discoverIE

Innovative Electronics

discoverIE Group plc

Annual Report and Accounts

for the year ended 31 March 2018

Stock code: DSCV

WELCOME TO THE 2018 ANNUAL REPORT

The Group is an international leader in customised electronics, focusing on markets with sustained growth prospects and increasing electronic content, where there is an essential need for our products.

The Group has changed its name to discoverIE Group plc and was reclassified from the Support Services sector to the Electronic and Electrical Equipment sector. The change of name and reclassification reflects discoverIE's successful transformation over recent years, from a distribution company to an international designer, manufacturer and supplier of custom electronics.

Read more on **Our name and sector change** on page 5

Visit our investor website:

www.discoverIEplc.com

It contains a wide range of information of interest to institutional and private investors including:

- Latest news and press releases
- Reports and presentations

Navigating the report

This icon signposts to content in other sections of the report

This icon signposts to further information that can be found online

INVESTMENT CASE

Focus on customised electronics

- Highly differentiated electronic products with optimised performance for the applications of our customers

Read more in **Our business model** on pages 10 and 11

Attractive markets

- Markets with increasing electronic content
- Long term growth driven by both technology trends and economic factors

Read more in the **Market review** on pages 12 and 13

Drivers of future performance

- High level of project wins and new opportunities driving future organic growth
- Record order book
- Cross-selling opportunities between the businesses
- International expansion
- Good track record of value-accretive acquisitions, with a robust acquisition pipeline

Read more in **Our strategy** on pages 14 and 15

Strong financials

- Solid balance sheet
- Progressive dividend policy
- Sustainable, profitable growth

Read more on the **Key strategic indicators** on page 21, **Key performance indicators** on pages 22 and 23 and the **Finance review** on page 30 to 35

Helping customers solve complex technical challenges

Innovations in technology are driving dramatic changes in every aspect of our lives. Electronic component specialist discoverIE is at the centre of this revolution.

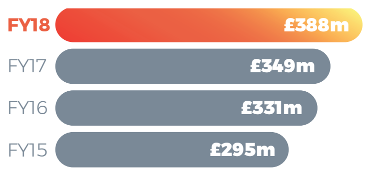
Watch our Corporate film at:
www.discoverIEplc.com

STRATEGIC REPORT

HIGHLIGHTS

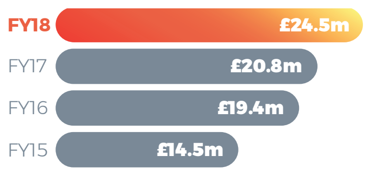
REVENUE GROWTH (CER)[1]

+11%



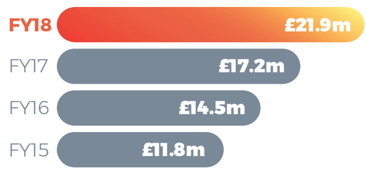
UNDERLYING OPERATING PROFIT GROWTH[2] (CER)

+18%



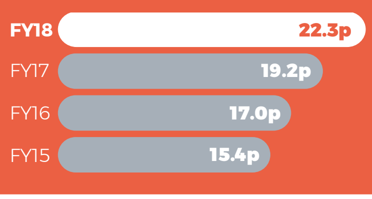
UNDERLYING PROFIT BEFORE TAX[2]

+27%



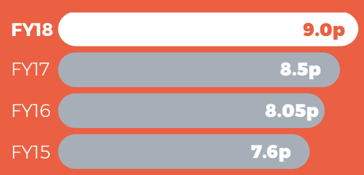
UNDERLYING EPS[2]

+16%



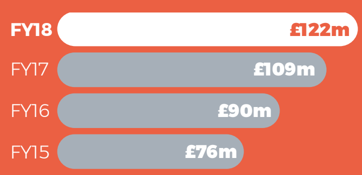
DIVIDEND PER SHARE

+6%



ORDER BOOK (CER)[1]

+12%



Financial Highlights

- Strong growth in sales, orders, profits and earnings
  - Sales up 15% (+11% CER) and orders up 14% (+11% CER)
  - Underlying operating profit up 23% (+18% CER)
  - Underlying earnings per share up 16%
- Organic growth driven by strong performance from the D&M division
  - D&M organic sales up 11% – now 59% of Group sales, when annualised for recent acquisitions(FY 2016/17: 52%)
  - Group organic sales[1] up 6%
- Good progress on key strategic and performance targets
  - Underlying operating margin increased to 6.3% (FY 2016/17: 5.9%)
  - Annualised international sales up to 23% (FY 2016/17: 19%)
  - Cross-selling revenue of £8.8m, nearly double last year (FY 2016/17: £4.6m)
  - ROCE[1] of 15.5% (FY 2016/17: 13.0%)
  - Operating cash flow[1] of £20.9m, in line with our conversion target
  - Full year dividend increased by 6%

Operational Highlights

- Santon acquired on 1 February 2018 and settling in well
- Group well positioned for further growth
  - Record year end order book of £122m (+12% CER)
  - Strong growth in number and value of new project design wins
  - Further acquisition opportunities developing

1 CER means constant exchange rate

2 See note 2 to the Group financial statements on pages 115 to 122

Read more about our **Key strategic indicators** on page 21 and **Key performance indicators** on pages 22 and 23

Read more about **Our strategy** on pages 14 and 15

OUR NAME AND SECTOR CHANGE

Since 2009, our strategy has been to create an international supplier of customised electronics to growth markets. This strategy has been successful in transforming the Group to what it is today. With the change in the activities of the Group, there came a need to readdress how we named and classified ourselves.

Name change to discoverIE Group plc

In November 2017, the Company changed its name from Acal plc to discoverIE Group plc. This change reflects the transformation of the Group over recent years into a design and manufacturing focused, higher margin business and the future ambitions of the Board in this direction.

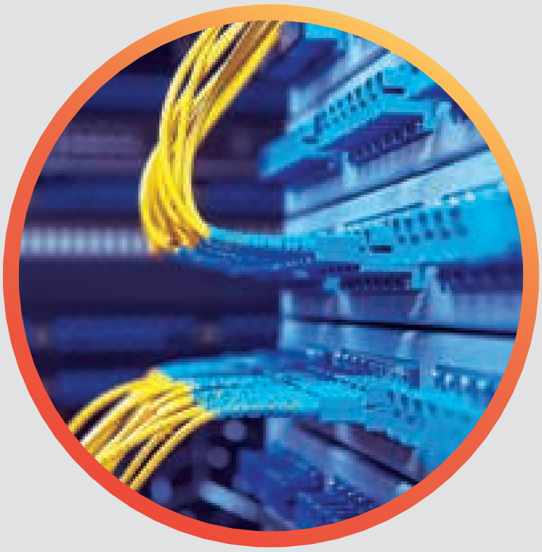
The Group was established in 1986 as a distributor of electronics and IT products. Since 2011, the Group has disposed of its IT products business and built a successful and growing electronics Design & Manufacturing division ("D&M") through the acquisition of high quality businesses and subsequent organic growth. Today that division accounts for 76% of Group profit contribution.

discoverIE or "discover innovative electronics", emphasises the Group's focus on being a highly differentiated, customised business that enables customer solutions. The Group's operating business names, which customers know and rely on, remain unchanged, preserving trusted brands.

Reflecting the changing nature of its business, the Custom Distribution division was renamed Custom Supply. With continuing focus on designing customers solutions for customers with our third party suppliers and the growth in cross-selling of complementary products from our D&M division, the new name more accurately reflects the nature of business in this division.

Sector change

As a consequence of the transformation of the Group into a design and manufacturing business, the Group's FTSE sector classification changed from Support Services to Electronic and Electrical Equipment with effect from 18 September 2017.



GROUP AT A GLANCE

GLOBAL REACH

We have a unique competitive position – no other company on a global scale has the ability to offer customers complex solutions, matching our product diversity with quality, flexibility and technical engineering. As a global supplier, we are able to follow the opportunities of our global customers.

Global customers served by a global operation with a highly differentiated approach.

The Design & Manufacturing division ("D&M") has gone from a UK business in 2011 to an international business in 2018 operating in 23 countries. Nineteen per cent of Group sales for the year were beyond Europe; annualised for the acquisition of Santon, this ratio increases to 23%. India will be a growth market in the future and the Group has invested in a second Indian factory. North American sales continue to increase, with significant capital investment from our customers, especially in the transportation sector.

The Custom Supply division also has a strong international presence. Acal BFi operates across 12 countries in Europe, with logistic centres in Germany, UK and Hong Kong. Each country has their own dedicated salesforce and technical support teams.

OUR DIVISIONS

discoverIE operates across two divisions: **Design & Manufacturing** and **Custom Supply.** The Group's increasing focus on design and manufacturing is reflected in both revenue and underlying profit.

- Design & Manufacturing

57%
£223m

- Custom Supply

43%
£165m

- Design & Manufacturing

76%
£24.2m

- Custom Supply

24%
£7.5m

1 Before unallocated costs

DESIGN & MANUFACTURING

The Design & Manufacturing division supplies custom electronic products which are designed uniquely, or specifically modified from an existing product to customer specifications.

Design & Manufacturing has over 5,000 customers. It distributes some of its products via discoverIE's Custom Supply division and this cross-selling is growing.

Margin:
10.9%

Number of employees:
3,593

Read more about **Design & Manufacturing** in the **Operating review** on pages 27 and 28

CUSTOM SUPPLY

The Custom Supply division provides technically demanding, customised electronic, photonic and medical products to over 20,000 industrial manufacturers. The products come from a range of high-quality third party international suppliers, as well as from discoverIE's own Design & Manufacturing division.

A high degree of technical knowledge is required in the sales process. Approximately half of the division's employees are technically qualified.

Margin:
4.5%

Number of employees:
439

Read more about **Custom Supply** in the **Operating review** on page 29

CHAIRMAN'S STATEMENT

Malcolm Diamond MBE – CHAIRMAN

"discoverIE has clearly repositioned itself, and been fully recognised as a designer and manufacturer of specialist components for electronics."

I am pleased to report that the Group has made significant progress again this year. Along with an excellent set of results that have delivered good levels of growth and operating efficiency, discoverIE has clearly repositioned itself, and been fully recognised as a designer and manufacturer of specialist components for electronics. Progress has been made on all the Group's strategic and operational objectives towards the targets which were increased last year.

Acquisitions continue to play an important role in building discoverIE and I am pleased to report that they are performing well. The most recent acquisition of Santon, based in the Netherlands, is settling in well. Santon expands the Group's international presence in the solar energy market, a focus market for us, and one that we believe will continue to grow significantly in the coming years.

Strategy

The Group is an international leader in customised electronics, focusing on markets with sustained growth prospects and increasing electronic content, where there is an essential need for our products. The Group's product range is highly differentiated with the majority being either partly or fully customised for specific customer applications.

With our key markets being worldwide, management continues to see the opportunity to expand beyond Europe, as well as within Europe, as we continue our strategy of evolving into a highly differentiated, global electronics design and manufacturing group.

Group results

Group sales for the year increased by 15% to £387.9m and by 11% at constant exchange rates ("CER"), the difference reflecting the translation benefit of Sterling weakness during the year.

Underlying operating profit, which excludes acquisition-related costs, increased by £4.5m to £24.5m (up 23% and up 18% CER) with underlying profit before tax increasing by £4.7m to £21.9m (up 27%).

Underlying earnings per share for the year increased by 16% to 22.3p (up 3.1p from 19.2p last year). The difference between the growth of underlying profit before tax and underlying earnings per share mainly relates to the impact of the equity placing in January 2017 which funded the Variohm acquisition.

After underlying adjustments totalling £6.1m for acquisition-related costs, profit before tax for the year on a reported basis was £15.8m, a significant increase from last year (FY 2016/17: £4.8m), with fully diluted earnings per share also increasing strongly by 10.7p to 15.8p (FY 2016/17: 5.1p).

Cash generation was again healthy with operational cash flow of £20.9m; at 85% of underlying operating profit, this was in line with our conversion target. Net debt at the year end was £52.4m, resulting in a Group gearing ratio of 1.5 times, within our target gearing range of 1.5 to 2.0 times.

Acquisition

On 1 February this year, the Group acquired the Santon Group ("Santon"), a Dutch-based designer and manufacturer of custom switches for electronic applications, for an initial consideration of €27.0m (£23.7m) on a debt free, cash free basis, and contingent consideration of up to €22.5m (£19.7m) payable over the next three years, subject to Santon achieving certain high growth targets.

Santon has significant alignment with our core technologies, market and sector focus and is settling in well. We are delighted to welcome their employees into the Group.

New Non-Executive Director

In February 2018, Bruce Thompson joined the Board as a Non-Executive Director. Bruce has recently stepped down as Chief Executive Officer ("CEO") of Diploma PLC ("Diploma"), the FTSE 250 specialised technical products and services business, a role he has held since 1996. During his 22 years as CEO, Bruce led the transformation of Diploma, growing the business, both organically and through targeted acquisition, into a market-leading, international business operating across Europe, North America and Australasia, experience which will be invaluable in helping the Group to achieve its growth plans. We are delighted to welcome Bruce to the Group.

Dividend

The Board is recommending an increase in the final dividend per share of 0.30 pence to 6.35 pence per share, giving a full year dividend per share of 9.0 pence, representing an increase of 6% for the year and a cover against underlying earnings of 2.5 times (FY 2016/17: 2.3 times). The final dividend is payable on 31 July 2018 to Shareholders registered on 15 June 2018. Since 2010, the annual dividend per share has risen by 77% and the total dividend payment by over 300%.

The Board aims to maintain a progressive dividend policy, together with a long term dividend cover of between two and three times underlying earnings.

A technical non-compliance issue has been identified with respect to distributable reserves and the payment of recent dividends. The Board is confident that there were adequate reserves in subsidiary companies to meet these dividends at the time and that this will not impact the Group's ability to pay future dividends. We expect to remedy the position by means of appropriate resolutions at a general meeting of Shareholders and a circular in respect of this will be issued.

Employees

The Group consists of c.4,000 employees in 23 countries around the world. The Board believes that by adopting an entrepreneurial and decentralised operating environment, together with rigorous planning, review, support and investment, the Group is able to continue to foster an ambitious and successful culture.

During my visits to the businesses, I meet committed, enthusiastic employees and the highest quality local management leadership. On behalf of the Board, I would like to thank everybody at discoverIE for their commitment and hard work. Their dedication remains essential in helping us to achieve our goals.

Summary

This has been a year of significant progress for the Group during which it has further repositioned itself.

There is much more to do. The pace of technology change is again moving quickly and presents many opportunities in what is a highly fragmented market.

The Board and management continue to be excited by the opportunities ahead to create a more international business, adding value for our customers and for our Shareholders.

Malcolm Diamond MBE
Chairman
5 June 2018

discoverIE

OUR BUSINESS MODEL

We design, manufacture and supply application-specific electronic products that help our customers solve their technical challenges.

OUR RESOURCES

People

- First-class engineers
- High degree of technical knowledge
- Ambitious, successful and entrepreneurial culture

The Group has c.4,000 employees across 23 countries, who all contribute to the Group's success.

Design & Manufacturing Facilities

Over 80% of the products made by the Design & Manufacturing division are manufactured in-house. The division's principal manufacturing facilities are in China, India, the Netherlands, Poland, Sri Lanka and Thailand.

Long term customer relationships

discoverIE's highly skilled engineers work closely with customers, developing a deep understanding of their industry, sharing unique expertise and insights, and producing custom electronic solutions to address each challenge; thereby enhancing product performance and reinforcing long term relationships.

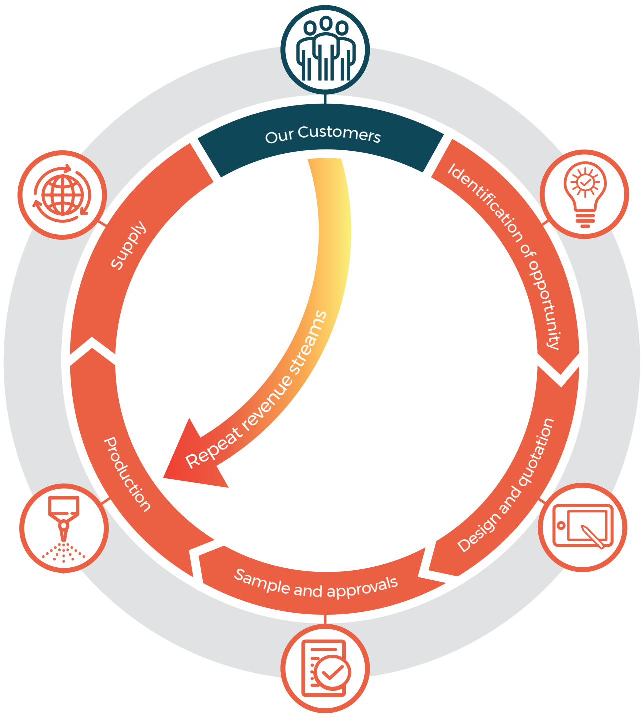
Financial

We use our financial capital to invest heavily in our businesses and make acquisitions that add to our expertise.

Read about **Design & Manufacturing** on page 27

Watch our Corporate film at:
www.discoverIEplc.com

OUR MODEL



Repeat revenue streams

Once approved, our products typically enjoy repeat revenue for the lifetime of the customer's production, typically 5–7 years, depending on the product end market.

Cross-selling opportunities

A key strategic focus for the Group is cross-selling between the businesses. We aim to sell as many product groups to our customers as possible.

Cross-selling initiatives are changing the nature of the discoverIE business by broadening the range of products sold to customers, in turn developing more valuable customer relationships and achieving more efficient use of sales resources. The divisional structure provides excellent cross-selling opportunities by providing the Design & Manufacturing businesses access to 25,000 customers.

Our Customers

Our customers are OEMs that require solutions for their product-specific applications. With rising electronic content, customers are increasingly dependent on technology to develop their next generation products.

Identification of opportunity

By working closely with our customers, we are able to understand their needs and provide solutions. We understand our customers, how they operate and how our components and solutions fit into their products. The solutions we provide result in an enhanced performance of our customers' products, which benefits not only our customers but also the end users of those products.

Design and quotation

We design solutions for our customers. While some solutions are designed completely from scratch, we have "platform product ranges" that can be modified to meet our customers' needs. Speed is important – the ability to provide customers with a quote quickly enables them to produce the final product faster. This approach saves customers time and cost. Customers will work with a dedicated team of engineers to create a design that matches their requirements.

Sample and approvals

Once the quote and design is accepted, a few samples are provided to the customer for approval. This is a critical step in the process.

Production

With internal know-how and in-house manufacturing, we are able to maintain complete control of the product manufacturing process, ensuring both high standards and reliability. Quality is assured through our advanced testing procedures.

Supply

discoverIE are able to supply the customer consistently over the lifetime of the project.

MARKET REVIEW

TARGETING GROWTH MARKETS DRIVEN BY INNOVATION

Long term technology trends

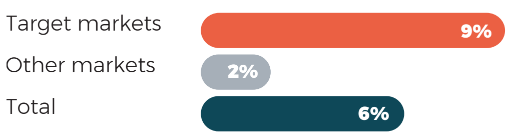
Target markets

The Group focuses on four target markets, which account for around half of Group turnover: transportation, medical, renewable energy and industrial connectivity. These are expected to drive the Group's organic revenue well ahead of GDP over the economic cycle and create acquisition opportunities.

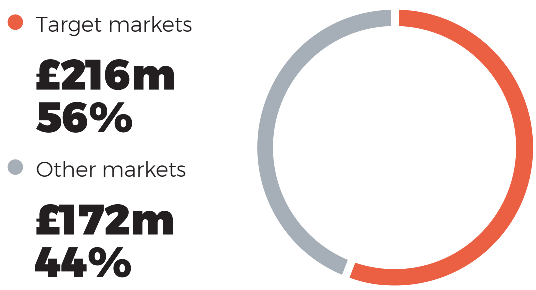
Growth in these markets is driven by increasing electronic content in products, and by global macro trends such as a growing middle class population, an ageing affluent population, an expanding transport infrastructure and the increasing need for renewable sources of energy. In FY 2017/18, organic revenue growth in these target markets was 9%, compared with 2% in other markets.

Our Sales by Industry Sector

ORGANIC GROUP GROWTH



REVENUE FROM TARGET MARKETS (% OF TOTAL) GROUP REVENUE



OUR KEY MARKETS

Since 2009, our strategy has been to grow our business in customised electronics focusing on markets with sustained growth prospects, driven by an increasing electronic content and where there is an essential need for our products.

MEDICAL

This market is driven by the increasing use of technology in diagnosing, monitoring and controlling medical conditions, as well as an increasingly affluent and ageing global population which now accounts for the majority of healthcare spending in developed economies. A report by Research+Markets forecasts the global sales of medical electronics to grow by a CAGR of 6.8% between 2017 and 2022.

RENEWABLE ENERGY

The combination of increased need for electricity, reducing acceptance of nuclear and coal as sources, and falling costs all favour the demand for renewable energy. So much so, that according to the World Energy Outlook 2017, two thirds of global investment in power generation up to 2040 will be into renewable energy, primarily wind and solar.

INDUSTRIAL CONNECTIVITY

Technology is creating opportunities for connectivity everywhere, which is becoming increasingly important in industry. A report by the research firm Markets-and-Markets, expects the overall market size for global machine-to-machine connections to rise by 13.2% CAGR between 2016 and 2021.

TRANSPORTATION

Transport markets continue to grow around the world, driven by increasing demand and falling costs, whether it be rail, air or automotive. The electronics content is rising, for instance to add convenience features, or for safety or security. IC Insights, an electronic market research company, expects integrated circuit sales, a proxy for electronic content, into the automotive market to rise by a CAGR of 13.4% between 2016 and 2021.

OUR STRATEGY

Nick Jefferies – GROUP CHIEF EXECUTIVE

The Group designs, manufactures and supplies highly differentiated, innovative components for electronic applications.

Core to our value proposition is the understanding of our customers' design challenges and how to design and manufacture engineered products that meet their needs, which we then supply over the life of the customer's production, typically five to seven years.

In a fragmented market, there exists an opportunity to consolidate manufacturers which offer a product range that is tailored to meet the needs of the Group's common customer base ranging from mid-sized OEMs (original equipment manufacturers) to multinational companies operating across multiple sites and regions. Our four target markets (renewable energy, transportation, medical and industrial connectivity), are long term, international growth markets driven by excellent fundamentals where our customers depend upon the Group's products.

"Core to our value proposition is the understanding of our customers' design challenges."

Our strategy comprises four elements.

Our strategic aim: To grow our business in customised electronics by focusing on markets with sustained growth prospects, driven by an increasing electronic content and where there is an essential need for our products.

Our strategic priorities

Read about **Strategy in action** on page 16

Strategic priorities	Progress made	Link to key strategic indicators
Growing sales well ahead of GDP Grow sales well ahead of GDP over the economic cycle by focusing on structural growth markets	The operating leverage delivered on our organic sales growth combined with the benefits of restructuring last year led to a reduction in operating costs as a percentage of sales, reducing by 0.5ppts to 26.4%; this has helped to improve the Group operating margin by 0.4ppts since last year to 6.3% (FY2016/17: 5.9%).	2
Continue building revenues in the higher margin D&M division Continue building revenues in the Design & Manufacturing ("D&M") division where operating margins for our businesses are higher (>10%) Optimise performance in the Custom Supply division to achieve an operating margin of 5% and to develop cross-selling of D&M division products	The higher margin D&M division generated 57% of Group sales (FY2016/17: 52%), generating 76% of the Group's underlying profit contribution. Annualised for the Santon acquisition in February 2018, D&M sales represent 59% of Group sales. Importantly, customer concentration remains low with no one customer accounting for more than 4% of Group sales.	1
Acquire high quality businesses Acquire businesses with attractive growth markets	In February 2018, the Group acquired the Santon Group, a Dutch-based designer and manufacturer of highly differentiated, patented, direct current switches for use in solar, industrial and transportation markets. The acquisition is expected to double the Group's sales into the renewable energy sector.	1 2 3
Internationalising the business Internationalise the business by developing sales in North America and Asia	Sales beyond Europe for the year were 19% of Group sales (in line with last year) with very strong organic growth in D&M in North America and Asia (combined growth of 27%), being offset by the acquisition of Variohm whose revenue is in Europe. Annualised for the Santon acquisition, this ratio increases to 23%. We continue to seek acquisitions with revenues beyond Europe.	3

Key to strategic indicators

1 Increase share of Group revenue from Design & Manufacturing

2 Increase underlying operating margin

3 Build sales beyond Europe

STRATEGY IN ACTION

Continue building revenues

Product case study

Differentiated products

SANTON SWITCHES

The Santon X-type switch is a high voltage, high current DC and AC switch. It is of a modular design that enables a variety of construction combinations for various applications.

For example, combinations of DC and AC in one switch are available, such as for enabling simultaneous switching of both sides of an inverter if required.

The switching range is from 10 Amp through to 32 Amp, with operational voltages from 500 Volt through to 1,000 Volt.

Suitable for a wide range of demanding and industrial applications, the X-type switch is commonly used in solar inverters throughout the world.

Benefits to the customer include:

- Very high switching performance
- Reliable and durable
- Space optimised for each application

Growing sales well ahead of GDP

Cross-selling case study

Cross-selling

For acquired businesses, cross-selling through our Custom Supply division or between other D&M businesses provides new customer and geographic growth opportunities.

It takes typically three years for cross-selling to become established with a business unit, due to project lead-in cycles, but then develops into a significant additional source of revenue, as evidenced by the Group's longer standing acquisitions of MTC and Myrra, which both now count intra-group sales as one of their largest customers. This year, a significant step forward was achieved with revenues nearly doubling to £8.8m from the previous year (FY2016/17: £4.6m). Cross-selling now accounts for 2.3% of Group revenue, and we are well on our way to achieving our three-year cross-selling target (set in March 2017) of £10m per annum.

HIGH POWER, HIGH PERFORMANCE POWER SUPPLIES

The requirements of the customer

Acal BFi has a long term relationship with a leading provider of power electronic systems specialised in uninterruptible power supplies. The customer needed high performance chokes for high power uninterruptible power supplies (UPS).

The solution we developed

Due to its knowledge of the products and capabilities of the D&M division, Acal BFi was able to partner with Noratel, a D&M company, to develop a custom component. Noratel designed and manufactured custom inductors for the boost and inverter sections of the UPS, which used more efficient material in its production.

Benefits to the customer

The material used in the inverter requires less power consumption and as such, creates less heat which means that the final product size can be reduced and used in smaller units, with better overall performance as well as increased energy efficiency.

STRATEGY IN ACTION

Acquire high quality businesses

Acquisitions

There are numerous opportunities to acquire businesses that will enhance, strengthen and build the Group. Good acquisitions, at the right price, which build complementary product and/or geographic capability and supply common markets and customers, create future organic growth opportunities and build value for Shareholders.

We acquire businesses that are successful, profitable and growing in our existing and adjacent technology areas, with good growth prospects and long term growth drivers similar to the Group's target markets.

Typically, the businesses we acquire are led by entrepreneurial managers who wish to remain following acquisition. We encourage this, as it helps to retain a decentralised, entrepreneurial culture.

Our primary acquisition focus is to invest for growth, with operational improvement. As such, the D&M division operates a decentralised structure with business units operating to pre-agreed business plans. We support growth investment requirements and develop operational performance according to the requirements of each business unit. Depending upon the circumstances, we add value in some or all of the following areas:

- Internationalising sales channels and expanding the customer base, including via Group cross-selling initiatives (see page 17);
- Developing and expanding the product range;
- Investing in management capability ("scaling up") and succession planning;
- Capital investment in manufacturing & infrastructure;
- Improving manufacturing efficiency;
- Enabling growth with larger customers as a consequence of the stronger Group balance sheet;
- Infrastructure efficiencies, such as warehousing and freight;
- Finance and administrative support, such as treasury, banking, legal, pension, tax & insurance, risk & control; and
- Expanding the business through further acquisitions.

Acquisition performance

Over the last seven years, 11 businesses have been acquired in the D&M division at a cost of £153m. On a weighted average basis, revenues of the acquired businesses have grown by 5% per annum (organically at CER) and operating profits by 7% per annum since acquisition. We measure acquisition return on investment ("ROI") using the current year operating profit attributable to each business over the acquisition costs (including earn outs, expenses of acquisition and integration costs).

The Group, which has a weighted average cost of capital of c.9%, targets an acquisition EBIT ROI of 15% within two years. Overall, the weighted average ROI of our acquired businesses for the year was 17%, ahead of the target. During the year, six businesses exceeded target ROI with a range of 19% to 77%, mostly the result of several years' profitable growth from businesses acquired in earlier years. Two were broadly on target while two smaller businesses performed below the target level and, following changes that were made during the year, are expected to improve in the year ahead.

Acquisition case study

HECTRONIC

Hectronic, based in Stockholm in Sweden and acquired in June 2011, is a provider of customised embedded computing technology for industrial applications and is a good example of how we develop and invest in businesses following acquisition.

Since acquisition, organic revenue has doubled, and operating profits have grown tenfold. Furthermore, the following have been achieved:

- Focused core product offering;
- Developed higher value-add sales focus;
- Focused on key markets with strong success in transportation and medical;
- Invested in new sales resources and territories;
- Established cross-selling with Acal BFi;
- Moved main production to Taiwan;
- Enabled growth with larger customers as a consequence of a strong Group balance sheet;
- Shared management, resources and facility between Hectronic and Acal BFi Nordic.

The strong, local management team have embraced the market opportunity and the investment capability that the Group brought to the business to deliver strong results. The business has excellent growth prospects ahead.

STRATEGY IN ACTION

Internationalising the business

Investment case study

Operational investments

EXPANDING MAGNETICS PRODUCTION IN INDIA

During the year, investment was made in a new magnetics production facility in Bangalore.

While the Group has an existing facility in Trivandrum, additional space was required for new production of a new product range. Bangalore was identified as the location for the new facility in order to be close to target customers.

The facility which was chosen by discoverIE required low initial investment as it had most of its internal infrastructure in place. The Group also has the ability to increase production capability which allows for further growth.

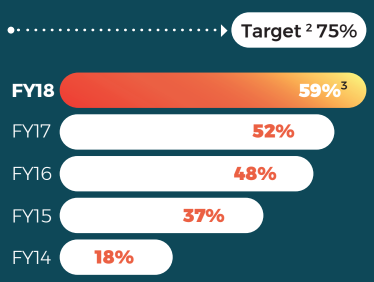
The Indian market is fast growing as a result of Government polices such as “Make In India” and “Digital India”. The Ministry for New and Renewable Energy in India targets an accelerated growth of renewable electricity and the Government has made a commitment to move to electric vehicles by 2030, both target markets of the Group.

The Group intends to grow our business in India and the expansion of the magnetics production is a first step in meeting this strategic goal.

KEY STRATEGIC INDICATORS

1 INCREASE SHARE OF GROUP REVENUE FROM DESIGN & MANUFACTURING[1]

59%



1 As a proportion of Group revenue
2 Mid-term is a three to five year period starting in November 2016
3 Includes the annualised impact of Santon, acquired in February 2018

Definition

The proportion of total Group revenue that is derived from business in the Design & Manufacturing ("D&M") division.

Why we measure this

This is a measure of the implementation of our strategy; moving up the value chain into higher margin products that are generated in the D&M division.

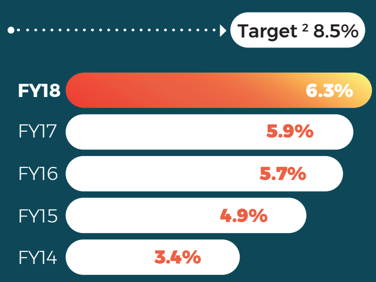
Commentary on performance

The D&M division delivered 57% of Group sales, up from 52% last year, and 59% when annualised for recent acquisitions. This is further progress towards our mid-term target of 75%.

Link to strategic priorities

2 INCREASE UNDERLYING OPERATING MARGIN

6.3%



2 Mid-term is a three to five year period starting in November 2016

Definition

Underlying operating profits as a percentage of sales.

Why we measure this

This is a measure of the operating efficiency of the Group.

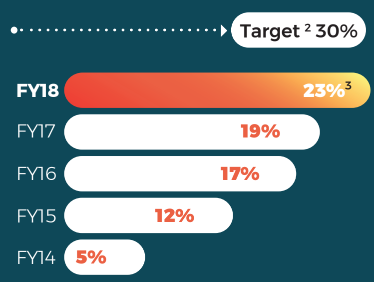
Commentary on performance

Increased to 6.3% from 5.9% last year. The ninth consecutive year of increasing margin. This is further progress toward our mid-term target of 8.5%.

Link to strategic priorities

3 BUILD SALES BEYOND EUROPE[1]

23%



1 As a proportion of Group revenue
2 Mid-term is a three to five year period starting in November 2016
3 Includes the annualised impact of Santon, acquired in February 2018

Definition

Sales in the Americas, Asia and Africa. Excludes the UK and Europe.

Why we measure this

Increasingly, we sell to companies with operations on more than one continent. It is important that we are able to support and supply those customers where they operate.

Commentary on performance

Nineteen per cent of sales were generated beyond Europe with very strong organic growth in North America and Asia by D&M of 27%, being offset by the acquisition of Variohm whose revenue is in Europe.

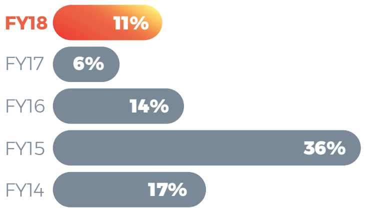
Link to strategic priorities

KEY PERFORMANCE INDICATORS

1 SALES GROWTH

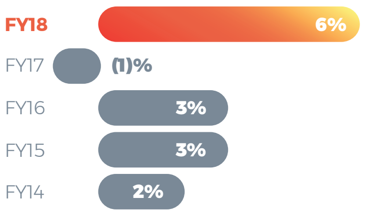
11% CER

3yr Target (FY20) Well ahead of GDP



6% ORGANIC[1]

3yr Target (FY20) Well ahead of GDP



1 Defined in note 2 of the Group financial statements

Definition

Two measures are used to calculate sales growth:

1. Organic sales growth is calculated at constant exchange rates and includes the equivalent pre-acquisition period for recent acquisitions.

2. Constant Exchange Rate (CER) growth measures the total increase in sales, both organic growth and the additive effect of acquisitions.

Why we measure this

1. Organic sales growth measures the success of the Group in generating new business and growth.

2. CER growth measures the total growth of the Group and drives overall levels of profitability and earnings.

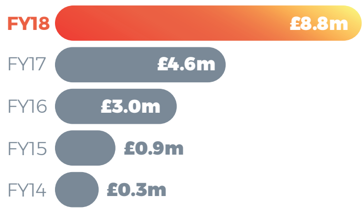
Commentary on performance

Organic sales growth for the period of 6% was well ahead of GDP. CER sales grew by 11%.

2 INCREASE CROSS-SELLING

£8.8m

3yr Target (FY20) £10m p.a.



Definition

Sales between Group operating companies.

Why we measure this

Cross-selling expands the sales opportunity by widening the range of products that can be sold. For acquired businesses, cross-selling provides new customer and geographic opportunities to enhance organic growth. In both cases, cross-selling creates stronger customer relationships.

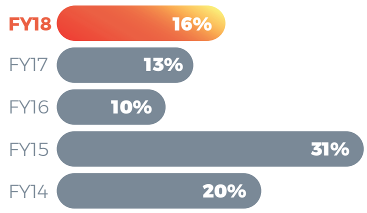
Commentary on performance

Cross-selling, which generated £8.8m of Group sales (nearly double the £4.6m of last year), is closing in on our three-year target of £10m p.a.

3 UNDERLYING EPS GROWTH[1]

16%

3yr Target (FY20) >10%



1 Defined in note 2 of the Group financial statements

Definition

Growth in underlying earnings per share (being underlying operating profit after tax divided by the weighted average fully diluted number of ordinary shares during the period).

Why we measure this

This measures the growth of the underlying earnings for each share and illustrates the level of profit growth being generated by the Group for each share in issue.

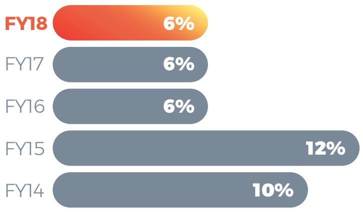
Commentary on performance

Underlying EPS growth for the period was strong at 16%, ahead of our target for the year of exceeding 10%.

4 DIVIDEND GROWTH

6%

3yr Target (FY20) Progressive



Definition

Growth in the amount derived from the Group's earnings, that is paid to Shareholders annually, expressed in pence per share.

Why we measure this

The Group has a progressive dividend policy. Dividend growth is an important parameter as investors are often attracted by dividend growth prospects. The Group depends on supportive Shareholders for the future development of the Group, for example, when raising new equity for acquisitions.

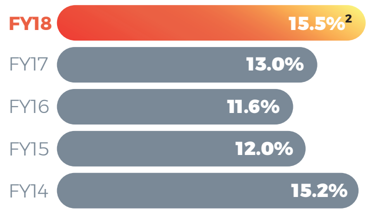
Commentary on performance

The full year dividend has increased by 6% reflecting the strong performance of the year and confidence in future prospects. This is the eighth consecutive year of increase.

5 RETURN ON CAPITAL EMPLOYED (ROCE)[1]

15.5%

3yr Target (FY20) >15%



1 Defined in note 2 of the Group financial statements

2 Excludes the impact of the Santon acquisition

Definition

Underlying operating profits for the year as a percentage of capital employed (net assets including goodwill, plus net debt as at the end of the year).

Why we measure this

This is a measure of profitability and the efficiency with which capital is utilised. By including goodwill incurred in acquisitions, it measures the effectiveness of acquisitions.

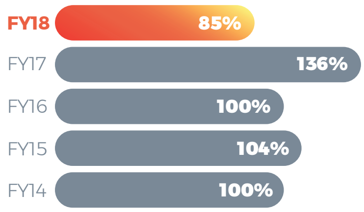
Commentary on performance

ROCE was 15.5%, up from 13.0% in the prior year, in line with our target of exceeding 15%.

6 OPERATING CASH FLOW[1]

85%

3yr Target (FY20) >85% of underlying operating profit



1 Defined in note 2 of the Group financial statements

Definition

Underlying EBITDA less working capital and capital expenditure as a percentage of underlying operating profits.

Why we measure this

This measures the conversion rate of underlying operating profits into cash.

Commentary on performance

Operating cash flow was 85% of underlying operating profit, in line with our target. While a lower percentage than in previous years, this reflects investment in working capital to meet organic growth requirements..

OPERATING REVIEW

Nick Jefferies – GROUP CHIEF EXECUTIVE

"The Group is well positioned to continue benefiting from the technological changes that are under way in our target markets. We look forward to making further progress in the year ahead."

Overview

The Group has invested, over recent years, in initiatives that enhance design and manufacturing sales opportunities in our key customers and markets. The results are evident with strong levels of organic revenue growth across the business units within our D&M division. In our Custom Supply division, the focus has been on improving efficiency and increasing profitability which has resulted in a 44% increase in the division's underlying operating profits.

Organic sales in the year grew by 6% driven by 11% organic growth in the D&M division. Together with a 5% contribution from the acquisitions of Variohm Holdings Limited ("Variohm") in January 2017, and Santon in February 2018, Group sales increased by 11% CER; including translation benefits from a weaker Sterling on average since last year, reported Group revenues were up 15%.

Orders also performed well, growing by 5% organically to £401m and by 11% CER, when including acquisitions, leading to another record year end order book at 31 March 2018 of £122m (up 12% CER year-on-year).

Project design wins, a proxy measurement for new business creation, grew strongly during the year. The estimated lifetime sales value of design wins during the year was £190m, an increase of 50% compared with last year, with 75% of these wins in our target markets.

Strong revenue growth has driven a 23% increase in underlying operating profit, rising by £4.5m to £24.5m (18% CER), with Underlying EPS increasing by 16% to 22.3p.

Group Strategy

The Group designs, manufactures and supplies highly differentiated, innovative components for electronic applications.

Core to our value proposition is the understanding of our customers' design challenges and how to design and manufacture engineered products that meet their needs, which we then supply over the life of the customer's production, typically five to seven years.

In a fragmented market, there exists an opportunity to consolidate manufacturers which offer a product range that is tailored to meet the needs of the Group's common customer base, ranging from mid-sized OEMs (original equipment manufacturers) to multinational companies operating across multiple sites and regions. Our four target markets (renewable energy, transportation, medical, and industrial connectivity), are long term, international growth markets driven by excellent fundamentals where our customers depend upon the Group's products.

Our strategy comprises four elements:

1. Grow sales well ahead of GDP over the economic cycle by focusing on structural growth markets;
2. Move up the value chain by continuing to build revenues in the higher margin D&M division;
3. Acquire businesses with attractive growth prospects;
4. Internationalise the business by developing sales in North America and Asia.

The Group's progress with its strategic objectives is measured through key strategic indicators ("KSIs"), while progress with its financial performance is measured through key performance indicators ("KPIs"). Our KSIs are mid-term targets over a three to five year period from November 2016 while our KPIs are three year targets starting in March 2017.

Key Strategic Indicators

	FY 14	FY 15	FY 16	FY 17	FY 18	Mid term Target[2]
1. Increase share of Group revenue from D&M[1]	18%	37%	48%	52%	59%[3]	75%
2. Increase underlying operating margin	3.4%	4.9%	5.7%	5.9%	6.3%	8.5%
3. Build sales beyond Europe[1]	5%	12%	17%	19%	23%[3]	30%

1 As a proportion of Group revenue

2 Mid-term is a three to five year period starting in November 2016

3 Includes the annualised impact of Santon, acquired in February 2018

The Group made good progress towards its strategic objectives during the year:

- The higher margin D&M division delivered 57% of Group sales (FY 2016/17: 52%), generating 76% of the Group's underlying profit contribution. Annualised for the Santon acquisition in February 2018, D&M sales represent 59% of Group sales. Importantly, customer concentration remains low with no one customer accounting for more than 4% of Group sales;
- The operating leverage delivered on our organic sales growth combined with the benefits of restructuring last year led to a reduction in operating costs as a percentage of sales, reducing by 0.5ppts to 26.4%; this has helped to improve the Group operating margin by 0.4ppts since last year to 6.3% (FY 2016/17: 5.9%);
- Sales beyond Europe for the year were 19% of Group sales (in line with last year) with very strong organic growth in D&M in North America and Asia (combined growth of 27%) being offset by the acquisition of Variohm whose revenue is in Europe. Annualised for the Santon acquisition, this ratio increases to 23%. We continue to seek acquisitions with revenues beyond Europe.

Our long term ambition is to increase the share of Group revenue from D&M to 85% with an operating margin of 10% and sales beyond Europe of 40%.

OPERATING REVIEW

Key Performance Indicators

	FY 14	FY 15	FY 16	FY 17	FY 18	3 yr target (FY20)
1. Sales growth						
CER	17%	36%	14%	6%	11%	
Organic	2%	3%	3%	(1%)	6%	Well ahead of GDP
2. Increase cross-selling	£0.3m	£0.9m	£3.0m	£4.6m	£8.8m	£10m p.a.
3. Underlying EPS growth	20%	31%	10%	13%	16%	>10%
4. Dividend growth	10%	12%	6%	6%	6%	Progressive
5. ROCE[1]	15.2%	12.0%	11.6%	13.0%	15.5%[2]	>15%
6. Operating cash flow[1]	100%	104%	100%	136%	85%	>85% of underlying operating profit

1 Defined in note 5 of the attached summary financial statements

2 Excludes the impact of the Santon acquisition

The Group also made good progress towards its operational objectives during the year:

- Organic sales growth for the period of 6% was well ahead of GDP, with strong organic growth in our higher margin D&M division, increasing organically by 11% as earlier design wins and order book converted into revenue;
- Cross-selling, which generated £8.8m of Group sales (nearly double the £4.6m of last year), is closing in on our three year target of £10m p.a.; as with organic growth in D&M, cross-selling revenue accelerated following the conversion of earlier design wins and order book into revenue;
- Underlying EPS growth for the period was 16%, comfortably ahead of our target for the year of exceeding 10% and reflecting the strong continuing performance of acquisitions together with broad-based organic growth;
- Strong growth in underlying operating profit has driven a 2.5ppts increase in return on capital employed to 15.5% compared with 13.0% in FY 2016/17, on the organic business, ahead of our three year target of exceeding 15%. ROCE including Santon (which factors in only two months of its operating profit but all of its assets) increased by 0.5ppts to 13.5%;
- Operating cash flow was 85% of underlying operating profit, in line with our target; while a lower percentage than in previous years, this reflects investment in working capital to meet organic growth requirements, with sales growing by 6% organically this year compared with a reduction of 1% last year.

Divisional Results

Divisional and Group performances for the year ended 31 March 2018 are set out and reviewed below.

	FY 2017/18			FY 2016/17					
	Revenue £m	**Underlying operating profit[1] £m**	**Margin**	Revenue £m	Underlying operating profit[1] £m	Margin	Revenue growth	CER revenue growth	Organic revenue growth
Design & Manufacturing	**222.6**	**24.2**	**10.9%**	175.6	20.2	11.5%	27%	24%	11%
Custom Supply	**165.3**	**7.5**	**4.5%**	162.6	5.2	3.2%	2%	(2%)	0%
Unallocated costs[2]		**(7.2)**			(5.4)				
Total	**387.9**	**24.5**	**6.3%**	338.2	20.0	5.9%	15%	11%	6%

1 Underlying operating profit excludes acquisition-related costs in both years and exceptional costs in FY 2016/17

2 £1.4m of the £1.8m increase in unallocated costs relates to the accrual for employer's national insurance on LTIPs following an 85% increase in the share price during the year

With over 80% of Group sales in non-Sterling currencies, the translation of Group results into Sterling has benefited from Sterling weakness on average against Euro and Nordic currencies, increasing Group revenue growth from 11% CER to 15% on a reported basis. Conversely, weaker Sterling put pressure on our UK import costs in the final quarter of last year and the first half of this year, impacting UK gross margins where approximately 90% of the cost of goods are non-Sterling. During the second half, we mitigated much of these effects through a combination of manufacturing and purchasing efficiencies, and in some cases price increases to customers, such that the second half gross margin increased by nearly 1ppt over first half margins.

Order Book

Orders have continued to grow well and at the year end the order book reached a record high of £122m, an increase of 12% CER over last year. On an organic basis, the order book increased by 7%.

The order book is driven by repeating revenues from existing customer projects and the conversion of customer design wins from new projects into orders.

Over 80% of the order book is for delivery within 12 months from the time of order, and it is this conversion into sales which is driving the continued momentum in sales into FY2018/19.

By working with high quality customers in our focus markets, we aim to build an order book that leads to long term and repeating revenues.

Design wins

Project design wins are a proxy measurement for new business creation and are a key driver of organic sales growth. By working with customers at an early stage in their project design cycle we identify opportunities to create custom products to meet specific needs.

Design opportunities take on average 18 months to develop to conclusion, at which point they become a design win. Once in production, the design win will create a recurring revenue stream over a number of years.

This year design wins grew very strongly driven by a clear focus on our part and a strong growth in investment on the part of our customers. The estimated lifetime sales value of design wins during the period was £190m, an increase of 50% over the prior year (FY 2016/17: £127m). A portion of design wins are to replace existing projects as they become end-of-life.

Design & Manufacturing ("D&M") Division

The D&M division designs, manufactures and supplies highly differentiated, innovative components for electronic applications. Over 80% of the products are manufactured in-house, the balance being manufactured by approved third party contractors. The division's principal manufacturing facilities are in China, India, the Netherlands, Poland, Sri Lanka and Thailand.

A number of operational investments were made during the year which included a new magnetics production facility in Bangalore, India, close to some of our larger customers; expanding fibre optic production capacity with a new factory in Slovakia; and expanding our electromagnetic shielding production capacity in South Korea. During the year ahead, we are planning to expand our magnetics production capacity in China. Additionally, as part of the acquisition of Santon in February 2018, investment is being made to expand capacity and automate production at their factory in Rotterdam.

Trading in the year was strong, generating 11% organic sales growth and continuing the momentum started in the second half of last year. This growth was driven by new project wins, mostly in our target markets, and product cross-selling, supported by favourable market conditions. Strong growth was seen in the Nordic region, Germany, Asia and the US. Orders for the division increased by 10% organically year-on-year, and the divisional order book was up by 12% organically.

Organic sales growth of 11%, combined with 13% sales growth contribution from the acquisitions of Variohm in January 2017 and Santon in February 2018, resulted in overall sales increasing by 24% CER. Including the benefit of translation gains, reported divisional revenue increased by 27% to £222.6m (FY 2016/17: £175.6m).

Divisional revenue was 57% of Group revenue (59% annualised for acquisitions; FY 2016/17: 52%) and generated 76% of the Group's underlying profit contribution. This represents further good progress towards our mid-term target for D&M to account for 75% of Group revenue, with our long term ambition being 85%.

Underlying operating profit of £24.2m was £4.0m (+20%) higher than last year (FY 2016/17: £20.2m) and up £3.5m CER (+17%). The underlying operating margin of 10.9% remained consistent through the year and in line with the second half of last year. The modest reduction in operating margin on an annual basis reflects the impact of Sterling weakness on UK import pricing which was evident from the end of the first half last year.

OPERATING REVIEW

Variohm

Variohm was acquired in January 2017 and has since been integrated into the D&M division. It performed strongly during the year, with good organic growth in both orders and sales driving a 14% increase in its profitability. As with previous acquisitions, Variohm is expected to benefit from the access it has to the Group's wider customer base and international reach, creating new revenue opportunities from cross-selling within the Group. Variohm has a strong pipeline of cross-selling projects and a number of design wins and pre-production orders already secured.

Santon

In February 2018, the Group acquired the Santon Group, a Dutch-based designer and manufacturer of highly differentiated, patented, direct current ("DC") switches for use in solar, industrial and transportation markets. The acquisition was consistent with the Group's strategy of targeting structural growth markets, in this case renewable energy and transportation, internationalising sales and building on its position in niche components for solar power and its established position in wind power. The acquisition is expected to nearly double the Group's sales into the renewable energy sector and increase the level of Group sales into Asia from 8% to 13%.

Santon was acquired for an initial consideration of €27.0m (£23.7m) on a debt free, cash free basis and generated revenue for its year ended 31 December 2016 of €24.4m (£20.0m) with a normalised operating profit of €3.2m (£2.6m). In addition, contingent consideration of up to €22.5m (£19.7m) will be payable over the next three years subject to Santon achieving certain high growth targets.

Since acquisition, Santon is settling in well. In addition to its strong solar business, a number of new opportunities have arisen in the transportation and industrial sectors, some with customers that are common to the Group.

As with Variohm, we expect the business to benefit from access to discoverIE's broader, international customer base, to create new revenue opportunities from cross-selling across the Group.

Custom Supply Division

During the year, the Custom Distribution division was renamed Custom Supply. With continuing focus on designing customised solutions for customers with our third party suppliers, and the growth in cross-selling of complementary products from our D&M division, the new name more accurately reflects the nature of business in this division.

The division provides customised electronic, photonic and medical products for technically demanding applications in industrial, medical and healthcare markets. The business operates similarly to the D&M division, but mostly with third party suppliers rather than with products manufactured in-house. As such, operating margins are lower than in D&M. A key element of the division's strategy is to grow the proportion of cross-sales from manufactured products from the D&M division in a manner that complements, but does not compete with or limit growth of, our highly valued third party suppliers, thereby enhancing the Group's overall value proposition to customers and suppliers.

A high degree of technical knowledge is required during the sales process, with the division's in-house engineers helping customers to solve their design challenges. The Group is the only industrial electronics business which provides such a comprehensive range of customer-specific products and solutions across Europe. The division comprises two businesses, Acal BFi and Vertec.

Acal BFi supplies industrial markets and accounts for the majority of Custom Supply revenue. It supplies products from a selected group of manufacturers (including the Group's D&M businesses) to customers in five technology areas: Communications & Sensors, Power & Magnetics, Electromechanical & Cabling, Microsystems, and Imaging & Photonics. The business operates across Europe, with centralised warehousing, purchasing, finance, customer contact management and IT systems. Vertec supplies exclusively sourced medical imaging and radiotherapy products into medical and healthcare markets in the UK and South Africa.

The division's overall trading performance in the year was steady with organic sales in line with last year. First half sales grew by 7% organically while second half sales were 6% lower following strong prior year comparators. Strong growth was delivered in Germany and Italy offset by softness in domestic UK demand. Orders for the division were also in line with last year organically with a book to bill ratio of 1.02.

The division's focus on high value-add sales saw divisional gross margins increase by 0.7ppts. This, together with the benefits from last year's efficiency programme, resulted in much improved profitability. Underlying operating profit rose by 44% to £7.5m (up 36% CER), with an underlying operating margin of 4.5%, 1.3ppts higher than last year (FY 2016/17: 3.2%). This is excellent progress towards achieving our target margin for this division of 5%.

The Spanish business was closed during December 2016 as part of the efficiency and cost reduction programme. This closure impacted sales this year by 2%, resulting in overall divisional sales being below last year by 2% CER. Including the benefit of translation gains from weaker Sterling since last year, reported divisional revenue increased by 2% to £165.3m (FY 2016/17: £162.6m).

Group Priorities for the Year Ahead

Our priority for the year ahead is to deliver further good growth in earnings and operating margins, through:

1. Organic sales growth including:
   - Continued growth in cross-selling
2. Developing new and expanded production facilities
3. Integrating the Santon acquisition:
   - Organic growth
   - Complete automation project
   - Establish cross-selling
4. Further value enhancing acquisitions.

Summary and Outlook

As expected, this has been a year of good progress. The Design & Manufacturing division has delivered strong organic growth in revenue and profits and in Custom Supply, the efficiency programme of last year has delivered much improved profitability.

The Group order book grew by 12% CER to reach a new record level of £122m and the value of new projects won during the year continued to grow well, particularly in our target markets; both are important for building organic growth. To support this, we have invested in additional production capacity at three sites with one more under way in the coming year.

We have a healthy pipeline of acquisition opportunities with a number being developed in line with our stated objectives.

Trading in the new year has started well with continuing growth in orders and sales and the Group is well positioned to continue benefiting from the technology changes that are under way in our target markets. We look forward to making further progress in the year ahead.

Nick Jefferies
Group Chief Executive
5 June 2018

FINANCE REVIEW

Simon Gibbins – GROUP FINANCE DIRECTOR

"Another year of good progress, Group revenue for the year increased by 15% over last year."

Orders and Revenue

Group revenue for the year increased by 15% over last year to £387.9m, and by 11% CER, the difference reflecting the translation benefit of Sterling weakness since last year. Organic revenue increased by 6%, while the acquisitions of Variohm last year, and Santon this year, less last year's closure of the Spanish distribution business, contributed an additional 5% growth in revenues.

£m	FY 2017/18	FY 2016/17	%
Reported revenue	**387.9**	338.2	15%
FX translation impact		10.7	
Underlying revenue (CER)	**387.9**	348.9	11%
Acquisitions/closures	**(3.7)**	13.3	
Organic revenue	**384.2**	362.2	6%

Group orders increased by 11% CER with a book to bill ratio of 1.03 (H1: 1.02, H2: 1.04). Organically, orders were up 5% for the year.

With approximately 80% of Group sales in non-Sterling currencies, the translation of Group results into Sterling has benefited from its weakness since last year. Sterling declined by 5% against the Euro in the year compared with last year, and by 2% against Nordic currencies.

Gross Profit and Margin

Gross profit for the year of £126.7m increased by 14% over last year. Gross margins in the second half increased during the year to 33.1% compared with 32.2% in the first half, to give a full year gross margin of 32.7%, broadly in line with last year.

The second half improvement reflects the benefit of some increased pricing to pass on the impact of adverse foreign exchange movements on UK import costs, as well as the benefit of higher margin acquisitions.

Despite currency pressures over the last two years, the second half gross margin is the Group's highest half yearly gross margin, which has increased by around 7ppts in the last nine years, a reflection of the differentiated nature of our products.

Underlying Operating Costs

Overall reported costs were up 5% as detailed below. Excluding underlying adjustments, Group underlying operating costs increased by 9% CER. Adjusting for the pre-acquisition costs of Variohm and Santon, underlying operating costs increased by 4% organically reflecting investment in D&M businesses to support strong revenue growth. The increase is related mainly to organic sales growth of £22m and the higher cost accrual for UK national insurance on share based payments of £1.4m following an 85% increase in the share price during the year, partially offset by restructuring savings from last year's efficiency and cost reduction programme of £2.3m.

As a percentage of sales, underlying operating costs for the year reduced by 0.5ppts to 26.4%, or 26.0% excluding the UK national insurance on share based payments, the Group's lowest percentage since the outset of the current strategy in 2009, as the business continues to invest for growth and improve its efficiency.

£m	**FY 2017/18**	FY 2016/17	%
Organic operating costs	**101.1**	97.3	4%
Acquisitions/closure operating costs	**1.1**	(3.7)	
Underlying operating costs (CER)	**102.2**	93.6	9%
FX translation		(2.6)	
Underlying adjustments			
Acquisition-related costs	**0.8**	1.7	
Amortisation of acquired intangibles	**4.9**	3.9	
Exceptional restructuring costs	**–**	6.4	
IAS 19 pension administration cost	**0.3**	0.3	
Reported operating costs	**108.2**	103.3	5%

£m	**FY 2017/18**	FY 2016/17
Selling and distribution costs	**54.5**	49.4
Administrative expenses	**53.7**	53.9
Reported operating costs	**108.2**	103.3

Selling and distribution costs, and administrative expenses both include the additional operating costs of the recently acquired businesses. Underlying adjustments, which are included in the financial statements within administrative expenses, are discussed on page 32.

FINANCE REVIEW

Group Operating Profit and Margin

Group underlying operating profit for the year was £24.5m, up £4.5m (+23%) on last year, and up 18% CER, delivering a Group underlying operating margin of 6.3%, up 0.4ppts on last year.

Reported Group operating profit for the year (after accounting for the underlying adjustments discussed below) was £18.5m, an increase of £10.8m compared with £7.7m last year. Last year was impacted by exceptional restructuring costs of £6.4m, of which there are none this year. Excluding those exceptional costs from last year, reported Group operating profit increased by £4.4m (+31%).

	FY 2017/18			FY 2016/17		
£m	**Operating profit**	**Finance cost**	**Profit before tax**	Operating profit	Finance cost	Profit before tax
Underlying	**24.5**	**(2.6)**	**21.9**	20.0	(2.8)	17.2
Underlying adjustments						
Acquisition-related costs	**(0.8)**	**–**	**(0.8)**	(1.7)	–	(1.7)
Amortisation of acquired intangibles	**(4.9)**	**–**	**(4.9)**	(3.9)	–	(3.9)
Exceptional restructuring costs	**–**	**–**	**–**	(6.4)	–	(6.4)
IAS 19 pension cost	**(0.3)**	**(0.1)**	**(0.4)**	(0.3)	(0.1)	(0.4)
Reported	**18.5**	**(2.7)**	**15.8**	7.7	(2.9)	4.8

Underlying Adjustments

Underlying adjustments for the year comprise acquisition-related costs of £0.8m (FY 2016/17: £1.7m), the amortisation of acquired intangibles of £4.9m (FY 2016/17: £3.9m) and the IAS 19 legacy pension cost of £0.4m (FY 2016/17: £0.4m). There were no exceptional costs (FY 2016/17: £6.4m).

Acquisition-related costs of £0.8m comprised expenses of £1.2m related to the acquisition of Santon in February 2018, integration costs of £0.3m and earn out net credit adjustments of £0.7m.

The £1.0m increase in the amortisation charge since last year relates to the amortisation of intangibles identified as part of the acquisitions of Variohm last year and Santon this year. The total annualised amortisation cost for next year is expected to be around £6.0m.

Additionally, last year there was £6.4m of exceptional costs related to the Group's efficiency and cost reduction programme which delivered £4.0m of savings, of which £1.7m arose last year with the additional £2.3m arising this year. There were no exceptional costs this year.

Financing Costs

Group finance costs of £2.7m (FY 2016/17: £2.9m) comprised underlying finance costs (being interest and facility fees arising from the Group's banking and pooling facilities), together with an IAS 19 pension finance charge.

Underlying finance costs for the year were £2.6m, a reduction of £0.2m from last year (FY 2016/17: £2.8m) due to lower average debt balances during the year. Included within finance costs is the amortisation of the upfront arrangement fees associated with the Group's syndicated banking facility of approximately £0.3m per annum.

The IAS 19 pension finance cost for the year was £0.1m, in line with last year.

Underlying Tax Rate

The underlying effective tax rate for the year was 24%. This was in line with last year.

The overall effective tax rate of 25% was slightly higher than the underlying effective tax rate of 24% mainly due to lower tax relief available on the amortisation of acquired intangibles.

Profit Before Tax and EPS

Underlying profit before tax for the year was £21.9m, an increase of £4.7m (27%) compared with last year. This increase, offset partly by the increased equity base following the equity placing in January 2017, resulted in underlying diluted earnings per share for the year of 22.3p, up 16% on last year.

After the underlying adjustments discussed above, reported profit before tax was £15.8m, £11.0m higher than last year, with reported fully diluted earnings per share of 15.8p, an increase of 10.7p from last year.

	FY 2017/18		FY 2016/17	
£m	**PBT**	**EPS**	PBT	EPS
Underlying	**21.9**	**22.3p**	17.2	19.2p
Underlying adjustments				
Acquisition-related costs	**(0.8)**		(1.7)	
Amortisation of acquired intangibles	**(4.9)**		(3.9)	
Exceptional restructuring costs	**–**		(6.4)	
IAS 19 pension cost	**(0.4)**		(0.4)	
Reported	**15.8**	**15.8p**	4.8	5.1p

Working Capital

Working capital at 31 March 2018 was £61.8m, equivalent to 15% of annualised final quarter sales at CER. This compares with working capital of £55.1m at 31 March 2017, also at 15% of last year's annualised final quarter sales at CER. Continued tight management of working capital has kept this ratio similar with last year, despite increased sales in the D&M division, which as a manufacturer, holds raw material and more finished goods than in Custom Supply, and hence has lower stock turns (3.5 times in D&M compared with 9.5 times in Custom Supply). This in turn, results in higher working capital as a percentage of sales in the D&M division (21% in D&M compared with 10% in Custom Supply).

Group stock turns were 4.9, 0.8 turns lower than last year, as a result of the increasing percentage of D&M sales. Group trade debtor days and trade creditor days outstanding at 31 March 2018 were higher than last year at 55 days (up 4 days) and 63 days (up 6 days) respectively, again largely linked to the increased percentage of sales in D&M for which both ratios are higher than in Custom Supply.

ROCE for the year (return on capital employed, as defined in note 2 of the Group financial statements) on our organic business was 15.5%, up 2.5ppts on last year driven by increased profitability and operating efficiency. This is ahead of our target to achieve a ROCE of at least 15%. Including our recent Santon acquisition, ROCE (which factors in only two months of Santon's operating profit but all of its assets) was still up 0.5ppts to 13.5%.

FINANCE REVIEW

Cash Flow

Net debt at 31 March 2018 was £52.4m, compared with £30.0m at 31 March 2017. The increase of £22.4m results mainly from the Santon acquisition in February 2018. Excluding the upfront costs and expenses related to acquisitions, net debt would have reduced by £3.0m to £27.0m.

	FY 2017/18	FY 2016/17
Net debt at 1 April	**(30.0)**	(38.1)
Free cash flow (see table below)	**14.6**	21.3
Acquisition-related cash flow	**(25.4)**	(13.8)
Equity issuance	**–**	13.6
Net settlement expense	**(1.5)**	–
Exceptional payments	**(1.8)**	(6.4)
Legacy pension	**(1.7)**	(1.6)
Dividends	**(6.2)**	(5.2)
Foreign exchange impact	**(0.4)**	0.2
Net debt at 31 March	**(52.4)**	(30.0)

Net acquisition cash flows of £25.4m comprise a £19.4m upfront cash payment for the acquisition of Santon in February 2018, £4.4m of acquired debt on acquisition, associated acquisition costs of £0.8m and the cash cost of earn out payments made in the period of £0.8m. Cash payments of exceptional items for the year totalled £1.8m (being payments of prior year accruals for last year's efficiency and cost reduction programme). Additionally, £1.5m of tax was paid in respect of executive share options which were net settled on exercise.

Dividend payments increased by £1.0m (+19%) to £6.2m following the 6% increase of last year's dividend and the 10% increase in the number of shares following the equity placing in January 2017 which funded the Variohm acquisition. The Group will continue to review the level of future dividend growth in relation to its policy of long term dividend cover of two to three times underlying earnings per share.

Operating cash flow and free cash flow (see definitions in note 2 of the Group financial statements on page 115) for the year compared with last year are shown below.

£m	FY 2017/18	FY 2016/17
Underlying profit before tax	**21.9**	17.2
Finance costs	**2.6**	2.8
Non-cash items*	**4.8**	4.5
Underlying EBITDA	**29.3**	24.5
Working capital	**(4.1)**	5.9
Capital expenditure	**(4.3)**	(3.3)
Operating cash flow	**20.9**	27.1
Finance costs	**(2.6)**	(2.8)
Taxation	**(3.7)**	(3.0)
Free cash flow	**14.6**	21.3

* Non-cash items comprise depreciation (£3.5m), amortisation (£0.6m) and share based payments (£0.7m)

Underlying EBITDA of £29.3m was 20% higher than last year. £4.1m was invested into working capital, to support strong organic D&M sales growth of 11% (being additional organic D&M sales of £22.0m CER). This additional working capital equates to 19% of D&M sales, 2ppts below the 21% average for the D&M division.

Together with lower growth last year, strong year end cash collections in March 2017 allowed for working capital of £5.9m to be released. Across the two-year period, £1.8m has been released from Group working capital at a time when organic sales have grown by £20m, delivering an overall 1ppt reduction in working capital as a percentage of sales for the period FY 2016 to 2018.

Capital expenditure at £4.3m was £1.0m higher than last year with increased investment in the D&M division, in particular funding new facilities in Noratel India, Foss Slovakia and MTC Korea plus a full year's capital expenditure for Variohm which was acquired last year. Tax payments were £0.7m higher than last year due to increased profits in the Group.

Operating cash flow of £20.9m represents 85% of underlying operating profit, in line with our conversion target. Free cash flow (after finance costs and taxation) was £14.6m; at 88% of underlying profit after tax, this was broadly in line with our target of 90%.

Banking Facilities

The Group has a five-year £120m syndicated banking facility which extends out to July 2021. In addition, the Group has a £30m accordion facility to extend the total facility up to £150m. The syndicated facility is available both for acquisitions and for working capital purposes.

With net debt at 31 March 2018 of £52.4m, the Group's gearing ratio was 1.5 times (FY 2016/17: 1.2 times), being defined as net debt divided by underlying EBITDA (annualised for acquisitions). The gearing ratio has increased due to the acquisition of Santon in February 2018. Excluding the Santon acquisition, the gearing at 31 March 2018 would have been 1.1 times.

Balance Sheet

Net assets of £129.3m at 31 March 2018 were £5.5m higher than at the end of the last financial year (31 March 2017: £123.8m). The increase primarily relates to the net profit for the year partly offset by the payment of last year's final dividend. The movement in net assets is summarised below:

£m	**FY 2017/18**
Net assets at 31 March 2017	**123.8**
Net profit after tax	**11.8**
Dividend paid	**(6.2)**
Currency net assets – translation impact	**(3.5)**
Gain on defined benefit scheme	**1.8**
Equity issuance	**1.0**
Share based payments (inc. tax)	**0.6**
Net assets at 31 March 2018	**129.3**

The Group's IAS 19 pension liability, associated with its legacy defined benefit pension scheme, reduced during the period by £3.4m, from £6.4m at 31 March 2017 to £3.0m at 31 March 2018. This mainly follows increased gilt and corporate bond rates during the year, and reductions in market expectations for life expectancy improvements, which together have reduced the value of longer term pension liabilities by £1.8m (as shown in the reconciliation above). Additionally, there were payments to the pension fund in the year totalling £1.7m less interest payable of £0.1m. Annual payments of £1.7m remain payable (growing by 3% each year in accordance with the plan agreed with the pension trustees in 2009) until March 2022. The triennial valuation of the scheme will be undertaken as at 31 March 2018.

Risks and Uncertainties

The principal risks faced by the Group are detailed on pages 38 to 41. These risks include but are not limited to: the economic environment, particularly within Europe; the impact arising from the UK's decision to leave the European Union; the performance of acquired companies; loss of major customers or suppliers; technological change; major business disruption; cyber security; product liability; liquidity and debt covenants; exposure to adverse foreign currency movements; obligations in respect of a legacy defined benefit pension scheme; and loss of key personnel.

The Group's risk management processes cover identification, impact assessment, likely occurrence and mitigation actions. Some level of risk, however, will always be present. The Group is well positioned to manage such risks and uncertainties, if they arise, given its strong balance sheet and committed banking facility of £120m.

Simon Gibbins
Group Finance Director
5 June 2018

RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

In delivering value to our Shareholders, our employees and other stakeholders, we need to understand and manage the risks faced across our entire organisation. discoverIE's businesses are affected by a number of risks and uncertainties. These may be affected by factors, some of which we cannot control. Many of the risks are similar to those found by comparable companies in terms of scale and operations.

Risk appetite

The Group Executive Committee is responsible for overseeing the risk management processes and procedures and reports to the Board through the Audit Committee on the key risks facing the Group. It monitors the mitigating actions put in place to address the identified risks. The Board has approved the acceptance of certain risks which are considered appropriate to achieve the Group's strategic priorities. discoverIE is averse to exposing itself to reputational risk, regulatory and compliance risks, and risks relating to the security of systems and data, while being more open to risks relating to the pursuit of innovating our products, building our customer base and increasing our competitive strength in the market. The degree of risk to be accepted is managed on a day-to-day basis through the Board delegated authority levels.

Risk can be viewed as the combination of the likelihood of an event and the impact of its occurrence. A negative impact can prevent value creation or erode existing value. Risks are inherent in our business activities and can be grouped into four categories:

1. **Strategic threats;**
2. **Operational issues;**
3. **Compliance with laws; and**
4. **Financial and reporting obligations.**

Enterprise Risk Management is a framework applied by the Company to identify potential events that may affect the Group and manage the associated risks. The Risk Management Framework is made up of six components:

1. The policy on business conduct sets the tone and values of the Group;
2. Event identification and risk assessment to identify internal and external risks that may affect the objectives of the Group;
3. The risk response is based on risk exposure, considered as a function of likelihood and impact of the risk;
4. Control activities to ensure that risk responses are carried out effectively and consistently;
5. Information and communication to make the organisation aware of risks and mitigating actions; and
6. Monitoring of controls and preventive actions.

Board	◻ Overall responsibility for corporate strategy and risk management ◻ Defines the Group's appetite for risk
Audit Committee	◻ Reviews effectiveness of Group's risk management framework and internal controls ◻ Ensures compliance with relevant laws ◻ Oversees effectiveness of Group's Internal Audit function
Group Executive Committee	◻ Management of the Group and delivery of the strategy ◻ Monitoring of the key risks ◻ Regular reviews of the risk management framework
Group Risk Management	◻ Responsible for the integration of the risk management framework ◻ Monitors compliance with the Group's internal controls and policies ◻ Conducts or commissions Internal Audit
Operating Companies	◻ Identify internal and external risks ◻ Responsible for the implementation of risk mitigation actions and compliance with internal controls and policies ◻ Responsible for compliance with relevant laws

Viability statement

In accordance with the revised UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a period significantly longer than 12 months from the approval of the financial statements. The Board has concluded that the most relevant time period for this review should be the three-year period ending 31 March 2021 which coincides with the rolling annual long range plan.

The long range plan, which includes the budget for the year ending 31 March 2019, is built up by each operating company, applying assumed growth rates and it considers the Group's cash flows, cash and financial covenant headroom under existing borrowing facilities, and other key financial ratios over the period. The plan is subject to sensitivity analysis, which involves flexing a number of the underlying main assumptions, both individually and in conjunction, together with mitigating actions that the Directors would consider undertaking. The sensitivities take into account the principal risks and uncertainties set out on pages 38 to 41, notably an economic downturn, Brexit, loss of key customers, underperformance of acquire businesses, major business disruption, liquidity and debt covenants and foreign currency.

The other risks which have not been modelled are more qualitative in nature and thus highly subjective to model, but their relevance and potential impact has been considered by the Board as part of the risk management process.

The Group has a syndicated banking facility of £120m which is committed up to July 2021. In addition, the Group has a £30m accordion facility which it can use to extend the total facility up to £150m. The syndicated facility is available both for acquisitions and for working capital purposes.

The Strategic Report on pages 2 to 46 sets out the key details of the Group's financial performance, capital management, business environment and principal risks and uncertainties.

Based on the Director's assessment, the Board believes that, taking into account the Group's current position, having regard to the available committed borrowing facilities available to the Company, and subject to the principal risks and uncertainties faced by the business as documented on pages 38 to 41 of the Strategic Report, the Group will be able to continue in operation and to meet its liabilities as they fall due for the three-year period of their assessment.

PRINCIPAL RISKS AND UNCERTAINTIES

Strategic risk – Instability in the economic environment

Risk description and assessment	Mitigation	Change
A key external risk affecting the Group remains the challenge of macroeconomic and market conditions, especially in Europe. These conditions, which are underpinned by slow economic growth, could adversely affect the Group in a number of ways, including: ▫ Any slowdown in order intake and increased competition, due to the lack of end-user demand could affect the Group's profitability through a reduction in sales and/or lower margins. ▫ Equity and debt raising conditions may become more challenging which could impact on the Group's ability to raise funds for both the growth of our business and, in particular, the growth of value-adding acquisitions, a core part of the Group's stated strategy.	▫ Transition into a differentiated specialist supplier should help reduce exposure to major shocks in the economic environment; ▫ Diversification into different markets, locations and product offerings; ▫ The Group is vigilant entering markets that are politically or financially unstable; ▫ Careful monitoring of performance against targets and incentive plans for staff; ▫ Identifying and completing value-adding and earnings-enhancing acquisitions; ▫ The Group has a five-year £120m syndicated banking facility which extends to July 2021. In addition, the Group has a £30m accordion facility which increases the total facility up to £150m; ▫ Robust policy for hedging transactional exposures to reduce margin exposure.	

Strategic risk – Business acquisitions underperformance

Risk description and assessment	Mitigation	Change
Value-adding acquisitions are a core part of the Group's growth strategy. These acquisitions may underperform, key employees may leave and expected synergies and cross-selling opportunities may not be realised.	▫ Detailed operational, financial and legal due diligence and working capital modelling on target businesses; ▫ Seek appropriate warranties and indemnities from vendors; ▫ Use of earn out structures, where possible, to retain and incentivise key management; ▫ Continuous monitoring of the acquired business against budgeted performance and review meetings with management; ▫ Hiring of more experienced Finance Directors and Financial Controllers.	

Operational risk – Brexit

Risk description and assessment

Although there is still a lack of clarity on the process of exit of the UK from the EU, following analysis by the Brexit Committee (see opposite), we do not consider the impact on the Group will be material.

Mitigation

- A Brexit Committee was established in the first quarter of the financial year and has completed an impact analysis covering all aspects of the business, with particular focus on possible withdrawal from the customs union. In addition, work streams continue to analyse the impact on commercial, operational, financial and other compliance areas in response to ongoing negotiations between the UK and EU;
- The Group has flexible production and warehouse facilities enabling movement of production and supply to other countries if required;
- The Group continues to focus on foreign exchange volatility and hedging operations to mitigate FX risks.

Change

Operational risk – Loss of major customers

Risk description and assessment

A core part of the Group's organic growth strategy is winning new key customers and maintaining existing key accounts.

- Major customers continue to review their supplier base and, in some circumstances, are reducing the number of suppliers.

Mitigation

- Culture of high quality service and long term customer relationships;
- Reducing Group dependency on any single customer, with the largest customer less than 4% of Group revenues;
- Careful monitoring of key suppliers by senior management;
- Robust customer quality management systems.

Change

Operational risk – Loss of major suppliers

Risk description and assessment

The Group is dependent on its key suppliers. Loss of key suppliers or uncertainty about the viability of key suppliers may adversely impact production and relationships with key customers and reduce sales.

Mitigation

- Reducing Group dependency on any single supplier, as the proportion of own-manufactured product increases;
- Exiting low value supplier relationships;
- Careful monitoring of key accounts by senior management;
- Maintaining long term supplier relationships;
- Strong customer relationships which support and enhance relationships with suppliers;
- Market and technological developments are closely monitored, including input from customers.

Change

PRINCIPAL RISKS AND UNCERTAINTIES

Operational risk – Technological changes

Risk description and assessment

The inability to develop technology to meet technological changes resulting in lost sales.

Mitigation

- Diversified business, both manufacturing and supply;
- The Group is diversified into a number of differentiated technology units;
- Focus on established technologies with low capital requirements.

Change

Operational risk – Major business disruption

Risk description and assessment

The Group has a number of manufacturing facilities, warehouses, other operational premises and systems in the UK, Europe, Asia, North America and South Africa. Major damage to any of these facilities could adversely affect the business.

Mitigation

- Disaster recovery and business continuity plans are monitored regularly;
- Multiple manufacturing sites and warehousing enabling the movement of some production and warehousing from one facility to another;
- Insurance cover.

Change

Operational risk – Cyber security

Risk description and assessment

Attacks from computer viruses and/or hackers could result in business disruption, reduced service to customers, financial loss and theft of and/or access to confidential data. Recent experiences of other companies across many of the territories in which the Group operates have reinforced the need to be diligent.

Mitigation

- Central IT security guidance policy;
- Robust anti-virus and anti-spam software and specialised target threat protection services;
- Solid backup policies in place;
- Secure private networking;
- Third party cyber security assessments across the Group in progress.

Change

Operational risk – Loss of key personnel

Risk description and assessment

People
The performance of the Group depends on its ability to continue to attract, motivate and retain high calibre staff across all functions.

The electronics industry is very competitive and the Group's employees may be targeted by other companies for recruitment.

Mitigation

People

- Staff development, training programmes and succession planning;
- Appropriate remuneration and rewards for personal and business success;
- Regular remuneration benchmarking;
- Use of earn out structures, where possible, to retain and incentivise key management from acquired companies;
- Comprehensive recruitment policies.

Change

Operational risk – Product liability

Risk description and assessment	Mitigation	Change
Products are delivered not according to customer specifications or that contain failures.	- Extensive quality controls in place before products are shipped to customers; - T&C's limit companies' maximum liabilities; - The majority of products are customised so risk is limited to individual customers; - No single customer represents more than 4% of Group revenue..	

Financial risk – Liquidity and debt covenants

Risk description and assessment	Mitigation	Change
The Group's ability to operate depends on access to short and medium-term funding. From time to time, such funding requires refinancing, the success of which depends on the financial condition of the Group and the risk appetite of the lending market. The Group's £120m revolving credit facility is subject to compliance with certain financial debt covenants. There is a risk that the covenants may be breached if the profitability of the Group substantially deteriorates and/or its net debt increases materially.	- Central treasury function oversees the Group's cash resources and financing requirements; - Ongoing review of headroom against committed facilities and financial covenants; - Working capital controls and monitoring of key working capital metrics; - Issuance of equity to fund the cost of certain acquisitions.	

Financial risk – Foreign currency

Risk description and assessment	Mitigation	Change
The Group's main foreign exchange exposures relate to the translation of results and net assets denominated in foreign currencies into Sterling (translational exposure), and the occurrence of transactions in currencies other than the operational currency of the transacting company (transactional exposure).	- Use of forward currency contracts to hedge transactional exposure for committed and forecast sales and purchases in foreign currency; - Currency borrowings as a natural hedge against same currency assets; - Regular review of foreign currency exposures by the central treasury function;	

Financial risk – Retirement benefit obligations

Risk description and assessment	Mitigation	Change
The funding position of the Group's legacy post-retirement defined benefit scheme (the Sedgemoor Scheme – see note 32 to the Group financial statements) may be adversely affected by poor investment performance, changes in interest and inflation rates, increased life expectancy rates or changes in the regulatory environment. Such changes could increase the charge to the income statement and/or the level of cash contributions required to be made to the scheme.	- The Sedgemoor Scheme was closed to new members in 2000 and, shortly thereafter, future service benefits ceased to accrue to existing members; - A deficit recovery plan has been agreed with the Trustees of the Scheme based on actuarial advice. The next triennial valuation at 31 March 2018 will be reviewed during the course of FY 2018/19 and the deficit plan adjusted if necessary; - Regular monitoring of the assets and liabilities of the fund by the Company and the Trustee; - Investment strategy reviews are carried out at least every three years.	

CORPORATE SOCIAL RESPONSIBILITY

The Board recognises that the long term success of the Group is enhanced by positive relationships with all stakeholders, including: Shareholders; employees; customers and suppliers; as well as the local communities and the environment in which it operates. The Group endeavours to identify and manage any risks to the value of its business from social, environmental and ethical matters, and to take any opportunities presented by a sensible and considerate approach to such matters to enhance Shareholder value.

The Group promotes policies and procedures across the Group which take into account: the interest of the Group's employees; the need to foster reasonable business relationships with suppliers, customers and others; the impact of the Group's operations on workers, the community and the environment; and the maintenance of high standards of business conduct. Our policies and procedures include the following:

- Anti-bribery and corruption;
- Whistleblowing; and
- Health and safety.

Day-to-day responsibility for implementation of corporate and social policies is delegated to the management of discoverIE's operating companies. Where appropriate, the Group policies and procedures are supported by the local operating companies' policies and codes of conduct.

During the year, the Group policies and procedures were reviewed to ensure that they remained fit for purpose. The health and safety policy was updated and the Board decided to expand the annual Health and Safety questionnaire to include additional questions on labour practices and working conditions.

In addition, the Group has due diligence processes in place to support the ongoing assessment and management of risks associated with both existing and newly acquired companies and the development of relationships with new suppliers. These include site visits by both executive and non-executive management; meetings with customers and suppliers; and, where relevant, asking our suppliers to confirm compliance with Group policies.

Management, at all levels, is committed to giving consideration to corporate social responsibility in its actions, endeavours to show due respect for human rights and works to high standards of integrity and ethical propriety. As an international organisation, discoverIE takes account of cultural differences between the various territories in which it operates. discoverIE's values are essential to how it operates and to the long term success and growth of the Group.

Our people

The Group is committed to the principle of equal opportunity in employment. Employment policies are fair, equitable and consistent with the skills and abilities of employees and the needs of the Group's business. These policies ensure that everyone is accorded equal opportunity for recruitment, training and promotion.

Diversity

discoverIE's employment policy is based on equal opportunities for all employees and prospective employees, and on there being no discrimination on grounds of colour, ethnic origin, gender, age, religion, political or other opinion, disability or sexual orientation. The Group endeavours to protect employees from, and does not tolerate, any sexual, physical or mental harassment.

Set out below is an analysis of the number of employees by gender during the year.

	2018 Male	**2018 Female**	2017 Male	2017 Female
Total gender split	**55%**	**45%**	55%	45%
Senior managers and executives	**73%**	**27%**	73%	27%
Directors	**71%**	**29%**	71%	29%

Development and training

Employees are encouraged to develop their knowledge and skills and to progress their careers to the mutual benefit of themselves and the Group companies they work for. It is the responsibility of management to ensure that they comply with all local laws and regulations, including those relating to the employment of underage staff. Employees benefit from the ability to improve their skills and work in a challenging and ambitious work environment. They get the opportunity to make a contribution to world-leading products.

Some of the Group's operating companies have structured apprenticeship schemes for technical staff. Employees are actively encouraged to undertake further learning, such as National Vocational Qualifications or similar level courses, as well as continual professional development to maintain any relevant professional accreditations.

Recruitment and retention

Clear and fair terms of employment, as well as a fair and competitive remuneration policy, are in place. It is Group policy to communicate with employees on major matters to encourage them to take an interest in the affairs of their employing company and the Group. Each of the Group's operating companies is responsible for developing effective arrangements in this regard, including the creation of a common awareness by employees of the financial and economic factors affecting their employing company's performance.

The Group remains supportive of the employment and advancement of disabled persons. Full consideration is given to applications for employment from disabled persons, where the candidate's particular aptitudes and abilities are consistent with meeting adequately the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the Group's policy to provide continuing employment, wherever practicable, in the same or an alternative position and to provide appropriate training and support to achieve this aim.

CORPORATE SOCIAL RESPONSIBILITY

Health and safety

A great deal of importance is attached to the provision of clean, healthy and safe working conditions. In addition to compliance with all local regulations, discoverIE promotes working practices which protect the health and safety of its employees and other persons who enter its premises. The Board has overall responsibility for health and safety matters but, in line with the Group's decentralised management approach, health and safety matters are kept under regular review by local management to ensure compliance with local regulatory requirements. The operating companies report to the Board on a monthly basis in respect of health and safety issues, including the number of on-site accidents (if any), near misses and mitigation. All accidents are investigated and corrective actions and preventive measures are put in place to ensure that the accident does not reoccur and future risks are mitigated.

@ The Group's statement of intent on health and safety matters can be found on its website: **www.discoveIEplc.com**

Business ethics

All discoverIE Group companies seek to be honest, fair and competitive in their relationships with customers and suppliers. Every attempt is made to ensure that products and services are provided to the agreed standards and all reasonable steps are taken to ensure the safety and quality of the goods and services provided. Payment is made to suppliers in accordance with the agreed terms, the relevant goods or services having been satisfactorily delivered.

So far as it is able to, and taking into account local cultural and regulatory differences, discoverIE encourages the organisations and people with whom it does business to abide by principles of good practice in relation to their corporate social responsibility.

discoverIE is committed to ensuring that no form of modern slavery, servitude, forced or compulsory labour and human trafficking exists in its business operations or its supply chains. The Group does not tolerate modern slavery or human trafficking in any part of the Group's business and expects the same high standards from our third party suppliers and contractors.

@ Further information can be found on the Group's website: **www.discoveIEplc.com**

@ The Group's statement of intent on business relationships can be found on its website: **www.discoveIEplc.com**

The Group whistleblowing policy was also reviewed and updated during the year. It was determined that an external whistleblowing helpline should be put in place in addition to the existing internal reporting procedure.

@ The updated policy can be found on the discoverIE website: **www.discoveIEplc.com**

In accordance with the Market Abuse Regulations of the Financial Conduct Authority, employees are required to seek Board level approval before dealing in any of the Company's shares.

Anti-bribery and corruption

discoverIE is committed to applying the highest standards of integrity, honesty and fairness in its business activities everywhere. A zero-tolerance approach is taken towards bribery and corruption in all its forms by, or of, its employees or any persons or companies acting on its behalf. It is discoverIE's policy that no-one in the Group should offer or accept any bribes or other corrupt payments, engage in any anti-competitive practices or knowingly be involved in any fraud or money laundering.

The Board and senior management have implemented a worldwide anti-bribery and corruption programme to enforce and monitor effective anti-bribery procedures in accordance with the UK Bribery Act 2010. The programme was reviewed during the year and the updated programme was provided to all employees and, where relevant, customers and suppliers.

Community

The Group believes that good community relations are important to the long term development and sustainability of the operating business. The Group considers the environmental and social impacts on the community of conducting business and this forms part of the business decision-making process.

The Group has been a Foundation Champion of the Community Foundation for Surrey since 2015.

@ Further information on the Group's charitable giving can be found on its website: **www.discoveIEplc.com**

Environment

Environmental matters are taken seriously by discoverIE, which seeks to ensure that its activities do not harm the communities as places in which to work and live. The Group endeavours to ensure that its operations do not have a negative impact on the environment. Apart from compliance with all local environmental laws and regulations, Group companies are encouraged to manage effectively natural resources and energy, to minimise waste and to recycle, where economically viable means of doing so are available. Although the majority of products discoverIE deals with are non-hazardous, where such products are involved, it minimises the environmental risks by use of appropriate labelling and technical information, in conjunction with proper training and procedures for the handling, storage and disposal of such products. The Group has implemented procedures to ensure compliance with the Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment Regulations 2004 (RoHS), the Waste Electrical and Electronic Equipment Regulations 2006 (WEEE), the Producer Responsibility Obligations (Packaging Waste) Regulations 2005 and the Waste Batteries and Accumulators Regulations 2009.

Greenhouse gas emissions

Market-based Greenhouse gas (GHG) emission per £m of sales decreased 13% compared with the prior year, as a result of finding more efficient ways to produce and supply our goods and the increased use of renewable energy. discoverIE's most significant emissions arise from the use of electricity (78% of the total emissions (2016: 75%)), which comprises all of the Scope 2 emissions. Sixty-three per cent (2016: 68%) of the Scope 1 emissions arise from transport fuel, the remainder arising mainly from the use of gas and oil for heating.

As well as enabling the reporting of emissions and understanding our GHG footprint, this information will help discoverIE to identify potential cost savings going forward.

GHG emissions for the period from 1 January 2017 to 31 December 2017 (tonnes of CO_2 equivalent):

	YE 31/12/17	YE 31/12/16
Total Scope 1 emissions[1]	**1.995**	1.931
Total Scope 2 emissions – Location-based	**7.077**	5.886
Total Scope 2 emissions – Market-based	**6.693**	6.732
Total gross scope 1 and 2 emissions – Location-based	**9.073**	7.817
Total gross scope 1 and 2 emissions – Market-based	**8.689**	8.663
Intensity measurement (tonnes CO_2e per £m sales):		
Location-based	**23.4**	23.3
Market-based	**22.4**	25.8

1 Excludes refrigerants, air conditioning and heat pumps

CORPORATE SOCIAL RESPONSIBILITY

Methodology

discoverIE has reported greenhouse gas emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report Regulations 2013 (the "Regulations"). The reporting followed the 2013 UK Government environmental reporting guidance (Chapter 2) and used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition).

The reporting period is 1 January 2017 to 31 December 2017.

As per the GHG protocol, discoverIE reports both its location and market-based Scope 2 footprint. For the location-based footprint, emissions are calculated using either Defra or IEA emission factors. For the market-based footprint, discoverIE has applied supplier specific factors or the Reliable Disclosure II residual factors, where supplier specific factors are not available. In the absence of both supplier specific and residual factors, discoverIE has applied the location-based factor.

discoverIE reports its emissions data using an operational control approach to define the organisational boundary which meets the definitional requirements of the Regulations in respect of those emissions for which it is responsible. This includes all subsidiaries 100% owned by discoverIE.

discoverIE has reported on all emission sources for which we deem ourselves responsible. Emissions of the recently acquired company Santon are not included, as the acquisition completed in February 2018. Long leased vehicles and properties under operational control have been included in Scope 1 and 2 emissions.

The Strategic Report, as set out on pages 2 to 46, has been approved by the Board.

On behalf of the Board

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director

5 June 2018

Improvements in Social Impact case study

THE COMMUNITY FOUNDATION FOR SURREY

As a Foundation Champion, discoverIE assists the Community Foundation for Surrey in meeting some of the support costs it incurs in sourcing, vetting and following up on the 300–400 grants that it makes to local causes across Surrey each year.

The Foundation, together with its donors, tackles a wide range of need that includes difficult issues such as homelessness, mental ill health and poverty. In 2017/18 the Foundation distributed over £1.2m to support over 359 voluntary and community projects and individuals.

An impact assessment is carried out by the Foundation on the outcome and impact of the grants made. Outcome and impact highlights include:

- 1,530 trees planted as part of environmental grants made;
- 6,825 people took part in sports, exercise, and leisure activities as part of Health and Well-being projects;
- 2,615 people engaged in regular volunteering as part of Community Cohesion projects;
- 239 gained sustainable employment as part of Education and Skills projects; and
- 7,978 vulnerable or isolated people attended regular social activities.

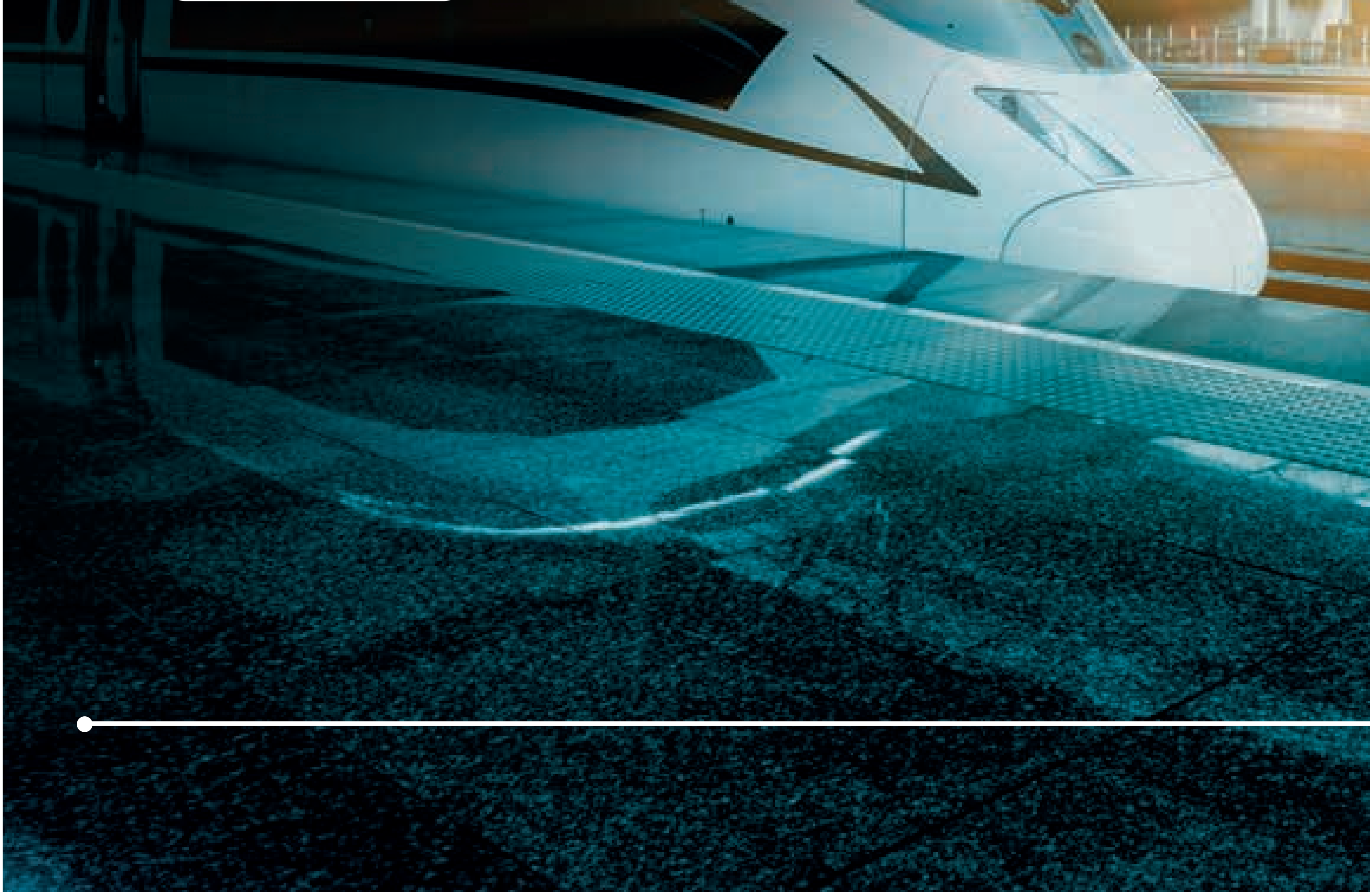
discoverIE has recently made a commitment to support a new fund created by the Foundation, The Step Change Fund. This fund aims to build a sustainable source of funding that will award large grants payable over three years, to enable established community and voluntary sector organisations in Surrey to achieve transformational change in the scope and/or scale of services they provide.

Examples of projects which might be supported include the costs of expanding an existing successful initiative, piloting a new programme of activity, expert consultancy to guide and support future developments or organisational changes; and sharing best practice and learning between organisations across the country.

Creating customised components for growing markets

discoverIE's highly-skilled engineers work closely with customers, developing a deep understanding of their industry, sharing unique expertise and insights, and producing custom electronic solutions to address each challenge; enhancing product performance and reinforcing long term relationships.

Watch our Corporate film at:
www.discoverIEplc.com



CORPORATE GOVERNANCE

THE BOARD

Malcolm Diamond MBE

Non-Executive Chairman

N R

Appointment to the Board

Chairman since April 2017, Non-Executive Director since November 2015

Previous experience

Malcolm brings considerable commercial and international business experience to the Board, as well as City investor knowledge and expertise. Prior to joining the Board, Malcolm was Executive Chairman and Chief Executive of Trifast plc and, among other previous appointments, was the Senior Non-Executive Director of Dechra Pharmaceuticals Plc and a Non-Executive Director of Unicorn AIM VCT plc.

External appointments

Non-Executive Chairman of Trifast plc and Flowtech Fluidpower PLC.

Nick Jefferies

Group Chief Executive

G N

Appointment to the Board

January 2009

Previous experience

Nick joined discoverIE as Group Chief Executive in 2009. Formerly General Manager for electronics globally at Electrocomponents plc, he started his career as an electronics design engineer for Racal Defence (now part of Thales plc), before joining Toshiba and then Hitachi's European electronic component businesses.

External appointments

None

Simon Gibbins

Group Finance Director

G

Appointment to the Board

July 2010

Previous experience

Simon brings significant financial expertise and experience gained at an international level. A Chartered Accountant, he was previously Global Head of Finance and Deputy CFO at Shire plc. Prior to joining Shire in 2000, he spent six years with ICI plc in various senior finance roles, both in the UK and overseas. His earlier career was spent with Coopers & Lybrand.

External appointments

None

Richard Brooman

Senior Non-Executive Director

A N R

Appointment to the Board

Senior Non-Executive Director since December 2014, Non-Executive Director since January 2013

Previous experience

Richard brings a wealth of financial and risk management experience to the Board. A Chartered Accountant, Richard was Group Finance Director of Sherwood International plc and VCI plc during his executive career and he is a director or trustee of several businesses in the third sector.

External appointments

Non-Executive Director at Hg Capital Trust plc and Invesco Perpetual UK Smaller Companies Investment Trust plc.

Tracey Graham

Non-Executive Director

A N R

Appointment to the Board
November 2015

Previous experience
Tracey brings significant operational expertise to the Board. During her executive career, Tracey was Chief Executive of Talaris Limited and Managing Director of De La Rue Cash Systems. Among other previous appointments, she was a Non-Executive Director at RPS Group PLC.

External appointments
Non-Executive Director at Ibstock plc, at Royal London Mutual Building Society and at Link Scheme Limited. Chairman of Investment Funds Direct Limited and Chairman of Link Consumer Council.

Henrietta Marsh

Non-Executive Director

A N R

Appointment to the Board
May 2013

Previous experience
Henrietta has 30 years' experience in the financial services industry at Living Bridge, 3i and Morgan Stanley. She was the founder Chairman of the AIM VCT Managers Group. Henrietta was responsible for AIM investment at Living Bridge EP LLP and was a Director of 3i plc, where she worked as a fund manager. She is an experienced Non-Executive Director at listed and AIM traded companies, having previously been Non-Executive Director and Chairman of the Remuneration Committee at Alternative Networks plc, Electric Word plc and Dods Group plc.

External appointments
Member nominated trustee of the 3i plc Pension Fund and a member of the London Stock Exchange's AIM Advisory Group.

Bruce Thompson

Non-Executive Director

Appointment to the Board
February 2018

Previous experience
Bruce brings a wide range of strategic and leadership expertise to the Board with proven experience of growing international industrial businesses. During his executive career, Bruce was Chief Executive Officer of Diploma PLC. Prior to joining Diploma, Bruce was a director with the technology and management consulting firm Arthur D. Little Inc, both in the UK and the USA.

External appointments
None

Joanna Harkus Madge

Group Company Secretary

G

Appointment to the Board
April 2017

Previous experience
Joanna joined discoverIE as Group Company Secretary Designate in January 2017 and became Group Company Secretary on 1 April 2017. A qualified Chartered Secretary, she previously held that position at Arle Capital Partners Limited (formerly part of Candover Investments plc). Since joining discoverIE, Joanna project managed the rebranding of the Group as well as organising the Group's first Capital Markets Day.

External appointments
None

Committee Membership

- A Audit Committee
- G Group Executive Committee
- N Nomination Committee
- R Remuneration Committee
- ● Chairman of the Committee

THE GROUP EXECUTIVE COMMITTEE

Nick Jefferies

Group Chief Executive

For biography see page 50.

Simon Gibbins

Group Finance Director

For biography see page 50.

Joanna Harkus Madge

Group Company Secretary

For biography see page 51.

Paul Neville

Group Commercial Director

Paul joined discoverIE in March 2009 and is responsible for running the Design & Manufacturing division. Formerly responsible for discoverIE's M&A programme, Paul led the acquisition of 13 businesses, ten of which are now within the D&M division. He has many years' experience in both financial and operational senior management positions for listed public companies.

Martin Pangels

Group Commercial Director

Martin joined discoverIE in July 2010 after working as an advisor to the business. Prior to joining discoverIE, he spent nine years at Electrocomponents plc, where he was Regional General Manager for Europe, and six years with Bain & Company as a strategy consultant.

Paul Webster

Group Product Management and Cross-Selling Director

Paul joined discoverIE in June 2010 as Managing Director, Acal BFi UK, moving to his current role in April 2012. He has many years' experience in senior management roles, including Head of Product Management for electronics globally at Electrocomponents plc. He began his career as a design engineer for Plessey Avionics (now part of BAE Systems).

Jeremy Morcom

Group Head of Corporate Development

Jeremy was appointed Group Head of Corporate Development in March 2017. A physicist by background, he has over 25 years' experience in industrial mergers and acquisitions, initially in investment banking and then in industry, leading the corporate development programmes at Spectris plc and Invensys plc.

DIRECTORS' REPORT

The Directors present their Annual Report with the audited financial statements for the year ended 31 March 2018

discoverIE Group plc ("discoverIE", or the "Group") is an international group of businesses that designs, manufactures and supplies innovative components for electronic applications. The Group provides application-specific components to original equipment manufacturers ("OEMs") internationally. With in-house engineering capability, the Group is able to design components to meet customer requirements, which are then manufactured and supplied, usually on a repeating basis, for their ongoing production needs. This generates a high level of recurring revenue and long term customer relationships. By focusing on key markets which are driven by structural growth and increasing electronic content, namely renewable energy, transportation, medical and industrial connectivity, the Group aims to achieve organic growth that is well ahead of GDP and to supplement that with targeted complementary acquisitions. The Business Model is explained in further detail on pages 10 and 11 of the Strategic Report.

The Directors' Report of the Group for the financial year ended 31 March 2018 is set out on pages 54 to 57 inclusive. As permitted by legislation, some of the matters required to be included in the Directors' Report have instead been included in the Strategic Report, which includes the Operating Review, the Finance Review and the Viability Statement, on pages 2 to 46, as the Board considers them to be of strategic importance. Specifically, these are:

Disclosure	Location
Future business developments	Throughout the Strategic Report (pages 2 to 46)
Risk management	Risk management and principal risks and uncertainties (pages 36 to 41)
Employee involvement	Corporate Social Responsibility Report (pages 42 to 46)
Greenhouse gas emissions	Corporate Social Responsibility Report (pages 42 to 46)

The Group's policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit and liquidity risk are disclosed in note 26 to the Group financial statements on pages 142 and 143.

The Group recognises the importance of its responsibilities in relation to the environment, to social and community issues and to business ethics, as well as to its employees. Further information is included in the Corporate Social Responsibility statement on pages 42 to 46.

Other information to be disclosed in the Directors' Report is given in this section.

Both the Directors' Report and the Strategic Report have been drawn up in accordance with, and in reliance upon, applicable English company law. The liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Financial results and dividends

The financial statements set out the results of the Group for the financial year to 31 March 2018 and are shown on pages 110 to 157. The key strategic and performance indicators of the business are set out in the Strategic Report on pages 21 to 23.

The Directors recommend a final dividend of 6.35p per share (2016/17: 6.05p) which, together with the interim dividend of 2.65p per share (2016/17: 2.45p), makes a total dividend for the year of 9.0p per ordinary share (2016/17: 8.50p). Subject to approval by Shareholders of the recommended final dividend, the dividend award to Shareholders for 2017/18 will total £6.4m (2016/17: £5.8m). If approved, the Company will pay the final dividend on 31 July 2018 to Shareholders on the register of members at 15 June 2018.

A technical non-compliance issue has been identified with respect to distributable reserves and the payment of recent dividends. The Board is confident that there were adequate reserves in subsidiary companies to meet these dividends at the time and that this will not impact the Group's ability to pay future dividends. We expect to remedy the position by means of appropriate resolutions at a general meeting of Shareholders and a circular in respect of this will be issued.

Directors

The membership of the Board and biographical details of the Directors are given on pages 50 and 51 and are incorporated into this report by reference. All Directors served throughout the financial year ended 31 March 2018, other than Bruce Thompson who joined the Board on 26 February 2018.

Copies of Executive Directors' service contracts are available to Shareholders for inspection at the Company's registered office and at the Annual General Meeting ("AGM"). Details of the Directors' remuneration and service contracts and their interests in the shares of the Company are included in the Directors' Remuneration Report which is set out on pages 76 to 96.

Powers of the Directors

The Board of Directors is responsible for the management of the business of the Company and may exercise all the powers of the Company, subject to the Company's Articles of Association (the "Articles"), the Companies Act 2006 and any directions given by the Shareholders by special resolution. The Articles may be amended by a special resolution of the Company's Shareholders.

Appointment and replacement of Directors

The Board can appoint a Director but anyone so appointed must be elected by an ordinary resolution at the next general meeting. Any Director who has held office for more than three years since their last appointment must offer themselves for re-election at the next Annual General Meeting.

Directors' conflicts of interest

The Company has procedures in place for managing conflicts of interest. Should a Director become aware that they, or any of their connected parties, have interest in an existing or proposed transaction with discoverIE, they should notify the Board in writing or at the next Board meeting. Internal controls are in place to ensure that any related party transactions involving Directors, or their connected parties, are conducted on an arm's length basis. Directors have a continuing duty to update any changes to these conflicts.

Directors' indemnity

The Articles of Association of the Company contain an indemnity in favour of the Directors, which is a Qualifying Third Party Indemnity within the meaning of s.236 of the Companies Act 2006 and is in force at the time of the approval of this Annual Report. Directors of subsidiary undertakings are also subject to this Qualifying Third Party Indemnity.

In addition, each Director of the Company has entered into a Deed of Indemnity with the Company, which operates only in excess of any right to indemnity that a Director may enjoy under any such other indemnity or contract of insurance.

The Company has also arranged appropriate insurance cover in respect of legal action against its Directors and officers.

Share capital

As at 31 March 2018, the Company's issued share capital consisted of 71,417,857 ordinary shares of 5p each (no shares are held in treasury).

During the year, 513,235 new ordinary shares were issued under the Group's long term incentive schemes.

On 6 February 2018, 223,648 new ordinary shares were issued and allotted to the vendor of EWAC Holdings BV, as a part of the acquisition of the Santon Group.

Details of movements in the Company's issued share capital can be found on page 145 in note 29 to the Group financial statements.

Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, except:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Conduct Authority, whereby certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities.

DIRECTORS' REPORT

Rights and obligations attaching to shares

Subject to the Articles, the Companies Act 2006 and other Shareholders' rights, shares in the Company may be issued with such rights and restrictions as the Shareholders may by ordinary resolution decide, or if there is no such resolution, as the Board may decide provided it does not conflict with any resolution passed by Shareholders.

The rights attached to any class of shares can be amended if approved, either by 75% of Shareholders holding the issued shares in the class by amount, or by special resolution passed at a separate meeting of the holders of the relevant class of shares.

Every member and every duly appointed proxy present at a general meeting or class meeting has, upon a show of hands, one vote and every member present in person or by proxy has, upon a poll, one vote for every share held.

No person holds securities in the Company carrying special rights with regard to control of the Company.

Substantial shareholdings

As at 31 March 2018, the Company had been notified of the following major shareholdings equal to, or in excess of, 3% of the issued share capital:

	Holdings of ordinary shares (5p)	% holding
Canaccord Genuity Group Inc[1]	7,050,478	9.78
Aberdeen Standard Investments	6,134,808	8.59
Unicorn Asset Management (UK)	5,256,435	7.36
Legal & General Investment Management Ltd (UK)	4,729,511	6.62
BlackRock Inc	3,242,721	4.54
Chelverton Asset Management	3,093,614	4.33
AXA SA	2,936,499	4.11
Franklin Resources	2,639,779	3.69

1 Following acquisition of Hargreave Hale Investment Limited

Authority to purchase own shares

At the AGM held on 25 July 2017, Shareholders authorised the Company to purchase in the market up to 10% of its issued share capital (7,068,097) ordinary shares and, as at 31 March 2018, the full extent of this authority remained in force and unused. This authority is renewable annually, and a special resolution will be proposed at the 2018 AGM to renew it. The Directors will only purchase the Company's shares in the market if they believe it is in the best interest of Shareholders generally.

Change of control

Details of the Group's borrowing facilities are provided in the Finance Review section of the Strategic Report on page 35. These agreements contain a change of control provision, which may result in the facility being withdrawn or amended upon a change of control of the Group. The Group is party to a number of commercial agreements which, in line with normal practice in the industry, may be affected by a change of control following a takeover bid.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment which occurs because of a takeover bid.

Political donations

There were no political donations during the year (2016/17: nil).

Auditor and disclosure of information to auditor

Following a competitive tender process, the Company appointed PricewaterhouseCoopers LLP as auditor on 13 September 2017. PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution to appoint them will be proposed at the AGM.

In the case of each Director in office, as at the date of this Report:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Annual General Meeting

The Notice of the AGM to be held at 11.00 am on Thursday 26 July 2018 is being sent separately to Shareholders with this report. The venue for the meeting is 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford, Surrey, GU2 7AH.

Going concern

The Group's business activities, together with factors which may adversely impact its future development, performance and position, and its viability statement are included in the Strategic Report on pages 2 to 46. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review section of the Strategic Report on pages 30 to 35.

The Group has significant financial resources, well established contracts with a number of suppliers and a broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its principal risks and uncertainties that are disclosed on pages 38 to 41 of the Strategic Report.

The Group's forecasts and projections, taking account of a sensitivity analysis of changes in trading performance, show that the Group is well placed to operate within the level of its current committed facilities for the foreseeable future.

After making due enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continued to adopt the going concern basis in preparing this Annual Report and Accounts.

By order of the Board

Joanna Harkus Madge
Group Company Secretary
5 June 2018

2 Chancellor Court
Occam Road
Surrey Research Park
Guildford
Surrey GU2 7AH

Registered number: 02008246

BOARD REPORT ON CORPORATE GOVERNANCE

Chairman's Governance Overview:

"discoverIE aims to build an environment of trust, transparency and accountability which is necessary for fostering long term investment, financial stability and business integrity."

Malcolm Diamond MBE
Chairman

discoverIE aims to build an environment of trust, transparency and accountability which is necessary for fostering long term investment, financial stability and business integrity. I am pleased to confirm that we have complied throughout the year with the 2016 Corporate Governance Code (the "Code").

The Board is accountable for setting and leading our culture. It ensures that the correct tone is established from the top and is embedded in our values, including a culture of transparency and integrity by all employees. During the year, a revised Group whistleblowing policy has been issued, including an external helpline which should aid employee disclosures. Further information is contained in the Audit Committee Report on pages 68 to 73.

This year, our remuneration policy is due for reapproval by the Company's Shareholders. Your Remuneration Committee Chairman has been working closely with the Group and its advisers to produce another clear remuneration policy that promotes the long term success of the Company. Further information can be found in the Directors' Remuneration Report on pages 76 to 96.

The Nomination Committee's structure has been an area of focus this year and I am pleased to report the appointment of Tracey Graham to the Nomination Committee. The Nomination Committee also led the recruitment of an additional Non-Executive Director to the Board, Bruce Thompson in February 2018. Further information on the recruitment and induction process is included in the Nomination Committee Report on pages 74 and 75.

Compliance with the UK Corporate Governance Code

discoverIE's governance framework, which is shaped by the Code, the Companies Act 2006 and secondary legislation and guidance, sets out standards of good practice in relation to Board leadership and effectiveness, remuneration, accountability and relations with Shareholders. Each Director has access to all information relating to the Group and to the advice and services of the Company Secretary and, as required, external advice at the Group's expense.

Leadership:

"The Non-Executive Board" constructively challenges and helps develop strategy.

Learn more about the **Directors' skills and experience** on pages 50 and 51

Effectiveness:

The Board regularly evaluates the balance of skills, experience, independence and knowledge of the Directors. All new Directors receive a tailored induction programme and a rigorous evaluation of the Board, the Committees and the individual Directors is undertaken annually.

You can read more about the **Board's effectiveness** on page 64

Accountability:

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. Effective risk management is critical to achieving our strategy.

You can read more about our approach to **Risk management** on pages 36 and 37

Remuneration:

Having a formal and transparent policy for developing policy on executive remuneration and for fixing the remuneration packages of individual Directors is crucial. The remuneration policy aims to attract, retain and motivate by linking reward to performance.

Further information on our **Remuneration policy** is on pages 81 to 87

Relations with Shareholders:

The Board regularly meets with Shareholders, both private and institutional, and an active dialogue is encouraged.

Further information on **Shareholder and stakeholder engagement** is on page 66

BOARD REPORT ON CORPORATE GOVERNANCE

Leadership

discoverIE is led by a strong and experienced Board with a broad range of skills, experience and knowledge. Throughout the year under review, the Board consisted of Malcolm Diamond as Non-Executive Chairman; Richard Brooman, Tracey Graham and Henrietta Marsh as Non-Executive Directors; Nick Jefferies as Group Chief Executive; and Simon Gibbins as Group Finance Director. Bruce Thompson, following a formal, rigorous and transparent procedure, was appointed as Non-Executive Director with effect from 26 February 2018.

The size and composition of the Board is considered to be appropriate to the Group's business at present, although this is kept under review by the Nomination Committee.

The Non-Executive Directors constructively challenge management proposals where appropriate and carefully monitor management performance and reporting throughout the year. Constructive challenge is viewed by the Board as an essential aspect of good governance.

The Company has both a Chairman and a Group Chief Executive. There is a clear division of responsibilities, which has been agreed by the Board, and details of their respective roles are available from the Company on request.

Role of the Chairman

- Responsible for leading the Board, which includes the operation of the Board's overall procedures;
- Providing a forum for constructive discussion and ensuring receipt of clear and timely information;
- Overseeing Corporate Governance matters;
- Leading the performance evaluations of the Group Chief Executive, the Non-Executive Directors and the Board.

The Chairman, in conjunction with the Group Company Secretary, ensures that Directors receive a full, formal and tailored induction to the Group and ongoing training as relevant.

Role of the Group Chief Executive

- Leading the development and implementation of the Group's strategy;
- Communicating with Shareholders and other stakeholders;
- Responsible for the day-to-day management of the Group's businesses and reporting their progress to the Board;
- Leading the Group Executive Committee.

The Group Chief Executive is assisted in meeting his responsibilities by the Group Executive Committee.

Role of the Board

- Setting the long term objectives and commercial strategy;
- Oversight of the management of discoverIE;
- Review of the Key Strategic Indicators and Key Performance Indicators;
- Review of acquisitions and corporate transactions;
- Recommending or declaring dividends;
- Approval of financial statements, business plans, financing and treasury matters;
- Major capital expenditure and commitments;
- Maintaining sound internal controls and risk management systems;
- Review of the Group's overall corporate governance; and
- Any litigation of a material nature.

As set out on the opposite page, certain matters are delegated to the Group Executive Committee and to the Audit, Remuneration and Nomination Committees. The Board also has a General Purposes Committee, consisting of any two Directors of the Company, which has delegated authority to approve certain defined and routine matters between Board meetings.

Governance framework

The Board
Chaired by Malcolm Diamond

Meets a minimum of six times a year.

Accountable to Shareholders for the long term success of the Group. This is achieved via a clear division of responsibilities between the Chairman and Group Chief Executive, the setting of strategic aims and ensuring that the necessary financial and human resources are in place to achieve that strategy.

Nomination Committee
Chaired by Malcolm Diamond

The Nomination Committee regularly reviews the structure, size and composition of the Board and its Committees. It identifies and nominates suitable candidates to be appointed to the Board (subject to Board approval) and considers diversity, culture, talent and succession generally.

Audit Committee
Chaired by Richard Brooman

The Audit Committee has responsibility for overseeing and monitoring the Group's financial statements, accounting processes, audit processes (internal and external), controls and matters relating to fraud and other reports received under the whistleblowing policy.

Remuneration Committee
Chaired by Henrietta Marsh

The Remuneration Committee reviews and recommends to the Board the framework and policy for the remuneration of the Chairman, the Executive Directors and the Group Executive Committee. The Committee ensures that the remuneration policy of the Group reflects the Group's strategy.

Further information on the **Nomination Committee** is on pages 74 to 75

Further information on the **Audit Committee** is on pages 68 to 73

Further information on the **Remuneration Committee** is on pages 76 to 96

Group Executive Committee
The Group Executive Committee comprises: Nick Jefferies, who is the Chairman of the Committee, together with Simon Gibbins, Joanna Harkus Madge, who is also the Secretary, Jeremy Morcom, Paul Neville, Martin Pangels and Paul Webster. For their biographies see page 52. During the year to 31 March 2018, there were ten meetings of the Committee. Other senior managers attend the Committee meetings, by invitation, for specific topics.

The Committee is responsible for the Group's day-to-day operations, for delivering results and for driving growth for Shareholders.

The powers delegated to the Committee are contained in its written terms of reference, which are available on request and are on the Company's website: **www.discoverIEplc.com**

BOARD REPORT ON CORPORATE GOVERNANCE

Board activities

Topic	Key activities and discussions in 2017/18	Key priorities in 2018/19
Strategy	◻ Reviewed and approved the acquisition of the Santon Group ◻ Reviewed financial key strategic indicators ("KSIs") and key performance indicators ("KPIs") ◻ Considered and approved the Group's dividend policy ◻ Considered and approved rebranding of the Group and FTSE sector reclassification ◻ Reviewed further operational investment in India, Slovakia and South Korea	◻ Consider acquisitions as identified and determine the appropriate course of action ◻ Keep financial KSIs and KPIs under review ◻ Keep the Group's dividend policy under review ◻ Review potential impact of Brexit on the Group ◻ Continue to focus on international growth in key markets
Risk and risk management	◻ Robust assessment of principal risks (see pages 36 to 41) ◻ Monitored compliance with the anti-bribery and corruption policy and updated whistleblowing policy ◻ Implemented cyber risk review	◻ Review key risks and ensure that the Group's internal control process remains appropriate ◻ Review results of cyber risk review and implement appropriate procedures
Governance	◻ Continued focus on the composition, balance and effectiveness of the Board ◻ Succession planning for Board, Group Executive Committee and senior management ◻ Appointment of Bruce Thompson as Non-Executive Director ◻ Signed off and published the Group's second modern slavery statement ◻ Engaged with institutional Shareholders, investors and other stakeholders throughout the year ◻ In partnership with the Audit Committee, carried out an auditor tender process and approved the appointment of PricewaterhouseCoopers LLP ◻ Reviewed and approved the 2016/17 Annual Report. The Board agreed that, taken as a whole, the 2016/17 Annual Report was fair, balanced and understandable	◻ Rectification of technical non-compliance with regards to distributable reserves and the payment of recent dividends ◻ Continue to strengthen internal controls and reporting ◻ Review level of institutional holding and consider actions to broaden the Group's Shareholder base further ◻ Implement, subject to Shareholder approval, the remuneration policy being presented to Shareholders at the AGM in 2018 ◻ Further understanding and planning actions in relation to new regulations over the period
Organisational capacity	◻ Monitored health and safety performance across the Group. Regular Board updates received on actions improving health and safety ◻ Presentations by senior management on operating companies, tax, treasury and M&A strategy ◻ Review of major customers and suppliers	◻ Continue to monitor health and safety performance across the Group
Board development	◻ Continued focus on the composition, balance and effectiveness of the Board. Reviewed Board and Committee composition and discussed and acted on the recommendations of the Nomination Committee ◻ Undertook an internal evaluation of the Board, its Committees and individual Directors	◻ Provide training to the Board to assist with their continued professional development

Board and Board Committee meetings attendance

During the year, attendance by Directors at Board and Committee meetings was as follows:

Board attendance	Board	Committees: Audit	Committees: Remuneration	Committees: Nomination	Overall attendance %
Richard Brooman	8/8	4/4	5/5	4/4	100
Malcolm Diamond[1]	7/8	–	5/5	3/4	88
Simon Gibbins[2]	7/8	–	–	–	88
Tracey Graham[3]	8/8	4/4	5/5	1/1	100
Nicholas Jefferies	8/8	–	–	4/4	100
Henrietta Marsh	8/8	4/4	5/5	4/4	100
Bruce Thompson[4]	1/1	–	–	–	100

1 Malcolm Diamond was unable to attend the Board and Nomination Committee meeting on 31 January 2018

2 Simon Gibbins was unable to attend the Board meeting on 22 January 2018

3 Tracey Graham was appointed as a member of the Nomination Committee on 31 January 2018

4 Bruce Thompson was appointed as a member of the Board on 26 February 2018

BOARD REPORT ON CORPORATE GOVERNANCE

Effectiveness

Independence

The independence of the Non-Executive Directors is reviewed annually. None of the Non-Executive Directors have served more than six full years on the Board.

The Board considers that all of the Non-Executive Directors bring strong independent oversight and continue to demonstrate independence. The Board recognises the recommended term within the Code. It is mindful of the need for suitable succession, and therefore maintains a clear record of the time each Non-Executive Director has served the Company and the skill set that each provides.

Details and **experience of each Director** is on pages 50 and 51

Richard Brooman is the Senior Non-Executive Director and is available to Shareholders should they have concerns that cannot be resolved through other channels.

Time allocation

The Board held six scheduled meetings and two ad hoc meetings during the year. Individual attendance is set out on page 63. Sufficient time is provided at the start and the end of each meeting for the Chairman to meet privately with the Senior Non-Executive Director and the Non-Executive Directors.

All Directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. The letters of appointment for Non-Executive Directors set out the time commitment expected to allow them to perform their duties effectively.

Induction of new Directors

While appointments to the Board are the responsibility of the full Board, the Nomination Committee has a duty to ensure that, when making recommendations to the Board on suitable candidates, it takes into account the Board's existing balance of skills and experience and has due regard for diversity. The process for making Board appointments is fully described in the Nomination Committee Report set out on page 74 and 75 of this Annual Report and Accounts.

All new Directors receive induction training on joining the Board and are expected regularly to update and refresh their skills and knowledge, with the Company providing the necessary resources, as required. The induction programme includes meeting with the Group's senior management and visits to key locations, as well as a comprehensive briefing pack.

Induction process:

Step 1:
Understand the discoverIE business

Company structure and strategy including Group structure, history, strategy, key people, succession plans, Board procedures including governance framework, Board Committees, calendars, minutes, and the risk register.

Step 2:
Meet the management teams

One-on-one meetings with the Group Executive Committee and senior management.

Step 3:
Visit the discoverIE businesses

Visits to a number of discoverIE businesses, both in the UK and overseas.

Information and professional development

Papers are circulated in advance of Board and Committee meetings, and Directors are invited to request such further information as they may require, thereby ensuring that proper consideration can be given to all matters. Between scheduled meetings, Directors are kept abreast of progress through ad hoc meetings and briefings, as and when required. A procedure is in place whereby Directors may have access to independent professional advice at the Company's expense and Directors have access to the advice and services of the Company Secretary, who is responsible for advising the Board, through the Chairman, on all governance matters. Her responsibilities also include ensuring good information flows within the Board and its Committees, and between senior management and the Non-Executive Directors. The appointment or removal of the Company Secretary is a matter for the Board as a whole.

Board evaluation

Step 1:
Directors consider their individual performance, the performance of the Chairman and the overall performance of the Board and Board Committees by using questionnaires.

The completed questionnaires are submitted to the Company Secretary who collates the results and provides an overall summary to the Board.

Step 2:
The results of the evaluation are discussed by the Board and actions for improvement are decided upon.

As a result of the 2017 Board evaluation, it was decided that individual Directors should continue to undertake personal development in order to maintain an updated level of skills and knowledge in the areas such as corporate governance and financial reporting.

Step 3:
Individual questionnaires are provided to the Chairman and Senior Non-Executive Director, as appropriate.

One-on-one discussions are then held between the Chairman and the Senior Non-Executive Director on the evaluation of the Chairman, and between the Chairman and the Non-Executive Directors on their respective evaluations.

Re-election

The Company's Articles of Association require that, at every Annual General Meeting, each Director who (a) was appointed since the previous Annual General Meeting or (b) was appointed or last reappointed at or before the Annual General Meeting held at least three years before the current year or (c) being a Non-Executive Director, as at the date of the Meeting has held office with the Company for a continuous period of nine years or more, must retire from office.

At the next Annual General Meeting of the Company, a resolution will be proposed for the election of Bruce Thompson and the re-election of Nick Jefferies. Having taken into account the formal evaluation of their performance, the Board believes that each makes an effective contribution to the Board, demonstrates commitment to their role and is recommended for election and re-election, respectively.

Conflicts of interest

Directors are subject to a statutory duty under the Companies Act 2006 (the "Act") to avoid a situation where they have, or could have, direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. The Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate, where the Articles of Association (the "Articles") contain a provision to this effect. The Act also allows the Articles to contain other provisions for dealing with Directors' conflicts of interests to avoid a breach of duty.

The Group has adopted policies and procedures to deal with conflicts of interests and the Board is satisfied that these continue to operate effectively.

BOARD REPORT ON CORPORATE GOVERNANCE

Accountability

Financial reporting

The Directors have acknowledged in the Directors' Responsibilities Statement on page 97 their responsibility for preparing the financial statements of the Company and the Group. The auditor has included in the audit report a statement of responsibilities.

The Directors are also responsible for the publication of the Interim Report of the Group, covering the first six months of the Company's financial year, which, in their opinion, provides a fair, balanced and understandable assessment of the Group's financial performance and position. The Directors also issue regular trading updates during each financial year (four trading updates were issued during this financial year).

Remuneration

The level and make-up of Directors' remuneration

The level and make-up of the Directors' remuneration is set out in the Directors' Remuneration Report on page 76 to 96. As this shows, a proportion of an Executive Director's overall remuneration is designed to promote the long term success of the Company by being performance-related through annual bonus and long term share incentive schemes.

Procedure on Board remuneration

The remuneration of Executive Directors and the Non-Executive Chairman is the responsibility of the Executive Directors' Remuneration Committee, as more fully described in the Directors' Remuneration Report. The remuneration of the Non-Executive Directors is determined by the Non-Executive Directors' Remuneration Committee, which consists of the Chairman and the Executive Directors. No Director is involved in deciding their own remuneration.

Shareholder and stakeholder engagement

The Board believes that it is an important part of its responsibilities to maintain an effective and timely dialogue with the Company's Shareholders and institutional investors. To this end, the Board keeps in touch with Shareholder opinion in whatever ways it deems to be most practical and efficient. For example, through direct face-to-face contact, analysts' or brokers' briefings. As mentioned above, four trading updates were issued during the financial year.

Throughout the year, meetings are held with institutional Shareholders, as well as stockbroking analysts. These meetings include discussions on governance and strategy matters. It is a responsibility of the Chairman to ensure that Shareholder views are communicated to the Board as a whole. Frequent communication occurs between the Company, via the Executive Directors, and Shareholders and analysts, particularly following results announcements and trading updates.

@ Investor relations information, as well as presentations and news releases, are made available on the Company's website: **www.discoveIEplc.com**

Members of the Board and the Chairman of each Board Committee will normally attend the Annual General Meeting to answer any questions. In addition, the Chairman of the Remuneration Committee maintains contact, as required, with the Company's principal Shareholders about remuneration. The Company responds to any questions from Shareholders, generally as they arise.

In order to ensure that members of the Board develop an understanding of the views of major Shareholders about the Company, any feedback received by the Company from meetings with institutional Shareholders and stockbroking analysts is discussed internally and raised with the Board, as appropriate. Periodically, the Company's stockbrokers and public relations advisers follow up meetings held with institutional investors and stockbroking analysts in order to try to obtain feedback on these meetings which may not have been provided directly to the Company. The results of such follow-up discussions are circulated to the Board.

In September 2017, the Board visited the Flux facility in Denmark where they received a presentation from the local management team, undertook a site visit and held a dinner with the senior management team.

Capital Markets Day

At the Capital Markets Day in March 2018, presentations were given to Shareholders and other stakeholders on the Group strategy, the Design & Manufacturing division, cross-selling and acquisition strategy.

@

A copy of the presentation is available on the Company's website: **www.discoveIEplc.com**

The day also included an exhibition which featured products from 20 different businesses and a chance to meet the management teams of the respective businesses.

Annual General Meeting

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The level of proxy voting, together with the number of votes cast for and against each resolution and abstentions, will be made available at the AGM after voting on a show of hands has been completed and will be published on the Company's website : **www.discoveIEplc.com**

A separate resolution will be presented on each substantially separate issue. The proxy form relating to the AGM includes an option for votes to be withheld. Notice of the Meeting will be sent to Shareholders at least 20 working days before the Meeting.

When, in the opinion of the Board, a significant proportion of votes have been cast against any resolution at any general meeting, the Company will explain, when announcing the voting results, what actions it intends to take to understand the reasons behind the voting result.

Board composition

Female

2
29%

Male

5
71%

< 1 year

1
14%

> 1 year

6
86%

Executive

2
29%

Non-Executive

5
71%

Approval

This Board Report on Corporate Governance has been approved by the Board and signed on its behalf by

Joanna Harkus Madge
Group Company Secretary
5 June 2018

AUDIT COMMITTEE REPORT

Richard Brooman – CHAIRMAN OF THE AUDIT COMMITTEE

"The Committee is responsible for assessing the effectiveness of the Group's risk management processes and for considering the appropriateness of the accounting policies and systems of internal control of the Group, as well as the effectiveness and cost-effectiveness of the audit."

Member	Since
Richard Brooman	2013
Henrietta Marsh	2014
Tracey Graham	2017

The Group Company Secretary acts as Secretary to the Committee.

Details of individual **Directors' attendance** can be found on page 63

2017/18 Key achievements

- Successful audit transition following the competitive tender for audit engagement
- Implementation of risk management and internal audit programme for 2017/18
- Initiated cyber risk review
- Assessment of potential impact of Brexit on the Group
- Revised whistleblowing policy, incorporating an external helpline
- Update of anti-bribery and anti-corruption programme
- Review of data protection policies and procedures to achieve compliance with GDPR

Areas of focus in 2018/19

- Roll out of cyber risk review
- Continued focus on internal audit
- Finalisation of impact assessment of IFRS 15 (Revenue Recognition), IFRS 16 (Accounting for Leases) and IFRS 9 (Financial Instruments)
- Continued assessment of potential impact of Brexit on the Group. Initial assessment indicates that the impact will not be material
- Review and update of Committee terms of reference, including policy on provision of non-audit services.

Dear Shareholder,

I am pleased to report on the activities of the Audit Committee ("the Committee") during the year under review.

The Committee and external auditor

During the year, the Audit Committee met four times and met privately with the external auditor on three occasions. In addition to the Audit Committee members, the Group Chief Executive, the Group Finance Director, representatives from the external auditor, the Group Risk Manager and the Group Financial Controller attended parts of these meetings by invitation. As Chairman of the Committee, I maintain direct communication with the external auditor and the Group Risk Manager, independently of the management of the Company.

Meetings of the Committee are scheduled, so as to ensure the Committee is informed fully, and on a timely basis, on areas of significant risks and judgement. The Committee also received sufficient, reliable and timely information from management on changes to financial accounting standards and reporting requirements, regulatory and governance changes and developments around risk management, fraud prevention and detection and cybersecurity. As Chairman of the Committee, I report to the Board on any significant matters arising from the activities of the Committee.

The Committee believes that the issue of non-audit services to the Company is closely related to external auditor independence and objectivity. The Committee recognises that the independence of the external auditor may reasonably be expected to be compromised if they also act as the Company's consultants and advisers. Having said that, the Committee accepts that certain work of a non-audit nature is best undertaken by the external auditor. To keep a check on this, the Committee plans to review its policy during the next financial year to ensure that the provision of any non-audit services by its external auditor does not impair its independence or objectivity. No non-audit services were provided by the external auditor during the financial year.

The Board is satisfied that the members of the Audit Committee have both recent and relevant experience (as set out on pages 50 and 51) and that, therefore, the Committee as a whole has competence in the sector in which the Group operates. The Audit Committee is satisfied that the Group's executive compensation arrangements do not prejudice robust controls and good stewardship.

Key responsibilities of the Committee:

- Consideration of the appropriateness of the accounting principles, policies and practices adopted in the Group's accounts;
- External financial reporting and associated announcements;
- Managing the appointment, independence, effectiveness and remuneration of the Group's external auditor, including the policy on the award of non-audit services;
- Initiating and supervising a competitive tender process for the external audit;
- Resourcing, planning and effectiveness of the internal audit function;
- The effectiveness of the Group's risk management processes and internal controls;
- Maintenance and update of the Group Risk Register;
- Oversight of the Group's whistleblowing procedures;
- The Group's compliance with the 2016 UK Corporate Governance Code.

In addition to the key responsibilities described above, the Committee has reviewed the financial and narrative disclosures in this year's Annual Report and Accounts. It has advised the Board that, in its view, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy.

AUDIT COMMITTEE REPORT

Audit tender

The Committee considers the appointment or reappointment of the external auditor, including the timing of rotation of the incumbent audit partner, on an annual basis. During the year, with Ernst & Young LLP approaching the end of their term as the Group's auditor as at 31 March 2018, the Company carried out a formal competitive tender for the external audit engagement and appointed PricewaterhouseCoopers LLP. The tender process is detailed below and was carried out in accordance with best practice guidelines provided by the FRC and the Investment Association.

Pre-steps		Evaluation			Decision making	
Key steps						
Invitation to participate and interview of lead partners	Request for proposal issued and data room opened	Site meetings	Written proposals evaluation	Oral presentation to Audit Committee	Audit Committee recommendation	Board decision
May		**June**	**July**		**August /September**	
Governance						
AC Chair, Group FD and Financial Controller	Executive and HO finance team	Executive and HO finance team	Audit Committee and Executive Steering Group	Audit Committee and Executive Steering Group	Audit Committee	Board
Outputs						
Short-listing and pre-selection of lead partners	Knowledge building by team	Initial feedback shared with lead partners as input to development and proposals	Proposal evaluation and preparation of scorecard for oral presentations	Debrief and final evaluation of each firm	Recommended two firms for appointment, with a preference expressed for one firm	Successful firm appointed with effect from 13 September 2017

Role of the Committee

The Committee's role is central in bringing together the Group's risk management activities and control environment to ensure the integrity of financial reporting and to maintain a strong risk focused culture. As Chairman of the Audit Committee, I attend the Group's Annual General Meeting every year and make myself available for any Shareholder questions on the Committee's remit.

The Committee oversees and reviews the management of risk, financial results, and the Group's internal audit function.

Risk management and internal controls

In fulfilling the Committee's oversight of the risk management and control environment, a number of key activities are undertaken during the year, as well as having regular meetings with senior management.

The Audit Committee considered the risk management activities during the year (including particular focus on specific areas of IT security and Brexit), and reviewed risk reporting to ensure effectiveness and that the balance between risk and opportunity was in keeping with the Group's risk appetite.

The Group has a small, separate internal audit function, led by the Group Risk Manager who reports both to the Group Financial Controller and to me, as Chairman of the Audit Committee.

A programme of internal audit activities has been completed during the year. The scope of work carried out by internal audit generally focuses on the internal financial controls and risk management procedures operating within each business. Further internal audit work is outsourced to external providers, where appropriate.

Significant matters considered

As part of the monitoring of the integrity of the financial statements, the Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. Support from the external auditor is sought when undertaking these assessments.

During the year, the Audit Committee's review of other significant accounting and financial reporting issues included a focus on the key areas outlined as follows:

Impairment of goodwill	A consideration of the carrying value of goodwill and the assumptions underlying the impairment review. The judgements in relation to goodwill impairment largely relate to the assumptions underlying the calculations of the recoverable amount of the business unit being tested for impairment, primarily the achievability of long term business plans and macroeconomic assumptions underlying the valuation process. The assumptions are sensitised to ensure that there is adequate headroom between the recoverable amount and the carrying value of the business being tested for impairment. In particular, disclosure in note 16 of the accounts indicates erosion of the estimated headroom in Acal BFi UK, given a reasonable change in assumptions.
Accounting for acquisitions	A review of the accounting for the acquisition of Santon during the year, including the appropriateness of the assumptions used in assessing the fair value of assets and liabilities acquired.
Valuation of the legacy defined benefit pension scheme	A review of the appropriateness of the assumptions used in the valuation of the legacy defined benefit pension scheme under IAS 19 – Employee Benefits.
The recognition and valuation of judgemental provisions	A determination of the appropriateness of the assumptions used in the recognition and valuation of judgemental provisions which relate mainly to onerous contracts, inventory, severance indemnities, acquisition earn out arrangements, long term bonus plans, restructuring and integration.
Presentation of underlying profit adjustments	A review of the appropriateness of items disclosed as acquisition costs, intangible asset amortisation and legacy IAS 19 costs in the supplementary income statement information and notes to the consolidated financial statements, in line with the Group's stated policy.
Revenue recognition	A review of the appropriateness of the accounting for revenue either side of the year end.
Parent Company impairment assessment	An assessment of the carrying value of the parent company's investment in discoverIE Management Services Limited was carried out. This resulted in an impairment of £10m.

The Committee was satisfied that each of the matters set out above had been fully and adequately addressed by the Executive Directors, appropriately tested and reviewed by the external auditor and that the disclosures made in this Annual Report and Accounts were appropriate.

AUDIT COMMITTEE REPORT

Internal controls

The UK Corporate Governance Code includes a requirement that the Board maintains sound risk management and internal controls systems to safeguard Shareholders' investment and the Company's assets. This requirement covers all controls including: operational; compliance and risk management; and financial controls. Formal guidance for Directors on internal controls was published by the Institute of Chartered Accountants in England & Wales in September 1999 and subsequently revised in October 2005 by The Financial Reporting Council ("FRC"). In 2014, this was superseded by the FRC's revised guidance, Risk Management, Internal Control and Related Financial and Business Reporting ("the Risk Guidance"). The Board approved a framework for the implementation of this guidance. The relevant procedures have been in place throughout the year under review and up to the date of this Annual Report and Accounts.

The Board has overall responsibility for the Group's risk management and internal controls systems and for reviewing their effectiveness, at least annually.

While no system of controls can provide absolute assurance against material misstatement or loss, the Group's systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. In establishing and reviewing the systems, the Committee, on behalf of the Board, has regard to the significance of the risks involved, the likelihood and severity of a risk occurring and the costs of the relevant controls.

The foundation of the Group's systems of control is the value placed on the quality and integrity of its employees. The principal components of those systems are:

- a clearly defined organisation structure with short and clear reporting lines;
- an ongoing process for the identification, regular review and management of the principal risks and issues affecting the business, both at Group and operating levels;
- in-house and outsourced internal audit activities;
- an ongoing review of regulatory compliance;
- a regular review of the principal suppliers and customers of the Group, and how each impacts upon the Group's business;
- a comprehensive planning process, which starts with a strategic plan and culminates in an annual budget and a long term plan;
- regular forecasting throughout the year of orders, sales, profitability, cash flow, working capital and balance sheets;
- a regular review of actual performance against budget and forecasts;
- clearly defined procedures for the authorisation of major new investments and commitments; and
- a requirement for each operating company to maintain a system of internal controls appropriate to its own local business environment.

The Finance team is responsible for producing financial information that is timely, accurate and in accordance with applicable laws and regulations. In addition, it is responsible for the timely distribution of financial information, both internally and externally. Key financial and operational performance is reported on a timely basis and measured against both the Board-approved budget, management's rolling forecasts and comparable information from prior periods. A review of the financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected. All financial information published externally by the Group is approved by the Board.

The above procedures apply to discoverIE Group plc and all of its subsidiary companies.

The Board receives regular submissions from management concerning the matters set out above and other matters relevant to internal controls and the identification, evaluation and management of risk. In addition, the Committee, on behalf of the Board, has conducted a specific annual review of the effectiveness of the Group's system of internal controls, including financial, operational and compliance controls and risk management systems. The Group has embedded risk management and internal control into the operations of the business and continues to deal with areas of improvement which come to the attention of management and the Board.

Internal Audit

The Group's finance department includes a separate Internal Audit function. This is led by the Group Risk Manager who is part of the Group management team and reports both to the Group Financial Controller and to the Chairman of the Audit Committee.

A programme of internal audit activities has been completed during the year, part of which was outsourced to BDO and Tricor. The scope of work carried out by Internal Audit generally focuses on the internal financial controls and risk management procedures operating within each business. Work is outsourced to external advisers where appropriate.

Terms of reference

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The Committee's terms of reference are available upon request and are on the Company's website: **www.discoveIEplc.com**

Yours sincerely

Richard Brooman
Chairman of the Audit Committee
5 June 2018

NOMINATION COMMITTEE REPORT

Malcolm Diamond MBE –
CHAIRMAN OF THE NOMINATION COMMITTEE

"The Board is committed to a culture which attracts and retains talented people to deliver outstanding performance and further enhance the success of the Group."

Member	Since
Malcolm Diamond	2017
Nick Jefferies	2009
Richard Brooman	2014
Henrietta Marsh	2014
Tracey Graham	2018

Details of individual **Directors' attendance** can be found on page 63

Dear Shareholder,

The discoverIE Board has a collective responsibility for promoting the long term success of the Company for the benefit of its Shareholders and employees. In leading the search for new Directors, the Nomination Committee ("the Committee") plays an important part in helping to secure that long term success. At the same time, discoverIE's commitment to good governance and compliance with the requirements of the UK Corporate Governance Code means that there is in place a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

Composition

The majority of the Committee members are independent Non-Executive Directors. During the year under review, the Committee was chaired by myself, with Richard Brooman, Henrietta Marsh, Tracey Graham and Nick Jefferies as Committee members.

Key responsibilities:

The Committee's key duties are:

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board and to recommend changes;
- To consider succession planning for the Directors and the right balance of skills, knowledge, experience and diversity on the Board;
- To identify and nominate candidates to fill Board vacancies, having previously prepared a description of the role and capabilities required for a particular appointment;
- To review the leadership needs of the organisation, both executive and non-executive;
- To make recommendations to the Board on the reappointment of any Non-Executive Director at the conclusion of their specified term of office and on appointments to the Audit and Remuneration Committees; and
- To review, as part of the annual assessment exercise, the time commitment of the Non-Executive Directors to the role and to their external appointments.

Appointment of Directors

The Committee's principal role is to make recommendations to the Board on suitable candidates to fill Board vacancies, as and when they arise. In managing this process, the Committee takes into account the Board's existing balance of skills, knowledge and experience and has due regard for diversity. A job specification is prepared and agreed by the Committee. Unless the appointment is as an Executive Director, for which a suitable candidate is available from within the Group, the Committee will consult appropriate

executive search or other organisations with databases of candidates before a short-list of suitable candidates is produced for agreement by the Committee. Candidates meet all members of the Committee, which then makes recommendations to the Board. Adopted practice is for all members of the Board to meet with the relevant candidate before an appointment is finally made.

During the year, the Committee became aware of the opportunity to appoint Bruce Thompson. Following a thorough process which involved both formal and informal meetings with the Committee, the Committee recommended his appointment, which was duly approved, to the Board.

Diversity

The Board is committed to a culture which attracts and retains talented people to deliver outstanding performance and further enhance the success of the Group. While the Board has no set objectives in relation to diversity, it is mindful of its responsibilities in this regard when making new appointments to the Board, and for the Group as a whole, and in relation to Board succession and management and development.

Succession planning

The Committee is concerned to ensure that a proper process for succession planning for the Board and senior management is in place, so that a pipeline of executive talent is developed.

In November 2017, the Board reviewed succession planning for (i) the Executive Directors, (ii) the members of the Group Executive Committee and (iii) other senior managers. The review covered senior managers, including members of the Group Executive Committee, across the Group's businesses and addressed, in particular:

- Both emergency and longer term succession planning;
- The evolution of the Group and the identification of future leaders;
- The development of "rising stars" within the Group; and
- The impact of acquisitions on the organisation structure.

It is intended to undertake a further succession planning review during the current financial year.

What the Committee did in the year under review

During the year, the Committee met formally on four occasions with all Committee members attending all meetings. The main focus of its work included the following:

- Reviewing the composition and structure of the Board and the Committees and, following a thorough process, recommending the appointment, which was duly approved, of Bruce Thompson as Non-Executive Director;
- Recommending to the Board the appointment, which was duly approved, of Tracey Graham as a member of the Nomination Committee; and
- Recommending to the Board the reappointments, which were duly approved, of the Non-Executive Directors upon the conclusion of their specified terms of office.
- In each case, the Committee's recommendation was made after careful consideration of the individual's independence, performance and ability to continue to contribute to the Board in the light of the knowledge, skills, commitment and experience required.

Terms of reference

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The Committee's terms of reference are available upon request and are on the Company's website: **www.discoverIEplc.com**

Malcolm Diamond MBE
Chairman of the Nomination Committee
5 June 2018

DIRECTORS' REMUNERATION REPORT

Henrietta Marsh –
CHAIRMAN OF THE REMUNERATION COMMITTEE

"An excellent year in which Shareholders' returns reflected the long term strategic progress being made by the Company."

Member	Since
Henrietta Marsh (Chair)	2014
Richard Brooman	2014
Malcolm Diamond	2017
Tracey Graham	2016

The Committee consults with the Group Chief Executive who may attend meetings by invitation of the Chairman, although he is not involved in deciding his own remuneration. The Committee is assisted by the Group Company Secretary.

Details of individual **Directors' attendance** can be found on page 63

Key responsibilities

- Design of remuneration policy
- Remuneration policy implementation
- Ensuring the competitiveness of reward
- Design of incentive plans
- Setting incentive targets and determining award levels

ANNUAL STATEMENT

Information not subject to audit

Dear Shareholder,

On behalf of the Board, it is my pleasure to present our Directors' Remuneration Report (the "Report") for the year ended 31 March 2018.

During the year, the Committee reviewed the Company's remuneration arrangements and the remuneration policy, which was approved at the 2015 AGM and is due to expire. Our review took into account:

- The Group's strategy - in particular, the Committee noted the contribution that acquisitions have made to the Group's success;
- The competitiveness of the Company's remuneration – the Committee looked both at other companies in the Small Cap index as well as a set of comparators that have similar complexities to discoverIE;
- Current and emerging market practice; and
- Best practice expectations of institutional investors.

The Committee's conclusion was that the current structure works well and remains fit for purpose. It is simple and consistent, with pay outcomes dependent upon performance linked to our business strategy. Nevertheless, a number of changes were thought advisable to incorporate best practice, to improve the competitiveness of remuneration packages and to further improve alignment.

These proposals were discussed with major Shareholders, comprising over 75% of the Shareholder base at the time. We received feedback from over half of them, representing more than 30% of the share capital of the Company, as well as key representative bodies. In the light of the positive support received, the Committee is now seeking approval for the revised remuneration policy at the 2018 AGM.

Proposed changes to remuneration policy and to implementation of remuneration arrangements

Policy change	Rationale
◻ Annual bonus policy limit to be increased from 100% of salary to 125% of salary. Normal bonus opportunities for the Group Chief Executive will be 125% of salary (from 100%) and for the Group Finance Director, 100% of salary (no change)	◻ Change in limit provides flexibility for the Committee to grant a bonus opportunity more typical of the FTSE Small Cap top half as the business continues to expand ◻ The change in normal bonus opportunity for the Group Chief Executive is reflective of market
◻ Mandatory deferral of 20% of any bonus earned into discoverIE shares for a period of three years for all executives where the bonus opportunity is above 100% of salary. Same malus and clawback provisions will apply to deferred bonus as cash bonus	◻ Aligns with best market practice including Investment Association's guidelines
◻ Align bonus pay out curves for all Executive Directors ◻ Performance range for bonus targets for FY19 will be ± 12.5% of budget	◻ Enhances alignment across the management team
◻ Normal LTIP grant sizes for the Group Chief Executive and Group Finance Director to be increased from 125% and 90% of salary to 135% and 100% of salary respectively. The LTIP policy limit remains at 150% of salary ◻ LTIP Awards for FY18 of 150% and 125% were made to the Group Chief Executive and Group Finance Director to reflect the excellent business performance.	◻ Align grant sizes more closely with market practice, and ensure management are appropriately rewarded for business growth
◻ Introduction of EPS as an LTIP measure – 1/3rd is now dependent on EPS, 1/3rd on absolute TSR and 1/3rd of relative TSR	◻ Balance internal and external measures of success ◻ Enhance motivational effectiveness of the LTIP ◻ Provide greater stretch in LTIP targets. Recognise Company's growth ambitions
◻ Increase in shareholding guideline to 250% of salary after seven years of service (after five years, shareholding of 200% of salary is required)	◻ Further strengthens alignment of interests with Shareholders

Further detail on these changes can be found in the remuneration policy and Annual Report on Remuneration.

DIRECTORS' REMUNERATION REPORT

Business performance and resulting remuneration outcomes for the year ending 31 March 2018

It has been an excellent year for the Company and an excellent year for Shareholders. As importantly, there were a number of achievements which we expect to build value over the longer term. You can read more detail in the Strategic Report on pages 2 to 46 but some of the highlights are summarised below.

- Strong growth in sales, orders, profits and earnings
- Organic growth driven by strong performance from the Design & Manufacturing division
- Highest ever year end order book of £122m (+12% CER)
- Acquisition of Santon in February 2018
- Expansion of fibre optic production capacity in Slovakia and magnetics production in India
- Increased cross-selling from £4.6m to £8.8m
- Broadwalk small and mid-cap company of the year award

In light of this performance, the Committee decided to award annual bonus payments of 63.7% and 53.8% of maximum to the Group Chief Executive and Group Finance Director. Further details can be found on pages 89 of this report. In addition, LTIP Awards of 150% and 125% were made to the Group Chief Executive and Group Finance Director. Further details can be found on pages 90 of this report.

It has been particularly pleasing to see, in the last year or so, recognition of the long term strategic progress being made by the Company through an improvement in the share price. This resulted in full vesting of the LTIPs granted in March 2015. These shares will be subject to a two-year holding period before they become exercisable.

Details of proposed LTIP rules change

The rules of the 2008 Renewed Long Term Incentive Plan run for five years. As these rules are due to expire shortly, the Committee is submitting these to the Shareholders for renewal at this year's AGM.

The majority of differences between the proposed and current plan rules are to improve clarity to the rules and to reflect current best practice. The revised plan rules will be available for Shareholders to review at the AGM.

Other key activities in the year ending 31 March 2018

During the year under review, the Committee held five formal meetings. As well as the policy review, the Committee also carried out the following activities:

- Reviewed and approved the Executive Directors' performance against financial and non-financial objectives for the year ended 31 March 2017 and the 2014 LTIP targets and determined the bonuses payable;
- Reviewed the Executive Directors' expected performance against financial and non-financial objectives for the year 0ended 31 March 2018 and the 2015 LTIP Awards.
- Determined 3.5% salary increases for Executive Directors as well as other GEC members for the year ending 31 March 2019;
- Approved the LTIP Awards made on 29 March 2018 and their performance conditions;
- Reviewed and approved the annual bonus structure for Executive Directors and the GEC for the year ending 31 March 2019;
- Approved the use of net settlement for LTIP exercises which occurred during the year; and
- Approved the introduction of an Inland Revenue endorsed scheme to hedge Employer's National Insurance payable on LTIP exercise.

Further detail on the above can be found in the Annual Report on Remuneration.

The Committee strongly believes that the proposed changes are in the best interest of Shareholders and will help focus the successful executive team on continuing to drive value creation for Shareholders over the coming years.

The remuneration policy resolution (resolution 3) and renewal of the LTIP rules (resolution 16) are subject to a binding vote at our AGM. The Annual Report on Remuneration explains how our policy has been implemented during the year and, along with this letter, will be subject to an advisory vote at our AGM (resolution 4). We hope that you will support all three resolutions.

Henrietta Marsh
Chairman of the Remuneration Committee
5 June 2018

REMUNERATION AT A GLANCE

Audited information

Executive Directors

In this section, we show the link between corporate performance for the year under review and the remuneration outcomes for the Executive Directors. The key features of the Executive Directors' remuneration for the year ended 31 March 2018 are also shown.

Corporate performance for the year

UNDERLYING PROFIT BEFORE TAX

+27%

FY18 £21.9m
FY17 £17.2m

UNDERLYING DILUTED EARNINGS PER SHARE

+16%

FY18 22.3p
FY17 19.2p

FULL YEAR DIVIDEND PER SHARE

+6%

2018 9.00p
2017 8.50p

SHARE PRICE (AS AT 31 MARCH 2018)

+84.6%

2018 415.00p
2017 224.75p

DIRECTORS' REMUNERATION REPORT

Remuneration outcomes for the Executive Directors for the year ended 31 March 2018

	Nick Jefferies £000		Simon Gibbins £000	
Salary FY18[1]	438		268	
Bonus (£k and as % of salary)	279	63.7%	144	53.8%
Taxable benefits	11		11	
Pension benefits/allowance	58		15	
Value of LTIP vesting	1,018		499	
Single figure of total remuneration	1,803		937	

1 The salary figures for FY18 include the additional 2% salary increase, which was conditional upon the achievement of the Group EBIT budget for the year ending 31 March 2018, which was achieved. The conditional payment is also reflected in the bonus and pension benefits/allowance figures

LTIP awards of 150% and 125% of salary were made to the Group Chief Executive and the Group Finance Director on 31 March 2018 respectively. These awards reflect the strong financial results in the year. Awards at these percentages of salary levels were last made in 2015, and in normal years, it is intended that the Group Chief Executive and Group Finance Director will receive 135% and 100% of salary respectively.

Remuneration for the year ending 31 March 2019

The table below sets out a summary of how the proposed remuneration policy will apply during 2018/19.

Possible remuneration outcomes for the Executive Directors for the year ended 31 March 2019 are shown on page 87.

Remuneration element	Remuneration for year ending 31 March 2019[1]
Base salary	◻ Effective 1 April 2018, salary increases of 3.5% in line with workforce increases. Salaries are now £453,159 for the Group Chief Executive and £277,121 for the Group Finance Director
Pension	◻ Cash equivalent of 15% of salary for Group Chief Executive and 6.5% of salary for Group Finance Director
Annual bonus	◻ Maximum bonus opportunity of 125% of salary for Group Chief Executive (75% of salary for target performance) and 100% of salary for Group Finance Director (60% of salary for target performance) ◻ Performance metrics are based 80% on financial measures, including EBIT and Simplified Working Capital. The remaining 20% will be based on strategic measures ◻ Mandatory deferral of 20% of any bonus earned into discoverIE shares for a period of three years if bonus opportunity is above 100% of salary. This means that currently 20% of any bonus paid to the Group Chief Executive will be deferred into discoverIE shares
LTIP	◻ LTIP awards for FY19 will be made in line with policy, with normal grant sizes of 135% of salary for Group Chief Executive and 100% of salary for Group Finance Director[2] ◻ Performance metrics and targets will be the same as FY19 grant – 1/3rd on EPS Growth, 1/3rd on Relative TSR and 1/3rd Absolute TSR
Shareholding guidelines	◻ Shareholding target of 250% of salary for the Group Chief Executive and Group Finance Director within seven years

1 Some elements are subject to the approval of revised remuneration policy by Shareholders.

2 Additional awards may be granted to the Group Chief Executive and Group Finance Director in return for their bearing the Company's liability to Employer's National Insurance arising on the exercise of such grants made to them above. The additional award ensures that the Group Chief Executive and Group Finance Director are in a neutral position on an after-tax basis, assuming no change in the tax rate.

REMUNERATION POLICY

Information not subject to audit

This part of the Directors' Remuneration Report sets out the remuneration policy that the Committee will be putting forward for Shareholder approval at the 2018 AGM and will be effective from that date for a maximum of three years. It has been prepared in accordance with the Companies Act 2006 (the "Act"), The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The principal changes compared to the previous approved policy are as follows:

- Annual bonus policy limit to increase from 100% of salary to 125% of salary
- Mandatory deferral of 20% of any bonus earned into discoverIE shares for a period of three years if bonus opportunity is above 100% of salary. Malus and clawback provisions will apply to deferred bonus (as per cash bonus)
- 60% of maximum bonus opportunity will be payable for target performance (to align the bonus payout curve of the Executive Directors)
- Maximum pension opportunity for all Executive Directors will be 15% of salary (previously only the Group Chief Executive). However, for the coming year the Group Finance Director will continue to receive 6.5% of salary
- Share ownership guidelines of 250% of salary after seven years
- Inclusion to the notes of the policy table on how performance conditions and targets for incentive plans are selected
- Removal of detail on remuneration elements which are no longer relevant such as old long term incentive plans

Other minor changes have been made to improve the readability of the report.

Key objectives of our reward policy

The policy aims to deliver a remuneration package that:

- Attracts and retains high calibre Executive Directors and senior managers in a challenging and competitive business environment
- Reduces complexity, delivering an appropriate balance between fixed and variable pay for each Executive Director
- Encourages long term performance by setting challenging targets linked to sustainable growth
- Is aligned to the Group's objectives and Shareholder interests and to the delivery of sustainable value to Shareholders

Remuneration policy

Element, purpose and link to strategy	Operation and performance metrics	Opportunity
Base salary To attract and retain quality staff.	Salaries are reviewed annually and normally fixed for 12 months, effective 1 April. The Committee takes into account: - Role, competence and performance; - Average change in broader workforce pay; and - Total organisational salary budgets. Salaries are also benchmarked against companies of a comparable size and complexity which operate internationally, in similar sectors.	Any percentage increases will ordinarily be in line with those across the wider workforce. However, salary increases may be higher in exceptional circumstances, such as the need to retain a critical executive, or an increase in the scope of the executive's role (including promotion to a more senior role) and/or in the size of the Group.
Benefits To help retain employees and remain competitive in the marketplace.	Directors, along with other senior UK executives, receive a car allowance, life assurance and critical illness cover, and family medical insurance.	Insurance cover based on market rates.

DIRECTORS' REMUNERATION REPORT

Element, purpose and link to strategy	Operation and performance metrics	Opportunity
Pension To facilitate long term savings provisions.	The Company operates a defined contribution pension scheme. Contributions are benchmarked periodically against companies of a comparable size and complexity which operate internationally, in similar sectors. Executive Directors may take a cash allowance in lieu of pension contributions.	Up to 15% of base salary.
Annual bonus The principal long term measure of Shareholder interests is Total Shareholder Return. The Committee considers that this will be enhanced through the setting and attainment of various short-term targets, which are within the control of the Executive Directors. These are incentivised through the bonus plan which rewards the achievement of annual financial and strategic business targets.	Targets (financial and non-financial) are determined and reviewed by the Committee annually and are selected to be relevant for the year in question. Actual bonus payable is determined by the Committee after the financial year end, based on performance against these targets. Financial objectives are updated to reflect acquisitions, disposals and currency movements during the year. Mandatory deferral of 20% of any bonus earned into discoverIE shares for a period of three years (if bonus opportunity is above 100% of salary). Malus and clawback provisions apply to cash and deferred elements of the bonus, applying in the event of material misstatement of information or misconduct. Performance metrics are based at least 70% on financial performance. Financial measures may include (but are not limited to) EBIT and Simplified Working Capital. Non-financial measures may include strategic measures directly linked to the Company's priorities.	Up to 125% of salary payable for significant over-achievement of financial and non-financial bonus objectives. Up to 60% of the maximum bonus opportunity will be payable for targeted and budgeted financial and non-financial objectives.

Element, purpose and link to strategy	Operation and performance metrics	Opportunity
Long Term Incentive Plan To motivate Executives to deliver Shareholder value over the longer term.	Awards of conditional shares through nil-cost options are typically granted annually, with vesting dependent on the achievement of performance conditions over the following three years. Vested awards are subject to a two-year holding period. Dividend equivalents will be paid on vested awards. Part of an LTIP award may be satisfied using an HMRC approved company share option scheme (CSOP). Other than this, the Company no longer makes awards of approved share options to Executive Directors except, potentially, in the case of new recruits (see recruitment policy). Malus and clawback applies to vested and unvested LTIP awards in the event of material misstatement of information or misconduct. Performance metrics reflect strategic goals and milestones. The exercise of the award is dependent upon the individual's continued employment for a three-year period from the date of grant, subject to the good and bad leaver provisions within the Plan rules and the satisfaction by the Company of certain performance conditions over the three-year vesting period. From the financial year ending 31 March 2018, the conditions are based at least 50% on the Group's TSR performance, on a relative and/or absolute basis. The remainder will be on Group financial performance, which may include (but not be limited to) Group earnings or returns over the performance period. The Company's share schemes are funded through a combination of shares purchased in the market and newly-issued shares, as appropriate. The Company monitors the number of shares issued under the schemes and their impact on dilution limits. The Company is committed to remaining within the Investment Association's 10% dilution limit.	Up to 150% of salary. Threshold performance will result in 25% of the award vesting.
Shareholding guidelines To further align the interests of Executives with those of Shareholders.	Executive Directors will be required to accumulate the required shareholding requirement within a certain time period from appointment. Shares held which are no longer subject to performance conditions count towards the requirement.	Executives will be required to hold 200% of salary after five years and 250% after seven years.

DIRECTORS' REMUNERATION REPORT

Notes to the remuneration policy table

Performance Conditions and Target Setting:

Each year, the Committee will determine the weightings, measures and targets as well as timing of grants and payments for the annual bonus and LTIP plans within the approved remuneration policy and relevant plan rules (or documents). The Committee considers a number of factors which assist in forming a view. These include, but are not limited to, the strategic priorities for the Company over the short-to-long term, Shareholder feedback, the risk profile of the business and the macroeconomic climate.

The Annual Bonus Scheme is measured against a balance of profitability, cash management and the delivery of key strategic areas of importance for the business. The profitability metric used is EBIT and the cash management metric is Simplified Working Capital.

The LTIP is assessed against a balance of measures identified as those most relevant to driving sustainable bottom-line business performance, as well as providing value for Shareholders. For FY18, EPS Growth has been introduced as an equal measure in addition to Absolute and Relative TSR.

Targets are set against the annual and long term plans taking into account analysts' forecasts, the Company's strategic plans, prior year performance, estimated vesting levels and the affordability of pay arrangements. Targets are set to provide an appropriate balance of risk and reward to ensure that, while being motivational for participants, maximum payments are only made for exceptional performance.

In exceptional circumstances, the Committee has the discretion to adjust and/or set different targets and performance conditions for annual bonus and long term incentive plans, provided the new conditions are no tougher or easier than the original conditions. This includes events where conditions are unable to fulfil their original intended purpose. Awards may also be adjusted in certain circumstances (e.g. for a rights issue, a corporate restructuring or for special dividends).

Any discretion exercised by the Committee in the adjustment of performance conditions will be fully explained to Shareholders in the relevant report. If the discretion is material and upwards, the Committee will consult with major Shareholders in advance. No such discretion was exercised during FY18.

The Committee also has the ability to grant additional LTIP awards to participants in return for their bearing the Company's liability to Employer's National Insurance arising on the exercise of such grants made to them above. The additional award ensures that the participants are in a neutral position on an after tax basis, assuming no change in tax rates.

All historical awards that have been granted before the date this policy comes into effect and still remain outstanding (including those detailed on pages 88 to 96 of the Annual Report on Remuneration) remain eligible to vest based on their original award terms, other than for the adjustment made for the rights issue in 2014.

Recruitment (and appointment) policy

The remuneration package for a new Executive Director would be set in accordance with the terms of the Company's approved remuneration policy in force at the time of appointment. Similar considerations may also apply where a Director is promoted to the Board from within the Group.

Element	Recruitment policy
Base salary	The Committee will take into account a number of factors, including the current pay for other Executive Directors, external market forces, skills and current level of pay.
Benefits	Benefits provision would be in line with normal policy. The Committee may agree that the Company will meet appropriate relocation costs.
Pension	In line with normal policy, i.e. a maximum contribution (or a cash allowance in lieu of contribution) of no more than 15% of salary.
Annual bonus	Eligible to take part in the annual bonus, with a maximum bonus of up to 125% in line with policy.
Long Term Incentive Plan	A normal award of up to 150% of salary, in line with policy. In addition, a new recruit may be awarded up to 300% of salary in performance shares, which would be subject to the same performance measures and rules in force for the LTIPs at the time of appointment.
Compensation for forfeited remuneration	The approach in respect of compensation for forfeited remuneration in respect of a previous employer will be considered on a case-by-case basis taking into account all relevant factors, such as performance achieved or likely to be achieved, the proportion of the performance period remaining and the form of the award. The Committee retains the ability to make use of the relevant Listing Rule to facilitate the "buy-out". Any "buy-out" awards would have a fair value no higher than the remuneration forfeited.

Notice period and payment for loss of office

It is the Company's policy that Executive Directors should have service contracts incorporating a maximum notice period of one year. However, it may be necessary occasionally to offer longer initial notice periods to new Directors. Under the terms of their service contracts, any termination payments are not predetermined but are determined in accordance with the Director's contractual rights, taking account of the circumstances and the Director's duty to mitigate loss. The Company's objective is to manage its exposure to the risk of a potential termination payment.

Non-Executive Directors have letters of appointment for a term of one year whereupon they are normally renewed, but generally for no more than nine years in aggregate. Non-Executive Directors are not eligible for payment on termination, other than payment to the end of their contracts.

		Date of contract/letter of appointment	Expiry of current term
Malcolm Diamond	**Chairman**	28 November 2016	31 March 2019
Nick Jefferies	**Group Chief Executive**	26 November 2008	12 months by either the Director or the Company
Simon Gibbins	**Group Finance Director**	10 June 2010	12 months by either the Director or the Company
Richard Brooman	**Senior Non-Executive Director**	7 December 2012	31 December 2018
Henrietta Marsh	**Non-Executive Director**	22 April 2013	30 April 2019
Tracey Graham	**Non-Executive Director**	23 October 2015	31 October 2018
Bruce Thompson	**Non-Executive Director**	15 January 2018	25 February 2019

Other than their service contracts, no contract of significance, to which any member of the discoverIE Group is a party and in which a Director is or was materially interested, subsisted at the end of, or during, the year.

DIRECTORS' REMUNERATION REPORT

Termination payments

On termination, the Company will normally make a payment in lieu of notice ("PILON") which is equal to the aggregate of: the basic salary at the date of termination for the applicable notice period; the pension allowance over the relevant period and the cost to the Company of providing all other benefits (excluding pension allowance) or a sum equal to the amount of benefits as specified in the Company's most recent Annual Report; and a bonus payment calculated in accordance with the bonus plan agreed by the Committee.

The Company may pay the PILON either as a lump sum or in equal monthly instalments, from the date on which the employment terminates until the end of the relevant period. If alternative employment (paid above a pre-agreed rate) is commenced, for each month that instalments of the PILON remain payable, the monthly amount, in aggregate (excluding the pension payment), may be reduced by half of one month's basic salary in excess of the pre-agreed rate.

The treatment of LTIP awards on termination will be in accordance with the plan rules and, where appropriate, at the discretion of the Committee.

If identified as a "good leaver" for the purposes of the bonus plan, the bonus payout will be subject to time pro-rating to reflect the time period in employment as well as the achievement of targets to that date.

If identified as a "good leaver" under the LTIPs and share option schemes' rules, (including those good leavers identified as being at the discretion of the Committee), outstanding awards may be exercised, normally prorata for service up until the date of leaving and subject to the outcome of the performance conditions, either on the normal release or on such earlier date as the Committee may determine. If, in the judgement of the Committee, greater progress towards achievement of targets has been made as a result of the performance of the Executive Director, it may, at its absolute discretion, decide to vest up to 100% of the outstanding award. This is under exceptional circumstances only.

The Committee may also agree to make payments in respect of statutory employment claims, reasonable legal fees, outplacement and accrued holiday or sick leave.

Change of control or restructuring

On a change of control, all LTIP awards will be released, subject to performance requirements and prorated according to completion of the vesting period. In line with market practice and the Plan rules, the final treatment of any awards is subject to the discretion of the Committee.

There are no enhanced bonus provisions on a change of control.

Comparison with remuneration policy for other employees

The Company's approach to salary reviews is consistent throughout the Company with consideration given to responsibility, experience, performance, salary levels in comparable organisations and the Company's ability to pay.

Differing bonus arrangements (which are normally discretionary) operate elsewhere in the organisation and, subject to role, employees are entitled to benefits such as healthcare, car allowance (or Company-funded vehicle), life assurance and critical illness cover.

Fees for Non-Executive Directors

Fees for the Non-Executive Directors are determined on behalf of the Board by the Non-Executive Directors' Remuneration Committee, while fees for the Chairman are determined by the Committee. When determining fees, due regard is given to fees paid to Non-Executive Directors in other similarly-sized UK quoted companies, the time commitment and the responsibilities of the roles. Non-Executive Directors cannot participate in any of the Company's share incentive schemes. As disclosed on page 88 of this Annual Report and Accounts, additional fees, over and above the base fee payable to the Non-Executive Directors, are payable for chairing the Audit and Remuneration Committees and for acting as Senior Non-Executive Director.

Fees are normally reviewed annually to ensure that they reflect an individual's time commitment and responsibilities.

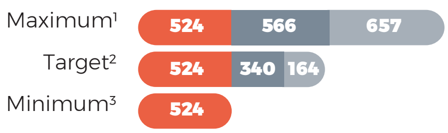
External appointments

The Executive Directors are entitled to accept one appointment outside the Group, provided that the Chairman's permission is obtained in advance of accepting an appointment and specific approval is given by the Board. Neither of the Executive Directors who served during the year held any non-executive appointments outside the Group.

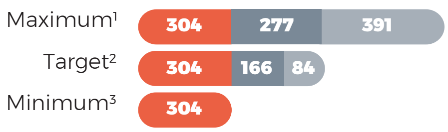
Illustrations of the application of the Executive Directors' remuneration policy

The bar charts below illustrate some possible outcomes of the application of the Policy for the year ending 31 March 2019.

Group Chief Executive



Group Finance Director



- Fixed Remuneration
- Bonus
- Long term Incentive Plan

1 Maximum assumes that, subject to Shareholder approval, the maximum LTIP award vests (150% and 125% of salary for the Group Chief Executive and Group Finance Director) and the maximum bonus (125% and 100% of salary for the Group Chief Executive and Group Finance Director) have been earned as stated in the policy table on pages 81 to 83

2 Target assumes, subject to Shareholder approval, that 25% of the Long term Incentive Plan (LTIP) award granted in the year ended 31 March 2018 vests (150% of salary for the Group Chief Executive and 125% of salary for the Group Finance Director) and bonuses have been earned at the target levels (75% of salary for the Group Chief Executive and 60% of salary for the Group Finance Director) as stated in the policy table on pages 81 to 83

3 Minimum in the bar charts above is fixed remuneration only (i.e. salary, pension and benefits as disclosed in the single figure table)

An additional award of 13,916 shares was made on 29 March 2018 such that Simon Gibbins is in a net neutral position after tax, assuming no change in tax rates, as a result of his agreement to take on the Company's liability to Employer's National Insurance. The figures for maximum and target outcomes above exclude the additional award of 13,916 shares

Projected values also exclude the impact of share price movements and dividend accrual.

Consideration of employment conditions elsewhere in the Group

The Policy, which is proposed to be implemented for the current Executive Directors, is more weighted towards performance-related pay than for other employees. The reason for this is to establish a clear link between remuneration received by the Executive Directors and the creation of Shareholder value.

As mentioned on page 86 of this Annual Report and Accounts, when setting the Policy the Committee takes account of pay and employment conditions elsewhere in the Group, but has not used any remuneration comparison measures between the Executive Directors and other employees.

Consideration of Shareholder views

The Committee's policy is to receive updates on the views of Shareholders and their representative bodies on best practice, and take these into account. It seeks the views of key Shareholders on matters of remuneration in which it believes they may be interested.

DIRECTORS' REMUNERATION REPORT

ANNUAL REPORT ON REMUNERATION

Information subject to audit

The Committee is responsible for considering and making recommendations to the Board on the remuneration of the Executive Directors. In doing so, it reports to the Board on how it has discharged its responsibilities and operates within agreed terms of reference.

The Committee also considers the recommendations of the Group Chief Executive with regard to the members of the Group Executive Committee ("GEC") who are not Executive Directors, in determining their remuneration packages, including bonuses, incentive payments, share options and other share-based awards. The Group Company Secretary provides administrative support.

The table below shows how we have applied the current remuneration policy during FY18. It discloses all the elements of remuneration received by the Directors during the year.

Single total figure of remuneration for each Director (audited)

The table below sets out the single total figure of remuneration received by each Executive Director for the year ended 31 March 2018 and the prior year:

		Salary £000	Benefits[1] £000	Bonus[2] £000	LTIP[3] £000	Pension[4] £000	Total £000
Nick Jefferies	**FY18**	**438**	**11**	**279**	**1,018**	**58**	**1,803**
	FY17	429	11	187	–	57	684
Simon Gibbins	**FY18**	**268**	**11**	**144**	**499**	**15**	**937**
	FY17	263	11	86	–	15	375

1 Taxable benefits comprise car allowance (£9,000 each) and family medical insurance. The benefits cost the Company £11,035 and £10,947 in total for Nick Jefferies and Simon Gibbins respectively

2 For performance in the year under review, a bonus of 63.7 percentage and 53.8 percentage of salary is payable to Nick Jefferies and Simon Gibbins, respectively. Further details can be found on page 89

3 The performance conditions attached to the 2015 LTIP award granted to Nick Jefferies and Simon Gibbins on 31 March 2014 were met and therefore the options vested in full on 31 March 2018. Further details can be found on page 90

4 Pension in the year under review for Nick Jefferies and Simon Gibbins was paid as cash in lieu of pension and was equal to 15% and 6.5% of salary (minus Employer's NI contributions) respectively

Single total figure of remuneration for Non-Executive Directors (audited)

	Basic fee		Committee chair fees		SID fee		Total	
	FY18 £	FY17 £	**FY18 £**	FY17 £	**FY18 £**	FY17 £	**FY18 £**	FY17 £
Malcolm Diamond[1]	**118,000**	36,500	**–**	–	**–**	–	**118,000**	36,500
Richard Brooman	**41,000**	36,500	**5,000**	5,000	**6,000**	6,000	**52,000**	47,500
Henrietta Marsh	**41,000**	36,500	**5,000**	5,000	**–**	–	**46,000**	41,500
Tracey Graham	**41,000**	36,500	**–**	–	**–**	–	**41,000**	36,500
Bruce Thompson[2]	**4,269**	–	**–**	–	**–**	–	**4,269**	–

1 Appointed as Non-Executive Chairman with effect from 1 April 2018

2 Appointed as a Director with effect from 26 February 2018

Incentive outcomes for Executive Directors for the year ended 31 March 2018

Annual bonus in respect of performance for the year

The maximum bonus opportunity for the year under review was 100% of salary for both the Group Chief Executive and the Group Finance Director. Annual bonuses for the year under review were based on a combination of financial and non-financial performance, with targets set against the annual budget at the start of the year. Financial performance for the year under review was measured against a combination of Group EBIT performance and Simplified Working Capital (SWC), weighted 65% and 15% respectively, with the remaining 20% based on specific individual objectives and Committee discretion as to the overall contribution.

Further details, including the targets set and performance against each of the metrics, are provided in the tables below:

Nick Jefferies (audited)

	Weighting	85% Budget	Budget	115% Budget	Actual
Group EBIT (£m)	65%	£20.77m	£24.44m	£28.11m	£24.5m
Vesting[1] (% of max)		10%	30%	65%	**30.6%**
SWC	15%	23.6%	22.5%	21.4%	21.8%
Vesting[1] (% of max)		0%	10%	15%	**13.1%**
Individual objectives	20%				**20%**
Overall					**63.7%**

1 Vesting between the points is on a straight-line basis

Simon Gibbins (audited)

	Weighting	85% Budget	Budget	115% Budget	Actual
Group EBIT (£m)	65%	£20.77m	£24.44m	£28.11m	£24.5m
Vesting[1] (% of max)		0%	20%	65%	**20.7%**
SWC	15%	23.6%	22.5%	21.4%	21.8%
Vesting[1] (% of max)		0%	10%	15%	**13.1%**
Individual objectives	20%				**20%**
Overall					**53.8%**

1 Vesting between the points is on a straight-line basis

Each Executive Director was given a number of individual non-financial objectives, tailored to their role and to business requirements in the year under review. The Executive Directors achieved full payout for their performance against their non-financial objectives achieved during the year.

Nick Jefferies

- Achieved smooth transition into new leadership structure
- Began implementation of new five year plan
- Achieved successful integration of Variohm
- Developed organic growth capabilities
- Delivered further value-enhancing acquisitions
- Successful delivery of plc name and rebranding

Simon Gibbins

- Ensured adequacy of Group debt and equity funding to meet expansion plans
- Began implementation of Group financial strategy and operational framework
- Delivered audit tender process and implemented audit transition
- Developed options for greater integration of finance and back office services with D&M
- Further developed internal audit & risk management function including reviews of new and recent acquisitions
- Increased analyst coverage and increased time spent on investor activities outside half-year points. Applied for sector change

The Committee assessed these achievements against the pre-set personal objectives and in the context of overall business performance and decided to award Nick Jefferies 20% and Simon Gibbins 20% out of the available 20% for this element of their bonus. This means that, in total for the year under review, Nick Jefferies received a bonus of 63.7% of his salary and Simon Gibbins received a bonus of 53.8% of his salary.

DIRECTORS' REMUNERATION REPORT

2015 LTIP vesting (audited)

LTIP Awards were granted on 31 March 2015 to Nick Jefferies and Simon Gibbins with vesting dependent on relative TSR performance against a comparator group made up of constituents of the FTSE Small Cap Index (50%) and absolute TSR in excess of CPI (50%) from 31 March 2015 to 31 March 2018. The specific targets are as follows:

Relative TSR ranking against the FTSE Small Cap (50% weighting)

Relative TSR ranking against peers	% of award vesting
Upper quartile (or above)	100%
Between median and upper quartile	Straight-line vesting between 25% and 100%
Below median performance	0%

Absolute TSR performance (50% weighting)

Absolute TSR performance	% of award vesting
Equal to or above CPI +20ppts	100%
Between CPI +10ppts and CPI +20ppts	Straight-line vesting between 25% and 100%
Below CPI +10ppts	0%

The TSR is measured by Orient Capital Limited and makes a standard TERP adjustment for the discounted rights issue in June 2014. discoverIE's TSR performance was +63% from 31 March 2015 to 31 March 2018. discoverIE's TSR rank was therefore at the 78th percentile against the FTSE Small Cap and 57ppts above CPI growth. This meant that the performance conditions were met and the award vested in full. The vested awards are subject to a two-year holding period.

Share awards made during the year (audited)

163,371 and 83,255 shares were granted on 31 March 2018 to Nick Jefferies and Simon Gibbins respectively. The following table contains details of these awards.

Director	Face value as % of salary	Face value[1]	Number of shares	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of performance period
Nick Jefferies	150%	£656,753	163,371	25%	100%	31 March 2021
Simon Gibbins	125%	£334,668	83,255			31 March 2021

1 Due to the timing of grant of these options at the year end, the face value of options granted has not been audited in the current year. This will be audited in the year ended 31 March 2019, being the first year a charge is recognised in respect of these options

The number of shares for these awards was calculated using the three-day average closing share price for the three days immediately prior to the award date of 31 March 2018 of 402p. In addition to the grants set out above, 13,916 shares with a face value of £55,942 were awarded to Simon Gibbins in return for him bearing the Company's liability to Employer's National Insurance arising on the exercise of such grants made to him above. The additional award ensures he is in a neutral position on an after tax basis, assuming unchanged tax rates.

Vesting of these awards is subject to the following performance conditions:

Relative TSR ranking against the FTSE Small Cap (1/3rd weighting)

Relative TSR ranking against peers	% of award vesting
Upper quartile (or above)	100%
Between median and upper quartile	Straight-line vesting between 25% and 100%
Below median performance	0%

Absolute TSR performance (1/3rd weighting)

Absolute TSR performance	% of award vesting
Equal to or above CPI +30ppts	100%
Between CPI +10ppts and CPI +30ppts	Straight-line vesting between 25% and 100%
Below CPI +10ppts	0%

EPS Growth (1/3rd weighting)

EPS Growth	% of award vesting
Equal to or above 12ppts per annum	100%
Between 5ppts and 12ppts per annum	Straight-line vesting between 25% and 100%
Below 5ppts per annum	0%

Performance will be measured over three years from date of grant (i.e. from 31 March 2018 to 31 March 2021) using share prices averaged over the previous month, for both the start and end of the performance period. In the case of EPS Growth, performance will be measured from FY18 to FY21. Vested shares will be subject to an additional two-year holding period.

Pension arrangements (audited)

The Company does not operate a defined benefit pension scheme. Pension contributions/cash allowances for the Executive Directors are set out in the policy table on page 82 of this Report.

Executive share option schemes ("the Option Schemes") (audited)

Nick Jefferies currently holds vested share options under an approved executive share option scheme, know as the Acal plc 2010 Company Share Option Plan. Movements in the Executive Directors' holdings of options under the Option Schemes during the year under review are shown below.

	Number held at 31.03.18	Movements during the year				Number held at 31.03.17[1]	Gain on vesting date £000[2]	When exercisable
		Granted	Vested	Exercised	Lapsed			
Nick Jefferies	18,819	—	—	—	—	18,819	7	Sep 2013 to Sep 2020
Simon Gibbins	—	—	—	—	—	—	n/a	n/a

1 The number of shares granted under the plan was adjusted in 2014 for the Company's rights issue. Adjustments were calculated using the recommended HMRC formula

2 These shares, which are in the form of executive share options, vested on 1 September 2013 at a share price of 182.98p and became exercisable from that date. The share price on grant was 148.00p, producing a gain of £6,583 on the vesting date (the exercise price was £nil)

No Director exercised any executive share options during the year under review, or in the prior year.

DIRECTORS' REMUNERATION REPORT

Movements of shares under the 2008 long term incentive plan and the 2008 renewed long term incentive plan ("the LTIPs")

Movements in the Executive Directors' holdings of nil-cost options under the LTIPs during the year are shown below. The performance criteria for the LTIPs are set out in the policy table on page 83. The figures below include adjustments made to holdings during the year ended 31 March 2015 for the Company's rights issue in June 2014.

	Number held at 31.03.18	Movements during the year: Granted	Vested	Exercised	Lapsed	Number held at 31.03.17	Vested but not exercised	Share value at 31.03.18 £	When exercisable
Nick Jefferies	–	–	–	804,587[1]	–	804,587	–	–	
	340,105(v)[2]	–	–	–	–	340,105	340,105	1,411,436	Mar 2013 to Mar 2020
	264,593(v)[3]	–	–	–	–	264,593	264,593	1,098,061	Mar 2015 to Mar 2022
	233,696(v)[4]	–	–	–	–	233,696	233,696	969,838	Mar 2016 to Mar 2023
	245,192(v)[5]	–	245,192	–	–	245,192	245,192	1,017,547	Mar 2020 to Mar 2025
	223,567(nv)	–	–	–	–	223,567	–	927,803	Mar 2021 to Mar 2026
	242,788(nv)	–	–	–	–	242,788	–	1,007,570	Mar 2022 to Mar 2027
	163,371(nv)	163,371	–	–	–	–	–	677,990	Mar 2023 to Mar 2028
Simon Gibbins	192,431(v)[6]	–	–	–	–	192,431	192,431	798,589	Jul 2013 to Jul 2020
	122,638(v)[7]	–	–	–	–	122,638	122,638	508,948	Mar 2015 to Mar 2022
	108,318(v)[8]	–	–	–	–	108,318	108,318	449,520	Mar 2016 to Mar 2023
	120,192(v)[9]	–	120,192	–	–	120,192	120,192	498,797	Mar 2020 to Mar 2025
	98,437(nv)	–	–	–	–	98,437	–	408,514	Mar 2021 to Mar 2026
	106,900 (nv)	–	–	–	–	106,900	–	443,635	Mar 2022 to Mar 2027
	83,255 (nv)[10]	83,255	–	–	–	–	–	345,508	Mar 2023 to Mar 2028

(v)= vested; (nv) = non-vested (l) = lapsed

1 On 9 February 2018, Nick Jefferies exercised in full his options over 804,587 shares granted on 31 March 2009. After settlement of the PAYE liability which arose as a result of the exercise, Nick Jefferies acquired 426,431 shares in the Company

2 The award, in the form of a nil-cost option, initially over 269,230 shares in the Company, was made to Nick Jefferies on 31 March 2010. The performance conditions attached to the award, when measured on the basis of an analysis produced by JP Morgan Cazenove, resulted in 236,759 options vesting on 31 March 2013 and 24,109 options vesting on 1 September 2013, of which 13,678 (18,819 adjusted) are held under the 2010 Company Share Option Plan (see "Executive share option schemes ("the Option Schemes")" on page 93). The options were adjusted to 340,105 as reported above

3 The award, in the form of a nil-cost option over 264,593 shares (as adjusted) in the Company, was made to Nick Jefferies on 28 March 2012. The performance conditions attached to the award, when measured on the basis of an analysis produced by Orient Capital Limited, resulted in 100% vesting on 28 March 2015

4 The award, in the form of a nil-cost option over 233,696 shares (as adjusted) in the Company, was made to Nick Jefferies on 31 March 2013. The performance conditions attached to the award, when measured on the basis of an analysis produced by Orient Capital Limited, resulted in 100% vesting on 28 March 2016

5 The award, in the form of a nil-cost option over 245,192 shares in the Company was made to Nick Jefferies on 31 March 2015. The performance conditions attached to the award, when measured on the basis of an analysis provided by Orient Capital Limited, resulted in 100% vesting on 31 March 2018

6 Simon Gibbins holds a nil-cost option over 192,431 shares (as adjusted) in the Company, which vested and became exercisable on 20 July 2013

7 The award, in the form of a nil-cost option over 122,638 shares (as adjusted) in the Company, was made to Simon Gibbins on 28 March 2012. The performance conditions attached to the award, when measured on the basis of an analysis produced by Orient Capital Limited, resulted in 100% vesting on 28 March 2015

8 The award, in the form of a nil-cost option over 108,318 shares in the Company, was made to Simon Gibbins on 31 March 2013. The performance conditions attached to the award, when measured on the basis of an analysis produced by Orient Capital Limited, resulted in 100% vesting on 28 March 2016

9 The award, in the form of a nil-cost option over 120,192 shares in the Company was made to Simon Gibbins on 31 March 2015. The performance conditions attached to the award, when measured on the basis of an analysis produced by Orient Capital Limited, resulted in 100% vesting on 31 March 2018

10 An additional award of 13,916 shares was made on 29 March 2018 such that Simon Gibbins is in a net neutral position after tax, assuming unchanged tax rates, as a result of his agreement to take on the Company's liability to Employer's National Insurance. This is in addition to the 83,255 shares set out above and is subject to the same vesting and exercise conditions

Directors' interests (audited)

The interests of the Directors, who held office as at 31 March 2018 (including family interests) in ordinary shares (fully paid, 5p) of the Company, were as follows:

	Shares held at 31 March 2018					
	Unencumbered shares	**Nil cost options vested but not exercised**	**Shares/nil cost options vested but subject to additional holding period**	**Shares/nil cost options subject to performance conditions**	Unencumbered shares held at 31 March 2017	Value of current shareholding (% of salary)
Nick Jefferies	**504,772**	**1,083,586**	**–**	**629,726**	78,341	1,505%
Simon Gibbins	**33,275**	**543,579**	**–**	**288,592**	33,275	894%
Richard Brooman	**10,272**	**–**	**–**	**–**	10,272	
Henrietta Marsh	**12,272**	**–**	**–**	**–**	12,272	
Tracey Graham	**6,949**	**–**	**–**	**–**	6,818	
Malcolm Diamond	**14,545**	**–**	**–**	**–**	14,545	
Bruce Thompson	**8,000**	**–**	**–**	**–**	–	

The interests of the Directors in the shares of the Company at 5 June 2018 are unchanged from those at 31 March 2018. The values of current shareholdings for Nick Jefferies and Simon Gibbins have been valued using the share price as at 31 March 2018 of 415p. Executive Directors are required to build up/maintain a shareholding of at least 200% of salary, including LTIP shares where performance conditions no longer apply, within five years. Both of the Executive Directors have met the current shareholding requirements. In accordance with the proposed remuneration policy, Executive Directors will be required to build up/maintain a shareholding of at least 250% of salary within seven years. Both of the Executive Directors meet the proposed shareholding requirements. The figures for shares/nil cost options subject to performance conditions exclude the additional award to Simon Gibbins in respect of Employer's National Insurance.

Dilution

The Company's share schemes are funded through a combination of shares purchased in the market and newly-issued shares, as appropriate. The Company monitors the number of shares issued under the schemes and their impact on dilution limits.

As at 31 March 2018, approximately 4.7m shares (6.6% in the last ten years) have been, or may be, issued to settle awards made in the last ten years in connection with all share schemes and executive share schemes, respectively. The Company is committed to remaining within The Investment Association's 10% dilution limit.

Payments for loss of office (audited)

There were no payments for loss of office during the year.

Payments to past Executive Directors (audited)

There were no payments to past Executive Directors during the year.

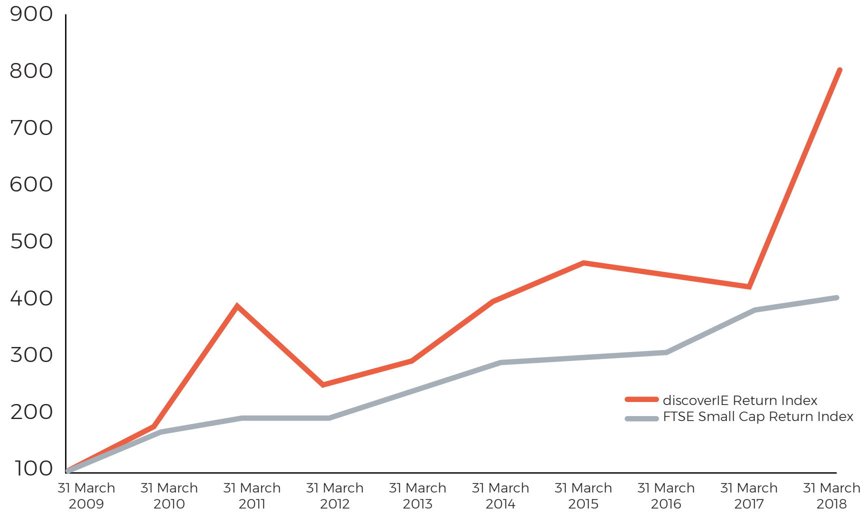
This represents the end of the audited section of the Report.

DIRECTORS' REMUNERATION REPORT

Pay for performance

The graph below shows Total Shareholder Return (TSR) in terms of change in value (with dividends deemed to be reinvested gross on the ex-dividend date) of an initial investment of £100 on 1 April 2009 between that date and 31 March 2018 in a holding of the Company's shares, compared with the corresponding TSR in a hypothetical holding of £100 invested in the FTSE Small Cap Index. This index has been chosen because it is considered to be a reasonable comparator in terms of the Company's size and its share liquidity. The accompanying table details the Group Chief Executive's single figure of remuneration and actual variable pay outcomes over the same period.

Total Shareholder Return: discoverIE vs. FTSE Small Cap Index



Note: The Company's share price was adjusted following the rights issue in June 2014.

Group Chief Executive remuneration

	2009[1]	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Single figure of total remuneration (£000)	132	289	590	1,613	999	572	1,246	1,321	665	**1,803**
Salary (£000)	70	259	280	297	320	320	330	425	429	**438**
Bonus outcome (% of maximum)	–	–	100	10	20	55	59	60	43.5	**63.7**
LTIP outcome (% of maximum)	–	–	–	94	88	9	100	100	–	**100**
Turnover (£m)	165	120	210	207	177	212	271	288	338	**387.9**
EBIT (£m)[2]	0	(2)	6	7	5	7	13	16	20	**24.5**

1 Nick Jefferies joined the Company in January 2009

2 Continuing operations

Percentage increase in the remuneration of the Group Chief Executive

The table below shows the movement in the cash remuneration for the Group Chief Executive between the year under review and the prior financial year, compared with the movement in the average remuneration (per head) for employees of the Group, at constant currency, (annualised for acquisitions in both years).

	2018 £000	2017 £000	% change
Group Chief Executive			
Salary	**437.8**	429.5	2%
Benefits	**11.0**	10.9	1%
Bonus	**278.9**	186.8	49%
Single figure total	**1,803.0**	684.2	163%
Average per UK employee			
Salary	**30.4**	28.5	7%
Benefits	**4.1**	4.6	–11%
Bonus	**2.9**	2.4	21%

Importance of the spend on pay

The table below shows the importance of the spend on pay for all employees across the globe compared with the returns distributed to Shareholders, during the year under review and the prior financial year. The information is based on like-for-like constant currency, and includes annualised prior year acquisitions.

	2018 £m	2017 £m	% change
Remuneration paid to or receivable by all employees	**76.6**	78.0	–1.8%
Distributions to Shareholders by way of dividends (net of share issues)	**6.2**	5.2	19%

DIRECTORS' REMUNERATION REPORT

Statement of implementation of the remuneration policy in the financial year ending 31 March 2019

The Company intends to, subject to Shareholder approval, implement the policy in the financial year ended 31 March 2019 in the way described in the "Remuneration at a Glance" section and policy table for the Executive Directors on pages 79 and 81 to 84.

The Remuneration Committee has approved salary increases for the Executive Directors for the year ending 31 March 2019 of 3.5%. These salary increases are in line with expected UK salary inflation and lower than the average increase across the Group, given discoverIE's operations in developing countries.

The Committee has approved performance measures for the annual bonus for the Executive Directors for the year ending 31 March 2019, 80% of which are financial measures with the remainder being individual objectives. Due to the close link between targets and the long term strategy, the bonus targets for the year ending 31 March 2019 have not been disclosed in this report due to commercial sensitivity. However, further information on these bonus targets will be disclosed in next year's annual report and accounts.

The Committee also intends to grant LTIP awards for FY19 in line with the policy, performance measures and targets for FY18.

With effect from 1 April 2018, the fees of the Non-Executive Directors, including the additional fees payable, are as follows:

As at 1 April 2018	Non-Executive Director fees p.a. £
Malcolm Diamond	£135,000 p.a.
Richard Brooman	£56,000 p.a.
Tracey Graham	£45,000 p.a.
Henrietta Marsh	£50,000 p.a.
Bruce Thompson	£45,000 p.a.

The basic fee for a Non-Executive Director is £45,000 p.a. In addition, the Committee Chair fee is £5,000 p.a. and the Senior Non-Executive Director fee is £6,000 p.a.

Advisers

During the year, the Committee received independent advice on executive remuneration from Mercer Kepler. Mercer Kepler is a signatory to the Remuneration Consultants' Code of Conduct. Other than in relation to advice on remuneration, neither Kepler (nor its parent, Mercer) provide other services to the Company. The fees paid to Kepler for advice during the year ended 31 March 2018 were £43,240.

Shareholder voting

2017 AGM resolutions	**For**[1]		**Against**		**Withheld**[2]
Approval of the Annual Report on Remuneration	51,077,881	96.66%	1,764,925	3.34%	1,811,537

2015 AGM resolutions	**For**[1]		**Against**		**Withheld**[2]
Binding vote on the remuneration policy	27,124,675	79.15%	7,144,963	20.85%	5,415,853

1 Includes votes at the Chairman's discretion

2 A vote "withheld" is not a vote in law, and is not counted in the calculation of the proportion of votes for and against the resolution

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and 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 the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group's financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and the 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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's and the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 50 to 51, confirm that, to the best of their knowledge:

- The Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Group's and the Company's auditors are unaware'; and
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and the Company's auditors are aware of that information.

Creating customised components for growing markets

In recent years the Group has added significant scale through targeted acquisitions – adding specialist skills and complementary services from leading brands, and extending our international footprint to ensure consistent global supply.

Watch our Corporate film at:
www.discoverIEplc.com

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

to the members of discoverIE Group plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- discoverIE Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2018 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated statement of financial position and the Company balance sheet as at 31 March 2018; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated and Company statements of changes in equity, and the Consolidated statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

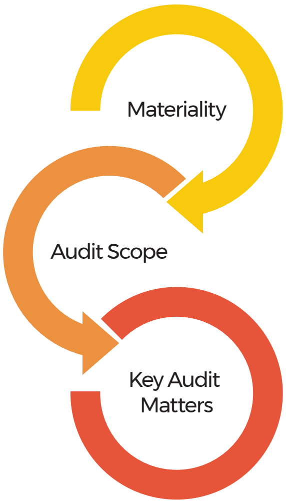
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We have provided no non-audit services to the Group or the Company in the period from 1 April 2017 to 31 March 2018.

Our audit approach

Overview



- Overall Group materiality: £1,095,000, based on 5% of underlying profit before tax.
- Overall Company materiality: £900,000, based on 1% of total assets, limited by component materiality allocation.

- 79% of Group revenue and 71% Group underlying profit before tax covered through full scope audit procedures.
- Nine country operations visited by the Group audit team during the year.

- Goodwill impairment assessment (Group).
- Inventory valuation (Group).
- Accounting for the acquisition of Santon (Group).
- Presentation of adjustments included in underlying profit before tax (Group).
- Carrying value of investments (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, UK tax legislation and equivalent local laws and regulations applicable to key component teams. Our tests included, but were not limited to, discussing compliance with internal legal counsel, examining litigation costs incurred by the Group over the financial year and auditing the disclosures that have been made on page 54 in relation to distributable reserves and recent dividends. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

INDEPENDENT AUDITOR'S REPORT

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Goodwill impairment assessment (Group) Refer to page 71 (Audit Committee Report), note 2 (Significant accounting estimates) and note 16 for the related disclosures on goodwill. The Group carried £81.9 million of goodwill at 31 March 2018 (2017: £72.6 million). The recoverability of the carrying value of goodwill is contingent on future cash flows of the underlying cash-generating units ('CGUs') and there is a risk that if these cash flows do not meet the Directors' expectations, the goodwill may be impaired. No impairment charge was recognised in the year ended 31 March 2018. We focused our assessment on the Acal BFi UK CGU, which has a goodwill carrying value of £3.3 million (2017: £3.3 million), since there was a risk that small and reasonably possible changes in key assumptions could have resulted in an impairment to Acal BFi UK.	Focusing on the Acal BFi UK business, we evaluated and challenged the Directors' future cash flow forecasts and the process by which they were drawn up, and tested the underlying value in use calculations. We compared management's forecasts with the latest Board-approved budget and found them to be reasonable. We challenged: ◻ the key assumptions for short and long term growth rates in the forecasts by comparing them with historical results, as well as economic and industry forecasts for the UK market; and ◻ the discount rate used in the calculations by assessing the cost of capital for the Group and comparable organisations, and assessed the specific risk premium applied to the Acal BFi UK CGU. We performed sensitivity analysis on the key assumptions within the cash flow forecasts. This included sensitising the discount rate applied to the future cash flows, and the short and longer term growth rates and profit margins forecast. We compared the total value in use calculated in management's goodwill models to the Group's market capitalisation of £296.4 million at 31 March 2018 to further support the assumptions within the models. We ascertained the extent to which a change in these assumptions, both individually or in aggregate, would result in a goodwill impairment, and considered the likelihood of such events occurring. We also considered the sufficiency and appropriateness of disclosures included in the Group's financial statements regarding such events. Based on the procedures described above, we were satisfied that the recoverability of the carrying value of goodwill in respect of Acal BFi UK had been appropriately assessed.

Key audit matter	How our audit addressed the key audit matter
Inventory valuation (Group) Refer to page 68 (Audit Committee Report), note 2 (Significant accounting estimates) and page 137 (note 19 Inventories). The balance of gross inventories at 31 March 2018 was £67.2 million, against which a provision of £6.6 million was held (2017: a provision of £ 7.1 million was recorded against gross inventories of £57.2 million). The valuation of the inventory provision was a focus of our audit for the following reasons: - The Group holds large quantities of inventory comprising many different types of product, often held for long periods of time, which raises the risk of inventory obsolescence; - There is uncertainty about the impact of product life cycles, the value recoverable from any excess stock, and future sales levels which require management to make assumptions based on information available at period end. - The inventory provision is calculated within the Group's accounting systems based on a manual process that considers the age of the individual items held.	We obtained an understanding of management's inventory provisioning methodology and how it is applied across the Group. We recalculated the inventory provision to ensure mathematical accuracy, and noted no material exceptions. We assessed the reasonableness of management's judgement regarding the obsolescence percentage applied and expected future sales levels by comparing these assumptions to historic write-offs and historic sales. We found the assumptions to be reasonable. We also assessed the reasonableness of the product life cycles by comparing these against historic life cycles of similar products. We noted no material exceptions.
Accounting for acquisition of Santon (Group) Refer to page 71 (Audit Committee Report), note 2 (Significant Accounting Policies) and page 129 (notes). The Group completed the acquisition of Santon, a Dutch switch manufacturer, on 1 February 2018. Accounting for the acquisition required a provisional fair value exercise, including valuing separately identifiable intangible assets. This can be a particularly judgemental process, given the range of assumptions that are adopted to determine the valuations, including the applicable discount rate used in the fair value calculations. Based on an exercise performed by management, the Directors identified £10.5 million of intangibles relating to Santon's customer relationships, patents and order book.	In order to test the components of the acquisition, we performed the following procedures: - Read technical papers prepared by management in respect of the acquisition and inspected relevant contracts and information; - Assessed the provisional fair value calculation of the assets acquired, including assessing the completeness and quantum of adjustments made by management; - Challenged the key assumptions used in the valuation model, including the discount rate and assumptions in relation to contingent consideration; - Assessed whether management's identification and valuation of other known and contingent liabilities associated with Santon was complete; and - Understood what management have done to assess the control environment of the entity and align accounting practices; Based upon the above, we are satisfied that the Directors have applied reasonable judgements in the provisional accounting for the acquisition of Santon.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Presentation of adjustments included in underlying profit before tax (Group) Refer to Audit Committee Report (page 68); Accounting policies (page 115); and note 6 of the Consolidated financial statements (page 126) £6.1 million (2017: £12.4 million) of costs incurred in the year are presented as adjustments to the Group's underlying profit before tax. These include: - £0.8 million of acquisition costs; - £4.9 million of amortisation of acquired intangibles; and - £0.4 million in respect of the Group's IAS 19 pension charge for the year The Group presented underlying performance measures on the face of its consolidated income statement. Management believes that the presentation of underlying performance measures provides investors with a means of evaluating performance of the Group on a consistent basis, similar to the way in which management evaluates performance. The determination of which items are classified as adjustments to underlying profit is subject to judgement and therefore users of the financial statements could be misled if amounts are not classified appropriately or presented consistently. We also considered the risk of one-off gains during the year not being properly identified and therefore presented inappropriately within underlying profit.	We considered the appropriateness of the adjustments made to the statutory profit before tax to derive underlying performance. In order to do this we considered: - The Group's accounting policy on exceptional and non-underlying items; - The application of IFRS, in particular IAS 1; and - European Securities and Markets Authority ("ESMA") guidelines on alternative performance measures issued on 3 July 2016. We challenged management on the appropriateness of the classification of each item, being mindful that classification should be balanced between gains and losses, the basis for the classification clearly disclosed and applied consistently from one year to the next. Having considered the nature and quantum of these items, overall we were satisfied that the presentation of adjustments to the Group's underlying profit in the financial statements for the year ended 31 March 2018 is materially appropriate.
Carrying value of investments (Company) Refer to Audit Committee Report (page 68); Accounting policies (page 115); and note 4 of the Company financial statements (page 161). The Company holds investments in its subsidiaries of £167.8 million (£177.1m 2017). We focused on this area due to the size of the investment balances and the risk of impairment arising in the Company's investment of £30.2 million in discoverIE Management Services Limited ('DMS'), the Group's service company that derives revenue from intercompany recharges. Management has performed an assessment of the recoverable amount of the investment and compared this to the carrying value using the same cash flow methodology applied in the impairment test for goodwill described above. The results showed that an impairment of £10.0 million was required and this has been recognised in the financial statements of the Company.	We obtained management's assessment of the carrying value of the investments and we challenged: - the key assumptions for short and long term growth rates in the forecast cash flows for AMS by comparing them with historical results, as well as challenging the expected growth in DMS's income arising from its recharge of costs around the Group; and - the discount rate used in the calculations by assessing the cost of capital for the Group and comparable organisations. We performed sensitivity analysis on the key assumptions within the cash flow forecasts. This included sensitising the discount rate applied to the future cash flows, and the short and longer term growth rates and operating income forecast. Following the conclusion of our procedures above, we are satisfied that the carrying value is supported after recording an impairment of £10.0 million.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The business is structured across two reported segments, Design and Manufacturing ('D&M') and Custom Supply ('CS'), operating in 23 countries.

Across the 23 countries, the Group has 57 component business operations. We performed an audit of the complete financial information of 21 of these components ("full scope components"), which were selected based on their size or risk characteristics. This covered 79% of the Group's revenue and 71% of the Group's underlying profit before tax.

We performed audit procedures on the Santon balance sheet at year end, following the Group's acquisition of this business on 1 February 2018. We instructed the Company's existing statutory auditors, a local audit firm, to conduct these audit procedures, and a review of this work was subsequently performed by a team from our Rotterdam office.

For 13 further components ("specified procedures components"), we performed tailored audit procedures to address any significant risk or balances and transactions items involving judgement and estimates.

The remaining 22 components in aggregate represent 11% of the Group's underlying profit before tax. For these components, the Group audit team performed central risk assessment analytical procedures.

In establishing our overall approach to the Group audit, we determined the nature of work that needs to be undertaken at each of the components by us, as the Group audit engagement team, or by component auditors from PwC network firms operating under our instruction. Of the 21 full scope components, audit procedures were performed on 9 components directly by the Group audit team, with component auditors performing audit procedures over the remaining 12 components. For the 13 specified procedures components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team, over the course of the year, visited those operations in the UK, Germany, France, Italy, Denmark, Norway and Sweden determined to be full scope components, as well as operations in Poland and China. The Group team held regular meetings with the full scope component audit teams, and also reviewed selected audit workpapers of each of those teams. This helped to ensure that the Group audit team was sufficiently involved in both the planning and the execution of the audit procedures in these countries.

The Group audit team also joined the audit clearance meetings for each of the full scope components.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Company financial statements**
Overall materiality	£1,095,000	£900,000
How we determined it	5% of underlying profit before tax.	1% of total assets, limited by component materiality allocation.
Rationale for benchmark applied	We believe that underlying profit before tax provides a consistent year on year basis for determining materiality and is the most relevant performance measure to the key stakeholders of the Group.	We believe that total assets is the most appropriate measure to assess a holding Company, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £50,000 and £900,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audits above £50,000 as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITOR'S REPORT

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report, Directors' report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report (on pages 58 to 67) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report (on pages 58 to 67) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 36 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 37 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 97, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 68 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

INDEPENDENT AUDITOR'S REPORT

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 97, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 13 September 2017 to audit the financial statements for the year ended 31 March 2018 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Richard Porter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 June 2018

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2018

	Notes	2018 £m	2017 £m
Revenue	4	**387.9**	338.2
Cost of sales		**(261.2)**	(227.2)
Gross profit		**126.7**	111.0
Selling and distribution costs		**(54.5)**	(49.4)
Administrative expenses (including underlying adjustments)		**(53.7)**	(53.9)
Operating profit	7	**18.5**	7.7
Finance income	9	**0.4**	0.2
Finance costs	9	**(3.1)**	(3.1)
Profit before tax		**15.8**	4.8
Tax expense	10	**(4.0)**	(1.3)
Profit for the year		**11.8**	3.5
Earnings per share	13		
Basic		**16.7p**	5.3p
Diluted		**15.8p**	5.1p

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Underlying Performance Measures			2018 £m	2017 £m
Operating profit		7	**18.5**	7.7
Add back:	Exceptional items	6	**–**	6.4
	Acquisition costs	6	**0.8**	1.7
	Amortisation of acquired intangible assets	17	**4.9**	3.9
	IAS 19 pension administrative charge	32	**0.3**	0.3
Underlying operating profit			**24.5**	20.0
Profit before tax			**15.8**	4.8
Add back:	Exceptional items	6	**–**	6.4
	Acquisition costs	6	**0.8**	1.7
	Amortisation of acquired intangible assets	17	**4.9**	3.9
	Total IAS 19 pension charge	32	**0.4**	0.4
Underlying profit before tax			**21.9**	17.2
Underlying earnings per share		13		
Basic			**23.4p**	20.0p
Diluted			**22.3p**	19.2p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2018

	Notes	2018 £m	2017 £m
Profit for the year		**11.8**	3.5
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit pension scheme	32	**2.1**	(2.0)
Deferred tax (charge)/credit relating to defined benefit pension scheme	10	**(0.3)**	0.3
		1.8	(1.7)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign subsidiaries		**(3.5)**	11.4
		(3.5)	11.4
Other comprehensive (loss)/income for the year, net of tax		**(1.7)**	9.7
Total comprehensive income for the year, net of tax		**10.1**	13.2

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 March 2018

	Notes	**2018 £m**	2017 £m
Non-current assets			
Property, plant and equipment	14	**23.4**	16.0
Intangible assets – goodwill	15	**81.9**	72.6
Intangible assets – other	17	**33.1**	28.1
Deferred tax assets	10	**5.8**	5.5
		144.2	122.2
Current assets			
Inventories	19	**60.6**	50.1
Trade and other receivables	20	**82.4**	77.3
Current tax assets		**1.3**	–
Cash and cash equivalents[2]	21	**21.9**	21.0
		166.2	148.4
Total assets		**310.4**	270.6
Current liabilities			
Trade and other payables[1]	28	**(81.2)**	(72.3)
Other financial liabilities	22	**(6.4)**	(1.0)
Current tax liabilities		**(4.9)**	(2.6)
Provisions[1]	25	**(0.9)**	(2.2)
		(93.4)	(78.1)
Non-current liabilities			
Trade and other payables[1]	28	**(6.2)**	(3.3)
Other financial liabilities	22	**(67.9)**	(50.0)
Pension liability	32	**(3.0)**	(6.4)
Provisions[1]	25	**(2.8)**	(2.5)
Deferred tax liabilities	10	**(7.8)**	(6.5)
		(87.7)	(68.7)
Total liabilities		**(181.1)**	(146.8)
Net assets		**129.3**	123.8
Equity			
Share capital	29	**3.6**	3.5
Share premium[3]		**106.9**	106.0
Merger reserve[3]		**2.9**	2.9
Currency translation reserve		**3.5**	7.0
Retained earnings[3]		**12.4**	4.4
Total equity		**129.3**	123.8

These financial statements were approved by the Board of Directors on 5 June 2018 and signed on its behalf by:

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director

Prior Year (2017) reclassifications

1 Contingent consideration payable relating to acquisitions has been reclassified from provisions to trade and other payables

2 £1.2m of debt costs have been reclassified from cash and cash equivalents to other financial liabilities (£0.3m in current liabilities and £0.9m in non-current liabilities)

3 Refer to the consolidated statement of changes in equity for reclassification changes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2018

	Attributable to equity holders of the Company					
	Share capital £m	Share premium £m	Merger reserve £m	Currency translation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2016	**3.2**	**95.6**	**3.0**	**(4.4)**	**4.5**	**101.9**
Profit for the year	–	–	–	–	3.5	3.5
Other comprehensive income	–	–	–	11.4	(1.7)	9.7
Total comprehensive income	**–**	**–**	**–**	**11.4**	**1.8**	**13.2**
Transfers (to)/from merger reserve[1]	–	(2.9)	(0.1)	–	3.0	–
Shares issued	0.3	13.3	–	–	–	13.6
Share-based payments including tax	–	–	–	–	0.3	0.3
Dividends (note 12)	–	–	–	–	(5.2)	(5.2)
At 31 March 2017	**3.5**	**106.0**	**2.9**	**7.0**	**4.4**	**123.8**
Profit for the year	–	–	–	–	11.8	11.8
Other comprehensive loss	–	–	–	(3.5)	1.8	(1.7)
Total comprehensive income	**–**	**–**	**–**	**(3.5)**	**13.6**	**10.1**
Shares issued (note 29)	0.1	0.9	–	–	–	1.0
Notional repurchase of share options (note 31)	–	–	–	–	(1.5)	(1.5)
Share-based payments including tax	–	–	–	–	2.1	2.1
Dividends (note 12)	–	–	–	–	(6.2)	(6.2)
At 31 March 2018	**3.6**	**106.9**	**2.9**	**3.5**	**12.4**	**129.3**

On 1 February 2018, the Company issued 223,648 shares ("Consideration Shares") to the Shareholders of EWAC Holding B.V. in connection with the acquisition of Santon. The fair value of the shares issued was £0.9m. The difference between the nominal value of the shares issued and the gross proceeds was credited to the share premium account.

The new shares issued rank pari-passu in all respects with the existing shares issued, including the right to receive all dividends and other distributions declared, made or paid on the existing Ordinary shares.

Prior year (2017) reclassification

1 £3.0m has been transferred from the merger reserve to the profit and loss account as the business acquisition that gave rise to the merger relief has been sold subsequently and therefore qualifies for transfer to the profit and loss account.

£2.9m has been transferred from share premium to the merger reserve, this amount reflects the share consideration in relation to the acquisition of Contour Holdings Limited in the year ended 31 March 2016. The fair value of shares issued over and above the par value qualifies for merger relief under section 612 of the Companies Act 2006.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2018

	Notes	2018 £m	2017 £m
Net cash flow from operating activities	24	**15.0**	14.5
Investing activities			
Acquisition of shares in subsidiaries (net of cash/(debt) acquired)	11	**(24.6)**	(11.6)
Acquisition related contingent consideration		**(0.8)**	(0.3)
Purchase of property, plant and equipment		**(3.7)**	(2.8)
Purchase of intangible assets – software		**(0.6)**	(0.6)
Proceeds from disposal of property, plant and equipment		**–**	0.1
Interest received	9	**0.4**	0.2
Net cash used in investing activities		**(29.3)**	(15.0)
Financing activities			
Net proceeds from the issue of shares		**–**	13.6
Proceeds from borrowings	23	**20.4**	–
Repayment of borrowings	23	**(1.5)**	(9.2)
Dividends paid	12	**(6.2)**	(5.2)
Notional repurchase of share options	31	**(1.5)**	–
Net cash generated from/(used in) financing activities		**11.2**	(0.8)
Net decrease in cash and cash equivalents[1]		**(3.1)**	(1.3)
Cash and cash equivalents at 1 April		**19.8**	18.0
Effect of exchange rate fluctuations		**(0.5)**	3.1
Cash and cash equivalents at 31 March		**16.2**	19.8
Reconciliation to cash and cash equivalents in the consolidated statement of financial position			
Net cash and cash equivalents shown above		**16.2**	19.8
Add back: bank overdrafts	22	**5.7**	1.2
Cash and cash equivalents presented in current assets in the consolidated statement of financial position	21	**21.9**	21.0

1 Further information on the consolidated statement of cash flows is provided in notes 23 and 24.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

1. Authorisation of financial statements and statement of compliance with IFRS

The financial statements, which comprise the results of discoverIE Group plc ('the Company') and its subsidiaries (collectively referred to as "the Group"), for the year ended 31 March 2018 were authorised for issue by the Board of Directors on 5 June 2018. discoverIE Group plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006.

The significant accounting policies adopted by the Group are set out in note 2.

2. Accounting policies

Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted for use in the European Union.

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand except as otherwise indicated.

Basis of consolidation

The Group's financial statements consolidate the results of discoverIE Group plc, entities controlled by the Company (its subsidiaries) and include the Group's share of the results of its associates.

Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries at 31 March 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Associates

An associate is an undertaking in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power and the ability to participate in financial and operating policy decisions, but not to execute control or joint control of those decisions.

discoverIE's investments in its associates are accounted for under the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate, less distributions received and less any impairment in value.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

2. Accounting policies continued

Going concern

The Group's business activities, together with factors which may adversely impact its future development, performance and position, are set out in the Strategic Report on pages 2 to 46. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review section of the Strategic Report on pages 30 to 35.

The Group has significant financial resources, well established distribution contracts with a number of suppliers broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its principal risks and uncertainties as disclosed on pages 38 to 41 of the Strategic Report.

The Group's forecasts and projections, taking account of the sensitivity analysis of changes in trading performance, show that the Group is well placed to operate within the level of its current committed facilities for the foreseeable future.

After making due enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Underlying profits and earnings

These financial statements include alternative performance measures that are not prepared in accordance with IFRS. These alternative performance measures have been selected by management to assist them in making operating decisions because they represent the underlying operating performance of the Group and facilitate internal comparisons of performance over time.

Alternative performance measures are presented in these financial statements as management believe they provide investors with a means of evaluating performance of the Group on a consistent basis, similar to the way in which management evaluates performance, that is not otherwise apparent on an IFRS basis, given that certain strategic non-recurring, infrequent or non-cash items that management does not believe are indicative of the underlying operating performance of the Group are included when preparing financial measures under IFRS. The Directors consider there to be the following alternative performance measures:

Underlying operating profit

"Underlying operating profit" is defined as operating profit excluding acquisition costs, exceptional items, amortisation of acquired intangible assets and the IAS19 pension administration charge relating to the Group's legacy defined benefit pension scheme.

Acquisition costs comprise all attributable costs in connection with business acquisitions and related integration into the Group, they include contingent consideration where it is treated as an expense and movement in contingent consideration where it is treated as purchase price.

Underlying EBITDA

"Underlying EBITDA" is defined as underlying operating profit with depreciation, amortisation and equity settled share-based payment expense added back.

Underlying profit before tax

"Underlying profit before tax" is defined as profit before tax excluding acquisition costs, exceptional items, amortisation of acquired intangible assets and the total IAS19 pension charge relating to the Group's legacy defined benefit pension scheme.

Underlying effective tax rate

"Underlying effective tax rate" is defined as the effective tax rate on underlying profit before tax.

Underlying earnings per share

"Underlying earnings per share" is calculated as underlying profit before tax reduced by the underlying effective tax rate, divided by the weighted average number of ordinary shares (for diluted earnings per share purposes) in issue during the period.

Operational cash flow

"Operational cash flow" is defined as Underlying EBITDA adjusted for the investment in, or release of, working capital and less the cash cost of capital expenditure.

2. Accounting policies continued

Free cash flow

"Free cash flow" is defined as net cash flow before exceptional items, payments to the legacy defined benefit pension scheme, dividend payments, net proceeds from equity fund raising, the cost of acquisitions and proceeds from business disposals.

Return On Capital Employed ("ROCE")

"ROCE" is defined as underlying operating profit as a percentage of net assets (including goodwill) plus net debt.

Organic basis

Reference to 'organic' basis included in the Chairman's statement, Operating Review and Finance Review of the Strategic Report means at constant exchange rates ("CER"), including the equivalent pre-acquisition period of Variohm, which was acquired last year, and excluding the sales of Acal BFi Spain, which was closed in December 2016, and Santon, which was acquired on 1 February 2018.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 'Financial instruments: Recognition and Measurement' either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements, are accounted for separately from the business combination in accordance with their nature and applicable IFRS. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably.

If the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in the consolidated income statement.

After 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 business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and shall not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed of operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

2. Accounting policies continued

Intangible assets – other

All intangible assets, excluding goodwill arising on a business combination, are stated at their amortised cost or fair value less any provision for impairment.

(a) Software

The implementation costs of IT systems, and computer software, are amortised on a straight-line basis over their estimated useful lives which vary from three to ten years depending on the type of software and associated licensing and maintenance arrangements.

(b) Acquired intangible assets – business combinations

Intangible assets that are acquired as a result of a business combination include customer and supplier relationships and brands that can be separately identified and measured at fair value on a reliable basis, together with the associated deferred tax liability. Amortisation is charged to the consolidated income statement on a straight line basis over the expected useful economic lives as follows.

Customer and supplier relationships	5–10 years
Patents	Patent term
Brands	5 years

(c) Intangible assets – research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's development activities is capitalised only if all of the following conditions are met: (a) an asset is created that can be identified (such as software, new processes and product development costs); (b) it is probable that the asset created will generate future economic benefits; and (c) the development cost of the asset can be measured reliably. Internally generated intangible assets are amortised on a straight-line basis over their useful lives between 5 and 10 years. Where no internally generated intangible asset can be capitalised, development expenditure is recognised as an expense in the period in which it is incurred.

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on a straight-line basis to write off the cost, less residual value, over the estimated useful life at the following rates:

Land and buildings:	Freehold property	2–4% per annum
	Leasehold buildings	Shorter of lease term or useful life
	Land is not depreciated	
Leasehold improvements		10–20% per annum or over the life of the lease
Plant and equipment		5-33% per annum

Property, plant and equipment is reviewed for impairment in accordance with IAS 36 'Impairment', when there are events or changes in circumstances that indicate that the carrying value may not be recoverable.

Impairment of assets

At each reporting date, the Group reviews the carrying value of its assets to determine whether there is any indication that the assets are impaired. If any such indication exists, or when annual impairment testing for an asset is required, such as in the case of goodwill, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value, less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount and an impairment loss is immediately recognised as an expense.

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 an indication exists, an impairment loss is reversed to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversals are recognised in the consolidated income statement. Any impairment charge on goodwill is not reversed.

2. Accounting policies continued

Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are presented in trade and other receivables in the consolidated statement of financial position.

Financial assets are assessed for impairment in accordance with IAS 39 'Financial instruments: Recognition and Measurement', when there are events or changes in circumstances that indicate that the carrying value may not be recoverable.

Inventories

Inventories comprise goods held for resale and work in progress and are stated at the lower of cost and net realisable value after making allowance for any obsolete or slow moving items. Cost comprises direct materials, inward carriage and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. The decision to make a provision for doubtful debts is determined by using profiles, based on past practice in addition to assessment of the credit worthiness of each customer and related aging of overdue balances. Bad debts are written off when identified. Invoice discounting and similar non-recourse arrangements are shown as borrowing and not netted off against receivables.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and cash equivalents as defined above, net of outstanding bank overdrafts to the extent that offsetting agreements are in place

Borrowings

Borrowings are initially recognised at fair value net of any associated issue costs. Borrowings are subsequently recorded at amortised cost, with any difference between the amount initially recorded and the redemption value recognised in the consolidated income statement using the effective interest rate method.

Provisions

Provisions for warranties, onerous contracts, retirement benefits and restructuring costs are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. In relation to the provision for onerous contracts, an assessment is made for impairment of any related assets.

Provisions are discounted to present value when the effect is material using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost.

Exceptional items

The Group discloses exceptional items by virtue of their nature, size or incidence so as to allow a better understanding of the underlying trading performance of the Group. The Group includes, where material, the profit or loss on disposal of property, investments or businesses and other financial assets, asset impairments and significant restructuring costs in exceptional items.

Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date and gains or losses on translation are included in the consolidated income statement.

Currency gains and losses arising from the retranslation of the opening net assets of foreign operations are recorded as a movement on reserves, net of tax. The differences that arise from translating the results of overseas businesses at average rates of exchange, and their assets and liabilities at closing rates, are dealt with in a separate currency translation reserve. All other currency gains and losses are dealt within in the consolidated income statement.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

2. Accounting policies continued

Revenue recognition

Revenue represents the invoiced value of goods, commission and other services provided to third parties, after deducting discounts, VAT and similar taxes levied overseas. 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. In particular:

- Revenue from the sale of products is recognised upon transfer to the customer of the significant risks and rewards of ownership. This is generally when goods are dispatched to customers;
- Revenue from the rendering of services, which primarily comprise maintenance and outsourcing contracts, is recognised over the life of the contract reflecting performance of the contractual obligations to the customer;
- Interest income is recognised as the interest accrues, using the effective interest method;
- Dividend income is recognised when the Shareholders' right to receive the payment is established.

Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

Dividends

Dividends are recognised when they meet the criteria for recognition as a liability. In relation to final dividends, this is when the dividend is approved by the Shareholders in the general meeting, and in relation to interim dividends, when paid.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group has not entered into any material finance leases.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, in accordance with the effective interest rate method.

Pensions

Payments to defined contribution pension schemes are charged as an expense as they fall due.

In respect of defined benefit pension schemes, the obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation, reduced by the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur in the consolidated statement of comprehensive income. Net interest costs are included in finance costs and pension administration costs are included in administration expenses.

Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, calculated using an option pricing model, and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. In valuing equity-settled transactions, no account is taken of non-market vesting conditions.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and hence the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognised in the consolidated income statement, with a corresponding entry in equity.

2. Accounting policies continued

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the reporting date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the consolidated income statement.

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities. It principally employs forward foreign exchange contracts to hedge the risks associated with foreign currency fluctuations relating to certain firm commitments and highly probable forecast transactions. Certain derivative financial instruments are designated as hedging instruments in line with the Group's risk management policies. Hedges of foreign currency exposure on firm commitments and highly probable forecast transactions are accounted for as a cash flow hedge. The Group does not enter into speculative derivative contracts.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. All derivative financial instruments are initially recognised in the statement of financial position at fair value and are subsequently re-measured to their fair value at each reporting date. The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

Hedge accounting – cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the years when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

2. Accounting policies continued

Significant accounting judgements and estimates

Estimation uncertainty

Key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The most significant areas in which assumptions are made and estimates used are in determining:

Goodwill impairment

The Group tests annually whether goodwill is impaired in accordance with its accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates of future cash flows and the selection of suitable discount rates (note 16).

Contingent consideration

The amounts recognised for contingent consideration in relation to business combinations are the Directors' best estimates of the actual amounts which will be payable based on the forecast performance of the acquired businesses. Note 11 provides details of contingent considerations arising from business combinations.

Fair value of assets acquired in a business combination

Judgements and estimates are required in assessment of fair value of the consideration and net assets acquired, including the identification and valuation of intangible assets. Note 11 provides details on business combinations.

Retirement benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net expense for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations. The actuarial assumptions used in determining the carrying amount at 31 March 2018 are set out in note 32.

Current assets

In the course of normal trading activities, judgement is used to establish the carrying value of various elements of working capital, principally inventory and trade receivables. Provisions are made against obsolete or slow-moving inventories and doubtful debts. The provisions are based on the facts available at the time the financial statements are approved and are also determined by using profiles, based on past practice, applied to certain aged inventory and trade receivables categories.

3. New accounting standards and financial reporting requirements

New standards and interpretations not applied

The following standards and interpretations, which have been issued by the IASB, become effective after the current year end and have not been early adopted by the Group:

International Accounting Standards (IAS/IFRS/IFRIC)		Effective date[1]
IFRS 9	Financial Instruments: Classification and measurement	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

1 Period beginning on or after

IFRS 15, 'Revenue from contracts' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The Group has completed an initial assessment of the impact and, based upon the work undertaken to date, it is not expected to have a material impact on the Group's financial statements. This reflects the relatively non-complex and largely standardised terms and conditions applicable to the Group's revenue contracts.

3. New accounting standards and financial reporting requirements continued

IFRS 16, 'Leases' will require lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Under IAS 17, lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). The IASB has included an optional exemption for certain short term leases and leases of low value assets; however, this exemption can only be applied by lessees. The standard is effective for annual periods beginning on or after 1 January 2019. The Group will complete its IFRS 16 implementation work over the next six months. The Group does not intend to early adopt IFRS 16, having already undertaken a preliminary review. The new standard will result in most of the Group's current operating leases (as defined under IAS 17) being recognised on balance sheet. As at the reporting date, the Group had non-cancellable operating lease commitments of £15.8m (as shown in note 30). The Group does not intend to restate prior year comparators when the new standard is adopted, with lease asset values being set equal to lease liabilities at the date of transition in line with the 'simplified approach' under IFRS 16. The adoption of IFRS16 is expected to have a significant impact to the Group's financial statements.

IFRS 9, 'Financial Instruments' includes requirements for classification and measurement, impairment and hedge accounting. It replaces the classification and measurement models for financial instruments in IAS 39 with three classification categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The standard will become effective for periods ending on or after 1 January 2018, subject to EU endorsement. The Group is in the process of assessing the impact of IFRS 9 with the main areas of consideration being the impairment of accounts receivables and refinancing transactions. Due to the non-complex nature of the Group's financial instruments, the impact of IFRS 9 is not expected to have a material impact on the Group's financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting periods.

4. Revenue

Group revenue is analysed below:

	2018 £m	2017 £m
Sale of goods	**381.4**	332.9
Rendering of services	**6.5**	5.3
Total revenue	**387.9**	338.2

5. Operating segment information

The Group organises its businesses into two divisions, Design & Manufacturing and Custom Supply.

- The Design & Manufacturing division manufactures custom electronic products that are uniquely designed or modified from a standard product for a specific customer requirement. The products are manufactured at one of our in-house manufacturing facilities or, in some cases, by third party contractors.
- The Custom Supply division provides technically demanding, customised electronic, photonic and medical products to the industrial, medical and healthcare markets, both from a range of high-quality, international suppliers (often on an exclusive basis) and from discoverIE's Design & Manufacturing division.

These two divisions have been assessed as the reportable operating segments of the Group. Within each reportable operating segment are aggregated businesses units with similar characteristics such as the method of acquiring products for sale (manufacturing versus distribution), the nature of customers and products, risk profile and economic characteristics.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is reported and evaluated based on operating profit or loss earned by each segment without allocation of central administration costs including directors' salaries, investment revenue and finance costs, and income tax expense.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

5. Operating segment information continued

Segment revenue and results

2018	**Design & Manufacturing £m**	**Custom Supply £m**	**Unallocated £m**	**Total £m**
Revenue	**222.6**	**165.3**	**–**	**387.9**
Result				
Underlying operating profit/(loss)	**24.2**	**7.5**	**(7.2)**	**24.5**
Acquisition costs	**(0.8)**	**–**	**–**	**(0.8)**
Amortisation of acquired intangible assets	**(4.9)**	**–**	**–**	**(4.9)**
IAS 19 pension charge	**–**	**–**	**(0.3)**	**(0.3)**
Operating profit/(loss)	**18.5**	**7.5**	**(7.5)**	**18.5**

2017	Design & Manufacturing £m	Custom Supply £m	Unallocated £m	Total £m
Revenue	175.6	162.6	–	338.2
Result				
Underlying operating profit/(loss)	20.2	5.2	(5.4)	20.0
Exceptional items	(1.6)	(4.8)	–	(6.4)
Acquisition costs	(1.7)	–	–	(1.7)
Amortisation of acquired intangible assets	(3.9)	–	–	(3.9)
IAS 19 pension charge	–	–	(0.3)	(0.3)
Operating profit/(loss)	13.0	0.4	(5.7)	7.7

Segment assets and liabilities

2018 **Assets and liabilities**	**Design & Manufacturing £m**	**Custom Supply £m**	**Total £m**
Segment assets (excluding goodwill and other intangible assets)	**117.1**	**48.1**	**165.2**
Goodwill and other intangible assets	**105.4**	**9.2**	**114.6**
	222.5	**57.3**	**279.8**
Central assets			**1.6**
Cash and cash equivalents			**21.9**
Current and deferred tax assets			**7.1**
Total assets			**310.4**
Segment liabilities	**(53.0)**	**(30.5)**	**(83.5)**
Central liabilities			**(7.6)**
Other financial liabilities			**(74.3)**
Pension liability			**(3.0)**
Current and deferred tax liabilities			**(12.7)**
Total liabilities			**(181.1)**
Net assets			**129.3**

5. Operating segment information continued

2017 Assets and liabilities	Design & Manufacturing £m	Custom Supply £m	Total £m
Segment assets (excluding goodwill and other intangible assets)	88.7	53.6	142.3
Goodwill and other intangible assets	91.0	9.0	100.0
	179.7	62.6	242.3
Central assets			1.8
Cash and cash equivalents			21.0
Deferred tax assets			5.5
Total assets			270.6
Segment liabilities	(40.5)	(35.9)	(76.4)
Central liabilities			(3.9)
Other financial liabilities			(51.0)
Pension liability			(6.4)
Current and deferred tax liabilities			(9.1)
Total liabilities			(146.8)
Net assets			123.8

For the purposes of monitoring segment performance and allocating resources between segments, the Directors monitor the net assets attributable to each segment. Assets and liabilities are allocated to reportable segments, with the exception of the pension liability, tax assets and liabilities, cash and all borrowings, central assets (ERP and other Head Office assets) and central liabilities (Head Office liabilities).

Other segment information

	Depreciation and amortisation[1]		Additions to non-current assets[1]	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m
Design & Manufacturing	**8.2**	6.8	**32.2**	13.6
Custom Supply	**0.5**	0.5	**0.5**	0.4
Central	**0.3**	0.3	**–**	–
	9.0	7.6	**32.7**	14.0

1 Includes goodwill, acquired intangibles and related amortisation.

Geographical information

The Group's revenue from external customers based on customer locations and information about its segment assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2018 **£m**	2017 £m	**2018** **£m**	2017 £m
UK	**61.5**	58.3	**29.1**	30.6
Europe	**252.0**	225.4	**107.7**	83.9
Rest of the World	**74.4**	54.5	**7.4**	7.7
	387.9	338.2	**144.2**	122.2

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for the year ended 31 March 2018

6. Underlying profit before tax

			2018 £m	2017 £m
Profit before tax			**15.8**	4.8
Add back:	Exceptional Items	a.	**–**	6.4
	Acquisition Costs	b.	**0.8**	1.7
	Amortisation of acquired intangible assets	c.	**4.9**	3.9
	Total IAS 19 pension charge	d.	**0.4**	0.4
Underlying profit before tax			**21.9**	17.2

The tax impact of the underlying profit adjustments above is a credit of £1.3m (2017: £2.8m).

a. In the prior year, restructuring costs relating to Acal BFi totalling £4.8m, included the closure of the Spanish business, management headcount reduction and integration of the purchasing department. Restructuring in the Noratel Group totalling £1.6m included closure of three smaller Noratel production sites, with the production being transferred to other existing production facilities.

b. In the year, there were £1.2m acquisition costs relating primarily to the acquisition of Santon, and £0.3m of acquisition integration cost relating to the manufacturing integration between the Plitron and Noratel business. These costs are partially offset by a £0.7m net credit adjustment to contingent consideration for acquired businesses.

   In the prior year, £0.3m costs were incurred in relation to the acquisition of Variohm. A £0.9m charge was provided for contingent consideration relating to the acquisitions of the Noratel Group, Foss and Contour. £0.5m relates to acquisition related integration in Flux.

c. Amortisation charge for intangible assets recognised on acquisition (see note 17).

d. Pension costs related to the Group's legacy defined benefit pension scheme (see note 32).

7. Operating profit

Amounts charged to the consolidated income statement are as follows:

	2018 £m	2017 £m
Employee costs (note 8)	**78.9**	73.5
Depreciation of property, plant and equipment (note 14)	**3.5**	3.0
Amortisation of other intangible assets (note 17)	**5.5**	4.6
Net foreign exchange differences	**0.9**	0.2
Inventories (amounts included in cost of sales):		
Cost of inventories	**260.8**	225.7
Write-down of inventories to net realisable value	**1.1**	1.2
Operating lease rentals:		
Minimum lease payments recognised as an operating lease expense	**6.0**	5.3
Auditors' remuneration:		
Audit of the Group financial statements (including parent company)	**0.2**	0.2
Audit of local subsidiary financial statements	**0.5**	0.4

8. Employee costs and Directors' emoluments

	2018 £m	2017 £m
Wages and salaries	**64.4**	60.6
Social security costs	**10.9**	9.9
Other pension costs	**2.9**	2.4
Share-based payments (note 31)	**0.7**	0.6
	78.9	73.5

The average monthly number of employees (including Executive Directors) during the year was as follows:

	2018 Number	2017 Number
Sales and marketing	**591**	592
Manufacturing and service	**2941**	2,727
Administration	**454**	400
	3,986	3,719

At 31 March 2018 the Group had 4,061 employees (2017: 3,757).

Directors' emoluments	2018 £	2017 £
Aggregate emoluments in respect of qualifying services	**1,150,519**	986,524
Aggregate contribution to money purchase pension schemes	**73,005**	71,574
	1,223,524	1,058,098
Highest paid director		
Emoluments in respect of qualifying services	**727,771**	626,885
Pension contributions to the defined contribution scheme	**57,711**	56,580
	785,482	683,465

Retirement benefits are accruing to two directors under a defined contribution pension scheme (2017: two).

Further details of directors' emoluments are provided in the remuneration report on pages 76 to 98.

9. Finance income/(costs)

	2018 £m	2017 £m
Interest receivable and similar income	**0.4**	0.2
Finance income	**0.4**	0.2
Finance costs on bank loans and overdrafts	**(3.0)**	(3.0)
Net pension finance charge (note 32)	**(0.1)**	(0.1)
Finance costs	**(3.1)**	(3.1)

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for the year ended 31 March 2018

10. Taxation

The major components of the corporation tax expense are summarised below:

	2018 £m	2017 £m
Current taxation:		
UK corporation tax	–	–
UK adjustments in respect of prior years	(0.1)	0.1
	(0.1)	0.1
Overseas tax	4.3	3.5
Overseas adjustments in respect of prior years	–	(0.9)
	4.3	2.6
Total current taxation expense	4.2	2.7
Deferred taxation		
Origination and reversal of temporary differences within the UK	0.2	(0.2)
Origination and reversal of temporary differences overseas	0.2	(0.2)
Adjustment in respect of prior years	–	(0.8)
Increased recognition of historic losses	(0.8)	–
Impact of tax rate changes	0.2	(0.2)
Total deferred taxation credit	(0.2)	(1.4)
Tax expense reported in the consolidated income statement	4.0	1.3

Tax recognised in other comprehensive income	2018 £m	2017 £m
Decrease/(increase) in deferred tax asset on pension deficit	0.3	(0.3)
Tax reported in other comprehensive income	0.3	(0.3)

Tax recognised in equity	2018 £m	2017 £m
Increase/(decrease) in deferred tax asset on share based payments	1.4	(0.3)
Tax reported in equity	1.4	(0.3)

The effective rate of taxation for the year is higher (2017: higher) than the standard rate of taxation in the UK of 19% (2017: 20%). A reconciliation of the tax expense applicable to the profit before tax, at the statutory tax rate, to the actual tax expense at the Group's effective tax rate for the years ended 31 March 2018 and 31 March 2017 respectively is presented below:

	2018 £m	2017 £m
Profit before tax	15.8	4.8
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	3.0	1.0
Effect of:		
Different tax rates in overseas companies	1.0	0.7
Tax losses not recognised	0.6	0.6
Non-deductible expenses	0.1	0.8
Adjustments to deferred taxation in respect of prior years	–	(0.8)
Increased recognition of historic losses	(0.8)	–
Impact of tax rate changes on deferred tax	0.2	(0.2)
Adjustments to current taxation expense in respect of prior years	(0.1)	(0.8)
Total tax reported in the consolidated income statement	4.0	1.3

10. Taxation continued

Deferred tax

	2018 £m	2017 £m
Deferred tax liabilities		
Accelerated capital allowances	**(0.5)**	(0.5)
Intangibles	**(6.8)**	(5.4)
Other temporary differences	**(0.5)**	(0.6)
Gross deferred tax liabilities	**(7.8)**	(6.5)
Deferred tax assets		
Decelerated capital allowances	**0.9**	1.0
Pensions	**0.9**	1.0
Tax losses	**1.2**	1.2
Share-based payment plans	**2.3**	1.0
Other temporary differences	**0.5**	1.3
Gross deferred tax assets	**5.8**	5.5

Deferred tax credit in the consolidated income statement	2018 £m	2017 £m
Consolidated income statement		
Decelerated capital allowances	**0.1**	(0.3)
Other temporary differences	**(0.3)**	(1.1)
	(0.2)	(1.4)

At 31 March 2018, the Group had not recognised any deferred tax asset in respect of tax losses of approximately £26.0m (2017: £28.3m). Deferred tax assets are not recognised where there is insufficient evidence that losses will be utilised.

At 31 March 2018, there was no recognised deferred tax liability (2017: nil) for taxes that would be payable on the remittance of certain of the Group's overseas subsidiaries' unremitted earnings, as the Group has determined that the undistributed profits of its overseas subsidiaries will not be distributed in the near future where an additional tax charge would arise.

A reduction in the UK corporation tax rate to 17% had been substantively enacted at 1 April 2017 with effect from 1 April 2020. From 1 April 2017, a, rate of 19% will be applicable, until the 17% rate becomes effective. Rates of 17% and 19% have been applied in the measurement of the Group's UK based deferred tax assets and liabilities at 31 March 2018, based on an estimate of when the UK deferred tax is expected to crystallise.

11. Business combinations

Acquisitions in the year ended 31 March 2018

Acquisition of Santon

On 1 February 2018, the Group announced the acquisition of Santon Group ("Santon") via the purchase of 100% of the share capital and voting equity interests of its holding company EWAC Holdings BV.

The initial consideration comprises a payment of £19.4m in cash, funded from the Group's existing debt facilities, and the issue to the vendor of new ordinary shares of 5p each in discoverIE (the "New Ordinary Shares") to the value of £0.9m. In addition, contingent consideration of up to £19.7m will be payable over the next 3 years subject to Santon achieving certain growth targets. The fair value of the contingent consideration at the acquisition date was estimated to be £5.5m.

Santon is a Dutch based designer and manufacturer of highly differentiated, patented direct current ("DC") switches for use in solar, industrial and transportation markets. Santon operates from Rotterdam in the Netherlands, with sales offices in the UK and Germany. Santon will operate within the Group's Design & Manufacturing division.

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for the year ended 31 March 2018

11. Business combinations continued

The fair value of the identifiable assets and liabilities of Santon at the date of acquisition were as follows.

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	7.3
Intangible assets – customer relationships and patents	10.5
Inventories	4.5
Trade and other receivables	5.2
Net debt	(4.4)
Trade and other payables	(3.7)
Current tax liabilities	(1.0)
Deferred tax liabilities (non-current)	(2.5)
Total identifiable net assets	**15.9**
Goodwill arising on acquisition	**9.9**
Total investment	**25.8**
Discharged by	
Cash	19.4
Shares issued	0.9
Contingent consideration	5.5
	25.8

The fair value of the trade receivables is equal to their gross amounts. It is expected that the full contractual amounts of the trade receivables can be collected.

The goodwill of £9.9 million arising from the acquisition is attributable to the cross-selling synergies and international expansion expected to arise from operating as part of the Group. None of the goodwill recognised is expected to be deductible for corporate tax purposes.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	19.4
Acquisition costs (included in cash flows from operating activities)[1]	1.2
Net debt acquired	4.4
	25.0

1 Acquisition costs of £1.2m were expensed as incurred in the year ended 31 March 2018 and were included within administrative expenses (note 6).

Included in cash flow from investing activities is the cash consideration of £19.4m, the net debt acquired of £4.4m and debt like items of £0.8m.

From the date of acquisition to 31 March 2018, Santon contributed £3.7m to revenue and £nil to profit after tax of the Group. If the business combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £12.9m and the consolidated revenue for the Group would have been £416.5m.

11. Business combinations continued

Acquisitions in the year ended 31 March 2017

Acquisition of Variohm

On 20 January 2017, the Group completed the acquisition of 100% of the share capital and voting equity interests of Variohm Holdings Limited ("Variohm"), for a cash consideration of £10.6m. In addition, a contingent consideration of £0.5m is payable in July 2018, subject to certain conditions and a maximum contingent consideration of up to £1.35m also payable in July 2018, subject to Variohm achieving agreed performance targets. The fair value of the contingent consideration at the acquisition date was estimated to be £1.6m. The fair value at 31 March 2018 was estimated to be £1.85m.

Variohm owns 100% of the share capital and voting equity interests of Ixthus Instrumentation Limited, Heason Technology Limited, Herga Technology Limited and Variohm-Eurosensor Limited, all based in the UK. Variohm is a designer, manufacturer and distributor of electronic sensors and switches.

The fair value of the identifiable assets and liabilities of Variohm at the date of acquisition were as follows:

	Fair value recognised at acquisition £m
Property, plant and equipment	0.5
Intangible assets – customer relationships	4.4
Inventories	3.0
Trade and other receivables	3.3
Net debt	(1.0)
Trade and other payables[1]	(2.6)
Current tax liabilities	(0.3)
Provisions (current)	(0.1)
Deferred tax liabilities (non-current)	(0.8)
Provisions (non-current)	(0.1)
Total identifiable net assets	**6.3**
Goodwill arising on acquisition	**6.0**
Total investment	**12.3**
Discharged by	
Cash	10.6
Purchase price adjustment	0.1
Contingent consideration	1.6
	12.3

1 The provisional fair value of trade and other payables was increased by £0.2m during the year ended 31 March 2018.

The fair value of the trade receivables is equal to their gross amounts. It is expected that the full contractual amounts of the trade receivables can be collected.

Included in the £6.0m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. None of the goodwill recognised is expected to be deductible for corporate tax purposes.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

11. Business combinations continued

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	10.6
Transaction costs of the acquisition (included in cash flows from operating activities)[1]	0.3
Net debt acquired	1.0
	11.9

1 Transaction costs of £0.3m were expensed as incurred in the year ended 31 March 2017 and were included within administrative expenses (note 6).

From the date of acquisition to 31 March 2017, Variohm contributed £4.9m to revenue and £0.4m to profit after tax of the Group. If the business combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £3.9m and the consolidated revenue for the Group would have been £354.9m.

12. Dividends

Dividends recognised in equity as distributions to equity holders in the year:	**2018 £m**	2017 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2017 of 6.05p (2016: 5.72p)	**4.3**	3.7
Interim dividend for the year ended 31 March 2018 of 2.65p (2017: 2.45p)	**1.9**	1.5
Total amounts recognised as equity distributions during the year	**6.2**	5.2

Proposed for approval at AGM:	**2018 £m**	2017 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2018 of 6.35p (2017: 6.05p)	**4.5**	4.3
Summary		
Dividends per share declared in respect of the year	**9.0p**	8.50p
Dividends per share paid in the year	**8.7p**	8.17p
Dividends paid in the year	**£6.2m**	£5.2m

A technical non-compliance issue has been identified with respect to distributable reserves and the payment of recent dividends. The Board is confident that there were adequate reserves in subsidiary companies to meet these dividends at the time and that this will not impact the Group's ability to pay future dividends. We expect to remedy the position by means of appropriate resolutions at a general meeting of Shareholders and a circular in respect of this will be issued.

13. Earnings per share

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

Diluted earnings per share is the basic earnings per share after allowing for the dilutive effect of the conversion into ordinary shares of the weighted average number of options outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2018 £m	2017 £m
Profit for the year attributable to equity holders of the parent:	**11.8**	3.5

	Number	Number
Weighted average number of shares for basic earnings per share	**70,797,217**	65,427,064
Effect of dilution – share options	**3,666,253**	2,790,308
Adjusted weighted average number of shares for diluted earnings per share	**74,463,470**	68,217,372
Basic earnings per share	**16.7p**	5.3p
Diluted earnings per share	**15.8p**	5.1p

Underlying earnings per share is calculated as follows:

	2018 £m	2017 £m
Net profit for the year	**11.8**	3.5
Exceptional items	**–**	6.4
Acquisition costs	**0.8**	1.7
Amortisation of acquired intangible assets	**4.9**	3.9
IAS 19 pension charge	**0.4**	0.4
Tax effect of the above	**(1.3)**	(2.8)
Underlying earnings	**16.6**	13.1

	Number	Number
Weighted average number of shares for basic earnings per share	**70,797,217**	65,427,064
Effect of dilution – share options	**3,666,253**	2,790,308
Adjusted weighted average number of shares for diluted earnings per share	**74,463,470**	68,217,372
Underlying basic earnings per share	**23.4p**	20.0p
Underlying diluted earnings per share	**22.3p**	19.2p

At the year end, there were 4,580,130 ordinary share options in issue that could potentially dilute underlying earnings per share in the future, of which 3,666,253 are currently dilutive (2017: 4,847,184 in issue and 2,790,308 dilutive).

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for the year ended 31 March 2018

14. Property, plant and equipment

	Land and buildings £m	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2016	6.9	2.7	13.5	23.1
Additions	0.2	0.1	2.5	2.8
Disposals	–	(0.2)	(0.7)	(0.9)
Arising from business combinations	–	–	0.5	0.5
Exchange adjustments	0.6	0.1	1.3	2.0
At 31 March 2017	7.7	2.7	17.1	27.5
Additions	0.5	0.4	3.1	4.0
Disposals	–	(0.7)	(0.3)	(1.0)
Arising from business combinations	3.2	–	4.1	7.3
Exchange adjustments	(0.1)	(0.1)	(0.5)	(0.7)
At 31 March 2018	**11.3**	**2.3**	**23.5**	**37.1**
Accumulated depreciation				
At 1 April 2016	1.7	1.6	5.1	8.4
Charge for the year	0.3	0.2	2.5	3.0
Disposals	–	(0.2)	(0.3)	(0.5)
Exchange adjustments	0.2	0.1	0.3	0.6
At 31 March 2017	2.2	1.7	7.6	11.5
Charge for the year	0.4	0.2	2.9	3.5
Disposals	–	(0.7)	(0.3)	(1.0)
Exchange adjustments	–	(0.1)	(0.2)	(0.3)
At 31 March 2018	**2.6**	**1.1**	**10.0**	**13.7**
Net book value at 31 March 2018	**8.7**	**1.2**	**13.5**	**23.4**
Net book value at 31 March 2017	5.5	1.0	9.5	16.0

Land and buildings includes land with a cost of £0.8m (2017: £0.8m) that is not subject to depreciation.

At 31 March 2018 the Group had capital expenditure commitments for plant and equipment of £1.4m (2017: £nil) for which no provision has been made.

15. Intangible assets – goodwill

Cost	**£m**
At 1 April 2016	100.4
Arising from business combinations	4.3
Exchange adjustments	4.7
At 31 March 2017	109.4
Arising from business combinations	10.2
Exchange adjustments	(0.9)
At 31 March 2018	**118.7**

Impairment	**£m**
At 31 March 2017 and 31 March 2018	**(36.8)**
Net book value at 31 March 2018	**81.9**
Net book value at 31 March 2017	72.6

16. Impairment testing of goodwill

The carrying value of goodwill is analysed as follows:

	2018 £m	2017 £m
Custom Supply		
Acal BFi UK	**3.3**	3.3
Compotron	**5.2**	5.1
Medical	**0.6**	0.6
Design & Manufacturing		
Stortech	**3.6**	3.6
Hectronic	**0.6**	0.6
MTC	**2.0**	2.0
Myrra	**5.2**	5.1
RSG	**1.3**	1.2
Noratel	**29.2**	30.1
Foss	**5.6**	5.7
Flux	**0.6**	0.6
Contour	**7.7**	7.7
Plitron	**1.1**	1.2
Variohm	**6.0**	5.8
Santon	**9.9**	–
	81.9	72.6

Goodwill acquired through business combinations is allocated to cash-generating units (CGUs).

The movement in goodwill compared with prior year relates to the movement in foreign exchange with the exception of Santon which was acquired in the year and Variohm, where the provisional fair value of acquired net assets was finalised during the year (refer to note 11 for details).

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16. Impairment testing of goodwill continued

The recoverable amount of each remaining CGU is based on value in use calculations and management's view of the recoverable amount. The key assumptions in these calculations relate to future revenue and margins. Cash flow forecasts for the five-year period from the reporting date are based on 2019 budget and management projections thereon. Revenue growth rates in the post-budget management projections between 5% and 10% (2017: between 2.5% and 10%) have been used depending on size and sector in which the CGU operates. Annual cash flow growth rates beyond the five-year period are assumed at 2% (2017: 2%-2.5%) for all CGUs in line with the average long term growth rate for the relevant markets.

Discount rates reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry and then further adjusted to reflect management's assessment of any risk specific to the Group. The pre-tax discount rate applied to the cash flow projections of CGUs varies from 10% to 15% (2017: 11% to 16%).

Sensitivity to changes in assumptions

The Group has conducted sensitivity analysis on the impairment test of each CGUs carrying value. With regard to all the CGUs above, the Directors believe that no reasonably possible changes in any of the key assumptions would cause the carrying value of the CGU to materially exceed its recoverable amount, with the exception of Acal BFi UK. For the Acal BFi UK CGU, with allocated goodwill of £3.3m, there is a reasonably possible change in the key assumption of revenue growth which could erode the estimated headroom amount by which the carrying value of the CGU exceeds its recoverable amount. A compound annual growth rate (CAGR) in revenues of less than 2% for the five-year forecast period would result in the recoverable amount of the business equalling its carrying value.

17. Intangible assets – other

	Acquired intangibles			
	Software & Development £m	**Customer/ Supplier Relationships £m**	**Patents & Brands £m**	**Total £m**
Cost				
At 1 April 2016	10.2	28.7	0.8	39.7
Arising from business combinations	–	5.8	–	5.8
Additions	0.6	–	–	0.6
Disposals	(0.2)	–	–	(0.2)
Exchange adjustment	0.2	2.2	–	2.4
At 31 March 2017	10.8	36.7	0.8	48.3
Arising from business combinations	–	7.9	2.6	10.5
Additions	0.6	–	–	0.6
Exchange adjustment	0.1	(0.7)	–	(0.6)
At 31 March 2018	**11.5**	**43.9**	**3.4**	**58.8**
Accumulated amortisation				
At 1 April 2016	7.7	6.6	0.8	15.1
Disposals	(0.2)	–	–	(0.2)
Charge for the year	0.7	3.9	–	4.6
Exchange adjustment	0.1	0.6	–	0.7
At 31 March 2017	8.3	11.1	0.8	20.2
Charge for the year	0.6	4.9	–	5.5
Exchange adjustment	0.2	(0.2)	–	–
At 31 March 2018	**9.1**	**15.8**	**0.8**	**25.7**
Net book value at 31 March 2018	**2.4**	**28.1**	**2.6**	**33.1**
Net book value at 31 March 2017	2.5	25.6	–	28.1

The computer software capitalised at 31 March 2018 includes the implementation of an ERP system within the Acal BFi business. This ERP system has a carrying amount of £0.5m (2017: £0.6m).

18. Investments in associates

	£m
Cost	
At 31 March 2017 and 31 March 2018	**5.4**
Impairment	
At 31 March 2017 and 31 March 2018	**(5.4)**
Net book amount 31 March 2017 and 31 March 2018	**–**

Associates	Country of incorporation	% equity interest 2018 and 2017
Scientific Digital Business (Pte) Ltd	Singapore	40

Impairment of associate investments

In 2009, the Directors took the view that the associate investments should be fully impaired, due to continuing losses in those businesses. There have been no changes in 2018 that would lead to these impairments being reversed.

19. Inventories

	2018 **£m**	2017 £m
Finished goods and goods for resale	**38.2**	31.0
Raw materials and work in progress	**22.4**	19.1
Total inventories	**60.6**	50.1

As at 31 March 2018, the provision for realisable value against total inventories was £6.6m (2017: £7.1m).

20. Trade and other receivables

	2018 **£m**	2017 £m
Trade receivables	**74.4**	69.1
Other receivables	**5.2**	4.9
Prepayments and accrued income	**2.8**	3.3
	82.4	77.3

Trade receivables are non-interest bearing; are generally on 30 to 60 days' terms and are shown net of a provision for impairment. As at 31 March 2018, trade receivables of £0.8m (2017: £0.9m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2018 **£m**	2017 £m
At 1 April	**0.9**	1.2
Charge for the year	**0.1**	0.1
Amounts written off	**(0.2)**	(0.5)
Exchange adjustments	**–**	0.1
At 31 March	**0.8**	0.9

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20. Trade and other receivables continued

As at 31 March, the analysis of trade receivables that were past due but not impaired is as follows:

	Total £m	Neither past due nor impaired £m	Past due but not impaired <30 days £m	30–60 days £m	60–90 days £m	90–120 days £m	>120 days £m
2018	**74.4**	**62.5**	**9.7**	**1.1**	**0.5**	**0.2**	**0.4**
2017	69.1	58.9	7.3	1.1	1.4	–	0.4

21. Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank and in hand	**21.9**	21.0

Cash at bank 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 Group only deposits cash surpluses with major banks of high credit standing (£16.8m with HSBC; credit rating of AA-, £2.8m with Danske Bank; credit rating of A and the remaining balance of £2.3m with various financial institutions; credit rating of BBB- or higher) in line with its treasury policy. The fair value of cash and cash equivalents is £21.9m (2017: £21.0m).

22. Financial liabilities

	Effective interest rate %	Maturity	Current **2018 £m**	Current 2017 £m	Non-current **2018 £m**	Non-current 2017 £m
Bank overdrafts	Variable	On demand	**5.7**	1.2	**–**	–
Unsecured bank loans	Variable		**1.0**	0.1	**0.2**	0.1
Revolving Credit Facility (RCF)	Variable		**–**	–	**68.3**	50.8
Capitalised debt costs			**(0.3)**	(0.3)	**(0.6)**	(0.9)
Total other financial liabilities			**6.4**	1.0	**67.9**	50.0
Trade and other payables			**71.0**	63.2	**6.2**	3.3
Total			**77.4**	64.2	**74.1**	53.3

Interest on overdrafts is based on floating rates linked to LIBOR.

Included in unsecured bank loans are euro-denominated loans of £0.9m carrying fixed interest rates of between 2% and 8%.

At 31 March 2018, the revolving credit facility drawdowns of £68.3m were denominated primarily in Sterling, US Dollars, Euros and Norwegian Kroner which bear interest based on LIBOR, USDLIBOR, EURIBOR and NIBOR respectively, plus a facility margin. The facility is secured against the shares of certain Group subsidiaries.

Trade and other payables above include only contractual obligations.

22. Financial liabilities continued

The maturity of the carrying value of the gross contractual financial liabilities is as follows:

At 31 March 2018	**Within 1 year £m**	**2–5 years £m**	**Total £m**
Fixed and floating rate	**6.4**	**67.9**	**74.3**
Trade and other payables	**71.0**	**6.2**	**77.2**
	77.4	**74.1**	**151.5**

At 31 March 2017	Within 1 year £m	2–5 years £m	Total £m
Floating rate	1.0	50.0	51.0
Trade and other payables	63.2	3.3	66.5
	64.2	53.3	117.5

The carrying amount of the Group's borrowings is denominated in the following currencies:

	2018 £m	2017 £m
Sterling	**14.1**	15.8
Euro	**50.8**	23.6
US dollar	**3.6**	6.0
Other currencies	**5.8**	5.6
	74.3	51.0

23. Movements in cash and net debt

Year to 31 March 2018	1 April 2017 £m	Cash flow £m	Non cash changes £m	**31 March 2018 £m**
Cash at bank and in hand	21.0	1.9	(1.0)	**21.9**
Bank overdrafts	(1.2)	(5.0)	0.5	**(5.7)**
Cash and cash equivalents	19.8	(3.1)	(0.5)	**16.2**
Bank loans under one year	(0.1)	(0.9)	–	**(1.0)**
Bank loans over one year	(50.9)	(18.0)	0.4	**(68.5)**
Capitalised debt costs	1.2	–	(0.3)	**0.9**
Total loan capital	(49.8)	(18.9)	0.1	**(68.6)**
Net debt	(30.0)	(22.0)	(0.4)	**(52.4)**

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for the year ended 31 March 2018

23. Movements in cash and net debt continued

Bank loans over one year above include £68.3m (2017: £50.8m) drawn down against the Group's revolving credit facility.

Year to 31 March 2017	1 April 2016 £m	Cash flow £m	Non cash changes £m	31 March 2017 £m
Cash at bank and in hand	18.7	(1.2)	3.5	21.0
Bank overdrafts	(0.7)	(0.1)	(0.4)	(1.2)
Cash and cash equivalents	18.0	(1.3)	3.1	19.8
Bank loans under one year	(0.1)	0.4	(0.4)	(0.1)
Bank loans over one year	(57.2)	8.8	(2.5)	(50.9)
Capitalised debt costs	1.2	–	–	1.2
Total loan capital	(56.1)	9.2	(2.9)	(49.8)
Net debt	(38.1)	7.9	0.2	(30.0)

Supplementary information to the statement of cash flows

Underlying Performance Measure	**2018 £m**	2017 £m
(Decrease)/increase in net cash	**(22.0)**	7.9
Add: Business combinations	**25.4**	13.8
Exceptional cash flow	**1.8**	6.4
Legacy pension scheme funding	**1.7**	1.6
Dividends paid	**6.2**	5.2
Notional repurchase of share options	**1.5**	–
Less: Net proceeds from share issue	**–**	(13.6)
Free cash flow	**14.6**	21.3
Net finance costs	**2.6**	2.8
Taxation	**3.7**	3.0
Operating cash flow	**20.9**	27.1

24. Reconciliation of cash flows from operating activities

	2018 £m	2017 £m
Profit for the year	**11.8**	3.5
Tax expense	**4.0**	1.3
Net finance costs	**2.7**	2.9
Depreciation of property, plant and equipment	**3.5**	3.0
Amortisation of intangible assets – other	**5.5**	4.6
Loss on disposal of property, plant and equipment	**–**	0.2
Acquisition related contingent consideration	**–**	(1.6)
Change in provisions	**(3.5)**	1.4
Pension scheme funding	**(1.7)**	(1.6)
IAS 19 pension administration charge	**0.3**	0.3
Equity-settled share-based payment expense	**0.7**	0.6
Operating cash flows before changes in working capital	**23.3**	14.6
Increase in inventories	**(7.7)**	(0.1)
Increase in trade and other receivables	**(0.6)**	(3.8)
Increase in trade and other payables	**6.7**	9.8
(Increase)/decrease in working capital	**(1.6)**	5.9
Cash generated from operations	**21.7**	20.5
Interest paid	**(3.0)**	(3.0)
Income taxes paid	**(3.7)**	(3.0)
Net cash flow from operating activities	**15.0**	14.5

25. Provisions

	Severance and retirement indemnity £m	Other £m	Total £m
At 1 April 2017	3.2	1.5	4.7
Arising during the year	0.8	0.1	0.9
Arising from business combinations	0.1	0.3	0.4
Released during the year	–	(0.6)	(0.6)
Reclassified to other creditors	–	(0.1)	(0.1)
Utilised	(1.1)	(0.3)	(1.4)
Exchange difference	(0.1)	(0.1)	(0.2)
At 31 March 2018	**2.9**	**0.8**	**3.7**

Analysis of total provisions:	2018 £m	2017 £m
Current	**0.9**	2.2
Non-current	**2.8**	2.5
	3.7	4.7

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25. Provisions continued

Severance and retirement indemnity

The severance provision relates to severance costs payable to employees.

Retirement indemnity provision of £2.1m (2017: £1.9m), relates to retirement and leaving indemnity schemes in Sri Lanka, India, France and Italy. The schemes are unfunded. The service cost, representing deferred salaries accruing to employees, is included as an operating expense and determined by reference to local laws and actuarial assumptions where applicable. The key actuarial assumptions used in relation to valuation of the Sri Lankan scheme comprise of mortality rates, staff turnover (16% up to age of 50 and nil% thereafter), retirement age (55 years), discount rate (11%) and salary increases (7% to 9%).

Other

Other provisions relate to warranty provisions, onerous contracts, dilapidations and restructuring. The provisions greater than one year are expected to be utilised within one to three years.

26. Financial risk controls

Management of financial risk

The main financial risks faced by the Group are credit risk, liquidity risk and market risk, which include interest rate risk and currency risk. The Board regularly reviews these risks and has approved written policies covering the use of financial instruments to manage these risks.

The Group Finance Director retains the overall responsibility and management of financial risk for the Group. Most of the Group's financing and interest rate and foreign currency risk management is carried out centrally at Group head office. The Board approves policies and procedures setting out permissible funding and hedging instruments, exposure limits and a system of authorities for the approval of transactions.

Management of interest rate risk

The Group has exposure to interest rate risk arising principally from changes in Euro, Sterling and US Dollar interest rates. The Group does not hedge against exposure to interest rate risk.

Based on the Group's debt position at the year end, a 1% increase in interest rates would decrease the Group's profit before tax by approximately £0.5m (2017: £0.5m).

Management of foreign exchange risk

The Group's Shareholders' equity, earnings and cash flows are exposed to foreign exchange risks, due to the mismatch between the currencies in which it purchases stock and the final currency of sale to its customers.

It is Group policy to hedge identified significant foreign exchange exposure on its committed operating cash flows. This is carried out centrally based on forecast orders and sales.

The following table demonstrates the sensitivity to a 10% change in the US Dollar and Euro rates against Sterling with all other variables remaining constant, of the Group's profit before tax, due to changes in the fair value of monetary assets and liabilities.

	£ currency impact		**US$ currency impact**		**Euro currency impact**	
	2018 £m	2017 £m	**2018 £m**	2017 £m	**2018 £m**	2017 £m
Profit before tax – (loss)/gain						
10% appreciation	**(0.3)**	(0.8)	**1.5**	1.6	**(0.6)**	(0.6)
10% depreciation	**0.3**	1.0	**(1.6)**	(1.6)	**0.7**	0.8

26. Financial risk controls continued

Management of credit risk

Credit risk exists in relation to customers, banks and insurers. Exposure to credit risk is mitigated by maintaining credit control procedures across a wide customer base.

The Group is exposed to credit risk that is primarily attributable to its trade and other receivables. This is minimised by dealing with recognised creditworthy third parties who have been through a credit verification process. The maximum exposure to credit risk is limited to the carrying value of trade and other receivables.

As well as credit risk exposures inherent within the Group's outstanding receivables, the Group is exposed to counterparty credit risk arising from the placing of deposits and entering into derivative financial instrument contracts with banks and financial institutions.

The Group manages exposure to credit risk by entering into financial instrument contracts only with highly credit-rated authorised counterparties which are reviewed and approved annually by the Board.

Counterparties' positions are monitored on a regular basis to ensure that they are within the approved limits and that there are no significant concentrations of credit risks.

Management of liquidity risk

The Group manages its exposure to liquidity risk and maximises its flexibility in meeting changing business needs by managing the cash generation of its operations, combined with bank borrowings and access to long term debt. In its funding strategy, the Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts, bank loans and facilities.

At 31 March 2018, the Group had net cash of £15.5m (2017: £20.0m), excluding long term borrowings of £67.9m (2017: £50.0m). The Group had total working capital facilities available of £130.3m (2017: £132.6m) with a number of major UK and overseas banks, of which £128.3m (2017: £128.6m) were committed facilities. The Group had drawn £75.2m against total facilities at 31 March 2018. As part of taking out the committed facilities with a syndicate of three major banks, all of the previous facilities of the Group were cancelled. The maturity of committed facilities is to 19 July 2021. The facilities are subject to certain financial covenants, which, following review, had significant headroom at 31 March 2018.

Management of capital

The Group aims to maximise Shareholder value by maintaining an appropriate debt/equity capital structure. It uses a number of mechanisms to manage debt/equity levels, as appropriate, in the light of economic and trading conditions, and the future capital investment requirements of the business. Capital is made up entirely of equity and is analysed in the consolidated statement of changes in equity. Trading capital is made up of net operating assets, which include tangible and intangible assets (excluding goodwill) plus working capital.

27. Financial assets and liabilities

Fair values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

	Carrying amount 2018 £m	**Fair value 2018 £m**	Carrying amount 2017 £m	Fair value 2017 £m
Financial assets				
Cash at bank and in hand	**21.9**	**21.9**	21.0	21.0
Financial liabilities at amortised cost				
Bank overdrafts and short-term borrowings	**(6.4)**	**(6.4)**	(1.0)	(1.0)
Non-current interest-bearing loans and borrowings:				
Fixed and floating rate borrowings	**(67.9)**	**(67.9)**	(50.0)	(50.0)
Contingent consideration	**(6.2)**	**(6.2)**	(3.7)	(3.7)
Forward contracts	**(0.1)**	**(0.1)**	—	—

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for the year ended 31 March 2018

27. Financial assets and liabilities continued

The fair value of loans and borrowings has been calculated by discounting future cash flows, where material, at prevailing market interest rates.

Short-term trade and other receivables, payables and provisions have been excluded from the above table as their book values approximate fair values.

At 31 March 2018, the Group held forward currency hedging contracts with a realised fair value of £0.1m (2017: £nil) is included in the income statement. The fair value of the forward contracts at 31 March 2018 has been estimated using an independent forward pricing present value calculation (level 2).

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

All financial instruments above are classified as Level 1 and Level 2 with the exception of contingent consideration which is classified as Level 3. There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the year.

28. Trade and other payables

Current

	2018 £m	2017 £m
Trade payables	**51.8**	45.8
Other payables	**19.2**	19.0
Accrued expenses and deferred income	**10.2**	7.5
	81.2	72.3

Trade payables are non-interest bearing and are settled taking into account local best practice. Other payables are non-interest bearing and are settled throughout the year. Accrued expenses are non-interest bearing and are settled throughout the year. Deferred income is recognised over the term of the underlying contract. Included in other payables is contingent consideration of £1.8m which relates to the acquisition of Variohm.

Non-Current

	2018 £m	2017 £m
Other payables	**6.2**	3.3

Included in non-current trade and other payable is contingent consideration on acquired businesses. Of the total £6.2m (2017: £3.3m) deferred consideration, £5.5m contingent consideration relates to the acquisition of Santon (refer to note 11) and £0.7m contingent consideration relates to the acquisition of Contour.

29. Share capital

Allotted, called up and fully paid	**2018 Number**	**2018 £m**	2017 Number	2017 £m
Ordinary shares of 5p each	**71,417,857**	**3.6**	70,680,974	3.5

On 1 February 2018 the Company issued 223,648 new ordinary shares ("Consideration Shares") to the Shareholders of the Santon Group ("Santon") in connection with the acquisition of Santon. The fair value of the shares issued was £0.9m.

The difference between the nominal value of the shares issued and the gross proceeds has been credited to the share premium account.

The new shares issued rank pari passu in all respects with the existing shares issued, including the right to receive all dividends and other distributions declared, made or paid on the existing ordinary shares.

During the year to 31 March 2018, employees exercised 513,235 share options under the terms of the various share option schemes (2017: 50,098).

30. Commitments and contingencies

Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Group also leases certain motor vehicles and items of machinery. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2018 £m	2017 £m
Due within one year	**5.4**	4.6
Due after one year but not more than five years	**9.8**	9.0
Due after more than five years	**0.6**	1.0
	15.8	14.6

Future minimum sublease rentals expected to be received over the term of non-cancellable operating leases are £0.1m (2017: £0.1m).

31. Share-based payment plans

The Group operates various share-based payment plans. The various schemes are explained below and have been separated into two separate disclosures. The charge to the income statement in respect of each of these schemes is:

	2018 £m	2017 £m
a) Approved and Unapproved Executive Share Option Schemes	**–**	–
b) discoverIE Group plc long term incentive plan ("the LTIP")	**0.7**	0.6
	0.7	0.6

a) Approved and Unapproved Executive Share Option Schemes

The Group operates an approved and an unapproved executive share option scheme, the rules of which are similar in all material respects. The grant of options to Executive Directors and senior management is recommended by the Remuneration Committee on the basis of their contribution to the Group's success. The options vest after three years.

The exercise price of the options is equal to the closing mid-market price of the shares on the trading day prior to the date of the grant. Exercise of all options is subject to continued employment. The life of each option granted is seven years. There are no cash settlement alternatives.

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31. Share-based payment plans continued

Options are valued using the Black-Scholes option-pricing model. No non-market performance conditions were included in the fair value calculations.

The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	**29 March 2018**	31 March 2017	1 August 2016
Share price at grant date	**£4.15**	£2.13	£2.20
Exercise price	**£4.02**	£2.195	£2.2625
Number of employees	**3**	4	4
Shares under option	**14,278**	35,098	30,394
Vesting period (years)	**3**	3	3
Expected volatility	**32.87%**	37.69%	38.12%
Option life (years)	**10**	10	10
Expected life (years)	**7**	7	7
Risk-free rate of return	**1.11%**	0.58%	0.59%
Expected dividends expressed as a dividend yield	**2.4%**	4.07%	3.10%
Fair value	**£0.86**	£0.54	£0.62

The expected volatility is based on historical volatility over the previous five years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The total charge for the year relating to the approved and unapproved share option schemes was £nil (2017: £nil).

Outstanding share options

A summary of the options over ordinary shares that have been granted under various Group share option schemes and remain outstanding is given below:

31 March 2018

Outstanding at 1 April 2017	Forfeited during the year	Exercised during the year	Granted during the year	**Outstanding at 31 March 2018**	Exercise price (pence)	Exercise dates
56,457	–	(18,819)	–	**37,638**	148.00	2013–2020
18,196	–	–	–	**18,196**	201.00	2016–2024
15,320	–	(15,320)	–	**–**	218.00	2017–2024
14,331	–	–	–	**14,331**	302.00	2018–2025
23,791	–	–	–	**23,791**	226.25	2019–2026
35,098	–	–	–	**35,098**	219.50	2020–2027
–	–	–	14,278	**14,278**	402.00	2021–2028
163,193	–	(34,139)	14,278	**143,332**		

31. Share-based payment plans continued

At 31 March 2017

Outstanding at 1 April 2016	Forfeited during the year	Exercised during the year	Granted during the year	Outstanding at 31 March 2017	Exercise price (pence)	Exercise dates
56,457	—	—	—	56,457	148.00	2013–2020
39,919	—	(21,723)	—	18,196	201.00	2016–2024
21,397	(6,077)	—	—	15,320	218.00	2017–2024
18,842	(4,511)	—	—	14,331	302.00	2018–2025
—	(6,603)	—	30,394	23,791	226.25	2019–2026
—	—	—	35,098	35,098	219.50	2020–2027
136,615	(17,191)	(21,723)	65,492	163,193		

Changes in share options

A reconciliation of option movements over the year to 31 March 2018 is shown below:

	2018		2017	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at 1 April	**163,193**	**£2.01**	136,615	£1.96
Granted	**14,278**	**£4.02**	65,492	£2.23
Exercised	**(34,139)**	**£1.79**	(21,723)	£2.01
Forfeited	**–**	**–**	(17,191)	£2.43
Outstanding at 31 March	**143,332**	**£2.26**	163,193	£2.01
Exercisable at 31 March	**55,834**	**£1.65**	56,457	£1.48

The weighted average remaining contractual life for the share options outstanding at 31 March 2018 is 6.7 years (2017: 6.9 years).

The range of exercise prices for options outstanding at the end of the year was £1.48 to £4.02 (2017: £1.48 to £3.02).

b) The LTIP

Since 2008, the Group has operated the LTIP as a principal replacement for the approved and unapproved executive share option scheme detailed above. The LTIP involves a conditional award of shares on a grant of a nil-cost option. The award of shares to Executive Directors and senior management is recommended by the Remuneration Committee on the basis of such factors as their contribution to the Group's success. The LTIPs are equity settled and there are no cash settled alternatives. The release of an award is dependent on the individual's continued employment for a three-year holding period from the date of grant and the satisfaction by the Company of certain performance conditions.

For awards made in 2017 and 2018, the performance conditions are as follows:

- 33.3% (2017: 50%) of the award is based on the Company's comparative total Shareholder return ("TSR") against a comparator group made up of the constituents of the FTSE Small Cap Index;
- 33.3% (2017: 50%) of the award is based on the Company's absolute total Shareholder return as measured against the Consumer Price Index ("CPI"); and
- 33.3% (2017: nil%) of the award is based on the Company's absolute earnings per share ("EPS") performance.

Awards are valued using the Monte Carlo Simulation and Discounted Share Price models. No non-market performance conditions were included in the fair value calculations. The Remuneration Committee approved the 2018 awards on 28 March 2018 and a valuation of these awards was carried out in the year ended 31 March 2018. The fair value per award granted and the assumptions used in the calculation are as follows:

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for the year ended 31 March 2018

31. Share-based payment plans continued

Awards granted in the year ended 31 March 2018:

Grant date	29 March 2018 EPS	29 March 2018 TSR	29 March 2018 CPI
Share price at grant date	**£4.15**	**£4.15**	**£4.15**
Exercise price	**nil**	**nil**	**nil**
Number of employees	**17**	**17**	**17**
Shares under option	**210,814**	**210,813**	**210,813**
Vesting period (years)	**3**	**3**	**3**
Expected volatility	**31.24%**	**31.24%**	**31.24%**
Option life (years)	**10**	**10**	**10**
Expected life (years)	**5**	**5**	**5**
Risk-free rate of return	**n/a**	**0.87%**	**0.87%**
Expected dividend yield	**2.4%**	**2.4%**	**2.4%**
Fair value	**£3.86**	**£2.54**	**£1.01**

Awards granted in the year ended 31 March 2017:

Grant date	31 March 2017 TSR	31 March 2017 CPI
Share price at grant date	£2.25	£2.25
Exercise price	nil	nil
Number of employees	12	12
Shares under option	394,382	394,383
Vesting period (years)	3	3
Expected volatility	31.37%	31.37%
Option life (years)	10	10
Expected life (years)	5	5
Risk-free rate of return	0.12%	0.12%
Expected dividend yield	4.07%	4.07%
Fair value	£1.22	£0.59

The expected volatility is based on historical volatility over a term commensurate with the expected life of each award. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The total charge for the year relating to the LTIP schemes was £0.7m (2017: £0.6m).

31. Share-based payment plans continued

Outstanding LTIP

A summary of the awards that have been granted under the LTIP and remain outstanding is given below:

31 March 2018

Outstanding at 1 April 2017	Granted during the year	Forfeited during the year	Exercised during the year	**Outstanding at 31 March 2018**	Exercise dates
804,587	–	(378,156)	(426,431)	**–**	2012–2019
447,377	–	–	–	**447,377**	2013–2020
271,948	–	–	–	**271,948**	2014–2021
654,469	–	–	(52,918)	**601,551**	2015–2022
611,927	–	–	(33,886)	**578,041**	2016–2023
649,690	–	(8,102)	–	**641,588**	2020–2025
618,421	–	–	–	**618,421**	2021–2026
788,765	–	–	–	**788,765**	2022–2027
–	632,440	–	–	**632,440**	2023–2028
4,847,184	632,440	(386,258)	(513,235)	**4,580,131**	

The 378,156 shares forfeited during the year was a notional repurchase of share options relating to a reduction in the number of shares issued on the exercise of options awarded under the LTIP, as a consequence of the Group agreeing to settle the PAYE liability arising on exercise.

31 March 2017

Outstanding at 1 April 2016	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 March 2017	Exercise dates
804,587	–	–	–	804,587	2012–2019
447,377	–	–	–	447,377	2013–2020
271,948	–	–	–	271,948	2014–2021
654,469	–	–	–	654,469	2015–2022
662,025	–	–	(50,098)	611,927	2016–2023
478,581	–	(478,581)	–	–	2017–2024
649,690	–	–	–	649,690	2020–2025
618,421	–	–	–	618,421	2021–2026
–	788,765	–	–	788,765	2022–2027
4,587,098	788,765	(478,581)	(50,098)	4,847,184	

The weighted average remaining contractual life for the share options outstanding at 31 March 2018 is 6.5 years (2017: 6.0 years).

The range of exercise prices for options outstanding at the end of the year was nil (2017: nil).

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

32. Pensions

Defined contribution schemes

The Group makes payments to various defined contribution pension schemes, the assets of which are held in separately administered funds. In the United Kingdom, the relevant scheme is the discoverIE Group plc Employee Pension Scheme ('the discoverIE scheme'). Contributions by both employees and Group companies are held in externally invested trustee-administered funds.

The Group contributes a specified percentage of earnings for members of the discoverIE scheme, and thereafter has no further obligations in relation to the discoverIE scheme. At the year end, 222 employees were active members of the discoverIE scheme (2017: 208). The total cost charged to the consolidated income statement in relation to the UK-based discoverIE scheme was £534,000 (2017: £520,000). Employer contributions in respect of other UK-based schemes and overseas pension schemes were £262,000 (2017: £56,000) and £2,141,000 (2017: £1,907,000) respectively. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2017/18 but based on actual salary levels in 2018/19.

Defined benefit schemes

The acquisition of the Sedgemoor Group in June 1999 brought with it certain defined benefit pension schemes, the principal one of which was the Sedgemoor Group Pension Fund (together 'the Sedgemoor Scheme'). The Sedgemoor Scheme is funded by the Company, provides retirement benefits based on final pensionable salary and its assets are held in a separate trustee-administered fund.

Following the acquisition of the Sedgemoor Group, the Sedgemoor Scheme was closed to new members. Shortly thereafter, employees were given the opportunity to join the discoverIE scheme and future service benefits ceased to accrue to members under the Sedgemoor Scheme.

Contributions to the Sedgemoor Scheme are determined in accordance with the advice of independent, professionally qualified actuaries and are set based upon funding valuations carried out every three years.

Based upon the results of the triennial funding valuation at 31 March 2015, the Sedgemoor Scheme's Trustees agreed with Sedgemoor Limited on behalf of the participating employers to continue the participating employers' contributions under the deficit recovery plan agreed at the previous valuation at 31 March 2012. This required contributions of £1.6m p.a. increasing by 3% each April payable over the period to 31 March 2022. These contributions will be reviewed as part of the triennial funding valuation as at 31 March 2018 being carried out this year.

The estimated amount of employer contributions expected to be paid to the Sedgemoor Scheme during 2018/19 is £1.7m (2017/18: £1.7m).

The results of the triennial funding valuation as at 31 March 2015 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19.

The main actuarial assumptions used are set out as follows:

	2018	2017
Rate of increase of salaries	**n/a**	n/a
Rate of increase of pensions in payment	**2.4%**	2.4%
Discount rate	**2.6%**	2.4%
Inflation assumption – RPI	**3.2%**	3.2%
Inflation assumption – CPI	**2.1%**	2.1%

The discount rate is based on the yields on AA grade sterling corporate bonds at the reporting date.

Pensioner mortality assumptions are based on the 'S2NA' table, projected from 2007 and with long term improvement rates in line with CMI 2017 core projections based on each member's actual date of birth with a long term annual rate of improvement of 1.25% for males and for females (last year CMI 2015 core projections were used rather than CMI 2017).

The weighted average duration of the defined benefit obligation at 31 March 2018 was 13 years (2017: 14 years).

The investment strategy is set by the Trustee of the Sedgemoor Scheme in consultation with the Company. The current strategy is to invest 50% of the assets in equities, property and other return seeking investments and 50% in liability driven investments, corporate bonds, cash and other bond related instruments. As at 31 March 2018 the investment strategy hedged 60% of interest rate risk and 60% of inflation risk relative to the Sedgemoor scheme's liability value for cash funding purposes.

32. Pensions continued

The Sedgemoor Scheme assets are held exclusively within instruments with quoted prices in an active market, other than the property fund. Re-measurements are recognised immediately through other comprehensive income.

The charges recognised in the consolidated income statement in respect of defined benefit schemes are as follows:

	2018 £m	2017 £m
Pension administration costs (recognised in administrative expenses)	0.3	0.3
Net interest cost on pension scheme deficit (recognised in finance cost)	0.1	0.1
Total	0.4	0.4

The charges recognised in the consolidated statement of comprehensive income are as follows:

Re-measurement (losses) / gains:	2018 £m	2017 £m
Return on plan assets (excluding amounts included in net interest expense)	(0.2)	2.3
Actuarial changes arising from changes in financial assumptions	1.9	(4.6)
Reversal of deferred tax movement on funding surplus under IAS 19 valuation	0.4	0.3
Actuarial gains/(losses) recorded in the consolidated statement of comprehensive income	2.1	(2.0)

The fair value of assets and expected rates of return used to determine the amounts recognised in the consolidated statement of financial position are as follows:

	2018 £m	2017 £m
Equities	3.4	4.1
Bonds	10.0	11.6
Property	3.9	3.7
Absolute Return Fund	5.7	5.1
Diversified Growth Fund	5.1	5.4
Cash	2.3	2.7
Liability driven investments	6.2	3.9
Fair value of scheme assets	36.6	36.5
Present value of funded defined benefit obligations	(39.6)	(42.9)
Liability recognised in the consolidated statement of financial position	(3.0)	(6.4)

Included in the pension liability of £3.0m (2017: £6.4m) is deferred tax of £nil (2017: £0.4m) in relation to a funding surplus under IAS 19 based on the agreed funding plan. Excluding deferred tax liability, the pension liability at the year end was £3.0m (2017: £6.0m).

Changes in the present value of the defined benefit obligation are as follows:

	2018 £m	2017 £m
Opening defined benefit obligation	42.9	39.4
Net interest cost	1.0	1.2
Actuarial (gains)/losses due to:		
Changes in financial assumptions	(1.9)	4.6
Reversal of deferred tax movement on funding surplus under IAS 19 valuation	(0.4)	(0.3)
Benefits paid	(2.0)	(2.0)
Closing defined benefit obligations	39.6	42.9

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

32. Pensions continued

Changes in the fair value of the scheme assets are as follows:

	2018 £m	2017 £m
Opening fair value of scheme assets	**36.5**	33.8
Interest on scheme assets	**0.9**	1.1
Actual return on plan assets less interest on plan assets	**(0.2)**	2.3
Pension administration costs	**(0.3)**	(0.3)
Contributions	**1.7**	1.6
Benefits paid	**(2.0)**	(2.0)
Closing fair value of scheme assets	**36.6**	36.5

Sensitivities

The sensitivity of the 2018 pension liabilities to changes in assumptions are as follows:

Assumption	Change in assumption	Increase in scheme deficit £m
Discount rate	Decrease by 0.5%	2.7
Inflation	Increase by 0.5%	1.1
Life expectancy	Increase by 1 year	2.3

33. Related party disclosures

As at 31 March 2018 the Group's subsidiaries are set out below. The group holds (directly or indirectly) 100% of the total voting rights of all subsidiaries.

Name and nature of business	Registered Office	Country of incorporation and registration	Type of share
Custom Supply			
Acal BFi UK Limited	3 The Business Centre, Molly Millars Lane, Wokingham, RG41 2EY	England	Ordinary Shares
Acal Central Procurement UK Ltd	3 The Business Centre, Molly Millars Lane, Wokingham, RG41 2EY	England	Ordinary Shares
Vertec Scientific Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Vertec Scientific SA (pty) Ltd	8 Charmaine Avenue, President Ridge, Randburg 2194	South Africa	Ordinary Shares
Acal BFi France SAS	4 Allée du Cantal – ZI Petite Montagne Sud – 91090 LISSES	France	Ordinary Shares
Acal BFi Belgium NV/SA	Lozenberg 4, 1932 Zaventem	Belgium	Ordinary Shares
Acal BFi Germany GmbH	Assar-Gabrielsson-Straße 1, 63128, Dietzenbach, Germany	Germany	Ordinary Shares
Acal BFi Nordic AB	P.O. Box 3002, 750 03 Uppsala, Sweden	Sweden	Ordinary Shares
Acal BFi Netherlands BV	Luchthavenweg 53, 5657EA, Eindhoven	Netherlands	Ordinary Shares
Acal BFi Italy Srl	Via Cascina Venina n.20/A, 20090 Assago, Milan	Italy	Ordinary Shares
Design & Manufacturing			
Myrra SAS	2 Boulevard de La Haye, 77600 Bussy, Saint Georges	France	Ordinary Shares
Myrra Poland Sp	Ul Warszawska 1, 05-310 Kaluszyn	Poland	Ordinary shares
Zhongshan Myrra Electronic Co Ltd	39-2 Industrial Road, Xiaolan Industrial Park, Xiaolan Town 528400, Guandong	China	Ordinary shares
Myrra Hispania Srl	c/Mataro 43 Pol. Ind. les Grases, 08980 Saint Feliu De Llobregat, Barcelona	Spain	Ordinary shares
Myrra Germany GmbH	Lebacher Strabe 4, 66113 Saarbrucken	Germany	Ordinary shares
Myrra Hong Kong Ltd	42/F Central Plaza,18 Harbour Road, Wanchai, Hong Kong	Hong Kong	Ordinary shares
Noratel AS	Postboks 133, Hokksund, 3301	Norway	Ordinary shares
Noratel UK Ltd	7 George House, Princes Court, Beam Heath Way, Nantwich, Cheshire CW5 6GD	England	Ordinary shares
Noratel Spain SL	C/Ramon Gomez de la Serna no. 5, 1E, 29602 Marbella-Malaga	Spain	Ordinary shares
Noratel Denmark A/S	Kirkebjerg Parkvej 45, Brøndby 2605	Denmark	Ordinary shares
Noratel Finland OY	Kiertokatu 5, PB 11, Salo 24280	Finland	Ordinary shares
Foshan Noratel Electric Co Ltd	NO 22-2 Xingye Road, Zone C Shishan Science & Technology Industrial Park, Nanhai Distric, Foshan City, Guangdong Providence 528225	China	Ordinary shares
Noratel Germany AG	Elsenthal 53, Grafenau DE-94481	Germany	Ordinary shares
Noratel India Power Components Pvt Ltd	Nila Techopark, Trivandrum 695581	India	Ordinary shares
Noratel SP Z.o.o	ul. Szczecinska 1K, Dobra Szczecinska PL-72-003	Poland	Ordinary shares

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

33. Related party disclosures continued

Name and nature of business	Registered Office	Country of incorporation and registration	Type of share
Danselbud Noratel Transformator Sp Zoo	ul. Szczecinska 1K, Dobra Szczecinska PL-72-003	Poland	Ordinary shares
Noratel International Pvt Ltd	P.O Box 15, phase II, Katunayanke KEPZ	Sri Lanka	Ordinary shares
Noratel Sweden AB	Lars Lindahlsväg 2, Bo Lars Lindahlsväg 2, Box 108, Laxå 69522 x 108, Laxå 69522	Sweden	Ordinary shares
Noratel North America Inc	# 300. 7731 Little Avenue, Charlotte NC 28226	USA	Ordinary shares
Noratel Power Engineering Inc	# 1117 East Janis Street, Carson, CA 90746	USA	Ordinary shares
Foss Fiberoptisk Systemsalg AS	Dansrudveien 45, N-3036 Drammen	Norway	Ordinary shares
Foss Fibre Optics s.r.o	Strojnicka 29, SK-821 05 Bratislava	Slovakia	Ordinary shares
Flux A/S	Industrivangen 5, 4550 Asnaes	Denmark	Ordinary shares
Flux International Ltd	BLK C 5, 41/27 Bangna-Trad KM. 16.5, Bangchalong, Bangplee	Thailand	Ordinary shares
Hectronic AB	P.O. Box 3002, 750 03 Uppsala, Sweden	Sweden	Ordinary Shares
RSG Electronic Components GmbH	Sprendlinger Landstr. 115, 63069 Offenbach, Germany	Germany	Ordinary Shares
MTC Micro Tech Components GmbH	Hausener Straße 9, 89407 Dillingen a.d., Donau	Germany	Ordinary Shares
EMC Innovation Limited	Woolim Lions Valley C-409, 283 Bupyeong-daero, Bupyeong-gu, Incheon	South Korea	Ordinary Shares
Stortech Electronics Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Contour Electronics Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Contour Electronics Asia Limited	Room 601, 6/F Shing Yip Industrial Building, 19-21 Shing Yip Street, Kwun Teng, Kowloon	Hong Kong	Ordinary shares
Plitron Manufacturing Incorporated	8-601 Magnetic Drive, Toronto, Ontario, M3J 3J2	Canada	Ordinary shares
Ixthus Instrumentation Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Heason Technology Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Herga Technology Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Variohm-Eurosensor Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
EWAC Holding B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands	Ordinary shares
Santon Holland B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands	Ordinary Shares
Santon Group B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands	Ordinary Shares
Santon Switchgear Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Santon Circuit Breaker Services B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands	Ordinary Shares
Santon Hakendorps-traat B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands	Ordinary Shares
Santon International B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands	Ordinary Shares
Santon GmbH	Oberstrasse 1, Altes Rathaus Hinsbeck, Postfach 5217, 41334 Nettetal	Germany	Ordinary Shares

33. Related party disclosures continued

Name and nature of business	Registered Office	Country of incorporation and registration	Type of share
Management services			
discoverIE Management Services Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Holding companies			
Acal Electronic Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Trafo Holding AS	Postboks 133, Hokksund, 3301	Norway	Ordinary Shares
discoverIE Nordic Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
discoverIE BV	Luchthavenweg 53, 5657 EA Eindhoven	Netherlands	Ordinary shares
discoverIE Europe Holdings BV	Luchthavenweg 53, 5657 EA Eindhoven	Netherlands	Ordinary shares
Acal GmbH	Oppelner Straße 5, 82194 Gröbenzell, Germany	Germany	Ordinary Shares
Acal France Holdings SAS	4 Allée du Cantal – ZI Petite Montagne Sud – 91090 LISSES	France	Ordinary Shares
Sedgemoor Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Contour Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
discoverIE Electronics Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Aramys SAS	2 Boulevard de La Haye, 77600 Busy Saint Georges	France	Ordinary shares
Variohm Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Dormant companies			
Cabcon Ltd	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Eurosensor Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Acal Supply Chain Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Acal BFi Iberia SL	C/Anabel Segura, 7, Planta Acceso, 28108 Alcobendas, Madrid	Spain	Ordinary Shares
EAF Group Holding BV	Luchthavenweg 53, 5657 EA Eindhoven	Netherlands	Ordinary shares
EAF Netherlands BV	Luchthavenweg 53, 5657 EA Eindhoven	Netherlands	Ordinary shares
Acal Electronics Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
BFi Optilas Ltd	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Sedgemoor Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Sedgemoor Group Supplementary Pension Trustees Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Sedgemoor Group Pension Trustees Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2018

33. Related party disclosures continued

Name and nature of business	Registered Office	Country of incorporation and registration	Type of share
Townsend-Coates Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Actech Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Advanced Crystal Technology Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Bosunmark Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Gothic Crellon Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Radiatron Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Radiatron Components Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Amega Group Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
Amega Electronics Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares

All subsidiaries operate in their country of incorporation. All material subsidiaries have a 31 March year end and the shares carry the same voting rights as their effective interest.

Related parties

Remuneration of key management personnel

The remuneration of the Directors, who are key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in the Directors Remuneration report on pages 76 to 98.

	2018 £m	2017 £m
Short-term employee benefits	**1.2**	1.1
Share-based payments	**1.5**	–
	2.7	1.1

Associate Undertakings

Details of the Group's investments in associates are provided in note 18.

Terms and conditions of transactions with related parties

All transactions with related parties were on an arm's length basis. Outstanding balances at year end are unsecured and settlement occurs in cash.

Transactions with other related parties

Details of transactions with Directors are detailed in the Remuneration report on pages 76 to 98.

34. Events after the reporting date

Dividend

A final dividend of 6.35p per share (2017: 6.05p), amounting to a dividend of £4.5m (2017: £4.3m) and bringing the total dividend for the year to 9.0p (2017: 8.50p), was declared by the Board on 29 May 2018. The discoverIE Group plc financial statements do not reflect this dividend.

A technical non-compliance issue has been identified with respect to distributable reserves and the payment of recent dividends. The Board is confident that there were adequate reserves in subsidiary companies to meet these dividends at the time and that this will not impact the Group's ability to pay future dividends. We expect to remedy the position by means of appropriate resolutions at a general meeting of Shareholders and a circular in respect of this will be issued.

35. Exchange rates

The profit and loss accounts of overseas subsidiaries are translated into sterling at average rates of exchange for the year and consolidated statement of financial positions are translated at year end rates. The main currencies are the US Dollar and the Euro. Details of the exchange rates used are as follows:

	Year to 31 March 2018		Year to 31 March 2017	
	Closing rate	**Average rate**	Closing rate	Average rate
US Dollar	**1.4083**	**1.3261**	1.2496	1.3096
Euro	**1.1430**	**1.1345**	1.1689	1.1921

COMPANY BALANCE SHEET

as at 31 March 2018

	Note	2018 £m	2017 £m
Fixed assets			
Investments	4	**167.8**	177.1
Current assets			
Debtors	5	**2.9**	5.2
Cash at bank and in hand		**14.2**	1.1
Total current assets		**17.1**	6.3
Creditors: amounts falling due within one year	6	**(32.6)**	(22.5)
Net current liabilities		**(15.5)**	(16.2)
Non-current liabilities			
Other financial liabilities	7	**(11.1)**	(12.0)
Other payables[1]	8	**(0.7)**	(1.4)
		(11.8)	(13.4)
Net assets		**140.5**	147.5
Capital and reserves			
Called up share capital	9	**3.6**	3.5
Share premium accounts		**106.9**	106.0
Merger reserve		**2.9**	2.9
Profit and loss account		**27.1**	35.1
Total Shareholders' funds		**140.5**	147.5

The loss of the parent company for the financial year was £1.0m (2017: £0.5m loss).

These financial statements were approved by the Board of Directors on 5 June 2018 and signed on its behalf by:

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director

1 2017 Contingent consideration related to acquisitions has been reclassified from provisions to other payables

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2018

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 April 2016	3.2	95.6	3.0	37.2	139.0
Loss for the year	–	–	–	(0.5)	(0.5)
Transfers (to)/from merger reserve[1]	–	(2.9)	(0.1)	3.0	–
Share-based payments	–	–	–	0.6	0.6
Shares issued	0.3	13.3	–	–	13.6
Dividends	–	–	–	(5.2)	(5.2)
At 31 March 2017	3.5	106.0	2.9	35.1	147.5
Loss for the year	–	–	–	(1.0)	(1.0)
Notional repurchase of share options	–	–	–	(1.5)	(1.5)
Share-based payments	–	–	–	0.7	0.7
Shares issued (note 9)	0.1	0.9	–	–	1.0
Dividends	–	–	–	(6.2)	(6.2)
At 31 March 2018	**3.6**	**106.9**	**2.9**	**27.1**	**140.5**

Out of £27.1m retained earnings above, £3.5m are available for distribution to the Shareholders.

A technical non-compliance issue has been identified with respect to distributable reserves and the payment of recent dividends. The Board is confident that there were adequate reserves in subsidiary companies to meet these dividends at the time and that this will not impact the Group's ability to pay future dividends. We expect to remedy the position by means of appropriate resolutions at a general meeting of Shareholders and a circular in respect of this will be issued.

Prior year (2017) reclassification

1 £3.0 m has been transferred from the merger reserve to the profit and loss account as the business acquisition that gave rise to the merger relief has been sold subsequently and therefore qualifies for transfer to the profit and loss account.

£2.9m has been transferred from share premium to the merger reserve, this amount reflects the share consideration in relation to the acquisition of Contour Holdings Limited in the year ended 31 March 2016. The fair value of shares issued over and above the par value qualifies for merger relief under section 612 of the Companies Act 2006.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2018

1. Basis of accounting

The separate financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), on the going concern basis and under the historical convention modified for fair values, and in accordance with the Companies Act 2006 and with applicable accounting standards.

These financial statements and accompanying notes have been prepared in accordance with the Reduced Disclosure Framework for all periods presented.

A separate profit and loss account dealing with the results of the company has not been presented as permitted by section 408(3) of the Companies Act 2006.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of IAS 1 'Presentation of financial statements'
  - 10(d) (statement of cash flows)
  - 16 (statement of compliance with all IFRS)
  - 111 (cash flow statement information)
  - 134-136 (capital management disclosures)
- IFRS 7 'Financial instruments: Disclosures'
- IAS 7 'Statement of cash flows'
- IAS 24 (paragraph 17) 'Related party disclosures' (key management compensation)
- IAS 24 'Related party disclosures' (the requirement to disclose related party transactions between two or more members of a group)

For the following disclosures, as the Group financial statements include the equivalent disclosures, the company has taken the exemptions available under FRS 101:

- FRS 2 Share-based payments in respect of group settled equity share-based payments
- Certain disclosures required by IFRS 13 Fair Value Measurement and disclosures required by IFRS 7 Financial Instrument Disclosures

2. Summary of significant accounting policies

Going concern

The Group's business activities, together with factors which may adversely impact its future development, performance and position, are set out in the Strategic Report on pages 2 to 46. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review section of the Strategic Report on pages 30 to 35.

The Group has significant financial resources, well established distribution contracts with a number of suppliers and a broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its principal risks and uncertainties as disclosed on pages 38 to 41 of the Strategic Report.

The Group's forecasts and projections, taking account of the sensitivity analysis of changes in trading performance, show that the Group is well placed to operate within the level of its current committed facilities for the foreseeable future.

After making due enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Income recognition

Dividend income is recognised when the Company's right to receive payment is established.

Investments

Investments in subsidiary and associate undertakings are stated initially at cost, being the fair value of the consideration given and including directly attributable transaction costs. The carrying values are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

2. Summary of significant accounting policies continued

Dividends

Dividends are recognised when they meet the criteria for recognition as a liability. In relation to final dividends, this is when approved by the Shareholders in general meeting, and in relation to interim dividends, when paid.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, in accordance with the effective interest rate method.

Share-based payments

In preparing the financial statements, the Company has applied IFRS 2 'Share-based payments'. Although the Company does not incur a charge under this standard, the issuance by the Company to its subsidiaries of a grant over the Company's options represents additional capital contributions by the Company in its subsidiaries. The additional capital contribution is based on the fair value of the grant issued, allocated over the underlying grant's vesting period.

Further information on share based payments is provided in note 31 of the Group accounts.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Deferred tax assets are regarded as recoverable and recognised in the financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

3. Profit of the parent company

The loss of the parent company for the financial year was £1.0m (2017: £0.5m loss). By virtue of section 408(3) of the Companies Act 2006, the Company is exempt from presenting a separate profit and loss account.

4. Investments

	Subsidiary undertakings £m
At 1 April 2016	176.6
Adjustment to investment	(0.1)
Share-based payments	0.6
At 31 March 2017	177.1
Impairment of investment	(10.0)
Share-based payments	0.7
At 31 March 2018	**167.8**

Details of all direct and indirect holdings in subsidiaries are provided in note 33 of the Group Financial Statements.

The investment in discoverIE Management Services Ltd was impaired by £10.0m following the annual impairment test.

The adjustment to investment in subsidiaries in the year ended 31 March 2017 relates to Contour Holdings Limited, which was acquired in 2016.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2018

5. Debtors

	2018 £m	2017 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**1.3**	4.0
Corporation tax	**1.4**	0.9
Deferred tax	**0.1**	0.1
Prepayments	**0.1**	0.2
	2.9	5.2

The deferred tax asset comprises temporary timing differences.

6. Creditors

	2018 £m	2017 £m
Amounts falling due within one year:		
Bank loans and overdrafts	**–**	0.7
Amounts owed to subsidiary undertakings	**31.3**	21.0
Other creditors	**0.3**	0.4
Accruals and deferred income	**1.0**	0.4
	32.6	22.5

7. Other financial liabilities

Other financial liabilities of £11.1m at 31 March 2018 (2017: £12.0m) comprise drawdowns on the Group's revolving credit facility (see note 22 to the Group financial statements). The amount is denominated in Sterling and bears interest based on LIBOR. The facility is secured against the shares of certain Group subsidiaries.

8. Other payables

	2018 £m	2017 £m
Other payables	**0.7**	1.4
	0.7	1.4

The balance at 31 March 2018 of £0.7m (2017: £1.4m) relates to contingent consideration in respect of the acquisition of Contour.

9. Called up share capital

Allotted, called up and fully paid	**2018 Number**	**2018 £m**	2017 Number	2017 £m
Ordinary shares of 5p each	**71,417,857**	**3.6**	70,680,974	3.5

On 1 February 2018 the Company issued 223,648 new ordinary shares ("Consideration Shares") to the Shareholders of the Santon Group ("Santon") in connection with the acquisition of Santon. The fair value of the shares issued was £0.9m

The difference between the nominal value of the shares issued and the gross proceeds has been credited to the share premium account.

The new shares issued rank pari passu in all respects with the existing shares issued, including the right to receive all dividends and other distributions declared, made or paid on the existing ordinary shares.

At 31 March 2018, there were outstanding options for employees of subsidiaries to purchase up to 4,580,130 (2017: 4,847,184) ordinary shares of 5p each between 2018 and 2028. The range of exercise prices was nil (2017: nil). These are subject to certain performance conditions as disclosed in note 31 of the Group Financial Statements. During the year to 31 March 2018, employees exercised 513,235 share options under the terms of the LTIP scheme (2017: 50,098).

10. Related parties

The Company is exempt under the terms of IAS 24 from disclosing related party transactions with wholly-owned entities that are part of the Group as these transactions are fully eliminated on consolidation.

The Company has given guarantees and offset arrangements to support bank facilities made available to subsidiary undertakings.

11. Share-based payments

For detailed disclosures of share-based payments granted to the employees of subsidiaries refer to note 31 of the Group Financial Statements.

FIVE YEAR RECORD

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Group income statement – continuing operations					
Revenue	**387.9**	338.2	287.7	271.1	211.6
Gross profit	**126.7**	111.0	92.6	84.4	63.0
Underlying operating profit	**24.5**	20.0	16.3	13.4	7.1
Underlying profit before tax	**21.9**	17.2	14.5	11.8	6.3
Profit before tax	**15.8**	4.8	9.4	4.3	4.2
Profit for the year from continuing operations	**11.8**	3.5	7.2	2.9	3.7
Loss for the year from discontinued operations	**–**	–	–	–	(2.4)
Profit for the year	**11.8**	3.5	7.2	2.9	1.3
Earnings per share – continuing operations					
Underlying diluted earnings per share	**22.3p**	19.2p	17.0p	15.4p	11.8p
Fully diluted earnings per share	**15.8p**	5.1p	10.9p	4.8p	8.1p
Dividend per share	**9.0p**	8.5p	8.05p	7.6p	6.8p
Group statement of financial position					
Net (debt)/cash	**(52.4)**	(30.0)	(38.1)	(19.0)	1.8
Non-current assets	**144.2**	122.2	108.4	88.6	33.1
Net assets	**129.3**	123.8	101.9	92.7	48.5

2014 has been restated on a continuing basis. Earnings per share and dividend per share for 2014 have also been restated to reflect the bonus element of the rights issue during 2015.

PRINCIPAL LOCATIONS

Group head office

Country	Company	Location
United Kingdom	discoverIE Group plc	Guildford

Custom Supply division

Country	Company	Location
United Kingdom	Acal BFi UK Limited	Wokingham, Bracknell, Milton Keynes
	Acal BFi Central Procurement UK Limited	Wokingham
	Vertec Scientific Limited	Silchester
Belgium	Acal BFi Belgium NV/SA	Brussels
Denmark	Acal BFi Nordic AB	Copenhagen
Finland	Acal BFi Nordic AB	Helsinki
France	Acal BFi France SAS	Evry
Germany	Acal BFi Germany GmbH	Dietzenbach, Munich
Ireland	Acal BFi UK Limited	Maynooth
Italy	Acal BFi Italia Srl	Milan
Netherlands	Acal BFi Netherlands BV	Eindhoven
Norway	Acal BFi Nordic AB	Honefoss
South Africa	Vertec Scientific SA (pty) Ltd	Johannesburg
Spain	Acal BFi Iberia SL	Madrid
Sweden	Acal BFi Nordic AB	Stockholm, Uppsala

Design & Manufacturing division

Country	Company	Location
United Kingdom	Contour Electronics Limited	Hook
	Heason Technology Limited	Horsham
	Herga Technology Limited	Bury St. Edmunds
	Ixthus Instrumentation Limited	Towcester
	Noratel UK Limited	Nantwich
	Santon Switchgear Ltd	Newport
	Stortech Electronics Limited	Harlow
	Variohm-Eurosensor Limited	Towcester
Canada	Plitron Manufacturing Inc	Toronto
China	Foshan Noratel Electric Co Ltd	Foshan City
	Zhongshan Myrra Electronic Co Ltd	Zhongshan
Denmark	Noratel Denmark A/S	Brondby
	Flux A/S	Asnaes
Finland	Noratel Finland OY	Salo
France	Myrra SAS	Bussy-Saint-Georges
Germany	MTC Micro Tech Components GmbH	Dillingen
	Noratel Germany AG	Grafenau, Bremen
	RSG Electronic Components GmbH	Offenbach
	Santon GmbH	Nettetal
Hong Kong	Contour Asia Ltd	Kowloon
India	Noratel India Power Components Pvt Ltd	Kerala
Netherlands	Noratel Netherlands BV	Nieuwegein
	Santon Holland BV	Rotterdam
Norway	Foss AS	Drammen
	Noratel AS	Hamar
Poland	Myrra Poland Sp	Kaluszyn
	Noratel Sp	Szczecinska
Slovakia	Foss Fibre Optics, sro	Bratislava
South Korea	EMC Innovation Ltd	Cheongcheon-Dong
Sri Lanka	Noratel International Pvt Ltd	Katunayake
Sweden	Hectronic AB	Uppsala
	Noratel Sweden AB	Laxa, Vaxjo
Thailand	Flux International Ltd	Bangkok
USA	Noratel North America Inc.	Charlotte
	Noratel Power Engineering Inc.	Carson

SHAREHOLDER NOTES

FINANCIAL CALENDAR 2018/19

Annual General Meeting	**26 July 2018**

Results

Interim Report for the six months to 30 September 2018	**Late November 2018**
Preliminary announcement for the year to 31 March 2019	**Early June 2019**
Annual Report 2019	**Late June 2019**

Dividend payments

Final dividend for the year to 31 March 2018	**31 July 2018**
Interim dividend for the six months to 30 September 2018	**Late January 2019**
Final dividend for the year to 31 March 2019	**Late July 2019**

CORPORATE INFORMATION

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Incorporated in England and Wales
with registered number: 2008246

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PricewaterhouseCoopers LLP

Corporate solicitors

White & Case LLP

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Danske Bank A/S
HSBC Bank plc

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