

INNOVATIVE ELECTRONICS DRIVING GLOBAL GROWTH



INNOVATIVE ELECTRONICS

WELCOME TO OUR 2019 ANNUAL REPORT

discoverIE 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

Introduction to discoverIE

- We design, manufacture and supply customised electronic components which are highly differentiated
- Customers are Original Equipment Manufacturers who depend on our products
- Supplying growth markets with increasing electronic content
- Highly acquisitive in a fragmented market

Our investor website

Visit:

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 further content within the report
- @ This icon signposts to further information that can be found online



READ MORE

Strong investment case

discoverIE designs, manufactures and supplies application-specific electronic products that help our customers solve their technical challenges.

➔ Read more on our investment case on page 5



Profit growth across both divisions

Underlying operating profit increased by 25% (+26% CER) with the Group well positioned for further growth.

➔ Read more in our finance review on page 34



Target markets leading growth

Two-thirds of Group revenue is derived from our target markets of renewable energy, transportation, medical and industrial & connectivity.

➔ Read more on our target markets on page 15



Consistency and proven strategy

The Group pursues a clear strategy, investing in initiatives that enhance design opportunities for customised products in targeted growth markets.

➔ Read more on our strategy on page 16



CONTENTS

Strategic report

Highlights	4
Investment case	5
Group at a glance	6
Chairman's statement	8
Our business model	12
Market review	14
Our key markets	15
Our strategy	16
Strategy in action	18
Key Strategic Indicators	23
Key Performance Indicators	24
Operating review	26
Finance review	34
Risk management	40
Principal risks and uncertainties	42
Corporate social responsibility	46

Corporate governance

The Board	54
The Group Executive Committee	56
Directors' report	58
Board report on corporate governance	62
Audit and Risk Committee report	74
Nomination Committee report	80
Directors' remuneration report	82
Directors' responsibilities statement	103

Financials statements

Independent auditor's report to the members of discoverIE Group plc	106
Consolidated income statement	118
Supplementary income statement information	118
Consolidated statement of comprehensive income	119
Consolidated statement of financial position	120
Consolidated statement of changes in equity	121
Consolidated statement of cash flows	122
Notes to the Group financial statements	123
Company balance sheet	169
Company statement of changes in equity	170
Notes to the Company financial statements	171

Other information

Five year record	175
Principal locations	176
Financial calendar 2019/20	IBC
Corporate information	IBC



Differentiated products

Targeting growth markets driven by innovation

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

Medical

This market is driven by the increasing use of technology in diagnosing, monitoring and controlling medical conditions



Read more on our target markets on page 14



STRATEGIC REPORT

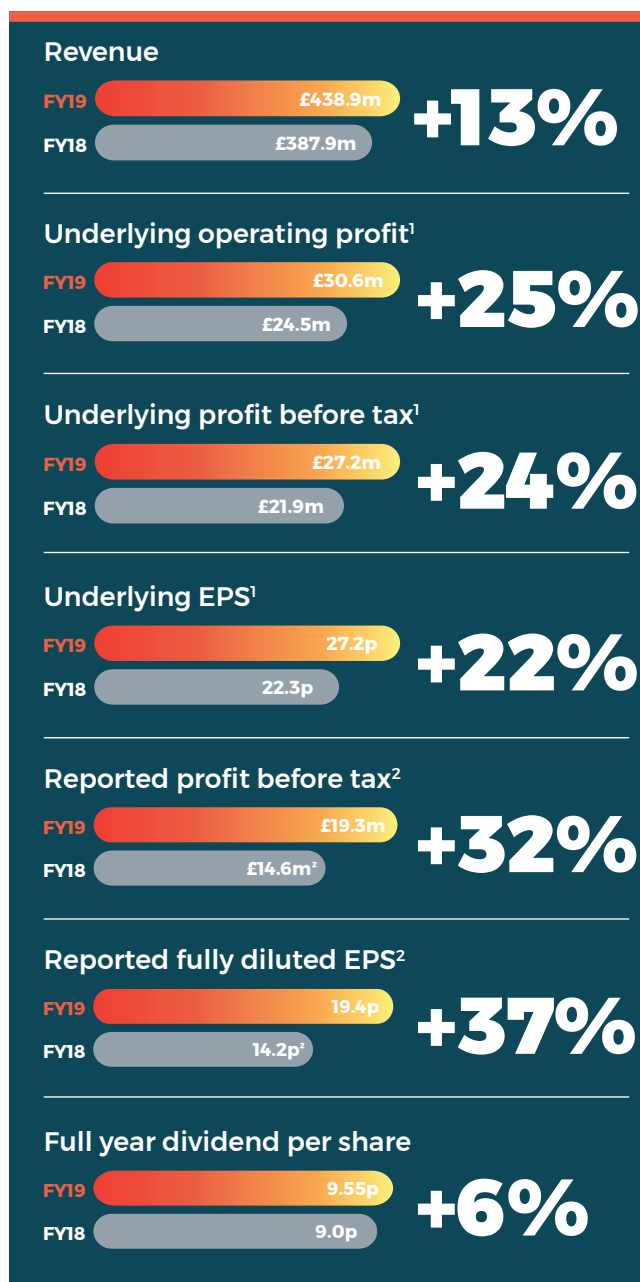
HIGHLIGHTS

- Strong financial and operating performance**
 - Group sales and orders increased by 13% (+14% CER³)
 - Group organic sales and orders grew by 8%
 - D&M organic⁴ sales up 10%: now 61% of Group sales (FY 2017/18: 57%)
 - Underlying operating profit increased by 25% (+26% CER)
 - Underlying earnings per share increased by 22%
 - Excellent cash generation with £28.6m operating cash flow⁵, 93% of underlying operating profit
- Further good progress on key strategic and performance targets**
 - Underlying operating margin increased to 7.0% (FY 2017/18: 6.3%)
 - Sales beyond Europe increased to 21% of total sales (FY 2017/18: 19%)
 - Cross-selling revenue of £10.6m, up 20% on last year (FY 2017/18: £8.8m)
 - ROCE⁶ of 15.4% (FY 2017/18: 13.7%²)
 - Full year dividend increased by 6%
- Three higher margin, international D&M acquisitions completed, two since the year end**
 - Cursor Controls acquired in October 2018 for £19m
 - Hobart and Positek acquired in April 2019 for £16m
- Group well positioned for further growth**
 - Strong growth in new project design wins
 - Record year-end order book of £139m (+15% CER)
 - Over-subscribed equity placing in April 2019, raising a net £28m
 - Debt facility extended by £60m to £180m with gearing⁷ reduced to 1.4x (post equity fundraising)
 - Further acquisition opportunities developing
 - New year trading has started well

[➔ Read more in our finance review on page 34](#)

Notes:

- Underlying operating profit', 'Underlying EBITDA', 'Underlying operating costs', 'Underlying profit before tax' and 'Underlying EPS' are non-IFRS financial measures used by the Directors to assess the underlying performance of the Group. These measures exclude acquisition-related costs (amortisation of acquired intangible assets of £5.9m, acquisition costs of £1.8m, the IAS19 pension charge relating to a legacy defined benefit scheme of £0.4m) and exceptional income of £0.2m for FY 2018/19. Equivalent underlying adjustments within the FY 2017/18 underlying results totalled £7.3m. For further information, see note 2 of the Group financial statements.
- Last year's financial statements have been restated as set out in note 2 of the Group financial statements which has impacted reported profit before tax and reported fully diluted EPS.
- Growth rates at constant exchange rates ("CER"). The average sterling rate of exchange against the euro was in line with last year, weakened 1% against the US dollar and was up 3% on average against the three Nordic currencies.
- Organic growth for the Group is calculated at CER and is shown excluding the first 12 months of acquisitions (Santon was acquired last financial year on 1 February 2018), and Cursor Controls was acquired on 17 October 2018.
- Operating 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.
- Return on capital employed ("ROCE") is defined as underlying operating profit as a percentage of net assets (including goodwill) plus net debt.
- Group gearing is defined as net debt divided by underlying EBITDA (annualised for acquisitions).



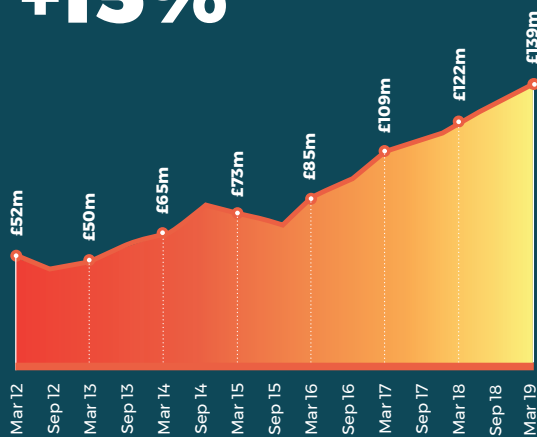
INVESTMENT CASE

1 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

Record Order Book 2010-2019

+15%



3 Focus on customised electronics

- Highly differentiated electronic products meeting customer demand for application-specific solutions

➔ Read more about our business model on pages 12 and 13

2 Strong financials

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

➔ Read more on page 34

Increase in dividend 2010-2019

+6%



4 Attractive growth markets

- Technology revolution driving new product development
- Global trends underpinning structural growth
- Applications necessitating increased electronic content

➔ Read more in our market review on pages 14 and 15



GROUP AT A GLANCE



Internationalising the business

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.



23
COUNTRIES



25,000
CUSTOMERS

Our global operation with a highly differentiated approach

The Design & Manufacturing division (“D&M”) has gone from a UK business in 2011 to a global business in 2019 operating in 23 countries. Twenty-one per cent of Group sales for the year were beyond Europe. During the year, production ramp-up began in the Group’s new, larger production facilities in Bangalore, India, Bratislava, Slovakia and Seoul, Korea. Additionally, the expansion of the magnetics components production facility in China, which will complete during FY 2019/20, will expand Myrra’s Asian capacity by around 70%.

The Custom Supply division also has a strong international presence. Acal BFI operates across 11 countries in Europe, with logistic centres in Germany, UK and Hong Kong. Each country has its own dedicated sales force and technical support teams, supported by central business development directors.

Developing sales in North America and Asia

🌐 Emerging markets ● Sales and manufacturing ● Manufacturing ● Sales

➔ Read more about the Internationalisation of our business on page 22

North America

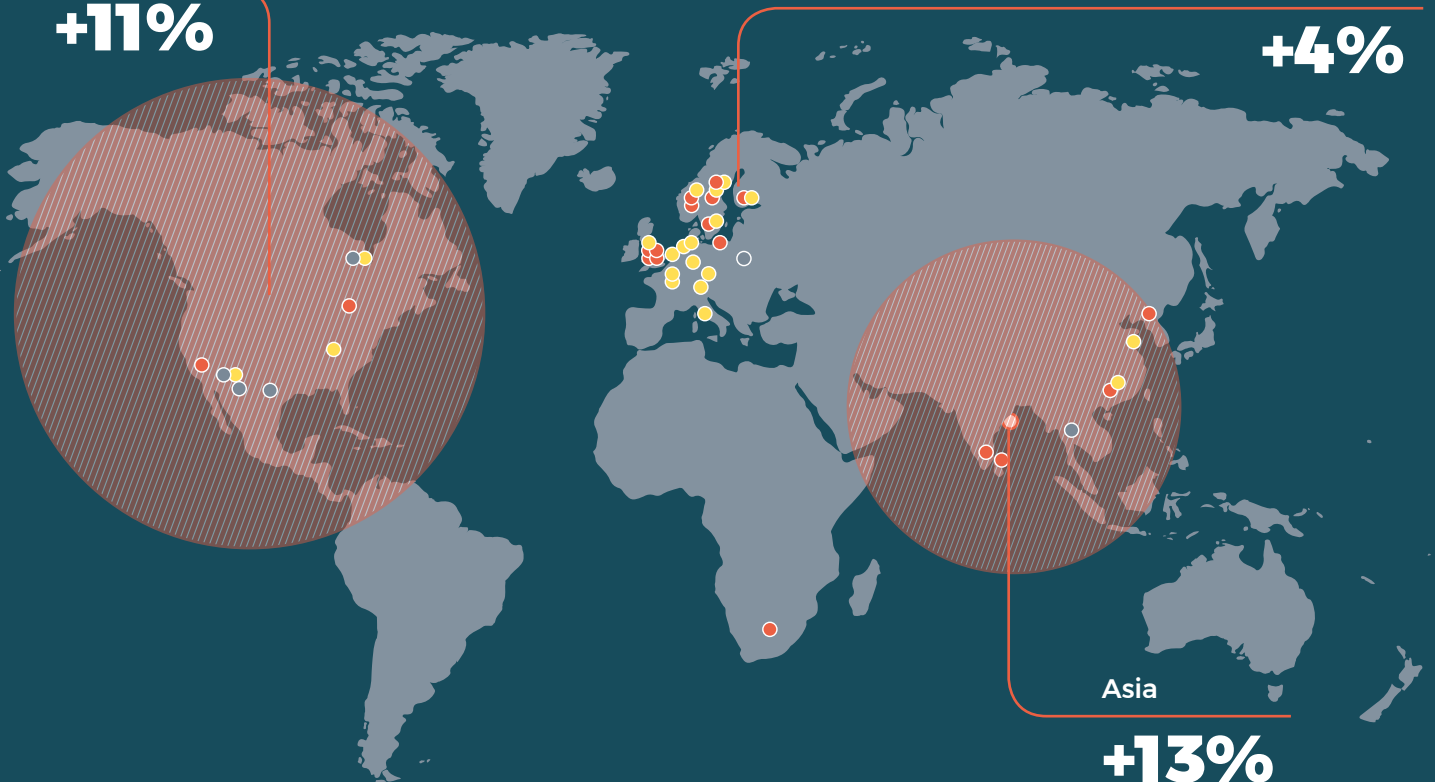
+11%

Europe

+4%

Asia

+13%

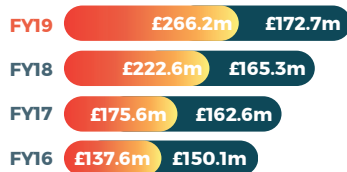


Our divisions

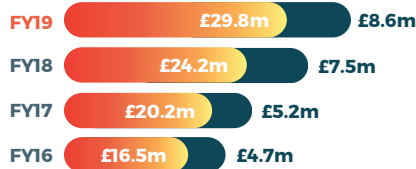
discoverIE operates across two divisions **Design & Manufacturing** and **Custom Supply**. The Group's increasing focus on design and manufacturing is reflected in both revenue and underlying profit.

➔ Read more on our products on pages 18 to 19

Revenue



Underlying operating profit



- Design and Manufacturing
- Custom Supply

➔ Read more on our performance on page 34



▶ Watch our Corporate film at:
www.discoverIEplc.com

DESIGN AND 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.

Underlying operating margin

11.2%

Number of employees:

3,840

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.

Underlying operating margin

5.0%

Number of employees:

425

CHAIRMAN'S STATEMENT



“The Group has made significant progress again this year with an excellent set of results.”

Malcolm Diamond MBE
Chairman

2019 HEADLINES



Group sales

+13%



Underlying operating profit

+25%

[➔ Read more in our finance review on page 34](#)

I am pleased to report that the Group has made significant progress again this year with an excellent set of results reflecting strong levels of organic growth and operating efficiency. Progress has been made on all the Group's strategic and operational objectives towards our mid-term targets with one of these objectives being upwardly revised for the coming year.

Acquisitions continue to play an important role in building discoverIE. The most recent acquisitions of the UK-based Cursor Controls and Positek, and Hobart in the US, are all high quality, higher margin D&M businesses, designing, manufacturing and supplying custom solutions. Each provides good scope for developing further, both in our target markets and internationally, with c.70% of sales from the three businesses being beyond Europe.

Strategy

The Group is an international leader in customised electronics, focusing on structurally growing markets driven by 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 sees the opportunity to continue expanding beyond Europe (currently 21% of Group sales), as well as within Europe, as we continue our strategy of building a global electronics group.

A priority for the year ahead is to deliver further good growth through a combination of organic performance and value-enhancing acquisitions.

Group results

Group sales for the year increased by 13% to £438.9m and by 14% at constant exchange rates ("CER").

Underlying operating profit, which excludes acquisition-related costs and exceptional items, increased by £6.1m to £30.6m (up by 25% and up by 26% CER) with underlying profit before tax increasing by £5.3m to £27.2m (up 24%). The strong growth in D&M helped to deliver a 70bps increase in underlying operating margins to 7.0% (FY 2017/18: 6.3%), despite additional investment to support future growth and an adverse impact of the weak solar market at Santon during the year.

Underlying earnings per share for the year increased by 22% to 27.2p (up 4.9p from 22.3p last year). The difference between the growth of underlying profit before tax and underlying earnings per share results from a slightly higher underlying tax rate (up c.1ppt).



After underlying adjustments for acquisition-related costs of £8.1m, offset by exceptional income of £0.2m, profit before tax for the year on a reported basis was £19.3m, a 32% increase from last year (FY 2017/18: £14.6m), with fully diluted earnings per share increasing by 37% to 19.4p (FY 2017/18: 14.2p).

Cash generation was strong, with operating cash flow of £28.6m up 29% on last year (FY 2017/18: £22.1m), and representing 93% of underlying operating profit. Net debt at the year end was £63.3m, resulting in a Group gearing ratio of 1.7 times. We are mindful of retaining a strong financial position, in order to retain the flexibility to take advantage of further acquisition opportunities and are comfortable operating with gearing in the range of 1.5 to 2.0 times. Alongside the acquisitions of Hobart and Positek, in April 2019, we took the opportunity to strengthen the balance sheet by way of a well-supported placing which raised net proceeds of £28.2m, reducing pro-forma year-end gearing to 1.4 times. Together with strong organic cash flows, this provides the Group with an excellent platform from which to continue to execute its growth strategy. On behalf of the Board, I would like to thank Shareholders for their support.

As reported in our first half results, we uncovered a fraud at one of our subsidiary companies through our divisional control processes. Management's response was swift, decisive and appropriate. A review of our internal controls and procedures was undertaken and a number of recommendations were made and implemented which will further strengthen our controls. The Group is insured against fraud and management was able to recover the majority of the loss.

Acquisitions

On 17 October 2018, the Group acquired the Cursor Controls Group ("Cursor Controls"), a designer and manufacturer of human to machine interface products for an initial consideration of £19.0m on a debt free, cash free basis, and a contingent payment of up to £4.0m, subject to the business achieving certain profit growth targets during the three-year period ended 31 December 2021. Cursor Controls is based in the UK and Belgium.

Since the year end, on 16 April 2019, the Group acquired Hobart Electronics ("Hobart"), a designer and manufacturer of custom transformers, inductors and magnetic components, for an initial cash consideration of \$15.2m (£11.7m) on a debt free, cash free basis and a contingent payment of up to \$4.0m (£3.1m), subject to the achievement of certain growth targets over the three-year period ended 31 December 2021. Hobart is based in the US with manufacturing in Mexico.

Also on 16 April 2019, the Group acquired Positek, a designer and manufacturer of customised rugged, high accuracy sensors for an initial consideration of £4.2m on a debt free, cash free basis and a further contingent payment of up to £0.4m, payable subject to the achievement of certain integration and profit targets in the next 18 months. Positek is based in the UK and supplies international markets.

We are delighted to welcome the employees from all the new businesses into the Group.

CHAIRMAN'S STATEMENT

Board changes

After six years, Henrietta Marsh and Richard Brooman will retire at the Company's Annual General Meeting on 25 July 2019. Henrietta has served as a Non-Executive Director since May 2013 and as Chair of the Remuneration Committee since October 2014. Richard has served as a Non-Executive Director since January 2013, Chair of the Audit and Risk Committee since July 2013 and as Senior Independent Director since December 2014. We thank them for their significant contributions to the Company's development and wish them well.

Tracey Graham, who has been on the Board since November 2015, has succeeded Henrietta as Chair of the Remuneration Committee. Tracey is also Non-Executive Director and Chair of the Remuneration Committee at Royal London Mutual Insurance Society and Istock plc. Bruce Thompson, who joined the Board as a Non-Executive Director in February 2018, will succeed Richard as Senior Independent Director.

Since the period end, it has been announced that Clive Watson will join the Board in September 2019 as a Non-Executive Director and Chair of the Audit and Risk Committee. Clive has recently retired from Spectris plc after 13 years as Group Finance Director and also from Spirax Sarco Engineering plc where he was Senior Independent Non-Executive Director and Chair of the Audit and Risk Committee, having joined in 2009.

Dividend

The Board is recommending a 6% (0.4 pence) increase in the final dividend per share to 6.75 pence per share, giving a full-year dividend per share of 9.55 pence, and representing a cover against underlying earnings of 2.8 times (FY 2017/18: 2.5 times). The final dividend is payable on 30 July 2019 to shareholders registered on 14 June 2019. Since 2010, the annual dividend per share has risen by 88% and the total dividend payment by nearly 350%.

In light of the Group's active and successful acquisition strategy, the Board believes that maintaining a progressive dividend policy with a long-term dividend cover (over three times underlying earnings) is appropriate to enable both dividend growth and a higher level of investment from internally generated resources.

Employees

Including the recent acquisitions of Cursor Controls, Hobart and Positek, the Group now comprises approximately 4,400 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, investment and controls, the Group is able to continue to foster an ambitious and successful culture.

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

By focusing on structural growth markets and responding effectively to complex customer requirements, the Group has evolved into a higher quality business that is making excellent progress and delivering strong results.

The market in which we operate remains highly fragmented, offering scope to build the Group's technology capability and extend its geographical coverage through disciplined acquisitions. Combined with continued organic growth, the Board and management continue to be excited by the opportunities ahead to build a global business, that attracts and retains high quality employees, delivers value to our customers, and grows returns for our Shareholders.

Malcolm Diamond MBE

Chairman

4 June 2019



OUR BUSINESS MODEL

discoverIE is an international leader in customised electronics focusing on markets with sustained growth prospects and increasing electronic content. We design, manufacture and supply electronic products that are central to our customers' requirements.

OUR RESOURCES

People and culture

Our achievements are a result of the commitment, skills and ingenuity of our employees who have a high degree of technical knowledge. We have a decentralised ambitious and entrepreneurial culture which allows our 4,400 employees across the globe to contribute to the Group's success.

Technology and engineering capability

Our technology expertise enables us to meet emerging customer needs driven and enabled by the technology revolution. Our engineering expertise allows us to respond to both the need for increased electronic content and for application-specific solutions, supporting our customers throughout the entire product lifecycle.

Design & Manufacturing facilities

Over 80% of the products made by the Design & Manufacturing division are manufactured in-house. Our manufacturing processes enable us to respond efficiently to our customers' demands. The division's principal manufacturing facilities are in China, India, the Netherlands, Poland, Slovakia, Sri Lanka and Thailand. Two new manufacturing facilities in Mexico were acquired as a result of the acquisition of Hobart Electronics.

➔ Read about Design & Manufacturing on page 30

Long-term customer relationships

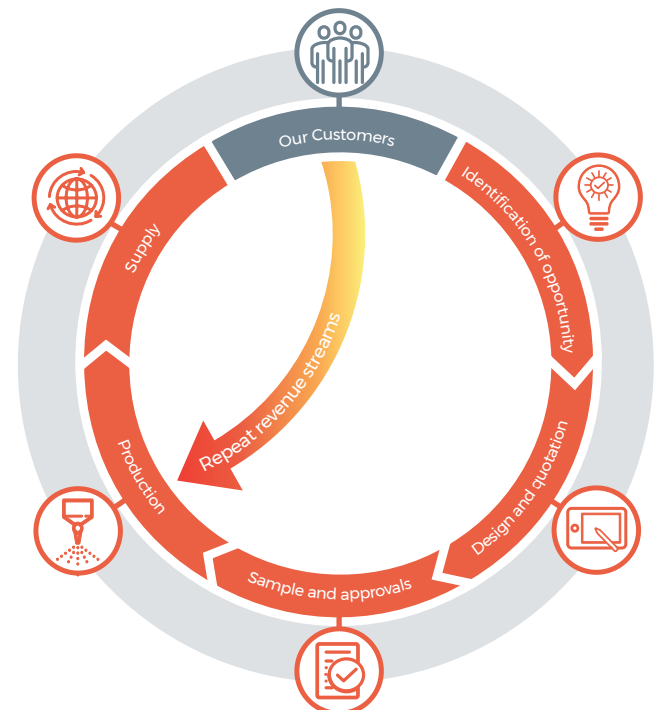
discoverIE's highly skilled engineers work closely with customers to develop a deep understanding of their industry and requirements. Our engineers use this knowledge to create innovation-led, bespoke solutions which are then designed into the customers' products.

Financial

Our financial strength enables us to invest heavily in our existing businesses and to broaden our reach through further acquisitions, both geographically and technologically.

@ 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 five to seven 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 stronger customer relationships and achieving more efficient use of sales resources. Our Custom Supply division provides excellent cross-selling opportunities by providing the Design & Manufacturing businesses access to 20,000 customers.

OUR COMPETITIVE ADVANTAGES

1 Global reach

No other company offers our range of capabilities on our scale. Our global footprint means that we can meet the location demands of our customers.

2 Expertise

We have been active in the electronics market for over 20 years and our expertise and knowledge has grown over this time. This allows us to develop new products in response to changing technologies.

3 Differentiated products

The products which we design and manufacture are application specific. We have specialist knowledge in many niche markets, enabling us to differentiate our products to match our customers' requirements.

Our customers



Large customer base, spread geographically and across multiple industries. Our customers are Original Equipment Manufacturers 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 jointly develop appropriate 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 both customers and their end users.

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 are accepted, 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 can maintain complete control of the product manufacturing process, ensuring both high standards and reliability. Quality is assured through our advanced testing procedures.

Supply



discoverIE is able to supply the customer consistently over the lifetime of the project. We do this through ongoing production and maintaining inventory, be it in-house or on consignment at the customer.

VALUE CREATION FOR OUR STAKEHOLDERS

Customers

- Improved usability and effectiveness of the products we design, manufacture and supply results in enhanced performance of our customers' applications, which also benefits their own customers.
- We enable customers to differentiate their own products from their competitors.
- Cost-efficient
- Quick lead times
- Quality: high standards and reliable components. We are able to achieve this as we have complete control over the end-to-end process of the production of an electronic solution.

Employees

Employees benefit from the ability to improve their skills and work in a challenging and ambitious environment. They get the opportunity to make a contribution to world-leading products. We have created an environment where each employee is able to be their best.

Shareholders

We generate attractive returns for Shareholders over the long term.

Communities and the environment

We aim to contribute positively to the communities and environment in which we operate.

Suppliers

Our geographical footprint allows us to engage with suppliers at their locations. We enable smaller suppliers to expand their global network via our international supply chain.

Governing bodies and regulators

We aim to create trusted relationships with governing bodies and regulators, meeting all legal and regulatory commitments and requirements.

➔ Read about stakeholder engagement on page 47

MARKET REVIEW

TARGETING GROWTH MARKETS DRIVEN BY INNOVATION

Long-term technology trends

Target markets

The Group focuses on four target markets, which account for 71% of D&M turnover and 66% of Group turnover: transportation, medical, renewable energy and industrial & connectivity. These are expected to drive the Group's organic revenue growth well ahead of GDP over the economic cycle and create acquisition opportunities.

Growth in these markets is driven by increasing electronic content, connectivity and communication in products, and by global macro trends such as an ageing affluent population, an expanding transport infrastructure and the increasing need for renewable sources of energy. This year, organic revenue growth in these target markets was 12%, compared with 8% for the Group as a whole.



RENEWABLE ENERGY



TRANSPORTATION



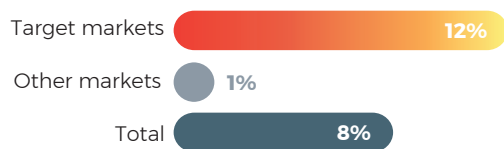
MEDICAL



INDUSTRIAL & CONNECTIVITY

OUR SALES BY INDUSTRY SECTOR

Organic growth by market



REVENUE FROM TARGET MARKETS

(% of total) Group revenue

- Target markets
£290m
66%
- Other markets
£149m
34%



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.

	Renewable energy	Transportation	Medical	Industrial & connectivity
Key facts	2/3 global investment in power generation to 2040 will be into renewable energy ¹	Automotive circuits expected to rise CAGR 13.4% (2016-2021) ²	Medical electronics to grow CAGR 6.8% (2017-2022) ³	Overall market size for global machine-to-machine connections to rise CAGR 13.2% (2016-2022) ⁴
Mega trends	Decarbonisation and diversification	Electrification and autonomous vehicles	Artificial intelligence, sensing and analytics	Connectivity and industrial internet of things
Market drivers	<ul style="list-style-type: none"> ■ Geopolitical consensus ■ Growing public awareness ■ Legislative and regulatory regimes ■ Cost of energy 	<ul style="list-style-type: none"> ■ Decarbonisation ■ "Safety-centric" agenda ■ Mass transit and route vehicles 	<ul style="list-style-type: none"> ■ Proactive and preventative medicine ■ Technological and biological fusion ■ Predictive analytics 	<ul style="list-style-type: none"> ■ Remote monitoring and control ■ Quality control ■ Precision and automation
Technology integration	<ul style="list-style-type: none"> ■ Increasing scale of wind turbines ■ Diversification of solar systems 	<ul style="list-style-type: none"> ■ Electric vehicles ■ Mass transit and route vehicles ■ Autonomous vehicles ■ High-speed rail 	<ul style="list-style-type: none"> ■ Monitoring and control ■ Automation and robotics ■ Advanced surgery 	<ul style="list-style-type: none"> ■ Automation and robotics ■ "Smart factories" ■ Artificial intelligence ■ Increasing electronic content
discoverIE solutions	<ul style="list-style-type: none"> ■ Power inductors ■ Turbine blade pitch control ■ Airflow measurement 	<ul style="list-style-type: none"> ■ Charging ■ Sensors ■ Power control ■ Cabin monitoring and control 	<ul style="list-style-type: none"> ■ Embedded diagnostics ■ Interface device and cabling ■ Power systems 	<ul style="list-style-type: none"> ■ Wireless telematics ■ Fibre optic connectivity ■ AI communication ■ Wireless robotics control ■ Power control ■ Shielding

¹ Source: World Energy Outlook 2017

² Source: IC Insights

³ Source: Research+ Markets

⁴ Source: Markets-and-Markets

 Read more about our strategy on page 16

OUR STRATEGY



“We have pursued a clear strategy and the benefits of this approach are evident in the Group’s results.”

Nick Jefferies

Group Chief Executive

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

Over recent years, the Group has pursued a clear strategy, investing in initiatives that enhance design opportunities for customised products in targeted growth markets, namely: renewable energy; transportation; medical; and industrial & connectivity. The benefits of this approach are evident in these results with strong levels of organic revenue growth throughout the established business units in the D&M division, driving a 23% increase in its divisional underlying operating profits. Likewise, in the Custom Supply division, good organic growth and greater efficiency has resulted in a 15% increase in its underlying operating profit.

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

In a fragmented market, there exist opportunities to consolidate certain manufacturers of customised products for the Group’s common customer base, which ranges from mid-sized original equipment manufacturers to multinational companies operating in multiple locations. 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 strategic priorities



Growing sales well ahead of GDP



Continue building revenues in the D&M division



Acquire high quality businesses







Internationalising the business

Link to key strategic indicators and risks

Strategic priorities

Progress made

 <p>Growing sales well ahead of GDP Grow sales well ahead of GDP over the economic cycle by focusing on structural growth markets</p>	<p>Group organic sales in the year grew by 8% driven by 10% organic growth in the D&M division and 5% in Custom Supply</p>	<p>2 1</p>
 <p>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</p>	<p>The D&M division accounts for 61% of Group sales (FY2017/18: 57%) and 78% of the Group’s underlying profit contribution</p>	<p>1 1</p>
 <p>Acquire high quality businesses Acquire businesses with attractive growth markets and strong operating margins</p>	<p>In October 2018, the Group acquired the Cursor Controls Group, a UK-based designer of human to machine interface products. Since acquisition, Cursor Controls has performed strongly with excellent growth in orders and sales. Two further acquisitions, Positek and Hobart Electronics were made in April 2019 and are settling in well</p>	<p>1 1 2 2 3</p>
 <p>Internationalising the business Further internationalise the business by developing sales in North America and Asia</p>	<p>Sales beyond Europe represented 21% of Group revenue (FY2017/18: 19%) improving as a result of Santon and Cursor Controls (50% of sales in the period were outside Europe)</p>	<p>3 1</p>

Strategic indicators

- 1 Increase share of Group revenue from Design & Manufacturing
- 2 Increase underlying operating margin
- 3 Build sales beyond Europe

Risks

- 1 Instability in the economic environment
- 2 Business acquisitions underperformance

➔ Read more in our governance report on page 62

STRATEGY IN ACTION



Differentiated products

Acquire high quality businesses

CURSOR CONTROLS - OPTICAL TRACKBALLS

Cursor Controls specialises in providing solutions to real problems being faced by customers in their markets and has developed a number of world-leading, differentiated products, such as optical trackballs.

The requirements of the customer

The ability to clean, sterilise and decontaminate user interfaces in medical applications plays a crucial role with infection control and as the trackball is one of the most frequently utilised input devices on a system, being able to clean it thoroughly and easily is critical for end users. Traditional trackballs make use of mechanical shafts, roller bearings and opto-encoders, with the multiple non-sealed moving parts making it impossible to fully sterilise the module, while also significantly increasing the risk of damage to the exposed printed circuit board assembly as servicing is carried out.

The solution we developed

To overcome these challenges, Cursor Controls developed a patented IP68 sealed, contactless tracking solution, the Optical Range. With no moving parts other than the ball itself and offering a unique, fully sealed barrier to protect the electronics, the Optical Range allows for straightforward and seamless cleaning and sterilisation without the risk of damage to any other components - making it the de facto choice for the world's leading ultrasound system developers.

Benefits to the customer

The fully sealed platform also offers significant benefits for other markets, including marine, food processing and defence and aerospace, where the IP68 construction ensures improved reliability and increased sealing protection even when exposed to the most aggressive of contaminants.

The Optical Range is available in a variety of configurations and has been extensively certified, making it well suited to a host of demanding markets and applications.



Cross-selling

Growing sales well ahead of GDP

PROVIDING CHARGING INFRASTRUCTURE FOR ELECTRIC VEHICLES

Electric vehicles provide a cleaner, reliable and efficient form of transportation.

The requirements of the customer

In order for electric vehicles to become a practical alternative to the combustion engine and hybrid vehicles, it is necessary to create a comprehensive network of charging stations, both in residential and commercial properties.

Acal BFi has built a relationship with a provider of solutions for charging electric vehicles, including: retrofitting underground car parks; installing chargers in residential properties and large commercial use parking.

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 Myrra, a discoverIE D&M company, to provide a range of custom products to support the requirements of the customer. These include:

- Bespoke power supplies – AC wall box chargers
- Customised power supplies – DC wall box chargers for up to 1,000V DC (supporting the next generation of electric vehicles)
- High power (1,000kW) charger for charging stations in commercial parking facilities
- Wireless solutions for pay-to-use electric charging stations

Benefits to the customer

By partnering with Myrra, Acal BFi was able to combine their optical wireless connectivity with Myrra's charging units, together with design support from the Group's in-house wireless technology design centre, thus increasing the range of solutions and options available to the customer.

The customer also benefited from the Group's high degree of flexibility to create bespoke solutions, with a short time to market, enabling the customer to respond quickly to evolving market requirements and differentiate themselves from their competitors.

STRATEGY IN ACTION



Acquisitions

Continue building revenues

HOBART ELECTRONICS

Hobart Electronics, headquartered in the USA and acquired in April 2019, designs, manufactures and supplies customised transformers, inductors and magnetic components for niche applications. Hobart is a good example of discoverIE's acquisition strategy in action:

- A profitable business sharing the essential DNA of our D&M division
- Sales beyond Europe: 94% of revenues are in North America
- Target markets: the markets served by Hobart include energy infrastructure and industrial, approximately 74% of its sales
- Expansion of global footprint: manufacturing facilities in Arizona, Indiana and two larger sites in Mexico
- Focused on customised, low volume products for niche applications
- Experienced CEO and management team remain with the business

In addition, Hobart Electronics is a bolt-on acquisition which strengthens Noratel's position in the important North American market and brings attractive opportunities for operational and cross-selling synergies. Following acquisition, Hobart now operates as part of Noratel's US business within the D&M division while retaining its distinct brand identity.

The strong local management, working together with the Noratel management team, is embracing the market opportunity and investment capability that comes from being part of the discoverIE Group.



Acquisitions

VARIOHM

Variohm, headquartered in the UK and acquired in January 2017, a designer and manufacturer of electronic sensors, switches and motion-measurement systems for industrial, medical, transportation and renewable energy applications, is a good example of how discoverIE develop and invest in businesses following acquisition.

Since acquisition, the following have been achieved:

- Designed and launched several product offerings
- Investment in and expansion of management team
- Developed high value added sales focus
- Increased efficiency and productivity
- Strengthened finance function
- Focus on key markets with strong success in medical and transportation
- Established cross-selling with Acal BFI
- Begun implementation of new ERP software

More recently, discoverIE has acquired Positek Limited, a UK-based designer of rugged, high accuracy, linear, rotary tilt and submersible sensors, supplying international markets, with 60% of sales in the industrial sector. Positek now operates as part of the Variohm business within the D&M division, while retaining its distinct brand identity.

STRATEGY IN ACTION



Investment

Internationalising the business

EXPANDING MAGNETICS PRODUCTION IN INDIA AND CHINA

During the year, production ramp-up began in our new larger production facility in Bangalore, India. While the Group has an existing facility in Trivandrum, additional space was required for production of a new product range as well as increased production of existing product ranges.

Bangalore was identified as the location for the new facility in order to be close to target customers. The Group has the ability to increase production capacity which allows for further growth, as customer demand requires.

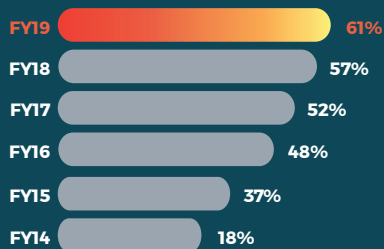
Additionally, the Group commenced the expansion of our magnetics component facility in China which, when complete later this year, will increase Myrra's production capacity in Asia by around 70%.

KEY STRATEGIC INDICATORS

1 INCREASE SHARE OF GROUP REVENUE FROM D&M¹

MID-TERM TARGET²

75%



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.

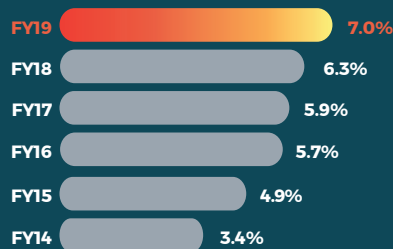
Commentary on performance

The D&M division delivered 61% of Group sales, up from 57% last year. This is further progress towards our mid-term target of 75%.

2 INCREASE UNDERLYING OPERATING MARGIN

MID-TERM TARGET²

8.5%



Definition

Underlying operating profits as a percentage of sales.

Why we measure this

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

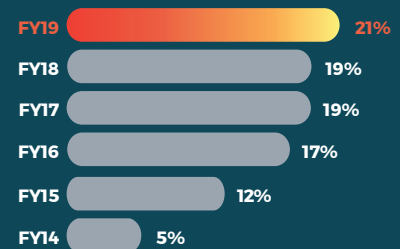
Commentary on performance

Increased to 7.0% from 6.3% last year. The tenth consecutive year of increasing margin. This is further progress toward our mid-term target of 8.5%.

3 BUILD SALES BEYOND EUROPE¹

MID-TERM TARGET²

30%



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

Twenty-one per cent of sales were generated beyond Europe, up from 19% last year, improving as a result of the acquisition of Santon and Cursor Controls (for which over 50% of sales in the period were outside Europe).

¹ As a proportion of Group revenue

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

Link to strategic priorities



Link to strategic priorities



Link to strategic priorities

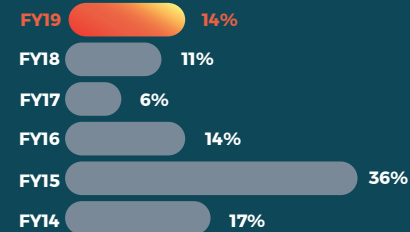


KEY PERFORMANCE INDICATORS

1 SALES GROWTH

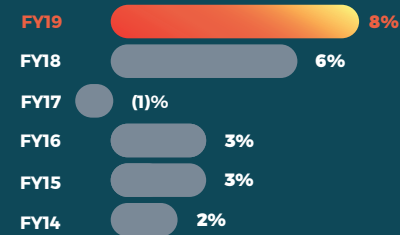
14% CER

→ Mid-term target well ahead of GDP



8% ORGANIC¹

→ Mid-term target well ahead of GDP

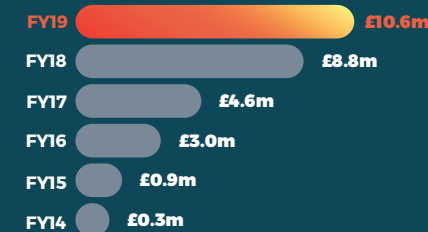


¹ Defined in note 2 of the Group financial statements

2 INCREASE CROSS-SELLING

£10.6m

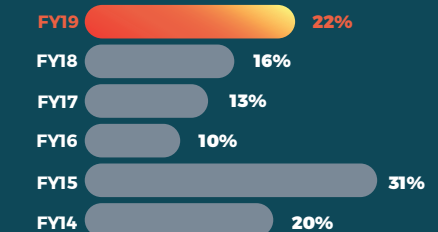
→ Mid-term target £12m p.a. (was £10m p.a.)



3 UNDERLYING EPS GROWTH¹

22%

→ Mid-term target >10%



¹ Defined in note 2 of the Group financial statements

Definition

Two measures are used to calculate sales growth:

- Organic sales growth is calculated at constant exchange rates, excluding the first 12 months of acquisitions.
- Constant Exchange Rate (CER) growth measures the total increase in sales, both organic growth and the additive effect of acquisitions.

Why we measure this

- Organic sales growth measures the success of the Group in generating new business and growth.
- 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 year of 8% was well ahead of GDP, with good growth in both divisions (D&M increasing by 10% and Custom Supply by 5%) reflecting the sustained focus on higher growth target markets.

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 geographical opportunities to enhance organic growth. In both cases, cross-selling creates stronger customer relationships.

Commentary on performance

Cross-selling generated £10.6m of Group sales, an increase of 20% over the prior year, reaching our three-year target of £10m p.a. early. Consequently, we have increased our target to £12m p.a. for the coming year.

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.

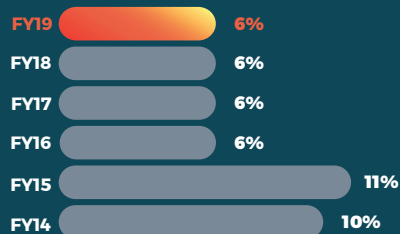
Commentary on performance

Underlying EPS growth for the year was very strong at 22% (FY 2017/18: 16%), with two-year growth of 42%. This is well ahead of our annual target of exceeding 10% and reflects widespread organic growth, acquisitions and improved operating efficiency.

4 DIVIDEND GROWTH

6%

→ Mid-term target 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.

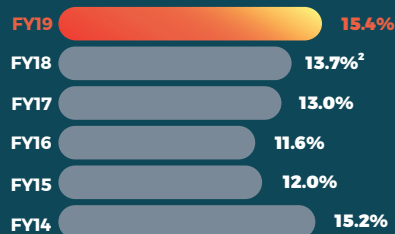
Commentary on performance

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

5 RETURN ON CAPITAL EMPLOYED (ROCE)¹

15.4%

→ Mid-term target >15%



1 Defined in note 2 of the Group financial statements

2 Last year's financial statements have been restated as set out in note 2 of the Group financial statements which has impacted ROCE and operating cash flow.

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.

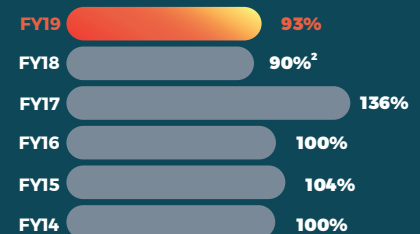
Commentary on performance

Strong growth in underlying operating profit has driven a 1.7 ppt increase in return on capital employed to 15.4% (including the acquisitions of Santon and Cursor Controls), compared with the return for FY2017/18 of 13.7%, ahead of our three-year target of exceeding 15%.

6 OPERATING CASH FLOW¹

93%

→ Mid-term target >85% of underlying operating profit



1 Defined in note 2 of the Group financial statements

2 Last year's financial statements have been restated as set out in note 2 of the Group financial statements which has impacted ROCE and operating cash flow.

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

Over the last year, operating cash flow was 93% of underlying operating profit, being ahead of our 85% target, despite the working capital required to support the strong organic sales growth. Over the last six years, operating cash flow has been consistently strong.

OPERATING REVIEW



“This year has seen another strong Group performance, driven by widespread organic growth.”

Nick Jefferies

Group Chief Executive

Overview

Over recent years the Group has pursued a clear strategy, investing in initiatives that enhance design opportunities for customised products in targeted growth markets, namely: renewable energy; transportation; medical; and industrial & connectivity. The benefits of this approach are evident in these results with strong levels of organic revenue growth throughout the established business units in the D&M division, driving a 23% increase in its divisional underlying operating profits. Likewise, in the Custom Supply division, good organic growth and greater efficiency has resulted in a 15% increase in its underlying operating profit.

Group organic sales in the year grew by 8% to £439m, driven by 10% organic growth in the D&M division and 5% in Custom Supply. Together with a 6% contribution from the acquisitions of Santon in February 2018 and Cursor Controls in October 2018, Group sales increased by 14% CER. Including the translation impact of a slightly stronger sterling on average since last year, reported Group revenues increased by 13%.

Orders also performed well, growing by 8% organically to £454m and by 14% CER, when including acquisitions, leading to another record year-end order book at 31 March 2019 of £139m (up 12% organically year-on-year and 15% CER).

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 £266m, an increase of 40% compared with last year, with 75% of these wins in our target markets.

Strong revenue growth has driven a 25% increase in underlying operating profit, rising by £6.1m to £30.6m, (26% CER), with underlying EPS increasing by 22% to 27.2p.

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 the design and manufacture of engineered products to meet their needs, that are then supplied over the life of the customer's production, typically five to seven years.

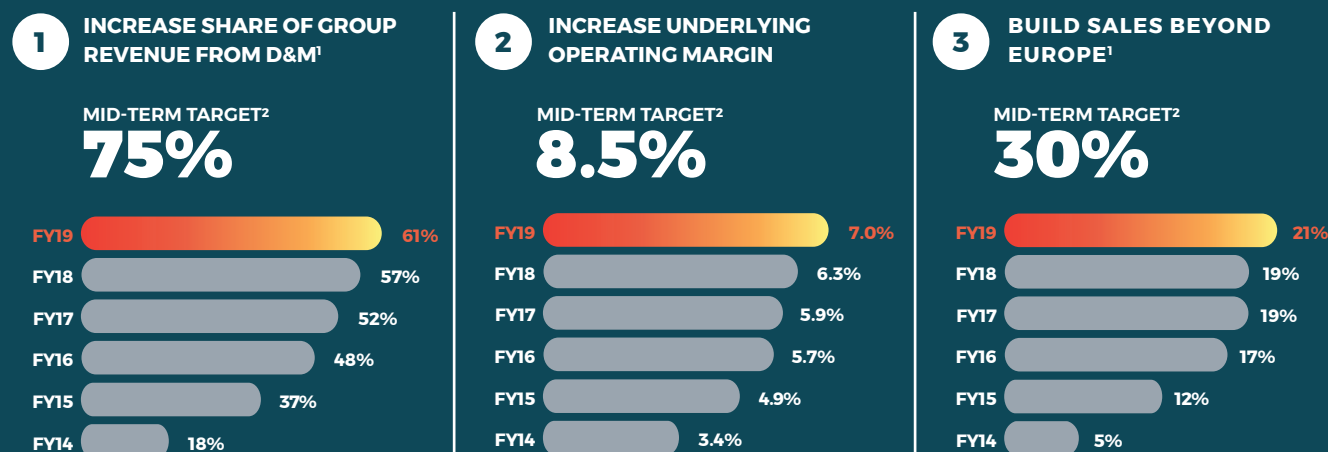
In a fragmented market, there exists opportunities to consolidate certain manufacturers of customised products for the Group's common customer base, which ranges from mid-sized OEMs (original equipment manufacturers) to multinational companies operating in multiple locations. Our four target markets (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 and strong operating margins;
4. Further 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 and KPIs are mid-term targets over a three to five-year period from November 2016.

Key strategic indicators



1 As a proportion of Group revenue

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

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

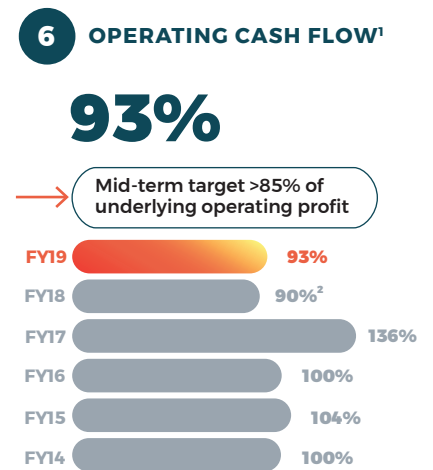
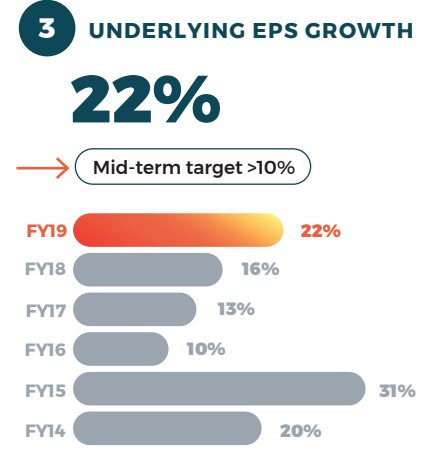
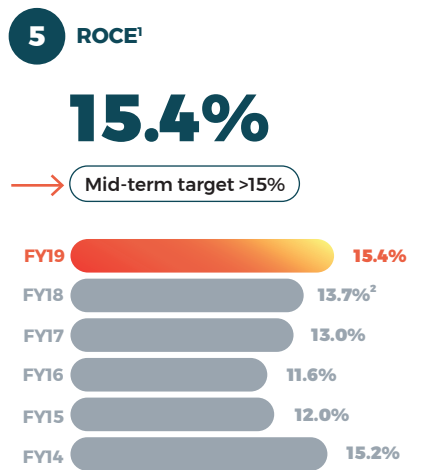
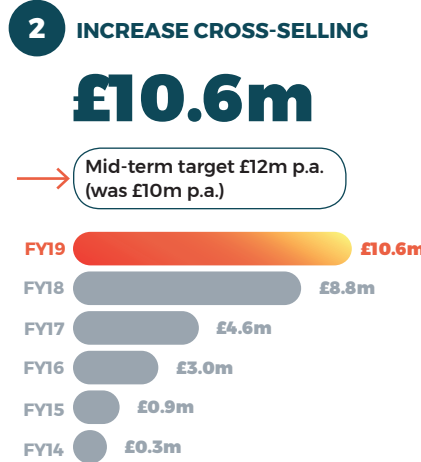
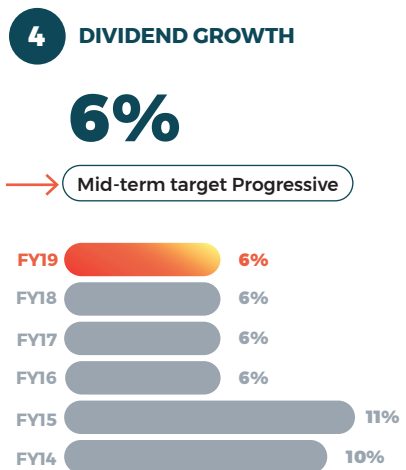
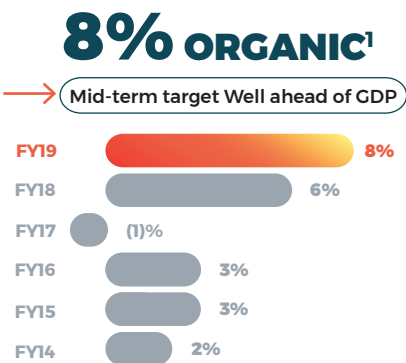
- The D&M division accounts for 61% of Group sales (FY 2017/18: 57%), and 78% of the Group's underlying profit contribution. Annualised for the acquisitions of Cursor Controls in October 2018, and Hobart and Positek in April 2019, D&M sales now represent 62.5% of Group sales. Importantly, customer concentration remains low with no one customer accounting for more than 4% of Group sales;
- The growing proportion of the D&M division and the Group's improving operating efficiencies have increased the Group operating margin by 0.7ppts over last year to 7.0% (FY 2017/18: 6.3%) despite additional investment to support future growth and an adverse impact of the weak solar market at Santon during the year;

- Sales beyond Europe represented 21% of Group revenue (from 19% in FY 2017/18) improving as a result of the acquisitions of Santon and Cursor Controls (for which over 50% of sales in the period were outside Europe). On an annualised basis, including acquisitions, this would rise to 23%. We continue to seek acquisitions with international revenues.

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

OPERATING REVIEW

Key performance indicators



¹ Defined in note 2 of the Group financial statements.

² Last year's financial statements have been restated as set out in note 2 of the Group financial statements which has impacted ROCE and operating cash flow.

The Group has also made good progress with its KPIs this year:

- Organic sales growth for the year of 8% was well ahead of GDP, with good growth in both divisions (D&M increasing by 10% and Custom Supply by 5%) reflecting the sustained focus on higher growth target markets;
- Cross-selling generated £10.6m of Group sales, an increase of 20% over the prior year, reaching our three-year target of £10m p.a. early. Consequently, we have increased our target to £12m p.a. for the coming year;
- Underlying EPS growth for the year was very strong at 22% (FY 2017/18: 16%), with two-year growth of 42%. This is well ahead of our annual target of exceeding 10% and reflects widespread organic growth, acquisitions and improved operating efficiency;
- Strong growth in underlying operating profit has driven a 1.7ppt increase in return on capital employed to 15.4% (including the acquisitions of Santon and Cursor Controls) compared with the return for FY 2017/18 of 13.7%, ahead of our three-year target of exceeding 15%;
- Over the last year, operating cash flow was 93% of underlying operating profit, being ahead of our 85% target, despite the working capital required to support the strong organic sales growth. Over the last six years, operating cash flow has been consistently strong.

Divisional results

Divisional and Group performances for the year ended 31 March 2019 are set out and reviewed below.

	FY 2018/19			FY 2017/18					
	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	266.2	29.8	11.2%	222.6	24.2	10.9%	20%	21%	10%
Custom Supply	172.7	8.6	5.0%	165.3	7.5	4.5%	4%	5%	5%
Unallocated costs		(7.8)			(7.2)				
Total	438.9	30.6	7.0%	387.9	24.5	6.3%	13%	14%	8%

¹ Underlying operating profit excludes acquisition-related costs and exceptional costs.

With approximately 85% of Group sales in non-sterling currencies, the translation of Group results into sterling has been slightly impacted by stronger sterling year-on-year, with Group revenue growth reducing from 14% CER to 13% on a reported basis.

Order book

Orders have continued to grow well with the year-end order book reaching a record year-end high of £139m, an increase of 15% CER over last year. On an organic basis, the Group order book increased by 12%, with the D&M order book growing by 17% organically and the Custom Supply order book by 4% organically.

The order book growth 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 FY2019/20.

By working with high quality customers in our focus markets, we aim to build an order book that leads to long-term, 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 for custom products.

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 is expected to create a recurring revenue stream over a number of years.

Design wins again grew very strongly this year. The estimated lifetime sales value of design wins during the period was £266m, an increase of 40% over the prior year (FY 2017/18: £190m), and on an estimated annual revenue basis represents 16% of reported revenue, up from 12% last year. A portion of design wins are to replace existing projects as they become end of life.

OPERATING REVIEW

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, Mexico, the Netherlands, Poland, Slovakia, Sri Lanka and Thailand.

During the year, production ramp-up began in our new, larger production facilities in Bangalore, India for magnetic components; Bratislava, Slovakia for fibre optic components; and Seoul, Korea for electromagnetic shielding products. Additionally, we commenced the expansion of our magnetic components production facility in China which, when complete later this year, will increase Myrra’s production capacity in Asia by around 70%.

The benefit of design wins from previous years generating new revenue and strong demand from our key target markets helped to deliver strong organic growth in the division with sales growth of 10% and order growth of 11%. This continued the momentum seen last year when organic sales and orders grew by 11% and 10% respectively. Sales growth has been consistently strong across each of the last nine quarters, with growth between 9% and 11%, with one quarter at 14%. Geographically, sales grew by 12% in Asia, Germany and the Nordic region; by 9% in the Rest of Europe and North America and 6% in the UK. Revenues beyond Europe were 27% of D&M revenues (up from 26% last year).

The effect of China / US tariffs is limited. Of £32m sales into the US, £4.0m were manufactured in China and subject to a tariff (mostly at 25%), with our pass-through policy applying. With our production operations located internationally in India, Sri Lanka, Thailand and now Mexico, production for the US is being reduced in China and transferred to other countries where appropriate. We expect this to continue in the year ahead, minimising the effects of such tariffs on our customers.

Organic sales growth of 10%, combined with an 11% sales increase from acquisitions, resulted in overall sales increasing by 21% CER. Including a 1% reduction in revenue due to the impact of currency translation, reported divisional revenue increased by 20% to £266.2m (FY 2017/18: £222.6m).

D&M revenue accounted for 61% of Group revenue (FY 2017/18: 57%) representing further progress towards our mid-term target for D&M to reach 75% of Group revenue, and generated 78% of the Group’s underlying profit contribution, up 2ppts on last year (FY 2017/18: 76%).

Underlying operating profit of £29.8m was £5.6m (+23%) higher than last year (FY 2017/18: £24.2m) and up £5.9m CER

(+25%). The underlying operating margin of 11.2% was 0.3ppts higher than last year (FY 2017/18: 10.9%), with higher gross margins partly offset by operational investment to support infrastructure, for example, local IT systems, required for future growth, and was also partly impacted by solar market slow-down during the year.

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, transportation and industrial markets, building on its established position in niche components for solar power.

Following anticipated changes to Chinese solar tariffs, sales and orders in Santon’s solar business slowed in the first half of the year as the market adapted. In the second half, orders recovered strongly such that full-year orders were at a similar level to the prior year, lifting second half sales by 12% over the first half. The lower solar sales for the year as a whole also had an adverse impact on divisional margins. The growing order book bodes well for future organic growth.

The potential for the Chinese tariff reduction and the subsequent temporary drop in sales was anticipated in the deal structure at the time of acquisition. As a result, a repayment was made to the Group by the vendor of the €2.5m (£2.2m) capital expenditure contribution made by the Group at the time of acquisition and the initial contingent payment of up to €10m was not payable.

Sales in Santon’s transportation and industrial businesses grew by 8% during the year and are expected to continue to grow, having recently won a number of new projects.

The growth prospects for Santon remain excellent. Its high performance switches are suitable for a number of growth markets, in particular transportation such as rail, energy storage, solar energy and industrial markets, where it can benefit from access to the Group’s wide customer base and geographical presence. A number of initiatives are underway, developing these opportunities.

Cursor Controls

In October 2018, the Group acquired the Cursor Controls Group, a UK-based designer and manufacturer of human to machine interface (“HMI”) products for medical, industrial and transportation applications. Its products include trackballs, touchpads and rugged keyboards, which are custom designed for specific applications, and are highly complementary to the Group’s existing business. The acquisition is consistent with discoverIE’s focus on structural

growth markets with over 60% of its revenues derived from the medical and industrial sectors. Over 90% of its sales are to international markets outside the UK, with 40% being into North America, Asia and other non-EU markets. The business, which is based in Newark, UK, with manufacturing facilities in the UK and Belgium, continues to retain its distinct brand identity.

Cursor Controls was acquired for an initial cash consideration of £19.0m on a debt free, cash free basis, before expenses, and generated revenue of £7.9m for its year ended 31 December 2017, with an underlying operating profit of £2.1m. In addition, a contingent payment of up to £4.0m will be payable subject to Cursor Controls achieving certain profit growth targets during the three-year period ended 31 December 2021.

Since acquisition, Cursor Controls has performed strongly, with excellent growth in orders and sales including a large new order from a major international customer. As with other acquisitions, we expect the business to benefit from access to discoverIE's broader, international customer base, to create new revenue opportunities from cross-selling within the Group.

Hobart Electronics

In April 2019, the Group acquired Hobart Electronics, a US headquartered business founded in 1969 which designs, manufactures and supplies customised transformers, inductors and magnetic components for niche applications. As well as manufacturing sites in Indiana and Arizona, it has two larger manufacturing sites in Mexico and employs around 260 people. Over 90% of revenues are generated from customers in North America. The markets served by Hobart include energy infrastructure and industrial, which collectively account for approximately 74% of sales. Following acquisition, Hobart now operates as part of Noratel's US business within the D&M division while retaining its distinct brand identity.

The business was acquired for an initial cash consideration of \$15.2m (£11.7m) on a debt free, cash free basis, with a further contingent cash consideration of up to \$4.0m (£3.1m) payable subject to the achievement of certain growth targets over the next three years.

Revenues for the year ended 31 December 2018 were \$13.0m (£10.0m), generating a pre-tax profit of \$2.0m (£1.5m).

Positek

In April 2019, the Group also acquired Positek, a UK-based designer and manufacturer of rugged, high accuracy linear, rotary, tilt and submersible sensors, supplying international markets with 60% of sales into the Industrial sector. Positek, which was founded in 1992, sells products worldwide that are renowned for their quality, precision and robustness.

Approximately 50% of revenues are generated from customers in Europe, 20% from customers in North America, around 15% from customers in Asia Pacific and 15% in the UK. Following acquisition, Positek now operates as part of the Variohm business within the D&M division while retaining its distinct brand identity.

The business was acquired for an initial cash consideration of £4.2m on a debt free, cash free basis, with further contingent cash consideration of up to £0.4m, payable subject to the achievement of certain integration and profit targets in the 18 months following acquisition. Revenues for the year ended 31 August 2018 were £1.5m, generating an underlying EBITDA of £0.6m.

Custom Supply division

The Custom Supply 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 products sourced from third-party suppliers rather than 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 products manufactured by 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.

Given the bespoke nature of the product offering, 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 most of Custom Supply divisional 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.

OPERATING REVIEW

The division's trading performance this year was good, particularly in Germany, Italy and the Netherlands, driving 5% overall organic sales growth in the year, with organic growth of 2% in the first half and 8% in the second half; first half growth excluding one large order shipment in the prior year was 6%.

Including a 1% reduction due to translation movements, reported divisional revenue increased by 4% to £172.7m (FY 2017/18: £165.3m). Underlying operating profit of £8.6m was £1.1m (+15%) higher than last year (FY 2017/18: £7.5m) while the underlying operating margin was 5.0%, 0.5ppts higher than last year, achieving our mid-term target margin for this division.

Target markets

The Group focuses on four target markets, which account for around 71% of D&M turnover and 66% of Group turnover: transportation, medical, renewable energy and industrial & connectivity. These target markets are expected to drive the Group's organic revenue growth well ahead of GDP over the economic cycle and create acquisition opportunities. Growth in these markets is driven by the increasing electronic content, connectivity and communication in products, and by global macro trends such as an ageing affluent population, an expanding transport infrastructure, and the increasing need for renewable sources of energy. This year, organic revenue growth in these target markets was 12%, compared with 8% for the Group as a whole.

i) Transportation

Transport markets continue to grow internationally. The electronics content is rising, driven by electrification, safety, automation and convenience. IC Insights, an electronics 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.

ii) 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.

iii) Renewable energy

The increasing global requirement for clean electricity is leading to the rapid adoption of sustainable energy generation. 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.

iv) 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. With the growing adoption of electronics and connectivity of industrial devices, the definition of this target market is being broadened to include key, growth industrial applications, reflecting the increasing contribution of the D&M division.

Cross-selling

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

It takes typically three years for cross-selling to become established within a business unit, due to project lead-in cycles, and then develop 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 cross-selling as one of their largest customers. This year, cross-selling revenues, which now account for 2.4% of Group sales, were up 20% to £10.6m from the previous year (FY 2017/18: £8.8m), exceeding our three-year target set at 31 March 2017 of £10m and achieved earlier than anticipated. We have increased this target for the year ahead to £12m.

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 geographical 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 efficiency 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 above);
- Developing and expanding the product range;
- Investing in management capability (“scaling up”) and succession planning;
- Capital investment in manufacturing and 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 and insurance, risk and control; and
- Expanding the business through further acquisitions.

Acquisition performance

Over the last eight years, 14 businesses have been acquired in the D&M division at a cost of £187m, including two since the year end, and a further two acquired in the last two years. 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 (“WACC”) of c.9%, targets an acquisition EBIT ROI of 15% within two years. Overall, the weighted average ROI of the ten acquired businesses owned for at least two years was 20%, up from 17% in the prior year. During the year, of these ten businesses, seven significantly exceeded our target ROI with a range of 24% to 115%, mostly the result of several years’ profitable post-acquisition growth from those businesses. Two were slightly below target, while the smallest business performed below our WACC; changes to this business are being made which are expected to improve its profitability in the year ahead.

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:
 - High quality design wins in target markets
 - Continued emphasis on cross-selling.
2. Developing new and expanded production facilities.
3. Integrating the Hobart and Positek acquisitions through:
 - Organic growth;
 - Integration into Noratel and Variohm respectively;
 - Establishment of cross-selling.
4. Improving underlying operating margins through:
 - Further growth in the D&M contribution to Group performance;
 - Ongoing efficiency initiatives;
 - Operational gearing benefits;
 - Continued investment in our commercial and manufacturing infrastructure.
5. Further value-enhancing acquisitions.

Summary and outlook

This year has seen an excellent Group performance with strong organic growth complemented by the contribution from acquisitions, resulting in 22% growth in underlying earnings per share.

As a business we are focused on four key structurally growing markets with 66% of Group revenue and 75% of design wins derived from our target markets of renewable energy, transportation, medical and industrial & connectivity.

discoverIE is a natural consolidator in a highly fragmented market, acquiring high quality Design and Manufacturing businesses to build the Group’s technology capability and extend our geographical coverage. We have made three acquisitions in the last eight months (Cursor Controls, Hobart and Positek), all of which are high quality, higher margin custom design businesses, selling into international markets, and further building our business in line with our strategic objectives.

With a record year-end order book and a high level of design wins, we are well positioned for continued progress and excited by the opportunities that lie ahead as we continue to build a high-quality, global business.

Nick Jefferies

Group Chief Executive

4 June 2019

FINANCE REVIEW



“The Group’s gross margin has increased by 7ppts in the last ten years, a reflection of the differentiated nature of our products and the acquisitions of higher margin businesses.”

Simon Gibbins

Group Finance Director

Orders, revenue and gross profit

Group revenue for the year increased by 13% over last year to £438.9m, and by 14% CER, the difference reflecting the translation impact of sterling strength on average since last year. Organic revenue increased by 8%, while the acquisitions of Santon last year and Cursor Controls this year contributed an additional 6% growth in revenues.

£m	FY 2018/19	FY 2017/18	%
Reported revenue	438.9	387.9	13
FX translation impact		(3.9)	
Underlying revenue (CER)	438.9	384.0	14
Acquisitions	(24.7)	-	
Organic revenue	414.2	384.0	8

Group orders also increased by 14% CER with a book-to-bill ratio of 1.03 (H1: 1.03, H2: 1.04). Organically, orders were also up 8% for the year.

With approximately 80% of Group sales in non-sterling currencies, the translation of Group results into sterling was impacted by its strength on average since last year. While sterling was in line with the euro during the year, it appreciated 3% against Nordic currencies on average and weakened 1% against the US dollar.

Gross profit for the year of £145.0m increased by 14% over last year (FY2017/18: £126.7m) with gross margin for the year of 33.0% being 0.3ppts ahead of last year (FY 2017/18: 32.7%).

The Group’s gross margin has increased by around 7ppts in the last ten years, a reflection of the differentiated nature of our products and the acquisitions of higher margin businesses.

Underlying operating costs

Reported costs were up 12% as detailed below. Excluding underlying adjustments, Group underlying operating costs increased by 13% CER. Adjusting for the pre-acquisition costs of Santon and Cursor Controls, underlying operating costs increased by 5% organically, reflecting investment in D&M businesses to support strong revenue growth.

As a percentage of sales, underlying operating costs for the year reduced by 0.4ppts to 26.0% (FY 2017/18: 26.4%), a reflection of strong sales growth and tight cost control.

£m	FY 2018/19	FY 2017/18	%
Organic operating costs	106.9	101.4	5
Acquisition operating costs	7.5	-	
Underlying operating costs (CER)	114.4	101.4	13
FX translation		0.8	
<i>Underlying adjustments</i>			
Acquisition-related costs	1.8	0.8	
Amortisation of acquired intangibles	5.9	4.9	
Exceptional items ¹	(0.2)	1.2	
IAS 19 pension administration cost	0.4	0.3	
Reported operating costs	122.3	109.4	12

¹ Last year's exceptional charge within administrative expenses restated as set out in note 2 of the Group Financial Statements

£m	FY 2018/19	FY 2017/18
Selling and distribution costs	57.7	54.5
Administrative expenses	64.6	54.9
Reported operating costs	122.3	109.4

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 below.

Group operating profit and margin

Group underlying operating profit for the year was £30.6m, up £6.1m (+25%) on last year, and up 26% CER, delivering a Group underlying operating margin of 7.0%, up 0.7ppts on last year.

Reported Group operating profit for the year (after accounting for the underlying adjustments discussed below) was £22.7m, an increase of £5.4m (+31%) compared with last year (FY 2017/18: £17.3m).

£m	FY 2018/19			FY 2017/18		
	Operating profit	Finance cost	Profit before tax	Operating profit	Finance cost	Profit before tax
Underlying	30.6	(3.4)	27.2	24.5	(2.6)	21.9
<i>Underlying adjustments</i>						
Acquisition-related costs	(1.8)	-	(1.8)	(0.8)	-	(0.8)
Amortisation of acquired intangibles	(5.9)	-	(5.9)	(4.9)	-	(4.9)
Exceptional items (restated)	0.2	-	0.2	(1.2)	-	(1.2)
IAS 19 pension cost	(0.4)	-	(0.4)	(0.3)	(0.1)	(0.4)
Reported	22.7	(3.4)	19.3	17.3	(2.7)	14.6

FINANCE REVIEW

Underlying adjustments

Underlying adjustments for the year comprise: acquisition-related costs of £1.8m (FY 2017/18: £0.8m); the amortisation of acquired intangibles of £5.9m (FY 2017/18: £4.9m); and the IAS19 legacy pension cost of £0.4m (FY 2017/18: £0.3m). In addition, there was net exceptional income this year of £0.2m, being exceptional income of £1.1m related to income from an insurance policy in respect of a fraud uncovered during the year (as detailed below), offset by an exceptional charge of £0.9m related to a pension equalisation provision for Guaranteed Minimum Pensions (GMP) which is covered in more detail in the pension section below.

During the year, divisional internal control processes identified a fraud, perpetrated against the Group in a small US subsidiary. Decisive action was taken to resolve the matter with new management put in place and tightened Group and local controls. Of the total fraud cost of £4.0m, £2.6m has been recovered this year from insurance after the excess deductible. The fraud was conducted over a period of four years of which £1.5m of the fraud cost was incurred this year, £1.2m last year and a further £1.3m in the previous two years. The exceptional income of £1.1m for this year comprises the insurance receipt of £2.6m offset by the fraud cost incurred this year of £1.5m.

Acquisition-related costs of £1.8m comprised expenses related to the acquisition of Cursor Controls in October 2018 of £0.9m, contingent consideration of £0.5m paid in relation to earlier acquisitions and £0.4m incurred in relation to the post year-end acquisitions of Hobart and Positek. The £1.0m increase in the amortisation charge since last year relates to the amortisation of intangibles identified as part of the acquisitions of Santon last year and Cursor Controls this year. The total annualised amortisation cost for next year is expected to be around £7.0m, excluding the impact of the two businesses (Hobart and Positek) which were acquired after the year end.

Financing costs

Group finance costs of £3.4m (FY 2017/18: £2.7m), 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 £3.4m, an increase of £0.8m from last year (FY 2017/18: £2.6m), due to higher average debt balances during the year following the acquisitions of Santon for £24.0m in February 2018 and Cursor Controls for £19.0m in October 2018. 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, rising to £0.4m next year.

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

Underlying tax rate

The underlying effective tax rate for the year was 25%. This was approximately 1ppt higher than last year due mainly to increased profitability in higher tax territories.

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

Profit before tax and EPS

Underlying profit before tax for the year was £27.2m, an increase of £5.3m (24%) compared with last year. This increase resulted in underlying diluted earnings per share for the year of 27.2p, up 22% on last year.

After the underlying adjustments discussed above, reported profit before tax of £19.3m was 32% higher than last year (FY2017/18: £14.6m), with reported fully diluted earnings per share of 19.4p, an increase of 37% on last year (FY2017/18: 14.2p).

£m	FY 2018/19		FY 2017/18	
	PBT	EPS	PBT	EPS
Underlying	27.2	27.2p	21.9	22.3p
Underlying adjustments				
Acquisition-related costs	(1.8)		(0.8)	
Amortisation of acquired intangibles	(5.9)		(4.9)	
Exceptional items (restated)	0.2		(1.2)	
IAS 19 pension cost	(0.4)		(0.4)	
Reported	19.3	19.4p	14.6	14.2p

Working capital

Working capital at 31 March 2019 was £67.2m, equivalent to 14% of annualised final quarter sales at CER. This compares with working capital of £60.9m at 31 March 2018, also at 14% of last year's annualised final quarter sales at CER. Continued tight management of working capital has kept this ratio in line 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 (3.8 times in D&M compared with 10.9 times in Custom Supply). This, in turn, results in higher working capital as a percentage of sales in the D&M division (19% in D&M compared with 10% in Custom Supply).

Group stock turns were 5.1, 0.2 turns better than last year despite the increasing percentage of D&M sales. Group trade debtor days and trade creditor days outstanding at 31 March 2019 were at 54 days (down 1 day) and 63 days (consistent with last year) respectively.

ROCE for the year (return on capital employed, as defined in note 2 to the Group financial statements) on our organic business was 15.4%, up 1.7ppts on last year driven by increased profitability and operating efficiency. This is ahead of our target to achieve a ROCE of at least 15%.

Cash flow

Net debt at 31 March 2019 was £63.3m, compared with £52.4m at 31 March 2018. The increase of £10.9m results mainly from the Cursor Controls acquisition in October 2018. Excluding the upfront costs and expenses related to acquisitions, net debt would have reduced by £13.3m to £39.1m.

	FY 2018/19	FY 2017/18
Net debt at 1 April	(52.4)	(30.0)
Free cash flow (see table below)	21.4	15.8
Acquisition-related cash flow	(24.2)	(25.4)
Executive share option exercises	(1.6)	(1.5)
Equity issuance	0.1	-
Net exceptional receipt/(cost) (restated)	1.1	(3.0)
Legacy pension	(1.7)	(1.7)
Dividends	(6.7)	(6.2)
Foreign exchange impact	0.7	(0.4)
Net debt at 31 March	(63.3)	(52.4)

Net acquisition cash flows of £24.2m comprise a £19.0m upfront cash payment for the acquisition of Cursor Controls in October 2018, £1.5m of acquisition adjustments for acquired cash and working capital, acquisition costs of £1.6m and the cash cost of earn-out payments made in the period of £2.1m. The net cash receipt in respect of the fraud uncovered during the year (see Underlying adjustments above) totalled £1.1m (being insurance proceeds of £2.6m offset by the cash loss incurred in the year of £1.5m). Additionally, £1.5m of tax was paid in respect of executive share options which were exercised during the year.

FINANCE REVIEW

Dividend payments increased by £0.5m to £6.7m following the 6% dividend increase last year. The Group will continue to review the level of future dividend growth in relation to its policy of long-term dividend cover of over three times underlying earnings per share.

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

£m	FY 2018/19	FY 2017/18
Underlying profit before tax	27.2	21.9
Finance costs	3.4	2.6
Non-cash items ¹	6.4	4.8
Underlying EBITDA	37.0	29.3
Working capital (restated) ²	(3.2)	(2.9)
Capital expenditure	(5.2)	(4.3)
Operating cash flow	28.6	22.1
Finance costs	(3.4)	(2.6)
Taxation	(3.8)	(3.7)
Free cash flow	21.4	15.8

¹ Non-cash items comprise depreciation (£4.6m), amortisation (£0.6m) and share-based payments (£1.2m)

² Last year's inventory restated as set out in note 2 of the Group Financial Statements

Underlying EBITDA of £37.0m was 26% higher than last year. £3.2m was invested into working capital, to support strong organic D&M sales growth of 10% (being additional organic D&M sales of £22.3m). This additional working capital equates to 14% of D&M sales, 5ppts below the 19% average for the D&M division.

Capital expenditure at £5.2m was £0.9m higher than last year with increased investment in the D&M division.

Operating cash flow of £28.6m, which was up 29% on last year, represents 93% of underlying operating profit, ahead of our 85% conversion target. Free cash flow (after finance costs and taxation) was £21.4m; at 104% of underlying profit after tax, again ahead of our target of 90%.

Banking facilities

During February 2019, the Group increased its syndicated banking facility from £120m to £180m and extended the remaining term of the facility by two years out to four years ending in June 2023, with an option exercisable by the Group to extend the facility by a further year to June 2024. In addition, the Group has a £60m accordion facility which it can use to extend the total facility up to £240m. The syndicated facility is available both for acquisitions and for working capital purposes, and now comprises six lending banks.

With net debt at 31 March 2019 of £63.3m, the Group's gearing ratio was 1.7 times (FY 2017/18: 1.5 times), being defined as net debt divided by underlying EBITDA (annualised for acquisitions). Following the placing on 18 April 2019, year-end gearing would have reduced on a pro forma basis to 1.4 times, with our target gearing range being between 1.5 and 2.0 times.

Balance sheet

Net assets of £134.7m at 31 March 2019 were £7.9m higher than at the end of the last financial year (31 March 2018: £126.8m). 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 2018/19
Net assets at 31 March 2018 (restated)	126.8
Net profit after tax	14.6
Dividend paid	(6.7)
Currency net assets - translation impact	(1.1)
Gain on defined benefit scheme	0.1
Equity issuance	0.1
Share-based payments (inc tax)	0.9
Net assets at 31 March 2019	134.7

Defined benefit pension scheme

The Group's IAS19 pension liability, associated with its legacy defined benefit pension scheme, reduced during the period by £0.5m, from £3.0m at 31 March 2018 to £2.5m at 31 March 2019. This mainly results from contributions of £1.7m made by the Group partially offset by increased gilt and corporate bond rates during the year. 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 is being undertaken based on valuations as at 31 March 2018.

In October 2018, it was ruled that the trustees of Lloyds Banking Group had a duty to remove inequalities in scheme benefits that arose under Guaranteed Minimum Pensions (GMPs) being unequal between men and women. This has affected many UK companies with defined benefit schemes. As a result of this ruling, the liabilities of the pension scheme increased by £0.9m with a corresponding exceptional charge being incurred.

Brexit

discoverIE does not anticipate a material direct tariff impact from Brexit. As an international Group, only 15% of sales are in the UK. Over 90% of these sales are either manufactured in the UK, or sourced from the US and Asia. Likewise, most of our UK businesses sell to UK customers. Where there are sales to Europe, products are already low or zero rated for WTO purposes, and where rates do apply, we would seek to apply our customer pass-through policy. Indirect risk remains in terms of customer demand and the impact from a depreciation of sterling which would increase import costs.

Risks and uncertainties

The principal risks faced by the Group are detailed on pages 42 to 45. 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; inventory obsolescence; 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 £180m.

Simon Gibbins

Group Finance Director

4 June 2019

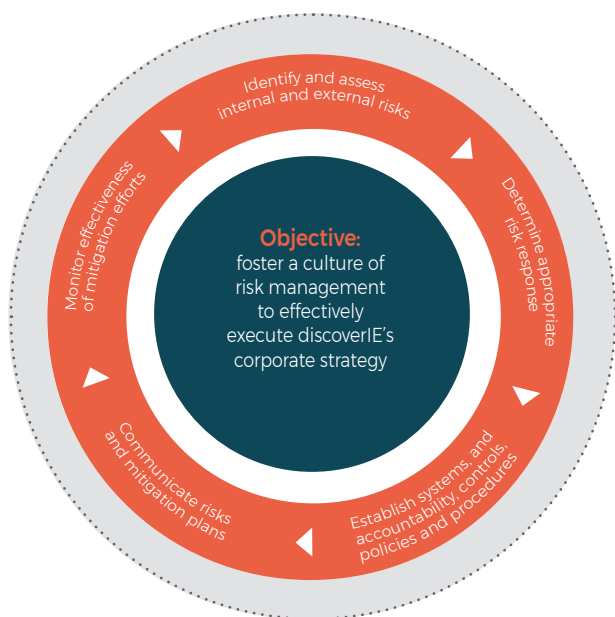
RISK MANAGEMENT

RISK MANAGEMENT FRAMEWORK

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

The Board of Directors has overall responsibility for the Group's risk appetite and risk management strategy. Oversight of risk management is undertaken by the Audit and Risk Committee which ensures that there is an effective risk management strategy and framework. The Audit and Risk Committee supports the Board by monitoring the Company's risk management framework, identifying areas of risk, challenging control weaknesses and providing independent assessment on the effectiveness of the Group's internal controls and risk management systems. Further information on the Audit and Risk Committee and its activities can be found on pages 74 to 80.

discoverIE applies the Enterprise Risk Management framework to identify potential events that may affect the Group and manage the associated risks. The risk management framework is made up of five steps to identify, assess and mitigate risks.



The risk management framework, including a risk register detailing the Group's key risks, is regularly reviewed by the Group Executive Committee. The risk register details the potential impact and likelihood of the respective risks on the Group, linking each risk to the Group's corporate strategy. The register also evaluates the potential mitigants and controls, and the residual risks remaining as a result of the Group's internal control processes. The Group Executive Committee monitors the key risks and reports to the Board via the Audit and Risk Committee on the key risks facing the Group. The Group Executive Committee also monitors the internal control processes put in place to address the identified risks. Further information on the Group's principal risks and uncertainties is detailed on pages 42 to 45.

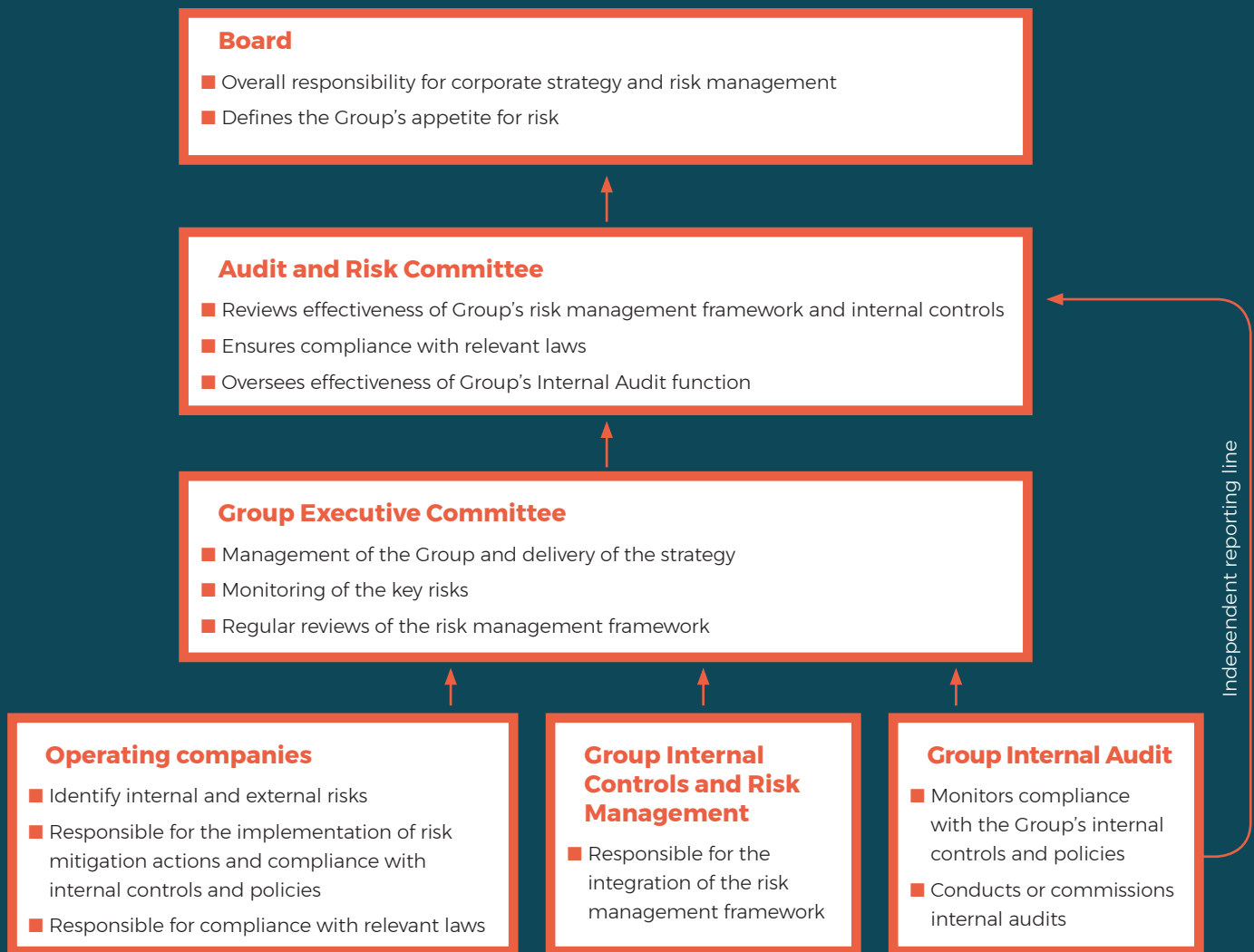
The Company's risk management framework follows a three lines of defence model. The first line of defence is operational management in our businesses. Day-to-day risk management controls, policies and procedures are implemented and monitored by the local management teams with oversight and review by divisional management. Relevant internal control systems are in place to identify, evaluate and manage the Group's business risks.

The second line of defence comprises Group functions such as legal, IT, treasury, tax, quality and risk. This focuses on monitoring and compliance with risk control systems and processes implemented by the Group.

The internal audit function was enhanced during the year, including the recruitment of a Senior Internal Auditor. This function serves to provide independent assurance of the operation of risk management processes, internal controls and governance, and serves as the third line of defence.

Risk appetite

The Board has approved the acceptance of certain operational 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.



Viability statement

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 appropriate time period for this review should be the three-year period ending 31 March 2022. The selection of this period is consistent with the Group's strategic planning process, including budgeting and forecasting; its review of external credit facilities; and its assessment of the Group's principal risks.

The financial projections for the three-year period are based upon the Group's budget for the year ending 31 March 2020 and forecast growth thereon. The budget 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 financial projections are 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 42 to 45, notably an economic downturn, Brexit, loss of key customers and suppliers, underperformance of acquired businesses, major business disruption, liquidity and debt covenants and foreign currency. The Group is monitoring the risk related to uncertainty surrounding Brexit and currently does not expect

that the direct impact of Brexit should have a material impact on the Group's operations or financial results. 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 £180m which is committed up to the end of June 2023 with an option exercisable by the Group to extend the facility by a further year to June 2024. In addition, the Group has a £60m accordion facility which it can use to extend the total facility up to £240m. The syndicated facility is available both for acquisitions and for working capital purposes.

The Strategic Report on pages 4 to 51 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 42 to 45 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

Focus on principal risks

This section of the Strategic Report provides an overview of the Group’s approach to managing risk, focusing on the major risk factors to implementing the Group’s strategy and business model. It is not an exhaustive list of all possible risks. Additional uncertainties exist, some of which may not be known to the Group and could have a negative effect on the Group’s financial position and performance. The principal risks and uncertainties detailed below were considered in assessing the long-term viability of the Group. The viability statement can be found on page 41.

Strategic risk

Potential impact	Mitigating actions	Change in the year
Instability in the economic environment		
<ul style="list-style-type: none"> Reduction in sales; Lower margins; Difficulty raising equity and debt, impacting growth ability. 	<ul style="list-style-type: none"> Market position as a differentiated specialist supplier; Diversification into different markets, locations and product offerings; Vigilance entering markets that are politically or financially unstable; Value-adding and earnings-enhancing acquisitions; A long-term credit facility is in place. 	<p></p> <ul style="list-style-type: none"> Limited impact of China/US tariffs; Direct impact of Brexit is expected to be limited. <p>Link to KSIs: 2 3</p> <p>Link to KPIs: 3 5</p>
Business acquisitions underperformance		
<ul style="list-style-type: none"> Financial impact due to underperformance of acquisitions; Loss of key employees and their expertise; Expected synergies and cross-selling opportunities are not realised. 	<ul style="list-style-type: none"> Operational, financial and legal due diligence on target businesses; Appropriate warranties and indemnities from vendors; Use of earn-out structures to incentivise key management; Monitoring of the acquired business performance against budget; Hiring of experienced finance personnel; Specific risk management programme for first 12 months post-acquisition. 	<p></p> <ul style="list-style-type: none"> Cursor Controls, acquired in October 2018, has performed strongly since acquisition; Santon, acquired in February 2018, has been impacted by the reduction in Chinese solar panel subsidies. However, performance strengthened in H2, with strong order growth <p>Link to KSIs: 1 2 3</p> <p>Link to KPIs: 1 2 3 5 6</p>

KSIs

- 1 Increase share of Group revenue from D&M
- 2 Increase underlying operating margin
- 3 Build sales beyond Europe

KPIs

- 1 Sales growth
- 2 Increase cross-selling
- 3 Underlying EPS growth
- 4 Dividend growth
- 5 Return on capital employed
- 6 Operating cash flow

Operational risk

Potential impact

Mitigating actions

Change in the year

Brexit

■ Analysis by the Brexit Committee, concluded that the direct impact on the Group should not be material.

■ Continued assessment of the likely impact on commercial, operational, financial and other compliance areas;

■ Flexible production and warehouse facilities enable movement of production and supply to other countries if required;

■ Focus on foreign exchange volatility and hedging policy to mitigate FX risks.



■ Preparations for a potential no-deal Brexit included the following:

- increasing stock levels;
- redeploying stock throughout locations;
- improving UK Customs controls and processes, with our main warehouse facility achieving Authorised Economic Operator (AEO) certification.

Link to KSIs:



Link to KPIs:



Loss of major customers

■ Reduced profitability;

■ Less available cash flow;

■ Loss of market share.

■ Low dependence on any single customer (the largest customer is less than 4% of Group revenues);

■ Culture of high-quality service and long-term customer relationships;

■ Focus on developing business with SMEs;

■ Robust customer quality management systems.



Link to KSIs:



Link to KPIs:



Loss of major suppliers

■ Negative impact on production;

■ Damaged relationships with key customers;

■ Reduced sales.

■ Low dependency on any single supplier;

■ Increasing proportion of own-manufactured product;

■ Long-term supplier relationships, enhanced by strong customer relationships. Monitoring of market and technological developments, including input from customers.



Link to KSIs:



Link to KPIs:



Technological changes

■ Reduced sales;

■ Loss of market share.

■ The Group is diversified into a number of differentiated technology units;

■ Focus on established technologies with low capital requirements.




Link to KSIs:










Link to KPIs:









PRINCIPAL RISKS AND UNCERTAINTIES

Potential impact	Mitigating actions	Change in the year
Major business disruption		
<ul style="list-style-type: none"> ■ Insufficient production to deliver goods on order; ■ Damaged relationships with key customers; ■ Reduced sales. 	<ul style="list-style-type: none"> ■ Disaster recovery and business continuity plans are monitored regularly; ■ Multiple manufacturing sites and warehousing enabling movement from one facility to another; ■ Insurance cover. 	 <ul style="list-style-type: none"> ■ Investment in new manufacturing facilities in India, Slovakia and Korea; ■ Expansion of Chinese facilities in progress; ■ Acquisition of Hobart with facilities in Mexico. <p>Link to KSIs: 1 2</p> <p>Link to KPIs: 1 3 5 6</p>
Cyber security		
<ul style="list-style-type: none"> ■ Business disruption ■ Reduced service to customers; ■ Financial loss; ■ Theft of and/or access to confidential data. 	<ul style="list-style-type: none"> ■ Central IT security guidance policy; ■ Robust anti-virus and anti-spam software and specialised target threat protection services; ■ Robust backup policies in place; ■ Secure private networking; ■ Third-party cyber security assessments across the Group in progress. 	 <ul style="list-style-type: none"> ■ External Cyber assessments to be completed by December 2019; ■ Proposed improvements being reviewed and implemented. <p>Link to KSIs: 2</p> <p>Link to KPIs: 1 3 4 5 6</p>
Loss of key personnel		
<ul style="list-style-type: none"> ■ Loss of expertise; ■ Potential business disruption; ■ Insufficient resources. 	<ul style="list-style-type: none"> ■ Staff development, training programmes and succession planning; ■ Remuneration based on personal and business success; ■ Regular remuneration benchmarking; ■ Use of earn-out structures, to incentivise key management of acquired companies. 	 <p>Link to KSIs: 2</p> <p>Link to KPIs: 1 2 3 5</p>
Product liability		
<ul style="list-style-type: none"> ■ Non-compliance with quality standards; ■ Financial loss; ■ Reputational damage. 	<ul style="list-style-type: none"> ■ Quality inspection controls before products are shipped to customers; ■ Standard Terms and Conditions limit companies' maximum liabilities; ■ Customised products reduce risk to individual customers. 	 <p>Link to KPIs: 1 3 5 6</p>

Potential impact	Mitigating actions	Change in the year
Inventory obsolescence		
<ul style="list-style-type: none"> Financial loss. 	<ul style="list-style-type: none"> Provisioning and write-off policies to cover potential obsolescence; Non-cancellable, non-returnable orders for customised stock builds; Certain supplier stock return rights (Custom Supply Division); Purchasing to reliable sales forecasts. 	 Link to KPIs:   

Financial risk		
Potential impact	Mitigating actions	Change in the year
Liquidity and debt covenants		
<ul style="list-style-type: none"> Insufficient cash resources to support the Group's activities. 	<ul style="list-style-type: none"> 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. 	 <ul style="list-style-type: none"> In February 2019 the Group extended its revolving credit facility from £120m to £180m and extended the remaining term to the end of June 2023; Gearing at 31 March 2019 of 1.4x compared with 1.5x at 31 March 2018. Link to KPIs:  

Foreign currency		
<ul style="list-style-type: none"> Reduction of the Group's reported results; Lower gross and operating margins. 	<ul style="list-style-type: none"> Use of forward currency contracts to hedge committed and forecast sales and purchases in foreign currency; Currency borrowings as a natural hedge against same currency assets; Central review of foreign currency exposures. 	 Link to KPIs:  

Retirement benefit obligations		
<ul style="list-style-type: none"> Increased charge to the income statement; Increased level of cash contributions required. 	<ul style="list-style-type: none"> The scheme is closed to new members and future service benefits do not accrue for existing members; A deficit recovery plan has been agreed, based on actuarial advice; Monitoring of the fund assets and liabilities; Investment strategy reviews at least every three years. 	 Link to KPIs:  

CORPORATE SOCIAL RESPONSIBILITY

The long-term success of the Group is enhanced by positive relationships with all stakeholders

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 its workforce, 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 policy to include a new policy on personal protection equipment. In addition, the annual health and safety questionnaire was divided into manufacturing and non-manufacturing specific questionnaires to aid completion.

The Group also 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.

discoverIE believes that who we are and how we behave matters not only to our employees but the many stakeholders who have an interest in our business. Stakeholder engagement remains vital to building a sustainable business and we interact with many stakeholders at different levels of the Group. Engagement is carried out by those most relevant to the stakeholder group or issue. The table on the opposite page identifies some of our stakeholders and how discoverIE engages with them.

Stakeholder engagement



Our people

Why it is important to engage

Employee engagement is critical to our success. We work to create a diverse and inclusive workplace where employees can reach their full potential. Engaging with our employees ensures we can retain and develop the best talent.

Stakeholders key interests

- Reputation
- Reward
- Career opportunities
- Employee engagement
- Training and development
- Wellbeing
- Health and safety

Ways we engage

- Listening groups
- Employee surveys
- Townhall meetings
- Newsletters
- Employee events
- Apprenticeship programme
- Recognition and reward



Customers

Why it is important to engage

Understanding the needs of our customers allows us to provide application-specific products which both add value and differentiate our customers from their competitors. We engage with our customers to build trusting relationships from which we can mutually benefit.

Stakeholders key interests

- Safety, quality and reliability
- Product performance and efficiency
- Competitiveness
- Our availability and responsiveness
- Relationship
- Compliance
- Convenience
- Range of products

Ways we engage

- Participation in industry forums and events
- Social media and commercial websites
- Contract negotiation, implementation and management of ongoing relationships
- Customer audits of our manufacturing facilities
- Customer-specific events
- Geographical footprint allows us to meet the customer in their locations
- Satisfaction surveys



Suppliers

Why it is important to engage

Our external supply chain and our suppliers are critical to our performance. We engage with our suppliers to build trusting relationships from which we can mutually benefit and to ensure that they are performing to our standards and conducting business to our expectations.

Stakeholders key interests

- Quality management
- Cost-efficiency
- Long-term relationships
- Responsible procurement, trust and ethics
- Technological advances, including digital solutions

Ways we engage

- Joint customer visits
- Employee training
- Quarterly business reviews
- Geographical footprint allows smaller suppliers to operate globally
- Logistical efficiencies via holding of consignment stock
- Supplier conferences



Shareholders

Why it is important to engage

Access to capital is vital to the long-term performance of our business. We ensure that we provide fair, balanced and understandable information to Shareholders and investment analysts and work to ensure that they have a strong understanding of our strategy, performance, culture and ambition.

Stakeholders key interests

- Financial performance and economic impact
- Governance and transparency
- Operating and financial information
- Confidence in the Group's leadership
- Dividend growth

Ways we engage

- Regular market updates
- Investor presentations
- One-on-one meetings
- Investor roadshows
- Corporate website, including dedicated investor section
- Shareholder consultations
- Annual reports
- Annual General Meetings
- Capital Market Days



Global communities

Why it is important to engage

We are committed to building positive relationships with the communities in which we operate. We support communities and groups local and relevant to our operations and consider the environmental and social impacts of our operations.

Stakeholders key interests

- Local operational impact
- Health and safety and environmental performance

Ways we engage

- Charitable donations and volunteering
- Corporate and operating company websites
- Local environmental initiatives

CORPORATE SOCIAL RESPONSIBILITY

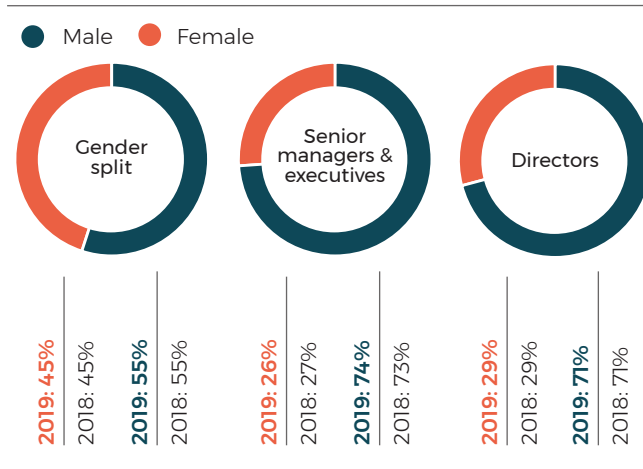
Our people

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 form of harassment.

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



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 and 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.

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.

APPRENTICES:

Jacob Upton has been working at discoverIE for two years. In August 2018 he won the AMI Manufacturing Apprentice award.

Over the past few years, discoverIE has begun offering Engineering Apprenticeships. Nathan and Jordan were our first two Engineering Apprentices; they completed their studies earlier this year. Jacob is due to complete his qualification within the next few months.

The AMI Manufacturing Apprentice Awards has been launched to identify and recognise the very best apprentices within the UK.

Jacob started working in Variohm-Eurosensor's production department before moving into the engineering department. This has enabled him to gain the product knowledge first-hand along with the methods used to manufacture and modify Variohm's products.

discoverIE believes that training is the best way for our employees to get the most from their job roles and it helps to keep us, as a Group, up to date with the industry.

Jacob is positive about his decision to become an apprentice at Variohm, he says;

"I am extremely happy that I got the chance to join Variohm-Eurosensor as an apprentice. It has been great fun working with such a supportive team, and I have enjoyed every minute of it. As well as experience, you are also able to gain qualifications that open more doors for you to progress."



CORPORATE SOCIAL RESPONSIBILITY

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 suppliers and contractors.

The Group whistleblowing policy was also reviewed and updated during the year. An external whistleblowing helpline has been put in place to aid reporting.

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 2018 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. More recently, discoverIE has committed to supporting a new fund created by the Foundation, the Step Change Panel.

Read more about discoverIE's work with the Foundation on our website



www.discoverIEplc.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.

Environmental initiatives

During the year under review, several of the Group's operating companies have implemented initiatives in order to minimise the Group's impact on the environment. These initiatives include:

- Campaigns to recycle plastic
- Careful planning of journeys to reduce mileage
- Introduction of light sensors and LED lighting, reducing electricity consumption
- Member of return and recycling system for all waste products
- Use of wind and hydroelectric renewable energy at our facilities in Norway and Denmark
- Changed from petrol and diesel company cars to hybrid vehicles
- Installation of filters to reduce air emissions
- Planting of trees near our facilities
- Recycling of packaging materials – cardboard boxes are shredded and used as packing materials
- Use of electric forklifts instead of diesel
- Use of more efficient packing materials to minimise waste production

Greenhouse gas emissions

Scope 1 and Scope 2 market-based greenhouse gas (GHG) emission per £m of sales increased 3% compared with the prior year, as a result of higher use of electricity for production in our factories in Asia that use fossil energy, partly offset by the increased use of renewable energy. discoverIE's most significant emissions arise from the use of electricity (78% of the total emissions (2017: 77%)), which comprises all of the Scope 2 emissions. Sixty-one per cent (2017 63%) 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 develop a strategy to further reduce emissions and identify potential cost savings going forward. In recent years, there have been various initiatives to reduce emissions.

GHG emissions for the period from 1 January 2018 to 31 December 2018 (tonnes of CO₂ equivalent):

	YE 31/12/18	YE 31/12/17
Total Scope 1 emissions ¹	2.258	1.995
Total Scope 2 emissions – Location-based	7.225	7.077
Total Scope 2 emissions – Market-based	7.863	6.693
Total gross Scope 1 and 2 emissions – Location-based	9.483	9.073
Total gross Scope 1 and 2 emissions – Market-based	10.122	8.689
<i>Intensity measurement (tonnes CO₂e per £m sales):</i>		
Location-based	21.6	23.4
Market-based	23.1	22.4

¹ Excludes refrigerants, air conditioning and heat pumps

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 2018 to 31 December 2018.

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 Cursor Controls are not included, as the acquisition completed in October 2018. Leased vehicles and properties under operational control have been included in Scope 1 and 2 emissions.

The Strategic Report, as set out on pages 4 to 51, has been approved by the Board.

On behalf of the Board

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director

4 June 2019




Differentiated products

Global operations with a highly differentiated response

discoverIE's highly skilled engineers work closely with customers to develop a deep understanding of their industry and requirements

Industrial & connectivity

Technology is creating opportunities for widespread adoption of electronics and connectivity everywhere, which is becoming increasingly important in industry

 [Read more on our target markets on page 14](#)



CORPORATE GOVERNANCE



THE BOARD



Malcolm Diamond MBE
Non-Executive Chairman



Appointment to the Board

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

Independent

Yes

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



Appointment to the Board

January 2009

Independent

No

Previous experience

Nick joined discoverIE as Group Chief Executive in 2009. He started his career as an electronics engineer for Racal Defence (now part of Thales plc), before joining Toshiba and then Hitachi's European electronic

component businesses. Prior to discoverIE, he was General Manager for electronics globally at Electrocomponents plc.

External appointments

None



Simon Gibbins
Group Finance Director



Appointment to the Board

July 2010

Independent

No

Previous experience

Simon brings significant financial expertise and experience gained at an international level. Prior to joining the Group, he was at Shire plc for nine years, latterly as Global Head of Finance and Deputy CFO,

and at ICI plc for six years in various senior finance roles, both in the UK and overseas. His earlier career was spent with Coopers & Lybrand where he qualified as a chartered accountant.

External appointments

None



Richard Brooman
Non-Executive Director



Appointment to the Board

January 2013

Independent

Yes

Previous experience

Richard is a Chartered Accountant and brings a wealth of financial and risk management experience to the Board. During his executive career, he was CFO of Sherwood International plc, VCI plc and the global

consumer healthcare business of Smithkline Beecham plc.

External appointments

Non-Executive Director and Audit and Risk Committee Chair of Hg Capital Trust plc and Invesco Perpetual UK Smaller Companies Investment Trust plc. He is also a director or trustee of several businesses in the third sector.

Committee membership

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



Tracey Graham
Non-Executive Director

- A
- N
-
- R

Appointment to the Board

November 2015

Independent

Yes

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. Prior to that she was President

of Sequoia Voting Systems, Customer Services Director at AXA Insurance and held senior positions at HSBC.

External appointments

Non-Executive Director of Link Scheme Limited, Senior Independent Director of Ibstock plc, and Non-Executive Director of Royal London Mutual Insurance Society. Tracey is also a Member of the City of London Court of Common Council.



Henrietta Marsh
Non-Executive Director

Appointment to the Board

May 2013

Independent

Yes

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 both listed and AIM traded companies.

External appointments

Non-Executive Director of Gamma Communications plc. Member-nominated trustee of the 3i plc Pension Fund and a member of the London Stock Exchange's AIM Advisory Group.



Bruce Thompson
Senior Independent Director

- A
- N
- R

Appointment to the Board

Senior Independent Director since March 2019, Non-Executive Director since February 2018

Independent

Yes

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 in 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

Non-Executive Director of the Step Change Panel

THE GROUP EXECUTIVE COMMITTEE



Nick Jefferies
Group Chief Executive



Simon Gibbins
Group Finance Director



Joanna Harkus Madge
Group Company Secretary

Read the biographies on pages 54 and 55



Jeremy Morcom
Group Head of Corporate Development

Jeremy joined discoverIE in March 2017 and is responsible for M&A and acquisition strategy across the Group. He brings extensive experience in strategic growth programmes having led the M&A functions at Spectris plc for nine years and at Invensys plc for four years. Prior to

going into industry, Jeremy was an investment banker specialising in the industrial manufacturing sector. A physicist by background, he has a strong understanding of the Group's products and technology.



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 Design & Manufacturing division. He has many years' experience in both financial and operational senior management positions for listed public companies.



Martin Pangels
Group Development Director

Martin joined discoverIE in July 2010. He initially led the integration of BFi Optilas into the Group and was responsible for the operating companies of the combined Acal BFi for the last six years. He recently assumed a new role focusing on the delivery of the medium-

term priorities across the Group. 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 Director - Acal BFi and Cross-Selling

Paul joined discoverIE in June 2010 and is responsible for Acal BFi and cross-selling between the Design & Manufacturing businesses and Acal BFi. Paul was formerly Managing Director of Acal BFi UK before moving to Group Product Management

Director 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).



DIRECTORS' REPORT

The Directors present their Annual Report with the audited financial statements for the year ended 31 March 2019

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 12 and 13 of the Strategic Report.

The Directors' Report of the Group for the financial year ended 31 March 2019 is set out on pages 58 to 61 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 4 to 51, as the Board considers them to be of strategic importance. Specifically, these are:

Disclosure	Location
■ Future business developments	■ Throughout the Strategic Report (pages 4 to 51)
■ Risk management	■ Risk management and principal risks and uncertainties (pages 40 to 45)
■ Employee involvement	■ Corporate Social Responsibility Report (pages 46 to 51)
■ Greenhouse gas emissions	■ Corporate Social Responsibility Report (pages 46 to 51)

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 154 and 155.

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 46 to 51.

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 2019 and are shown on pages 118 to 168. The key strategic and performance indicators of the business are set out in the Strategic Report on pages 4 to 51.

As reported in our Annual Report for the year ended 31 March 2018, a technical non-compliance issue was identified with respect to last year's final dividend payable out of distributable reserves. While the Board was confident that there were adequate distributable reserves in subsidiary companies to meet this dividend at the time, the position was remedied by means of appropriate resolutions at a general meeting of Shareholders in July 2018. The Board has assessed and implemented improved controls and processes to identify distributable reserves to prevent reoccurrence of this issue. Distributable reserves as at 31 March 2019 were £15.2m.

The Directors recommend a final dividend of 6.75p per share (2017/18: 6.35p) which, together with the interim dividend of 2.8p per share (2017/18: 2.65p), makes a total dividend for the year of 9.55p per ordinary share (2017/18: 9.00p). Subject to approval by Shareholders of the recommended final dividend, the dividend award to Shareholders for 2018/19 will total £7.5m (2017/18: £6.5m). If approved, the Company will pay the final dividend on 30 July 2019 to Shareholders on the register of members at 14 June 2019.

Directors

The membership of the Board and biographical details of the Directors are given on pages 54 and 55 and are incorporated into this report by reference. All Directors served throughout the financial year ended 31 March 2019.

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 82 to 102.

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. In accordance with the Articles, 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.

Following the publication of the revised Corporate Governance Code in 2018, the Board has decided to adopt the requirement for annual elections of the Directors during the current financial year.

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 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 2019, the Company's issued share capital consisted of 73,358,847 ordinary shares of 5p each (no shares are held in treasury).

During the year, 1,940,991 new ordinary shares were issued under the Group's long-term incentive schemes.

On 18 April 2019, 7,309,867 new ordinary shares were issued as part of a placing, raising gross proceeds of approximately £29.2. Following admission of the placing shares, the Company's issued share capital consisted of 80,668,714 ordinary shares of 5p each.

Details of movements in the Company's issued share capital can be found on page 157 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 2019, 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.	7,050,478	9.61
Aberdeen Standard Investments	5,249,464	7.16
Legal & General Investment Management Ltd (UK)	4,729,511	6.45
BlackRock Inc.	3,242,721	4.42
Unicorn Asset Management (UK)	3,225,264	4.39
Chelverton Asset Management	3,093,614	4.22
Montanaro Asset Management Limited	3,000,000	4.09
AXA SA	2,936,499	4.00
Franklin Resources	2,639,779	3.60

As at 4 June 2019, the Company has been notified of the following changes to the major shareholdings shown below:

	Holdings of ordinary shares (5p)	% holding
Aberdeen Standard Investments	7,732,513	9.59
Canaccord Genuity Group Inc.	7,050,478	8.74
Legal & General Investment Management Ltd (UK)	4,729,511	5.86
Charles Stanley Group plc	4,177,030	5.18
BlackRock Inc.	3,242,721	4.02
Unicorn Asset Management (UK)	3,225,264	4.00
Chelverton Asset Management	3,093,614	3.83
Montanaro Asset Management Limited	3,000,000	3.72
AXA SA	2,936,499	3.64
Franklin Resources	2,639,779	3.27

Authority to purchase own shares

At the AGM held on 26 July 2018, Shareholders authorised the Company to purchase in the market up to 10% of its issued share capital (7,333,519) ordinary shares and, as at 31 March 2019, 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 2019 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 38. 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 (2017/18: nil).

Auditor and disclosure of information to auditor

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 25 July 2019 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 4 to 51. 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 34 to 39.

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 42 to 45 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

4 June 2019

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

Registered number: 02008246

BOARD REPORT ON CORPORATE GOVERNANCE



“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

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. I am pleased to confirm that we have complied throughout the year with the 2016 Corporate Governance Code (the “Code”). In addition, the Board has taken steps to begin compliance with the 2018 Corporate Governance Code, including moving to the annual election of all Directors. The revised 2018 Code has reinforced and expanded on the long-standing requirement of the Companies Act 2006 for Directors to remain mindful of their duties to consider the interests of key stakeholders. Further information on the Company’s stakeholders and how we engage with them can be found on page 47.

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, the risk management framework of the Group was reviewed and the internal audit function was strengthened. Further information is contained in the Audit and Risk Committee Report on pages 74 to 78.

The composition of the Board has been an area of focus this year for the Nomination Committee. In line with the Group’s long-term succession plans, it was announced in March that Richard Brooman and Henrietta Marsh would resign at the Annual General Meeting in July 2019. Following the announcement in March, Tracey Graham was appointed as Chair of the Remuneration Committee and Bruce Thompson was appointed as Senior Independent Director. The Nomination Committee also led the recruitment of an additional Non-Executive Director to the Board, Clive Watson, who will join the Board in September 2019. Further information on succession planning and the recruitment and induction process is included in the Nomination Committee Report on pages 80 and 81.

Our remuneration policy was approved by the Company’s Shareholders at the Company’s Annual General Meeting in 2018. Your Remuneration Committee Chair has been working closely with the Group and its advisers to ensure that the remuneration policy continues to promote the long-term success of the Company. Further information can be found in the Directors’ Remuneration Report on pages 82 to 102.

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 Directors constructively challenge and help develop strategy.



Learn more about the Directors' skills and experience on pages 54 and 55



Effectiveness:

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



Learn more about the Board's effectiveness on pages 70 and 71



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.



Learn more about Risk management on pages 40 and 41



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.



Learn more about the Remuneration policy on pages 87 to 89



Relations with Shareholders:

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



Learn more about Shareholder and stakeholder engagement on pages 47 and 73

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, Henrietta Marsh and Bruce Thompson as Non-Executive Directors; Nick Jefferies as Group Chief Executive; and Simon Gibbins as Group Finance Director.

The composition of the Board is kept under review by the Nomination Committee on an annual basis. In accordance with the Group's long-term succession plans, Richard Brooman and Henrietta Marsh will step down from the Board in July 2019. Clive Watson will join the Board as a Non-Executive Director and Chair of the Audit and Risk Committee in September 2019. The Nomination Committee considers the size and composition of the Board to be appropriate to the Group's business and strategy.

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 and Risk, 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 and Risk Committee

Chaired by Richard Brooman

The Audit and Risk 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 Tracey Graham

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 80 to 81

➔ Further information on the **Audit and Risk Committee** is on pages 74 to 78

➔ Further information on the **Remuneration Committee** is on pages 82 to 102

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 56. During the year to 31 March 2019, there were nine 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 2018/19	Key priorities in 2019/20
Strategy	<ul style="list-style-type: none"> ■ Reviewed and approved the acquisition of Cursor Controls, Hobart Electronics and Positek ■ Reviewed key strategic indicators (“KSIs”) and key performance indicators (“KPIs”) ■ Considered and approved the Group’s dividend policy ■ Reviewed the potential impact of Brexit on the Group ■ Reviewed further operational investment in India and China 	<ul style="list-style-type: none"> ■ Consider acquisitions as identified and determine the appropriate course of action ■ Keep KSIs and KPIs under review ■ Keep the Group’s dividend policy under review ■ Continue to review potential impact of Brexit on the Group ■ Continue to focus on international growth in key markets, including expansion into North America
Risk and risk management	<ul style="list-style-type: none"> ■ Carried our robust assessment of principal risks (see pages 42 to 45) ■ Improved and expanded internal controls in response to the identification of fraud at one of the Group’s US facilities ■ Monitored compliance with the anti-bribery and corruption policy ■ Reviewed initial results of cyber risk review and approved further testing throughout the Group 	<ul style="list-style-type: none"> ■ Review key risks and ensure that the Group’s internal control process remains appropriate ■ Strengthen internal audit function ■ Review results of cyber risk review and implement appropriate procedures ■ Review and update the Group’s whistleblowing policy and procedures
Governance	<ul style="list-style-type: none"> ■ Continued focus on the composition, balance and effectiveness of the Board ■ Carried out succession planning for Board, Group Executive Committee and senior management ■ Signed off and published the Group’s third modern slavery statement ■ Engaged with institutional Shareholders, investors and other stakeholders throughout the year ■ Implemented a revised Non-Audit Services policy ■ Rectified technical non-compliance with regards to distributable reserves and the payment of recent dividends ■ Implemented the revised remuneration policy, approved by Shareholders at the AGM in 2018 ■ Reviewed and approved the FY 2017/18 Annual Report. The Board agreed that, taken as a whole, the FY 2017/18 Annual Report was fair, balanced and understandable 	<ul style="list-style-type: none"> ■ Continue monitoring of distributable reserves ■ Continue to strengthen internal controls and reporting ■ Review level of institutional holding and consider actions to broaden the Group’s Shareholder base further ■ Continue work to ensure compliance with the revised Corporate Governance Code 2018 ■ Build further understanding and plan actions in relation to new regulations over the period

Topic	Key activities and discussions in 2018/19	Key priorities in 2019/20
Organisational capacity	<ul style="list-style-type: none"> ■ Monitored health and safety performance across the Group. Regular Board updates received on actions improving health and safety ■ Reviewed health and safety policy and the implementation of an updated Personal Protective Equipment Policy ■ Received presentations by senior management on operating companies, tax, treasury and M&A strategy ■ Review of major customers and suppliers 	<ul style="list-style-type: none"> ■ Continue to monitor health and safety performance across the Group
Board development	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ Provide training to the Board to assist with their continued professional development

Board and Board Committee meetings attendance

Board attendance	Committees				Overall attendance %
	Board	Audit and Risk	Remuneration	Nomination	
Richard Brooman ¹	9/9	3/3	5/5	3/3	100
Malcolm Diamond	9/9	—	6/6	5/5	100
Simon Gibbins	9/9	—	—	—	100
Tracey Graham	9/9	3/3	6/6	5/5	100
Nicholas Jefferies	9/9	—	—	5/5	100
Henrietta Marsh ^{2,3}	8/9	3/3	5/5	3/3	95
Bruce Thompson ⁴	9/9	—	3/3	1/1	100

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

- ¹ Richard Brooman resigned from the Remuneration and Nomination Committees in March 2019
- ² Henrietta Marsh was unable to attend the Board meeting on 26 March 2019
- ³ Henrietta Marsh resigned from the Audit and Risk, Remuneration and Nomination Committees in March 2019
- ⁴ Bruce Thompson was appointed as a member of the Remuneration Committee in November 2018 and as a member of the Audit and Risk and Remuneration Committees in March 2019



THE BOARD IN ACTION

China manufacturing visit

In October 2018, the Board visited Noratel and Myrra's facilities in Foshan and Zhongshan, China.

“The Board’s site visits enable direct engagement with employees and a good understanding of operations and working practices.”

Nick Jefferies

Group Chief Executive

During its visit to Noratel Foshan, the Board received a presentation from the local Managing Director which included an overview of the business and its strategy. The Board was led on a tour of the facility, which highlighted the operating company's approach to health and safety. The Board was able to meet with several members of the local management team.

The Board then travelled to Zhongshan to visit the Myrra facility. In addition to management presentations, the Board toured the recent changes to the facility, including the expansion of the site as well as the introduction of automation. The Board was also able to review the health and safety practices of the facility, including the application of the protective equipment policy.

The visit enabled the Board to see first-hand product design and testing as well as the different manufacturing techniques used by the two companies.

During both visits, the Board was able to meet with the management team and key employees outside of the formal meetings.





Pictured: Opposite page: Board visits the Noratel factory in Foshan, China. Above, clockwise from top: copper winding onto a toroidal transformer used in medical applications; semi-finished goods testing, prior to the next stage of manufacturing; and connecting cable sensors onto an integrated transformer and reactor assembly used in transportation applications.



BOARD REPORT ON CORPORATE GOVERNANCE

 **Effectiveness**

Independence

The independence of the Non-Executive Directors is reviewed annually. The Board considers that the Non-Executive Directors bring strong independent oversight and continue to demonstrate independence. However, 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. Richard Brooman and Henrietta Marsh, having served six full years on the Board, will retire as Directors of the Company at the Company’s Annual General Meeting in July 2019.

Bruce Thompson was appointed as the Senior Independent Director in March 2019 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 three ad hoc meetings during the year. Individual attendance is set out on page 67. Sufficient time is provided at the start and the end of each meeting for the Chairman to meet privately with the Senior Independent Director and the Non-Executive Directors.

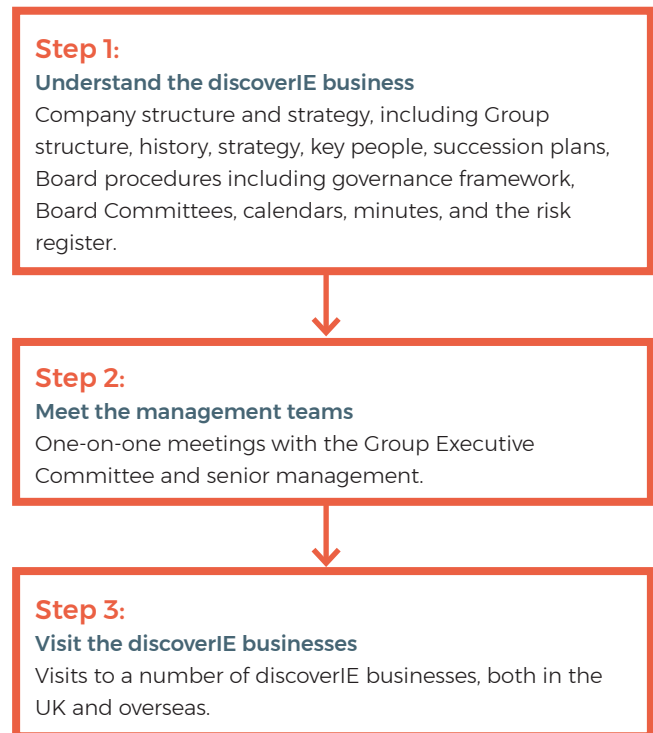
All Directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. The letters of appointment for Non-Executive Directors set out the time commitment expected to allow them to perform their duties effectively.

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 80 and 81 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:



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.

A summary of the 2018 Board evaluation is detailed in the box opposite.

Step 3:

Individual questionnaires are provided to the Chairman and Senior Independent Director, as appropriate.

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

Summary of the 2018 Board Evaluation:

Board composition	The composition of the Board was positively rated although there was an acknowledgement that additional commercial experience would be useful
Board's expertise	The Board's understanding of the views and requirements of major investors and other stakeholders was rated positively
Board dynamics	Board dynamics was rated positively, particularly the relationship between the Chairman and Group Chief Executive
Management of meetings	The management of meetings and the structure of the Committees, together with Board support, was considered appropriate
Risk management	The effectiveness with which the Board takes risk into account when making decisions was positively rated

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 and, if appropriate, seek re-election.

After six years as Non-Executive Directors, Henrietta Marsh and Richard Brooman have decided to retire from the Board at the conclusion of the Annual General Meeting and therefore will not be offering themselves for re-election.

Following the publication of the revised Corporate Governance Code in 2018, the Board has decided to adopt the requirement for annual elections of all Board members during the current financial year.

Therefore, at the next Annual General Meeting of the Company, a resolution will be proposed for the re-election of Nick Jefferies, Simon Gibbins, Malcolm Diamond, Tracey Graham and Bruce Thompson.

BOARD REPORT ON CORPORATE GOVERNANCE

Having considered the skills and experience and the performance of, and contribution made by, each Director, and the independence of each Non-Executive Director, the Board is satisfied that all Directors continue to be effective and continue to demonstrate a great deal of commitment to their roles and that their respective skills complement each other to enhance the overall operation of the Board of Directors. Through their ongoing consideration of strategic, operation, financial and risk matters, and by providing appropriate challenge to management, the Board considers that all Directors continue to make an important contribution to the long-term sustainable success of the Company. As such, the Board unanimously recommends their re-election.

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.

Accountability

Financial reporting

The Directors have acknowledged in the Directors' Responsibilities Statement on page 103 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 pages 82 to 102. 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, or 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 investment 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.

Members of the Board and the Chair of each Board Committee will normally attend the Annual General Meeting to answer any questions. In addition, the Chair 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 addition, investor roadshows are held twice a year and formal investor presentations are made to groups of private client fund managers. The Company also periodically engages with existing and potential new investors through a formal Capital Markets Day at which attendees have an opportunity to meet with senior management in the Group to gain a better understanding of the businesses' product portfolios. The last Capital Markets Day was held in March 2018.

Further information on how the Company engages with its shareholders and other stakeholders is detailed on page 47.

Annual General Meeting

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:

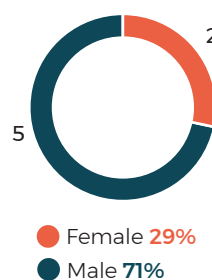
 www.discoverIEplc.com

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.

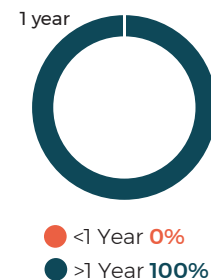
When, in the opinion of the Board, a significant proportion of votes have been cast against any resolution at any general meeting, the Company will explain, when announcing the voting results, what actions it intends to take to understand the reasons behind the voting result.

Board composition

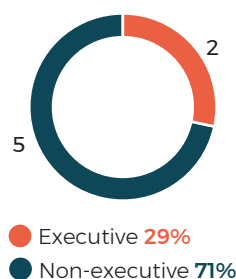
Gender diversity



Board tenure



Independence



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

4 June 2019

AUDIT AND RISK COMMITTEE REPORT



“The Committee’s role is central in bringing together the Group’s risk management activities and control environment.”

Richard Brooman

Chairman of the Audit and Risk Committee

Member	Since
Richard Brooman	2013
Tracey Graham	2017
Henrietta Marsh	2014-19
Bruce Thompson	2019

The Group Company Secretary acts as Secretary to the Committee.

2018/19 key achievements

- Agreed and implemented a risk management and an internal audit programme for FY19
- Reviewed and updated the internal control framework, using lessons learnt from the fraud in North America
- Continued external cyber risk assessment across the Group
- Reviewed risk management framework and policies, including adoption of external assessment recommendations
- Recruited a new Senior Internal Auditor and revised the internal audit framework
- Continued assessment of the potential impact of Brexit on the Group
- Reviewed and approved enhanced controls and processes to identify and monitor distributable reserves
- Reviewed and updated the policy on non-audit services
- Finalised the impact assessment of IFRS 9 (Financial Instruments), IFRS 15 (Revenue Recognition), and IFRS 16 (Accounting for Leases)

Key areas of focus in 2019/20

- Agree and implement risk management and internal audit programmes for FY20 and the rolling three-year plan
- Assess the results of the external cyber risk review. Implement and monitor the required actions
- Build internal audit capability and delivery
- Review and update the global whistleblowing programme
- Review the implementation of IFRS 16 (Accounting for Leases)
- Continue evaluation of the potential impact of Brexit on the Group
- Implement recommendations from external risk management review
- Review the accounting for new acquisitions, including Hobart and Positek
- Review and update terms of reference and audit work plans to ensure compliance with the 2018 UK Corporate Governance Code
- Recruitment of new Chair of the Audit and Risk Committee

Dear Shareholder,

I am pleased to report on the activities of the Audit and Risk Committee ("the Committee") during the year under review. Following six years as a Non-Executive Director of discoverIE Group plc, most of it as Chair of the Audit and Risk Committee, I plan to retire from the Board at the conclusion of the AGM in July 2019. Post 31 March 2019, discoverIE announced the appointment of Clive Watson as Non-Executive Director and Chair of the Committee with effect from 2 September 2019.

The Committee and external auditor

During the year, the Committee met three times and also met privately with the external auditor. In addition to the 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 Chair 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 significant changes to financial accounting standards and reporting requirements, regulatory and governance changes and developments around risk management, fraud prevention and detection, and cybersecurity. As Chair 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 risk becoming compromised if they also act as the Company's consultants and advisers to any material extent. 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 reviewed its policy on the provision of non-audit services during the year to ensure that there is no likelihood of any impairment of auditor independence or objectivity. The non-audit services that were provided by the external auditor during the financial year were in line with the policy, were permissible under Ethical Standards and were not material.

The Board is satisfied that the members of the Committee have both recent and relevant experience (as set out on pages 54 and 55) and that, therefore, the Committee as a whole has competence in the sector in which the Group operates. The Committee is satisfied that the Group's executive compensation arrangements do not prejudice robust controls and good stewardship.

Role of the Committee

The Committee's role is central in bringing together the Group's risk management activities and control environment to ensure adherence to policies, the integrity of financial reporting and the maintenance of a strong risk-focused culture. As Chair of the Audit and Risk Committee, I attend the Group's Annual General Meeting 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.

Key responsibilities of the Committee:

- Consideration of the appropriateness of the accounting principles, policies and practices adopted in the Group's accounts;
- Review of external financial reporting and associated announcements to ensure they are fair, balanced and understandable;
- Managing the appointment, and remuneration of the Group's external auditor, together with an assessment of the effectiveness and independence of the audit, including the policy on the award of non-audit services;
- Initiating and supervising a competitive tender process for the external audit, as and when required;
- Oversight of the internal audit function;
- Ensuring the effectiveness of the Group's risk management processes and internal controls;
- Oversight and update of the Group Risk Register;
- Oversight of the Group's whistleblowing procedures;
- Monitoring compliance with the UK Corporate Governance Code.

AUDIT AND RISK COMMITTEE REPORT

Fair, balanced and understandable

The Committee has, at the request of the Board, reviewed this year's Annual Report and Accounts to assess whether it presents a fair, balanced and understandable view of the Company's position and prospects. The Committee's review took account of the process by which the Annual Report and Accounts is prepared, which includes analysis of changes to applicable reporting requirements and standards, and a robust schedule of review and verification by senior management and external advisers to ensure disclosures are accurate. The Committee is satisfied that, 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 position and performance, business model and strategy and has advised the Board accordingly.

Significant matters considered and decisions taken

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

Impairment of goodwill	<p>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.</p> <p>A review of the reassessment of the basis of allocation to the Acal BFi businesses and conclusion that the Acal BFi Group represents one cash generating unit (CGU) due to the interdependence of cash flows across the business.</p>
Accounting for acquisitions	<p>A review of the initial accounting for the acquisition of Cursor Controls during the year, including the appropriateness of the assumptions used in assessing the fair value of assets and liabilities acquired.</p> <p>A review of the final assessment of the fair value accounting for Santon (acquired in the prior year).</p>
Valuation of the legacy defined benefit pension scheme	<p>A review of the appropriateness of the assumptions used in the valuation of the legacy defined benefit pension scheme under IAS 19 – Employee Benefits.</p> <p>Additionally, the review of the appropriateness of the provision established for guaranteed minimum pensions (GMPs) following the High Court Judgement in October 2018 confirming that pension schemes are required to equalise GMPs accrued between 1990 and 1997 for men and women.</p>
The recognition and valuation of judgemental provisions	<p>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.</p>
Presentation of underlying profit adjustments	<p>A review of the appropriateness of items disclosed as exceptional items and acquisition-related costs (including asset amortisation of acquired intangibles, acquisition expenses and legacy IAS 19 costs) in the Supplementary income statement information and notes to the Group financial statements, in line with the Group's stated policy.</p>

Impact of IFRS

A review of the impact of IFRS 9 and IFRS 15 in the current financial year and the application of relevant policies following the adoption of the standards.

A review of the impact of IFRS 16 from FY20 onwards.

Accounting for fraud

A review of the accounting for a fraud perpetrated against the Group in a US subsidiary. This included a prior year restatement of inventory and an exceptional item in the income statement.

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.

Risk management and internal controls

The Board has overall responsibility for the Group's risk appetite, risk management and ensuring that there is an effective risk management strategy and framework. This includes determining the nature and extent of the risks which it is willing to take in achieving the Group's strategy and objectives. The Board is ultimately responsible for the effectiveness of the risk management and internal controls systems. Further information on the Group's risk management and principal risks can be found on pages 40 to 45.

Oversight of risk management is undertaken by the Committee, in accordance with its terms of reference. In order to ensure the effectiveness of the risk management and internal control systems, the Committee undertakes a number of key activities during the year, including:

- Consideration of the risk management activities during the year (including particular focus on specific areas of cyber security and financial controls);
- Review of risk reporting to ensure effectiveness and that the balance between risk and opportunity was in keeping with the Group's risk appetite;
- Regular meetings with members of senior management and internal audit;
- Review of reports on control matters and challenge of management's response to any matters raised;
- Evaluation and challenge of the results and recommendations of audits undertaken by the internal audit function and the external auditor; and
- Review of the annual Audit and Risk Committee agenda.

Internal Controls

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, independently, to me, as Chair of the Audit and Risk Committee. The scale of internal audit work was increased during the year, and, towards the end of FY19, the internal audit function was expanded to include the recruitment of a Senior Internal Auditor, reporting to the Group Risk Manager.

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 operating within each business, particularly in recently acquired businesses. Further internal audit work is outsourced to external providers, where appropriate.

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 provide reasonable, and not absolute, assurance against material misstatement or loss. As part of the annual review of the effectiveness of the Group's internal controls, the Committee, on behalf of the Board, has regard to the significance of the risks involved, the likelihood and severity of an event occurring and the costs associated with any relevant controls.

AUDIT AND RISK COMMITTEE REPORT

The principal components of the Group's systems of control are:

- a clearly defined organisational structure with short and clear reporting lines;
- recruitment of high quality staff;
- 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 rolling 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 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.

During the year, the Group's internal control processes identified a fraud, perpetrated against the Group in one of its US subsidiaries. Strong and decisive management action was taken and a review of the Group's expenses policies and procedures was undertaken. The Committee also decided to expand the internal audit programme which was aided by the expansion of the internal audit team. The external auditors were also engaged to carry out full scope audits on certain trading entities not subject to a statutory audit. The Group was able to recover most of the loss under its global insurance programme. The financial impact of the loss and insurance recovery are reported in notes 2 and 6 to the Group financial statements.

Terms of reference

The Committee's terms of reference are available upon request and are on the Company's website:

 www.discoverIEplc.com

Richard Brooman

Chairman of the Audit and Risk Committee

4 June 2019



NOMINATION COMMITTEE REPORT



“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.”

Malcolm Diamond MBE

Chairman of the Nomination Committee

2018/19 key achievements

- Reviewed the structure, size and composition of the Board and its Committees
- Recommended to the Board the appointment, which was duly approved, of Bruce Thompson as a member of the Audit and Risk, Nomination and Remuneration Committees
- Updated succession plans for the Board and the senior management team
- Reviewed and updated the Committee’s terms of reference
- Recommended to the Board the reappointments, which were duly approved, of the Non-Executive Directors upon the conclusion of their specified terms of office
- Recommended to the Board the appointment, which was duly approved, of Bruce Thompson as Senior Independent Director

Member	Since
Malcolm Diamond	2017
Tracey Graham	2018
Nick Jefferies	2009
Bruce Thompson	2019

The Group Company Secretary acts as Secretary to the Committee.

Key areas of focus in 2019/20

- Recruitment and induction of a Non-Executive Director and Chair of the Audit and Risk Committee
- Review and update the Group’s diversity policy
- Update the Committee’s terms of reference to ensure compliance with the 2018 Corporate Governance Code

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 2016 Corporate Governance Code means that there is in place a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

During the year, the Committee met formally on five occasions with all Committee members attending all meetings. The Committee made several recommendations to the Board on the composition and structure of both the Board and its Committees.

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.

Composition

The majority of the Committee members are independent Non-Executive Directors. During the year under review, the Committee was chaired by me, with Richard Brooman, Henrietta Marsh, Tracey Graham and Nick Jefferies as Committee members. In March 2019, Richard Brooman and Henrietta Marsh resigned as members of the Committee and Bruce Thompson was appointed as a member of the Committee.

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 Risk 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 (including gender). 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. References from appropriate third parties will then be taken on the prospective director. 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.

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. The Committee plans to review the Group's policy on diversity during the next financial year.

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.

During the year, the Board reviewed succession planning for (i) the Executive and Non-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 organisational structure.

In line with the Group's long-term succession plans, it was announced in March 2019 that Richard Brooman and Henrietta Marsh would retire at the Annual General Meeting in July 2019. Following the announcement in March, Tracey Graham was appointed as Chair of the Remuneration Committee and Bruce Thompson was appointed as Senior Independent Director. Post 31 March 2019, the Nomination Committee also led the recruitment of an additional Director to the Board, Clive Watson, who will join the Board in September 2019 as a Non-Executive Director and Chair of the Audit and Risk Committee. A Chartered Accountant, Clive Watson recently retired from Spectris plc after 13 years as Group Finance Director and also from Spirax-Sarco Engineering plc where he was the Senior Independent Non-Executive Director and Chair of the Audit and Risk Committee, having joined in 2009. We are delighted to welcome Clive to the Board and look forward to working with him and benefitting from his extensive business experience as we take the Group into the next phase of its development.

Following the appointment of Clive Watson to the Board, the Committee is satisfied that the size, composition and structure of the Board and its Committees is appropriate for the size of the Group.

Terms of reference

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

4 June 2019

DIRECTORS' REMUNERATION REPORT



“It has been an excellent year for the Company and an excellent year for Shareholders.”

Tracey Graham

Chair of the Remuneration Committee

Member	Since
Tracey Graham (Chair)	2016
Malcolm Diamond	2017
Bruce Thompson	2018

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

2018/19 key achievements

- Implementation of remuneration policy following approval by the Company’s Shareholders
- Renewal of long-term incentive plan and update of plan rules
- Implementation of a deferred bonus scheme, in line with the remuneration policy
- Setting of appropriate incentive targets for Executive Directors and Senior Management
- Review and update of the Committee’s terms of reference
- Assessment of the competitiveness of the Company’s remuneration, including a review of external benchmarking data

Key areas of focus in 2019/20

- Review of remuneration policy to ensure that it remains appropriate
- Carry out a tender for the Company’s remuneration consultations, including the Company’s current consultants
- Review the competitiveness of remuneration for Executive Directors and Senior Management
- Set incentive targets and determine award levels for Executive Directors and Senior Management
- Update the terms of reference of the Committee to ensure compliance with the 2018 Corporate Governance Code

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 2019. I succeeded Henrietta Marsh as Chair of the Remuneration Committee in March 2019, as Henrietta will be retiring from the Board at the upcoming AGM after six years. I would like to thank Henrietta for her support and wish her well for the future.

The Company's remuneration philosophy for Executive Directors and Senior Management is to motivate, retain and, when necessary, attract senior management of the right calibre. To do this, we provide packages which reflect individual experience and performance and take into account the remuneration paid by companies of a similar size and complexity to discoverIE.

During the year, the Committee implemented the Company's remuneration policy, which had been approved at the 2018 Annual General Meeting. The revised policy incorporated a number of changes from the previous policy, in order to incorporate best practice, to improve the competitiveness of remuneration packages and to further improve alignment.

In determining the remuneration packages for the Executive Directors for the forthcoming financial year, the Committee took into account the following factors:

- The Group's overall performance and strategy - in particular, the Committee noted the strong organic growth, value-enhancing acquisitions, and strong trading of discoverIE for the year ended 31 March 2019;
- Current and emerging market practice;
- Best practice expectations of institutional investors; and
- 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.

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. All decisions made by the Committee have been made under the Group's Remuneration Policy.

The salary increase for the Group Chief Executive was 3%, in line with the increase awarded to the UK workforce. Further details can be found on page 101. The Committee used its discretion to award a salary increase to the Group Finance Director of 11.8% (new salary £310,000). Additional context in relation to this increase is provided below. The Committee informed the Company's major shareholders, comprising over 75% of the Shareholder base at the time, as well as key representative bodies of its decision.

Business performance and resulting remuneration outcomes for the year ending 31 March 2019

It has been an excellent year for the Company and for Shareholders. discoverIE has continued to deliver strong results for Shareholders: trading for the year ended 31 March 2019 was strong across all four quarters and the Group has delivered full-year earnings in line with the Board's expectations.

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 4 to 51 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
- Further good progress on key strategic and performance targets
- Three higher margin D&M acquisitions, two since the year-end
- Successful equity placing on 16 April 2019, raising c.£28m
- Record year-end order book of £139m (+15% CER)

DIRECTORS' REMUNERATION REPORT

In light of this performance, the Committee decided to award annual bonus payments of 86.4% and 68.2% of maximum to the Group Chief Executive and Group Finance Director respectively. Further details can be found on page 95 of this report. In addition, the Committee approved LTIP awards of 150% and 125% to the Group Chief Executive and Group Finance Director. These awards, made on 30 April 2019, are to reward an excellent year and to continue to motivate the Executive Directors to deliver Shareholder value over the longer term.

It has been particularly pleasing to see continued recognition of the long-term strategic progress being made by the Company. This resulted in full vesting of the LTIP awards granted in March 2016. These shares will be subject to a two-year holding period before they become exercisable.

Details of salary change for Group Finance Director

The Company's remuneration policy provides that salary increases awarded may be higher than the workforce in exceptional circumstances, such as the need to retain a critical executive; which the Committee believes is the case in respect of the Group Finance Director. The Committee determined the salary of the Group Finance Director after careful consideration of a number of important factors:

- The increased size, scope and complexity of the business, which now has a wider international footprint due to strong organic growth and the increased number of value-enhancing acquisitions;
- Performance: the Group Finance Director, together with the Group Chief Executive, is instrumental in formulating and implementing the Group's strategy, which is delivering strong results and growth; and
- For market value purposes it is now around the mid-level of the FTSE Small Cap index, while for revenue purposes, the Company has the size, complexity and international spread of a number of FTSE 250 organisations.

The Committee determined the salary level of the Group Finance Director after careful consideration of these factors. To ensure this level was consistent with market rates, the Committee also reviewed external benchmarking data of the Company's peers.

The Committee therefore decided to increase the Group Finance Director's salary to £310,000 p.a. (11.8%). All other benefits received, including pension (5.71%) and maximum bonus and LTIP potential (as percentages of salary) remain the same.

Other key activities in the year ending 31 March 2019

During the year under review, the Committee held five formal meetings. As well as the implementation of the remuneration policy, 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 2018 and the 2015 LTIP targets and determined the bonuses payable;
- Reviewed the Executive Directors' expected performance against financial and non-financial objectives for the year ended 31 March 2019 and the 2016 LTIP Awards;
- Determined salary increases for Executive Directors as well as other GEC members for the year ending 31 March 2020;
- Approved the LTIP Awards to be made in the year ending 31 March 2020 and their performance conditions;
- Reviewed and approved the annual bonus structure for Executive Directors and Senior Management for the year ending 31 March 2020;
- Renewed the LTIP plan which was due to expire in July 2018;
- Implemented a deferred bonus scheme, in line with the Company' remuneration policy; and
- Updated the terms of reference of the Committee.

Further detail on the above can be found in the Annual Report on Remuneration. During 2019, the Committee will continue to review the reward arrangements appropriate to Executive Directors, and will also continue to consider the remuneration implications for the UK Corporate Governance Code 2018.

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 3). We hope that you will support this resolution.

Tracey Graham

Chair of the Remuneration Committee

4 June 2019

DIRECTORS' REMUNERATION REPORT

REMUNERATION AT A GLANCE

CORPORATE PERFORMANCE FOR THE YEAR

Underlying profit before tax

+24%



Underlying diluted earnings per share

+22%



Full year dividend per share

+6%



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 2019 are also shown.

Remuneration philosophy

The key principles of our approach to executive remuneration are:

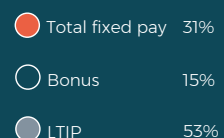
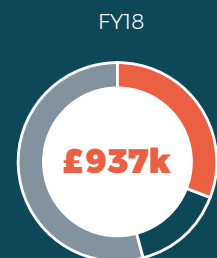
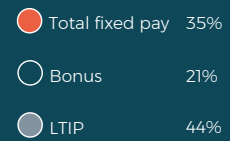
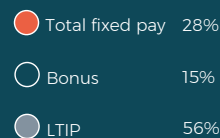
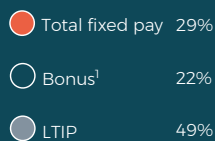
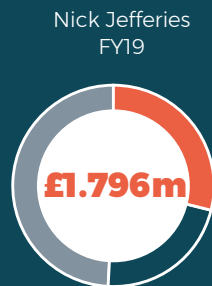
Align to discoverIE's purpose, strategy, risk policies and risk-taking capacity

Incentivise achievement of discoverIE's business plan and longer-term sustainable growth of the business

Recognise the leadership team by differentiating total remuneration based on the relative performance of the business and the individuals

Ensure risk-based decision-making and good governance

Executive Director total remuneration



¹ 20% of the bonus award was in the form of deferred shares

DIRECTORS' REMUNERATION REPORT

Remuneration outcomes for the Executive Directors for the year ended 31 March 2019

	Nick Jefferies £000		Simon Gibbins £000	
Salary FY19	453		277	
Bonus (£k and as % of salary)	392	86.4%	189	68.2%
Taxable benefits	11		11	
Pension benefits/allowance	60		16	
Value of LTIP vesting	881		388	
Single figure of total remuneration	1,796		881	

LTIP awards of 150% and 125% of salary were made to the Group Chief Executive and the Group Finance Director on 30 April 2019 respectively. These awards reflect the strong financial results in the year. In accordance with the Remuneration Policy, 20% of Nick Jefferies' bonus will be in the form of deferred shares.

Remuneration for the year ended 31 March 2020

The table below sets out a summary of how the proposed remuneration policy will apply during 2019/20.

Possible remuneration outcomes for the Executive Directors for the year ended 31 March 2020 are shown on page 93.

Remuneration element	Remuneration for year ending 31 March 2020
Base salary	<ul style="list-style-type: none"> ■ Effective 1 April 2019, salary increase of 3% for the Group Chief Executive, in line with the workforce. An exceptional salary increase of 11.8% was awarded to the Group Finance Director. Salaries are now £466,754 for the Group Chief Executive and £310,000 for the Group Finance Director
Pension	<ul style="list-style-type: none"> ■ Cash equivalent of 15% of salary for Group Chief Executive and 6.5% of salary for Group Finance Director (minus the employer's National Insurance contribution)
Annual bonus	<ul style="list-style-type: none"> ■ 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) ■ While historic remuneration to Executive Directors has not been excessive; in light of the latest remuneration guidance on target pay-outs for Executive Directors' annual bonuses, the Committee plans to review the relationship between target and maximum bonuses during FY20 ■ Performance metrics are based 80% on financial measures, including underlying 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	<ul style="list-style-type: none"> ■ LTIP awards for FY20 will be made in line with policy, with grant sizes of up to a maximum of 135% of salary for Group Chief Executive and 100% of salary for Group Finance Director¹ ■ Performance metrics and targets will be the same as FY20 grant – one-third on underlying EPS Growth, one-third on Relative TSR and one-third Absolute TSR
Shareholding guidelines	<ul style="list-style-type: none"> ■ Shareholding target of 250% of salary for the Group Chief Executive and Group Finance Director within seven years

¹ 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 Shareholders approved at the Annual General Meeting in July 2018, which was implemented from that date. It has been prepared in accordance with the Companies Act 2006 (the "Act") and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The below policy has been updated with data for the year ending 31 March 2020, where relevant. The Committee has reviewed the Executive Directors' remuneration packages to ensure that they reflect the Company's own particular circumstances and are aligned with the Company's key strategic objectives, as set out in the Strategic Report on pages 4 to 51, and with the long-term interests of its Shareholders.

When implementing the policy, the Committee:

- Takes account of pay and employment conditions elsewhere in the Group;
- Ensures that incentive arrangements encourage responsible behaviour in all aspects of the Company's business, including financial, social, environmental and governance aspects; do not encourage excessive risk-taking; and are compatible with the Company's risk policies and procedures. The Committee has the discretion to take these factors into account when adjudicating bonuses and LTIP outcomes;
- Enters into open dialogue and consults with key Shareholders, when looking to make material changes to the remuneration policy; and
- Considers market practice in terms of the structure and levels of executive remuneration.

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.

DIRECTORS' REMUNERATION REPORT

Remuneration policy

Element, purpose and link to strategy	Operation and performance metrics	Opportunity
<p>Base salary</p> <p>To attract and retain quality staff.</p>	<p>Salaries are reviewed annually and normally fixed for 12 months, effective from 1 April.</p> <p>The Committee takes into account:</p> <ul style="list-style-type: none"> ■ Role, competence and performance; ■ Average change in broader workforce pay; and ■ Total organisational salary budgets. <p>Salaries are also benchmarked against companies of a comparable size and complexity which operate internationally, in similar sectors.</p>	<p>Any percentage increases will ordinarily be in line with those across the wider workforce.</p> <p>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.</p>
<p>Benefits</p> <p>To help retain employees and remain competitive in the marketplace.</p>	<p>Directors, along with other senior UK executives, receive a car allowance, life assurance and critical illness cover, and family medical insurance.</p>	<p>Insurance cover based on market rates.</p>
<p>Pension</p> <p>To facilitate long-term savings provisions.</p>	<p>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.</p> <p>Executive Directors may take a cash allowance in lieu of pension contributions.</p>	<p>Up to 15% of base salary.</p>
<p>Annual bonus</p> <p>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.</p>	<p>Targets (financial and non-financial) are determined and reviewed by the Committee annually and are selected to be relevant for the year in question.</p> <p>Actual bonus payable is determined by the Committee after the financial year-end, based on performance against these targets.</p> <p>Financial objectives are updated to reflect acquisitions, disposals and currency movements during the year.</p> <p>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).</p> <p>Malus and clawback provisions apply to cash and deferred elements of the bonus, applying in the event of material misstatement of information or misconduct.</p> <p>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.</p>	<p>Up to 125% of salary payable for significant over-achievement of financial and non-financial bonus objectives.</p> <p>Up to 60% of the maximum bonus opportunity will be payable for targeted and budgeted financial and non-financial objectives.</p>

Element, purpose and link to strategy	Operation and performance metrics	Opportunity
<p>Long Term Incentive Plan</p> <p>To motivate Executives to deliver Shareholder value over the longer term.</p>	<p>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.</p> <p>Vested awards are subject to a two-year holding period, in aggregate a five-year period from award to exercise.</p> <p>Dividend equivalents will be paid on vested awards.</p> <p>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).</p> <p>Malus and clawback applies to vested and unvested LTIP awards in the event of material misstatement of information or misconduct.</p> <p>Performance metrics reflect strategic goals and milestones.</p> <p>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.</p> <p>The performance conditions are based at least 50% on the Group's TSR performance, on a relative and/or absolute basis.</p> <p>The remainder will be on Group financial performance, which may include (but not be limited to) Group earnings or returns over the performance period.</p> <p>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.</p> <p>The Company is committed to remaining within the Investment Association's 10% dilution limit.</p>	<p>Up to 150% of salary.</p> <p>Threshold performance will result in 25% of the award vesting.</p>
<p>Shareholding guidelines</p> <p>To further align the interests of Executives with those of Shareholders.</p>	<p>Executive Directors will be required to accumulate the required shareholding requirement within a certain time period from appointment.</p> <p>Shares held which are no longer subject to performance conditions count towards the requirement.</p>	<p>Executives will be required to hold 200% of salary after five years and 250% after seven years.</p>

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. These measures include EPS Growth, Absolute TSR 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 FY19.

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 came into effect and still remain outstanding (including those detailed on page 98 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 2020
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 2019 ¹
Henrietta Marsh	Non-Executive Director	22 April 2013	25 July 2019 ¹
Tracey Graham	Non-Executive Director	23 October 2015	31 October 2019
Bruce Thompson	Non-Executive Director	15 January 2018	25 February 2020

² On 15 March 2019, the Company announced that Richard Brooman and Henrietta Marsh planned to retire at the end of the Annual General Meeting on 25 July 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 for Executive Directors

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 prorating 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 pro rata 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 Remuneration 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 94 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 Risk and Remuneration Committees and for acting as Senior Independent 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 2020.

Group Chief Executive (£'000)



Group Finance Director (£'000)



- Fixed Remuneration
- Bonus
- Long term incentive Plan

- ¹ Maximum assumes that the maximum Long Term Incentive Plan ("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 88 to 90. In line with the Remuneration Policy, 20% of the bonus awarded to the Group Chief Executive will be in the form of deferred shares
- ² Target assumes that 25% of the LTIP award granted on 30 April 2019 vests (150% of salary for the Group Chief Executive and 125% 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 88 to 90. In line with the remuneration policy, 20% of the bonus awarded to the Group Chief Executive will be in the form of deferred shares
- 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 15,379 shares was made on 30 April 2019 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 15,379 shares.

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

Consideration of employment conditions elsewhere in the Group

The remuneration policy, which has been 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 92 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 FY19. It discloses all the elements of remuneration received by the Directors during the year.

Single total figure of remuneration for each Director (audited)

		Salary £000	Benefits ¹ £000	Bonus ² £000	LTIP ³ £000	Pension ⁴ £000	Total £000
Nick Jefferies	FY19	453	11	392	881	60	1,796
	FY18	438	11	279	1,018	58	1,803
Simon Gibbins	FY19	277	11	189	388	16	881
	FY18	268	11	144	499	15	937

The table below sets out the single total figure of remuneration received by each Executive Director for the year ended 31 March 2019 and the prior year:

- 1 Taxable benefits comprise car allowance (£9,000 each) and family medical insurance. The benefits cost the Company £10,975 and £10,899 in total for Nick Jefferies and Simon Gibbins respectively
- 2 For performance in the year under review, a bonus of 86.4% and 68.2% of salary is payable to Nick Jefferies and Simon Gibbins, respectively. Further details can be found on page 95. In accordance with the Remuneration Policy, 20% of the Nick Jefferies' bonus will be in the form of deferred shares
- 3 The performance conditions attached to the 2016 LTIP award granted to Nick Jefferies and Simon Gibbins on 31 March 2015 were met and therefore the options vested in full on 31 March 2019. Further details can be found on page 96
- 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	
	FY19 £	FY18 £	FY19 £	FY18 £	FY19 £	FY18 £	FY19 £	FY18 £
Malcolm Diamond	135,000	118,000	-	-	-	-	135,000	118,000
Richard Brooman	45,000	41,000	5,000	5,000	6,000	6,000	56,000	52,000
Henrietta Marsh	45,000	41,000	5,000	5,000	-	-	50,000	46,000
Tracey Graham	45,000	41,000	-	-	-	-	45,000	41,000
Bruce Thompson ¹	45,000	4,269	-	-	-	-	45,000	4,269

1 Appointed as a Director with effect from 26 February 2018

Incentive outcomes for Executive Directors for the year ended 31 March 2019

Annual bonus in respect of performance for the year

The maximum bonus opportunity for the year under review was 125% and 100% of salary for the Group Chief Executive and the Group Finance Director respectively. 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	87.5% Budget	Budget	112.5% Budget	Actual
Group underlying EBIT (£m)	65%	£26.3m	£30.0m	£33.8m	£30.6m
Vesting ¹ (% of max)		10%	37.5%	81.25%	44.5%
SWC	15%	23.6%	22.5%	21.4%	21.7%
Vesting ¹ (% of max)		0%	12.5%	18.75%	16.94%
Individual objectives	20%				25%
Overall					86.4%

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

Simon Gibbins (audited)

	Weighting	87.5% Budget	Budget	112.5% Budget	Actual
Group underlying EBIT (£m)	65%	£26.3m	£30.0m	£33.8m	£30.6m
Vesting ¹ (% of max)		10%	30%	65%	35.6%
SWC	15%	23.6%	22.5%	21.4%	21.7%
Vesting ¹ (% of max)		0%	10%	15%	13.56%
Individual objectives	20%				19%
Overall					68.2%

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 requirement in the year under review. Nick Jefferies and Simon Gibbins received 100% and 95% respectively for their performance against their non-financial objectives achieved during the year.

Nick Jefferies

- Developed organic growth capabilities
- Improvement of margin
- Achieved successful integration of Santon
- Successful induction of Bruce Thompson
- Increased proportion of revenue from Design & Manufacturing
- Developed and implemented Brexit contingency plan

Simon Gibbins

- Ensured adequacy of Group debt and equity funding and successful extension of the existing debt facility
- Achieved smooth transition to new auditor
- Achieved successful integration of Santon
- Developed FY19 operating efficiencies
- Further developed internal audit and risk management function, including cyber security and recent acquisitions
- Increased analyst coverage and increased time spent on investor activities outside half-year points
- Developed and implemented Brexit contingency plan

DIRECTORS' REMUNERATION REPORT

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 25% out of the available 25% and Simon Gibbins 19% 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 86.4% of his salary and Simon Gibbins received a bonus of 68.2% of his salary.

2016 LTIP vesting (audited)

LTIP Awards were granted on 31 March 2016 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 2016 to 31 March 2019. 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 +69% from 31 March 2016 to 31 March 2019. discoverIE's TSR rank was therefore at the 84th percentile against the FTSE Small Cap and 68ppts 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)

The Company did not award any shares to the Executive Directors during the financial year.

Post the year-end, 166,236 and 92,006 shares were granted on 30 April 2019 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%	£700,131	166,236	25%	100%	31 March 2022
Simon Gibbins	125%	£387,500	92,006			31 March 2022

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 2020, 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 30 April 2019 of 421p. In addition to the grants set out above, 15,379 shares with a face value of £64,745 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 (one-third 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 (one-third 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 (one-third 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 31 March 2019 to 31 March 2022 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 FY19 to FY22. 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 88 of this Report. The Group operates a legacy defined benefit pension scheme, the Sedgemoor Group Pension Fund. The Executive Directors are not members of this scheme.

Executive share option schemes (“the Option Schemes”) (audited)

Movements in the Executive Directors’ holdings of options under the Option Schemes during the year under review are shown below.

Nick Jefferies held vested share options under an approved executive share option scheme, known as the discoverIE Group plc 2010 Company Share Option Plan. Nick Jefferies exercised his share option in full on 7 February 2019.

	Movements during the year					Number held at 31.03.18 ¹	Gain on vesting date £000 ²	When exercisable
	Number held at 31.03.19	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)

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 96. The figures below include adjustments made to holdings during the year ended 31 March 2015 for the Company's rights issue in June 2014.

Movements during the year									
	Number held at 31.03.19	Granted	Vested	Exercised	Lapsed	Number held at 31.03.18	Vested but not exercised	Share value at 31.03.19 £	When exercisable
Nick Jefferies	-	-	-	340,105 ¹	-	340,105	-	-	-
	-	-	-	264,593 ¹	-	264,593	-	-	-
	-	-	-	233,639 ¹	-	233,696	-	-	-
	245,192(v) ²	-	-	-	-	245,192	245,192	966,056	Mar 2020 to Mar 2025
	223,567(v) ³	-	223,567	-	-	223,567	-	880,853	Mar 2021 to Mar 2026
	242,788(nv)	-	-	-	-	242,788	-	956,584	Mar 2022 to Mar 2027
	163,371(nv)	-	-	-	-	163,371	-	643,682	Mar 2023 to Mar 2028
Simon Gibbins	-	-	-	192,431 ⁴	-	192,431	-	-	-
	-	-	-	122,638 ⁴	-	122,638	-	-	-
	-	-	-	108,318 ⁴	-	108,318	-	-	-
	120,192(v) ⁵	-	-	-	-	120,192	120,192	473,556	Mar 2020 to Mar 2025
	98,437(v) ⁶	-	98,437	-	-	98,437	98,437	387,841	Mar 2021 to Mar 2026
	106,900 (nv)	-	-	-	-	106,900	-	421,186	Mar 2022 to Mar 2027
	83,255 (nv) ⁷	-	-	-	-	83,255	-	328,025	Mar 2023 to Mar 2028

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

¹ On 6 June 2018, Nick Jefferies exercised in full his options over 838,394 shares granted on 31 March 2010, 28 March 2012 and 28 March 2013. After settlement of the PAYE liability which arose as a result of the exercise, Nick Jefferies acquired 444,349 shares in the Company

² 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

³ The award, in the form of a nil-cost option over 223,567 shares in the Company was made to Nick Jefferies on 31 March 2016. 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 2019

⁴ On 6 June 2018, Simon Gibbins exercised in full his options over 423,387 shares granted on 20 July 2010, 28 March 2012 and 28 March 2013. After settlement of the PAYE liability which arose as a result of the exercise, Simon Gibbins acquired 224,395 shares in the Company

⁵ 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

⁶ The award, in the form of a nil-cost option over 98,437 shares in the Company was made to Simon Gibbins on 31 March 2016. 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 2019

⁷ 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 2019 (including family interests) in ordinary shares (fully paid, 5p) of the Company, were as follows:

	Shares held at 31 March 2019				Unencumbered shares held at 31 March 2018	Value of current shareholding (% of salary)
	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		
Nick Jefferies	960,931	468,759	-	406,159	504,446	1,243%
Simon Gibbins	257,670	218,629	-	190,155	33,275	677%
Richard Brooman	10,272	-	-	-	10,272	
Henrietta Marsh	12,272	-	-	-	12,272	
Tracey Graham	6,949	-	-	-	6,949	
Malcolm Diamond	19,907	-	-	-	14,545	
Bruce Thompson	8,000	-	-	-	8,000	

Pursuant to the placing announced on 16 April 2019, Simon Gibbins and Malcolm Diamond each acquired 5,000 shares and Bruce Thompson acquired 8,000 shares in the Company on 18 April 2019. The interests of Nick Jefferies, Richard Brooman, Henrietta Marsh and Tracey Graham at 4 June 2019 are unchanged from those at 31 March 2019. The values of current shareholdings for Nick Jefferies and Simon Gibbins have been valued using the share price as at 31 March 2019 of 394p.

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 2019, 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)

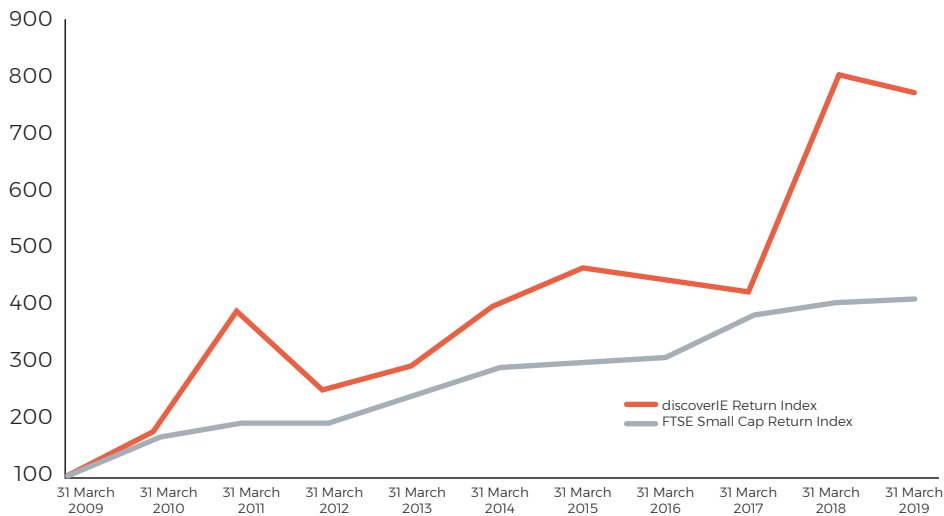
There were no payments to past Executive Directors during the year.

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 2019 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.

	2009 ¹	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Single figure of total remuneration (£'000)	132	289	590	1,613	999	572	1,246	1,321	665	1,803	1,796
Salary (£'000)	70	259	280	297	320	320	330	425	429	438	453
Bonus outcome (% of maximum)	-	-	100	10	20	55	59	60	43.5	63.7	86.4
LTIP outcome (% of maximum)	-	-	-	94	88	9	100	100	-	100	100
Turnover (£m)	165	120	210	207	177	212	271	288	338	387.9	438.9
EBIT (£m) ²	0	(2)	6	7	5	7	13	16	20	24.5	30.6

¹ Nick Jefferies joined the Company in January 2009

² Continuing operations

Group Chief Executive remuneration

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 UK employees of the Group, on a like-for-like basis, excluding Cursor Controls which was acquired during the year.

	2019 £'000	2018 £'000	%
			change
Group Chief Executive			
Salary	453	438	3.5%
Benefits	11.0	11.0	-0.5%
Bonus ¹	391.5	278.9	40.4%
Single figure total	1,796.2	1,803.0	(0.4)%
Average per UK employee			
Salary	32.7	30.4	7.6%
Benefits	4.2	4.1	2.4%
Bonus	2.9	2.9	-

¹ In accordance with the Remuneration Policy, 20% of the Group Chief Executive's bonus was in the form of deferred shares

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.

	2019 £m	2018 £m	%
			change
Remuneration paid to or receivable by all employees	86.1	82.4	4.5%
Distributions to Shareholders by way of dividends (net of share issues)	6.7	6.2	8.1%

DIRECTORS' REMUNERATION REPORT

Statement of implementation of the remuneration policy in the financial year ending 31 March 2020

The Company intends to implement the policy in the financial year ended 31 March 2020 in the way described in the "Remuneration at a Glance" section and policy table for the Executive Directors on pages 85 and 88 to 90.

The Remuneration Committee has approved salary increases for the Group Chief Executive and Group Finance Director for the year ending 31 March 2020 of 3.5% and 11.8% respectively. These salary increases are in line with the remuneration policy. The salary increase for the Group Chief Executive is lower than the average increase across the Group.

The Committee has approved performance measures for the annual bonus for the Executive Directors for the year ending 31 March 2020, 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 2020 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 has granted LTIP awards on 30 April 2019 which are in line with the policy, performance measures and targets set in prior years.

With effect from 1 April 2019, the fees of the Non-Executive Directors, including the additional fees payable, are as follows:

As at 1 April 2019	Basic fee £	Committee Chair fee £	SID fee £	Total £
Malcolm Diamond ¹	140,000	-	-	140,000
Richard Brooman	46,000	8,000	-	54,000
Tracey Graham	46,000	8,000	-	54,000
Henrietta Marsh	46,000	-	-	46,000
Bruce Thompson	46,000	-	8,000	54,000

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 2019 were £22,000.

Shareholder voting

2018 AGM resolutions	For¹	Against	Withheld²
Binding vote on the remuneration policy	47,004,246	95.56%	2,186,425
Approval of the Annual Report on Remuneration	47,808,809	97.19%	1,382,528
			4.44%
			2.81%
			9,067
			8,397

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 54 to 55, 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.



Differentiated Products

Designing and manufacturing application-specific products to original equipment manufacturers internationally

discoverIE has specialist knowledge in many niche markets, enabling us to differentiate our products to match our customers' requirements

Transportation

Transport markets continue to grow around the world, driven by increasing demand and falling costs, whether it be rail, air or automotive



[Read more on our products on page 14](#)



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 2019 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 International Financial Reporting Standards (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 and Accounts (the "Annual Report"), which comprise: the Consolidated statement of financial position and the Company balance sheet as at 31 March 2019; 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 and Risk 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.

Our audit approach Overview



Overall Group materiality: £1,365,000 (2018: £1,095,000), based on 5% of underlying profit before tax.

Overall Company materiality: £1,170,000 (2018: £900,000), based on 1% of total assets, limited by component materiality allocation.

82% of Group revenue (2018: 79%) and 81% of Group underlying profit before tax (2018: 71%) covered through full scope audit procedures.

Four country operations visited by the Group audit team during the year.

- Overstatement of inventory and associated Prior Year Adjustment (PYA) (Group).
- Goodwill impairment assessment (Group).
- Inventory valuation (Group).
- Accounting for acquisition of Cursor Controls (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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules, pensions legislation, tax legislation and local laws and regulations applicable in the territories that the Group operates in, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to improve the results, application of bias in accounting estimates, and, as demonstrated by the issues identified in the US during the year, override of controls in relation to purchases of inventory. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud. This included evaluating and testing the misstatement of inventory identified by the Group during the year, for which further details are set out in a key audit matter;
- Consideration of the Group's controls designed to prevent and detect irregularities;
- Challenging assumptions and judgements made by the Directors in their significant accounting estimates; and
- Identifying and testing journal entries based on a risk-based sample selection.

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. Also, 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.

INDEPENDENT AUDITOR'S REPORT

to the members of discoverIE Group plc

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
<p>Overstatement of inventory and associated Prior Year Adjustment (PYA) (Group) Refer to page 9 (Chairman's statement) and note 2 to the Group financial statements).</p> <p>The Directors identified a significant overstatement of inventory at one of its subsidiaries in the US during the year. At the time the issue was discovered, inventory in this subsidiary was overstated by approximately £4.0m. Inappropriate capitalisation of inventory over a period of approximately four years largely reflected an override of internal controls, in which cash was misappropriated from the business.</p> <p>Management carried out a detailed internal review of the factors which gave rise to this issue, as well as investigating its extent.</p> <p>Our audit considered the scope and results of the investigation, including the quantification by management of the amount of the overstatement and the timing of when it occurred.</p> <p>As the overstatement of inventory was material at both 31 March 2018 (£2.5m), and 31 March 2017 (£1.3m), the corresponding comparative amounts have been restated. The analysis of the timing of the transactions that led to these overstatements involved a number of assumptions in respect of approximately £1.1m of the £4.0m overstatement.</p>	<p>We assessed the scope of management's internal review, and performed our own independent testing as explained below.</p> <p>We performed a full scope audit of the US subsidiary for the year ended 31 March 2019, to address the risk that there was further overstatement of inventory or other assets in the financial statements that was not identified by the Directors. This included attending a year-end inventory count.</p> <p>We did not identify any further issues as a result of performing these procedures.</p> <p>In respect of the overstatement of inventory and the nature of the transactions associated with it, we performed the following audit procedures:</p> <ul style="list-style-type: none"> ■ We tested a sample of payroll transactions of key individuals to check the basis on which payments had been made; ■ We read email correspondence between individuals in the business and checked bank statements of the US subsidiary's principal bank account over the period in question; ■ Where possible we obtained confirmations directly from suppliers in respect of certain inventory purchases purported to have taken place, obtaining evidence that such purchases did not take place; and ■ We tested a further sample of transactions with suppliers during the year to evaluate whether these were appropriate. <p>Our findings from these procedures supported the analysis prepared by the Directors.</p> <p>We extended our audit procedures across all in-scope components to address the risk of whether this issue extended beyond this one subsidiary. This included attending year end stock counts in components that were not otherwise in scope for our Group audit, and procedures over the approval of employee expenses.</p> <p>We did not identify any other matters that suggested the matter extended beyond this subsidiary.</p> <p>We evaluated the Directors' allocation of the inventory overstatement to each financial year and are satisfied that, as the estimation of timing relates to only £1.1m of the total overstatement of inventory, the allocation of these costs to each accounting period is not materially misstated.</p> <p>We inspected the correspondence with respect to the insurance claim and verified that the insurance proceeds were received by the Group before the end of the 2019 financial year.</p> <p>As a result of the work we performed, we are satisfied that the amounts recorded in the 2017, 2018 and 2019 financial years in relation to this fraud are not materially misstated and that the disclosure included in the financial statements is appropriate.</p>

Key audit matter

Goodwill impairment assessment (Group)

Refer to page 76 (Audit and Risk Committee Report), note 2 (Significant accounting estimates) and note 16 for the related disclosures on goodwill.

The Group carried £85.3m of goodwill at 31 March 2019 (2018: £77.0m).

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.

During the year, the Directors concluded that the Acal BFI business represents one CGU, having previously assessed the recoverability of goodwill at country level. No impairment was recorded at a country level immediately prior to this reassessment.

We focused our assessment on the estimates and judgements used by management in the impairment model. We focused in particular on the Santon CGU, which has a goodwill carrying value of £5.1m in light of challenging trading conditions during the first half of the financial year.

No impairment charge was recognised in the year ended 31 March 2019.

How our audit addressed the key audit matter

We evaluated the judgement that the Acal BFI business is one CGU. On the basis that the cash flows are not independent at country level, the business performance reviews take place at a divisional level rather than by country, and a number of key distribution agreements are now pan-European, we were satisfied that this judgement was reasonable. We were also satisfied that there was no impairment of the goodwill immediately prior to this reassessment becoming effective.

Focusing on the Santon CGU, 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 the actual results for the period after the year end; 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 each 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 £289m at 31 March 2019 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.

In respect of Santon, we have evaluated the changes in the forecast from prior year and assessed the reasons driving the change in the expected performance on the CGU.

Based on the procedures described above, we were satisfied that the recoverability of the carrying value of goodwill in respect of all the CGUs identified had been appropriately assessed.

We were satisfied that no specific disclosures were required in relation to the likelihood of changes to key assumptions resulting in an impairment to any CGU.

INDEPENDENT AUDITOR'S REPORT

to the members of discoverIE Group plc

Key audit matter	How our audit addressed the key audit matter
<p>Inventory valuation (Group) Refer to page 76 (Audit and Risk Committee Report), note 2 (Significant accounting estimates) and note 19 (Inventories).</p> <p>The balance of gross inventories at 31 March 2019 was £73.4m, against which a provision of £7.2m was held (2018: a provision of £ 6.6m was recorded against gross inventories of £64.7million).</p> <p>The valuation of the inventory provision was a focus of our audit for the following reasons:</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>We found the assumptions to be reasonable.</p>

Key audit matter

Accounting for acquisition of Cursor Controls (Group)

Refer to page 76 (Audit and Risk Committee Report), note 2 (Accounting policies) and page 142 (note 11 Business combinations).

The Group completed the acquisition of Cursor Controls, a UK designer and manufacturer of human to machine interface (“HMI”) products for medical, industrial and transportation applications, on 16 October 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 recorded £9.0m of goodwill and £9.7m of intangibles relating to Cursor Controls’ customer relationships and patents. The total consideration paid for the acquisition was £20.8m.

How our audit addressed the key audit matter

In order to test the components of the acquisition, we performed the following procedures:

- Read technical papers prepared by Directors 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 used for forecasts;
- Assessed whether the Directors’ identification and valuation of other known and contingent liabilities associated with Cursor Controls was complete.

Based upon the above, we are satisfied that the Directors have applied reasonable judgements in the provisional accounting for the acquisition of Cursor Controls.

INDEPENDENT AUDITOR'S REPORT

to the members of discoverIE Group plc

Key audit matter

Presentation of adjustments included in underlying profit before tax (Group)

Refer to Audit and Risk Committee Report (page 76); Accounting policies (note 2); and note 6 (Underlying profit before tax). £7.9m (2018: £7.3m) of net costs incurred in the year are presented as adjustments to the Group's underlying profit before tax. These include:

- £1.8m of acquisition costs;
- £5.9m of amortisation of acquired intangibles;
- £0.4m in respect of the Group's IAS 19 pension charge for the year; and
- £0.2m of exceptional items, being the net income of £1.1m reflecting the insurance proceeds of £2.6m less the £1.5m of losses relating to the overstatement of inventory in the current financial year, offset by the GMP equalisation charge of £0.9m.

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 consolidated financial statements could be misled if amounts are not classified appropriately or presented consistently.

How our audit addressed the key audit matter

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.

We also considered the risk that the Group's accounting policy could be manipulated to help achieve profit targets.

We also considered the risk of one-off gains during the year not being properly identified and therefore presented inappropriately within underlying profit

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 2019 is materially appropriate.

Key audit matter	How our audit addressed the key audit matter
<p>Carrying value of investments (Company)</p> <p>Refer to note 2 (page 171) and note 4 (page 172) of the Company financial statements.</p> <p>The Company holds investments in its subsidiaries of £168.9m (2018: £167.8m).</p> <p>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 £31.3m in discoverIE Management Services Limited ('DMS'), the Group's service Company that derives revenue from intercompany recharges. There was a £10m impairment recorded against the DMS investment in the prior year.</p> <p>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.</p> <p>The results showed that no impairment is required.</p>	<p>We obtained management's assessment of the carrying value of the investments and we challenged:</p> <ul style="list-style-type: none"> ■ the key assumptions for short and long-term growth rates in the forecast cash flows for DMS 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. <p>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.</p> <p>Following the conclusion of our procedures above, we are satisfied that no impairment is required to the carrying value of the investment in DMS.</p>

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 22 countries.

Across the 22 countries, the Group has 58 component business operations. We performed an audit of the complete financial information of 25 (2018: 21) of these components ("full scope components"), which were selected based on their size or risk characteristics. This covered 82% (2018: 79%) of the Group's revenue and 81% (2018: 71%) of the Group's underlying profit before tax.

For 11 (2018: 13) further components ("specified procedures components"), we performed tailored audit procedures to address any significant risk or balances and transactions involving judgement and estimates.

The remaining 22 components in aggregate represent 14% (2018: 11%) of the Group's underlying profit before tax. For these components, the Group audit team performed central risk assessment analytical procedures.

INDEPENDENT AUDITOR'S REPORT

to the members of discoverIE Group plc

In establishing our overall approach to the Group audit, we determined the nature of work that needed 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 25 full scope components, audit procedures were performed on ten components directly by the Group audit team, with component auditors performing audit procedures over the remaining 15 components. For the 11 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, US, Netherlands and Norway determined to be full scope components. In the previous financial year the Group audit team visited those entities considered to be full scope components in UK, Germany, France, Italy, Denmark, Norway and Sweden, 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.

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.

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	£1,365,000 (2018: £1,095,000)	£1,170,000 (2018: £900,000)
How we determined it	5% of profit before tax.	1% of total assets, limited by component materiality.
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 £1,170,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £68,000 (Group audit) (2018: £50,000) and £68,000 (Company audit) (2018: £50,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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 12 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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
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 2019 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)

INDEPENDENT AUDITOR'S REPORT

to the members of discoverIE Group plc

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 77 to 78) 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 Statement (on pages 62 to 73) 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 66 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 41 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 103, 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 76 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk 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)

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 103, 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 and Risk 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. The period of total uninterrupted engagement is two years, covering the years ended 31 March 2018 to 31 March 2019.

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

4 June 2019

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2019

	Notes	2019 £m	2018 £m Restated ¹
Revenue	4	438.9	387.9
Cost of sales		(293.9)	(261.2)
Gross profit		145.0	126.7
Selling and distribution costs		(57.7)	(54.5)
Administrative expenses (including underlying adjustments)		(64.6)	(54.9)
Operating profit	7	22.7	17.3
Finance income	9	0.5	0.4
Finance costs	9	(3.9)	(3.1)
Profit before tax		19.3	14.6
Tax expense	10	(4.7)	(4.0)
Profit for the year		14.6	10.6
Earnings per share	13		
Basic		20.0p	15.0p
Diluted		19.4p	14.2p

SUPPLEMENTARY INCOME STATEMENT INFORMATION

	Notes	2019 £m	2018 £m Restated ¹
Underlying Performance Measures			
Operating profit	7	22.7	17.3
Add back: Exceptional items	6	(0.2)	1.2
Acquisition costs	6	1.8	0.8
Amortisation of acquired intangible assets	17	5.9	4.9
IAS 19 pension administrative charge	32	0.4	0.3
Underlying operating profit		30.6	24.5
Profit before tax		19.3	14.6
Add back: Exceptional items	6	(0.2)	1.2
Acquisition costs	6	1.8	0.8
Amortisation of acquired intangible assets	17	5.9	4.9
Total IAS 19 pension charge	32	0.4	0.4
Underlying profit before tax		27.2	21.9
Underlying earnings per share	13		
Basic		28.1p	23.4p
Diluted		27.2p	22.3p

¹ Refer to note 2 for details on restatement

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2019

	Notes	2019 £m	2018 £m Restated ¹
Profit for the year		14.6	10.6
Other comprehensive income:			
<i>Items that will not be subsequently reclassified to profit or loss:</i>			
Actuarial gain on defined benefit pension scheme	32	0.1	2.1
Deferred tax charge relating to defined benefit pension scheme	10	-	(0.3)
		0.1	1.8
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences on translation of foreign subsidiaries		(1.1)	(3.5)
		(1.1)	(3.5)
Other comprehensive loss for the year, net of tax		(1.0)	(1.7)
Total comprehensive income for the year, net of tax		13.6	8.9

¹ Refer to note 2 for details on restatement

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 March 2019

	Notes	2019 £m	2018 £m Restated ¹	2017 £m Restated ¹
Non-current assets				
Property, plant and equipment	14	24.4	23.4	16.0
Intangible assets - goodwill	15	85.3	77.0	72.6
Intangible assets - other	17	34.4	30.2	28.1
Deferred tax assets	10	5.1	5.8	5.5
		149.2	136.4	122.2
Current assets				
Inventories	19	66.2	58.1	48.8
Trade and other receivables	20	88.7	84.6	77.3
Current tax assets		1.3	1.3	-
Cash and cash equivalents	21	22.9	21.9	21.0
		179.1	165.9	147.1
Total assets		328.3	302.3	269.3
Current liabilities				
Trade and other payables	28	(87.7)	(82.1)	(72.3)
Other financial liabilities	22	(1.7)	(6.4)	(1.0)
Current tax liabilities		(5.5)	(4.6)	(2.6)
Provisions	25	(1.1)	(0.9)	(2.2)
		(96.0)	(94.0)	(78.1)
Non-current liabilities				
Trade and other payables	28	(0.2)	(0.7)	(3.3)
Other financial liabilities	22	(84.5)	(67.9)	(50.0)
Pension liability	32	(2.5)	(3.0)	(6.4)
Provisions	25	(2.7)	(2.8)	(2.5)
Deferred tax liabilities	10	(7.7)	(7.1)	(6.5)
		(97.6)	(81.5)	(68.7)
Total liabilities		(193.6)	(175.5)	(146.8)
Net assets		134.7	126.8	122.5
Equity				
Share capital	29	3.7	3.6	3.5
Share premium		106.9	106.9	106.0
Merger reserve		2.9	2.9	2.9
Currency translation reserve		2.4	3.5	7.0
Retained earnings		18.8	9.9	3.1
Total equity		134.7	126.8	122.5

¹ Refer to note 2 for details of restatement

These financial statements were approved by the Board of Directors on 4 June 2019 and signed on its behalf by:

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2019

	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 2017 (Restated¹)	3.5	106.0	2.9	7.0	3.1	122.5
Profit for the year (Restated ¹)	-	-	-	-	10.6	10.6
Other comprehensive loss	-	-	-	(3.5)	1.8	(1.7)
Total comprehensive income	-	-	-	(3.5)	12.4	8.9
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 (Restated¹)	3.6	106.9	2.9	3.5	9.9	126.8
Profit for the year	-	-	-	-	14.6	14.6
Other comprehensive loss	-	-	-	(1.1)	0.1	(1.0)
Total comprehensive income	-	-	-	(1.1)	14.7	13.6
Shares issued (note 29)	0.1	-	-	-	-	0.1
Share-based payments including tax	-	-	-	-	0.9	0.9
Dividends (note 12)	-	-	-	-	(6.7)	(6.7)
At 31 March 2019	3.7	106.9	2.9	2.4	18.8	134.7

Refer to note 2 for details on restatement

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2019

	Notes	2019 £m	2018 £m
Net cash flow from operating activities	24	22.4	15.0
Investing activities			
Acquisition of shares in subsidiaries (net of cash/(debt) acquired)		(21.3)	(24.6)
Acquisition related contingent consideration		(1.3)	(0.8)
Purchase of property, plant and equipment		(4.2)	(3.7)
Purchase of intangible assets – software		(1.2)	(0.6)
Proceeds from disposal of property, plant and equipment		0.2	–
Interest received		0.4	0.4
Net cash used in investing activities		(27.4)	(29.3)
Financing activities			
Net proceeds from the issue of shares		0.1	–
Proceeds from borrowings	23	17.2	20.4
Repayment of borrowings	23	(1.2)	(1.5)
Dividends paid	12	(6.7)	(6.2)
Notional repurchase of share options	31	–	(1.5)
Net cash generated from financing activities		9.4	11.2
Net increase/(decrease) in cash and cash equivalents¹		4.4	(3.1)
Cash and cash equivalents at 1 April		16.2	19.8
Effect of exchange rate fluctuations		0.2	(0.5)
Cash and cash equivalents at 31 March		20.8	16.2
Reconciliation to cash and cash equivalents in the consolidated statement of financial position			
Net cash and cash equivalents shown above		20.8	16.2
Add back: bank overdrafts	22	2.1	5.7
Cash and cash equivalents presented in current assets in the consolidated statement of financial position	21	22.9	21.9

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 2019

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 2019 were authorised for issue by the Board of Directors on 4 June 2019. 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 significant accounting policies adopted by the Group are set out in note 2.

2. Accounting policies

Basis of preparation

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

Prior year restatement

Fraud

During the year, internal control processes identified a fraud, perpetrated against the Group in a small US subsidiary. Decisive action was taken to resolve the matter with new management put in place and tightened Group and local controls. Of the total fraud cost of £4m, £2.6m has been recovered this year from insurance after the excess deductible. The fraud was concealed in inventories and conducted over a period of four years of which £1.5m of the fraud cost was incurred this year, £1.2m last year and a further £1.3m in the previous two years. The exceptional income of £1.1m for this year comprises the insurance receipt of £2.6m offset by the fraud cost incurred this year of £1.5m. In accordance with IAS 8, 2018 and 2017 balance sheets have been restated.

Santon business combination

In accordance with IFRS3, a measurement period adjustment has been made to the prior year accounting for the acquisition of Santon. The Santon acquisition completed on 1 February 2018 and the provisional accounting for the acquisition was reflected in the 2018 financial statements. During the year, the acquisition date fair values have been reassessed in light of information and circumstances that existed at the acquisition date. The impact of the reassessment has been to reduce the fair value of the acquired assets and the fair value of consideration transferred to the seller by £6.8m.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

2. Accounting policies continued

The restatement impact on the consolidated income statement and consolidated statement of financial position is shown below.

	2018 reported £m	Fraud restatement £m	Santon restatement £m	2018 restated £m
Consolidated income statement				
Profit before tax	15.8	(1.2)	-	14.6
Profit after tax	11.8	(1.2)	-	10.6
Consolidated statement of financial position				
Intangible assets - other	33.1	-	(2.9)	30.2
Intangible assets - goodwill	81.9	-	(4.9)	77.0
Inventories	60.6	(2.5)	-	58.1
Trade and other receivables	82.4	-	2.2	84.6
Trade and other payables - current	(81.2)	-	(0.9)	(82.1)
Trade and other payables - non current	(6.2)	-	5.5	(0.7)
Current tax liabilities	(4.9)	-	0.3	(4.6)
Deferred tax liabilities	(7.8)	-	0.7	(7.1)
Retained earnings	12.4	(2.5)	-	9.9

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 2019. 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.

2. Accounting policies continued

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.

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 4 to 51. 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 34 to 39.

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 42 to 45 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 related expenditure (namely amortisation of acquired intangible assets, acquisition costs and the IAS19 pension administration charge relating to the Group's legacy defined benefit pension scheme) and exceptional items.

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 outside of the 12 month measurement period.

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 related expenditure (namely amortisation of acquired intangible assets, acquisition costs and the total IAS19 pension charge relating to the Group's legacy defined benefit pension scheme) and exceptional items.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

2. Accounting policies continued

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.

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”) and excluding the first 12 months of acquisitions (Santon was acquired last financial year on 1 February 2018 and Cursor Controls was acquired on 17 October 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 IFRS 9 “Financial Instruments: Classification 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.

2. Accounting policies continued

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.

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

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, patents 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 five and ten 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

2. Accounting policies continued

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 non-financial 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.

Financial assets

Beginning 1 April 2018, the Group classifies its financial assets in the following measurement categories:

1. those to be measured at amortised cost; and
2. those to be measured subsequently at fair value through profit or loss ("FVTPL") or through other comprehensive income ("FVOCI").

The classification depends on the Group's business model for managing the financial assets as well as the contractual terms of the cash flows of the financial assets.

For assets measured at fair value, gains or losses will either be recorded in profit or loss or other comprehensive income.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

At subsequent measurement

Financial assets mainly comprise "trade receivables", "other current assets (excluding prepayments and VAT receivables)", and "cash and cash equivalents" in the statement of financial position.

Financial assets are subsequently measured based on the classification as follows:

Amortised cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a financial asset that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

2. Accounting policies continued

FVTPL: Derivative financial instruments that are held for trading as well as those that do not meet the criteria for classification as amortised cost or FVOCI are classified as FVTPL. Movement in fair values and interest income that is not part of a hedging relationship is recognised in profit or loss in the period in which it arises. The Group applies the IFRS 9 simplified approach and uses a provision matrix to measure expected credit loss which uses a lifetime expected loss allowance for all trade receivables. Expected credit loss is assessed separately for each of the Group's key regions and is based on each region's three-year historical credit loss experience.

Prior to 1 April 2018, the Group classified non-derivative financial assets with fixed or determinable payments as loans and receivables. They were 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 were presented in trade and other receivables in the consolidated statement of financial position.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and the liability simultaneously.

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 assessed for impairment in accordance with IFRS 9 "Financial instruments". This requires consideration of both historical and forward looking information when considering potential impairment of trade receivables. The Group has opted to use the simplified approach allowed under IFRS 9, which requires the calculation of a lifetime expected credit loss. A provision matrix has been created to calculate an expected credit loss. This matrix is based upon historical observed default rates adjusted for forward looking information to create an adjusted default rate. This adjusted default rate is used to calculate an expected credit loss and is compared with the bad debts written off during the previous 36 months.

The following criteria are used to calculate the default rate:

Historical

- The level of sales written off during the prior 36 month period compared to the credit sales over the same 36 month period and the aging of receivables.

Forward looking

- Forecast sales growth
- Growth in geographical markets
- Macroeconomic factors such as growth rates or interest rates
- Other material factors such as customer concentration

In addition to the expected credit loss, provision is made where there is objective evidence that a receivable balance may be impaired. Such evidence may include a significant change in the credit risk profile of a customer, debt that has become significantly overdue or contract default.

Trade receivables are written off where there is no reasonable expectation of recovery, such as bankruptcy proceedings.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

2. Accounting policies continued

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 with in the consolidated income statement.

2. Accounting policies continued

Revenue recognition

Revenue represents the fair value of the consideration received or receivable for goods, commission and other services provided to third parties, after deducting discounts, VAT and similar taxes levied overseas. 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. In particular:

- a. Revenue from the sale of products is recognised upon transfer of control to the customer upon completion of specified performance obligations. This is generally when goods are dispatched to customers;
- b. Revenue from 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;
- c. Interest income is recognised as the interest accrues using the effective interest method;
- d. 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

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.

Where the fair value of the hedging investment or hedging item is material, 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.

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). During the year a reassessment of the basis of allocation to the Acal BFi businesses concluded that Acal BFi Group represents one CGU (see note 15).

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 2019 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.

Exceptional items

The amounts recognised as exceptional items are consistent with the accounting policy on page 130.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

3. New accounting standards and financial reporting requirements

New standards applied

The following standards and interpretations, which have been issued by the IASB, became effective during the current year end and have been 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

¹ Period beginning on or after

IFRS 9, “Financial Instruments” replaces the provisions of IAS 39 relating to the classification and measurement of financial assets and liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has assessed the impact of IFRS 9 with the main area of consideration being the impairment of trade receivables. The Group’s trade receivables are subject to IFRS 9’s new impairment model for financial assets, which requires the recognition of impairment provisions based upon expected credit losses rather than incurred credit losses, as in the case of IAS 39. The Group has applied the simplified approach and records lifetime expected losses on all trade receivables. The adoption of this model has had no material impact on the Group’s financial statements. Details of the change in the Group’s accounting policy are set out in note 2.

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. The standard replaces IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations. The impact of adopting IFRS 15 on the Group financial statements was not material. This reflects the relatively non-complex and largely standardised terms and conditions applicable to the Group’s revenue contracts. Details of the change in the Group’s accounting policy in respect of revenue recognition are set out in note 2.

New standards not yet applied

IFRS 16, “Leases” is effective for annual periods beginning on or after 1 January 2019 and will impact the Group for the first time for the financial year ending 31 March 2020. The standard requires lessees to recognise a lease liability reflecting the net present value of future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The Group has not made use of the exemptions for leases of low-value assets and short term leases (leases shorter than 12 months). The Group will not 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 lease liability will be recognised as the present value of remaining lease payments discounted using the interest rate implicit in the lease, if this rate is readily available. If not, the lessee’s incremental borrowing rate will be used. The lease liability will be adjusted for prepaid or accrued lease payments.

The income statement will be impacted by the replacement of operating lease rentals with depreciation of the right of use asset and interest expense from the unwinding of the discount on the lease liability.

3. New accounting standards and financial reporting requirements continued

The Group will apply the standard from 1 April 2019 and expects to recognise right-of-use assets of approximately £19m and lease liabilities of £19m.

For the year ending 31 March 2020, the Group expects the impact on net profit after tax, earnings per share and total cashflow to be immaterial.

Changes resulting from the adoption of IFRS 16, including recognition of lease liabilities as financial liabilities, will not impact the Group's gearing for the purpose of the gearing covenant and interest covenant within our £180m syndicated banking facility.

4. Revenue

Group revenue is analysed below:

	2019 £m	2018 £m
Sale of goods	428.7	381.4
Rendering of services	10.2	6.5
Total revenue	438.9	387.9

5. Operating segment information

The Group organises its business 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 business 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 2019

5. Operating segment information continued

Segment revenue and results

	Design & Manufacturing £m	Custom Supply £m	Unallocated £m	Total £m
2019				
Revenue	266.2	172.7	-	438.9
Result				
Underlying operating profit/(loss)	29.8	8.6	(7.8)	30.6
Exceptional items	1.1	-	(0.9)	0.2
Acquisition costs	(1.8)	-	-	(1.8)
Amortisation of acquired intangible assets	(5.9)	-	-	(5.9)
IAS 19 pension charge	-	-	(0.4)	(0.4)
Operating profit/(loss)	23.2	8.6	(9.1)	22.7
	Design & Manufacturing £m Restated	Custom Supply £m	Unallocated £m	Total £m Restated
2018				
Revenue	222.6	165.3	-	387.9
Result				
Underlying operating profit/(loss)	24.2	7.5	(7.2)	24.5
Exceptional items	(1.2)	-	-	(1.2)
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)	17.3	7.5	(7.5)	17.3

Segment assets and liabilities

	Design & Manufacturing £m	Custom Supply £m	Total £m
2019			
Assets and liabilities			
Segment assets (excluding goodwill and other intangible assets)	127.1	51.0	178.1
Goodwill and other intangible assets	109.9	9.0	118.9
	237.0	60.0	297.0
Central assets			2.0
Cash and cash equivalents			22.9
Current and deferred tax assets			6.4
Total assets			328.3
Segment liabilities	(54.3)	(32.1)	(86.4)
Central liabilities			(5.3)
Other financial liabilities			(86.2)
Pension liability			(2.5)
Current and deferred tax liabilities			(13.2)
Total liabilities			(193.6)
Net assets			134.7

5. Operating segment information continued

2018	Design & Manufacturing £m Restated	Custom Supply £m	Total £m Restated
Assets and liabilities			
Segment assets (excluding goodwill and other intangible assets)	116.8	48.1	164.9
Goodwill and other intangible assets	97.6	9.2	106.8
	214.4	57.3	271.7
Central assets			1.6
Cash and cash equivalents			21.9
Deferred tax assets			7.1
Total assets			302.3
Segment liabilities	(48.4)	(30.5)	(78.9)
Central liabilities			(7.6)
Other financial liabilities			(74.3)
Pension liability			(3.0)
Current and deferred tax liabilities			(11.7)
Total liabilities			(175.5)
Net assets			126.8

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	
	2019 £m	2018 £m	2019 £m	2018 £m Restated
Design & Manufacturing	10.3	8.2	24.8	24.4
Custom Supply	0.5	0.5	0.4	0.5
Central	0.3	0.3	0.5	-
	11.1	9.0	25.7	24.9

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	
	2019 £m	2018 £m	2019 £m	2018 £m Restated
UK	74.0	61.5	45.5	29.1
Europe	273.0	252.0	96.2	99.9
Rest of the World	91.9	74.4	7.5	7.4
	438.9	387.9	149.2	136.4

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

6. Underlying profit before tax

		2019 £m	2018 £m Restated
Profit before tax		19.3	14.6
Add back	Exceptional Items (a)	(0.2)	1.2
	Acquisition costs (b)	1.8	0.8
	Amortisation of acquired intangible assets (c)	5.9	4.9
	Total IAS 19 pension charge (d)	0.4	0.4
Underlying profit before tax		27.2	21.9

The tax impact of the underlying profit adjustments above is a credit of £2.0m (2018: £1.3m).

- (a) An exceptional charge of £0.9m was incurred in relation to equalisation of Guaranteed Minimum Pensions (GMPs) in the Sedgemoor Group Pension Fund. See note 32 for further details
- During the year, internal control processes identified a fraud, perpetrated against the Group in a small US subsidiary. Decisive action was taken to resolve the matter with new management put in place and tightened local and Group controls. Of the total fraud cost of £4.0m, £2.6m has been recovered this year from insurance after the excess deductible. The fraud was conducted over a period of four years of which £1.5m of the fraud cost was incurred this year, £1.2m last year and a further £1.3m in the previous two years. The exceptional income of £1.1m for this year comprises the insurance receipt of £2.6m offset by the fraud cost incurred this year of £1.5m.
- (b) In the year there were £1.8m of acquisition costs. Costs of £0.9m were incurred in relation to the acquisition of Cursor Controls. Contingent consideration of £0.5m was charged in relation to past acquisitions. £0.4m was incurred in relation to the post year-end acquisitions of Hobart and Positek.
- In the prior year there were £1.2m of 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.
- (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:

	2019 £m	2018 £m
Employee costs (note 8)	88.4	78.9
Depreciation of property, plant and equipment (note 14)	4.6	3.5
Amortisation of other intangible assets (note 17)	6.5	5.5
Net foreign exchange differences	0.1	0.9
Inventories (amounts included in cost of sales):		
Cost of inventories	294.0	260.8
Write-down of inventories to net realisable value	1.8	1.1
Operating lease rentals:		
Minimum lease payments recognised as an operating lease expense	6.2	6.0
Auditors' remuneration:		
Audit of the Group financial statements (including parent company)	0.2	0.2
Audit of local subsidiary financial statements	0.6	0.5

8. Employee costs and Directors' emoluments

	2019 £m	2018 £m
Wages and salaries	71.6	64.4
Social security costs	12.3	10.9
Other pension costs	3.4	2.9
Share-based payments (note 31)	1.1	0.7
	88.4	78.9

The average monthly number of employees (including Executive Directors) during the year was as follows:

	2019	2018
Sales and marketing	570	591
Manufacturing and service	3,236	2,941
Administration	475	454
	4,281	3,986

At 31 March 2019 the Group had 4,283 employees (2018: 4,061).

Directors' emoluments	2019	2018
Aggregate emoluments in respect of qualifying services	1,332,680	1,150,519
Aggregate contribution to money purchase pension schemes	75,560	73,005
	1,408,240	1,223,524
Highest paid director		
Emoluments in respect of qualifying services	855,664	727,771
Pension contributions to the defined contribution scheme	59,731	57,711
	915,395	785,482

Retirement benefits are accruing to two Directors under a defined contribution pension scheme (2018: two).

Further details of Directors' emoluments are provided in the remuneration report on pages 82 to 102.

9. Finance income/(costs)

	2019 £m	2018 £m
Interest receivable and similar income	0.5	0.4
Finance income	0.5	0.4
Finance costs on bank loans and overdrafts	(3.9)	(3.0)
Net pension finance charge (note 32)	-	(0.1)
Finance costs	(3.9)	(3.1)

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

10. Tax expense

The major components of the corporation tax expense are summarised below:

	2019 £m	2018 £m
Current taxation:		
UK corporation tax	-	-
UK adjustments in respect of prior years	-	(0.1)
	-	(0.1)
Overseas tax	5.5	4.3
Overseas adjustments in respect of prior years	(0.3)	-
	5.2	4.3
Total current taxation expense	5.2	4.2
Deferred taxation		
Origination and reversal of temporary differences within the UK	0.4	0.2
Origination and reversal of temporary differences overseas	(0.4)	0.2
Adjustment in respect of prior years	(0.1)	-
Increased recognition of historic losses	(0.4)	(0.8)
Impact of tax rate changes	-	0.2
Total deferred taxation credit	(0.5)	(0.2)
Tax expense reported in the consolidated income statement	4.7	4.0
	2019	2018
	£m	£m
Tax recognised in other comprehensive income		
Decrease/(increase) in deferred tax asset on pension deficit	-	0.3
Tax reported in other comprehensive income	-	0.3
	2019	2018
	£m	£m
Tax recognised in equity		
Increase in deferred tax asset on share-based payments	0.3	1.4
Tax reported in equity	0.3	1.4

The effective rate of taxation for the year is higher (2018: higher) than the standard rate of taxation in the UK of 19% (2018: 19%). 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 2019 and 31 March 2018 respectively is presented below:

	2019 £m	2018 £m Restated
Profit before tax	19.3	14.6
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	3.7	2.8
<i>Effect of:</i>		
Different tax rates in overseas companies	1.0	1.0
Tax losses not recognised	0.3	0.8
Non-deductible expenses	0.5	0.1
Adjustments to deferred taxation in respect of prior years	(0.1)	-
Increased recognition of historic losses	(0.4)	(0.8)
Impact of tax rate changes on deferred tax	-	0.2
Adjustments to current taxation expense in respect of prior years	(0.3)	(0.1)
Total tax reported in the consolidated income statement	4.7	4.0

10. Tax expense continued

Deferred tax

	2019 £m	2018 £m Restated
<i>Deferred tax liabilities</i>		
Accelerated capital allowances	(0.5)	(0.5)
Intangibles	(6.6)	(6.1)
Other temporary differences	(0.6)	(0.5)
Gross deferred tax liabilities	(7.7)	(7.1)
<i>Deferred tax assets</i>		
Decelerated capital allowances	0.7	0.9
Pensions	0.6	0.9
Tax losses	1.7	1.2
Share-based payment plans	1.2	2.3
Other temporary differences	0.9	0.5
Gross deferred tax assets	5.1	5.8
	2019	2018
	£m	£m
Deferred tax credit in the consolidated income statement		
<i>Consolidated income statement</i>		
Decelerated capital allowances	(0.3)	0.1
Other temporary differences	(0.2)	(0.3)
	(0.5)	(0.2)

At 31 March 2019, the Group had not recognised any deferred tax asset in respect of tax losses of approximately £28.0m (2018: £26.0m). Deferred tax assets are not recognised where there is insufficient evidence that losses will be utilised.

At 31 March 2019, there was a £0.1m recognised deferred tax liability (2018: nil) for taxes that would be payable on the remittance of certain of the Group's overseas subsidiaries' unremitted earnings. The Group has determined that, other than this £0.1m deferred tax liability, 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 with effect from 1 April 2020. A rate of 19% is 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 2019, based on an estimate of when the UK deferred tax is expected to crystallise.

11. Business combinations

Acquisitions in the year ended 31 March 2019

Acquisition of Cursor Controls

On 16 October 2018, the Group completed the acquisition of Cursor Controls via the purchase of 100% of the share capital and voting equity interests of its holding company Cursor Controls Holdings ("Cursor Controls"):

Cursor Controls was acquired for a consideration of £19m on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities. The initial cash consideration of £20.8m was adjusted for cash acquired and other net purchase price adjustments of £1.8m. In addition, a contingent payment of up to £4.0m will be payable subject to Cursor Controls achieving certain profit growth targets during the three-year period ended 31 December 2021.

Cursor Controls is a designer and manufacturer of human to machine interface ("HMI") products for medical, industrial and transportation applications, its products comprise trackballs, touchpads and ruggedised keyboards. They are custom designed for specific applications, and are highly complementary to discoverIE's existing business. The business, which is based in Newark, UK, with manufacturing facilities in the UK and Belgium, operates within the Group's Design & Manufacturing division while retaining its distinct brand identity.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

11. Business combinations continued

The fair value of the identifiable assets and liabilities of Cursor Controls at the date of acquisition were as follows.

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.9
Intangible assets – customer relationships and patents	9.7
Inventories	1.4
Trade and other receivables	2.0
Net cash	1.4
Trade and other payables	(1.5)
Current tax liabilities	(0.2)
Deferred tax liabilities (non-current)	(1.9)
Total identifiable net assets	11.8
Provisional goodwill arising on acquisition	9.0
Total	20.8
<i>Discharged by:</i>	
Cash	20.8
	20.8

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 £9.0m 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	20.8
Acquisition costs (included in cash flows from operating activities) ¹	0.9
Net cash acquired	(1.4)
	20.3

¹ Acquisition costs of £0.9m were expensed as incurred in the year ended 31 March 2019 and were included within administrative expenses (note 6).

Included in cash flow from investing activities is the cash consideration of £20.8m, the net cash acquired of £1.4m and debt like items of £0.1m.

From the date of acquisition to 31 March 2019, Cursor Controls contributed £6.6m to revenue and £1.0m 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 £15.2m and the consolidated revenue for the Group would have been £443.8m.

11. Business combinations continued

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. The Group received a purchase price adjustment of £1.3m during the year ended 31 March 2019.

In accordance with IFRS 3, a measurement period was made in the prior year to reflect the changes to the provisional fair values identified at acquisition. See note 2 for further details.

In addition, contingent consideration of up to £19.7m will be payable over the next three years, subject to Santon achieving certain growth targets. The fair value of the contingent consideration at the acquisition date was estimated to be £nil.

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 operates within the Group's Design & Manufacturing division.

The fair value of the identifiable assets and liabilities of Santon at the date of acquisition were as follows.

	Fair value recognised at acquisition £m
Property, plant and equipment	7.3
Intangible assets - customer relationships and patents	7.6
Inventories	4.5
Trade and other receivables	5.2
Net debt	(4.4)
Trade and other payables	(3.7)
Current tax liabilities	(0.7)
Deferred tax liabilities (non-current)	(1.8)
Total identifiable net assets	14.0
Goodwill arising on acquisition	5.0
Total	19.0
<i>Discharged by:</i>	
Cash	19.4
Shares issued	0.9
Purchase price adjustments	(1.3)
	19.0

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 £5.0m 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

11. Business combinations continued

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.

12. Dividends

	2019 £m	2018 £m
Dividends recognised in equity as distributions to equity holders in the year:		
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2018 of 6.35p (2017: 6.05p)	4.6	4.3
Interim dividend for the year ended 31 March 2019 of 2.80p (2018: 2.65p)	2.1	1.9
Total amounts recognised as equity distributions during the year	6.7	6.2
Proposed for approval at AGM:		
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2019 of 6.75p (2018: 6.35p)	5.4	4.5
Summary		
Dividends per share declared in respect of the year	9.55p	9.0p
Dividends per share paid in the year	9.15p	8.7p
Dividends paid in the year	£6.7m	£6.2m

As reported in our Annual Report for the year ended 31 March 2018, a technical non-compliance issue was identified with respect to last year's final dividend payable out of distributable reserves. While the Board was confident that there was adequate distributable reserves in subsidiary companies to meet this dividend at the time, the position was remedied by means of appropriate resolutions at a general meeting of Shareholders in July 2018.

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:

	2019 £m	2018 £m Restated
Profit for the year attributable to equity holders of the parent:	14.6	10.6
	Number	Number
Weighted average number of shares for basic earnings per share	72,979,791	70,797,217
Effect of dilution – share options	2,419,122	3,666,253
Adjusted weighted average number of shares for diluted earnings per share	75,398,913	74,463,470
Basic earnings per share	20.0p	15.0p
Diluted earnings per share	19.4p	14.2p

Underlying earnings per share is calculated as follows:

	2019 £m	2018 £m Restated
Net profit for the year	14.6	10.6
Exceptional items	(0.2)	1.2
Acquisition costs	1.8	0.8
Amortisation of acquired intangible assets	5.9	4.9
IAS 19 pension charge	0.4	0.4
Tax effect of the above	(2.0)	(1.3)
Underlying earnings	20.5	16.6
	Number	Number
Weighted average number of shares for basic earnings per share	72,979,791	70,797,217
Effect of dilution – share options	2,419,122	3,666,253
Adjusted weighted average number of shares for diluted earnings per share	75,398,913	74,463,470
Underlying basic earnings per share	28.1p	23.4p
Underlying diluted earnings per share	27.2p	22.3p

At the year end, there were 2,629,935 ordinary share options in issue that could potentially dilute underlying earnings per share in the future, of which 2,419,122 are currently dilutive (2018: 4,580,130 in issue and 3,666,253 dilutive).

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

14. Property, plant and equipment

	Land and buildings £m	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost				
At 1 April 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
Additions	0.2	0.4	4.6	5.2
Disposals	-	-	(0.3)	(0.3)
Arising from business combinations	0.2	0.1	0.6	0.9
Exchange adjustments	(0.1)	-	(0.2)	(0.3)
At 31 March 2019	11.6	2.8	28.2	42.6
Accumulated depreciation				
At 1 April 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
Charge for the year	0.5	0.3	3.8	4.6
Exchange adjustments	-	-	(0.1)	(0.1)
At 31 March 2019	3.1	1.4	13.7	18.2
Net book value at 31 March 2019	8.5	1.4	14.5	24.4
Net book value at 31 March 2018	8.7	1.2	13.5	23.4

Land and buildings includes land with a cost of £0.8m (2018: £0.8m) that is not subject to depreciation.

At 31 March 2019 the Group had capital expenditure commitments for plant and equipment of £0.4m (2018: £1.4m) for which no provision has been made.

15. Intangible assets – goodwill

Cost	£m Restated
At 1 April 2017	109.4
Arising from business combinations	5.3
Exchange adjustments	(0.9)
At 31 March 2018	113.8
Arising from business combinations	9.0
Exchange adjustments	(0.7)
At 31 March 2019	122.1
Impairment	
At 31 March 2018 and 31 March 2019	(36.8)
Net book value at 31 March 2019	85.3
Net book value at 31 March 2018	77.0

16. Impairment testing of goodwill

The carrying value of goodwill is analysed as follows:

	2019 £m	2018 £m Restated
Custom Supply		
Acal BFi	8.4	8.5
Medical	0.6	0.6
Design & Manufacturing		
Stortech	3.6	3.6
Hectronic	0.6	0.6
MTC	2.0	2.0
Myrra	5.1	5.2
RSG	1.2	1.3
Noratel	28.7	29.2
Foss	5.6	5.6
Flux	0.6	0.6
Contour	7.7	7.7
Plitron	1.1	1.1
Variohm	6.0	6.0
Santon	5.1	5.0
Cursor Controls	9.0	-
	85.3	77.0

Goodwill acquired through business combinations is allocated to cash-generating units (CGUs). The management has reassessed the continuing interdependence of cashflows across the Acal BFi businesses and, as a result, has concluded that Acal BFi is now one CGU. Consequently, Compotron and Acal BFi UK goodwill have been aggregated into this CGU.

The movement in goodwill compared to prior year relates to the movement in foreign exchange with the exception of Cursor Controls which was acquired in the year (refer to note 11 for details).

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

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 2020 budget and management projections thereon. Revenue growth rates in the post-budget management projections between 2.5% and 10% (2018: between 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% (2018: 2%) 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% (2018: 10% 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.

17. Intangible assets - other

	Acquired intangibles			Total £m Restated
	Software and development £m	Customer/ supplier relationships £m Restated	Patents and brands £m Restated	
Cost				
At 1 April 2017	10.8	36.7	0.8	48.3
Arising from business combinations	-	5.4	2.2	7.6
Additions	0.6	-	-	0.6
Exchange adjustment	0.1	(0.7)	-	(0.6)
At 31 March 2018	11.5	41.4	3.0	55.9
Arising from business combinations	-	7.1	2.6	9.7
Additions	1.2	-	-	1.2
Exchange adjustment	(0.1)	(0.4)	(0.1)	(0.6)
At 31 March 2019	12.6	48.1	5.5	66.2
Accumulated amortisation				
At 1 April 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
Charge for the year	0.6	5.6	0.3	6.5
Exchange adjustment	(0.1)	(0.3)	-	(0.4)
At 31 March 2019	9.6	21.1	1.1	31.8
Net book value at 31 March 2019	3.0	27.0	4.4	34.4
Net book value at 31 March 2018	2.4	25.6	2.2	30.2

18. Investments in associates

	£m
Cost	
At 31 March 2018 and 31 March 2019	5.4
Impairment	
At 31 March 2018 and 31 March 2019	(5.4)
Net book amount 31 March 2018 and 31 March 2019	-

Associates	Country of incorporation	% equity interest 2019 and 2018
Scientific Digital Business (Pte) Ltd	Singapore	40

Impairment of associate investments

In 2009, the Directors took the view that its associate investment should be fully impaired, due to continuing losses in this business. There have been no changes in 2019 that would lead to this impairment being reversed.

19. Inventories

	2019 £m	2018 £m Restated
Finished goods and goods for resale	39.6	35.7
Raw materials and work in progress	26.6	22.4
Total inventories	66.2	58.1

As at 31 March 2019, the provision for realisable value against total inventories was £7.2m (2018: £6.6m).

20. Trade and other receivables

	2019 £m	2018 £m Restated
Trade receivables	78.5	74.4
Other receivables	7.1	7.4
Prepayments and contract assets	3.1	2.8
	88.7	84.6

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 2019, trade receivables of £0.8m (2018: £0.8m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2019 £m	2018 £m
At 1 April	0.8	0.9
Charge for the year	0.1	0.1
Amounts written off	(0.1)	(0.2)
At 31 March	0.8	0.8

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

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
2019	78.5	63.7	11.8	1.2	1.3	0.1	0.4
2018	74.4	62.5	9.7	1.1	0.5	0.2	0.4

21. Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank and in hand	22.9	21.9

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 (£16.0m with HSBC; credit rating of AA-, £0.6m with Danske Bank; credit rating of A+, and the remaining balance of £6.3m 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 £22.9m (2018: £21.9m).

22. Other financial liabilities

	Effective interest rate %	Maturity	Current		Non-current	
			2019 £m	2018 £m Restated	2019 £m	2018 £m Restated
Bank overdrafts	Variable	On demand	2.1	5.7	-	-
Unsecured bank loans	Variable		-	1.0	2.8	0.2
Revolving Credit Facility (RCF)	Variable		-	-	83.1	68.3
Capitalised debt costs			(0.4)	(0.3)	(1.4)	(0.6)
Total other financial liabilities			1.7	6.4	84.5	67.9
Trade and other payables			78.0	71.9	0.2	0.7
Total			79.7	78.3	84.7	68.6

Interest on overdrafts is based on floating rates linked to LIBOR.

Included in unsecured bank loans are euro-denominated loans of £0.2m carrying fixed interest rates of 8%.

At 31 March 2019, the revolving credit facility drawdowns of £83.1m were denominated primarily in Sterling and Euros which bear interest based on LIBOR and EURIBOR, plus a facility margin. The revolving credit facility is unsecured.

Trade and other payables above include only contractual obligations.

22. Other financial liabilities continued

The maturity of the carrying value of the gross contractual financial liabilities is as follows:

At 31 March 2019	Within 1 year £m	2-5 years £m	Total £m
Fixed and floating rate	1.7	84.5	86.2
Trade and other payables	78.0	0.2	78.2
	79.7	84.7	164.4
	Within 1 year £m	2-5 years £m	Total £m
At 31 March 2018	Restated	Restated	Restated
Floating rate	6.4	67.9	74.3
Trade and other payables	71.9	0.7	72.6
	78.3	68.6	146.9

The carrying amount of the Group's borrowings is denominated in the following currencies:

	2019 £m	2018 £m
Sterling	42.2	14.1
Euro	39.2	50.8
US dollar	4.1	3.6
Other currencies	0.7	5.8
	86.2	74.3

23. Movements in cash and net debt

Year to 31 March 2019	1 April 2018 £m	Cash flow £m	Non cash changes £m	31 March 2019 £m
Cash and cash equivalents	21.9	1.0	-	22.9
Bank overdrafts	(5.7)	3.4	0.2	(2.1)
Net cash	16.2	4.4	0.2	20.8
Bank loans under one year	(1.0)	1.2	(0.2)	-
Bank loans over one year	(68.5)	(17.2)	(0.2)	(85.9)
Capitalised debt costs	0.9	-	0.9	1.8
Total loan capital	(68.6)	(16.0)	0.5	(84.1)
Net debt	(52.4)	(11.6)	0.7	(63.3)

Bank loans over one year above include £83.1m (2018: £68.3m) drawn down against the Group's revolving credit facility.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

23. Movements in cash and net debt continued

	1 April 2017 £m	Cash flow £m	Non cash changes £m	31 March 2018 £m
Year to 31 March 2018				
Cash and cash equivalents	21.0	1.9	(1.0)	21.9
Bank overdrafts	(1.2)	(5.0)	0.5	(5.7)
Net cash	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)

Supplementary information to the statement of cash flows

	2019 £m	2018 £m Restated
Underlying Performance Measure		
Decrease in net cash	(11.6)	(22.0)
Add: Business combinations	24.2	25.4
Exceptional cash flow	(1.1)	3.0
Executive options issuance	1.6	-
Legacy pension scheme funding	1.7	1.7
Dividends paid	6.7	6.2
Notional repurchase of share options	-	1.5
Less: Net proceeds from share issue	(0.1)	-
Free cash flow	21.4	15.8
Net finance costs	3.4	2.6
Taxation	3.8	3.7
Operating cash flow	28.6	22.1

24. Reconciliation of cash flows from operating activities

	2019 £m	2018 £m Restated
Profit for the year	14.6	10.6
Tax expense	4.7	4.0
Net finance costs	3.4	2.7
Depreciation of property, plant and equipment	4.6	3.5
Amortisation of intangible assets – other	6.5	5.5
Loss on disposal of property, plant and equipment	0.1	–
Change in provisions	0.2	(3.5)
Pension scheme funding	(1.7)	(1.7)
IAS 19 pension administration charge	1.3	0.3
Impact of equity-settled share-based payment expense and associated taxes	(0.5)	0.7
Operating cash flows before changes in working capital	33.2	22.1
Increase in inventories	(6.6)	(6.5)
Increase in trade and other receivables	(4.9)	(0.6)
Increase in trade and other payables	8.3	6.7
Increase in working capital	(3.2)	(0.4)
Cash generated from operations	30.0	21.7
Interest paid	(3.8)	(3.0)
Income taxes paid	(3.8)	(3.7)
Net cash flow from operating activities	22.4	15.0

25. Provisions

	Severance and retirement indemnity £m	Other £m	Total £m
At 1 April 2018	2.9	0.8	3.7
Arising during the year	0.3	0.3	0.6
Utilised	(0.3)	(0.2)	(0.5)
Exchange difference	–	–	–
At 31 March 2019	2.9	0.9	3.8

	2019 £m	2018 £m
Analysis of total provisions:		
Current	1.1	0.9
Non-Current	2.7	2.8
	3.8	3.7

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

25. Provisions continued

Severance and retirement indemnity

The severance provision relates to severance costs payable to employees.

Retirement indemnity provision of £2.5m (2018: £2.3m), 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.

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 £0.6m (2018: £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 rates of Sterling against all other currencies, US Dollar against all other currencies and Euro against all other currencies, 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	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Profit before tax - (loss)/gain						
10% appreciation	(0.2)	(0.3)	1.8	1.5	(1.0)	(0.6)
10% depreciation	0.3	0.3	(1.8)	(1.6)	1.2	0.7

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. The Group's largest customer is less than 4% of Group sales.

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 2019, the Group had net cash of £20.8m (2018: £16.2m), excluding borrowings of £84.1m (2018: £68.6m). The Group had total working capital facilities available of £190.2m (2018: £130.3m) with a number of major UK and overseas banks, of which £190.2m (2018: £128.3m) were committed facilities. The Group had drawn £88.0m against total facilities at 31 March 2019. During February 2019, the Group increased its syndicated banking facility from £120m to £180m and extended the remaining term of the facility by two years out to four years ending in June 2023, with an option exercisable by the Company to extend the facility by a further year to June 2024. In addition, the Group has a £60m accordion facility which it can use to extend the total facility up to £240m. The syndicated facility is available both for acquisitions and for working capital purposes, and now comprises six lending banks. The facilities are subject to certain financial covenants, which, following review, had significant headroom at 31 March 2019.

Management of capital

The Group's objective when managing capital is to safeguard its ability to continue as a going concern and to maintain robust capital ratios to support the development of the business with a view to providing strong returns to Shareholders. In order to maintain or adjust the capital structure, the Group may change the amount of dividends paid to Shareholders, issue new shares or increase bank borrowings.

In respect to this objective, the Group has a target gearing range of between 1.5 and 2.0 times. Gearing at 31 March 2019 was within this range at 1.7 times. In order to maintain such a gearing range and provide the flexibility for future acquisitions, the Group issued new shares on 16 April 2019 which reduced the pro-forma year-end gearing of the Group to 1.4 times. Additionally, during the year, the Group increased its syndicated bank facility from £120m to £180m and extended the remaining term of the facility by two years out to four years ending in June 2023, with an option exercisable by the Group to extend the facility by a further year to June 2024.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

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 2019 £m	Fair value 2019 £m	Carrying amount 2018 £m Restated	Fair value 2018 £m Restated
Financial assets				
Cash at bank and in hand	22.9	22.9	21.9	21.9
Financial liabilities at amortised cost				
Bank overdrafts and short-term borrowings	(2.1)	(2.1)	(6.7)	(6.7)
Non-current interest-bearing loans and borrowings:				
Fixed and floating rate borrowings	(84.5)	(84.5)	(67.9)	(67.9)
Contingent consideration	(0.2)	(0.2)	(0.7)	(0.7)
Forward contracts	-	-	(0.1)	(0.1)

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 and payables have been excluded from the above table as their book values approximate fair values.

28. Trade and other payables

Current

	2019 £m	2018 £m Restated
Trade payables	58.9	51.8
Other payables	17.6	20.1
Accrued expenses and contract liabilities	11.2	10.2
	87.7	82.1

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. Contract liabilities are recognised over the term of the underlying contract. Included in other payables is contingent consideration of £1.0m which relates to the acquisition of Contour.

The Group participates in a supply chain finance arrangement whereby vendors may elect to receive early payment of their invoices from a bank by factoring their receivable from discoverIE entities. Included within trade payables is £0.6m (2018: £nil) subject to such an arrangement.

Non-current

	2019 £m	2018 £m Restated
Other payables	0.2	0.7

Included in non-current trade and other payable is a £0.2m contingent payment relating to the acquisition of Cursor. For 2018, £0.7m related to the acquisition of Contour.

29. Share capital

Allotted, called up and fully paid	2019 Number	2019 £m	2018 Number	2018 £m
Ordinary shares of 5p each	73,358,847	3.7	71,417,857	3.6

During the year to 31 March 2019, employees exercised 1,940,991 share options under the terms of the various share option schemes (2018: 513,235).

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:

	2019 £m	2018 £m
Due within one year	5.7	5.4
Due after one year but not more than five years	9.6	9.8
Due after more than five years	1.1	0.6
	16.4	15.8

Future minimum sublease rentals expected to be received over the term of non-cancellable operating leases are £0.1m (2018: £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:

	2019 £m	2018 £m
a) Approved and unapproved executive share option schemes	-	-
b) discoverIE Group plc long-term incentive plan ("the LTIP")	1.1	0.7
	1.1	0.7

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.

Options are valued using the binomial option-pricing model. No non-market performance conditions were included in the fair value calculations.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

31. Share-based payment plans continued

The fair value per option granted and the assumptions used in the calculation are as follows:

Grant date	29 March 2018
Share price at grant date	£4.15
Exercise price	£4.02
Number of employees	3
Shares under option	14,278
Vesting period (years)	3
Expected volatility	32.87%
Option life (years)	10
Expected life (years)	7
Risk-free rate of return	1.11%
Expected dividends expressed as a dividend yield	2.4%
Fair value	£0.86

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 (2018: £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 2019

Outstanding at 1 April 2018	Forfeited during the year	Exercised during the year	Granted during the year	Outstanding at 31 March 2019	Exercise price (pence)	Exercise dates
37,638	-	(37,638)	-	-	148.00	2013-2020
18,196	-	(18,196)	-	-	201.00	2016-2024
14,331	-	(11,383)	-	2,948	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
143,332	-	(67,217)	-	76,115		2021-2028

At 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

Changes in share options

A reconciliation of option movements over the year to 31 March 2019 is shown below:

	2019		2018	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	143,332	£2.26	163,193	£2.01
Granted	-	-	14,278	£4.02
Exercised	(67,217)	£2.40	(34,139)	£1.79
Forfeited	-	-	-	-
Outstanding at 31 March	76,115	£2.59	143,332	£2.26
Exercisable at 31 March	2,948	£3.02	55,834	£1.65

The weighted average remaining contractual life for the share options outstanding at 31 March 2019 is 7.9 years (2018: 6.7 years).

The range of exercise prices for options outstanding at the end of the year was £2.20 to £4.02 (2018: £1.48 to £4.02).

b) The LTIP

Since 2008, the Group has operated the LTIP as a 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.

There were no awards made in 2019. For awards made in 2018, the performance conditions are as follows:

- 33.3% 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% of the award is based on the Company's absolute total shareholder return as measured against the Consumer Price Index ("CPI"); and
- 33.3% 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 fair value per award granted and the assumptions used in the calculation are as follows:

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

31. Share-based payment plans continued

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 £1.1m (2018: £0.7m).

Outstanding LTIP

A summary of the awards that have been granted under the LTIP and remain outstanding is given below:

31 March 2019

Outstanding at 1 April 2018	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 March 2019	Exercise dates
447,381	-	-	(447,381)	-	2013-2020
271,948	-	-	(271,948)	-	2014-2021
601,551	-	-	(601,551)	-	2015-2022
578,041	-	-	(578,041)	-	2016-2023
641,588	-	-	(23,653)	617,935	2020-2025
618,421	-	(9,208)	(18,417)	590,796	2021-2026
788,765	-	-	-	788,765	2022-2027
632,440	-	-	-	632,440	2023-2028
4,580,135	-	(9,208)	1,940,991	2,629,936	

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
447,381	-	-	-	447,381	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
4,847,188	632,440	(386,258)	(513,235)	4,580,135	

The 378,156 shares forfeited during 2018 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.

The weighted average remaining contractual life for the share options outstanding at 31 March 2019 is 7.5 years (2018: 6.5 years).

The range of exercise prices for options outstanding at the end of the year was nil (2018: nil).

32. Pension liability

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.

32. Pension liability continued

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, 223 employees were active members of the discoverIE scheme (2018: 222). The total cost charged to the consolidated income statement in relation to the UK-based discoverIE scheme was £638,000 (2018: £534,000). Employer contributions in respect of other UK-based schemes and overseas pension schemes were £368,000 (2018: £262,000) and £2,425,000 (2018: £2,141,000) respectively. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2018/19 but based on actual salary levels in 2019/20.

Defined benefit schemes

The acquisition of the Sedgemoor Group in June 1999 brought with it certain defined benefit pension schemes, 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 are being reviewed as part of the triennial funding valuation as at 31 March 2018 which is being carried out.

The estimated amount of employer contributions expected to be paid to the Sedgemoor Scheme during 2019/20 is £1.8m (2018/19: £1.7m), subject to any changes which may arise from the triennial valuation process.

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:

	2019	2018
Rate of increase of salaries	n/a	n/a
Rate of increase of pensions in payment	2.4%	2.4%
Discount rate	2.4%	2.6%
Inflation assumption – RPI	3.3%	3.2%
Inflation assumption – CPI	2.2%	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 110% of 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.

The weighted average duration of the defined benefit obligation at 31 March 2019 was 13 years (2018: 13 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 2019 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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

32. Pension liability continued

The charges recognised in the consolidated income statement in respect of defined benefit schemes are as follows:

	2019 £m	2018 £m
Pension administration costs (recognised in administrative expenses)	0.4	0.3
Net interest cost on pension scheme deficit (recognised in finance cost)	-	0.1
Past service cost	0.9	-
Total	1.3	0.4

Past service cost

In October 2018, it was ruled that the trustees of Lloyds Banking Group had a duty to remove inequalities in scheme benefits that arose under Guaranteed Minimum Pensions (GMPs) being unequal between men and women. As a result of this, the liabilities of the pension scheme increased by £0.9m with a corresponding past service cost being recognised as an exceptional charge (see note 6).

The charges recognised in the consolidated statement of comprehensive income are as follows:

	2019 £m	2018 £m
Re-measurement gains/(losses):		
Return on plan assets (excluding amounts included in net interest expense)	-	(0.2)
Actuarial changes arising from changes in financial assumptions	0.1	1.9
Reversal of deferred tax movement on funding surplus under IAS 19 valuation	-	0.4
Actuarial gains recorded in the consolidated statement of comprehensive income	0.1	2.1

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:

	2019 £m	2018 £m
Equities	3.5	3.4
Bonds	11.5	10.0
Property	3.9	3.9
Absolute Return Fund	5.7	5.7
Diversified Growth Fund	-	5.1
Cash	1.7	2.3
Liability driven investments	5.4	6.2
Infrastructure	5.0	-
Fair value of scheme assets	36.7	36.6
Present value of funded defined benefit obligations	(39.2)	(39.6)
Liability recognised in the consolidated statement of financial position	(2.5)	(3.0)

32. Pension liability continued

Changes in the present value of the defined benefit obligation are as follows:

	2019 £m	2018 £m
Opening defined benefit obligation	39.6	42.9
Net interest cost	1.0	1.0
Actuarial losses due to:		
Changes in financial assumptions	(0.1)	(1.9)
Reversal of deferred tax movement on funding surplus under IAS 19 valuation	-	(0.4)
Benefits paid	(2.2)	(2.0)
Past service costs	0.9	-
Closing defined benefit obligations	39.2	39.6

Changes in the fair value of the scheme assets are as follows:

	2019 £m	2018 £m
Opening fair value of scheme assets	36.6	36.5
Interest on scheme assets	1.0	0.9
Actual return on plan assets less interest on plan assets	-	(0.2)
Pension administration costs	(0.4)	(0.3)
Contributions	1.7	1.7
Benefits paid	(2.2)	(2.0)
Closing fair value of scheme assets	36.7	36.6

Sensitivities

The sensitivity of the 2019 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	2.2

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

33. Related party disclosures

As at 31 March 2019 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	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 Power Sp Zoo	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 Saarbrücken	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 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
Danselbud Noratel Transformator Sp Zoo	ul. Szczecinska 1K, Dobra Szczecinska PL-72-003	Poland	Ordinary shares

33. Related party disclosures continued

Name and nature of business	Registered office	Country of incorporation and registration	Type of share
Noratel International Pvt Ltd	P.O Box 15, phase II, Katunayanke KEPZ	Sri Lanka	Ordinary shares
Noratel Sweden AB	Lars Lindahlsväg 2, Box 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	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 Hekendorpstraat 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
Cursor Controls Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares
NSI bvba	Haakstraat 1A, 3740 Bilzen, Belgium	Belgium	Ordinary Shares

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

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 Share
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 Holding BV	Luchthavenweg 53, 5657 EA Eindhoven	Netherlands	Ordinary shares
discoverIE GmbH	Oppelner Straße 5, 82194 Gröbenzell	Germany	Ordinary Shares
discoverIE 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
Cursor Controls 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
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
Townsend-Coates Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England	Ordinary Shares

33. Related party disclosures continued

Name and nature of business	Registered office	Country of incorporation and registration	Type of share
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 Group considers key management personnel as defined in IAS 24 "Related Party Disclosures" to be the members of the Group Executive Committee as set out on page 56. Remuneration is set out below in aggregate. The charge for share-based payments of £0.9m (2018: £0.5m) relates to the Group's LTIP as detailed in note 31.

	2019 £m	2018 £m
Short-term employee benefits	3.2	2.7
Share-based payments	0.9	0.5
	4.1	3.2

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 82 to 102

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2019

34. Events after the reporting date

Dividend

A final dividend of 6.75p per share (2018: 6.35p), amounting to a dividend of £5.4m (2018: £4.5m) and bringing the total dividend for the year to 9.55p (2018: 9.0p), was declared by the Board on 29 May 2019. The discoverIE Group plc financial statements do not reflect this dividend.

Business combinations

On 16 April 2019, subsequent to the period end, the Group completed the acquisitions of Coil-Tran Corporation (trading as Hobart Electronics) and Positek Limited. Coil-Tran Corporation was acquired for an initial cash consideration of \$15.2m (£11.7m) and Positek Limited for an initial cash consideration of £4.2m, both on a debt free, cash free basis. A contingent payment of up to \$4.0m (£3.1m) will be payable to the vendors of Coil-Tran Corporation subject to the achievement of certain growth targets over the next three years. A contingent payment of up to £0.4m will be payable to the vendors of Positek Limited subject to the company achieving certain integration and profit targets over the next 18 months. The acquisitions were funded from existing debt facilities.

Share placing

On 18 April 2019, 7,309,867 shares were issued at a premium of £28.9m for an aggregate consideration of £29.2m.

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 2019		Year to 31 March 2018	
	Closing rate	Average rate	Closing rate	Average rate
US Dollar	1.3090	1.3139	1.4083	1.3261
Euro	1.1651	1.1340	1.1430	1.1345

COMPANY BALANCE SHEET

as at 31 March 2019

	Note	2019 £m	2018 £m
Fixed assets			
Investments	4	168.9	167.8
Current assets			
Debtors	5	3.1	2.9
Cash at bank and in hand		4.2	14.2
Total current assets		7.3	17.1
Creditors: amounts falling due within one year			
	6	(13.0)	(32.6)
Net current liabilities		(5.7)	(15.5)
Non-current liabilities			
Other financial liabilities	7	(10.2)	(11.1)
Other payables	8	-	(0.7)
		(10.2)	(11.8)
Net assets		153.0	140.5
Capital and reserves			
Called up share capital	9	3.7	3.6
Share premium accounts		106.9	106.9
Merger reserve		2.9	2.9
Profit and loss account		39.5	27.1
Total shareholders' funds		153.0	140.5

The profit of the parent company for the financial year was £18.5m (2018: £1.0m loss).

These financial statements were approved by the Board of Directors on 4 June 2019 and signed on its behalf by:

Nick Jefferies
Group Chief Executive

Simon Gibbins
Group Finance Director

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2019

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 April 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
Profit for the year	-	-	-	18.5	18.5
Share-based payments	-	-	-	0.6	0.6
Shares issued (note 9)	0.1	-	-	-	0.1
Dividends	-	-	-	(6.7)	(6.7)
At 31 March 2019	3.7	106.9	2.9	39.5	153.0

Out of £39.5m retained earnings above, £15.2m are available for distribution to the Shareholders.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2019

1. Basis of accounting

The separate financial statements of the Company have been prepared for all periods presented, 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.

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:

- IFRS 2 “Share-based Payments” in respect of Group settled equity share-based payments
- Certain disclosures required by IFRS 13 “Fair Value Measurement”

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 4 to 51. 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 34 to 39.

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 42 to 45 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2019

2. Summary of significant accounting policies continued

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.

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 Financial Statements.

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 profit of the parent company for the financial year was £18.5m (2018: £1.0m 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 2017	177.1
Impairment to investment	(10.0)
Share-based payments	0.7
At 31 March 2018	167.8
Share-based payments	1.1
At 31 March 2019	168.9

Details of all direct and indirect holdings in subsidiaries are provided in note 33 of the Group Financial Statements.

In the prior year the investment in discoverIE Management Services Ltd was impaired by £10.0m following the annual impairment test.

5. Debtors

	2019 £m	2018 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	-	1.3
Corporation tax	3.0	1.4
Deferred tax	-	0.1
Prepayments	0.1	0.1
	3.1	2.9

The deferred tax asset in the prior year comprises temporary timing differences.

6. Creditors

	2019 £m	2018 £m
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	10.6	31.3
Other payables	1.2	0.3
Accruals	1.2	1.0
	13.0	32.6

7. Other financial liabilities

Other financial liabilities of £10.2m at 31 March 2019 (2018: £11.1m) 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 (non current)

	2019 £m	2018 £m
Other payables	-	0.7
	-	0.7

The balance at 31 March 2018 of £0.7m relates to contingent consideration in respect of the acquisition of Contour. This is payable during the year to 31 March 2020 and has therefore been shown in Other creditors in Amounts falling due within one year.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2019

9. Called up share capital

Allotted, called up and fully paid	2019 Number	2019 £m	2018 Number	2018 £m
Ordinary shares of 5p each	73,358,847	3.7	71,417,857	3.6

At 31 March 2019, there were outstanding nil-priced LTIPs for employees of subsidiaries to purchase up to 2,629,935 (2018: 4,580,130) ordinary shares of 5p each between 2019 and 2028. These are subject to certain performance conditions as disclosed in note 31 of the Group financial statements. During the year to 31 March 2019, employees exercised 1,940,991 share options under the terms of the LTIP scheme (2018: 513,235).

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.

12. Post balance sheet event

On 18 April 2019, the Company issued 7,309,867 new ordinary shares through an equity placing. The shares were issued at a price of 400 pence per share representing a discount of 3.85% to the closing price of 416 pence per share on 15 April 2019. Net proceeds were £28.2m, being gross proceeds on issue of £29.2m, less directly attributable expenses of £1.0m. The placing structure attracted merger relief under section 612 of the Companies Act 2006, and therefore did not require an increase in share premium. This resulted in an increase in distributable reserves of £27.8m, being the excess of the net proceeds of £28.2m over the nominal value of the shares issued of £0.4m.

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FIVE YEAR RECORD

	2019 £m	2018 £m Restated	2017 £m Restated	2016 £m Restated	2015 £m
Group income statement					
Revenue	438.9	387.9	338.2	287.7	271.1
Gross profit	145.0	126.7	111.0	92.6	84.4
Underlying operating profit	30.6	24.5	20.0	16.3	13.4
Underlying profit before tax	27.2	21.9	17.2	14.5	11.8
Profit before tax	19.3	14.6	4.1	8.8	4.3
Profit for the year	14.6	10.6	3.5	6.6	2.9
Earnings per share					
Underlying diluted earnings per share	27.2p	22.3p	19.2p	17.0p	15.4p
Fully diluted earnings per share	19.4p	14.2p	4.1p	10.0p	4.8p
Dividend per share	9.55p	9.0p	8.5p	8.05p	7.6p
Group statement of financial position					
Net debt	(63.3)	(52.4)	(30.0)	(38.1)	(19.0)
Non-current assets	148.7	136.4	122.2	108.4	88.6
Net assets	134.7	126.8	122.5	101.3	92.7

Refer to note 2 of the Group financial statements for details of restatement

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
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
	Cursor Controls Ltd	Newark
	Heason Technology Limited	Horsham
	Herga Technology Limited	Bury St. Edmunds
	Ixthus Instrumentation Limited	Towcester
	Noratel UK Limited	Nantwich
	Positek Limited	Cheltenham
	Santon Switchgear Ltd	Newport
	Stortech Electronics Limited	Harlow
	Variohm-Eurosensor Limited	Towcester
	Belgium	NSI bvba
Canada	Plitron Manufacturing Inc	Toronto
China	Foshan Noratel Electric Co Ltd	Foshan City
	Zhongshan Myrra Electronic Co Ltd	Zhongshan
Denmark	Noratel Denmark A/S	Brøndby
	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
	Myrra Hong Kong Limited	Wanchai
India	Noratel India Power Components Pvt Ltd	Kerala and Bangalore
Netherlands	Santon Holland BV	Rotterdam
Norway	Foss AS	Drammen
	Noratel AS	Hamar
Poland	Myrra Power Sp Zoo	Kaluszyn
	Noratel Sp Zoo	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	Hobart Electronics	Hobart, IN
	Imag	Tempe, AZ
	Noratel North America Inc.	Charlotte, NC
	Noratel Power Engineering Inc.	Carson, CA

FINANCIAL CALENDAR 2019/20

Annual General Meeting

25 July 2019

Results

Interim Report for the six months to 30 September 2019	Late November 2019
Preliminary announcement for the year to 31 March 2020	Early June 2020
Annual Report 2020	Late June 2020

Dividend payments

Final dividend for the year to 31 March 2019	30 July 2019
Interim dividend for the six months to 30 September 2019	Late January 2020
Final dividend for the year to 31 March 2020	Late July 2020

CORPORATE INFORMATION

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Telephone: 01483 544500
Incorporated in England
and Wales with registered
number: 2008246

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**PricewaterhouseCoopers
LLP**

Corporate solicitors

White & Case LLP

Principal bankers

**Bank of Ireland
Clydesdale Bank plc
Citibank NA Inc
Danske Bank A/S
HSBC Bank UK plc
KBC Bank NV**

Registrars

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