesses and, together with Bob Woods, founded Mattioli Woods in 1991. Ian is responsible for the vision and operational management of the Group and instigated the development of its investment proposition, including the syndicated property initiative that developed the seed portfolio for the launch of Custodian REIT plc, of which he is founder, non-executive director and Chairman of its discretionary investment manager, Custodian Capital. His personal achievements include winning the London Stock Exchange AIM Entrepreneur of the Year award and CEO of the Year in the 2018 City of London Wealth Management Awards.

Ian was awarded an MBE in the Queen's 2017 New Year's Honours list for his services to business and the community in Leicestershire. Ian is also Non-Executive Chairman of K3 Capital Group plc, which is listed on AIM and specialises in business transfer, business brokerage and corporate finance across the UK.

Read more from Ian on pages 12 to 27

Nathan Imlach
Chief Financial Officer, Age 49

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 CISI and holds the Corporate Finance qualification from the ICAEW. Nathan is Chief Financial Officer and member of the investment committee of the Group's subsidiary Custodian Capital and Company Secretary to Custodian REIT plc, having led its admission to the Main Market of London Stock Exchange in 2014 together with Ian Mattioli and Richard Shepherd-Cross. 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 38 to 44 and 51 to 55

Gender balance %

50 Female

50 Male

Board of directors

At the start of the year the Board of Directors comprised five Executive Directors and three independent Non-Executive Directors. Following the review of the Group's management and governance structure, Mark Smith and Alan Fergusson stepped down from the Board in August 2017, as part of a move designed to eliminate duplication and overlap between the Board and SET[GO].

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.

Committee key

- A Audit Committee
- C Risk and Compliance Committee
- R Remuneration Committee
- N Nominations Committee
- ● Committee Chair

Murray Smith
Group Managing Director, Age 49

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 and employee benefits divisions, 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 56

Carol has over 35 years' experience working in consumer-related companies and over the last 10 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 Mattioli Woods' Remuneration Committee.

Committees

A C N R

Read more from Carol on pages 45 to 50

Anne Gunther
Non-Executive Director, Age 63

Anne was appointed to the Board in June 2016 and is Chairman of both the Audit and the Risk and Compliance Committees. 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, merger and 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 held roles in both the charitable and commercial sectors, and has also chaired Warwick Business School. In addition to her Mattioli Woods role, Anne sits on the Masthaven Bank board and chairs the Audit and Risk Committee, is a Non-Executive and Senior Independent Director and Chair of the Audit Committee for GBGI Limited, an AIM listed specialist health insurer, as well as being a director of the Water Plus Limited group, a jointly owned subsidiary of United Utilities plc and Severn Trent plc.

Committees

A C N R

Board meeting attendance

Joanne Lake
6/6

Ian Mattioli MBE
6/6

Nathan Imlach
6/6

Murray Smith
6/6

Carol Duncumb
6/6

Anne Gunther
6/6

Corporate governance report

Time commitments of Board members

The Group embraces the benefits that are brought by a Board from a range of business backgrounds and who are actively involved in other businesses. The Board also recognises its members must be able to dedicate sufficient time to the Company.

The Board has considered the time commitments of each director and is comfortable that each has sufficient available capacity to carry out the required duties for Mattioli Woods:

» Joanne Lake's time commitment from her other directorships averages eight to nine working days per month.
» Ian Mattioli's time commitment from his roles as Non-Executive Chairman of K3 Capital Group plc and Non-Executive Director of Custodian REIT plc average two and one and a half working days per month respectively.
» Nathan Imlach's time commitment from his other appointments averages two to three working days per month.
» Murray Smith's other business interests outside of the Group are trivial in time commitment.
» Carol Duncumb's time commitment from her other business interests outside of the Group averages nine to ten working days per month.
» Anne Gunther's time commitment from her other directorships averages four and a half working days per month.

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.

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

Risk and Compliance Committee

The Risk and Compliance Committee comprises Anne Gunther (Chairman), Carol Duncumb, Joanne Lake, Ian Mattioli as CEO and Mark Smith as Compliance Oversight Function. Senior managers and representatives from the internal audit, risk and compliance functions attend committee meetings as necessary.

The Risk and Compliance Committee is principally responsible for monitoring identified risks and the effectiveness of mitigating action, keeping risk assessment processes under review, reviewing the impact of key regulatory changes on the Group, assessing material breaches of risk limits and regulations as well as reviewing client complaints.

Risk management framework

The Group's risk management framework is designed to ensure risks are identified, managed and reported effectively. The Group has been investing in its risk management framework to meet the requirements of key regulatory changes, such as MiFID II, the GDPR and the SM&CR, and the risk management framework remains subject to ongoing review.

We continue to apply a 'three lines of defence' model to support our risk management framework, with responsibility and accountability for risk management summarised as follows:

» First line: senior management and operational business units are responsible for managing risks, by developing and maintaining effective internal controls to mitigate risk. First-line systems and controls are employed to ensure business activities are conducted in compliance with internal policies and procedures. First-line supervision teams carry out monitoring of business activities on a day-to-day basis.
» Second line: the risk, compliance and anti-money laundering functions maintain a level of independence from the first line. They are responsible for providing oversight and challenge of the first line's day-to-day management, monitoring and reporting of risks to both senior management and governing bodies.
» Third line: the internal audit function is responsible for providing independent assurance to both senior management and governing bodies as to the effectiveness of the group's governance, risk management and internal controls.

Output from first, second and third-line monitoring is reported to the managers and management information is reported to the Executive Risk and Compliance Committee and the Risk and Compliance Committee.

Risk appetite

Risk appetite is defined as both the amount and type of risk the Group is prepared to accept or retain in pursuit of our strategy. Our appetite is subject to regular review to ensure it remains aligned to our strategic goals. At least annually, the Board, Executive Risk and Compliance Committee and the Risk and Compliance Committee will formally review and approve the Group's risk appetite statement and assess whether the firm has operated in accordance with the stated risk appetite measures during the year.

Notwithstanding its continued expectations for business growth, the Board retains a relatively low overall appetite for risk, ensuring that our internal controls mitigate risk to appropriate levels.

Risk assessment process

Identified risks are tracked in a department-level risk register and used as the basis for a consolidated risk register that provides the Risk and Compliance Committee with an overview of the key risks across the organisation. The board and senior management are actively involved in a continuous risk assessment process as part of our risk management framework, supported by the annual Internal Capital Adequacy Assessment Process ("ICAAP"), which assesses the principal risks facing the Group.

Stress tests include consideration of the impact of a number of severe but plausible events that could impact the business. The work also takes account of the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks.

The Group's risk assessment process considers both the impact and likelihood of risk events which could materialise, affecting the delivery of strategic goals and annual business plans. A top-down and bottom-up approach ensures that our assessment of key risks is challenged and reviewed on a regular basis, with the board and its committees receiving regular reports and information from senior management, operational business units and the risk oversight functions.

Activities during the year

The committee met six times during the year (in conjunction with the now separate Audit Committee) with future meetings to be structured around the financial calendar of the Company. The committee's activities during the year included:

» Review and challenge of the key components of the Group's risk management framework;
» Review and challenge of the ICAAP, exploring scenarios and stress tests to determine an appropriate regulatory capital requirement prior to recommendation to the Board;
» Regulatory changes including MiFID II, GDPR and SM&CR were considered in discussion with management and their impact on the Group assessed; and
» Review of recommendation of the Group's risk appetite statement and tolerance for key risks to the Board.

Audit Committee

The Audit Committee comprises Anne Gunther (Chairman), Carol Duncumb and Joanne Lake. Anne Gunther is a Chartered Banker and the Board is satisfied that all members of the Committee have recent and relevant financial experience. The Board believes the Committee is independent, with all members being Non-Executive Directors.

The key responsibilities of the Audit Committee are:

» To review the Group's accounting procedures and internal financial controls;
» To review the reporting of financial and other information to the shareholders of the Company and to monitor the integrity of the financial statements;
» To review the effectiveness of the external audit process and the independence and objectivity of the external auditors; and
» To report to the Board on how it has discharged its responsibilities.

Committee meetings are normally attended by Chief Financial Officer and Chief Operating Officer and by representatives of the external auditors by way of invitation. The presence of other senior executives from the Group may be requested. The Committee meets with representatives of the external auditors without management present at least once a year.

Corporate governance report continued

External auditor

The Audit Committee considers the appointment of, and fees payable to, the external auditor and discusses with them the scope of the annual audit. 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.

Having reviewed the provisions of the UK Corporate Governance Code with regard to putting the external audit contract out to tender at least every 10 years, the Audit Committee determined that the audit would be put out to tender in 2018. Three audit firms were invited to participate in the process. No contractual obligations restricted the Audit Committee's choice of external auditor. Having concluded a competitive tender in line with best practice in March, the Audit Committee has recommended to the Board that Deloitte LLP be appointed as the Group's statutory auditor for the financial year ending 31 May 2019.

A resolution to approve the appointment of Deloitte LLP will be put to shareholders at the Company's Annual General Meeting ("AGM") on 25 October 2018. RSM UK Audit LLP ("RSM"), or its predecessor firms, has been the auditor of the Company since 2005 and the Audit Committee would like to thank RSM for its years of diligent service to the Company.

Internal audit

The Internal Audit function 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, including:

- audits over user access to the Group's property and accounting software, banking arrangements and the operation of the Mattioli Woods Structured Products Fund. Each review 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 our approach to cyber risks

As the third line of defence, the Internal Audit function (together with the external auditors in connection with their audit of the financial statements) is building risk awareness within the organisation by challenging the first and second lines of defence to continue improving the controls framework.

Activities during the year

The Committee met six times during the year (in conjunction with the now separate Risk and Compliance Committee) with future meetings to be structured around the financial calendar of the Company. The Committee considered significant financial and audit issues, the judgements made in connection with the financial statements and reviewed the narrative within the Annual Report and the Interim Report. Specific audit issues the Committee discussed included:

- management's assessment of the fair value of the call option to acquire the remaining 51% of Amati as at 31 May 2018, reviewing and challenging the key assumptions adopted in the valuation to support the fair value reported
- the provisions recognised in respect of contingent consideration payable on past business combinations and management's key assumptions and estimates applied in reaching these recognition and measurement decisions
- the New Walk development and additions made during the year to ensure treatment remains in accordance with IAS 16
- property leases in respect of MW House and Gateway House that were identified as onerous due to management's intention to vacate these properties within 12 months of the year end
- the accounting treatment and disclosures required on the hive-up of the trade and business assets of Boyd Coughlan Limited during the year
- the disclosure of management's assessed impact of IFRS 9, IFRS 15 and IFRS 16 on the financial statements in future accounting periods

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 met five times during the year, with key items considered including:

- the Group's remuneration policy
- annual review of Executive Directors' and other senior managers' base salaries and bonus arrangements
- awards to be granted under the share option and share incentive schemes established by the Company
- new regulatory requirements on gender pay reporting
- trends in executive pay in the wider market
- the implications new corporate governance requirements may have for the design of the Group's remuneration policy and remuneration disclosures

The Committee continues to review the Group's long-term incentive plans 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.

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	Risk and Compliance Committee[2]	Audit Committee[2]	Remuneration Committee	Nominations Committee
Meetings in year	6	6	6	5	1
Joanne Lake	6	6	6	5	1
Ian Mattioli	6	–	–	–	–
Nathan Imlach	6	–	–	–	–
Murray Smith	6	–	–	–	–
Mark Smith[1]	1	–	–	–	–
Alan Fergusson[1]	1	–	–	–	–
Carol Duncumb	6	5	5	5	1
Anne Gunther	6	6	6	5	1

Notes:
1. Resigned as statutory directors on 15 August 2017.
2. Operated as a combined Audit, Risk and Compliance Committee until 27 July 2018, when split into separate Risk and Compliance and Audit Committees. Ian Mattioli and Mark Smith joined the Risk and Compliance Committee on 27 July 2018.

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}, the Asset Management Executive Committee and the Executive Risk and Compliance Committee.

SET^{GO}

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.

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 comprises the following members[21]:

» Ian Mattioli, Chief Executive Officer
» Murray Smith, Group Managing Director
» Nathan Imlach, Chief Financial Officer
» Mark Smith, Chief Operating Officer
» Sara Andrews, Chief Business Officer
» Simon Gibson, Chief Investment Officer

21 Included Alan Fergusson, Managing Director of Employee Benefits, until his resignation on 1 May 2018.

Corporate governance report continued

Biographies of Ian Mattioli, Murray Smith and Nathan Imlach are set out on pages 36 and 37, with a short biography of the committee's current members set out below.

Mark Smith
Chief Operating Officer, age 48

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 52

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.

Sara Andrews
Chief Business Officer, age 48

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, Facilities and Support Services.

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

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 comprises 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
» George Houston, Technical Director
» Emma Vincent, Compliance Manager
» Chris Smith, Compliance Partner

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

Executive Risk and Compliance Committee

SET^{GO} has delegated authority to the Executive Risk and Compliance Committee to oversee the operation of the Group's risk and compliance framework and activity. The Executive Risk and Compliance Committee is responsible for ensuring that risk, compliance and Internal Audit are considered, reviewed and actions implemented across all areas of the Group including wealth management advice, asset management, pension administration and employee benefits. The committee is also responsible for ensuring that risks are fully considered in context of the Group's ICAAP and the impact on the Group's capital requirements.

The Executive Risk and Compliance Committee meets at least four times a year but more frequently if required. The committee is chaired by the Chief Executive Officer and comprises the following members:

» Ian Mattioli, Chief Executive Officer
» Mark Smith, Chief Operating Officer
» Emma Vincent, Compliance Manager
» Iain McKenzie, Executive Risk Consultant
» Afnan Zada, Internal Audit
» Michael Wright, Wealth Management Director
» Alan Cowan, Client Operations Director

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.

Corporate governance report continued

Evaluation of the Board's performance
During the 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 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 six 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 the Company's registered office 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 given the opportunity to ask questions at the AGM on 25 October 2018. 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
3 September 2018

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 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 managers' 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
» 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 changed from 1 June to 1 September, in line with the Group's other employees.

Shareholders will be asked to approve the Directors' Remuneration Report, including the remuneration policy which applies to the directors and employees of the Group, at the Company's next AGM on 25 October 2018.

Directors' remuneration report continued

Single total figure of remuneration for each director

Directors' remuneration payable in respect of the years ended 31 May 2018 and 2017 was as follows:

	Salary and fees		Benefits		Bonus		Long-term incentive plan		Pension-related benefits		Share incentive plan		Total	
	2018 £000	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Executives														
Ian Mattioli[3]	**540**	523	**2**	2	**500**	480	**579**	654	**52**	50	**2**	2	**1,675**	1,711
Bob Woods[4]	**—**	74	**—**	—	**—**	—	**—**	—	**—**	7	**—**	—	**—**	81
Nathan Imlach[2]	**304**	294	**14**	12	**228**	227	**378**	381	**30**	29	**2**	2	**956**	945
Murray Smith[2]	**260**	247	**14**	13	**214**	193	**326**	371	**26**	26	**2**	2	**842**	852
Mark Smith[2,5,7]	**41**	247	**2**	12	**20**	192	**—**	316	**4**	27	**—**	2	**67**	796
Alan Fergusson[3,5,6]	**139**	214	**—**	2	**—**	156	**—**	—	**3**	21	**—**	2	**142**	395
Sub-total	**1,284**	1,599	**32**	41	**962**	1,248	1,283	1,722	**115**	160	**6**	10	**3,682**	4,780
Non-executives														
Joanne Lake	**96**	91	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**96**	91
Carol Duncumb	**47**	45	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**47**	45
Anne Gunther	**50**	45	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**50**	45
Sub-total	**193**	181	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**193**	181
Total	**1,477**	1,780	**32**	41	**962**	1,248	**1,283**	1,722	**115**	160	**6**	10	**3,875**	4,961

Notes:
1. The benefit package of each Executive Director includes the provision of life assurance under a group scheme.
2. The benefit packages of Nathan Imlach, Murray Smith and Mark Smith include the provision of a company car.
3. The benefit packages of Ian Mattioli and Alan Fergusson include a car allowance.
4. Bob Woods ceased to be a director on 25 October 2016.
5. Mark Smith and Alan Fergusson ceased to be directors on 15 August 2017.
6. Alan Fergusson received a termination payment of £103,000 on ceasing to be an employee on 1 May 2018.
7. Mark Smith exercised 34,690 share options during the year after ceasing to be a director, resulting in a gain of £277,518.

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 2018, the bonus arrangements for the Executive Directors comprised:

» a corporate award based on actual profit achieved compared to target profit

» 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. Personal objectives are reviewed and approved by the Remuneration Committee at the start of each financial year, with the payment of personal awards being made at the committee's discretion. For the year ending 31 May 2019, 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%

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 2018 the Remuneration Committee granted further awards under the LTIP in respect of the year ended 31 May 2017. 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 that 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 2018, the Company had granted options to certain of its senior employees and Executive Directors to acquire (in aggregate) up to 3.26% (2017: 3.13%) of its share capital. The maximum entitlement of any individual was 0.80% (2017: 0.57%). The options are exercisable at 1p per share.

Grant of cash-settled options under the LTIP
During the year, the Company settled all outstanding cash-settled options granted under the LTIP, such that at 31 May 2018 there were no cash-settled options in issue (2017: 0.46% of the Company's share capital). The maximum entitlement of any individual was nil (2017: 0.27%). The options settled during the year were exercisable at 1p per share. The cash entitlement on vesting of the awards was directly linked to the value of the equivalent number of the Company's shares at the vesting date.

Directors' remuneration report continued

Mattioli Woods 2010 Long-Term Incentive Plan continued

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 2018 the Company held no shares in treasury (2017: 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 2018, the Company had granted options under the Consultants' Share Option Plan to certain of its senior consultants to acquire (in aggregate) up to 0.18% (2017: 0.39%) of its share capital. The maximum entitlement of any individual was 0.16% (2017: 0.17%). 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 2017 No.	Granted during the year No.	Exercised during the year No.	Forfeited during the year No.	At 31 May 2018 No.
Ian Mattioli	1	0.01	148,149	61,527	—	—	**209,676**
	2	0.01	69,380	—	(69,380)	—	**—**
			217,529	61,527	(69,380)	—	**209,676**
Murray Smith	1	0.01	102,232	27,821	(40,703)	—	**89,350**
	2	0.01	—	—	—	—	**—**
			102,232	27,821	(40,703)	—	**89,350**
Mark Smith[3]	1	0.01	96,219	24,335	(34,690)	—	**85,864**
	2	0.01	—	—	—	—	**—**
			96,219	24,335	(34,690)	—	**85,864**
Nathan Imlach	1	0.01	120,245	28,898	(47,179)	—	**101,964**
	2	0.01	—	—	—	—	**—**
			120,245	28,898	(47,179)	—	**101,964**
Alan Fergusson[3]	1	0.01	51,520	9,844	—	(35,117)	**26,247**
	2	0.01	—	—	—	—	**—**
			51,520	9,844	—	(35,117)	**26,247**
Total equity settled			518,365	152,425	(122,572)	(35,117)	**513,101**
Total cash settled			69,380	—	(69,380)	—	—

Notes:
1. Equity settled awards.
2. Cash settled awards.
3. Mark Smith and Alan Fergusson ceased to be directors on 15 August 2017.

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 2018.

Note 19 to the financial statements contains a detailed schedule of all options granted to directors and employees as at 31 May 2018. 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 six months' prior written notice to expire at any time on or after the initial 12-month period.

Directors' shareholdings

As at 31 May 2018, 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	**2018 No.**	**%**	2017 No.	%
Ian Mattioli	**3,299,254**	**12.62**	3,235,264	12.55
Bob Woods[2]	**2,258,723**	**8.64**	2,574,171	9.98
Nathan Imlach	**112,039**	**0.43**	104,396	0.40
Murray Smith	**79,246**	**0.30**	88,649	0.34
Alan Fergusson[3]	**67,476**	**0.26**	66,950	0.26
Carol Duncumb	**8,800**	**0.03**	6,280	0.02
Mark Smith[3]	**5,333**	**0.02**	4,846	0.02
Joanne Lake	**4,100**	**0.02**	4,100	0.02
Anne Gunther	**4,000**	**0.02**	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 2018 was 797.5p and the range during the financial year was 727.0p to 861.0p.

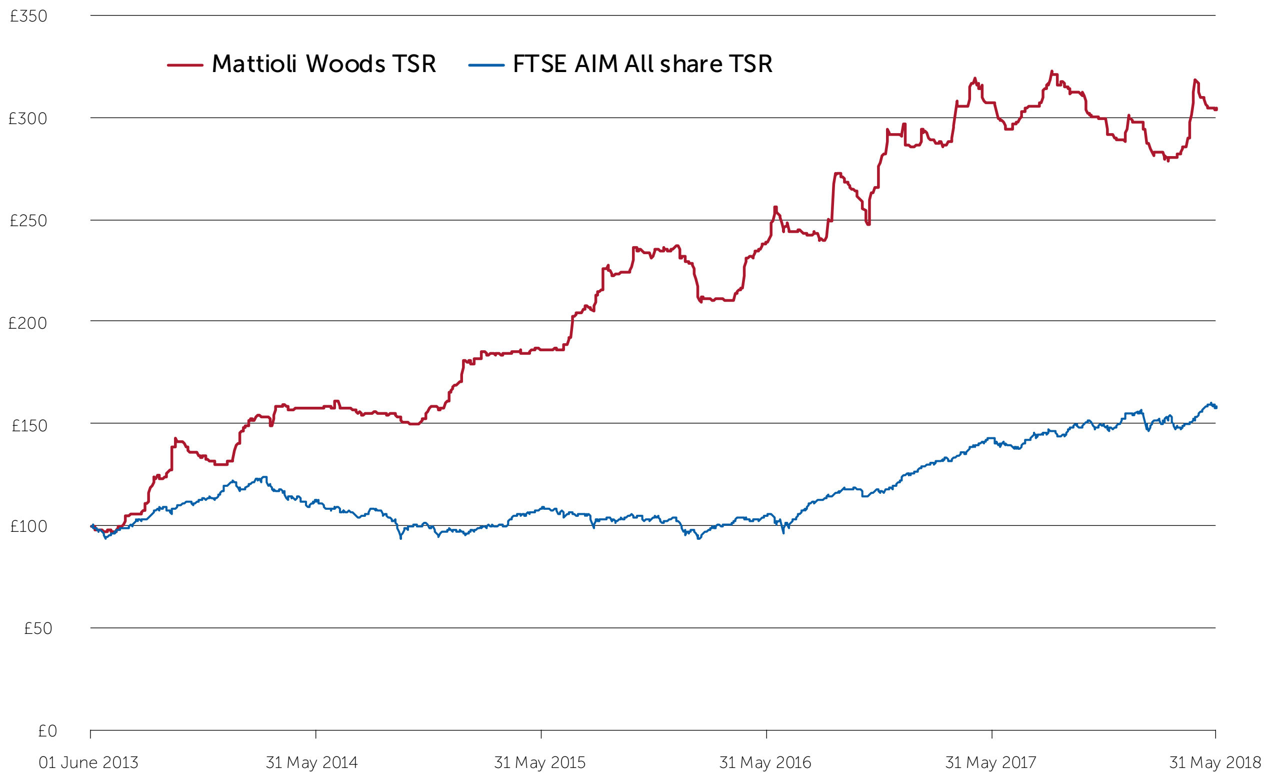
None of the directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year, other than those disclosed in Note 29 to the financial statements.

There was no change in the directors' shareholdings (all of which are beneficial) or their interests in share options between 31 May 2018 and 3 September 2018.

Directors' remuneration report continued

Total shareholder return performance graph

The graph below illustrates the total shareholder return ("TSR") for the five years ended 31 May 2018 in terms of the change in value of an initial investment of £100 invested on 1 June 2013 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
3 September 2018

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 2018. 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 includes further information about the Group's principal activities on page 6 to 9, and financial performance during the year and indications of likely future developments on page 18 to 20.

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 £8.2m (2017: £6.4m), up 28.1% on the previous year as a result of strong revenue growth, with revenues up 16.2% to £58.7m (2017: £50.5m). The effective rate of taxation was again below the standard rate of tax at 16.2% (2017: 16.9%), primarily due to research and development relief claimed for the two years ended 31 May 2017, with a lower effective rate in the equivalent period last year resulting from the reversal 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 2017 of 9.4p per share was paid in October 2017. An interim dividend in respect of the year ended 31 May 2018 of 5.5p per share was paid to shareholders in March 2018. The directors recommend a final dividend of 11.5p per share. This has not been included within the Group financial statements as no obligation existed at 31 May 2018. If approved, the final dividend will be paid on 26 October 2018 to ordinary shareholders whose names are on the register at the close of business on 21 September 2018.

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 2018 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
- 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.

Directors' report continued

Substantial shareholdings

At 3 September 2018, 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	3,299,254	12.6%
Liontrust Investment Partners LLP	2,983,077	11.4%
BlackRock, Inc.	2,599,692	9.9%
Investec Wealth and Investment Limited	2,582,756	9.8%
Standard Life Aberdeen plc	2,383,687	9.1%
Bob Woods	2,258,723	8.6%
Schroder Investment Management Limited	1,282,340	4.9%
Unicorn Asset Management	1,151,538	4.4%

In addition to the above shareholdings, 584,496 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 36 and 37. The Company's articles of association require that any Director who held office at the time of the two preceding AGMs and who did not retire at either of them shall retire from office at the next AGM and may offer himself for re-election. As a matter of good governance however, each of the Directors will stand for re-election at this AGM.

The Board has a process for the evaluation of its own performance and that of the individual Directors and, following the evaluation of the performance of the Directors during the year ended 31 May 2018, it was confirmed that each Director continues to be an effective member of the Board and to demonstrate commitment to the role.

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.

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. 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. 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 operate 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 AGM of the Company will be held on 25 October 2018. 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 12, 13 and 14 are the only special business being proposed. Resolution 12 renews the authorities previously granted to the Directors to (a) allot shares in the Company in connection with a rights issue or other pre-emptive offer and (b) otherwise allot shares in the Company for cash up to a maximum nominal amount (representing approximately 5% of the share capital of the Company in issue at 14 September 2018). In each case as if the pre-emption rights of section 561 of the Companies Act 2006 ("the Act") did not apply.

Resolution 13 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.

Directors' report continued

Annual General Meeting continued

Resolution 14 seeks authority in accordance with section 701 of the Act for the directors to make market purchases of the Company's shares up to a maximum of 10% of the Company's issued share capital, provided that the maximum price paid is no higher than an amount equal to 5% above the average mid-market price of the Company's shares for the previous five business days before the purchase is made, or the higher of the price of the last independent trade and the highest current independent bid on the Company's shares on the AIM Index of the London Stock Exchange Daily Official List.

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 Act.

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 22 to 26 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 pages 38 and 39 of the review of Corporate Governance. The key risks and mitigating factors are set out on pages 22 to 26.

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 34 to 44.

Auditor

In line with good corporate governance, during the year the Audit Committee 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. Three audit firms were invited to participate in the process. No contractual obligations restricted the Audit Committee's choice of external auditor.

Having concluded a competitive tender in line with best practice in March, the Audit Committee recommended that Deloitte LLP be appointed as the Group's statutory auditor. Deloitte LLP has confirmed their willingness to be appointed as auditor in accordance with Section 489 of the Companies Act 2006. The Group is satisfied that Deloitte LLP are independent and there are adequate safeguards in place to safeguard their objectivity.

A resolution to approve the appointment of Deloitte LLP will be put to shareholders at the Company's AGM on 25 October 2018. RSM UK Audit LLP ("RSM"), or its predecessor firms, has been the auditor of the Company since 2005 and the Board would like to thank RSM for its years of diligent service to the Company.

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 36 and 37. 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 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
3 September 2018

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 the IFRS are adopted by the EU to present fairly the financial position of the Group and Company as well as 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 IFRS 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 2018 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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2018 and of the group's profit for the year then ended

» the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union

» the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006

» the financial statements 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 and parent company 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 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

» 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.

Other trade receivables and accrued income

Other trade receivables and accrued income are set out in Note 20 "Trade and other receivables (current)" and Note 2.4 – "Key sources of judgement and estimation uncertainty". In view of the size of the balances and judgements concerning recoverability as part of our audit we reviewed the processes undertaken to identify doubtful realisation which could impact on reported profits. We audited samples of balances where receivables are past credit terms and to consider actual outcomes for accrued income. 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.

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

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 £1,000,000, 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 £10,000, 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.

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
- 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 their 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
- the parent company financial statements are not in agreement with the accounting records and returns
- certain disclosures of directors' remuneration specified by law are not made
- 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 56, 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 FRC's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our 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

3 September 2018

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Financial statements

Consolidated statement of comprehensive income
For the year ended 31 May 2018

	Note	2018 £000	2017 £000
Revenue	4	**58,669**	50,533
Employee benefits expense	11	**(32,148)**	(28,711)
Other administrative expenses		**(12,833)**	(9,558)
Share-based payments	19	**(1,497)**	(1,902)
Amortisation and impairment	16,18	**(2,225)**	(1,996)
Depreciation	15	**(822)**	(606)
Loss on disposal of property, plant & equipment		**(67)**	(61)
Gain on revaluation of derivative financial instrument	17	**540**	93
Operating profit before financing	10	**9,617**	7,792
Finance revenue	8	**73**	45
Finance costs	9	**(154)**	(291)
Net finance costs		**(81)**	(246)
Share of profit from associate, net of tax	17	**240**	103
Profit before tax		**9,776**	7,649
Income tax expense	12	**(1,586)**	(1,293)
Profit for the year		**8,190**	6,356
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year, net of tax		**8,190**	6,356
Attributable to:			
Equity holders of the parent		**8,190**	6,356
Earnings per ordinary share:			
Basic (pence)	13	**31.2**	24.5
Diluted (pence)	13	**31.1**	24.4
Proposed total dividend per share (pence)	14	**17.0**	14.1

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 2018

	Note	2018 Group £000	2018 Company £000	2017 Group £000	2017 Company £000
Assets					
Property, plant and equipment	15	**16,483**	**2,892**	9,671	2,209
Intangible assets	16	**43,199**	**40,931**	44,444	36,743
Deferred tax asset	12	**674**	**664**	798	777
Investments in subsidiaries	17	**—**	**18,572**	—	18,572
Investment in associate	17	**3,725**	**3,725**	3,476	3,476
Derivative financial asset	21	**650**	**650**	110	110
Total non-current assets		**64,731**	**67,434**	58,499	61,887
Trade and other receivables	20	**16,946**	**28,906**	15,692	22,767
Investments	17	**81**	**81**	86	86
Cash and short-term deposits	22	**23,668**	**17,880**	22,979	12,172
Total current assets		**40,695**	**46,867**	38,757	35,025
Total assets		**105,426**	**114,301**	97,256	96,912
Equity					
Issued capital	23	**261**	**261**	258	258
Share premium	23	**31,283**	**31,283**	30,314	30,314
Merger reserve	23	**8,781**	**8,781**	8,781	8,781
Equity – share-based payments	23	**3,010**	**3,010**	2,571	2,571
Capital redemption reserve	23	**2,000**	**2,000**	2,000	2,000
Retained earnings	23	**33,615**	**28,468**	28,671	23,892
Total equity attributable to equity holders of the parent		**78,950**	**73,803**	72,595	67,816
Non-current liabilities					
Deferred tax liability	12	**3,455**	**3,218**	3,600	2,692
Financial liabilities and provisions	26	**596**	**17,506**	2,842	11,337
Total non-current liabilities		**4,051**	**20,724**	6,442	14,029
Current liabilities					
Trade and other payables	25	**17,988**	**15,972**	12,862	10,501
Income tax payable		**695**	**101**	957	259
Financial liabilities and provisions	26	**3,742**	**3,701**	4,400	4,307
Total current liabilities		**22,425**	**19,774**	18,219	15,067
Total liabilities		**26,476**	**40,498**	24,661	29,096
Total equities and liabilities		**105,426**	**114,301**	97,256	96,912

The profit of the Company for the financial year, after taxation, was £7.8m (2017: £4.5m).

The financial statements on pages 62 to 110 were approved by the Board of directors and authorised for issue on 3 September 2018 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 2018

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 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 associates	—	—	—	—	—	5	5
Issue of share capital	6	2,549	250	—	—	—	2,805
Share-based payment transactions	—	—	—	949	—	—	949
Deferred tax recognised in equity	—	—	—	52	—	—	52
Current tax taken to equity	—	—	—	237	—	—	237
Reserves transfer	—	—	—	(309)	—	309	—
Dividends	—	—	—	—	—	(3,390)	(3,390)
As at 31 May 2017	258	30,314	8,781	2,571	2,000	28,671	72,595
Profit for the year	—	—	—	—	—	8,190	8,190
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**8,190**	**8,190**
Transactions with owners of the Group, recognised directly in equity							
Share of other comprehensive income from associates	—	—	—	—	—	9	9
Issue of share capital	3	969	—	—	—	—	972
Share-based payment transactions	—	—	—	1,020	—	—	1,020
Deferred tax derecognised in equity	—	—	—	(62)	—	—	(62)
Current tax taken to equity	—	—	—	92	—	—	92
Reserves transfer	—	—	—	(611)	—	611	—
Dividends	—	—	—	—	—	(3,866)	(3,866)
As at 31 May 2018	**261**	**31,283**	**8,781**	**3,010**	**2,000**	**33,615**	**78,950**

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 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 associates	—	—	—	—	—	5	5
Issue of share capital	6	2,549	250	—	—	—	2,805
Share-based payment transactions	—	—	—	949	—	—	949
Deferred tax recognised in equity	—	—	—	52	—	—	52
Current tax taken to equity	—	—	—	237	—	—	237
Reserves transfer	—	—	—	(309)	—	309	—
Dividends	—	—	—	—	—	(3,390)	(3,390)
As at 31 May 2017	258	30,314	8,781	2,571	2,000	23,892	67,816
Profit for the year	—	—	—	—	—	7,822	7,822
Total comprehensive income	**—**	**—**	**—**	**—**	**—**	**7,822**	**7,822**
Transactions with owners of the Company, recognised directly in equity							
Share of other comprehensive income from associates	—	—	—	—	—	9	9
Issue of share capital	3	969	—	—	—	—	972
Share-based payment transactions	—	—	—	1,020	—	—	1,020
Deferred tax derecognised in equity	—	—	—	(62)	—	—	(62)
Current tax taken to equity	—	—	—	92	—	—	92
Reserves transfer	—	—	—	(611)	—	611	—
Dividends	—	—	—	—	—	(3,866)	(3,866)
As at 31 May 2018	**261**	**31,283**	**8,781**	**3,010**	**2,000**	**28,468**	**73,803**

Consolidated and company statements of cash flows
For the year ended 31 May 2018

	Note	Group 2018 £000	Company 2018 £000	Group 2017 £000	Company 2017 £000
Operating activities					
Profit for the year					
Adjustments for:		**8,190**	**7,822**	6,356	4,481
Depreciation	15	**822**	**815**	606	596
Amortisation and impairment	16,17	**2,225**	**2,004**	1,996	1,655
Investment income	8	**(73)**	**(458)**	(45)	(150)
Interest expense	9	**154**	**551**	291	494
Share of profit from associate	17	**(240)**	**(240)**	(103)	(103)
Gain on revaluation of derivative financial asset	17,31	**(540)**	**(540)**	(93)	(93)
Loss on disposal of property, plant and equipment		**67**	**68**	61	61
Equity-settled share-based payments	19	**1,378**	**1,378**	1,241	1,241
Cash-settled share-based payments		**119**	**119**	661	661
Dividend income		**—**	**(2,500)**	—	(800)
Income tax expense	12	**1,586**	**886**	1,293	706
Cash flows from operating activities before changes in working capital and provisions		**13,688**	**9,905**	12,264	8,749
Increase in trade and other receivables		**(957)**	**(5,043)**	(2,018)	(9,140)
Increase in trade and other payables		**5,100**	**5,187**	1,762	1,944
Increase/(decrease) in provisions		**344**	**325**	(1,544)	(1,536)
Cash generated from operations		**18,175**	**10,374**	10,464	17
Interest paid		**(1)**	**(1)**	(2)	(2)
Income taxes paid		**(1,840)**	**(1,419)**	(1,700)	(875)
Net cash flows from operating activities		**16,334**	**8,954**	8,762	(860)
Investing activities					
Proceeds from sale of property, plant and equipment		**72**	**68**	126	126
Purchase of property, plant and equipment	15	**(7,773)**	**(1,627)**	(8,225)	(1,004)
Purchase of software	16	**(980)**	**(980)**	(616)	(612)
Consideration paid on acquisition of subsidiaries	3	**(3,506)**	**(3,506)**	(3,490)	(3,490)
Investment in subsidiary	17	**—**	**—**	—	(1,000)
Consideration paid for shares in associate	17	**—**	**—**	(1,646)	(1,646)
Cash transferred on hive up of group companies		**—**	**3,765**	—	1,289
Cash received on acquisition of subsidiaries	3	**—**	**—**	172	—
Other investments	17	**9**	**9**	—	—
Loans advanced to property syndicates		**(2,332)**	**(2,332)**	(541)	(541)
Loan repayments from property syndicates		**2,032**	**2,032**	571	571
Interest received	8	**73**	**65**	39	24
Dividends received		**—**	**2,500**	—	800
Net cash flows from investing activities		**(12,405)**	**(6)**	(13,610)	(5,483)
Financing activities					
Proceeds from the issue of share capital		**626**	**626**	524	524
Repayment of borrowings acquired in business combinations		**—**	**—**	884	—
Dividends paid	14	**(3,866)**	**(3,866)**	(3,390)	(3,390)
Net cash flows from financing activities		**(3,240)**	**(3,240)**	(1,982)	(2,866)
Net increase/(decrease) in cash and cash equivalents		**689**	**5,708**	(6,830)	(9,209)
Cash and cash equivalents at start of year	22	**22,979**	**12,172**	29,809	21,381
Cash and cash equivalents at end of year	22	**23,668**	**17,880**	22,979	12,172

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 3 September 2018.

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 2014-2016 cycle		1 January 2017
IAS 7	Disclosure initiative	1 January 2017
IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017

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 and, therefore, have not been applied in preparing these consolidated financial statements. At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

Standard or interpretation		Periods commencing on or after
Annual improvements to IFRSs 2014-2016 cycle		1 January 2018
IFRS 2 (amended)	Classification and measurement of share-based payments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IAS 40 (amended)	Transfers of investment property	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 23	Accounting for uncertain tax treatments	1 January 2019
IAS 28 (amended)	Long-term interests in associates and joint ventures	1 January 2019
Annual improvements to IFRSs 2015-2017 cycle		1 January 2019
IAS 19 (amended)	Plan amendment, curtailment or settlement	1 January 2019
Amendments to references to the conceptual framework in IFRS standards		1 January 2020
IFRS 17	Insurance contracts	1 January 2021

IFRS 16 'Leases' is expected to have a significant effect on the condensed consolidated interim financial statements and the consolidated financial statements of the Group, as explained below. 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 future periods.

IFRS 9 Financial Instruments

IFRS 9 'Financial instruments' was issued in July 2014, is effective for accounting periods beginning on or after 1 January 2018, was adopted by the Group on 1 June 2018 and therefore will impact the Group's financial statements for the year ending 31 May 2019.

IFRS 9 introduces changes to the classification of financial assets and a new impairment model for financial assets, which will result in earlier recognition of impairment losses. Under the expected credit loss model, loss allowances equal to either the 12-month or lifetime expected credit losses are recognised on initial recognition of financial assets, depending on assessed credit risk. The latter is applied where there has been a significant deterioration in credit quality of the asset, although a simplified approach for calculating expected credit losses on trade receivables and contract assets is available, which looks only at lifetime expected credit losses. Additional disclosure requirements include both quantitative and qualitative disclosures supporting the basis and recognition of loss allowances, and the recognition of the loss allowance within provisions.

The Group has assessed the impact of accounting changes that will arise under IFRS 9:

» provisions for impairment losses against financial assets, which will be recognised sooner as lifetime expected credit losses are recognised on initial recognition of those financial assets
» the Group's trade receivables and accrued income ('contract assets' under IFRS 15) are generally short term and do not include a financing component. As a result, the Group expects to apply the simplified approach and reflect lifetime expected credit losses

Provisional evaluation of the application of IFRS 9 indicates an expected reduction to opening equity and the carrying amount of financial assets and liabilities recognised in the consolidated financial statements of £0.4m. The classification of financial assets held by the Group is not expected to change.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 'Revenue from contracts with customers' was issued in May 2014 and is effective for accounting periods beginning on or after 1 January 2018, it was adopted by the Group on 1 June 2018 and therefore impact the Group's financial statements for the year ending 31 May 2019.

IFRS 15 changes the way revenue from some customer contracts is recognised, impacting both the timing at which revenue may be recognised, and the value of revenue recognised. Customer contracts are broken down in to separate performance obligations, with contractual revenues being allocated to each performance obligation and revenue recognised on a basis consistent with the transfer of control of goods or services. Additional disclosure requirements include the reporting of disaggregated revenues, and the recognition of contract assets and contract liabilities on the face of the statement of financial position.

The Group has assessed the impact of accounting changes that will arise under IFRS 15:

» timing of recognition of some non-recurring revenues may be deferred where contract performance conditions are deemed not to have been met at the reporting date
» contract balances will be reclassified in the statement of financial position, but this is not expected to impact the value of net current assets reported
» additional disclosures will be included in the annual report to disclose revenues from customer contracts on a disaggregated basis

Provisional evaluation of the application of IFRS 15 suggests that no adjustments are required to opening equity or the carrying amount of financial assets and liabilities recognised in the consolidated financial statements.

IFRS 16 Leases

IFRS 16 'Leases' was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019, will be adopted by the Group on 1 June 2019 and therefore will impact the Group's financial statements for the year ending 31 May 2020.

IFRS 16 will primarily change lease accounting for lessees. Lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right-of-use asset and interest on the lease liability. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but will be substantially different to existing accounting for operating leases where rental charges are currently recognised on a straight-line basis and no lease asset or lease loan obligation is recognised.

Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting and is not expected to have a material impact for the Group. The Group is assessing the impact of the following accounting changes that will arise under IFRS 16:

» right-of-use assets will be recorded for assets that are leased by the Group; currently no lease assets are included on the Group's consolidated statement of financial position for operating leases
» liabilities will be recorded for discounted future lease payments in the Group's consolidated statement of financial position for the "reasonably certain" period of the lease, which may include future lease periods for which the Group has extension options. Currently liabilities are generally not recorded for future operating lease payments, which are disclosed as commitments unless they are considered onerous. The amount of lease liabilities will not equal the lease commitments reported on 31 May 2018, but may not be dissimilar

Notes to the financial statements continued

2.2 Developments in reporting standards and interpretations continued

IFRS 16 Leases continued

- lease expenses will be recognised as depreciation of right-of-use assets and interest on lease liabilities; interest will typically be higher in the early stages of a lease and reduce over the term. Currently operating lease rentals are expensed on a straight-line basis over the lease term within operating expenses
- operating lease cash flows are currently included within operating cash flows in the consolidated statement of cash flows; under IFRS 16 these will be recorded as cash flows from financing activities reflecting the repayment of lease liabilities (borrowings) and related interest

The Group is continuing to assess the impact of these and other accounting changes that will arise under IFRS 16 and expects the changes highlighted to have a material impact on the consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows after adoption on 1 June 2019:

- EBITDA is likely to rise because the lease expense under IAS 17 for operating leases will be removed and replaced with additional depreciation and finance costs. The profit profile of the business will also change as more expense is recognised in earlier periods and less in later periods compared to the straight-line amount recognised under IAS 17.
- For leases classified as operating leases under IAS 17, there will be a significant impact on the Statement of Financial Position as these assets and corresponding liabilities have to be recognised. This will impact on gearing levels and potentially on covenants provided to prospective lenders and others.

Application of IFRS 9, IFRS 15 and IFRS 16

When IFRS 9, IFRS 15 and IFRS 16 are adopted, they can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented in the financial statements, or with their cumulative retrospective impact applied as an adjustment to equity on the date of adoption; when the latter approach is applied it is necessary to disclose the impact of IFRS 15 and IFRS 16 on each line item in the financial statements in the reporting period.

Depending on the adoption method that is utilised, certain practical expedients may be applied on adoption. The Group has not yet determined which method will be adopted or which expedients will be applied on adoption of these standards.

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-organisations

On 31 December 2017 the trade and assets of the Boyd Coughlan Limited 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 Boyd Coughlan Limited as at 31 December 2017, attracting annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

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	0% until asset becomes available for use
» freehold buildings	2% per annum on cost
» 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
» leasehold improvements	straight line over the remaining term of the lease

Assets under construction are not depreciated until construction is complete and the asset is available for use. At the point when the asset becomes available for use, it 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
- 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
- internally-generated software — straight line over ten 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.

Notes to the financial statements continued

2.3 Principal accounting policies continued

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.

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 asset's 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 asset's 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.

Financial liabilities

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 payments, 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).

Notes to the financial statements continued

2.3 Principal accounting policies continued

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.

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.

DPM and fund management income

Initial charges on the placing of investments 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. Ongoing discretionary portfolio management charges and fund management charges, based on the value of assets invested, are recognised during the period the assets are held in the portfolio or investment fund.

Property fund management income

Property fund management charges, including charges based on the value of assets in the fund, are recognised during the period the assets are held in the property fund.

Employee benefits fee income

Fee income from employee benefits services on the set up of an employee benefits scheme or provision of non-recurring employee benefits services are recognised on completion of rendering those services. Ongoing management charges on employee benefits schemes are recognised over the period to which they relate.

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, and carry forward unused tax credits and unused tax losses to the extent it is probable taxable profit will be available against deductible temporary differences, with the carry forward of unused tax credits and unused tax losses being 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 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
- 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% (2017: 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 (2017: 7.5x) to arrive at a fair value.

The carrying amount of client portfolios at 31 May 2018 was £23.5m (2017: £25.2m). No impairment provisions have been made during the year (2017: £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 the value in use calculation, 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 2018 was £17.3m (2017: £17.3m). No impairment provisions have been made during the year (2017: £nil) based upon the directors' review.

Notes to the financial statements continued

2.4 Key sources of judgements and estimation uncertainty continued

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 2018 was £1.0m (2017: £1.1m).

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 2018 was £0.7m (2017: £0.8m).

Derivative financial assets

The Group entered into an option agreement to acquire the remaining 51% of the share capital of Amati in the two years following 6 February 2019. The fair value of the option is calculated by a third party valuation expert using Monte Carlo simulation software and involves some estimation and uncertainty in determining the key inputs into the valuation model. In particular, the key judgemental areas include the expected timing of the exercise of the option, the value of Amati as at the date of exercise and the value of shares payable as consideration on exercise. The carrying amount of the derivative financial instrument at 31 May 2018 was £0.7m (2017: £0.1m).

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 2018 was £3.7m (2017: £3.5m).

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 2018 was £5.6m (2017: £4.5m).

Accrued income

Accrued income is recognised in respect of fees, adviser charges and commissions due to the Group on investments and bank deposits placed during the accounting period which have not been received at the reporting date. This requires an estimation of the amount of income that will be received subsequent to the reporting date in respect of the accounting period, which is based on the value of historic receipts and investments placed by clients under management and advice. The carrying amount of accrued income at 31 May 2018 was £3.9m (2017: £3.2m).

Acquisitions and business combinations

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

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

Contingent consideration payable on acquisitions

The Group has entered into certain acquisition agreements that provide for a contingent consideration to be paid. A financial instrument is recognised for all amounts management anticipates will be paid under the relevant acquisition agreement. This requires management to make an estimate of the expected future cash flows from the acquired business and determine a suitable discount rate for the calculation of the present value of any deferred contingent consideration payments. The carrying amount of contingent consideration provided for at 31 May 2018 was £0.9m (2017: £4.4m).

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.

The move to the Group's new central Leicester office is scheduled to complete in October 2018. An onerous lease provision was recognised during the year as the Group intends to vacate its existing premises in Leicester after the Group takes occupation of its new office at New Walk. Management estimated the value of the onerous lease provision making assumptions about the amount and timing of the cash flows associated with serving notice on one lease that was being held over and surrendering two unexpired leases. The carrying amount of onerous lease costs provided for at 31 May 2018 was £0.9m (2017: £nil).

3. Business combinations

The Group did not complete any acquisitions during the year. Transaction costs of £0.1m (2017: £0.4m) incurred on the review of potential acquisitions 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.

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 the remaining contingent consideration payable is £0.9m (2017: £4.4m).

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 2018 to be £0.5m (2017: £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 up to £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 2018 to be £0.4m (2017: £2.2m) using cash flows approved by the Board covering the contingent consideration period. The maximum contingent consideration was paid following the year end, after the early achievement of all revenue and profit targets.

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 up to £2.5m payable in cash in the two years following completion if certain profit targets are met. At 31 May 2018 no further consideration is payable (2017: £1.2m), with the maximum contingent consideration having been paid.

4. Revenue

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

	2018 £000	2017 £000
Rendering of services	**56,645**	49,070
Commission income	**2,024**	1,463
	58,669	50,533

Rendering of services includes consultancy and administration fees, employee benefits fee income, adviser charges, DPM and fund management charges.

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 now geared to the prevailing economic and market conditions.

Notes to the financial statements continued

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 Boyd Coughlan Limited 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;
- 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 2018 and 2017 respectively.

Year ended 31 May 2018	Investment and asset management £000	Pension consultancy and administration £000	Property management £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
Revenue							
External client	25,096	21,822	5,918	5,833	58,669	—	58,669
Total revenue	25,096	21,822	5,918	5,833	58,669	—	58,669
Results							
Segment profit before tax	8,306	3,714	1,016	113	13,149	(3,373)	9,776

Year ended 31 May 2017	Investment and asset management £000	Pension consultancy and administration £000	Property management £000	Employee benefits £000	Total segments £000	Corporate costs £000	Consolidated £000
Revenue							
External client	21,079	18,869	5,178	5,407	50,533	—	50,533
Total revenue	21,079	18,869	5,178	5,407	50,533	—	50,533
Results							
Segment profit before tax	5,008	3,569	1,198	458	10,233	(2,584)	7,649

Segment assets

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

	31 May 2018 £000	31 May 2017 £000
Pension consultancy and administration	**23,790**	23,831
Investment and asset management	**23,023**	22,870
Property management	**1,159**	1,360
Employee benefits	**11,177**	11,649
Total segments	**59,149**	59,710
Corporate assets	**46,278**	37,546
Total assets	**105,427**	97,256

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.

Reconciliation of assets	31 May 2018 £000	31 May 2017 £000
Segment operating assets	**59,149**	59,710
Property, plant and equipment	**16,483**	9,671
Intangible assets	**2,475**	1,964
Deferred tax asset	**675**	798
Derivative financial asset	**650**	110
Prepayments and other receivables	**2,246**	1,938
Investments	**81**	86
Cash and short-term deposits	**23,668**	22,979
Total assets	**105,427**	97,256

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.

Reconciliation of profit before tax	31 May 2018 £000	31 May 2017 £000
Total segments	**13,149**	10,233
Increase in provisions	**(1,029)**	(85)
Irrecoverable VAT	**(829)**	(531)
Depreciation	**(822)**	(606)
Amortisation and impairment	**(469)**	(259)
Professional indemnity insurance	**(466)**	(489)
Acquisition-related costs	**(132)**	(378)
Finance costs	**(154)**	(291)
Loss on disposal of assets	**(67)**	(61)
Bank charges	**(18)**	(22)
Finance income	**73**	45
Gain on revaluation of derivative financial asset	**540**	93
Group profit before tax	**9,776**	7,649

Notes to the financial statements continued

6. Segment information continued

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 2018.

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 2018 £000	Company Associates of RSM UK Audit LLP 2018 £000	**Total 2018 £000**	Total 2017 £000
Audit-related services:				
Audit of the Company	82	–	**82**	50
Audit of subsidiaries	24	–	**24**	28
Interim review	20	–	**20**	15
Other assurance – CASS reporting	9	–	**9**	11
	135	–	**135**	104
Non-audit services:				
Corporate finance	–	5	**5**	62
Subsidiary statutory accounts preparation	–	–	**–**	25
Other non audit services	–	23	**23**	14
	–	28	**28**	101
Total	135	28	**163**	205

8. Finance revenue

	2018 £000	2017 £000
Bank interest receivable	**73**	45
	73	45

9. Finance costs

	2018 £000	2017 £000
Unwinding of discount on provisions	**154**	291
	154	291

10. Operating profit

Included in operating profit before financing:	**2018 £000**	2017 £000
Depreciation (Note 15)	**(822)**	(606)
Amortisation and impairment of intangible assets (Notes 16 and 18)	**(2,225)**	(1,996)
Minimum lease payments recognised as an operating lease expense (Note 27)	**(1,030)**	(882)
Gain on revaluation of derivative financial instrument (Notes 17 and 31)	**540**	93

11. Employee benefits expense

The average monthly number of employees during the year was:	Group 2018 No.	Group 2017 No.	Company 2018 No.	Company 2017 No.
Executive directors	**3**	5	**3**	5
Consultants	**124**	116	**117**	100
Administrators	**259**	245	**239**	215
Support staff	**232**	187	**195**	166
	618	553	**554**	486

Staff costs for the above persons were:	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Wages and salaries	**27,640**	24,302	**25,080**	21,447
Social security costs	**3,290**	3,341	**3,028**	3,041
Pension costs and life insurance	**681**	503	**617**	361
Other staff costs	**537**	565	**506**	550
	32,148	28,711	**29,231**	25,399

In addition, the cost of share-based payments disclosed separately in the consolidated statement of comprehensive income was £1,497,114 (2017: £1,901,936).

Directors' remuneration:	2018 £000	2017 £000
Emoluments	**2,544**	3,132
Company contributions to personal pension schemes	**10**	56
Benefits in kind	**32**	41
	2,586	3,229

The amounts in respect of the highest paid director are as follows:	2018 £000	2017 £000
Emoluments	**1,092**	1,053
Company contributions to personal pension schemes	**—**	—
Benefits in kind	**2**	2
	1,094	1,055

Details of the remuneration payable to each director in respect of the year ended 31 May 2018 is disclosed in the Directors' Remuneration Report on page 46. Five directors (2017: six) accrued benefits under personal pension schemes, or through an equivalent cash award when they have reached their maximum lifetime allowance. During the year 152,425 share options were issued to directors (2017: 209,813) and four directors exercised 191,952 share or cash-settled share options (2017: 288,951). No cash-settled options were issued to directors during the year (2017: nil).

12. Income tax

The major components of income tax expense for the years ended 31 May 2018 and 2017 are:

consolidated statement of comprehensive income	2018 £000	2017 £000
Current tax	**2,013**	1,873
Over provision in prior periods	**(343)**	(169)
	1,670	1,704
Deferred tax credit	**(232)**	(289)
Adjustments in respect of change in tax rate	**—**	(154)
Adjustments in respect of prior periods	**148**	32
Income tax expense reported in the statement of comprehensive income	**1,586**	1,293

The over provision for current tax in prior periods includes £148,793 (2017: £nil) arising from a Research and Development tax credit in respect of the financial years ending 31 May 2016 and 2017.

For the year ended 31 May 2018, current tax recognised directly in equity was £91,721 (2017: £237,480). Deferred tax derecognised directly in equity was £61,719 (2017: £51,921).

Notes to the financial statements continued

12. Income tax continued

Factors affecting the tax charge for the period

The tax charge assessed for the period is lower (2017: lower) than the standard rate of corporation tax in the UK of 19.0% (2017: 19.83%). The differences are explained below:

	2018 £000	2017 £000
Accounting profit before income tax	**9,776**	7,649
Multiplied by standard rate of UK corporation tax of 19.0% (2017: 19.83%)	**1,857**	1,517
Effects of:		
Expenses not deductible for tax	**93**	509
Effects of changes in tax rates	**27**	(154)
Effects of other tax rates	**—**	1
Deferred tax on share options	**(94)**	—
Income not taxable	**(102)**	(443)
Over provision in prior periods	**(195)**	(137)
Income tax expense for the year	**1,586**	1,293
Effective income tax rate	**16.2%**	16.9%

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 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Deferred income tax liability				
Temporary differences on acquired intangibles	**(3,347)**	(3,535)	**(3,110)**	(2,632)
Temporary differences on accelerated capital allowances	**—**	(48)	**—**	(43)
Temporary differences on derivative financial asset	**(108)**	(17)	**(108)**	(17)
Deferred tax liability	**(3,455)**	(3,600)	**(3,218)**	(2,692)
Deferred income tax asset				
Temporary differences on provisions	**74**	91	**63**	71
Temporary differences on accelerated capital allowances	**10**	—	**11**	—
Temporary differences on share-based payments	**590**	707	**590**	706
Deferred tax asset	**674**	798	**664**	777
Net deferred tax liability	**(2,781)**	(2,802)	**(2,554)**	(1,915)
Reflected in the statement of financial position as follows:				
Deferred tax assets	**674**	798	**664**	777
Deferred tax liabilities	**(3,455)**	(3,600)	**(3,218)**	(2,692)
Net deferred tax liability	**(2,781)**	(2,802)	**(2,554)**	(1,915)

There are no income tax consequences for the Group attaching to the payment of dividends by Mattioli Woods plc to its shareholders in either 2017 or 2018.

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 2018 are summarised as follows:

Deferred tax in statement of comprehensive income	2018 £000	2017 £000
Over provision on share options	**118**	—
Deferred tax on derivative financial asset	**103**	17
Under provision for intangibles	**47**	1
Effect of changes in the standard rate of tax	**26**	(151)
Deferred tax on provisions	**22**	1
Under provision for capital allowances in prior period	**(7)**	32
Overprovision for provisions in prior period	**(9)**	(4)
Deferred tax on intangible assets	**(38)**	(185)
Deferred tax on capital allowances	**(55)**	(18)
Deferred tax on share options	**(70)**	(38)
Deferred tax on amortisation of client portfolios	**(220)**	(66)
Deferred tax movement	**(83)**	(411)

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

Deferred tax reconciliation	2018 £000	2017 £000
Opening net deferred tax liability	**(2,802)**	(2,987)
Movement recognised in the Statement of Comprehensive Income	**232**	443
Deferred tax movement recognised in equity	**(62)**	52
Deferred tax arising on acquisitions	**—**	(278)
Adjustment in respect of prior period	**(149)**	(32)
Closing net deferred tax liability	**(2,781)**	(2,802)

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:

	2018 £000	2017 £000
Net profit and diluted net profit attributable to equity holders of the Company	**8,190**	6,356
Weighted average number of ordinary shares:	**000s**	000s
Issued ordinary shares at start period	**25,789**	25,205
Effect of shares issued during the year ended 31 May 2017	**—**	455
Effect of shares issued during the year ended 31 May 2018	**455**	291
Basic weighted average number of shares	**26,244**	25,951
Effect of dilutive options at the statement of financial position date	**53**	101
Diluted weighted average number of shares	**26,297**	26,052

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 3.26% 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 2018 the conditions attached to 787,202 options granted under the LTIP were not satisfied (2017: 777,480). If the conditions had been satisfied, diluted earnings per share would have been 30.2p per share (2017: 24.0p).

Notes to the financial statements continued

13. Earnings per ordinary share continued

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 77,171 ordinary shares as part of the initial consideration for the acquisition of Broughtons Financial Planning Limited (Note 32).

» The issue of 26,247 ordinary shares to satisfy the exercise of options under the LTIP.

» The issue of 23,578 ordinary shares under the Mattioli Woods plc Share Incentive Plan.

14. Dividends paid and proposed

	2018 £000	2017 £000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
– Final dividend for 2017: 9.4p (2016: 8.65p)	**2,430**	2,187
– Interim dividend for 2018: 5.5p (2017: 4.7p)	**1,436**	1,203
Dividends paid	**3,866**	3,390
Proposed for approval by shareholders at the AGM:		
Final dividend for 2018: 11.5p (2017: 9.4p)	**3,022**	2,430

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 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
Additions	7,019	227	30	495	7,773
Disposals	—	(116)	—	(214)	(330)
At 31 May 2018	**14,457**	**2,137**	**960**	**1,492**	**19,046**
Depreciation:					
At 1 June 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
Charged for the year	—	391	192	239	822
On disposals	—	(52)	—	(139)	(191)
At 31 May 2018	**—**	**1,316**	**768**	**479**	**2,563**
Carrying amount:					
At 31 May 2018	**14,457**	**821**	**192**	**1,013**	**16,483**
At 31 May 2017	7,438	1,047	354	832	9,671
At 31 May 2016	—	920	335	742	1,997

Company	Assets under construction £000	Leasehold improvements £000	Computer and office equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
Gross carrying amount:						
At 1 June 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
Transfer from group companies	—	—	7	—	—	7
Reclassification	—	(56)	—	56	—	—
Additions	877	—	225	30	495	1,627
Disposals	—	—	(116)	—	(199)	(315)
At 31 May 2018	**877**	**—**	**1,984**	**882**	**1,498**	**5,241**
Depreciation:						
At 1 June 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
Reclassification	—	(1)	—	1	—	—
Charged for the year	—	—	386	190	239	815
On disposals	—	—	(52)	—	(127)	(179)
At 31 May 2018	**—**	**—**	**1,172**	**692**	**485**	**2,349**
Carrying amount:						
At 31 May 2018	**877**	**—**	**812**	**190**	**1,013**	**2,892**
At 31 May 2017	—	55	1,030	295	829	2,209
At 31 May 2016	—	—	872	315	737	1,924

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 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
Additions	104	876	—	—	—	980
At 31 May 2018	**1,693**	**2,417**	**33,354**	**17,253**	**35**	**54,752**
Amortisation and impairment:						
At 1 June 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
Amortisation during the year	162	307	1,756	—	—	2,225
At 31 May 2018	**656**	**978**	**9,884**	**—**	**35**	**11,553**
Carrying amount:						
At 31 May 2018	**1,037**	**1,439**	**23,470**	**17,253**	**—**	**43,199**
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

Company	Internally-generated-software £000	Software £000	Client portfolios £000	Goodwill £000	Total £000
Gross carrying amount:					
At 1 June 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
Transfer from Group companies	—	—	3,719	1,493	5,212
Additions	104	876	—	—	980
At 31 May 2018	**1,693**	**2,306**	**28,979**	**16,384**	**49,362**
Amortisation and impairment:					
At 1 June 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
Amortisation during the year	162	287	1,555	—	2,004
At 31 May 2018	**656**	**878**	**6,897**	**—**	**8,431**
Carrying amount:					
At 31 May 2018	**1,037**	**1,428**	**22,082**	**16,384**	**40,931**
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

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 ten 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 ten 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

Investments in subsidiaries	Group £000	Company £000
At 31 May 2016	—	15,187
Investment in Old Station Road Holdings Limited	—	2,385
Investment in M C Trustees (Pensions)	—	1,000
At 31 May 2017 and 31 May 2018	**—**	**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
M.W. 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%	Non-trading subsidiary
Taylor Patterson Group Limited ("TPG")	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	Ordinary	100%	Trustee company
Lanson House Limited	Ordinary	100%	Dormant
Lindley Trustees Limited	Ordinary	100%	Trustee company
MWV Solutions Limited	Ordinary	50%	Dormant joint venture
Old Station Road Holdings Limited ("OSRHL")	Ordinary	100%	Holding company
M C Trustees (Pensions) Limited (held by OSRHL)	Ordinary and preference	100%	Pension administration
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

Subsidiary undertakings	Share class held	Voting rights and shares held	Nature of business
MC Nominees Limited (held by OSRHL)	Ordinary	100%	Dormant
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 (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 (Residential Property Portfolio) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (CITU) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Proseed) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Investors (Heaton Group) General Partner Limited (held by CCL)	Ordinary	100%	General Partner company
MW Private Equity (Harbinger Self Storage) 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 (Expedia) 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 Expedia 3) 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 (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 (103) EPUT Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Investors (Clear Nursery) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Equity (Rotherhill) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Equity (March Projects) Limited (held by CCL)	Ordinary	100%	Trustee company
MW Private Equity (Tungsten Handcross) 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
Brogan Group Investments Limited (held by CCL)	Ordinary	100%	Trustee company
Welbeck Strategic Land III 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. The registered office for all subsidiary undertakings is MW House, 1 Penman Way, Grove Park, Enderby, Leicester, LE19 1SY except for the following:

Subsidiary undertaking	Registered office
TCF Global Independent Financial Services Limited	8 Queens Terrace, Aberdeen, AB10 1XL
Kudos Financial Services Limited	8 Queens Terrace, Aberdeen, AB10 1XL

Notes to the financial statements continued

17. Investments continued

Investment in associate and related derivative

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 following the management buyout of Noble Fund Managers Limited. Amati's principal place of business is the United Kingdom. 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 investment Amati had approximately £120m of assets under management, including 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.

During the year the shareholders of Amati VCT plc voted to approve its merger with Amati VCT 2 plc, which has been renamed Amati AIM VCT plc. Amati's gross assets under management at 31 May 2018 had increased to over £325m.

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	**2018 £000**	2017 £000
At 1 June	**3,476**	–
Investment in Amati Global Investors Limited	**–**	3,368
Share of profit for the year	**308**	120
Amortisation of fair value intangibles	**(68)**	(17)
Share of profit from associates in statement of comprehensive income	**240**	103
Share of other comprehensive income	**9**	5
At 31 May	**3,725**	3,476

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

The results of Amati for the 12 months ended 31 May 2018 and its aggregated assets and liabilities as at 31 May 2018 are as follows:

Name	Country of incorporation	Assets £000	Liabilities £000	Revenue £000	Profit £000	Interest held
Amati Global Investors Limited	Scotland	2,871	861	3,206	628	49%
Group's share of profit					308	

The net assets of Amati as at 31 May 2017 were £1,364,382. At 31 May 2018 the net assets of Amati had increased by £646,148 to £2,010,530, increasing the Group's interest in the associate (net of tax) by £316,613 during the year, comprising Mattioli Woods' share of Amati's profit after tax, recognised in the statement of comprehensive income and Mattioli Woods' share of the movement in Amati's revaluation reserve recognised directly in equity.

Derivative financial instruments

As part of the transaction to acquire its holding in Amati, Mattioli Woods also entered into an option agreement with the Seller which entitles Mattioli Woods 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 ("the Option"). If Mattioli Woods does not exercise the Option to acquire the remaining stake from the Seller, the Seller has an option to buy Mattioli Woods' shareholding back for the original consideration paid.

The fair value of the option contract at the date of acquisition was £16,859. At 31 May 2018, the fair value of the option contract was £649,699 (2017: £109,974) (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 2016	79	79
Impairment	—	—
Revaluation	7	7
Additions	—	—
At 31 May 2017	86	86
Impairment	(1)	(1)
Revaluation	5	5
Disposal	(9)	(9)
At 31 May 2018	**81**	**81**

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 2018 the Company's investment in Mainsforth was valued at £nil (2017: £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 2018 these shares are included within investments at a value of £25,746 (2017: £24,402), with an increase in value of £1,344 recognised in the Statement of Comprehensive Income during the year (2017: £834).

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 2018 these shares are included within investments at a value of £14,201 (2017: £14,787), with an impairment of £586 recognised in the statement of comprehensive income during the year (2017: £169).

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 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
At 31 May 2018	**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 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
Transferred from Group companies	—	971	—	522	1,493
At 31 May 2018	**4,828**	**7,712**	**188**	**3,656**	**16,384**

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 2018 of 797.5p, giving a market capitalisation of £208.5m. Comparing this to the net asset value of the Group of £79.0m, the directors believe the value of goodwill is not impaired at 31 May 2018.

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 2018 using a terminal growth rate of 2.5% (2017: 2.5%), which management considers conservative against actual average long-term growth rates, and discounting at a pre-tax discount rate of 7%.

The value in use calculation at 31 May 2018 was £168.2m. 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 2018. This accounting treatment resulted in an impairment loss of £nil (2017: £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 2017 No.	Exercised during the year No.	**At 31 May 2018 No.**
4 September 2007	2.79	38,011	(38,011)	**—**
8 September 2009	2.16	62,342	(15,481)	**46,861**
Outstanding		100,353	(53,492)	**46,861**
Exercisable		100,353	(53,492)	**46,861**

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 1 pence 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 2018 Equity-settled No.**	**31 May 2018 Cash-settled No.**	31 May 2017 Equity-settled No.	31 May 2017 Cash-settled No.
Outstanding as at 1 June	**807,445**	**118,501**	696,574	266,650
Granted during the year	**238,825**	**—**	294,340	—
Exercised during the year	**(203,194)**	**(118,501)**	(183,269)	(148,149)
Forfeited during the year	**(36,587)**	**—**	(200)	—
Outstanding at 31 May	**806,489**	**—**	807,445	118,501
Exercisable at 31 May	**19,287**	**—**	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 103,924 (2017: 94,392) new ordinary shares were issued to the 363 (2017: 308) employees who participated in the SIP during the year. At 31 May 2018 the SIP held 593,019 (2017: 553,658) 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 2018 is £1,150,465 (2017: £1,610,790), of which £1,031,168 arises from equity-settled share-based payment transactions (2017: £949,395) and £119,297 arises from cash-settled share-based payment transactions (2017: £661,395).

The expense for share-based payments made in respect of employee services under the Consultants' Share Option Plan is recognised over the expected vesting period of the awards. The expense recognised during the year ended 31 May 2018 was £nil (2017: £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 2018 is £346,649 (2017: £291,146), 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	2018 No.	2018 WAEP £	2017 No.	2017 WAEP £
Outstanding as at 1 June	**907,798**	**0.27**	840,499	0.43
Granted during the year	**238,825**	**0.01**	294,340	0.01
Exercised	**(256,686)**	**0.55**	(226,841)	1.57
Forfeited during the year	**(36,587)**	**0.01**	(200)	0.01
Outstanding at 31 May	**853,350**	**0.13**	907,798	0.27
Exercisable at 31 May	**66,148**	**1.53**	130,318	1.85

The weighted average share price at the date of exercise for share options exercised during the year was £7.96 (2017: £7.31). For the share options outstanding as at 31 May 2018, the weighted average remaining contractual life is 4.0 years (2017: 4.0 years). The WAEP for options outstanding at the end of the year was £0.13 (2017: £0.27), with the option exercise prices ranging from £0.01 to £2.16.

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 2018:

	LTIP
Share price at date of grant	£8.41
Option exercise price	£0.01
Expected life of option (years)	4.5
Expected share price volatility (%)	17.0
Dividend yield (%)	1.84
Risk-free interest rate (%)	0.5

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 grant were incorporated into the measurement of fair value.

The share price at 31 May 2018 and movements during the year are set out in the Directors' Remuneration Report.

20. Trade and other receivables (current)

	Group	Company	Group	Company
	2018 £000	2018 £000	2017 £000	2017 £000
Trade receivables due from Group companies	**—**	**13,783**	—	9,159
Other trade receivables	**5,133**	**5,043**	5,970	5,662
Other receivables	**1,400**	**532**	981	173
Prepayments and accrued income	**10,413**	**9,548**	8,741	7,773
	16,946	**28,906**	15,692	22,767

Trade receivables due from related parties are recognised at amortised cost and eliminate on consolidation. Other receivables include Directors' loans of £nil (2017: £2,553). 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 2018, 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 2018 £000	Company 2018 £000	Group 2017 £000	Company 2017 £000
As at 1 June	**1,051**	**863**	701	695
Transferred from Group companies	**—**	**—**	—	1
Charge for year	**273**	**295**	316	212
Utilised during the year	**(210)**	**(227)**	(84)	(45)
Acquired on acquisition	**—**	**—**	118	—
At 31 May	**1,114**	**931**	1,051	863

At 31 May 2018, the analysis of non-related party trade receivables that were past due but not impaired is as follows:

	Total £000	Neither past due nor impaired £000	Past due but not impaired < 30 days £000	30-60 days £000	60-90 days £000	> 90 days £000
2018	**5,133**	**2,199**	**1,495**	**561**	**299**	**579**
2017	5,970	2,382	1,684	731	397	776

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 2018 £000	Company 2018 £000	Group 2017 £000	Company 2017 £000
Derivative financial asset (Notes 17 and 31)	**650**	**650**	110	110
	650	**650**	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 2018:

	Group 2018 £000	Company 2018 £000	Group 2017 £000	Company 2017 £000
Cash at banks and on hand	**23,668**	**17,880**	22,979	12,172
Bank overdrafts	**—**	**—**	—	—
Cash and cash equivalents	**23,668**	**17,880**	22,979	12,172

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 £23.7m (2017: £23.0m).

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 2016, 31 May 2017 and 31 May 2018	**30,000,000**	**300,000**
Issued and fully paid		
At 1 June 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
Exercise of employee share options	256,686	2,567
Shares issued under the SIP	103,924	1,040
Shares issued for consideration	—	—
At 31 May 2018	**26,149,774**	**261,498**

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 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

» 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 two 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

Movements recognised in other reserves in the year are disclosed in the statement of changes in equity. 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

The Company has issued options to subscribe for the Company's shares under two 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.

24. Reconciliations to consolidated statement of cash flows

Movements on equity and reserves are reconciled to cash flows arising from financing activities as follows:

Group	Share capital and premium £000	Merger reserve £000	Equity – share-based payments £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 June 2016	28,017	8,531	1,642	2,000	25,391	65,581
Shares issued under the SIP	409	–	–	–	–	409
Shares issued on exercise of options	115	–	–	–	–	115
Dividends paid	–	–	–	–	(3,390)	(3,390)
Changes from financing cash flows	**524**	**–**	**–**	**–**	**(3,390)**	**(2,866)**
Effect of changes in foreign exchange rates	**–**	**–**	**–**	**–**	**–**	**–**
Changes in fair value	**–**	**–**	**–**	**–**	**–**	**–**
Equity-related other changes:						
Shares issued as initial consideration	1,741	250	–	–	–	1,991
Reserve transfer	–	–	(309)	–	309	–
Share-based payments	291	–	949	–	–	1,240
Current tax taken to equity	–	–	237	–	–	237
Deferred tax recognised in equity	–	–	52	–	–	52
Profit for the financial year	–	–	–	–	6,356	6,356
Share of other comprehensive income from associated company	–	–	–	–	5	5
At 31 May 2017	30,572	8,781	2,571	2,000	28,671	72,595
Shares issued under the SIP	485	–	–	–	–	485
Shares issued on exercise of options	141	–	–	–	–	141
Dividends paid	–	–	–	–	(3,866)	(3,866)
Changes from financing cash flows	**626**	**–**	**–**	**–**	**(3,866)**	**(3,240)**
Effect of changes in foreign exchange rates	**–**	**–**	**–**	**–**	**–**	**–**
Changes in fair value	**–**	**–**	**–**	**–**	**–**	**–**
Equity-related other changes:						
Reserve transfer	–	–	(611)	–	611	–
Share-based payments	346	–	1,020	–	–	1,366
Current tax taken to equity	–	–	92	–	–	92
Deferred tax derecognised in equity	–	–	(62)	–	–	(62)
Profit for the financial year	–	–	–	–	8,190	8,190
Share of other comprehensive income from associated company	–	–	–	–	9	9
At 31 May 2018	**31,544**	**8,781**	**3,010**	**2,000**	**33,615**	**78,950**

Notes to the financial statements continued

24. Reconciliations to consolidated statement of cash flows continued

Cash flows from operating activities using the direct method

IAS 7 Cash Flow Statements permit 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 2018 £000**	**Company 2018 £000**	Group 2017 £000	Company 2017 £000
Cash receipts from customers	**57,713**	**44,100**	48,514	31,128
Cash paid to suppliers and employees	**(39,538)**	**(33,726)**	(38,050)	(31,111)
Cash generated from operations	**18,175**	**10,374**	10,464	17

25. Trade and other payables

Trade and other payables (current)	**Group 2018 £000**	**Company 2018 £000**	Group 2017 £000	Company 2017 £000
Trade payables due to related parties	**—**	**57**	—	42
Other trade payables	**2,347**	**1,517**	2,035	1,260
Other taxation and social security	**1,628**	**1,568**	1,523	1,449
Other payables	**3,767**	**3,663**	400	279
Accruals and deferred income	**10,246**	**9,167**	8,904	7,471
	17,988	**15,972**	12,862	10,501

Trade payables due to related parties eliminate on consolidation.

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.
- 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	FSCS levy £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	—	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
Unwinding of discount	142	—	12	—	—	—	13	—	167
Arising during the year	—	697	122	181	315	913	132	100	2,460
Paid during the year	(3,506)	(225)	(13)	(181)	(401)	—	(989)	—	(5,315)
Unused amounts reversed	(168)	(17)	(7)	—	(24)	—	—	—	(216)
At 31 May 2018	**886**	**982**	**631**	**124**	**627**	**988**	**—**	**100**	**4,338**
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
Current 2018	**886**	**982**	**316**	**124**	**346**	**988**	**—**	**100**	**3,742**
Non-current 2018	**—**	**—**	**315**	**—**	**281**	**—**	**—**	**—**	**596**
At 31 May 2018	**886**	**982**	**631**	**124**	**627**	**988**	**—**	**100**	**4,338**

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	FSCS levy £000	Total £000
At 1 June 2016	—	5,800	457	350	294	624	118	1,263	—	8,906
Finance costs	202	242	—	—	—	—	—	31	—	475
Arising during the year	8,323	890	489	90	127	419	—	661	—	10,999
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
Finance costs	397	142	—	12	—	—	—	13	—	564
Arising during the year	8,018	—	698	89	177	315	913	132	100	10,442
Transfer from Group companies	—	—	25	33	13	—	—	—	—	71
Paid during the year	—	(3,506)	(212)	(13)	(177)	(401)	—	(989)	—	(5,298)
Unused amounts reversed	—	(168)	(17)	(7)	—	(24)	—	—	—	(216)
At 31 May 2018	**16,940**	**886**	**946**	**601**	**119**	**627**	**988**	**—**	**100**	**21,207**
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
Current 2018	**—**	**886**	**946**	**316**	**119**	**346**	**988**	**—**	**100**	**3,701**
Non-current 2018	**16,940**	**—**	**—**	**285**	**—**	**281**	**—**	**—**	**—**	**17,506**
At 31 May 2018	**16,940**	**886**	**946**	**601**	**119**	**627**	**988**	**—**	**100**	**21,207**

Loan notes due to subsidiary undertakings

On 31 December 2017 the trade and assets of Boyd Coughlan Limited 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 Boyd Coughlan Limited as at 31 December 2017, attracting annual interest on the outstanding principal at a rate of 3% above the Bank of England base rate.

The book value of the assets and liabilities of Boyd Coughlan Limited as at the date of hive up was:

	Carrying value £000
Property, plant and equipment	7
Intangible assets	5,212
Deferred tax assets	20
Trade and other receivables	383
Cash and short-term deposits	3,765
Trade and other payables	(666)
Deferred tax liability	(632)
Financial liabilities and provisions	(71)
Carrying value of assets and liabilities hived up	**8,018**

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 Taylor Patterson Group") 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 Taylor Patterson Group 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 £0.9m (2017: £2.8m).

Notes to the financial statements continued

26. Financial liabilities and provisions continued

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
Mattioli Woods plc has entered into three commercial leases for its premises at Grove Park, Enderby ("the Grove Park leases") as set out in Note 27. Onerous lease provisions are recognised when a leased property is expected to become vacant and no longer used in the Group's operations. Amounts recognised in the period represent the Group's best estimate of the unavoidable costs committed to under the Grove Park leases, based on the expected costs to be incurred as a result of the premises being vacated and the leases surrendered once the Group takes occupation of its new office at New Walk.

The future minimum rentals payable under the Grove Park leases as at 31 May 2018 totalled £1.6m, comprising £1.5m for MW House and £0.1m for Gateway House.

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. At 31 May 2018 there were no cash awards outstanding.

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 have 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. A provision of £0.1m has been made in these financial statements for FSCS interim levies expected in the year ending 31 May 2019.

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 Registered Office, MW House, has a duration of 20 years, from 10 June 2005. The amount of annual rental is reviewed at three-yearly intervals, with the outstanding June 2017 rent review being settled following the year end at £205,200, an increase of £19,200 from the passing rent of £186,000 (Note 32).

The first lease for part of the ground floor of Gateway House (an office building adjacent to MW House) had 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 entered into an intra-group lease, with subsidiary Mattioli Woods (New Walk) Limited as lessor, for its premises under construction at New Walk, Leicester. The lease carries an annual rental of £875,000 and expires on 28 February 2019. The Group intend to extend this lease beyond its current agreed term.

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

» Aberdeen, 8 Queens Terrace, which expires 31 May 2023. The annual rental is £148,000;
» Newmarket, Cheveley House, Fordham Road, which expires on 24 December 2023, with next break on 24 December 2018. The annual rental is £115,500;
» Preston, Lanson House, Winckley Gardens, Mount Street, which expires on 31 July 2022. The annual rental is £62,000;
» Buckingham, Investment House, 22-26 Celtic Court, Ballmoor, 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 rental is £48,844 plus £2,500 per annum for car parking;
» Manchester, Suite 310, 76 King Street, lease term is a rolling 6 months. The annual rental is £31,800;
» London, 3rd Floor, 87/89 Baker Street, lease expires on 31 October 2021. The annual rental is £92,500; and
» Solihull, Enterprise House, Units 1, 2 & 3, lease expires on 13 June 2022, with a break on 14 June 2019. The annual rental 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	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Not later than one year	**151**	1	**845**	867
After one year but not more than five years	**525**	1	**2,802**	3,052
More than five years	**—**	—	**491**	966
	676	2	**4,138**	4,885

	Office equipment		Land and buildings	
Company	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Not later than one year	**150**	1	**1,438**	804
After one year but not more than five years	**522**	1	**2,610**	2,798
More than five years	**—**	—	**491**	964
	672	2	**4,539**	4,566

Group operating lease charges during the year were £938,847 (2017: £863,044) for land and buildings and £90,839 (2017: £18,553) for office equipment.

Capital commitments

At 31 May 2018 the Group had capital commitments amounting to £0.8m (2017: £7.6m). 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.

Construction achieved practical completion on 28 February 2018, with transfer of title of the land subsequently passing from Leicester City Council to Mattioli Woods on 30 May 2018. The overall cost of the development is £14.1m excluding irrecoverable VAT, which has been funded through a combination of existing cash resources and operating cashflows. Total construction costs to completion were £12.5m, with a further £1.6m set aside for fit-out costs. The fit-out is in progress and is expected to complete in September 2018, at which time the Group's Leicester operations are scheduled to commence moving from Grove Park to New Walk.

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 2018 this agreement had just over one year 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 have received or are awaiting assessment notices which are expected to amount to £0.9m. These assessments have been appealed, with proceedings stayed pending the outcome of HMRC's appeal against the First-Tier Tribunal's ruling in favour of another SIPP operator in a similar case.

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

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 £413,395 (2017: £435,056).

29. Related party disclosures

Custodian REIT plc

In March 2014 the Company's subsidiary, Custodian Capital, was appointed as the discretionary investment manager of Custodian REIT, a closed-ended property investment company listed on the Main Market of the London Stock Exchange. The terms of the Investment Management Agreement ("IMA") between Custodian Capital and Custodian REIT were amended on agreement of a further three-year term with 12 months' notice to Custodian Capital's ongoing engagement from 1 June 2017, with the fees payable to Custodian Capital under the IMA amended to include:

- a step down in the property management fee from 0.75% to 0.65% of net asset value ("NAV") applied to NAV in excess of £500m
- a step down in the administrative fee from 0.125% to 0.08% of NAV applied to NAV between £200m and £500m and a further step down to 0.05% of NAV applied to NAV in excess of £500m

All other key terms of the IMA remain unchanged.

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 £28,250 (2017: £27,500) 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 (the Company's former Managing Director of Employee Benefits), Richard Shepherd-Cross (the Managing Director of Custodian Capital), Ed Moore (the Finance 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 £3.8m (2017: £3.3m) in respect of annual management charges, administration and marketing fees from Custodian REIT. Custodian REIT owed the Group £44,397 at 31 May 2018 (2017: £13,337).

During the year the Group paid rent of £367,200 (2017: £348,000) and service charges and other property related costs of £28,953 (2017: £27,088) 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. The Company 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 £5,063 (2017: £1,592) of directors' fees by Amati.

The Group received revenues of £1,400 (2017: £nil) in respect of consultancy services provided to Amati Global Investors Limited during the year.

Gateley (Holdings) Plc

The Company's Chairman, Joanne Lake, is a Non-Executive Director of Gateley (Holdings) Plc, which is the holding company of Gateley Plc, a provider of commercial legal services. During the year, the Group paid Gateley Plc a total of £34,136 (2017: £87,425) in respect of corporate legal services provided to the Group and its subsidiaries. In addition, the Group received revenues of £29,190 (2017: £43,462) in respect of employee benefits services provided to Gateley Plc during the year.

Henry Boot Plc

The Company's Non-Executive Chairman, Joanne Lake, is a non-executive director of Henry Boot Plc, a property investment and development business. During the period the Group received revenues of £nil (2017: £7,500) in respect of the employee benefits services provided to Henry Boot Plc.

Worldwide Broker Network Limited

The Company's former Managing Director of 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 £18,683 (2017: £19,803) 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 £3,834 (2017: £3,748) in respect of employee benefits services provided to Vista Insurance Brokers Limited during the year. Fees of £12,207 (2017: £nil) were paid to Vista Insurance Brokers Limited in the year under a referral fee share arrangement.

Key management compensation

Key management personnel, representing those Executive Directors that served throughout the year and 18 (2017: 16) other executives, received compensation in the form of short-term employee benefits and equity compensation benefits (see Note 11) which totalled £7.4m for the year ended 31 May 2018 (2017: £6.8m).

Total compensation is included in "employee benefits expense" and analysed as follows:

	2018 £000	2017 £000
Wages and salaries	**6,036**	5,548
Social security costs	**993**	977
Pension	**61**	109
Benefits in kind	**159**	139
	7,249	6,773

In addition, the cost of share-based payments disclosed separately in the statement of comprehensive income was £0.9m (2017: £0.8m).

Transactions with other related parties

At 31 May 2018, Ian Mattioli owed £nil to the Company (2017: £2,553 was owed to the Company). This Director's expense account carries no coupon and has no fixed repayment date.

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 (see Note 17).

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

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 2018 the Group held an investment with a market value of £40,546 (2017: £46,959) in the FP Mattioli Woods Balanced Fund.

MW Properties (Huntingdon Non-Geared) Limited

The Company holds a 2.04% interest in MW Properties (Huntingdon Non-Geared) Limited, a nominee for a property syndicate. The Group received dividend income of £1,020 from MW Properties (Huntingdon Non-Geared) Limited during the year, with the market value of the investment being £14,201 (2017: £14,787) at the year end.

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 2018 the value of financial instruments on the Group's statement of financial position exposed to interest rate risk was £23.7m (2017: £23.0m) comprising cash, cash equivalents and financial assets. This exposure is monitored to ensure that the Group is managing 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
2018		
£ Sterling	+100	**194**
£ Sterling	-100	**(194)**
2017		
£ Sterling	+100	155
£ Sterling	-100	(155)

(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 has no material exposure 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 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 recognised in the Group's statement of financial position. At 31 May 2018, the fair value of investments and derivative financial assets recognised in the Group's Statement of Financial Position was £730,238 (2017: £196,122). A movement in the value of these investments could have a material impact on the Group's financial position 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 2018 and 2017 based on contractual undiscounted payments:

Maturity of liability	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	—	15,695	—	—	—	15,695
Contingent consideration	—	398	488	—	—	886
At 31 May 2018	**—**	**16,093**	**488**	**—**	**—**	**16,581**

Maturity of liability	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	—	10,488	—	—	—	10,488
Contingent consideration	40	1,241	1,549	1,588	—	4,418
At 31 May 2017	40	11,729	1,549	1,588	—	14,906

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
- 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 2018 was £79.0m (2017: £72.6m). 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. 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.

All regulated entities within the Group are required to meet the Pillar 1 Capital Resources Requirements set out in the CRD. The latest version of the CRD legislation ("CRD IV") came into effect on 1 January 2014. 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 Company and regulated subsidiary companies submit quarterly returns to the FCA relating to their capital resources. At 31 May 2018 the total regulatory capital requirement across the Group was £10.9m (2017: £10.0m) and the Group had an aggregate surplus of £18.8m (2017: £13.4m), including: shares issued during the year and admitted to Core Equity Tier 1 capital following the year end; the proposed final dividend; and retained earnings for the year. 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

The carrying amount of financial assets and financial liabilities recorded by category is as follows:

Financial assets	Group 2018 £000	Company 2018 £000	Group 2017 £000	Company 2017 £000
Cash and short-term deposits	**23,668**	**17,880**	22,979	12,172
Fair value through profit or loss (including derivative financial asset)	**650**	**650**	110	110
Held to maturity investments (Note 17)	**81**	**81**	86	86
Loans and receivables (including trade and other receivables)	**16,016**	**28,090**	14,661	21,843
	40,415	**46,701**	37,836	34,211

Financial liabilities	Group 2018 £000	Company 2018 £000	Group 2017 £000	Company 2017 £000
Amortised cost (including trade and other payables and loan notes payable)	**14,107**	**29,700**	8,965	15,783
Fair value through profit and loss (including LTIP cash liability and contingent consideration)	**886**	**886**	5,262	5,262
	14,993	**30,586**	14,227	21,045

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 2018 £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 (Note 21)	650	–	–	650
At 31 May 2018	**650**	**–**	**–**	**650**
Financial liabilities				
Contingent consideration (Note 3)	886	–	–	886
At 31 May 2018	**886**	**–**	**–**	**886**

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 Amati option contract is calculated using a Monte Carlo method valuation model. The key assumptions used to estimate the fair value of the option at 31 May 2018 are as follows:

	Amati	Mattioli Woods
Share price	£28.72	£7.975
Option exercise price	£3.6m	n/a
Expected term until exercise (years)	1.69	1.69
Expected share price volatility (%)	24.0	12.8
Correlation (%)	4.76	4.76
Expected dividend yield (%)	–	1.87
Risk-free interest rate (%)	0.56	0.56

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 £0.9m (2017: £4.4m).

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 2018	**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	**23,688**	**—**	**—**	**—**	**—**	**—**	**23,688**
Bank overdrafts	**—**	**—**	**—**	**—**	**—**	**—**	**—**

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	—	—	—	—	—	—	—

Company 31 May 2018	**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	**17,880**	**—**	**—**	**—**	**—**	**—**	**17,880**
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	—	—	—	—	—	—	—

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 2018, the Group's bank deposits were held with Royal Bank of Scotland plc, Lloyds Bank plc, Bank of Scotland plc, Barclays Bank UK plc, Metro Bank plc, Santander UK plc and Investec 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.

Notes to the financial statements continued

32. Events after the reporting date

Grove Park rent review

Mattioli Woods has entered into three commercial leases for its premises at Grove Park, Enderby. The lease for the Registered Office, MW House, has a duration of 20 years, from 10 June 2005. The amount of annual rental is reviewed at three-yearly intervals, with the outstanding June 2017 rent review being settled in July 2018 at £205,200, an increase of £19,200 from the passing rent of £186,000.

Acquisition of Broughtons Financial Planning Limited

On 8 August 2018, Mattioli Woods acquired the entire issued share capital of Broughtons Financial Planning Limited ("Broughtons"), a financial planning and wealth management business based in Oldbury in the West Midlands.

The provisional fair values of the identifiable assets and liabilities of Broughtons as at the date of acquisition are set out in the table below. Due to the proximity of the date of acquisition to the date of issue of these consolidated financial statements, the provisional fair values of the identifiable assets and liabilities of Broughtons are estimates and remain subject to the agreement of completion accounts by the buyer and seller:

	Provisional fair value recognised on acquisition £000	Provisional fair value adjustments £000	Previous carrying value £000
Property, plant and equipment	10	—	10
Client portfolio	2,296	2,296	—
Cash at bank	757	—	757
Prepayments and accrued income	110	—	110
Other receivables	304	—	304
Assets	3,477	2,296	1,181
Trade and other payables	(27)	—	(27)
Accruals and deferred income	(31)	—	(31)
Other taxation and social security	(3)	—	(3)
Income tax	(147)	—	(147)
Provisions	(25)	—	(25)
Deferred tax liability	(390)	(390)	—
Liabilities	(623)	(390)	(233)

Total identifiable net assets at fair value	2,854
Goodwill	1,493
Total acquisition cost	4,347

Analysed as follows:	
Initial cash consideration	2,100
Acquired net assets adjustment to initial consideration	448
New shares in Mattioli Woods	600
Contingent deferred consideration	1,300
Discounting of contingent deferred consideration	(101)
Total acquisition cost	4,347

Cash outflow on acquisition	
Cash paid	2,100
Cash acquired	(757)
Acquired net assets adjustment	448
Acquisition costs	68
Net cash outflow	1,859

Broughtons specialises in the provision of bespoke wealth management services and impartial advice. It is an excellent cultural and strategic fit with Mattioli Woods' existing business, providing services to clients with over £120m of assets under advice. The acquisition brings additional scale to Mattioli Woods' existing operations and offers the opportunity to promote additional services to existing and prospective clients of Broughtons.

In addition, the acquisition adds further specialist expertise to the Group and Broughtons experienced staff have remained with the business. The goodwill recognised above is attributed to the expected benefits from combining the assets and activities of Broughtons 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 Broughtons' modus operandi
- new opportunities available to the combined business, as a result of both Broughtons 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 will be amortised on a straight-line basis over an estimated useful life based on the Group's historic experience.

New Edinburgh office

On 14 August 2018, Mattioli Woods entered into a 10 year lease, with a break in five years, for new office premises at 8 Coates Crescent, Edinburgh, EH3 7AL. The annual rental will be £101,850 with a rent review on 14 August 2023.

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:	Link Market Services Limited Link Asset Services 40 Dukes Place London EC3A 7NH	

Five year summary

	2018 £000	2017 £000	2016 £000	2015 £000	2014 £000
Revenue	**58,669**	50,533	42,950	34,565	29,347
Employee benefits expense	**(32,148)**	(28,711)	(24,552)	(20,042)	(16,857)
Other administrative expenses	**(12,833)**	(9,558)	(7,807)	(6,604)	(5,423)
Share-based payments	**(1,497)**	(1,902)	(1,594)	(790)	(386)
Loss on disposal of property, plant and equipment	**(67)**	(61)	(56)	(44)	(64)
Gain on revaluation of derivative financial instrument	**540**	93	–	–	–
EBITDA	**12,664**	10,394	8,941	7,085	6,617
Acquisition-related costs	**125**	378	339	272	157
Gain on derivative financial asset	**(540)**	(93)	–	–	–
Share of profit from associates	**240**	103	–	–	–
Adjusted EBITDA	**12,489**	10,782	9,280	7,357	6,774
Amortisation and impairment	**(2,225)**	(1,996)	(1,816)	(1,279)	(1,176)
Depreciation	**(822)**	(606)	(497)	(387)	(367)
Operating profit before financing	**9,617**	7,792	6,628	5,419	5,074
Net financing (costs)/income	**(81)**	(246)	(337)	(129)	41
Share of profit from associate, net of tax	**240**	103	–	–	–
Profit before tax	**9,776**	7,649	6,291	5,290	5,115
Income tax expense	**(1,586)**	(1,293)	(1,046)	(1,268)	(834)
Profit for the year	**8,190**	6,356	5,245	4,022	4,281
Assets under management, administration and advice (£m)	**8,729.2**	7,925.3	6,605.9	5,410.4	4,626.2
Headline debtors' ratio (days)	**31.9**	39.5	46.4	52.2	54.9
External client loss rate	**1.5%**	2.1%	2.4%	2.8%	3.2%
EBITDA margin	**21.6%**	20.6%	20.8%	20.5%	22.6%
Adjusted EBITDA margin	**21.3%**	21.4%	21.6%	21.3%	23.1%
Basic EPS (pence)	**31.2**	24.5	20.7	19.1	21.2
Adjusted EPS (pence)	**37.0**	33.3	30.3	26.5	26.3
Dividends paid and proposed (pence)	**17.0**	14.1	12.5	10.5	9.1

Financial calendar

4 September 2018	Announcement of final results for the year ended 31 May 2018
20 September 2018	Ex-dividend date for ordinary shares
21 September 2018	Record date for final dividend
25 October 2018	Annual General Meeting
26 October 2018	Payment of final dividend on ordinary shares

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