



**DELIVERING
INNOVATIVE
ELECTRONICS FOR
A SUSTAINABLE
FUTURE**

discoverIE

discoverIE Group plc

Annual Report and Accounts
for the year ended 31 March 2020

discoverIE



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discoverIE Group plc

WELCOME TO OUR ANNUAL REPORT 2020

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.

Our purpose

To create innovative electronics that help to improve the world and people's lives.

Our mission

To design and supply innovative customised electronics that help our customers create ever better technical solutions around the world.


Visit our investor website

www.discoverieplc.com

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

- Latest news and press releases
- Reports and presentations

Navigating the report

 This icon signposts to content in other sections of the report or to further information that can be found online.





Strong investment case

discoverIE designs, manufactures and supplies application-specific electronic products that help customers solve technical challenges, is focused on attractive growth markets and has a strong financial position, meaning it is well-positioned for future growth

[➔](#) Read more on page 05

Consistent and proven strategy

The Group pursues a clear strategy, investing in initiatives and businesses that enhance design opportunities for customised products in targeted long-term structural growth markets

[➔](#) Read more on pages 20 to 27

Developing electronics for a sustainable future

The Group's products and services serve markets that help improve the world and people's lives, in areas of continually growing importance, including in the medical, renewable energy, mass transportation and industrial & connectivity sectors

[➔](#) Read more on pages 18 to 19

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Medical

The medical industry is one of our key target markets and is well aligned with the UN Sustainable Development Goals.

- ➔ Read more on pages 18 to 19 for details of **our target markets**
- ➔ Read more on page 56 to 57 for our **alignment with the UN SDGs**

Contributing to the UN Sustainable Development Goals



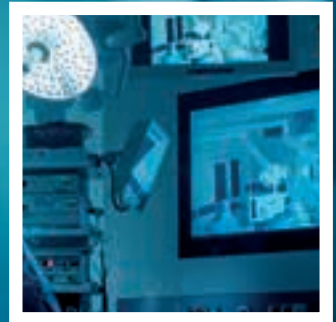
Good health and well-being

The Group works closely with others in developing innovations that contribute to better health outcomes to improve people's lives



Fulfilling our purpose

TECHNOLOGICAL ADVANCEMENTS TO IMPROVE PEOPLE'S LIVES



HIGHLIGHTS

REVENUE

£466.4m

(FY19: £438.9m)

+8%²

UNDERLYING OPERATING PROFIT¹

£37.1m

(FY19: £30.6m)

+23%²

REPORTED PROFIT BEFORE TAX

£19.5m

(FY19: £19.3m)

+1%

UNDERLYING EPS¹

30.2p

(FY19: 27.2p)

+11%

REPORTED FULLY DILUTED EPS

16.5p

(FY19: 19.4p)

-2.9p

OPERATING CASH FLOW⁵

£39.3m

(FY19: £28.6m)

+37%

■ Strong financial and operating performance

- Group sales increased by 8% CER and orders by 6% CER
- Group organic⁽³⁾ sales grew by 2% and organic orders by 1%
- D&M⁽⁴⁾ organic sales grew by 5% and now account for 64% of Group sales (FY 2018/19: 61%)
- Underlying operating profit increased by 23% CER
- Underlying earnings per share increased by 11%

■ Further good progress on key strategic and performance targets

- Underlying operating margin increased by 100bps to 8.0% (FY 2018/19: 7.0%)
- Our D&M target markets are 72% of sales with 9% organic growth
- Sales beyond Europe increased to 27% of total sales (FY 2018/19: 21%)
- Excellent cash generation with £39.3m operating cash flow⁽⁵⁾, 106% of underlying operating profit
- ROCE⁽⁶⁾ increased to 16.0% (FY 2018/19: 15.4%)

■ Three higher margin, international D&M acquisitions completed

- Hobart and Positek acquired in April 2019 for a combined £16m

- Sens-Tech acquired in October 2019 for £58m
- Integrations progressing well
- Well supported equity placings in the year raising a combined net £61m

■ Decisive response to COVID-19

- Swift implementation of working practices to maintain safety and customer continuity
- In-house technical capability supports customers with front-line COVID-19 projects
- Prudent actions to manage cost and preserve cash, whilst not limiting capability
- No final dividend proposed to preserve flexibility

■ Group well positioned for further growth when conditions improve

- Good level of new project design wins
- Record year end order book of £159m (+13% CER)
- Gearing reduced to 1.25x at the year end with £119m undrawn under bank facility
- Strong pipeline of acquisition opportunities in development
- New strategic targets for the next 5 years.

Notes

1. '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 £9.0m, acquisition costs of £4.0m, the IAS19 pension charge relating to a legacy defined benefit scheme of £0.3m) totalling £13.3m. Equivalent underlying adjustments within the FY 2018/19 underlying results totalled £7.9m.
2. Growth rates at constant exchange rates ("CER"). The average sterling rate of exchange strengthened 1% against the Euro compared with the average rate for last year and weakened 3% against the US Dollar while strengthening by 4% on average against the three Nordic currencies.
3. Organic growth for the Group is calculated at CER and is shown excluding the first 12 months of acquisitions (Cursor Controls was acquired last financial year on 16 October 2018; Hobart and Positek were both acquired on 15 April 2019 and Sens-Tech was acquired on 16 October 2019).
4. D&M is the Group's Design & Manufacturing division.
5. Operating cash flow is defined as underlying EBITDA adjusted for the investment in, or release of, working capital, less the cash cost of capital expenditure and IFRS16 costs.
6. Return on capital employed ("ROCE") is defined as underlying operating profit as a percentage of net assets plus net debt, including an annualisation of acquisitions.

INVESTMENT CASE



Focus on customised electronics

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

➔ Read more about our **customised electronics** on pages 08 and 09



Attractive markets

Markets with increasing electronic content

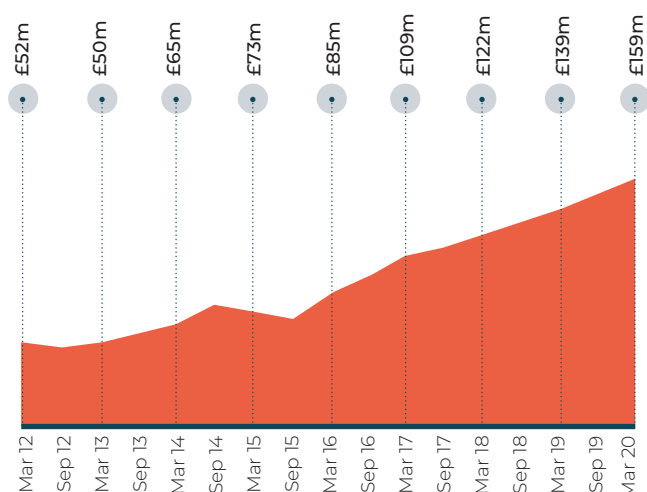
Long-term growth driven by both technology trends and social and economic factors

➔ Read more about our **target markets** on pages 18 to 19

Drivers of long-term future performance

- High level of project wins and new opportunities driving future organic growth
- Targeting structural growth markets and conducting business in a responsible and ethical manner provides for a long-term sustainable business model
- High levels of repeating revenue
- Order book
- International expansion
- Low customer concentration
- Good track record of value-accretive acquisitions, with a robust acquisition pipeline

Order Book



Strong financials

- Sustainable, profitable growth
- Excellent cash generation
- Strong balance sheet
- Progressive dividend policy

GROUP AT A GLANCE

Our framework for creating sustainable value

discoverIE is an international group of businesses that designs, manufactures and supplies innovative components for electronic applications. We offer customers differentiated products in key growth markets on a global scale.

Our purpose

Why we exist:

To create innovative electronics that help to improve the world and people's lives

Our vision

What we want to be:

To be a leading innovator in electronics across the globe

Our mission

What we set out to do:

To design and supply innovative customised electronics that help our customers create ever better technical solutions around the world

“By focusing on key markets driven by structural growth and increasing electronic content, and by increasing the international footprint of our business, the Group is well placed for future growth.”

Nick Jefferies
Group Chief Executive

We aim to achieve our mission through a motivated, entrepreneurial and empowered workforce that adheres to the highest ethical and quality standards. In doing so we expect to create value for shareholders, while being seen as an attractive and responsible employer and a trusted partner for customers and suppliers.

 Read more on pages 58 to 60 and page 79



Our strategy

How we will deliver our mission

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.

The key pillars of our strategy

Our strategy is currently broken down into four strategic priorities:



Grow sales well ahead of GDP



Continue building revenues in the higher margin D&M division



Acquire high quality businesses



Further internationalise the business

 Read more about **our strategy** on pages 20 to 29

Our values

Fundamental beliefs that guide decision-making

- To operate with the highest ethical standards and integrity
- To strive for the highest performance standards, not accepting of mediocrity
- To support the protection of the environment through our products and solutions while minimising our direct environmental impact
- To be a responsible employer, with a safe working environment
- To respect, empower, engage and develop our employees in an entrepreneurial environment
- To add value and be a trusted partner to customers, suppliers and shareholders

Our culture

The culture we aim to embed across the Group

- Honest, reliable and trusting
- Decentralised decision-making close to the customer
- Open, constructive communication and willingness to listen
- Non-political, non-bureaucratic
- Performance, target and results driven

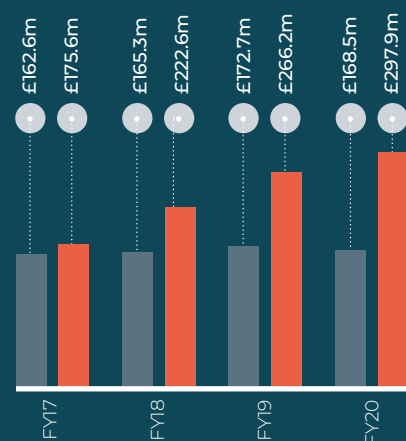
 Read more on page 79

GROUP AT A GLANCE

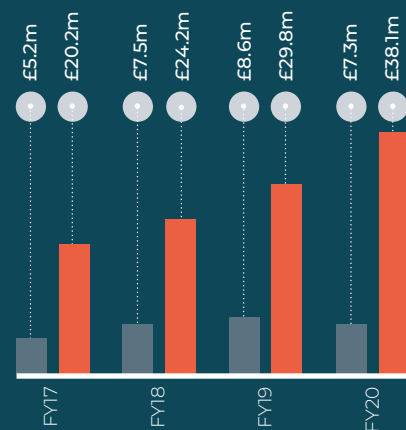
Our divisions

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.

Reported revenue



Underlying operating profit



- Custom Supply
- Design & Manufacturing

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

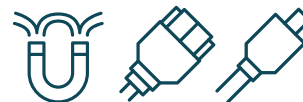
4.3%

NUMBER OF EMPLOYEES

422

Acal BFi

Communications, magnetics, power and sensors



End use example:

- Internet of things and sensing

Vertec

Imaging, biopsy and radiology systems



End use example:

- Medical systems



Watch our Corporate film at:

www.discoverIEplc.com

Design & Manufacturing

The Design & Manufacturing division supplies custom electronic products which are designed uniquely, or specifically modified from an existing product to customer specifications. Design & Manufacturing has over 5,000 customers. It distributes some of its products via discoverIE's Custom Supply division and this cross-selling is growing.

**UNDERLYING
OPERATING MARGIN**

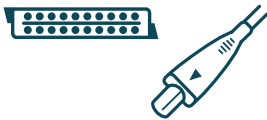
12.8%

**NUMBER OF
EMPLOYEES**

3,896

Contour

Connectors and cable assemblies



End use example:

- Medical operating theatres

Cursor Controls

Keyboards and trackballs



End use example:

- Medical equipment

Flux

Magnetics and power supplies



End use example:

- Trains

Foss

Fibre optics

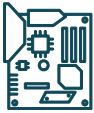


End use example:

- Data centres

Hectronic

Embedded computers



End use example:

- Transportation

Hobart

Linear transformers

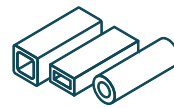


End use example:

- Solar power

MTC

EMC-shielding



End use examples:

- PCs, servers and peripherals

Myrra

Transformers and power supplies



End use example:

- Electric vehicle chargers

Noratel

Power transformers

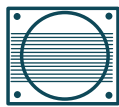


End use example:

- Wind turbines

Plitron

Toroidal transformers



End use example:

- Audio and video equipment

Positek

Linear transducers, linear transition sensors



End use example:

- Medical products

Santon

Switches



End use example:

- Solar panels

Sens-Tech

Sensors and detector boards



End use example:

- Medical (X-Ray)

Stortech

Cable assemblies, batteries, switches & CCTV



End use examples:

- Mobility / Buses

Variohm

Sensors and transducers



End use example:

- Agricultural production

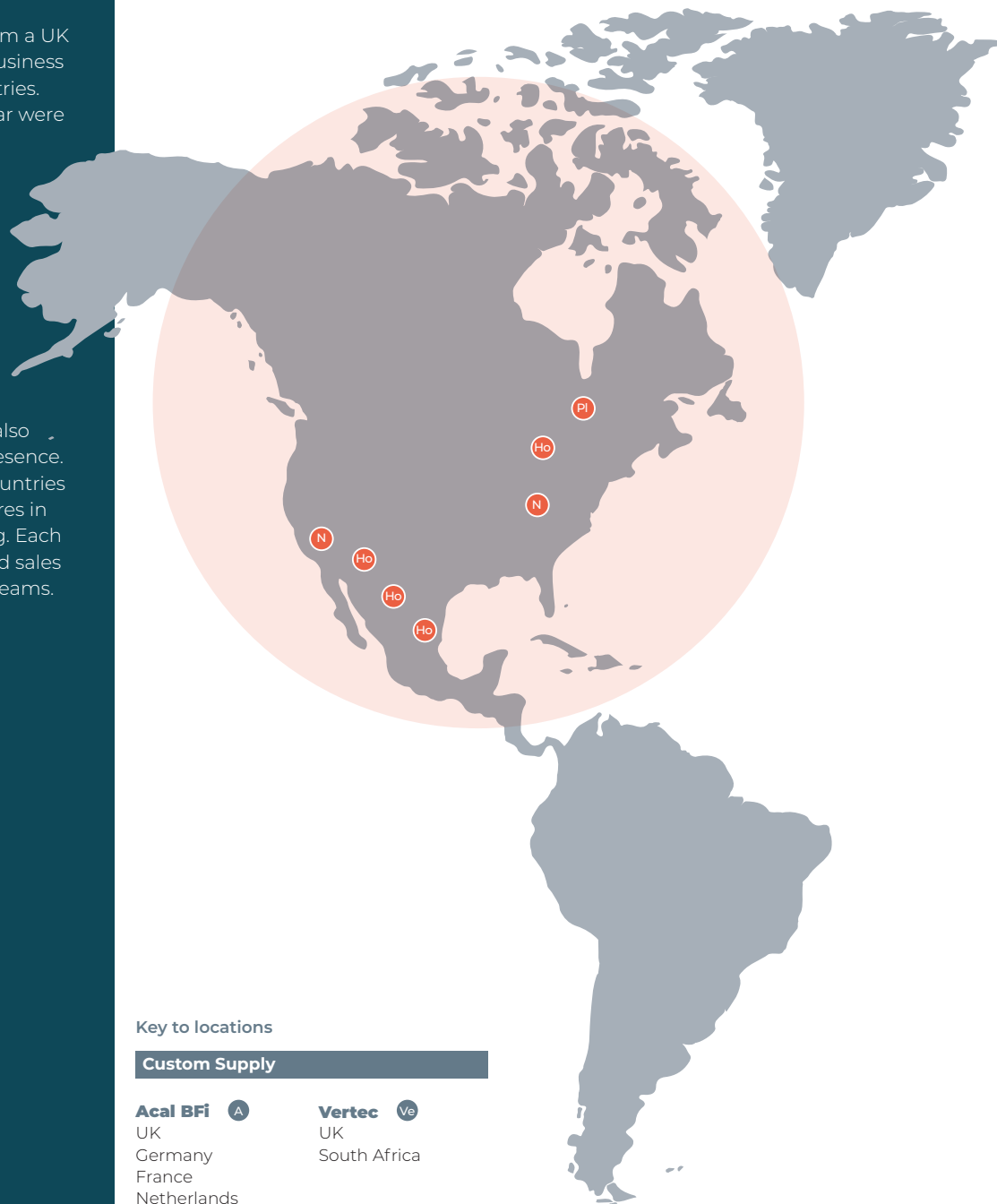
GROUP AT A GLANCE

Our global reach

The Design & Manufacturing division ("D&M") has gone from a UK business in 2011 to a global business in 2020 operating in 23 countries. 27% of Group sales for the year were beyond Europe.

During the year, the Group acquired new facilities in the USA, Mexico and the UK. We also expanded our magnetics components production facility in China, increasing 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 logistics centres in Germany, UK and Hong Kong. Each country has its own dedicated sales force and technical support teams.



Key to locations

Custom Supply

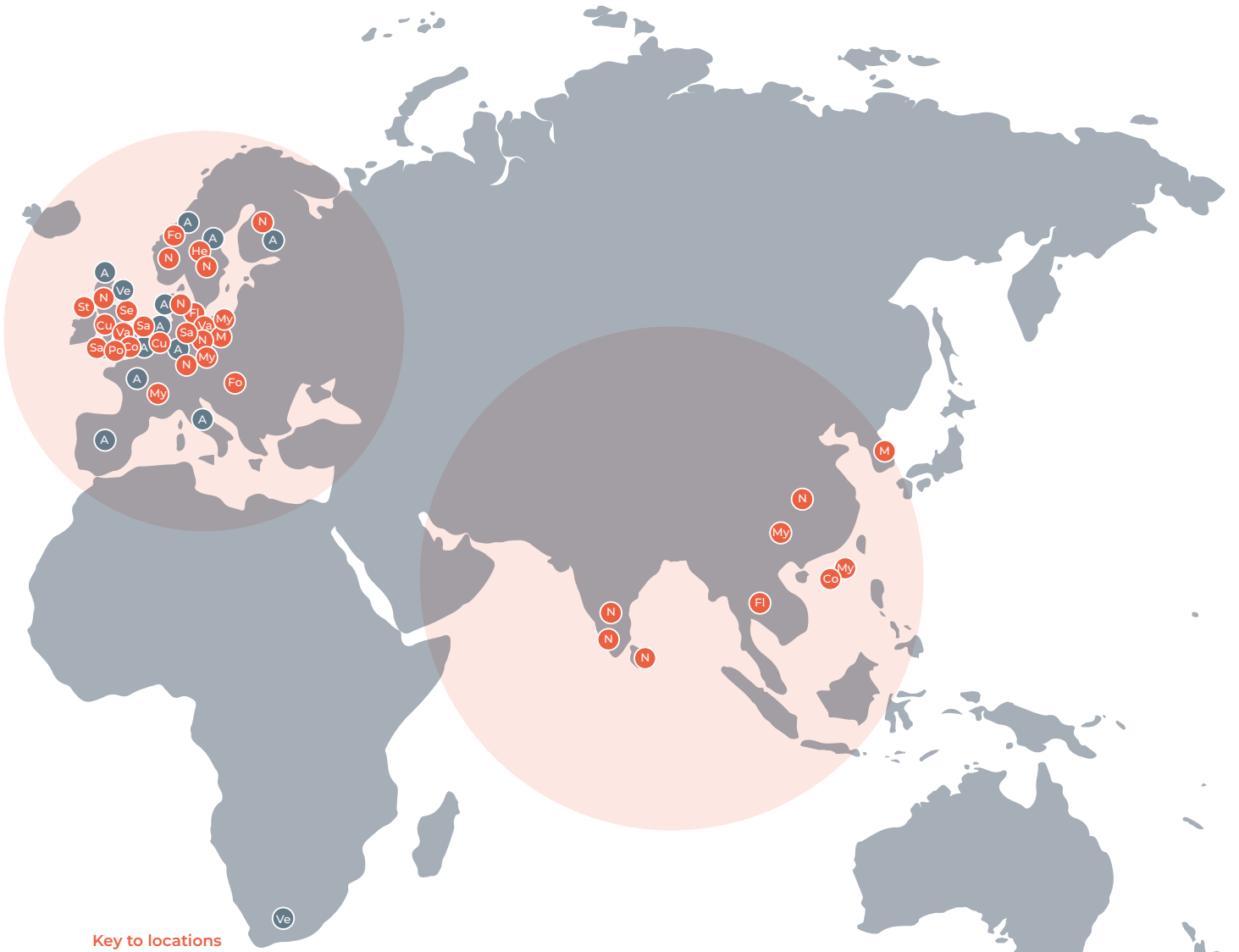
Acal BFi **A**
 UK
 Germany
 France
 Netherlands
 Denmark
 Finland
 Norway
 Sweden
 Italy
 Belgium
 Spain

Vertec **Ve**
 UK
 South Africa

+23
COUNTRIES

25,000
CUSTOMERS

[Read more about the internationalisation of our business](#) on pages 27 and 28



Key to locations

Design & Manufacturing

<p>Contour Co</p> <p>UK Hong Kong</p> <p>Cursor Controls Cu</p> <p>UK Belgium</p> <p>Flux Fi</p> <p>Denmark Thailand</p> <p>Foss Fo</p> <p>Norway Slovakia</p>	<p>Hectronic He</p> <p>Sweden</p> <p>Hobart Ho</p> <p>USA Mexico</p> <p>MTC M</p> <p>Germany South Korea</p> <p>Myrra My</p> <p>France China Poland Germany Hong Kong</p>	<p>Noratel N</p> <p>Norway China India Sri Lanka Poland Germany Sweden UK Denmark Finland USA</p>	<p>Plitron Pl</p> <p>Canada</p> <p>Positek Po</p> <p>UK</p> <p>Santon Sa</p> <p>Netherlands UK Germany</p>	<p>Sens-Tech Se</p> <p>UK</p> <p>Stortech St</p> <p>UK</p> <p>Variohm Va</p> <p>UK Germany</p>
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CHAIRMAN'S STATEMENT



“The Group has delivered another strong set of results with further growth in sales, underlying profits and underlying earnings.”

Malcolm Diamond MBE
Chairman

2020 HEADLINES



Despite the effects of the COVID-19 pandemic in the final quarter, I am pleased to report that the Group has delivered another strong set of results with further growth in sales, underlying profits and underlying earnings. Management continued to make good progress on the Group's strategic and operational objectives with most nearing or bettering our original targets. Consequently, new strategic targets are being introduced for the coming five years as the Group focuses its strategy on the next stage of development.

Strategy

The Group is a customised electronics business operating internationally, focusing on structurally growing markets which are driven by increasing electronic content and where there is an essential need for our products. The Group's product range is highly differentiated, being customised for specific applications.

With key markets being worldwide and major customers operating internationally, the business is expanding beyond Europe (27% of Group sales are now outside Europe), as well as within Europe, building an international electronics group supplying complex, value-added solutions for international customers.

Acquisitions are important in building discoverIE, having already made a significant contribution to the development of the D&M division. Over the last 9 years we have acquired 14 specialist, high margin Design & Manufacturing businesses which have been integrated successfully and helped to drive our organic growth. We have a well-developed and disciplined approach to acquisitions and management continue to develop a pipeline of opportunities, ready to proceed when conditions allow. In the year, the Group made three acquisitions, all higher margin D&M businesses, with 70% of combined sales being in international markets beyond Europe. Their characteristics are aligned with the rest of the Group, and each provides scope for further development in our international target markets.

The increase in Group profitability, together with our capital expenditure light model, has resulted in further strengthening of our cash generation. As we continue to grow, we will look to reinvest our strong free cash flows into accelerating the strategy and delivering significant value creation for shareholders.



Group Results

Group sales for the year increased by 6% to £466.4m and by 8% at constant exchange rates ("CER").

Underlying operating profit, which excludes any exceptional items (none this year) and acquisition-related costs, increased by £6.5m to £37.1m (up by 21% and up by 23% CER) with underlying profit before tax increasing by £5.6m to £32.8m (up 21%). The strong growth in D&M helped to deliver a 100bps increase in underlying operating margins to 8.0% (FY 2018/19: 7.0%), despite investment to support future growth.

Underlying earnings per share for the year increased by 11% to 30.2p (up 3.0p from 27.2p last year). This growth is lower than the growth in underlying profit before tax of 21% mainly due to the equity fund raisings during the year which raised nearly 20% of additional equity share capital.

After underlying adjustments for acquisition-related costs of £13.3m (FY 2018/19: £7.9m), profit before tax for the year on a reported basis was £19.5m, in line with last year (FY 2018/19: £19.3m), with fully diluted earnings per share of 16.5p (FY 2018/19: 19.4p). Growth in reported profits and earnings was limited by the higher value of acquisitions this year, with resulting higher non-tax deductible acquisition costs.

Cash generation was very strong, with operating cash flow of £39.3m up 37% on last year (FY 2018/19: £28.6m), and representing 106% of underlying operating profit, well ahead of our 85% cash conversion target. Net debt at the year end was £61.3m with a Group gearing ratio of 1.25x. During

the year, the term of the Group's £180m syndicated bank facility was extended to June 2024, giving nearly £120m of undrawn facility.

In addition, the Group has received confirmation from the Bank of England that the Group is eligible in principle, subject to satisfactory documentation, to participate in HM Treasury's Covid Corporate Financing Facility. The Group does not believe it will need to utilise this facility but has the flexibility if conditions deteriorate materially from current expectations.

Alongside the acquisitions in April and October 2019, the balance sheet was further strengthened by way of two well-supported placings, raising net proceeds of £60.5m. Together with high operating cash flows, these have provided the Group with a strong position from which to manage through the current market uncertainties. On behalf of the Board, I would like to thank shareholders for their support.

➔ Read more about our **Governance** on pages 76 to 89

➔ Read about **strategy in action** on pages 22 to 27

CHAIRMAN'S STATEMENT

Acquisitions

On 15 April 2019, the Group acquired Hobart Electronics, a designer and manufacturer of custom transformers, inductors and magnetic components, for an initial cash consideration of \$15.2m (£11.5m) on a debt free, cash free basis with further contingent cash consideration of up to \$4.0m (£3.1m), subject to the achievement of certain growth targets over the three-year period ended 31 March 2022. Based in Indiana, US with manufacturing also in Mexico, Hobart reports to the Noratel Group where operations are being integrated.

Also on 15 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 with further contingent cash consideration of up to £0.4m, payable subject to the achievement of certain integration and profit targets in the following 18 months. Based in Cheltenham, UK and supplying international markets, operationally Positek reports to the Variohm Group.

On 16 October 2019, the Group acquired Sens-Tech, an Egham, UK based designer, manufacturer and supplier of specialist sensing and data acquisition modules, for an initial cash consideration of £58.0m on a debt free, cash free basis with further contingent cash consideration of up to £12.0m, payable subject to the achievement of certain profit growth targets over a three year period.

All three businesses have significant alignment with our core technologies, market and sector focus and are settling in well. We are delighted to welcome their employees into the Group.



COVID-19

The Group has responded decisively to the coronavirus pandemic, prioritising the well-being of employees and trading partners, supporting customers with fast solutions in medical markets, maintaining business continuity and preserving our resources.

As you will read in the Operating Review, changes were made to operating procedures and I am pleased to report high levels of operational continuity being achieved with only a small number of short term site closures, as required by local government regulations and all of which have since reopened. At its peak in early April, there were a dozen confirmed cases of coronavirus amongst our c. 4,400 employees, all of whom have since recovered.

I would like on behalf of the Board to thank all our employees for their flexibility in adapting so effectively to the new environment.

The pandemic had a limited effect on fourth quarter trading when our two sites in China were closed for nearly a month, rebounding quickly upon reopening. 23% of our sales in the year were linked to trade with China through our manufacturing sites, supplying customers or purchasing from suppliers there, but the effects of the closure were limited by flexibility in our manufacturing and supply chains, switching to alternatives where possible.

At the time of writing, and with the virus having spread internationally, the Group's dispersed operations are proving resilient and flexible through the disruption, with first quarter sales running only 10% down organically on last year. With its focus on high quality growth markets, the Group is well positioned for a return to growth as conditions recover.

Board Changes

Richard Brooman and Henrietta Marsh retired as Non-Executive Directors at the Company's annual general meeting on 25 July 2019 after 6 years of service. We thank them for their significant contributions to the Company's development and wish them well.

Bruce Thompson succeeded Richard as Senior Independent Director of the Group.

Clive Watson joined the Board on 2 September 2019, also becoming Chair of the Audit and Risk Committee. Clive retired from Spectris plc in 2019 after thirteen 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

Considering current circumstances, the Board has decided not to propose a final dividend. However, recognising the importance of dividends to shareholders, the Board will look to re-introduce distributions later this year subject to trading conditions at the time.

An interim dividend of 2.97 pence per share was paid in January 2020 (H1 2018/19: 2.8 pence per share), an increase of 6%. Over the last ten years, the full dividend has increased by 7% CAGR.

The Board believes that, as an acquisitive growth company, maintaining a progressive dividend policy with a long term dividend cover of over 3 times underlying earnings is appropriate to enable both dividend growth and a higher level of investment from internally generated resources.

Employees

On behalf of the Board, I would like to thank everybody at discoverIE for their commitment and hard work, particularly during this unprecedented situation when their flexibility, resilience, initiative and support have demonstrated, beyond all expectations, their quality and capability.

The Group 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 has created an ambitious and successful culture.

Summary

By focusing on structural growth markets with complex customer requirements, the Group has grown into a high quality business with excellent long-term prospects. To reflect this, the Group has updated targets for our next five years.

The customised electronics market remains highly fragmented, providing scope to build the Group's technology capability and extend its geographic coverage through disciplined acquisitions. Despite the current challenges posed by COVID-19, the Board and management are excited by the opportunities ahead to continue building a global business that attracts and retains high quality employees, delivers value to our customers, and grows long term returns for our shareholders.

Malcolm Diamond MBE

Chairman
24 June 2020

OUR BUSINESS MODEL

Our inputs

Our purpose, mission, values and people

The Group's purpose, mission and strategy provide a clear framework for decision-making, reflecting our desire to make a positive difference to the world and people's lives. Our values guide decision-making, ensuring we strive for the highest performance and ethical standards.

This relies upon the dedication, drive, integrity and ability of our people, many of whom have a high degree of technical knowledge. The Group seeks to foster an open, ambitious and entrepreneurial culture, within which each of our approximately 4,400 people are recognised for their achievements and are made to feel valued as individuals. They are crucial to the success of the Group and the outcomes of its customers.

Design and manufacturing facilities

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

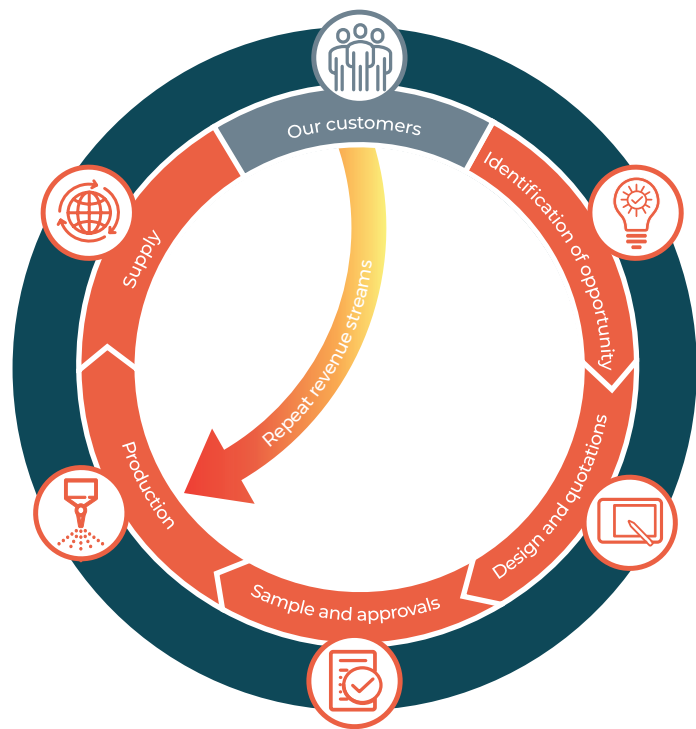
Long-term customer relationships

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

Financial

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

Our model



Repeat revenue streams

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

Cross-selling opportunities

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

Cross-selling initiatives are changing the nature of the discoverIE business by broadening the range of products sold to customers, in turn developing more valuable customer relationships and achieving

more efficient use of sales resources. The divisional structure provides excellent cross-selling opportunities by providing the Design & Manufacturing businesses access to 25,000 customers.

Acquisitions

A core part of the Group's strategy is the acquisition of complementary businesses that bring enhanced value to the Group and its customers. In order to achieve this, the Group has established a dedicated M&A team focused on developing and pursuing these opportunities.

➔ Read more about **acquisitions** on pages 24 to 26

Our competitive advantages

Differentiated products

The products that 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.

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.

Global reach

Our global footprint means that we can meet the location demands of our customers.

Value creation



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 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.

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.
- Short lead times.
- Quality, high standards and reliable components. We are able to achieve this as we have 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.

MARKET REVIEW

Targeting growth markets driven by innovation

Long-term technological and economic trends

Target markets

The Group focuses on four target markets, which account for over two-thirds of Group turnover: renewable energy, transportation, medical and industrial & connectivity. These are expected to drive the Group's organic revenue well ahead of GDP over the economic cycle and create value-enhancing opportunities, which are then further bolstered through acquisitions.

Global macro-trends underpinning structural growth

Growth in these markets is driven by global macro trends such as the need for renewable sources of energy, more energy efficient transportation systems, a growing middle class population, an ageing affluent population and expanding infrastructure.



RENEWABLE ENERGY



TRANSPORTATION



MEDICAL



INDUSTRIAL & CONNECTIVITY

Target markets¹ continue to drive organic growth

● Target markets

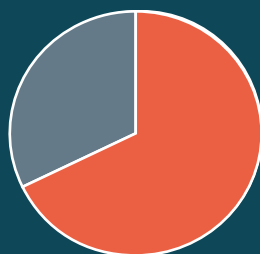
£318.0m

68%

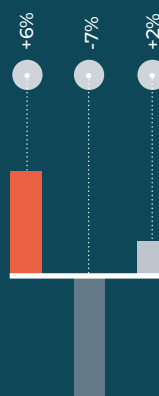
● Other markets

£148.4m

32%



Organic growth by market²



● Target markets
● Other markets
● Total

1. Target markets are renewable energy, transportation, medical and industrial & connectivity
2. Sales growth excluding acquisitions.

Our key markets

Key facts	Market need	Market drivers	Technology integration	discoverIE's response	discoverIE's solution
<p>Renewable energy</p> <p>Growth in global electricity production from renewable energy sources</p> <p>70%</p> <p>(2017 – 2023) Source: International Energy Agency</p>	<p>Components that enable the effective transformation of wind and solar energy into electricity</p>	<ul style="list-style-type: none"> Decarbonisation and diversification Geopolitical consensus Growing public awareness Legislative and regulatory regimes Investor pressure for responsible investment Cost of energy 	<ul style="list-style-type: none"> Increasing scale of wind turbines Diversification of solar systems 	<p>discoverIE invests significant resources in developing products for this market, both in wind power and solar energy</p>	<ul style="list-style-type: none"> Power inductors Solar inverters Turbine blade pitch control Airflow measurement
<p>Transportation</p> <p>Forecast growth in global market for smart transportation (CAGR)</p> <p>16.3%</p> <p>(2019-2024) Source: Research & Markets</p>	<p>Products required to assist with mass transportation systems and, at an individual level, the charging of electric vehicles</p>	<ul style="list-style-type: none"> Electrification and autonomous vehicles Decarbonisation Safety Convenience 	<ul style="list-style-type: none"> Electric vehicles Mass transit and route vehicles Autonomous vehicles High speed rail 	<p>Working closely with customers to develop bespoke products that increase the efficiency of networks and individual products</p>	<ul style="list-style-type: none"> Electric vehicle chargers Sensing systems Power control Cabin monitoring and control
<p>Medical</p> <p>Medical electronics market to grow CAGR</p> <p>8%</p> <p>(2018-2024) Source: TechSci Research</p>	<p>Electronics that enhance the quality of life for people and improve the quality of care delivered by healthcare providers</p>	<ul style="list-style-type: none"> Artificial intelligence, sensing & analytics Proactive and preventative medicine Technological and biological fusion Predictive analytics 	<ul style="list-style-type: none"> Monitoring and control Automation and robotics Advanced surgery 	<p>Understanding customer needs, discoverIE works with partners to provide solutions that meet the relevant requirements and adhere to the highest standards</p>	<ul style="list-style-type: none"> Embedded diagnostics Interface device and cabling Power systems
<p>Industrial & Connectivity</p> <p>Growth in Internet of Things market (CAGR)</p> <p>18.7%</p> <p>(2019-2024) Source: Markets-and-Markets</p> <p>Growth in industrial market for Semiconductors (CAGR)</p> <p>10.8%</p> <p>(2018-2022) Source: PWC</p>	<p>Increasing electronic content required in all forms of products across industry and connectivity in particular</p>	<ul style="list-style-type: none"> Connectivity and industrial "Internet of things" Operational efficiency and flexibility Quality control Increasing use of the Internet for remote activities Competition from technology companies 	<ul style="list-style-type: none"> Automation & robotics "Smart factories" Artificial intelligence 	<p>The Group ensures that it maintains a range of products that satisfy market requirements</p>	<ul style="list-style-type: none"> Wireless telematics Fibre optic connectivity AI communication Wireless robotics control

OUR STRATEGY



“The Group has a clear, sustainable long-term strategy, and the resources and culture to deliver it. We are well positioned for the future.”

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. Our business model is resilient and flexible and the benefits of our approach have been evident in results over recent years.

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. These are then supplied over the life of the customer's production, typically five to seven years.

In a fragmented market, opportunities exist 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 are long-term global growth markets driven by excellent fundamentals where our customers depend upon the Group's products.



Grow sales well ahead of GDP



Continue building revenues in the higher margin D&M division



Acquire high quality businesses



Further internationalise the business

➔ Read more about **strategy** in our **Corporate Governance report** on pages 76 to 89

Strategic priorities	Progress made	Link to key strategic indicators	Link to risks
 <p>Grow sales well ahead of GDP</p> <p>Grow sales well ahead of GDP over the economic cycle by focusing on structural growth markets</p>	<p>Group revenue grew by 6% to £466.4m (2019: £438.9m). Organic growth overall for the Group was 2%.</p> <p>In the year, target markets represented 68% of Group sales.</p>	C	1 3 4 6 7
 <p>Continue building revenues in the higher margin D&M division</p> <p>Continue building revenues in the Design & Manufacturing (“D&M”) division where operating margins for our businesses are higher (typically >10%)</p> <p>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>Organic sales growth for the year of 5% in our higher margin D&M division was well ahead of GDP, reflecting the sustained focus on higher growth target markets.</p>	A B	2 3 4 5 6
 <p>Acquire high quality businesses</p> <p>Acquire businesses with attractive growth markets and strong operating margins</p>	<p>In the year, the Group completed three acquisitions, Hobart and Positek in April 2019 and then Sens-Tech in October 2019. Further details are provided on pages 24 to 27.</p>	A B C D	1 2
 <p>Further internationalise the business</p> <p>Further internationalise the business by developing sales in North America and Asia</p>	<p>The acquisition of Hobart brought in a new US business, with facilities in the USA and Mexico. Approximately 70% of Sens-Tech’s revenues are from North America and Asia.</p> <p>Sales beyond Europe increased to 27% of total sales.</p>	C	1 2 6

Key strategic indicators

- A** Increase share of Group revenue from Design & Manufacturing
- B** Increase underlying operating margin
- C** Build sales beyond Europe
- D** Target Market Sales

Risks

- 1** Instability in the economic environment
- 2** Business acquisitions underperform
- 3** Loss of major customers
- 4** Loss of major suppliers
- 5** Technological changes
- 6** Major business disruption
- 7** Cyber security



STRATEGY IN ACTION



**UN Sustainable
Development Goals**



Long-term growth markets – Medical

Variohm-Eurosensor Dialysis Patient Weighing The requirements of the customer

To develop a chair in which patients can be accurately weighed and measured for height, suitable for busy and often space-constrained renal units. Time is limited and the patients that are being measured and weighed are high risk patients and so the equipment deployed must generate very precise results while being simple to use. Procedures being performed include dialysis, periton dialysis, plasmapheresis diagnosis, oncology and chemotherapy.

The solution we developed

A dual column chair featuring vertical lifting to minimise space requirements, featuring a simple push-button electric operation enabling the user to control movement in all directions. The customer required the integration of four load cells into the chair platform utilising an electric actuator control system. Bespoke development was required in order to interface with the customer's systems.

Benefits to the customer

The bespoke product provides a direct 'plug and play' interface, with calibration being completed during both production and upon install. The customer is provided with a site-calibrated product that is quick and easy to set up, while performance generates the accurate and timely results required for active use.





STRATEGY IN ACTION



**Continue
building revenues**

Differentiated products

Cursor Controls – Marine Control Panels

Cursor Controls has a number of differentiated products, including the widest range of IEC60945 certified keyboards and patented IP68 trackball modules in the world. Having become established as the preferred supplier of trackball solutions for one of the world's leading electronic chart display and information system manufacturers, Cursor Controls developed and manufactured their next generation primary user interface control panel.

The requirements of the customer

The priority requirement from the customer was for the panel to provide a wide range of new features in a compact footprint, consolidating and combining what had previously been multiple separate user interface panel

modules into an easy to integrate, user-friendly, IEC60945 certified control panel with a single connection cable.

The solution we developed

Cursor Controls provided a highly customised, leading-edge solution, based on their latest generation, in-house developed keyboard microprocessor platform. The new flexible architecture allowed for the incorporation of a bespoke keyboard with user-friendly scissor-switch technology and enhanced sealing interface, expanded keycode support, dynamic backlighting features, integrated USB hub and the patented IP68 E38 trackball module, into a compact, easy to integrate, IEC 60945 certified control panel.

Benefits to the customer

Along with delivering cost and system integration efficiency savings, the control panel solution provided allows for additional system functionality, enhances the ergonomics, workflow and overall user experience and improves reliability thanks to the unique sealing mechanisms that were designed specifically to protect against the aggressive salt water environment.

Only recently released, the control panel has already proven appealing to the market and new projects have been initiated with several other customers who are keen to harness the flexibility offered by the Cursor Controls control panel platform.



STRATEGY IN ACTION



**Acquire high
quality businesses**

Acquisitions

As part of the Group's proven growth strategy, the Company actively seeks opportunities to acquire businesses with attractive growth prospects that complement the Group's existing businesses.

The strategy is focussed on acquiring high quality, specialised electronics businesses with differentiated capability which is enhancing to the Group's overall offering to customers

in its target markets of renewable energy, transportation, medical and industrial & connectivity. These acquisitions can serve as a platform for further opportunities, whether that is to further embed cross-selling across the Group, to grow organically or to acquire synergistic businesses.

The Company has a dedicated team of M&A experts with significant electronics industry knowledge,

as a result of which a number of businesses have been acquired over the last several years. Since 2011 the Group has successfully completed 17 acquisitions in total, including 14 in the D&M division. These have contributed to growth in revenues in the division from £15m in FY13 to £298m in FY20, with the Group's underlying operating margins increasing from 3.1% to 8.0% in the same period.

Global growth of our portfolio

January 2011 Compton	June 2011 Hectronic	October 2011 MTC	April 2013 Myrra (£8m)	August 2013 YEG (£2m)	November 2013 RSG (£3m)	July 2014 Noratel (£71m)	January 2015 Foss (£8m)
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In reviewing potential acquisitions, we consider the extra value that can be brought to the business by becoming part of the discoverIE Group of companies. Due diligence is conducted on the business being acquired and how it will fit into the Group's culture and ethos.

Once acquired, a careful balance is struck between, on the one hand, retaining an autonomous and entrepreneurial culture within the business, ensuring that everyone within that business continues to feel valued and, on the other hand, ensuring that the systems, controls and procedures in place elsewhere within the Group are properly implemented and embedded, so as to ensure a strong control and governance framework.

It is important to the Company that acquired businesses feel part of the Group, while retaining their own individual dynamism, and that external stakeholders have the confidence that the business so acquired fits within a properly structured control environment that is to be expected from being part of a listed plc.

The Group's operating model is well established and has facilitated the smooth integration of acquired businesses, including Hobart and Positek, which joined discoverIE in April 2019, as well as Sens-Tech in October 2019.

The Company creates value from acquisitions in a variety of ways but always with a focus on investing for the long term. Value creation can come from cross-selling within the Group, new product development, expansion into new territories, streamlining of business processes, as well as other opportunities. The Company's priority is to help acquired businesses accelerate growth and enhance their operating efficiency.

The Company has a consistent pipeline of acquisition opportunities, ranging in size, scale and geography, and these are carefully considered on a regular basis by both the Group Executive Committee and the Board. Opportunities are prioritised and focused upon according to the Group's long-term strategy and anticipated financial returns.



November 2015 Flux (£3m)	January 2016 Contour (£17m)	February 2016 Plitron (£2m)	January 2017 Variohm Holdings (£12m)	January 2018 Santon (£24m)	October 2018 Cursor Controls (£19m)	April 2019 Hobart (£12m) Positek (£4m)	October 2019 Sens-Tech (£58m)
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STRATEGY IN ACTION



**Acquire high
quality businesses**

Sens-Tech

Sens-Tech is a UK-headquartered designer, manufacturer and supplier of specialist sensing and data acquisition modules for X-ray and optical detection applications, supplying the transport security, medical, food processing and industrial markets worldwide.

The acquisition of Sens-Tech represented a further step in the Group's stated strategy. In particular:

- The business provides new organic growth opportunities in our target markets, particularly medical, transportation and industrial & connectivity.
- The systems provided include a high proportion of customised products, in industries with high regulatory and certification

requirements, such as medical imaging, safety and security applications, which naturally lead to long product life cycles and high barriers to entry.

- The customer base is complementary to that of the other businesses within the Group, thereby providing further opportunities.
- With approximately 70% of acquired revenues being generated in North America and Asia, this acquisition further internationalises the Group.
- Financially, the business has high levels of profitability and cash generation and the acquisition enhanced underlying operating margins for both the D&M division and the Group as a whole.

Bringing Sens-Tech into the Group continued the strategy of building a higher margin, international Group that designs and manufactures customised electronics.

In keeping with the Group's approach to other acquisitions, the existing management team, which has a proven and successful track record, has remained with the business and, while it operates within the D&M division, it retains its distinct brand identity. Since being acquired this has been further enhanced by the support provided by being part of a wider group.



STRATEGY IN ACTION



**Further internationalise
the business**

Hobart Electronics

In April 2019, the Group acquired Hobart Electronics, providing a clear demonstration of the Group's strategy to expand the business beyond Europe.

The business designs and manufactures customised transformers, inductors and magnetic components for niche applications.

The acquisition of Hobart:

- Expanded the Group's international footprint, with over 80 per cent. of acquired revenues
- generated in North America, increasing overall D&M revenues from outside Europe;
- Created further organic growth opportunities in the target markets of renewable energy, transportation and industrial connectivity;
- Expanded regional manufacturing with production facilities in Mexico and created opportunities for efficiencies;
- Created cross-selling and synergy opportunities with the wider Group; and

- Enhanced underlying operating margins for both the D&M division and the Group as a whole.

While Hobart retains its distinct brand identity, it operates within the Noratel group of companies.

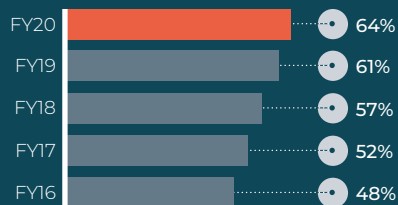
More details can be found at www.hobart-electronics.com.

KEY STRATEGIC INDICATORS

(A)

Increase share of Group revenue from D&M¹

- Previous mid term target **75%**
- New target⁽²⁾ **>75%**



Definition

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

Commentary

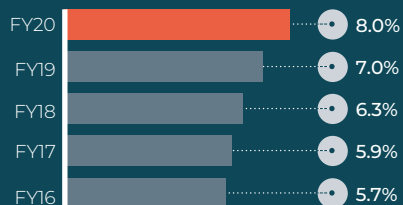
The higher margin D&M division delivered 64% of Group sales, up 3ppts on last year (FY 2018/19: 61%), generating 84% of the Group's underlying operating profit contribution up 6ppts on last year (FY 2018/19: 78%). Customer concentration remains low with no customer accounting for more than 7% of Group sales.

1. As a percentage of Group revenue
2. New targets for the five-year period to March 2025

(B)

Increase underlying operating margin

- Previous mid term target **8.5%**
- New target⁽²⁾ **12.5%**



Definition

Underlying operating profits as a percentage of sales.

Commentary

The increasing scale of the D&M division has helped to improve the Group operating margin by 1.0ppt in the year to 8.0% (FY 2018/19: 7.0%). On a proforma basis, the acquisition of the Sens-Tech business in October 2019 increases Group operating margin by a further 0.5ppts to 8.5% in line with our mid-term target.

Over the last two years, we have acquired businesses with higher margins than the D&M division. Accordingly, we have reached our current operating margin with D&M sales of 64% of Group sales, rather than the previously modelled 75% which assumed we would acquire businesses with margins in line with the division as a whole.

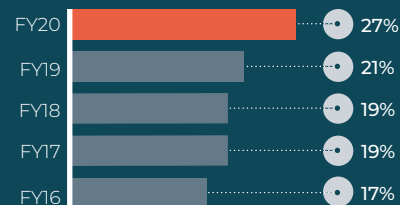
With our previous underlying operating margin KSI having been achieved on an annualised basis, we are setting a new five-year target of 12.5%, from D&M sales of at least 75%.

1. New targets for the five-year period to March 2025

(C)

Build sales beyond Europe¹

- Previous mid term target **30%**
- New target⁽²⁾ **40%**



Definition

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

Commentary

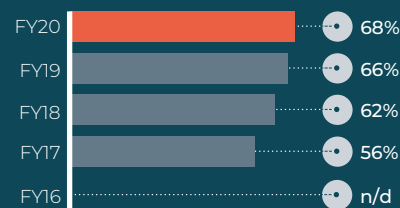
Sales beyond Europe for the year represented 27% of Group revenue (from 21% for FY 2018/19) improving as a result of the acquisitions of Hobart, Positek and Sens-Tech (for which c.70% of combined sales in the year were outside Europe). On an annualised basis, this rises to 28%. We continue to seek acquisitions with high quality international revenues.

1. As a percentage of Group revenue
2. New targets for the five-year period to March 2025

(D)

Target Market Sales¹

- Previous mid term target **New**
- New target⁽²⁾ **85%**



Definition

The proportion of Group revenue that is derived from sales into our target markets.

Commentary

We are introducing a new Key Strategic Indicator this year, to achieve 85% of sales from our target markets.

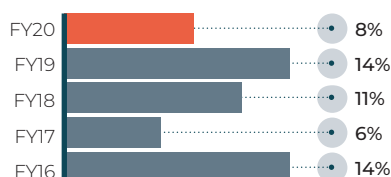
1. As a percentage of Group revenue
 2. New targets for the five-year period to March 2025
- n/d Not previously disclosed

KEY PERFORMANCE INDICATORS

1

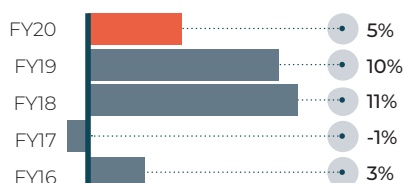
Sales growth CER¹

■ Target: Well ahead of GDP



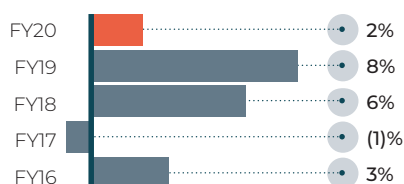
D&M Organic

■ Target: Well ahead of GDP



Group Organic

■ Target: Well ahead of GDP



Commentary

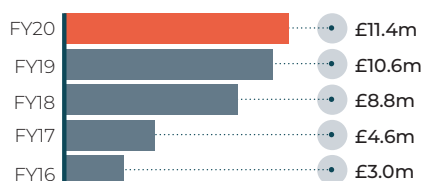
Organic sales growth for the year of 5% in our higher margin D&M division was well ahead of GDP, reflecting the sustained focus on higher growth target markets. Organic growth overall for the Group was 2%.

- Organic sales growth is calculated at constant exchange rates and includes the equivalent pre-acquisition period for recent acquisitions.
- Constant Exchange Rate (CER) growth measures the total increase in sales, both organic growth and the additive effect of acquisitions.

2

Increase cross-selling

■ Target: £12m pa



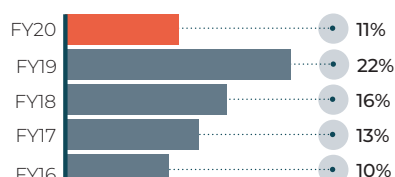
Commentary

Cross-selling generated £11.4m of Group sales, an increase of 8% over the prior year. Our target was increased last year from £10m p.a. to £12m p.a.

3

Underlying EPS growth

■ Target: >10%



Commentary

Underlying EPS growth for the year was 11% (FY 2018/19: 22%), ahead of our 10% annual target, with growth over the last three years of 57%. This is well ahead of our annual target and reflects widespread organic growth, acquisitions and improved operating efficiency over the period.

4

Dividend growth

■ Target: Progressive



Commentary

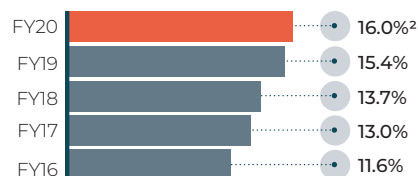
Due to the uncertainty as to the duration and impact of disruption from COVID-19, as a precautionary measure, the Board has decided not to propose a final dividend. If conditions permit, the Board intends to continue with its progressive dividend policy later in the year.

- 6% increase in the interim dividend; a final dividend has not been proposed due to COVID-19

5

Return on capital employed (ROCE)¹

■ Target: >15%



Commentary

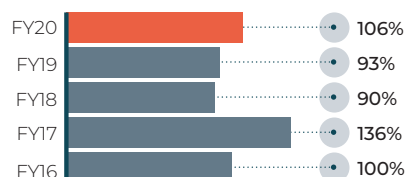
Strong growth in underlying operating profit has driven a 0.6ppt increase in return on capital employed to 16.0% (including an annualised operating profit for Sens-Tech which was acquired on 16 October 2019) compared with the return for FY 2018/19 of 15.4%, comfortably ahead of our target of exceeding 15%.

- Defined in note 2 to the Group financial statements
- Includes an annualisation of the results of Sens-Tech which was acquired on 16 Oct 19.

6

Operating cash conversion

■ Target: >85% of underlying operating profit



Commentary

Operating cash flow for the year was 106% of underlying operating profit, being well ahead of our 85% target. Operating cash flow has been consistently strong with conversion averaging over 100% over the last six years.

OPERATING REVIEW



“The benefits of our strategy are evident, with good levels of organic revenue growth, Group underlying profits and underlying earnings per share.”

Nick Jefferies
Group Chief Executive

Overview

The effects of the COVID-19 pandemic have been felt throughout the Group leading to widespread changes in our operations and our interactions with customers, suppliers and other third parties. As covered on page 37, the business has responded decisively, and embarks upon the challenges with a strong financial position, a clear strategy and performing well.

We continue to pursue our successful strategy of focussing on growing opportunities for customised electronic products in targeted growth markets, namely renewable energy, transportation, medical and industrial & connectivity. Despite feeling the effects of the pandemic in the final quarter, the benefits of this strategy are evident with good levels of organic revenue growth in the D&M division helping drive a 21% increase in Group underlying operating profits to £37.1m, and an 11% growth in underlying earnings per share to 30.2p.

Group sales increased by 8% CER and 6% on a reported basis to £466.4m including the translation effect of a slightly stronger Sterling in the year. Organic sales grew by 5% in the D&M division and by 2% for the Group overall.

Group orders also performed well, growing organically by 4% in the D&M division and by 1% organically for the Group overall to £476.4m with a book to bill ratio of 1.02. This resulted in another record year end order book at 31 March 2020 of £159m (up by 13% CER year-on-year, and up by 7% organically).

Project design wins, essential for future organic growth, continued at high levels, with an estimated lifetime revenue value of £260m, having increased by 37% over two years.

Group Strategy

Our four target markets of renewable energy, transportation, medical and industrial & connectivity, are global in scale and underpinned by long term structural growth factors, customers' dependence on our products, and a need or opportunity for custom products. Customers choose our components because they help them to create differentiated, innovative designs.

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 in North America and Asia.

These underpin a core objective of generating strong cash flows and long term sustainable returns.



Target Markets

The four focus target markets, which account for 72% of D&M turnover and 68% of Group turnover (both up 2ppts from last year): transportation, medical, renewable energy and industrial & connectivity 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 and by global macro trends such as an ageing affluent population and the increasing need for renewable sources of energy. This year, organic revenue growth for the Group in target markets was 6%, with other markets reducing by 7% resulting in overall Group organic growth of 2%. In the D&M division, organic growth in target markets was 9%, with other markets reducing by 5% resulting in overall growth of 5%.

i) Medical

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, the medical electronics market is forecast to grow by 8% CAGR 2018-24 according to TechSci Research.

ii) Renewable Energy

The increasing global requirement for clean electricity is leading to the rapid deployment of sustainable energy generation. So much so that, according to the International Energy Agency (IEA), 70% of the growth (2017-23) in global electricity production will come from renewable energy sources with the proportion of total energy production rising to 40% globally from 25% currently. Our focus is on Wind and Solar energy.

iii) Transportation

Transport markets continue to grow across the world. The electronics content is rising driven by electrification, safety, intelligence, automation and convenience. Our focus is on mass transportation markets particularly rail and buses, as well as vehicle electrification infrastructure. According to Research and Markets, the global market for smart transportation is forecast to grow by 16.3% CAGR 2019 to 2024.

iv) Industrial & Connectivity

Technology is creating opportunities for connectivity everywhere, and is becoming increasingly important in industry. A report by the research firm Markets-and-Markets expects the overall market for global IoT (internet of things) connections to grow by 18.7% CAGR 2019-24. Another report by PwC expects the global semiconductor market for industrial applications to grow by 10.8% CAGR 2018-22. In addition to our focus on the wireless connectivity of devices (machine-to-machine) and the associated industrial markets which benefit from this new connectivity, we have recently refined our focus in the industrial sector towards new and sustainable industrial markets with a long-term future such as smart agriculture and water management.

OPERATING REVIEW

Engineering-led Sales Model

Our business model has three core capabilities:

- Engineering – our primary differentiator. By understanding our customers' design challenges we design and create products that specifically address their needs.
- Manufacturing – we manufacture on an ongoing basis, individually designed products to a consistently high standard at one or more of our production facilities internationally.
- Logistics – we supply our manufactured products internationally to customers' production locations repeatedly over the life of their demand, typically for five to seven years.

We apply these capabilities to develop long term, embedded relationships with our customers as follows:

Understanding customer needs

- We help customers solve their technical challenges to create more effective, efficient, productive and sustainable equipment and comply with increasingly stringent environmental, health, safety and performance requirements.

Enduring customer relationships

- Our sales model creates a unique understanding of customers' needs and builds long term relationships that last for many years.

Engineering-led solutions

- By applying our extensive technical knowledge of applications and design, our engineers create unique products for customers' specific needs.

Recurring revenues

- Our designs are specified into our customers' system designs for production, leading to multiple years of repeated monthly demand, creating stable, recurring revenue streams.

Regional manufacturing

- Manufacturing locations in Europe, Asia and the Americas provides regional supply for customers, reducing transit times, costs and environmental impact as well as providing flexibility and reducing risk of disruption.

Additionally, we acquire businesses with similar characteristics, building our product capability and international presence. With many customers operating internationally, it is necessary for us to have a presence in the major regions of the world and with the market being highly fragmented, numerous opportunities exist for us to acquire complementary businesses.

Key Strategic and Performance Indicators

Since 2014, the Group's progress with its strategic objectives has been measured through key strategic indicators ("KSIs"), and progress with its financial performance has been measured through key performance indicators ("KPIs").

Our KSIs were mid-term targets over a three to five year period from November 2016 with KPIs being three year targets starting in March 2017. With the KSI targets having been nearly achieved, we have introduced revised strategic targets for the next five years.

Key Strategic Indicators

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Previous Mid term Targets	New Targets ²
1. Increase share of Group revenue from D&M ¹	18%	37%	48%	52%	57%	61%	64%	75%	>75%
2. Increase underlying operating margin	3.4%	4.9%	5.7%	5.9%	6.3%	7.0%	8.0%	8.5%	12.5%
3. Build sales beyond Europe ¹	5%	12%	17%	19%	19%	21%	27%	30%	40%
4. Target market sales ¹	n/d	n/d	n/d	56%	62%	66%	68%	New	85%

1. As a proportion of Group revenue

2. New targets for the five-year period to March 2025

n/d: not previously disclosed:

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

- The higher margin D&M division delivered 64% of Group sales, up 3ppts on last year (FY 2018/19: 61%), generating 84% of the Group's underlying operating profit contribution up 6ppts on last year (FY 2018/19: 78%); customer concentration remains low with no customer accounting for more than 7% of Group sales.
- The increasing scale of the D&M division has helped to improve the Group operating margin by 1.0ppt in the year to 8.0% (FY 2018/19: 7.0%). On a proforma basis, the acquisition of the Sens-Tech business in October 2019 increases Group operating margin by a further 0.5ppts to 8.5% in line with our mid-term target. Over the last two years, we have acquired businesses with higher margins than the D&M division. Accordingly, we have reached our current operating margin with D&M sales of 64% of Group sales, rather than the previously modelled 75% which assumed we would acquire businesses with margins in line with the division as a whole.
- Sales beyond Europe for the year represented 27% of Group revenue (from 21% for FY 2018/19) improving as a result of the acquisitions of Hobart, Positek and Sens-Tech (for which c.70% of combined sales in the year were outside Europe). On an annualised basis, this rises to 28%. We continue to seek acquisitions with high quality international revenues.

With our underlying operating margin KSI having been achieved on an annualised basis, we are setting a new five-year target of 12.5%, from D&M sales of at least 75%. Additionally, we are introducing a new target of 85% of sales from target markets.



Key Performance Indicators

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	Targets
1. Sales growth								
CER	17%	36%	14%	6%	11%	14%	8%	Well ahead of GDP
D&M organic	3%	9%	3%	(1)%	11%	10%	5%	
Group organic	2%	3%	3%	(1)%	6%	8%	2%	
2. Increase cross-selling	£0.3m	£0.9m	£3.0m	£4.6m	£8.8m	£10.6m	£11.4m	£12m p.a.
3. Underlying EPS growth	20%	31%	10%	13%	16%	22%	11%	>10%
4. Dividend growth	10%	11%	6%	6%	6%	6%	n/a ¹	Progressive
5. ROCE ²	15.2%	12.0%	11.6%	13.0%	13.7%	15.4%	16.0% ³	>15%
6. Operating cash conversion ²	100%	104%	100%	136%	90%	93%	106%	>85% of underlying operating profit

1. 6% increase in the interim dividend; a final dividend has not been proposed due to COVID-19.
2. Defined in note 2 to the Group financial statements.
3. Includes an annualisation of the results of Sens-Tech which was acquired on 16 October 2019.

OPERATING REVIEW

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

- Organic sales growth for the year of 5% in our higher margin D&M division was well ahead of GDP, reflecting the sustained focus on higher growth target markets; organic growth overall for the Group was 2%.
- Cross-selling generated £11.4m of Group sales, an increase of 8% over the prior year. Our target was increased last year from £10m p.a. to £12m p.a.
- Underlying EPS growth for the year was 11% (FY 2018/19: 22%) ahead of our 10% annual target, with growth over the last three years of 57%. This is well ahead of our annual target and reflects widespread organic growth, acquisitions and improved operating efficiency over the period.
- Due to the uncertainty as to the duration and impact of disruption from COVID-19, as a precautionary measure, the Board has decided not to propose a final dividend. If conditions permit, the Board intends to continue with its progressive dividend policy later in the year.
- Strong growth in underlying operating profit has driven a 0.6ppt increase in return on capital employed to 16.0% (including an annualised operating profit for Sens-Tech which was acquired on 16 October 2019) compared with the return for FY 2018/19 of 15.4%, comfortably ahead of our target of exceeding 15%.
- Operating cash flow for the year was 106% of underlying operating profit, being well ahead of our 85% target. Operating cash flow has been consistently strong with conversion averaging over 100% over the last six years.

As we look towards the next five years, we are introducing an additional KPI, that of free cash flow with a target of being greater than 85% of underlying profit after tax. This year, we delivered £27.3m of such cash flow (104% of underlying profit after tax).

Divisional Results

Divisional and Group performances for the year ended 31 March 2020 are set out and reviewed below.

	FY 2019/20			FY 2018/19			Revenue growth	CER revenue growth	Organic revenue growth
	Revenue £m	Underlying operating profit ¹ £m	Margin	Revenue £m	Underlying operating profit ¹ £m	Margin			
Design & Manufacturing	297.9	38.1	12.8%	266.2	29.8	11.2%	12%	13%	5%
Custom Supply	168.5	7.3	4.3%	172.7	8.6	5.0%	(2%)	(1%)	(4%)
Unallocated costs		(8.3)			(7.8)				
Total	466.4	37.1	8.0%	438.9	30.6	7.0%	6%	8%	2%

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

With approximately 88% 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 8% CER to 6% on a reported basis.

Order Book

Orders continued to grow well with the order book reaching a year-end record high of £159m, an increase of 13% CER over last year and 6% ahead of the half year. On an organic basis, the Group order book increased by 7% over the prior year, with the D&M order book growing by 8% organically and the Custom Supply order book by 6% organically.

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.

By working with high quality customers in our target markets, we are building an order book that leads to long term, repeating revenues.

Design wins

Project design wins are a measurement of new business creation and a proxy for future organic growth. By working with customers at an early stage in their project design cycle, we identify opportunities for custom products.

Design opportunities take typically 18 months to reach conclusion, at which point they become a design win. Once in production, the design win is expected to create a recurring revenue stream for several years.

Design wins in the year continued at a high level with an estimated lifetime sales value of £260m, growing by 37% over the last two years and with estimated future annual revenues representing approximately 16% of current revenue. Over 90% of design wins were within the higher growth target markets in the D&M division, and 80% for the Group as a whole.



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, with the division’s principal manufacturing facilities being in China, India, Mexico, the Netherlands, Poland, Slovakia, Sri Lanka, Thailand and the UK.

During the year, the expansion of our magnetic components production facility in China was completed which has increased Myrra’s Asian footprint by around 70%. Additionally, the production facility in Bangalore, India, which opened two years ago, is being doubled in size, driven by good levels of domestic market growth as expected, but also by the relocation of some existing Chinese production that is destined for the US and which could otherwise be subject to import tariffs.

The benefit of new revenue from design wins of previous years and strong demand from our key target markets delivered good organic growth in the division. Sales grew organically by 5% with orders growing by 4% organically, continuing the momentum of previous years with sales and orders growing organically by around 28% over the last three years. Growth this year was led by Asia (+26%), followed by the Nordic region (+7%) and Germany (+6%). North America was grown by 2% while the UK declined by 4% as Brexit concerns led to customers destocking, and Rest of Europe reduced by 9% reflecting the more challenging conditions experienced during the year. Asia and the US now account for 37% of D&M revenues (2018/19: 29%), up from 22% four years ago.

Organic sales growth of 5%, combined with an 8% sales increase from acquisitions, resulted in overall sales increasing by 13% CER. Including a 1% reduction in revenue due to the impact of currency translation, reported divisional revenue increased by 12% to £297.9m (FY 2018/19: £266.2m).

D&M revenue accounted for 64% of Group revenue (FY 2018/19: 61%) and generated 84% of the Group’s underlying profit contribution, up 6ppts on last year (FY 2018/19: 78%).

Underlying operating profit of £38.1m was £8.3m (+28%) higher than last year (FY 2018/19: £29.8m) and up £8.7m CER (+30%), while the underlying operating margin of 12.8% was 1.6ppts higher than last year (FY 2018/19: 11.2%). The increase in underlying profits and margin was principally driven by three acquisitions during the year with higher margins than the Group’s average: Sens-Tech, Positek and Hobart, together with 6 months profit contribution from Cursor Controls which was acquired in the prior year.

Hobart Electronics

In April 2019, the Group acquired Hobart Electronics, an Indiana, 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.

The business was acquired for an initial cash consideration of \$15.2m (£11.5m) 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 three year period ended 31 March 2022.

OPERATING REVIEW

Positek

Also in April 2019, the Group acquired Positek, a Cheltenham, 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, 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.

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.

Sens-Tech

In October 2019, the Group acquired Sens-Tech, an Egham, UK based business, originally a spin out from Thorn EMI in 1994, specialising in X-ray detection and data acquisition modules. These systems are typically used in industries that have high regulatory and certification requirements, such as medical imaging, safety and security applications, and leads to long product life cycles with high barriers to entry. Sens-Tech sells worldwide, with approximately 51% of its revenues generated from customers in North America, 29% from Europe, 17% from Asia with the balancing 3% from the UK and the rest of the world. Following acquisition, Sens-Tech operates within the D&M division.

The business was acquired for an initial cash consideration of £58.0m on a debt free, cash free basis, with a further contingent cash consideration of up to £12.0m payable subject to the achievement of certain profit growth targets over the three year period ending 31 March 2022.

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 with products that are mostly sourced from third party suppliers rather than manufactured in-house. As such, operating margins are lower than in D&M. Additionally, the division acts as a sales channel through which to grow sales from the D&M division.

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 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 and finance, supplier 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. During the year, our smallest business unit, RSG, was integrated into Acal BFi in the Custom Supply division from D&M.

The division's sales in the year were 4% lower organically with orders 2% lower as market conditions toughened in the second half, although the book to bill ratio for the year remained positive at 1.01. The division saw good growth in Italy and Benelux offset by falls in Germany, France and the UK.

Including the impact of the transfer of RSG from D&M and integration into Acal BFi, reported divisional revenue reduced by 2% to £168.5m (FY 2018/19: £172.7m), and by 1% CER. Underlying operating profit of £7.3m was £1.3m lower than last year (FY 2018/19: £8.6m), while the underlying operating margin was 4.3% compared with 5.0% last year.

Cross-selling

Cross-selling is the sale of products by one discoverIE Group company to customers of another Group company. For newly acquired businesses, access to a greater number of potential new customers provides an effective route to expanding their customer base and geographic reach.

Typically, it takes three years for cross-selling to become established within a business unit, due to project lead-in cycles, and then develops into a significant additional source of revenue, as evidenced by the Group's longer standing acquisitions. This year, cross-selling revenues, which now account for 2.4% of Group sales, were up 8% to £11.4m from the previous year (FY 2018/19: £10.6m), compared with our revised target of £12m.

Acquisitions

Niche electronic components is a highly fragmented market with many opportunities to acquire and consolidate.

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



We acquire businesses that are successful and profitable with good growth prospects with long-term growth drivers aligned with the Group's target markets. We support investment for growth and develop operational performance according to the requirements of each business unit. Depending upon the circumstances, we add value in some of or all 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 & infrastructure;
- Improving manufacturing efficiency;
- Enabling growth with larger customers;
- Infrastructure efficiencies, such as warehousing and freight;
- Finance and administrative support, such as treasury, banking, legal, pension, tax & insurance, risk & control; and
- Expanding the business through further acquisitions.

Acquisition performance

The Group has successfully completed 14 acquisitions in the D&M division since 2011, which have contributed to growth in revenues in the division from £15m in FY13 to £298m in FY20, with Group underlying operating margins increasing from 3.1% to 8.0% over the same period. The Group's operating model is well established and has facilitated the smooth integration of acquired businesses, including Cursor Controls, Hobart, Positek and Sens-Tech, all acquired in the last two years.

We measure acquisition return on investment ("ROI") as operating profit attributable to every business each year, divided by its acquisition cost (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% by the end of the third year of ownership. The ROI of the acquired businesses owned for at least two years was 18.6%, up 1.4ppts on last year on a like for like basis, with an average ROI over the life of those acquisitions of 17%.

COVID-19

The following section outlines the Group's position and actions that have been taken in response to the coronavirus pandemic.

The effects of the virus became evident in the fourth quarter, initially in China, with our two design and manufacturing sites in Guangdong province closed for almost a month, before rebounding quickly upon reopening with only a limited effect on overall trading. Approximately 23% of our sales in the year were linked to trade with China, but the effects of the closures were limited by flexibility in our manufacturing and supply chains. It is estimated that this disruption led to a loss of sales in the quarter of £4m in the D&M division, reducing D&M organic growth in the fourth quarter by 5ppts, and 3ppts for the Group organically.

Since then, in the first quarter of the new financial year, COVID-19 has spread internationally and whilst China has continued its strong recovery, the effects have been felt across all other regions of the business. Revenues in the first quarter have been relatively resilient, reducing by 10% organically to date, better than the wider market and a

OPERATING REVIEW

reflection of the specialised products and markets we supply. The order book remains strong, with the three month order book in the D&M division remaining at levels consistent with the prior year. As with previous downturns, the uncertain conditions led to a reduction in longer term orders, which we expect to recover as conditions improve.

Operations

Each of our businesses is implementing an operating plan developed for their business.

The Group comprises 47 operating companies in 23 countries, with 27 manufacturing facilities in 17 of those countries across Europe, UK, Asia and the Americas. Six facilities (Sri Lanka, California and two each in China and India) were required by government mandate to close for a period. All six have since re-opened with initially limited but increasing capacity. All other sites have remained open, several with essential supplier status and a number operating at reduced capacity during the disruption.

With a decentralised structure, the Group has been able to adapt quickly to the evolving circumstances and adopt new ways of working, with each of our businesses implementing an operating plan developed to suit its local market and welfare requirements. At its peak, over 650 employees were working from home and across all our locations there has been an overriding priority to establish safe working practices such as split working shifts with no overlap and appropriate distancing measures. These initiatives include:

- Increased frequency site cleaning
- Hand sanitation at entry and exit points
- Closure of canteens
- Face to face meetings replaced by calls and video conferencing
- Cancellation of all non-essential business travel

Customers

Enormous effort has been deployed supporting customers in the rapid development and supply of key components for virus related medical products with over 60 customer projects having been developed during the March to May period. For example:

- Customer ventilator projects: designing and supplying custom components such as pressure sensors and switches. For instance, our team of engineers designed-in a power unit for a ventilator manufacturer taking just one week from design to receipt of first order;
- Temperature sensing projects: specifying and supplying sensors for human temperature screening;
- Fluid / chemical analysers: key components for the sensing and analysis of body fluids;



- Air purification projects: power units for hospital air purification units;
- Hospital bed projects: power units and drive controllers for mechanised hospital beds;
- Various other projects such as high-performance power units to ensure hospital power supply continuity in the event of mains outages.

Cash conservation and cost reduction

Whilst our financial position is strong, we have taken prudent action to preserve cash and reduce operating expenses with several initiatives, including:

- Deferral of non-essential capital expenditure and other discretionary spend
- Deferral of bonuses and pay rises, together with a new hiring freeze
- 20% salary reduction for the Board and Group Executive Committee for three months
- Increased focus on working capital efficiency
- All acquisitions deferred, but pipeline development continues

Additionally, the Board is not proposing a final dividend but intends to re-introduce distributions in respect of the first half of the new year subject to trading conditions at the time.



Balance sheet and liquidity

The Group's financial position remains strong with a committed syndicated bank facility of £180m with the term of that facility being extended to June 2024 during this year. With year-end net debt of £61.3m, the Group has almost £120m of undrawn committed facility, gearing of 1.25x and interest cover of 13.5x. The financial covenants in the facility are gearing (net debt / underlying EBITDA including pre-acquisition EBITDA of acquisitions) of not more than three times and interest cover of not less than four times.

In addition, the Group has received confirmation from the Bank of England, that the Group is eligible in principle, subject to satisfactory documentation, to participate in HM Treasury's Covid Corporate Financing Facility. The Group does not believe it will need to utilise this facility but has the flexibility if conditions deteriorate materially from current expectations.

Summary and Outlook

Our focus on long term structural growth markets and strong operational performance, together with our successful acquisition strategy, has delivered strong results for the year with a 21% increase in operating profits and a 37% increase in operating cash flow.

In response to the COVID-19 pandemic which became evident in the final quarter of the year, we have taken swift action to ensure the safe working of employees and trading partners whilst maintaining operational continuity. We are supporting customer needs in the medical sector by quickly developing and supplying products for a range of virus-related medical equipment in over 60 different projects.

The Group has a strong financial position, a clear strategy and is performing well. Gearing at the year-end reduced to 1.25x with significant headroom under our existing facilities. We have taken decisive measures to preserve cash and reduce operating expenditure whilst maintaining our capability to respond effectively as conditions improve.

Customer demand remains resilient with first quarter sales running 10% lower on an organic basis, reflecting the specialised and critical nature of our products as well as the benefits of our long term growth sector focus. The order book remains strong, with the three-month order book in the D&M division at a level consistent with the prior year. As with previous downturns, longer term orders have slowed in the short term, with the first quarter book to bill ratio running at 0.85:1, and we expect this to recover as conditions improve. June orders and sales are tracking ahead of those in May. We remain confident that with the Group's operational flexibility, diversified customer base and focus on the growth sectors of renewable energy, medical, transportation and industrial & connectivity, we will outperform underlying markets during this period of disruption.

The discoverIE business model is resilient and flexible, underpinned by a clear strategy focused on high quality growth markets. With a strong funnel of design wins and acquisition targets, the Group is well positioned for a return to strong growth as conditions recover.

Nick Jefferies

Group Chief Executive
24 June 2020

FINANCE REVIEW



“The Group’s gross margin has increased by around 7ppts in the last 11 years since the Group’s strategy was introduced, a reflection of the differentiated nature of our products and the significant organic and inorganic growth of our higher margin D&M division.”

Simon Gibbins
Group Finance Director

2020 HEADLINES



UNDERLYING EPS
30.2P
+11%



OPERATING CASH FLOW **£39.3M**
+37%

Orders, Revenue and Gross Profit

Group revenue for the year increased by 6% over last year to £466.4m, and by 8% CER, the difference reflecting the translation impact of Sterling strength on average since last year. Organic revenue increased by 2% (with D&M increasing 5% partly offset by Custom Supply reducing by 4%), while the acquisitions of Cursor Controls last year, and Hobart, Positek and Sens-Tech this year contributed an additional 6% growth in revenues.

£m	FY 2019/20	FY 2018/19	%
Reported revenue	466.4	438.9	6%
FX translation impact		(5.1)	
Underlying revenue (CER)	466.4	433.8	8%
Acquisitions	(25.5)	–	
Organic revenue	440.9	433.8	2%

Group orders increased by 6% CER with a book to bill ratio of 1.02 (H1: 1.02, H2: 1.02). Organically, orders were up 1% for the year with an increase in D&M of 4% partly offset by a 2% reduction in Custom Supply.

With approximately 88% of Group sales in non-Sterling currencies, the translation of Group results into Sterling was impacted by its average strength since last year. While Sterling strengthened 1% against the Euro during the year, and 4% against Nordic currencies on average, it weakened 3% against the US dollar.

Gross profit for the year of £156.7m increased by 8% over last year (FY2018/19: £145.0m) with gross margin for the year of 33.6% being 0.6ppts ahead of last year (FY 2018/19: 33.0%).

The Group’s gross margin has increased by around 7ppts in the last 11 years since the Group’s strategy was introduced, a reflection of the differentiated nature of our products and the significant organic and inorganic growth of our higher margin D&M division.



Underlying Operating Costs

Reported costs were up 9% as detailed below. Excluding underlying adjustments, Group underlying operating costs increased by 6% CER. Adjusting for the pre-acquisition costs of Hobart, Positek and Sens-Tech acquired this year, and Cursor Controls acquired during last year, underlying operating costs increased by 1% organically. This reflects investment in D&M businesses with a 5% uplift in divisional operating expenses including £1.4m invested to support future growth initiatives, offset by 5% operating cost savings in Custom Supply where sales reduced by 4% in the year.

As a percentage of sales, underlying operating costs for the year reduced by 0.4ppts to 25.6% (FY 2018/19: 26.0%), a reflection of ongoing sales growth and tight cost control.

£m	FY 2019/20	FY 2018/19	%
Organic operating costs	114.9	113.3	1%
Acquisition operating costs	4.7		
Underlying operating costs (CER)	119.6	113.3	6%
FX translation		1.1	
<i>Underlying adjustments</i>			
Acquisition-related costs	4.0	1.8	
Amortisation of acquired intangibles	9.0	5.9	
Exceptional items	–	(0.2)	
IAS 19 pension administration cost	0.3	0.4	
Reported operating costs	132.9	122.3	9%

£m	FY 2019/20	FY 2018/19
Selling and distribution costs	58.1	57.7
Administrative expenses	74.8	64.6
Reported operating costs	132.9	122.3

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

FINANCE REVIEW

Group Operating Profit and Margin

Group underlying operating profit for the year was £37.1m, up £6.5m (+21%) on last year, and up 23% CER, with a Group underlying operating margin of 8.0%, up 1.0ppt on last year.

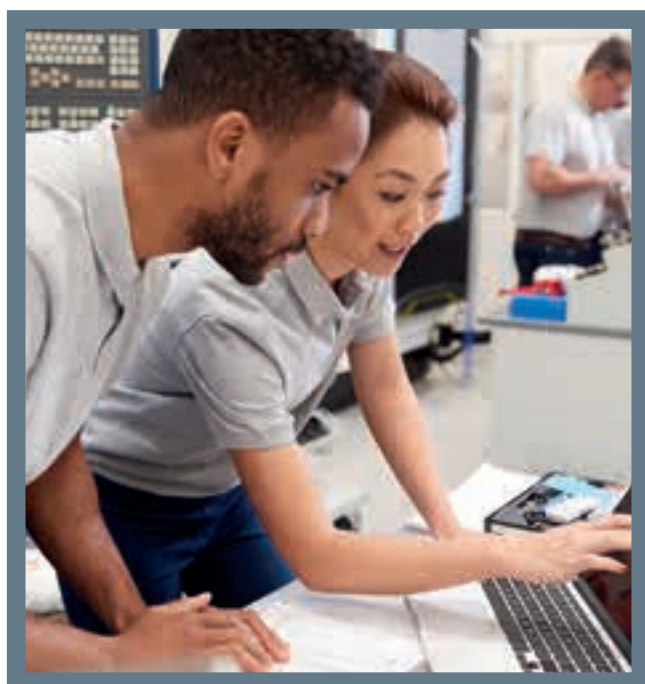
Reported Group operating profit for the year (after accounting for the underlying adjustments discussed below) was £23.8m, an increase of £1.1m (+5%) compared with last year (FY 2018/19: £22.7m). Growth in reported operating profits was lower than underlying growth due to an increase in the number of acquisitions this year compared with last year (three compared with one), and so a greater level of acquisition costs and amortisation of acquired intangibles.

£m	FY 2019/20			FY 2018/19		
	Operating Profit	Net Finance Costs	Profit before tax	Operating profit	Net Finance Costs	Profit before tax
Underlying	37.1	(4.3)	32.8	30.6	(3.4)	27.2
<i>Underlying adjustments</i>						
Acquisition-related costs	(4.0)	–	(4.0)	(1.8)	–	(1.8)
Amortisation of acquired intangibles	(9.0)	–	(9.0)	(5.9)	–	(5.9)
Exceptional items	–	–	–	0.2	–	0.2
IAS 19 pension cost	(0.3)	–	(0.3)	(0.4)	–	(0.4)
Reported	23.8	(4.3)	19.5	22.7	(3.4)	19.3

Underlying Adjustments

Underlying adjustments for the year comprise: acquisition-related costs of £4.0m (FY 2018/19: £1.8m); the amortisation of acquired intangibles of £9.0m (FY 2018/19: £5.9m); and the IAS19 legacy pension cost of £0.3m (FY 2018/19: £0.4m).

Acquisition-related costs of £4.0m comprised expenses related to the acquisition of Hobart and Positek in April 2019 and Sens-Tech in October 2019 of £1.8m, accruals for contingent consideration of £2.0m in relation to acquired businesses (mainly Sens-Tech and Cursor Controls)



together with integration costs of £0.2m. The £3.1m increase in the amortisation charge since last year relates to the amortisation of intangibles identified as part of the acquisitions of Hobart, Positek and Sens-Tech this year and Cursor Controls last year. The total annualised amortisation cost for next year is expected to be around £11.0m including a full annualisation of amortisation for Sens-Tech which was acquired in October 2019.

Net Finance Costs

Net finance costs were £4.3m (FY 2018/19: £3.4m). This year's charge comprises underlying finance costs (being interest and facility fees arising from the Group's banking facilities) of £3.7m (FY 2018/19: £3.4m), and an IFRS 16 interest charge of £0.6m, the first year following its introduction.

Underlying finance costs for the year of £3.7m were £0.3m higher than last year, due to increased commitment fees following the extension of our banking facility by £60m in February 2019, and higher average monthly net debt following the Sens-Tech acquisition in October 2019. Underlying interest rates on the overall facility have though reduced under the terms of the extended facility.

Underlying Tax Rate

The underlying effective tax rate for the year was 20%. This was approximately 5ppts lower than last year due mainly to increased profitability in the UK following the UK acquisitions of Sens-Tech and Positek during the year, and the use of certain unrecognised losses.

The overall effective tax rate of 27% was higher than the underlying effective tax rate mainly due to acquisition costs being largely non-deductible for corporate tax purposes.

Profit Before Tax and EPS

Underlying profit before tax for the year was £32.8m, an increase of £5.6m (21%) compared with last year. This increase resulted in underlying diluted earnings per share for the year of 30.2p, up 11% on last year.

After the underlying adjustments discussed above, reported profit before tax of £19.5m was broadly in line with last year (FY2018/19: £19.3m), with reported fully diluted earnings per share of 16.5p, compared with 19.4p last year. This reduction related to the c.20% of new equity issued during the year at the time of our three acquisitions.

£m	FY 2019/20		FY 2018/19	
	PBT	EPS	PBT	EPS
Underlying	32.8	30.2p	27.2	27.2p
<i>Underlying adjustments</i>				
Acquisition-related costs	(4.0)		(1.8)	
Amortisation of acquired intangibles	(9.0)		(5.9)	
Exceptional items	–		0.2	
IAS 19 pension cost	(0.3)		(0.4)	
Reported	19.5	16.5p	19.3	19.4p

Working Capital

Working capital at 31 March 2020 was £70.9m (FY2018/19: £67.2m) equivalent to 14% of annualised final quarter sales at CER. This ratio was in line with last year despite higher sales in the D&M division which, as a manufacturer, holds raw material and more finished goods than in Custom Supply, due to geographic spread of manufacturing sites and hence has lower stock turns (3.7 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 (18% in D&M compared with 11% in Custom Supply).

Group stock turns were 5.2, 0.1 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 2020 were at 52 days (down 2 days since last year) and 63 days (consistent with last year) respectively.

ROCE for the year (return on capital employed, defined as underlying operating profit as a percentage of net assets plus net debt) including an annualisation of our Sens-Tech acquisition, was 16.0%, up 0.6ppts 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 2020 was £61.3m, compared with £63.3m at 31 March 2019. Excluding acquisition spend during the year of £75.9m and equity issuance of £60.5m, net debt reduced by £17.4m during the year, equating to 47% of underlying operating profits, demonstrating continuing strong cash generation by the Group.

	FY 2019/20	FY 2018/19
Net debt at 1 April	(63.3)	(52.4)
Free cash flow (see table below)	27.3	19.2
Acquisition-related cash flow	(75.9)	(24.2)
Equity issuance	60.5	0.1
Dividends	(8.1)	(6.7)
Foreign exchange impact	(1.8)	0.7
Net debt at 31 March	(61.3)	(63.3)

Net acquisition cash flows, (including associated costs of acquisitions) of £75.9m comprised £58.4m for the acquisition of Sens-Tech, £16.5m for the acquisitions of Hobart and Positek, and an earnout payment in respect of the 2016 Contour acquisition of £1.0m.

Dividend payments increased by £1.4m (+21%) to £8.1m following the 6% increase of the final dividend last year and the two c.10% equity placings in April 2019 and October 2019 to maintain a strong balance sheet.

FINANCE REVIEW

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 2019/20	FY 2018/19
Underlying profit before tax	32.8	27.2
Net finance costs	4.3	3.4
Non-cash items ¹	13.5	6.4
Underlying EBITDA	50.6	37.0
Working capital	1.6	(3.2)
Capital expenditure	(6.3)	(5.2)
IFRS 16	(6.6)	–
Operating cash flow	39.3	28.6
Finance costs	(3.7)	(3.4)
Taxation	(6.4)	(3.8)
Legacy pension	(1.8)	(1.7)
Executive Share option exercises	(0.1)	(1.6)
Net exceptional receipt	–	1.1
Free cash flow	27.3	19.2

1. Non-cash items are depreciation, amortisation and share based payments, plus £6.6m IFRS 16 depreciation for FY 2019/20.

Underlying EBITDA of £50.6m includes the add back of IFRS 16 depreciation of £6.6m; excluding this, it was 18% higher than last year. Working capital reduced by £1.6m reflecting £2.0m early payments from customers and a lower growth in the last quarter. This compares with an investment of £3.2m last year reflecting the stronger organic growth that year.

Capital expenditure of £6.3m, 1.4% of Group sales (FY2018/19: 1.2%), was £1.1m higher than last year with increased investment in the D&M division. On a divisional basis, capital expenditure was 1.9% of divisional sales in D&M and 0.2% of divisional sales in Custom Supply.

Operating cash flow of £39.3m, which was up 37% on last year, represents 106% of underlying operating profit, well ahead of our 85% conversion target. Free cash flow (after finance costs, taxation, legacy pension and exceptional costs) was £27.3m, up 42% on last year and at 104% of underlying profit after tax, was again well ahead of our target of 85%. We have introduced free cash flow as a new KPI for the next five-year period, as we look to evolve into a business which is self-sufficient in the funding of acquisitions.

Banking Facilities

The Group has a revolving credit facility of £180m with a syndicate of six banks. During February 2020, the Group exercised its option to extend the term of the facility to June 2024. In addition, the Group has a £60m accordion facility which it can use to extend the total facility up to £240m, subject to banking approval. The syndicated facility is available both for acquisitions and for working capital purposes.

With net debt at 31 March 2020 of £61.3m, the Group's gearing ratio was 1.25 times (FY 2018/19: 1.7 times), being defined as net debt divided by underlying EBITDA (annualised for acquisitions) with our longer term target gearing range being between 1.5 and 2.0 times. Interest cover was 13.5 times.

Balance Sheet

Net assets of £200.5m at 31 March 2020 were £65.8m higher than at the end of the last financial year (31 March 2019: £134.7m). The increase primarily relates to the two equity issuances during the year to strengthen the balance sheet plus the net profit for the year partly offset by the payment of dividends. The movement in net assets is summarised below:

£m	FY 2019/20
Net assets at 31 March 2019 (restated)	134.7
Net profit after tax	14.3
Dividend paid	(8.1)
Currency net assets – translation impact	(4.6)
Gain on defined benefit scheme (inc tax)	1.9
Equity issuance	60.5
Share based payments (inc tax)	1.8
Net assets at 31 March 2020	200.5

Defined Benefit Pension Scheme

The Group's IAS19 pension position associated with its legacy defined benefit pension scheme improved during the year by £4.3m, from a £2.5m deficit at 31 March 2019 to a £1.8m surplus at 31 March 2020. This partly results from contributions of £1.8m made by the Group; and also from increased corporate bond yields, reductions in future RPI expectations and updated demographic assumptions during the year. Annual payments of £1.8m remain payable (growing by 3% each year in accordance with the plan agreed with the pension trustees in 2019) until September 2022. The next triennial valuation will be as at 31 March 2021.



Brexit Update

discoverIE does not anticipate a material direct tariff impact from Brexit. As an international Group, only 12% of sales are in the UK with minimal trade between the UK & Eurozone. The majority of sales in the UK are of products manufactured outside the EU, predominantly in Asia and the US, and are thus unaffected. WTO rules, were they to apply, for products traded between the EU and the UK and vice versa, would only be expected to have a minimal effect.

Changes have been made to some warehousing and logistics to hold a buffer stock in the country of demand to minimise the effects of any border disruption.

Indirect risk remains in terms of softening customer demand as a result of ongoing uncertainty, and also from 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 50 to 55. These risks include the economic environment, particularly linked to the impact of COVID-19; 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; loss of key personnel; and non-compliance with legal and regulatory requirements.

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
24 June 2020

RISK MANAGEMENT

Governance and culture

The Board of Directors has overall responsibility for the Group's risk appetite and risk management strategy. Roles and responsibilities for managing risks across the discoverIE Group have been clearly defined as shown in the diagram below.



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 and tax. This focuses on monitoring and compliance with risk control systems and processes implemented by the Group.

The internal audit function provides independent assurance over the operation of risk management processes, internal controls and governance, and serves as the third line of defence. Additional resource this year has led to a significant increase in the number of internal audits being conducted across the Group. As well as carrying out full audits on individual entities, the team conducts thematic audits, focusing on specific areas across the Group as a whole. During the Covid-19 outbreak, the team has continued to conduct audits, identifying those matters that can be reviewed remotely. This means that the function has continued to serve and help protect the Group effectively. Other activities carried out by the Group Internal Audit function include reviewing and updating Group policies and improving processes and procedures where opportunities for improvement have been identified as a result of previous audits.

As noted in the Corporate Governance Report, the Group operates a decentralised model with a strong culture of open, constructive communication, a willingness to listen, being non-political and non-bureaucratic, as well as being performance, target and results driven. The Group Internal Audit function plays an inherent part in ensuring that this culture is embedded throughout the Group.

Recruitment is a thorough process involving Divisional Management in the appointment of all operating company management positions. Employees are encouraged to develop their knowledge and skills and to progress their careers within discoverIE.

Our Group strategy is clearly defined (see pages 20 to 27 for details of Our Strategy). This sets the context for more detailed business objectives, which are agreed annually for the Group as a whole and for each business unit. Progress against these is then reported on a regular basis to Divisional and Head Office functional management, the Group Executive Committee and the Board. Having a clear understanding of our objectives, and the context in which our businesses operate, assists with the effective identification and management of existing or emerging risks that have the potential to prevent or hinder any of these objectives from being achieved.



Risk appetite

One of the Group's core principles is to deliver its strategic priorities in a sustainable and responsible manner. This requires that careful consideration is given by the Board to the nature and level of risks that the Group should accept in order to grow and develop the business in line with this strategy, including a certain level of operational risk. discoverIE is averse to exposing itself to reputational risk, regulatory and compliance risks, risks arising from environmental, social or governance ("ESG") matters, and risks relating to the security of systems and data, while being more open to risks relating to the innovation of products, building our customer base and increasing our competitive strength in the markets in which the Group operates. The degree of risk accepted is managed on a day-to-day basis through the Board's delegated authority levels.

Enterprise Risk Management

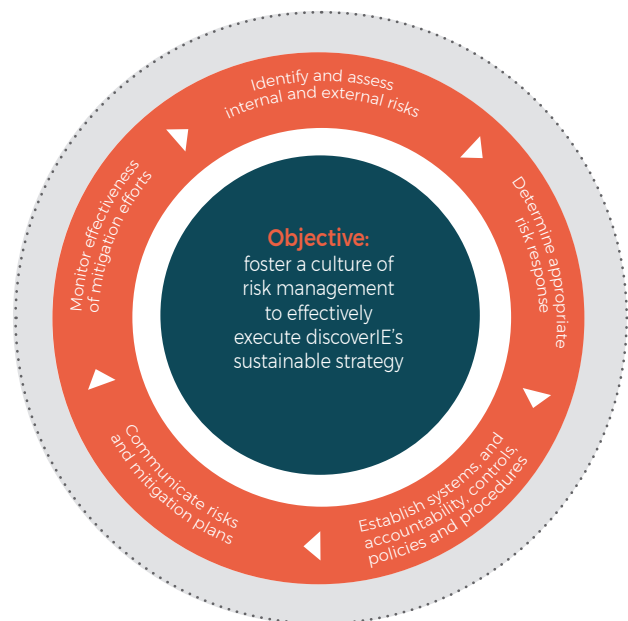
discoverIE applies the Enterprise Risk Management framework to identify potential events or circumstances that may affect the Group and manage the associated existing and emerging risks. The risk management framework is made up of five steps to identify, assess and mitigate risks.

A risk register detailing the Group's key risks is regularly reviewed by Divisional Management and the Group Executive Committee to identify new or emerging risks and to assess changes to existing risks. 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 includes an evaluation of potential mitigating actions and controls, and the residual risks remaining after the application of the Group's internal control processes.

Risks are prioritised based on their residual risk and the risk appetite. Further information on the Group's principal risks and uncertainties is detailed on pages 50 to 55. Key risks, and the internal control processes adopted to address these risks, are monitored by the Group Executive Committee and carefully considered and evaluated by the Audit and Risk Committee.

The Audit and Risk Committee supports the Board by monitoring the Group's risk management framework, identifying areas of risk, challenging control weaknesses and providing independent assessment of 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 90 to 94.

discoverIE continually pursues improvements in its Enterprise Risk Management Framework. During FY20 the Risk Management Policy was reviewed, and Risk Workshops were trialled. These will be rolled out further in FY21, alongside a more integrated approach to risk reporting from subsidiaries.



VIABILITY STATEMENT

Viability assessment period

The Directors have concluded that the most appropriate time period over which to assess the Group's prospects for this purpose should be the three-year period ending 31 March 2023. The selection of this period is consistent with the Group's strategic planning process; its review of external credit facilities; and its assessment of the Group's principal risks.

Viability Base Case

The financial projections for this three-year period are based upon the Group's forecast for the year ending 31 March 2021 taken at the start of May 2020 (the "May Forecast") and forecast progression thereon. The May Forecast is a consolidation of sales, profits, working capital and cash flow forecasts made by each operating company and head office, at the start of May, incorporating actual results for April 2020 and factoring in each business's view of the impact of COVID-19 for the rest of the FY 2020/21 financial year, and other associated key risk factors including acquired company forecast and associated future earnout payments, latest views on supplier and customer payments impacting working capital and latest forecast foreign exchange rates. The May Forecast also incorporates the savings actions previously announced by the Group including pay and headcount freezes and deferral of non-essential capital expenditure.

The May Forecast shows a U-shaped recovery incorporating the current latest reported position with sales running 10% lower in the first quarter. Future growth for the financial years 2021/22 and 2022/23 assume mid-single digit sales growth rates on average for those years (in total "The Viability Base Case").

Banking facilities and headroom

The Group has a syndicated banking facility of £180m which is committed up to the end of June 2024, beyond the viability assessment period. 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 Group's financial covenants for its banking facility are:-

- i) Gearing: net debt to Adjusted EBITDA (being Underlying EBITDA plus the annualisation of acquisitions) of less than 3.0x and
- ii) Interest cover: Adjusted EBITDA to interest greater than 4.0x.

At 31 March 2020, the Group had net debt of £61.3m (giving undrawn facilities of nearly £120m) and was significantly inside these covenants with gearing of 1.25x and interest cover of 13.5x.

The Viability Base Case model shows increasing headroom with annually reducing levels of net debt and gearing, and increasing interest cover compared with the position at 31 March 2020.

Downside Sensitivities

The Viability Base Case has been subjected to sensitivity analysis involving flexing a number of the underlying main assumptions, both individually and in conjunction. The sensitivities take into account the principal risks and uncertainties set out on pages 50 to 55, notably COVID-19 pandemic, economic downturn,

Brexit, loss of key customers and suppliers, underperformance of acquired businesses, major business disruption, liquidity and debt covenants and foreign currency.

In respect of COVID-19, the Directors have modelled downside scenarios to the Viability Base Case. The Directors prepared these scenarios based on an underlying analysis of the potential further impact of COVID-19 this year and future years additional to that already factored into the Viability Base Case.

These downsides include a much longer term, and deeper impact with a further double-digit organic sales growth downside to the Viability Base Case in FY2020/21. Downside sales impact was varied by market sector with organic falls in the year ranging above 30% in some markets. A further downside was also applied the following year with FY2021/22 experiencing a mid-single digit organic sales decline below the downside sales position in FY2020/21. Additionally, gross margin was materially reduced and working capital materially increased.

Even after factoring in these significant additional downsides to the Viability Base Case, there remains good headroom in our banking covenants. This is supported by the fact that the Group sells a wide portfolio of different products across a diverse set of industries and geographies, has a global supply chain network, and has well-established relationships with its customers.

Further mitigation actions not included in the Viability Base Case or sensitivity downsides include further operational and capital expenditure reductions, including redundancies and broader pay reductions, agreeing with the Trustees to defer pension contributions and equity raises. Additionally the Group has confirmed its eligibility in principle, subject to satisfactory documentation, to access additional cash facilities under HM Treasury's COVID Corporate Financing Facility, should conditions deteriorate materially.

The Group is also 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 have been considered by the Board as part of the risk management process.

The Strategic Report on pages 04 to 69 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 has a reasonable expectation that, taking into account the Group's current position, having regard to the committed borrowing facilities available to the Company, and subject to the principal risks and uncertainties faced by the business as documented on pages 50 to 55 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.

Going Concern

Based on the assessment outlined above, the Directors also believe that it is appropriate to continue to adopt the going concern basis in preparing the Group's accounts.



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 48.

Strategic risk

Risk description	Potential impact	Mitigating actions	Change in the year
1 Instability in the economic environment			
<ul style="list-style-type: none"> Risk of decline in financial performance due to recession or geopolitical changes, including COVID-19 and Brexit 	<ul style="list-style-type: none"> Reduction in sales Lower margins Closure of factories and suppliers stopping production Difficulty raising equity and debt, impacting growth ability Analysis by the Brexit Committee as to the effect of Brexit concluded that the direct impact on the Group should not be material 	<ul style="list-style-type: none"> Market position as a specialist supplier focused on core target markets with diversified locations and product offerings Executive team actively managing impact of COVID-19, including weekly rolling trading and cash forecasts A long-term credit facility is in place with significant headroom Careful monitoring of stock levels in relevant geographies to identify any issues early and flexible production and warehouse facilities to enable movement of production and supply to other countries if required Vigilance entering markets that are politically or financially unstable 	<p>↑</p> <ul style="list-style-type: none"> COVID-19 impact on global markets The UK has now moved into the transition phase of leaving the EU. However, as noted opposite, the direct impact of Brexit is expected to be limited <p>Link to KSIs: B C D</p> <p>Link to KPIs: 1 3 4 5 6</p>
2 Business acquisitions underperformance			
<ul style="list-style-type: none"> A degree of uncertainty exists in valuing acquisitions and evaluating potential synergies Post-acquisition risks arise due to change of control and integration challenges 	<ul style="list-style-type: none"> Financial impact due to underperformance of acquisitions Loss of key employees and their expertise Expected synergies are not realised 	<ul style="list-style-type: none"> Acquisition programme temporarily on hold while impact of COVID-19 assessed 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"> Hobart and Positek, acquired in April 2019, and Sens-Tech, acquired in October 2019, performed as expected during FY20 <p>Link to KSIs: A B C D</p> <p>Link to KPIs: 1 2 3 5 6</p>

Operational risk

Risk description	Potential impact	Mitigating actions	Change in the year
<h3>3 Loss of major customers</h3>			
<ul style="list-style-type: none"> A key customer moves to a competitor, significantly reduces operations or goes into insolvency 	<ul style="list-style-type: none"> Loss of market share Increased risk of bad debt Reduced profitability and cash flow 	<ul style="list-style-type: none"> Low dependence on any single customer (the largest customer represents less than 7% of Group revenues) Culture of high-quality service and long-term customer relationships Focus on developing business with SMEs Robust customer quality management systems 	<p>↑</p> <ul style="list-style-type: none"> COVID-19 increases the likelihood of customers reducing activities or facing financial difficulties <p>Link to KSIs: A B D</p> <p>Link to KPIs: 1 2 3 6</p>
<h3>4 Loss of major suppliers</h3>			
<ul style="list-style-type: none"> A key supplier undergoes change of ownership, suffers major business disruption or quality issues 	<ul style="list-style-type: none"> Negative impact on production Damaged relationships with key customers Reduced sales 	<ul style="list-style-type: none"> Low dependency on any single supplier (the largest supplier represents less than 6% of Group revenues) Dual source suppliers in place where possible Long-term supplier relationships, enhanced by strong customer relationships Monitoring of market and technological developments, including input from customers 	<p>↑</p> <ul style="list-style-type: none"> COVID-19 increases the likelihood of suppliers being unable to supply, through enforced closures or reduced staffing <p>Link to KSIs: A B</p> <p>Link to KPIs: 1 2 3</p>
<h3>5 Technological changes</h3>			
<ul style="list-style-type: none"> The development of new technologies that gives rise to significant new competition or renders our products obsolete 	<ul style="list-style-type: none"> Reduced sales Loss of market share Lower margins 	<ul style="list-style-type: none"> The Group is diversified into a number of differentiated technology units Focus on established technologies with low capital requirements Group strategy includes actively pursuing acquisitions in specialist technologies 	<p>↔</p> <p>Link to KSIs: A B</p> <p>Link to KPIs: 1 3</p>

Key strategic indicators

- A Increase share of Group revenue from Design & Manufacturing
 B Increase underlying operating margin
 C Build sales beyond Europe
 D Target Market Sales

Key performance indicators

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

PRINCIPAL RISKS AND UNCERTAINTIES

Risk description	Potential impact	Mitigating actions	Change in the year
6 Major business disruption			
<ul style="list-style-type: none"> Sustained disruption to production arising from a major incident at one or more sites 	<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 in place Multiple manufacturing sites and warehousing enabling movement from one facility to another Insurance cover 	<p>↑</p> <ul style="list-style-type: none"> COVID-19 caused disruption to our manufacturing facilities, with closures starting in February 2020 in China and, in March 2020, in India, Sri Lanka and the US (all since reopened) and staff absences due to government-enforced restrictions on movement and illness Expansion of manufacturing facilities in China Acquisition of Hobart, with facilities in the US and Mexico Acquisition of Positek and Sens-Tech with facilities in the UK <p>Link to KSIs: A B C</p> <p>Link to KPIs: 1 3 4 5 6</p>
7 Cyber security			
<ul style="list-style-type: none"> System downtime or loss of data due to internal failure or external attack 	<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 completed 	<p>↔</p> <ul style="list-style-type: none"> External cyber assessments completed December 2019 Proposed improvements continue to be reviewed <p>Link to KSIs: B</p> <p>Link to KPIs: 1 3 5 6</p>

Risk description	Potential impact	Mitigating actions	Change in the year
8 Loss of key personnel			
<ul style="list-style-type: none"> Key employees leave, and effective replacements are not recruited on a timely basis 	<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>↔</p> <p>Link to KSIs:</p> <p>B</p> <p>Link to KPIs:</p> <p>① ③ ⑤</p>
9 Product liability			
<ul style="list-style-type: none"> A failure in one of our products results in serious injury, death, damage to property or non-compliance with product regulations 	<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' liabilities As a number of the Group's products are customised for individual customers, this reduces the risk relating to any one product and/or customer 	<p>↔</p> <p>Link to KPIs:</p> <p>① ③ ⑤ ⑥</p>
10 Inventory obsolescence			
<ul style="list-style-type: none"> Stock is held that has reduced or nil realisable value 	<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 based on reliable sales forecasts 	<p>↔</p> <p>Link to KPIs:</p> <p>③ ④</p>

Key strategic indicators

- A** Increase share of Group revenue from Design & Manufacturing **B** Increase underlying operating margin **C** Build sales beyond Europe **D** Target Market Sales

Key performance indicators

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

PRINCIPAL RISKS AND UNCERTAINTIES

Financial risk

Risk description	Potential impact	Mitigating actions	Change in the year
11 Liquidity and debt covenants			
<ul style="list-style-type: none"> There is a breach of funding terms/covenants 	<ul style="list-style-type: none"> Insufficient cash resources to support the Group's activities 	<ul style="list-style-type: none"> Undrawn bank facility of c. £119m at year end Central treasury function oversees the Group's cash resources and financing requirements Regular review of headroom against committed facilities and financial covenants Working capital controls and monitoring of key working capital metrics Issuance of equity from time to time to support acquisitions programme Acquiring high margin, high cash generative businesses 	<p style="text-align: center;">↑</p> <ul style="list-style-type: none"> COVID-19 impact on the economic environment and financial performance could increase the strain on cash resources The Group has an existing revolving credit facility of £180m, with a £60m accordion facility which it can use to extend the total facility up to £240m. During the year, the term was extended to the end of June 2024 Raised £61m in net equity funding to support acquisitions Strong cash flow in the year with gearing at 31 March 2020 reducing to 1.25x from 1.7x at 31 March 2019 <p>Link to KPIs: 4 6</p>
<hr/>			
12 Foreign currency			
<ul style="list-style-type: none"> The Group deals in many currencies for both its purchases and sales, which differ to its reporting currency, and so the Group has an exposure to foreign currency fluctuations 	<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 	<p style="text-align: center;">↑</p> <ul style="list-style-type: none"> COVID-19 has increased volatility in foreign currency exchange rates <p>Link to KPIs: 3 6</p>

Risk description	Potential impact	Mitigating actions	Change in the year
13 Retirement benefit obligations			
<ul style="list-style-type: none"> The reported pension deficit is sensitive to movements in actuarial assumptions and returns on investments 	<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 Agreed levels of hedging against inflation and interest rate risks 	<p style="text-align: center;">↔</p> <ul style="list-style-type: none"> Impact of COVID-19 on asset valuations caused by changes in the economic environment. However, the allocation of assets in the portfolio across different asset classes and the existence of hedging arrangements has meant that the impact has not been significant <p>Link to KPIs: 4 5</p>

Regulatory / compliance risk

Risk description	Potential impact	Mitigating actions	Change in the year
14 Non-compliance with legal and regulatory requirements			
<ul style="list-style-type: none"> Unintentional failure to comply with international and local legal and regulatory requirements 	<ul style="list-style-type: none"> Fines or penalties Reputational damage 	<ul style="list-style-type: none"> The Group hires employees with relevant skills and uses external advisers to keep up to date with changes in regulations and legal requirements to remain in compliance Internal control framework including Group policies, procedures and training in risk areas such as bribery and export controls Ongoing internal audit reviews assess compliance with Group policies A whistleblowing hotline is in place and available for use by all employees Insurance covers all standard categories of insurable risk 	<p style="text-align: center;">↔</p> <ul style="list-style-type: none"> No significant changes to new or existing legislation <p>Link to KPIs: 3 6</p>

Key strategic indicators

- A** Increase share of Group revenue from Design & Manufacturing **B** Increase underlying operating margin **C** Build sales beyond Europe **D** Target Market Sales

Key performance indicators

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

SUSTAINABILITY

Our approach to sustainability

As outlined elsewhere in this Report, discoverIE is focused on delivering a long-term strategy and achieving this through a sustainable and ethical approach to business.

Our business is based on sound economic principles, focused on target markets that help sustain and improve the world, ensuring that our employees and business partners are treated fairly and with respect, that we contribute positively to the communities within which we operate, and that all of this is within an effective governance framework.

Nonetheless, the Board and Group Executive Committee seek to continually improve its approach to sustainability and environmental, social and governance (“ESG”) affairs. This year, the Board and Group Executive Committee have initiated a review of the Company’s approach to ESG matters. The expectation is that this will lead to further improved ESG and sustainability reporting over time.

Each member of the Group Executive Committee has remuneration outcomes dependent upon the development of this ESG strategy, in the form of non-financial objectives that must be achieved during FY2021, and sustainability and ESG matters are a standing item in the regular meetings of the Board and Group Executive Committee.

The Company has already undertaken a number of exercises to establish the Group’s current position and areas for improvement, and we outline below the steps already taken and the opportunities that these present.

Aligning to the UN Sustainable Development Goals

“The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, provides a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (“SDGs”), which are an urgent call for action by all countries – developed and developing – in a global partnership. They recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests. The SDGs build on decades of work by countries and the UN.”

(<https://sustainabledevelopment.un.org/sdgs>)

The discoverIE Group of companies has the potential to contribute positively to the major global challenges identified in the UN’s SDGs and a summary is set out below.



discoverIE's purpose is to create innovative electronics that help to improve the world and people's lives and this serves as the foundation of our approach to sustainability. Using the UN SDGs as a framework, we focus on the following.

The global goal	discoverIE's alignment
 <p>Good Health & Wellbeing</p> <p>Ensure healthy lives and promote well-being for all at all ages</p>	<p>discoverIE's medical products directly contribute to the health and wellbeing of people. The Group's environmental focus (noted above) also drives improved health outcomes for all.</p>
 <p>Affordable and Clean Energy</p> <p>Ensuring access to affordable, reliable, sustainable and modern energy for all.</p>	<p>Renewable energy has been one of our target markets for several years now. We provide key components for wind turbines and solar inverters.</p> <p>The Group also contributes to improving efficiencies in energy use, especially in the mass transportation sector, and to increasing the attractiveness and ease of use of electric vehicles.</p>
 <p>Industry, Innovation and Infrastructure</p> <p>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</p>	<p>The Group supplies differentiated innovative products in all of its target markets. These help provide a better future for all. This includes connectivity solutions that underpin the "Internet of Things" that brings people and communities together.</p>
 <p>Sustainable Cities and Communities</p> <p>Make cities and human settlements inclusive, safe, resilient and sustainable</p>	<p>The Group serves the mass transportation market and provides charging solutions for electric vehicles, both of which will help reduce the use of fossil fuels as electrified transportation increases. Additionally, the Group supplies components that enable automation and efficiency for various industries.</p>
 <p>Climate Action</p> <p>Take urgent action to combat climate change and its impacts</p>	<p>The Group's focus on key markets that reduce or replace carbon emissions, such as the renewable energy market, and aiding automation and improving efficiency, assists in combating climate change.</p>

SUSTAINABILITY

The Group promotes policies and procedures across the Group which consider the interests 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
- Business ethics
- Health and safety
- Whistleblowing

Day-to-day responsibility for implementation of these policies is delegated to the management of discoverIE's operating companies, under the supervision of the Group Executive Committee. Where appropriate, the Group policies and procedures are supported by the local operating companies' policies, all within a framework established by the Board and Group Executive Committee, intended to ensure that we operate as a Group to the highest standards.

During the year, the Group policies and procedures were reviewed to ensure that they remained fit for purpose. Health and safety processes were updated and additional steps put in place to mitigate against the risks presented by Covid-19 in particular.

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 are committed to environmental, social and governance affairs in its actions, and 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 other 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 pages 62 and 63 identifies some of our stakeholders and how discoverIE engages with them.

The following page also sets out the Company's "section 172 statement", which provides additional detail.

Section 172 Statement

The Board of discoverIE Group plc takes seriously its duties to act in accordance with legal requirements and appropriate business and ethical standards. This includes fulfilling the duties described in Section 172 of the Companies Act 2006 (the "Act").

Section 172

Duty to promote the success of the company

A director of a company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the company's employees;
- The need to foster the company's business relationships with suppliers, customers and others;
- The impact of the company's operations on the community and environment;
- The desirability of the company maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the company.

The information below describes how the Directors have had regard to the matters referred to in Section 172 of the Act in performing their duties and constitutes the Board's Section 172 Statement for the year ended 31 March 2020. This section is incorporated by reference into the Strategic Report.

Long-term decision-making (s.172(a))

The Board delegates day-to-day management and decision-making to its senior management team, but it maintains oversight of the Company's performance, and reserves to itself specific matters for approval, including the strategic direction of the Group, acquisitions and disposals and entering into material contracts above set thresholds.

The Board monitors performance against strategy and that decision-making is appropriate by receiving regular updates, both in Board and Committee meetings and at other intervals as appropriate.

Processes are in place to ensure that the Board receives all relevant information to enable it to make well-judged decisions for the long-term success of the Company and its various stakeholders.

In FY20, the Board:

- Considered and approved a number of acquisition proposals. The Board only approves such a transaction if it is satisfied, after full consideration, that it meets the Section 172(1) requirement that it is most likely to promote the success of the Company for the benefit of its members as a whole, and it considers the value forecasted to be added to the Group by an acquisition, over a defined future period. This judgement is recorded. The Board also conducts an annual acquisition review process in which historical acquisitions are reviewed and the financial performance and strategic rationale for them revisited.
- Received presentations on specific business areas and, through ongoing discussion with the business leaders, determined strategic priorities for a three-year period, and the development of robust supporting operating plans.
- Agreed the Group's principal risks, considered emerging risks and received regular risk management and internal control reviews throughout the year, including specific consideration of risks arising from the COVID-19 outbreak.
- Set annual budgets and capital allocation and oversaw business performance against targets, enabling the Board to confirm the Company's outlook for the year ahead, the going concern statement and its longer-term viability.

Employee Interests (s. 172(b))

The success of the Group depends upon a highly-skilled and motivated workforce, an entrepreneurial and innovative culture, set within structures that provide fairness for all.

In FY20, the Board:

- Established a Workforce Advisory Panel, to ensure that the communications between the Board, Group Executive Committee, individual operating companies and Group staff were optimised.
- Reviewed Board and Senior Management succession, Remuneration and employment relations and arrangements across the Group. This is designed to ensure that both short-term and long-term interests are aligned between all stakeholder groups and the Company's values and culture.

Relations with external parties (s. 172(c))

The Group works with a huge number and variety of customers, suppliers and other third parties. It is of great importance that relations with those parties are appropriate.

In FY20:

- The Board regularly considered the marketplaces within which the Group's customers operate and the challenges they face, and opportunities available. This helped shape the way in which resources were allocated in order to ensure that the Group was well-positioned to meet customer needs.

Community & Environment (s. 172(d))

Wherever the Group operates, it forms a part of its local community and more broadly, seeks to ensure that it provides a positive contribution to the environment.

During the year:

- The Board increased its support for the Community Foundation for Surrey (see further details on page 61).
- The Board and Group Executive Committee initiated a review of its approach to environmental, social and governance ("ESG") and sustainability matters. This will be a key focus for the next year and beyond.

SUSTAINABILITY

Section 172 of the Companies Act 2006 (the "Act")

discoverIE's response

Reputation for high standards of business conduct (s.172(e))

The Board is responsible for developing a corporate culture across the Group that promotes integrity and transparency. It has established comprehensive systems of corporate governance and approves policies and procedures which promote corporate responsibility and ethical behaviour.

In FY20:

- The Board received regular reports from the Group Risk Manager designed to strengthen governance and compliance, integration of new and recent acquisitions into the Group, and the identification and management of existing and emerging risks.
- The Board had updates and training on key areas of law and regulation.
- The Board approved the Company's Modern Slavery Act Statement, describing the steps it had taken to ensure that slavery and human trafficking were not taking place.
- Took steps to address and incorporate the requirements of the 2018 UK Corporate Governance Code, further details of which are provided in the Corporate Governance Report.

Acting fairly as between members of the Company (s.172(f))

The Board aims to understand the views of Shareholders and always to act in their best interests.

In order to do this the Board:

- Maintains close relations with its main shareholders through regular dialogue, both after the publication of full-year and half-year results.
- Approved value-enhancing acquisitions and the raising of additional capital through two placings, the first in April 2019 and the second in October 2019. These enabled the Company to fund targeted acquisitions that have generated additional shareholder value.
- Receives Investor Relations updates at every Board meeting and direct feedback from investors during specific consultation exercises and on publication of trading results and updates.

Other key activities

- The Board met regularly throughout the year and, in the year ended 31 March 2020, held six scheduled meetings. The Board's agenda considers all relevant matters at scheduled meetings.
- The Board also held additional meetings, both as required in connection with the Group's acquisitions and, separately, in connection with its response to Covid-19. This enabled the Board to stay abreast of the issues facing the Group and those with whom it interacts.
- As part of its regular programme of Board activities, the Board also receives reports from the Group Chief Executive, the Group Finance Director and the Group General Counsel & Company Secretary. This enables the Board to stay properly informed as to financial performance and regulatory and legal affairs.



CASE STUDY



Community

Community Foundation for Surrey

The Group has been a Foundation Champion of the Community Foundation for Surrey (CFS) since 2015. The Community Foundation for Surrey is an independent charitable trust established to inspire local giving for local needs and is part of a national network of 46 UK Community Foundations. discoverIE's support for CFS is a combination of financial contributions and staff time such as mentoring support.

As a Foundation Champion, discoverIE assists CFS in meeting some of the support costs it incurs in administering the 300-400 grants that it makes across Surrey each year.

While Surrey is a largely affluent county, this apparent prosperity masks pockets of high deprivation. The Foundation, together with its donors, tackles a wide range of need that includes difficult issues such as homelessness, mental ill health and poverty. In 2019/20 the Foundation distributed over £2m to support charities, community groups, sports clubs and social enterprises.

Since its inception 14 years ago, the Foundation has generated a total of £25m and has awarded over 3,400 grants to support groups tackling identified needs in areas of health, education, exclusion, the environment, sport and the arts, and also to disadvantaged individuals needing support with training, education and employment.

Examples of grants awarded in 2019/20

Stripey Stork collects donations of toys, clothes and other essential items for babies and children and rehomes them with local families experiencing hardship.

A grant from the Community Foundation enabled 100 'Stork Sacks' (rucksacks filled with items including stationery, books, toys and toiletries) to go to children aged 3 to 12 years old who are survivors of modern slavery.

Elmbridge Rentstart is a homelessness charity which offers advice to people who are vulnerably housed and provides housing and support to those who are

homeless. Those supported often have complex needs such as mental health issues, criminal records and drug or alcohol problems which mean that they need support, not only to find a home, but to establish themselves and reengage with society. Funding and mentoring support from the Community Foundation are helping with the expansion of Rentstart's activities.

Further information on the Community Foundation for Surrey and the projects it supports can be found at www.cfsurrey.org.uk.

DISTRIBUTIONS BY THE COMMUNITY FOUNDATION FOR SURREY IN 2019/20

>£2m



TOTAL NUMBER OF GRANTS SINCE INCEPTION 14 YEARS AGO

>3,400

SUSTAINABILITY

Stakeholder engagement

Why it is important to engage	Stakeholder key interests	Ways we engage
 <p>Our people</p> <p>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.</p>	<ul style="list-style-type: none"> ■ Health and safety ■ Reward ■ Career opportunities ■ Employee engagement ■ Training and development ■ Wellbeing ■ Reputation 	<ul style="list-style-type: none"> ■ Workforce advisory panel ■ Listening groups ■ Employee surveys ■ Townhall meetings ■ Newsletters ■ Employee events ■ Apprenticeship programme ■ Recognition and reward
 <p>Customers</p> <p>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.</p>	<ul style="list-style-type: none"> ■ Product performance and efficiency ■ Safety, quality and reliability ■ Competitiveness ■ Our availability and responsiveness ■ Relationship ■ Compliance ■ Convenience ■ Range of products 	<ul style="list-style-type: none"> ■ Customer visits, telephone calls, engineering visits ■ 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
 <p>Suppliers</p> <p>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.</p>	<ul style="list-style-type: none"> ■ Quality management ■ Cost-efficiency ■ Long-term relationships ■ Responsible procurement, trust and ethics ■ Technological advances, including digital solutions 	<ul style="list-style-type: none"> ■ Joint customer visits ■ Employee training ■ Quarterly business reviews ■ Geographical footprint allows smaller suppliers to operate globally ■ Logistics efficiencies ■ Supplier conferences

Why it is important to engage	Stakeholder key interests	Ways we engage
 <p>Shareholders</p> <p>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.</p>	<ul style="list-style-type: none"> ■ Growth ■ Financial performance and economic impact ■ Governance and transparency ■ Operating and financial information ■ Confidence in the Group's leadership ■ Dividend growth 	<ul style="list-style-type: none"> ■ Regular market updates ■ Investor presentations ■ Individual meetings ■ Investor roadshows ■ Corporate website, including dedicated investor section ■ Shareholder consultations ■ Annual reports ■ Annual General Meetings ■ Capital Market Days
 <p>Global communities</p> <p>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.</p>	<ul style="list-style-type: none"> ■ Local operational impact ■ Health and safety and environmental performance 	<ul style="list-style-type: none"> ■ Charitable donations and volunteering ■ Corporate and operating company websites ■ Local environmental initiatives



SUSTAINABILITY



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 businesses. These policies ensure that everyone is accorded equal opportunity for recruitment, training and promotion.

Diversity

discoverIE's employment policy is based on equal opportunities for all employees and prospective employees, and on there being no discrimination on grounds of colour, ethnic origin, gender, age, religion, political or other opinion, disability or sexual orientation.

The Group endeavours to protect employees from, and does not tolerate, any sexual, physical or mental harassment. Set out below is an analysis of the number of employees by gender during the year.

Gender split

55%

2019: 55%

45%

2019: 45%

Senior managers and executives

76%

2019: 74%

24%

2019: 26%

Directors

83%

2019: 71%

17%

2019: 29%

● Male

● Female

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. Employees benefit from the ability to improve their skills and work in a challenging and ambitious work environment.

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 and a 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. In addition to the Workforce Advisory Panel that has been established, each operating company is encouraged to maintain effective employee engagement arrangements, including keeping employees aware 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.



CASE STUDY



7 AFFORDABLE AND CLEAN ENERGY



13 CLIMATE ACTION

UN Sustainable Development Goals



Providing solutions to help tackle climate change

Myrra

Electric Charging Solutions

OAKSUM, the brand name of the high-power electronics division of the Myrra Group, is a market leading brand, providing power conversion for the power electronics market, in particular the electric vehicle and battery charging sector.

Myrra's global engineering team produces innovative designs and has a history of high quality, reliable products, manufactured to the highest technical and performance standards.

The team works closely with customers to design products that specifically suit customer requirements and to bring them to market quickly. These products include customised design options.

Electric vehicles are the future of personal transport and will ultimately enable the replacement of vehicles powered using petrol or diesel. It is widely expected that this will lead to a significant reduction in global emissions. However, there are practical challenges with electric vehicles and this is where Myrra helps.

The Challenge & Solution

Historically, it has not been possible to test batteries while simultaneously charging them.

During the year, Myrra worked with a third-party to design and manufacture a system that enables batteries to be charged and discharged, while at the same time undertaking diagnostics tests to determine their condition.

The result is an electric vehicle charging solution that is ideal for use in car dealerships and repair centres, and which is being rolled out globally in existing franchises.

Long-Term and Wider Benefits

The solution that has been developed has significant wider opportunities, such as charging solutions for larger vehicles (e.g. trucks and buses) and portable charging stations.

Similarly, these solutions help address current impediments to the wider adoption of electric vehicles:

- Determining battery quality when buying a second-hand electric vehicle. Being able to test these more thoroughly as part of routine

maintenance will help alleviate those concerns.

- There is increasingly greater demand on the electrical supply infrastructure as more vehicles connect to it. The bi-directional technology modules provided by Myrra enable residual power to be transferred back to the power grid, potentially alleviating pressure during periods of peak demand.

Such capabilities will help to enhance the attractiveness of electric vehicles to end users, thereby assisting with the global fight against climate change and underpinning this as an area of long-term sustainable growth for the Group.

“Each electric vehicle that displaces a conventional car saves approximately 1.5 tons of CO₂ per year.”

Source:
C40 Cities

SUSTAINABILITY

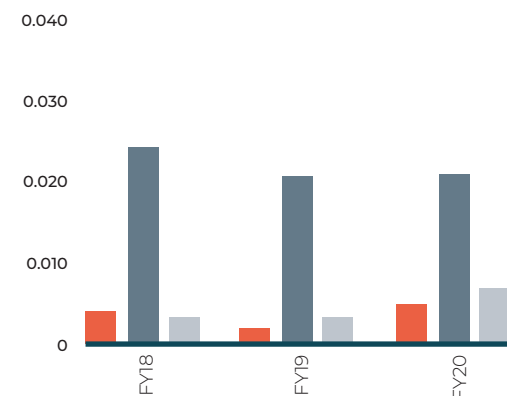


Health and safety

The Group aims to provide clean, healthy and safe working conditions at all times. In addition to compliance with 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 structure, 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. The following chart summarises the Group's accidents and near misses over the last three financial years.

Health & Safety Statistics



- Accidents per employee leading to absence >5 days (per annum)
- Accidents per employee (per annum)
- Near misses per employee (per annum)

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

Business ethics

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

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

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

➔ Further information can be found on the Group's website: www.discoverIEplc.com

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

The Group maintains an external whistleblowing helpline in addition to the existing internal reporting procedure so that anyone with a concern is able to raise this in confidence.

➔ The Group's whistleblowing policy can be found on the discoverIE website: www.discoverIEplc.com

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.



Global communities

The Group believes that good community relations are important to the long term development and sustainability of the operating businesses. 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.

➔ See page 61 for more details.



SUSTAINABILITY



Environment

In addition to compliance with 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.

Methodology

Emissions data is reported in accordance with the UK Government's 'Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting requirements', using the 2019 emission conversion factors published by Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy & Industrial Strategy (BEIS).

The data for the year ended 31 December 2019 has been independently assessed by Carbon Footprint Ltd, a leading carbon and energy management company.



CO₂e
Assessed
Organisation

As well as enabling us to report our emissions data, the process has helped us identify further possible initiatives to reduce our emissions going forward.

Greenhouse gas emissions

The table below shows our GHG emissions during the reporting year 1 January 2019 to 31 December 2019. This reporting period differs from our financial year (1 April – 31 March) to be consistent with previous emissions assessments.

Scope	Activity	Tonnes CO ₂ e Y/E 31/12/19	Tonnes CO ₂ e Y/E 31/12/18
Scope 1	Company car travel	1261.60	–
	Site gas	907.80	–
	Refrigeration & A/C	166.52	–
	Van travel and distribution	166.06	–
	Site gas oil	124.40	–
	Site diesel	54.19	–
	Site LPG	36.35	–
	Leased vehicles	25.11	–
Scope 1 Sub Total		2,742.03	2,258¹
Scope 2	Electricity generation	7,245.13	See Note 1 Below
	District heating generation	53.42	–
Scope 2 Sub total		7,298.55	7,225
Scope 3	Electricity transmission & distribution	587.57	See Note 1 Below
	District heating distribution	2.81	–
Scope 3 Sub Total		590.38	–²
Overall Total		10,630.97³	9,483³
Total kWh		26,731,063	–
UK based Emissions (%)		9.36	–
Tonnes of CO ₂ e per employee		2.41	–
Tonnes of CO ₂ e per £M turnover		23.03⁴	21.6

1. Scope 1 and 2 emissions figures for the year ended 31 December 2018 were reported on an aggregate basis and excluded refrigerants, air conditioning and heat pumps.
2. Scope 3 emissions (other than for flights) are included for 2019 but were not included in 2018.
3. 2019 figures include the recently acquired companies Hobart Electronics, Positek and Sens-Tech, as well as the Scope 3 emissions noted above. These account for the increase between 2018 and 2019.
4. The increase in emissions per £M turnover is due to the inclusion of the Scope 3 emissions.



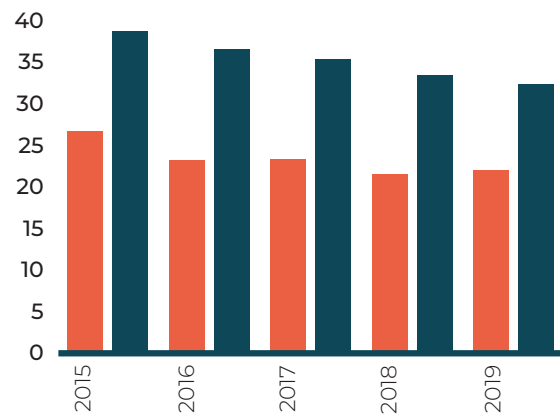
Link to the UN Sustainable Development Goals



With its focus on the target market of renewable energy, and its work in increasing efficiency, in particular in the electrification of vehicles, the Group helps combat the effects of global climate change.

Location-based emissions (Scope 1 and 2) (tonnes of CO₂ equivalent) per £m sales and per £m cost of sales

The graph below illustrates the intensity of the Group's GHG emissions in comparison to the Group's total revenue and the Group's total cost of sales in each of the calendar years shown. The cost of sales directly relates to the physical activities undertaken by the Group in its operations. The graph demonstrates the progress made in reducing the Group's carbon intensity over recent years.



- Tonnes of CO₂e per £m sales
- Tonnes of CO₂e per £m cost of sales

Environmental initiatives

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

- Use of wind and hydroelectric renewable energy at our facilities in Norway and Denmark
- Introduction of light sensors and LED lighting, reducing electricity consumption
- Member of return and recycling system for all waste products
- Use of more efficient packing materials to minimise waste production
- Campaigns to recycle plastic
- Continuing to change from petrol and diesel company cars to electric or hybrid vehicles
- Careful planning of journeys to reduce mileage
- 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

The Strategic Report, as set out on pages 04 to 69, has been approved by the Board.

On behalf of the Board

Nick Jefferies
Group Chief Executive
24 June 2020

Simon Gibbins
Group Finance Director
24 June 2020

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Renewable energy

Renewable energy is one of our key target markets and is well aligned with the UN Sustainable Development Goals.

- ➔ Read more on pages 18 to 19 for details of **our target markets**
- ➔ Read more on pages 56 to 57 for our **alignment with the UN SDGs**

Contributing to the UN Sustainable Development Goals



Affordable and clean energy

The Group's focus on key markets that reduce or replace carbon emissions, such as the renewable energy market, and aiding automation and improving efficiency, assists in combating climate change.



Fulfilling our purpose

DEVELOPING INNOVATIVE ELECTRONICS FOR A CLEANER FUTURE



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 Flowtech Fluidpower plc (expected to retire 1 August 2020)



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



Tracey Graham

Non-Executive Director



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.



Bruce Thompson

Senior Independent Director



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

Non-Executive Director of Avon Rubber plc



Clive Watson

Non-Executive Director



Appointment to the Board

September 2019

Independent

Yes

Previous experience

Clive is a Chartered Accountant and brings wide-ranging experience in senior financial roles to the Board. Prior to his retirement from executive roles, Clive spent almost 13 years as Group Finance Director of Spectris plc, having previously held a number of other senior finance positions both in the UK and overseas. Until recently, he served as Senior Independent Director and Audit Committee Chairman of Spirax-Sarco Engineering plc.

External appointments

Non-Executive Director of Breedon Group plc, Non-Executive Director of Kier Group plc



Greg Davidson

Group General Counsel & Company Secretary



Appointment to the Board

November 2019

Independent

No

Previous experience

Greg joined discoverIE in November 2019 and is responsible for legal and company secretarial affairs. He is a qualified lawyer with extensive experience of technology, corporate and commercial matters. His experience includes five years at Wiggin & Co LLP, with clients focused predominantly in the technology sector and, prior to joining discoverIE, 16 years at RM plc, with seven years as General Counsel & Company Secretary.

External appointments

None

Committee membership

- Audit and Risk Committee
- Group Executive Committee
- Nomination Committee
- Remuneration Committee
- Chairman of the Committee

THE GROUP EXECUTIVE COMMITTEE



Nick Jefferies

Group Chief Executive

➔ For **biography** see page 72



Simon Gibbins

Group Finance Director

➔ For **biography** see page 72



Greg Davidson

Group General Counsel & Company Secretary

➔ For **biography** see page 73



Paul Neville

Group Commercial Director

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



Martin Pangels

Group Development Director

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



Paul Webster

Group Director – Acal BFi and Cross-Selling

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



Jeremy Morcom

Group Head of Corporate Development

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



CORPORATE GOVERNANCE REPORT



“The Board sees good corporate governance as a vital foundation to effective business operations and crucial to ensuring that the culture and values we aspire to are embedded throughout the Group.”

Malcolm Diamond MBE
Chairman

Chairman’s Governance Overview

During the year ended 31 March 2020, the Company complied with the UK Corporate Governance Code 2018 (the Code), other than provision 38 (alignment of pensions). Further detail describing our compliance with the Code is set out on the pages that follow.

I should highlight two key elements in particular:

- During the year, the Board initiated a formal review of the Group’s approach to environmental, social and governance (“ESG”) matters and that review is underway. The review has demonstrated that the Company is well positioned in these areas, already assisting with the global fight against climate change, providing a safe and positive environment for our staff, a good contribution to the communities in which we operate, and having effective governance arrangements, but there is opportunity to do more.

More details of our approach to ESG matters, our alignment with the United Nations Sustainable Development Goals, and the ESG review, are provided in the Sustainability report on pages 56 to 69.

- Secondly, the Board has established a Workforce Advisory Panel, in order to further develop relations with our staff, who are key to our success as a Group.

Both of these will continue to evolve going forward and will be a key area of focus for the Board in the coming year.











More generally, the Board of discoverIE will keep its governance structures and related processes and procedures under constant review, monitoring best practice and striving for the highest standards in all we do.

discoverIE is a strong business, with a clear purpose and set of values and we firmly believe that the governance arrangements we have leave us well placed to deliver success over the longer-term for all of our stakeholders.

Malcolm Diamond
24 June 2020



Compliance with the UK Corporate Governance Code 2018

Section	Further information
 <p>Board Leadership and Company Purpose</p> <p>The Board leads from the front in setting the tone for the business and has established a clear purpose, set of values and strategy, taking into account the interests of our various stakeholders. The right resources, structures and processes are in place to ensure that these are implemented throughout the Group.</p>	 Read more on pages 78 to 84
 <p>Division and Responsibilities</p> <p>The respective roles and responsibilities of the Executive and Non-Executive Directors are clear and consistently applied, providing for effective and constructive dialogue and clear accountability.</p>	 Read more on pages 85 to 86
 <p>Composition, Succession and Evaluation</p> <p>The Group has a strong Board with a good balance of skills, knowledge, and experience. The appointment process is rigorous and carefully applied, with annual evaluation keeping the effectiveness of the Board and its Committees under regular review.</p>	 Read more on pages 87 to 88
 <p>Audit, Risk and Internal control</p> <p>The Board has established clear processes and procedures to ensure that risks are carefully identified, monitored and mitigated against and then reported externally in an open and transparent manner. This helps ensure that the Company's financial statements are fair, balanced and understandable. Effective risk management is critical to achieving our strategy.</p>	 Read more on page 89
 <p>Remuneration</p> <p>Remuneration supports the Company's strategy and is appropriate to the nature, size, complexity, and ambitions of the business. The Board aims to report in a clear manner, demonstrating that pay, performance and wider interests are aligned.</p>	 Read more on page 89

CORPORATE GOVERNANCE REPORT



Board Leadership and Company Purpose

Current composition and changes to the Board in the year

Details of the current members of the Board and Group Executive Committee are set out on pages 72 to 74.

At the annual general meeting in July 2019, Richard Brooman and Henrietta Marsh stepped down from the Board. Their contribution to the Board and Company was greatly appreciated and we wish them well for the future.

As part of Board's succession planning, and in light of those changes, Bruce Thompson became Senior Independent Director and Tracey Graham was appointed Chair of the Remuneration Committee, both in March 2019, and Clive Watson joined the Board in September 2019 as an independent Non-Executive Director and Chair of the Audit and Risk Committee. Clive brought with him considerable financial and commercial expertise.



Section 172 Statement

As well as defining the Group's purpose, values, culture, vision and strategic priorities as described opposite, the Board considered its duties to prepare a statement describing how it has regard to the matters set out in section 172(1) of the Companies Act 2006.

➔ Read **our Section 172 statement** on pages 58 to 60

Sustainability

Provision 1 of the Code deals with the Company generating value over the long term in the context of future risks and opportunities. This is addressed in the Sustainability Report and in the Risk Management section.

➔ Read more about **Sustainability** on pages 56 to 69

➔ Read more about **Risk Management** on pages 46 to 47

Good governance

Following the introduction of the new Code in 2018, the Board reviewed the Group's governance frameworks and its purpose, culture and values.

Our Purpose:

To create innovative electronics that help to improve the world and people's lives.

Values and Culture

Values

- To operate with the highest ethical standards and integrity
- To strive for the highest performance standards, not accepting of mediocrity
- To support the protection of the environment through our products and solutions while minimising our direct environmental impact
- To be a responsible employer, with a safe working environment
- To respect, empower, engage and develop our employees in an entrepreneurial environment
- To add value and be a trusted partner to customers, suppliers and shareholders

Culture

- Honest, reliable and trusting
- Decentralised decision-making close to the customer
- Open, constructive communication and willingness to listen
- Non-political, non-bureaucratic
- Performance, target and results driven

Vision:

To be a leading innovator in electronics internationally.

Mission:

To design and supply innovative customised electronics that help our customers create ever better technical solutions around the world. We aim to achieve this through a motivated, entrepreneurial and empowered workforce that adheres to the highest ethical and quality standards.

In doing so we expect to create value for shareholders, while being seen as an attractive and responsible employer and a trusted partner for customers and suppliers.

Strategy:

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.

Strategic Priorities:

This strategy comprises four priorities:

- Grow sales well ahead of GDP over the economic cycle by focusing on structural growth markets
- Continue building revenues in the D&M division where operating margins for our businesses are higher; and optimise performance in the Custom Supply division to improve operating margins and develop cross-selling of D&M division products
- Acquire businesses with attractive growth markets and strong operating margins
- Further internationalise the business by developing sales in North America and Asia

Progress against our objectives is measured through our key strategic indicators (KSIs) and key performance indicators (KPIs), which have recently been refreshed for the forthcoming five-year period. Details are set out on pages 28 and 29.

CORPORATE GOVERNANCE REPORT



Board Leadership and Company Purpose

Our commitment to stakeholder engagement

As detailed on pages 62 to 63 of the Sustainability report, we engage proactively with all our stakeholder groups. In addition to those engagements and the detail set out in those pages, the Board recognises the importance of engaging with Shareholders. We maintain an active dialogue with our principal investors, institutional shareholder advisors and the investment community.

During FY20, we undertook a comprehensive calendar of events, as shown below. By providing regular forums for meeting and communicating with Shareholders, their

advisors and the investment community, we understand the views and opinions of our investors and are kept informed of any concerns that may arise.

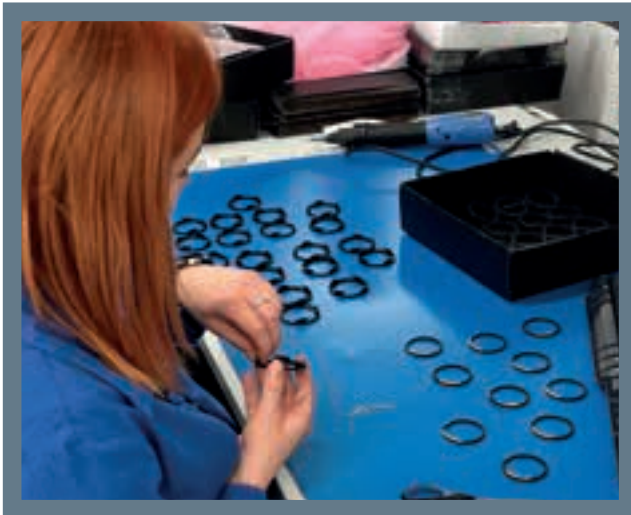
We communicate using a variety of forums, including regulatory news announcements, interviews, investor and analyst calls, one-to-one meetings, roadshows, site tours and capital markets events.

At the annual general meeting in 2019, Shareholders were able to hear from, and put questions to, the Board on a range of matters.

Shareholder Engagement Calendar FY20

April 2019	May 2019	June 2019	July 2019
<ul style="list-style-type: none"> Shareholder placing in connection with acquisitions of Hobart and Positek Investor and analyst calls Engagement with our ten largest Shareholders in relation to FY19 Remuneration report 	<ul style="list-style-type: none"> Announcement of FY19 full-year results Analyst and Shareholder meetings in connection with FY19 full-year results Investor and analyst calls 	<ul style="list-style-type: none"> Publication of full FY19 Annual Reports and Accounts Investor and analyst calls 	<ul style="list-style-type: none"> Trading update Engagement with proxy advisors ahead of annual general meeting Investor and analyst calls Annual general meeting
August 2019	September 2019	October 2019	November 2019
<ul style="list-style-type: none"> Payment of full-year dividend Investor and analyst calls 	<ul style="list-style-type: none"> Investor and analyst calls 	<ul style="list-style-type: none"> Trading update Shareholder placing in connection with acquisition of Sens-Tech Investor and analyst calls 	<ul style="list-style-type: none"> Publication of FY20 interim results Analyst and Shareholder meetings in connection with FY20 interim results Investor and analyst calls
December 2019	January 2020	February 2020	March 2020
<ul style="list-style-type: none"> Analyst and Shareholder meetings in connection with FY20 interim results Investor and analyst calls 	<ul style="list-style-type: none"> Trading update Payment of interim dividend Investor and analyst calls 	<ul style="list-style-type: none"> Investor and analyst calls 	<ul style="list-style-type: none"> Trading update Investor and analyst calls

Information on the Company's share capital, the rights and obligations attaching to the Company's shares, restrictions on the transfer of securities in the Company, the Company's authority to purchase its own shares and the list of those Shareholders with substantial shareholdings in the capital of the Company, are given in the Directors Report on page 99.



Employee Engagement

There are a range of employee engagement initiatives in place across the Group and these include the following:

- Works Councils and staff representative meetings
- Town hall meetings
- Quarterly performance updates
- Staff surveys
- Social and team-building events
- Health and wellbeing reviews

Since 2009, as part of its annual calendar, the Board visits the Group's operating sites, meeting management and employees directly.

In 2017, the Board visited Flux (Copenhagen), in 2018 the Board visited Myrra and Noratel (in Hong Kong and China respectively) and, in 2019, the Board visited Cursor Controls (Newark, UK). Prior to the emergence of COVID-19, plans had been made for the Board to visit Santon in The Netherlands, in September 2020.

The Board aims to visit as much of the Group as possible, visiting facilities in a variety of locations internationally.

The Board gains a deeper understanding of the business, local complexities, working conditions, the level of skills and expertise in each facility, the concerns and aspirations of staff, and any issues that the leadership or staff may wish to discuss with the Board. The page overleaf shows photographs of the Board's visit to Cursor Controls in October 2019.

In light of the additional employee engagement mechanisms suggested by the Code, a Workforce Advisory Panel was established during the year.

The purpose of this Panel is to ensure that the "employee voice" is heard, that the Board is aware of any issues or concerns that staff may have and to ensure that their views are taken into account and influence the Board's decision-making, where appropriate. A number of operational changes have already been implemented as a result of the interaction.

It is important to the Board that the right balance is struck between achieving a consistency of approach across the businesses and retaining local identity and entrepreneurialism in a decentralised international business.

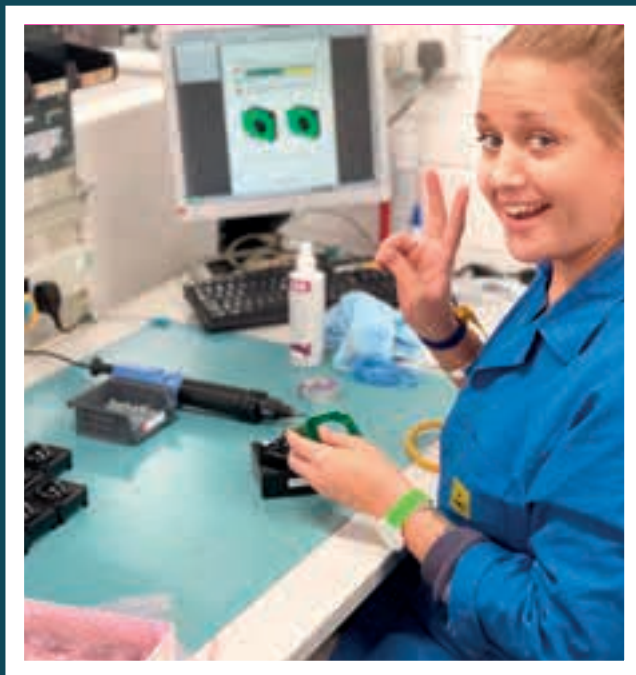
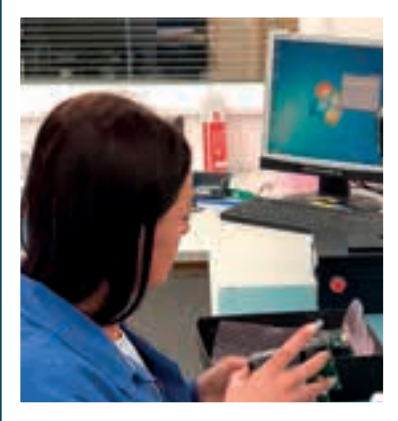
Board visits

<p>September 2017 Copenhagen, Denmark – Flux</p>	<p>September 2018 Foshan, China – Noratel Zhongshan, China – Myrra Hong Kong – Myrra</p>	<p>October 2019 Newark, UK – Cursor Controls</p>
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BOARD IN ACTION

Cursor controls visit



CORPORATE GOVERNANCE REPORT

Board activities

Topic	Key activities and discussions in 2019/20	Key priorities in 2020/21
Strategy	<ul style="list-style-type: none"> Reviewed and approved the acquisitions of Hobart Electronics, Positek and Sens-Tech Reviewed key strategic indicators ("KSIs") and key performance indicators ("KPIs") Consideration of KSIs and KPIs for the next five-year period Considered the Group's initial responses to COVID-19 	<ul style="list-style-type: none"> Continued consideration of the Group's response to COVID-19 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 out robust assessment of principal risks (see pages 50 to 55) Strengthened Group Internal Audit and risk management function 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 Review results of cyber risk review and implement appropriate procedures Roll-out of thematic internal audits Implementation of risk workshops across the business
Governance	<ul style="list-style-type: none"> Completed work to ensure compliance with the UK Corporate Governance Code 2018 Ran tender process for and appointed new remuneration consultants Continued focus on the composition, balance and effectiveness of the Board Signed off and published the Group's modern slavery statement Engaged with institutional Shareholders, investors and other stakeholders throughout the year Implemented the remuneration policy, approved by Shareholders at the 2018 annual general meeting Reviewed and approved the FY2018/19 Annual Report and Accounts 	<ul style="list-style-type: none"> Review level of institutional holding and consider actions to broaden the Group's Shareholder base further Continue work to ensure ongoing compliance with the revised 2018 Code Build further understanding and plan actions in relation to new regulations over the period Review of Remuneration Policy ahead of 2021 annual general meeting
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 Received presentations by senior management, including on M&A strategy Review of Group's resources and ability to respond in light of COVID-19 	<ul style="list-style-type: none"> Ensure the Group has appropriate resources to address COVID-19 impact Continue to monitor health and safety performance across the Group Improve thematic reporting of health and safety issues (if any) 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 continued professional development

CORPORATE GOVERNANCE REPORT



Board Leadership and Company Purpose

Time Allocation, Board and Committee Meetings and Attendance

The Board held eight scheduled meetings during the year. 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 to discharge their responsibilities effectively.

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

Director	Committees				Overall Attendance %
	Board	Audit and Risk	Remuneration	Nomination	
Richard Brooman ¹	3/3	1/1	–	–	100%
Malcolm Diamond	8/8	–	3/3	3/3	100%
Simon Gibbins	8/8	–	–	–	100%
Tracey Graham	8/8	3/3	3/3	2/2	100%
Nick Jefferies	7/8	–	–	3/3	91%
Henrietta Marsh ²	0/3	–	–	–	0%
Bruce Thompson	8/8	3/3	3/3	3/3	100%
Clive Watson ³	5/5	2/2	1/1	–	100%

1. Richard Brooman retired from the Board on 25 July 2019
2. Henrietta Marsh retired from the Audit and Risk Committee and Remuneration Committee in March 2019 and retired from the Board on 25 July 2019
3. Clive Watson was appointed to the Board and appointed Chair of the Audit and Risk Committee on 2 September 2019 and was appointed to the Remuneration Committee in March 2020



Division and Responsibilities

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 (who retired at the annual general meeting in July 2019), Tracey Graham, Henrietta Marsh (who retired at the annual general meeting in July 2019), Bruce Thompson and Clive Watson (appointed September 2019) as Non-Executive Directors, with 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. 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 on an ongoing basis. Constructive challenge is viewed by the Board as an essential aspect of good governance.

There is a clear division of responsibilities, which has been agreed by the Board, and a summary of their respective roles is described opposite.



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 on 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 KSIs and KPIs.
- 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.
- 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.

CORPORATE GOVERNANCE REPORT

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.

➔ Further information on the **Nomination Committee** is on pages 96 to 97

Audit and Risk Committee

Chaired by Clive Watson

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.

➔ Further information on the **Audit and Risk Committee** is on pages 90 to 94

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 **Remuneration Committee** is on pages 102 to 121

Group Executive Committee

The Group Executive Committee comprises: Nick Jefferies, Group Chief Executive, who is the Chairman of the Committee, together with Simon Gibbins, Group Finance Director, Greg Davidson, Group General Counsel and Company Secretary, Jeremy Morcom, Group Head of Corporate Development, Paul Neville, Group Commercial Director, Martin Pangels, Group Development Director and Paul Webster, Group Director for Acal BFi and Cross-selling. For their biographies see page 74. During the year to 31 March 2020, there were seven meetings of the Committee. Other senior managers attend the Committee meetings, by invitation, for specific topics.

The Committee is responsible for the Group's development and day-to-day operations, for delivering results, and for driving growth, ensuring this is done in a sustainable and ethical manner.



Composition, succession and evaluation

Current composition and changes to the Board in the year

The biographies of the current members of the Board and Group Executive Committee are set out on pages 72 to 74.

As noted on page 85, during the year, Richard Brooman and Henrietta Marsh stepped down from the Board (at the annual general meeting in July 2019) and Clive Watson joined the Board in September 2019. However, the Board, and the Nominations Committee in particular, keeps the composition of the Board under regular review.

Work of the Nomination Committee

The Nomination Committee Report, which can be found on pages 96 to 97 describes the work of the Nomination Committee in ensuring that the Board continues to have the right mix of skills, knowledge and experience, as well as having an effective process for succession planning.

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. The Board recognises the recommended term for Non-Executive Directors as set out in the Code and is mindful of the need for suitable succession.

Bruce Thompson is the Senior Independent Director and is available to Shareholders should they have concerns that cannot be resolved through other channels.

Induction

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.

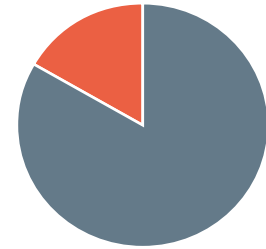
Board composition Gender diversity

● Female

17%

● Male

83%



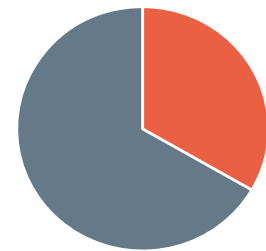
Independence

● Executive

33%

● Non-executive

67%



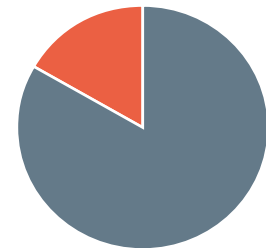
Board tenure

● <1 year

17%

● >1 year

83%



CORPORATE GOVERNANCE REPORT



Composition, succession and evaluation

Evaluation

In accordance with the Code, the Board and each of its Committees undertakes an evaluation each financial year. Such evaluations were completed during the year ended 31 March 2020 and the process and findings are summarised below.

Step 1

Each Director considers his or her individual performance, the performance of the Chairman and the overall performance of the Board and each of its Committees by using questionnaires.

The completed questionnaires are submitted to the Group 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 2020 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.

Re-election

In accordance with the Code, all Directors stand for re-election annually at each annual general meeting.

Summary of the 2020 Board evaluation

Board composition

The composition of the Board was positively rated.

Board's expertise

The Board's understanding of the views and requirements of major investors and other stakeholders was rated positively.

The importance of environmental, social and governance ("ESG") matters was noted as an area where additional insight and knowledge would aid the Board as a whole. The Board has engaged external advisors to provide guidance and assistance in these critical areas.

Board dynamics

The interaction among and between Board members was rated highly, with there being a positive atmosphere and strong relationships, set in the context of proper and constructive challenge.

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. It was noted that additional work had taken place during the year to further strengthen the Group's identification and management of existing, new and emerging risks and further details are set out in the Risk management section of this Annual Report and Accounts on pages 46 to 47.



Audit, risk and internal control

The Strategic Report notes that delivering the Group's strategic priorities requires careful consideration to be given by the Board to the nature and level of risks that the Group should accept.

The Board's approach to risk generally, including the identification, management and mitigation of risks (including internal controls), is described in further detail in the following sections of this Annual Report and Accounts:

- Our approach to risk management is described on pages 46 to 47.
- The Group's Principal and Risks and Uncertainties are set out on pages 50 to 55.
- Finally, the Audit and Risk Committee Report on pages 90 to 94 provides further details as to how the Committee provides oversight, and supports the Board, in relation to matters relating to audit, risk and internal controls generally.



Remuneration

The Board's approach to remuneration is set out in the Remuneration report (see pages 102 to 121). In its approach to remuneration, during the year ended 30 March 2020, the Company complied fully with the Code, with the exception of provision 38 of the Code (alignment of pensions). The Remuneration Committee has decided that, from 1 April 2020, any new or promoted Executive Directors will have an employer pension contribution rate of 6.5% of salary, which is in line with the majority of the UK workforce.

Approval

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

Greg Davidson

Group General Counsel & Company Secretary
24 June 2020

AUDIT AND RISK COMMITTEE REPORT



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

Clive Watson

Chairman of the Audit Committee

Member	Member Since
Clive Watson ¹	2019
Richard Brooman ²	2013
Tracey Graham	2017
Bruce Thompson	2019

1. Appointed 2 September 2019

2. Retired 25 July 2019

The Group Company Secretary acts as Secretary to the Committee.

➔ Details of **individual Directors’ attendance** can be found on page 84.

Dear Shareholder,

I am pleased to report on the activities of the Audit and Risk Committee (“the Committee”) during the year under review. I joined the Board as a Non-Executive Director of discoverIE Group plc in September 2019 and upon joining became Chair of the Audit and Risk Committee, succeeding Richard Brooman who retired at the annual general meeting in July 2019.

Meetings

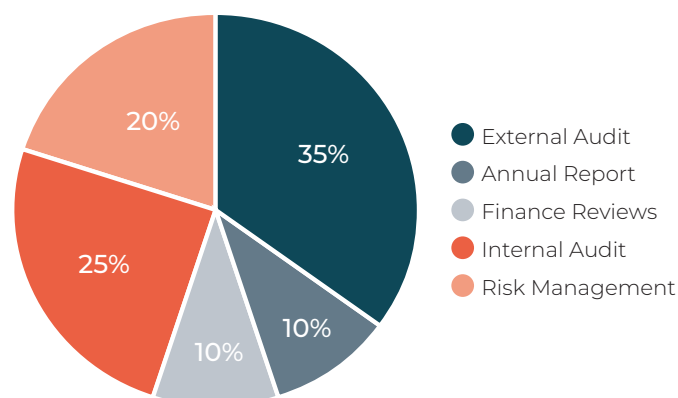
During the year, the Committee met three times and also met privately with the external auditor. The Committee comprised the people shown in the table on the left, all of whom were Non-Executive Directors.

In addition to the Committee members, the Group Chief Executive, the Group Finance Director, representatives from the external auditor, the Group Risk and Internal Audit 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 and Internal Audit 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 risk 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 concerning risk management, fraud prevention and detection, and cyber security. As Chair of the Committee, I report to the Board on any significant matters arising from the activities of the Committee.

The Board is satisfied that the members of the Committee have both recent and relevant experience (as set out on pages 72 and 73) 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.

How the Committee spent its time





Committee activities during FY20

May 2019

- Reviewed results of the external audit of the FY19 accounts
- Reviewed the going concern and viability statement
- Reviewed the Annual Report and Accounts
- Agreed a risk management and internal audit programme for FY20
- Reviewed and approved the internal audit charter
- Received an update on internal controls implemented in Noratel Power Engineering following the previous fraud

November 2019

- Reviewed half year results and judgemental accounting areas, in particular the impact of the adoption of IFRS16: Leases
- Reviewed regulatory update
- Reviewed the Group Risk Register

January 2020

- Reviewed external audit planning report for FY20 accounts (including review and approval of audit scope and fees)
- Agreed a risk management and internal audit programme for FY21

Standing items

- Update on internal audits conducted and progress with management's implementation of actions
- Update on alignment of newly acquired businesses to group policies and procedures
- Update on risk management projects, including external cyber risk assessment across the Group

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 annual general meeting and make myself available for any Shareholder questions within the Committee's remit.

The Committee oversees and reviews the management of risk, financial results, and the Group 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 Group Internal Audit
- 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>Specifically, this included a review of the restructuring of RSG during the year, to assess any potential impact on the carrying value of goodwill.</p>
Accounting for acquisitions	A review of the initial accounting for the acquisitions of Hobart Electronics, Positek and Sens-Tech during the year, including the appropriateness of the assumptions used in assessing the fair value of assets and liabilities acquired.
Valuation of the legacy defined benefit pension scheme	A review of the appropriateness of the assumptions used in the valuation of the legacy defined benefit pension scheme under IAS 19 – Employee Benefits.
The recognition and valuation of judgemental provisions	A determination of the appropriateness of the assumptions used in the recognition and valuation of judgemental provisions which relate mainly to onerous contracts, inventory, severance indemnities, acquisition earn-out arrangements, long-term bonus plans, restructuring and integration.
Presentation of underlying profit adjustments	A review of the appropriateness of items disclosed as exceptional items and acquisition-related costs (including asset amortisation of acquired intangibles and acquisition expenses) in the Supplementary income statement information and notes to the Group financial statements, in line with the Group's stated policy.
Impact of IFRS 16	A review of the impact of IFRS 16 on the financial statements and the application of relevant policies following the adoption of the standard.

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 and risk management. This includes determining the nature and extent of the risks that 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 strategy and framework, and internal controls systems.

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 undertook 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 Group Internal Audit function and the external auditor
- Review of the annual Audit and Risk Committee agenda.

Review of Internal Controls

The Group's finance department includes a separate Group Internal Audit function. This is led by the Group Risk and Internal Audit Manager who is part of the Group management team and reports both to the Group Finance Director and, independently, to me, as Chair of the Audit and Risk Committee. The scale of internal audit work was increased during the year following the recruitment of an Internal Auditor in the third quarter, reporting to the Group Risk and Internal Audit Manager.

Internal Audit

The Group Internal Audit function's primary purpose is to provide risk-based and independent assurance, advice and insight to help improve all aspects of the organisation's governance and system of internal control, including management of risk. The remit of the internal audit function covers discoverIE Group plc and all of its subsidiaries. The function consists of two full time staff, supported by outsourced providers as deemed necessary. The size of the internal team was determined by a benchmarking exercise conducted in 2018.

The Audit and Risk Committee has overall responsibility for reviewing the effectiveness of the Group's internal control framework and the Group Internal Audit function. As part of this, we ensure that the Group Internal Audit function has unrestricted scope, the necessary resources, and appropriate access to information, to enable it to perform its function effectively. The Committee also reviews regular updates on internal audit work carried out and the actions taken by management to implement the recommendations of internal audit reviews.

A programme of internal audit activities has been completed during the year. The scope of work carried out by the Group Internal Audit function generally focuses on the internal financial and operational controls 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.

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
- a requirement for each operating company to maintain a system of internal controls appropriate to its own local business environment.

AUDIT AND RISK COMMITTEE REPORT

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.

External audit

The Committee is responsible for managing the relationship with the Group's external auditor on behalf of the Board including their appointment, remuneration, independence and performance.

During the year the Committee's activities in respect of external audit were as follows:

- considering the re-appointment of the external auditor
- considering and approving the audit approach and scope of the audit undertaken by PwC and the related fees
- agreeing reporting materiality thresholds
- reviewing reports on audit findings
- considering and approving letters of representation issued to the auditor
- considering the independence of the auditor
- considering the effectiveness of the auditor taking into account non-audit work undertaken and the Committee's own assessment, including feedback from management.

The Committee believes that the provision 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 it also acts as the Company's consultant and adviser 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 Company last undertook a tender for external audit services during 2017 which led to the appointment of PwC. The Committee recommended to the Board that it proposes to shareholders that PwC be re-appointed as the Group's external auditor at the forthcoming annual general meeting.

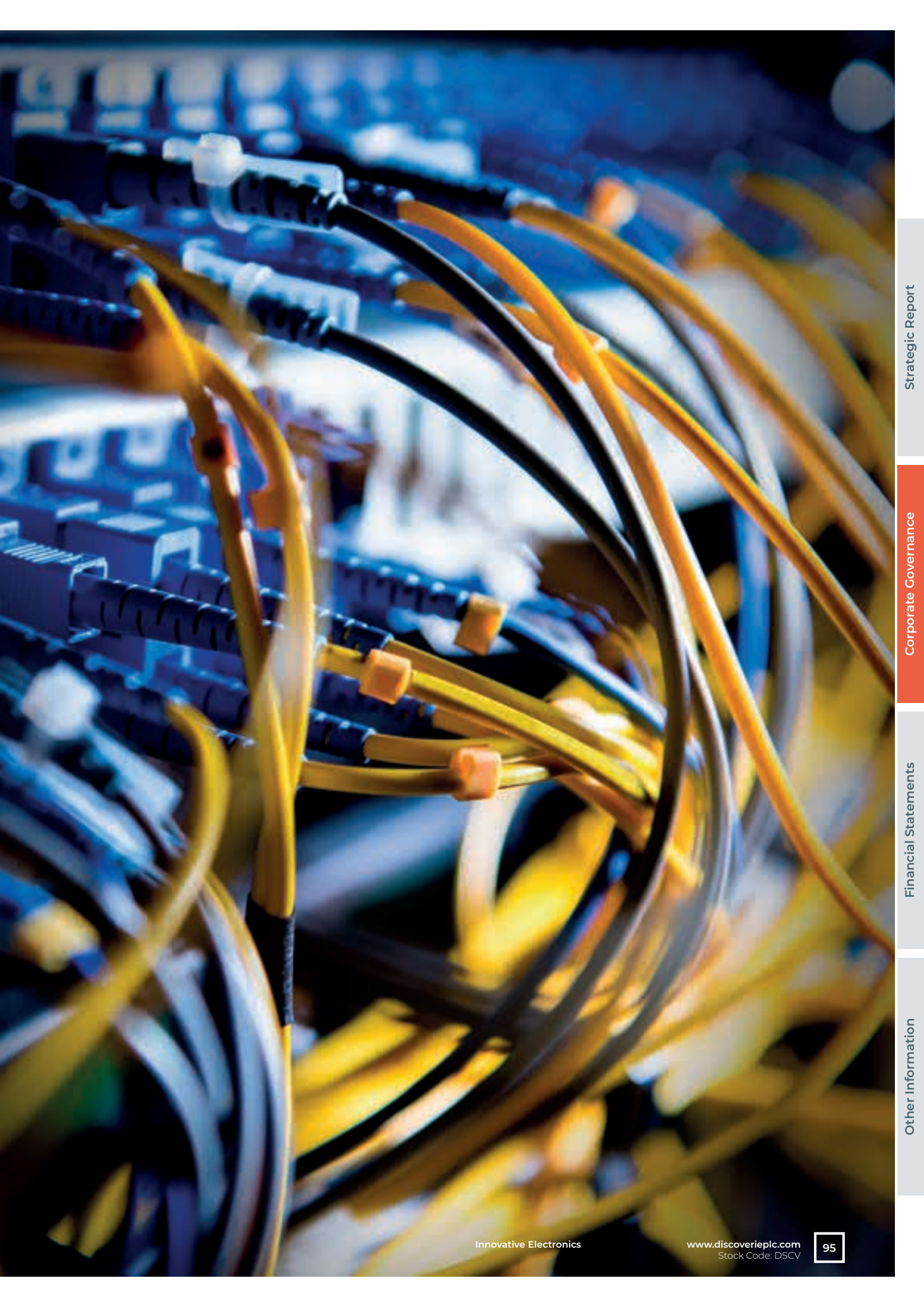
Key areas of focus in 2020/21

- Continue to assess the potential impact of, and the Group's response to, Covid-19 and Brexit
- Assess the results of the external cyber risk review and consider the implementation and monitoring of any relevant actions
- Build internal audit capability and delivery
- Review the accounting for any new acquisitions

Terms of reference

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

Clive Watson
Chairman of the Audit Committee
24 June 2020



NOMINATION COMMITTEE REPORT



“The Nomination Committee helps to ensure that the Board maintains the knowledge and skills needed to deliver the Group’s growth ambitions.”

Malcom Diamond MBE
Chairman of the Nomination Committee

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

The Group Company Secretary acts as Secretary to the Committee.

➔ Details of **individual Directors’ attendance** can be found on page 84

2019/20 key achievements

- Recruitment and induction of Clive Watson as Non-Executive Director and Chair of the Audit and Risk Committee
- Updated succession plans for the Board and the senior management team
- Recommended to the Board the re-appointments of Malcolm Diamond, Tracey Graham and Bruce Thompson, which were duly approved

Key areas of focus in 2020/21

- Continued consideration of the composition of the Board
- Continued evaluation of knowledge and skills

Dear Shareholder,

During the year, the Committee met twice, with all Committee members attending. The Committee made 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 independence, performance and ability to continue to contribute to the Board of the relevant people, 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 Tracey Graham, Bruce Thompson and Nick Jefferies as Committee members.

Key responsibilities

The Committee’s key duties are:

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board and to recommend changes where appropriate.
- 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.
- 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, or when other changes or appointments may be desirable. In managing this process, the Committee takes into account the Board's existing balance of skills, knowledge and experience and has due regard for diversity. A job specification is prepared and agreed by the Committee. Unless the appointment is as an Executive Director, for which a suitable candidate is available from within the Group, the Committee will consult appropriate executive search or other organisations with databases of candidates before a short-list of suitable candidates is produced for agreement by the Committee. 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.

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 Nomination Committee reviewed succession planning for the Board and the wider Group. 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.
- The impact of acquisitions on the organisational structure.

During the year, the Nomination Committee completed the recruitment of an additional Director to the Board, Clive Watson, who joined the Board in September 2019 as a Non-Executive Director and Chair of the Audit and Risk Committee. A Chartered Accountant, Clive Watson had 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. Clive was a good addition to the Board, which benefits from his extensive business experience.

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
24 June 2020

DIRECTORS' REPORT

The Directors' report for the financial year ended 31 March 2020 is set out below. 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, the Viability statement and Sustainability sections, on pages 30 to 69, as the Board considers them to be of strategic importance. Specifically, these are:

Disclosure	Location
Future business developments	Throughout the Strategic report (pages 04 to 69)
Risk management	Risk management and principal risks and uncertainties (pages 46 to 55)
Employee involvement	Sustainability report (pages 59 and 62)
Greenhouse gas emissions	Sustainability report (pages 68 to 69)
Section 172 statement	Sustainability report (pages 58 to 60)

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 27 to the Group financial statements on pages 173 to 174.

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 Sustainability Report on pages 56 to 69.

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 2020 and are shown on pages 138 to 187. The key strategic and performance indicators of the business are set out in the Strategic report on pages 28 to 29.

Considering current circumstances, the Board has decided not to propose a final dividend. However, recognising the importance of dividends to shareholders, the Board will look to re-introduce distributions once there is greater clarity of trading conditions.

An interim dividend of 2.97 pence per share was paid in January 2020 (H1 2018/19: 2.8 pence per share), an increase of 6%. Over the last ten years, the dividend has increased by 7% CAGR.

The Board believes that, as an acquisitive growth company, maintaining a progressive dividend policy with a long term dividend cover of over 3 times underlying earnings is appropriate to enable both dividend growth and a higher level of investment from internally generated resources.

Directors

The membership of the Board and biographical details of the Directors are given on pages 72 and 73 and are incorporated into this report by reference.

Copies of Executive Directors' service contracts are available to Shareholders for inspection at the Company's registered office and at the Annual General Meeting. 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 102 to 121.

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. All Directors offer themselves for re-election at each next annual general meeting.

Directors' conflicts of interest

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

Directors' indemnity

The Articles of the Company contain an indemnity in favour of the Directors, which is a Qualifying Third Party Indemnity within the meaning of s.234 of the Companies Act 2006 and is in force at the time of the approval of this Annual Report and Accounts. 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 2020, the Company's issued share capital consisted of 88,705,915 ordinary shares of 5p each (no shares are held in treasury).

On 15 April 2020, 750,000 new ordinary shares were issued to the Company's Employee Benefit Trust to satisfy, inter alia, exercises of awards under option. Following admission of these shares, the Company's issued share capital consisted of 89,455,915 ordinary shares of 5p each.

Details of movements in the Company's issued share capital can be found on page 175 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 such as the Market Abuse Regulation); 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.

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 2020, the Company had been notified of, or was aware of, the following major shareholdings equal to, or greater than, 3% of the issued share capital of the Company:

Aberdeen Standard Investments (Standard Life)	7,311,736	8.24%
Canaccord Genuity Wealth Mgt	5,902,100	6.65%
Franklin Templeton Investments	4,750,000	5.35%
BlackRock Investment Mgt	4,629,153	5.22%
Charles Stanley	4,622,497	5.21%
Montanaro Asset Mgt	4,450,000	5.02%
Legal & General Investment Mgt	4,107,926	4.63%
Unicorn Asset Mgt	3,148,176	3.55%
Tellworth Investments	2,788,973	3.14%

As at 22 June 2020, the Company had been notified of, or was aware of, the following changes to those major shareholdings:

Aberdeen Standard Investments (Standard Life)	7,311,736	8.17%
Franklin Templeton Investments	4,750,000	5.31%
BlackRock Investment Mgt	4,629,153	5.17%
Charles Stanley	4,622,497	5.17%
Montanaro Asset Mgt	4,450,000	4.97%
Kempen Capital Management NV	4,435,739	4.96%
Canaccord Genuity Wealth Mgt	4,336,208	4.85%
Legal & General Investment Mgt	4,107,926	4.59%
Unicorn Asset Mgt	3,148,176	3.52%
Tellworth Investments	2,788,973	3.12%

Authority to purchase own shares

At the annual general meeting held on 25 July 2019, Shareholders authorised the Company to purchase in the market up to 10% of its issued share capital (8,066,071 ordinary shares) and, as at 31 March 2020, all of this authority remained in force and unused. This authority is renewable annually, and a special resolution will be proposed at the 2020 annual general meeting 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.

DIRECTORS' REPORT

Change of control

Details of the Group's borrowing facilities are provided in the Finance review section of the Strategic report on page 44. 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 (2018/19: 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 annual general meeting.

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 annual general meeting to be held at 11.00 am on Wednesday 19 August 2020 will be sent to Shareholders separately from this report. The venue for the meeting is 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford, Surrey, GU2 7AH. Details of the arrangements for that meeting, especially in light of Covid-19, will be as set out in the Notice for that meeting.

Going concern

For the reasons explained in the Viability Statement on page 48, the Directors continue to adopt the going concern basis in preparing this Annual Report and Accounts.

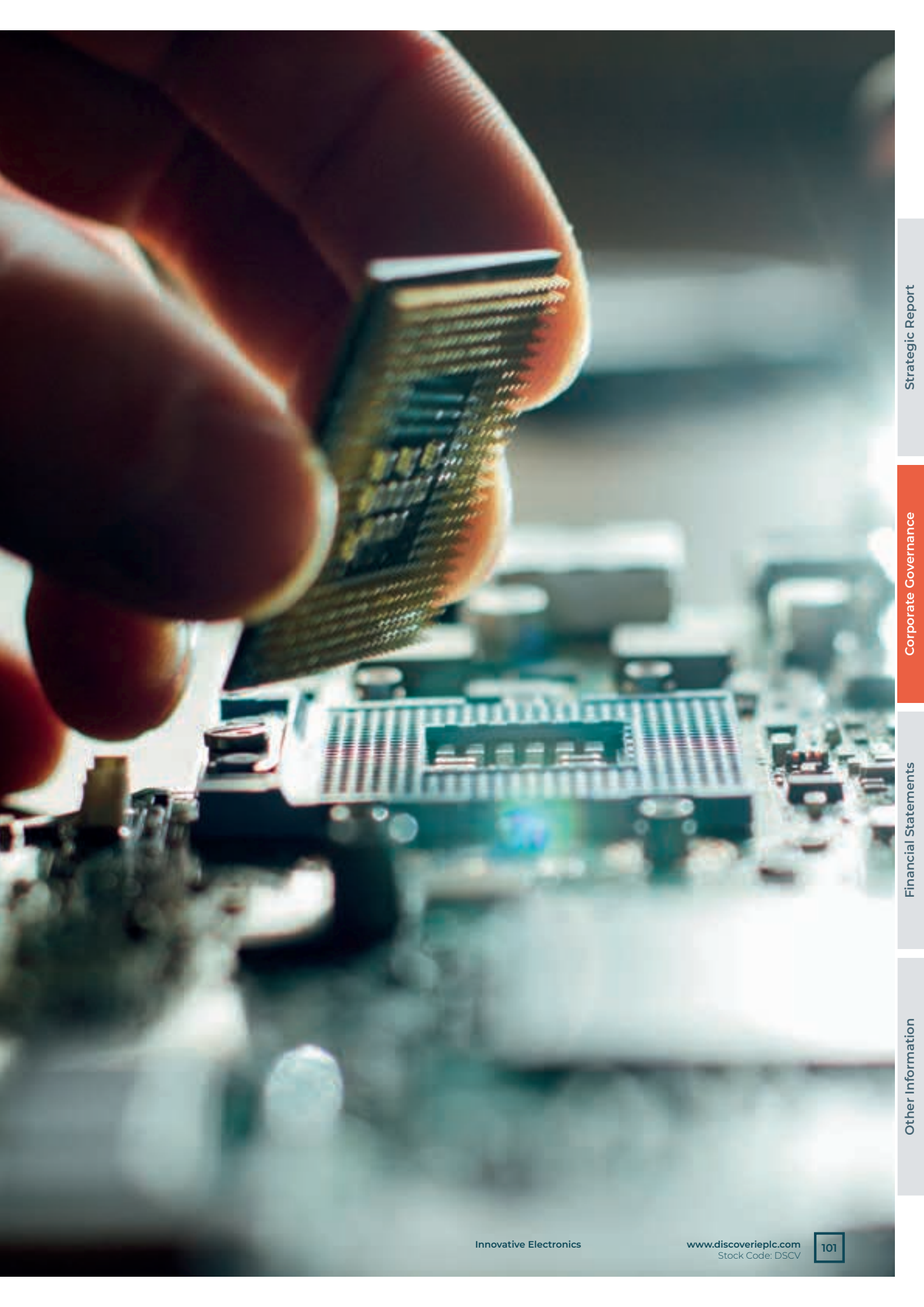
By order of the Board

Greg Davidson

Group General Counsel & Company Secretary
24 June 2020

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

Registered number: 02008246



DIRECTORS' REMUNERATION REPORT



“It has been another strong year for the Company and this is reflected in the Group’s results.”

Tracey Graham
Chair of the Remuneration Committee

Member	Since
Tracey Graham (Chair)	2016
Malcolm Diamond	2017
Bruce Thompson	2018
Clive Watson	2020

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.

➔ Details of **individual Directors’ attendance** can be found on page 84.

2019/20 key considerations

- Undertaking a competitive tender exercise to appoint independent advisors to the Remuneration Committee, and the appointment of FIT Remuneration Consultants
- Consideration of the impact of COVID-19 on remuneration outcomes for 2019/20 and our approach to setting pay in 2020/21
- Setting of appropriate incentive measures and targets for Executive Directors and senior management
- Updating the terms of reference of the Committee to ensure compliance with the 2018 UK Corporate Governance Code (the “Code”)
- A review of other remuneration-related items within the Code and the latest views from investors and proxy voting agencies

Key areas of focus in 2020/21

- Undertake a comprehensive review of the remuneration policy for Shareholder approval at the 2021 annual general meeting
- Consult with leading Shareholders and proxy voting agencies on any material changes to directors’ remuneration
- Review the competitiveness of remuneration for Executive Directors and senior management and its alignment with strategy
- Set incentive targets and determine incentive outcomes for Executive Directors and senior management

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 2020, my first full year since becoming Chair of the Remuneration Committee.

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. All decisions made were within the policy framework. Following strong



momentum through the year, during the fourth quarter the Group experienced some isolated disruption to the business as a result of the outbreak of COVID-19. The impact of performance during the year on the incentive outcomes for 2019/20 is set out below. I also set out our approach to Executive Directors' remuneration in 2021, the final year of our existing remuneration policy.

While the Company's financial position is strong, as part of the cash preservation initiatives being undertaken, the Board and Group Executive Committee have voluntarily reduced their fees and base salaries respectively, by 20%, for a period of three months commencing from 1 June 2020.

Business performance and resulting remuneration outcomes for the year ending 31 March 2020

It has been another good year for the Company. discoverIE has continued to deliver strong results, with the Group delivering 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 04 to 69. Some of the highlights are summarised below:

- Strong growth in sales, orders, profits and earnings
- Excellent cash generation
- Continued organic growth
- Further good progress on key performance indicators and key strategic indicators, with new increased targets now set
- Three higher margin D&M acquisitions and a strong pipeline of further opportunities
- Successful equity placings on 16 April 2019 and 17 October 2019, raising c.£28m and c. £32m respectively
- Record year-end order book of £159m (+13% CER)

Based on performance for the year, bonus payments of 62% of maximum were earned by both the Group Chief Executive and Group Finance Director. While the Remuneration Committee believes these outcomes are a fair reflection of the financial and operational performance of the Company during 2019/20, it does not feel it would be appropriate to pay these earned bonuses at the normal time, in light of the Board's decision to not declare a final dividend. Instead, the Committee has decided to apply discretion and defer payment of the bonus until October 2020. In line with the remuneration policy, 20% of the bonus for the CEO will be delivered in deferred share awards.

The Committee noted that 2,270,315 shares and vested options are held by the Group Chief Executive and Group Finance Director, and these equity holdings would have accrued dividends of c. £98,000 and c. £32,000 respectively, had a final dividend been paid. The Executive Directors' significant shareholdings built up over time provides strong alignment with our shareholders.

It has been particularly pleasing to see continued recognition of the long-term strategic progress being made by the Company. This is demonstrated by the relative and absolute TSR performance of the Company over the last three financial years:

- Ranking in the top 2% of the TSR peer group
- Absolute TSR growth of 122.6% over three years

This performance has resulted in full vesting of the LTIP awards granted in March 2017. The Remuneration Committee believes this vesting outcome is warranted and reflective of the strong performance of the Company and, therefore, no discretion has been applied to adjust the formulaic outcomes. These shares will be subject to a two-year holding period before they become exercisable. The holding period ensures that the Executive Directors are not immune to the share price performance of the Company, particularly in the context of COVID-19.

DIRECTORS' REMUNERATION REPORT

Other key activities in the year ending 31 March 2020

During the year under review, the Committee held three 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 2019 to determine the bonuses payable and reviewed performance against the 2016 LTIP targets to determine vesting
- Reviewed the Executive Directors' expected performance against the financial and non-financial objectives in the annual bonus scheme for the year ended 31 March 2020 and the 2017 LTIP Awards
- Determined salary increases for Executive Directors as well as other Group Executive members for the forthcoming year
- Reviewed and approved the annual bonus structure for Executive Directors and senior management for the year ending 31 March 2021
- Implemented a deferred bonus scheme, in line with the Company' remuneration policy
- Updated the terms of reference of the Committee to reflect new Code requirements
- Undertook a competitive tender exercise for new independent remuneration consultants, with three companies selected to formally present to the Committee, with FIT Remuneration Consultants subsequently being appointed

Application of policy in 2021

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 trading performance of discoverIE, prior to the pandemic, the limited impact of COVID-19 on the year ending 31 March 2020 and our response to mitigate any further impact
- Current and emerging market practice
- Best practice expectations of institutional investors and proxy voting agencies

With COVID-19 related challenges likely to continue for much of the financial year, the Committee has determined that no salary increases will be awarded to Executive Directors in FY2021 or the senior leadership team. The bonus measures will remain unchanged for 2021. As managing cash resources and establishing tighter working capital controls will be particularly important in 2021, the bonus measures have been reweighted to reflect this. 80% of the FY2021 bonus will continue to be based on financial objectives with 56% on EBIT and 24% on Simplified Working Capital. The Committee has also taken the opportunity, in line with guidance in this area, to apply a 50% payout under each financial measure for achieving target performance.

LTIP award levels will be 135% of salary for the Group Chief Executive and 100% of salary for the Group Finance Director and the measures will remain unchanged. Further details of the approach for 2021 can be found on page 121 in the Annual Report on Remuneration.

During the next year, the Committee will conduct a thorough review of the remuneration policy to ensure it continues to provide alignment with the Company's stakeholders and ensures it is in line with good practice developments.

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 annual general meeting (resolution 2). We hope that you will support this resolution.

Tracey Graham

Chair of the Remuneration Committee
24 June 2020

REMUNERATION AT A GLANCE

Audited information

Executive Directors

In this section, we show the link between corporate performance for the year under review and the remuneration outcomes for the Executive Directors. The key features of the Executive Directors' remuneration for the year ended 31 March 2020 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

Nick Jefferies
FY20



- Total fixed pay 26%
- Bonus 17%
- LTIP 57%

Simon Gibbins
FY20



- Total fixed pay 32%
- Bonus 18%
- LTIP 50%

FY19



- Total fixed pay 29%
- Bonus 22%
- LTIP 49%

FY19



- Total fixed pay 35%
- Bonus 21%
- LTIP 44%

Corporate performance for the year

Revenue
+8% CER



Underlying Operating Profit
+23% CER



Underlying EPS
+11%



DIRECTORS' REMUNERATION REPORT

Remuneration outcomes for the Executive Directors for the year ended 31 March 2020

	Nick Jefferies £000		Simon Gibbins £000	
Salary FY20	467		310	
Bonus (£k and as % of salary)	362	77.5%	193	62.3%
Taxable benefits	11		11	
Pension benefits/allowance	62		18	
Value of LTIP vesting	1,192		525	
Single figure of total remuneration	2,093		1,057	

The annual bonus for the year ending 31 March 2020 was based on the achievement against financial and non-financial measures. The bonus outcomes for the year were 77.5% of salary for the Group Chief Executive and 62.3% for the Group Finance Director. The above values reflect the value of the bonus earned. In accordance with the Remuneration Policy, 20% of Nick Jefferies' bonus will be in the form of deferred shares. However, as noted above, the Remuneration Committee has decided that bonuses will not be released until later in the financial year.

LTIP awards were granted to both Executive Directors on 31 March 2017. These awards were based on absolute and relative TSR conditions measured for the three-year period ending 31 March 2020. The Company's TSR performance, being in the top 2% of the TSR peer group, and with an Absolute TSR growth of 122.6%, each over that three-year period, has resulted in full vesting of the award. The values of these awards at the time of vesting are shown in the above table. Awards are subject to a two-year holding period.

Application of the remuneration policy for the year ending 31 March 2021

The table below sets out a summary of how the remuneration policy will apply during 2020/21.

Possible remuneration outcomes for the Executive Directors for the year ended 31 March 2021 are shown on page 113.

Remuneration element	Remuneration for year ending 31 March 2021
Base salary	<p>The Executive Directors have agreed that there should be no salary review undertaken and that salaries should remain unchanged for the 2021 financial year. Therefore, salaries for 2021 are:</p> <ul style="list-style-type: none"> £466,754 for the Group Chief Executive. £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). From 1 April 2020, any new or promoted Executive Directors will have a pension contribution of 6.5% of salary, which is in line with the majority of the UK workforce.
Annual bonus	<ul style="list-style-type: none"> The maximum bonus opportunity will be 125% of salary for Group Chief Executive and 100% of salary for Group Finance Director. Target bonus opportunity for 2021 is 50% of maximum (rather than the 60% specified in the Directors' Remuneration Policy). Performance metrics are based 80% on financial measures and the remaining 20% will be based on strategic objectives. These include non-financial objectives relating to environmental, social and governance ("ESG") matters. 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.

Remuneration element	Remuneration for year ending 31 March 2021
LTIP	<ul style="list-style-type: none"> LTIP awards for FY21 will be made in line with policy, with grant sizes of 135% of salary for the Group Chief Executive and 100% of salary for the Group Finance Director¹ Performance metrics and targets will be based one-third on underlying EPS Growth, one-third on Relative TSR and one-third on Absolute TSR.
Shareholding guidelines	<ul style="list-style-type: none"> A shareholding guideline of 200% of salary applies for the Group Chief Executive and Group Finance Director, to be achieved within five years and 250% after seven years

- 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 2021, where relevant. The original policy as approved by shareholders is available on the Company website. 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, 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
- 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>For any new Executive Directors appointed to the Board, pension contribution will be 6.5% of salary, in line with the majority of the UK workforce.</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. For FY2021, payout for on-target performance will be 50% of the maximum opportunity.</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 FY20.

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 117 of the Annual Report on Remuneration) remain eligible to vest based on their original award terms.

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.

Remuneration 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 a change to the Shareholder-approved policy, any director appointments from 1 April 2020 will have a pension contribution (or a cash allowance in lieu of contribution) of no more than 6.5% 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 three years, subject to re-appointment by Shareholders at each annual general meeting. In line with the UK Corporate Governance Code, they are generally renewed 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.

Name	Role	Date of original appointment	Expiry of current term
Malcolm Diamond	Chairman	1 November 2015	31 October 2021
Nick Jefferies	Group Chief Executive	26 November 2008	12 months by either Director or Company
Simon Gibbins	Group Finance Director	10 June 2010	12 months by either Director or Company
Tracey Graham	Non-Executive Director	1 November 2015	31 October 2021
Bruce Thompson	Non-Executive Director	26 February 2018	25 February 2021
Clive Watson	Non-Executive Director	2 September 2019	1 September 2022

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 121 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.

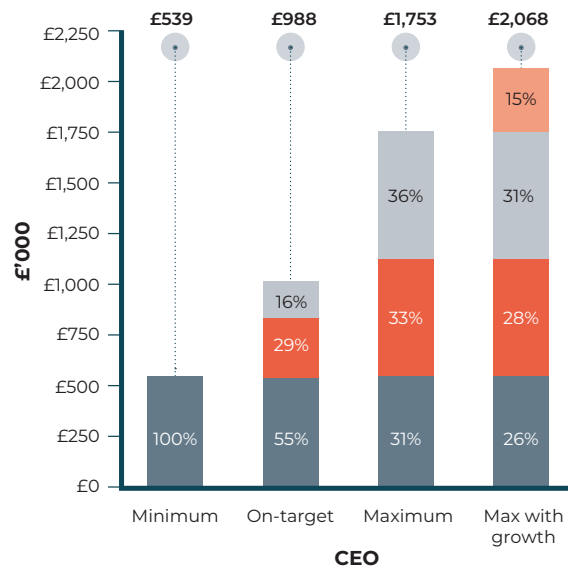
External appointments

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.

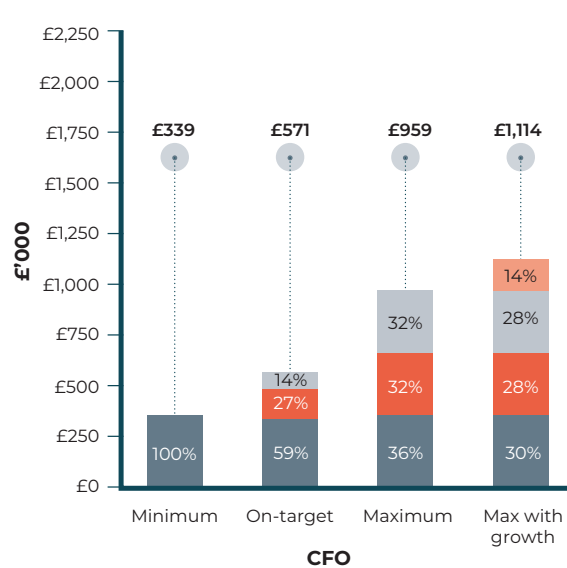
Illustrations of the application of the Executive Directors' remuneration policy

The bar charts below illustrate some possible outcomes of the application of the policy for the year ending 31 March 2021.

Group Chief Executive (£'000)



Group Finance Director (£'000)



● Fixed ● Annual Bonus ● Long-term incentive ● Share price growth

1. Minimum in the bar charts above is fixed remuneration only (i.e. salary, pension and benefits as disclosed in the single figure table).
2. Target assumes that 25% of the LTIP award vests (based on an award with a face value of 135% and 100% of salary for the Group Chief Executive and Group Finance Director respectively) and bonuses have been earned at the target levels (62.5% of salary for the Group Chief Executive and 50% of salary for the Group Finance Director).
3. Maximum assumes that the Long Term Incentive Plan ("LTIP") award vests in full (based on an award with a face value of 135% and 100% 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.
4. Maximum plus share price growth – this is based on the maximum scenario set out above but with a 50% share price increase applied to the value of LTIP awards.

Projected values do not take into account dividend accrual or additional awards granted as a result of any agreement by an Executive Director to incur the Company's liability to employers' National Insurance.

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 107 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 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 the total remuneration earned by Executive Directors for the year ended 31 March 2020.

Single total figure of remuneration for each Executive Director (audited)

		Salary £000	Benefits ¹ £000	Bonus ² £000	LTIP ³ £000	Pension ⁴ £000	Total £000
Nick Jefferies	FY20	467	11	362	1,192	62	2,093
	FY19	453	11	392	881	60	1,796
Simon Gibbins	FY20	310	11	193	525	18	1,057
	FY19	277	11	189	388	16	881

The table below sets out the single total figure of remuneration received by each Executive Director for the year ended 31 March 2020 and the prior year:

1. Taxable benefits comprise car allowance (£9,000 each) and family medical insurance. The total value of benefits for 2020 were £10,828 and £11,192 for Nick Jefferies and Simon Gibbins respectively.
2. For performance in the year under review, a bonus of 77.5% and 62.3% of salary is payable to Nick Jefferies and Simon Gibbins, respectively. Further details can be found on page 115. In accordance with the Remuneration Policy, 20% of Nick Jefferies' bonus will be in the form of deferred shares. As noted on page 116, payment of those bonuses will be deferred until later in the year.
3. The performance conditions attached to the 2017 LTIP award granted to Nick Jefferies and Simon Gibbins on 31 March 2017 were met in full and therefore the options vested in full on 31 March 2020. Further details can be found on page 116. Of the FY20 LTIP values shown in the table above, £646,423 of Nick Jefferies, and £284,621 of Simon Gibbins, is attributed to share price growth over the vesting period.
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	
	FY20	FY19	FY20	FY19	FY20	FY19	FY20	FY19
	£	£	£	£	£	£	£	£
Malcolm Diamond	140,000	135,000	-	-	-	-	140,000	135,000
Richard Brooman ¹	15,333	45,000	2,667	5,000	-	6,000	18,000	56,000
Henrietta Marsh ¹	15,333	45,000	-	5,000	-	-	15,333	50,000
Tracey Graham	46,000	45,000	8,000	-	-	-	54,000	45,000
Bruce Thompson	46,000	45,000	-	-	8,000	-	54,000	45,000
Clive Watson ²	26,833	-	4,667	-	-	-	31,500	-

1. Stepped off the Board on 25 July 2019

2. Joined the Board on 2 September 2019

Incentive outcomes for Executive Directors for the year ended 31 March 2020

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	Threshold	Target	Maximum	Actual
Group underlying EBIT	65%	£33.0m	£37.7m	£42.5m	£37.1m
Payout ¹ (% of max)		10%	37.5%	81.25%	33.8%
SWC	15%	24.2%	23.0%	21.9%	21.6%
Payout ¹ (% of max)		0%	12.5%	18.75%	18.75%
Individual objectives	20%				25.0%
Overall (% of salary)					77.5%
Overall (% of max)					62.0%

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

Simon Gibbins (audited)

	Weighting	Threshold	Target	Maximum	Actual
Group underlying EBIT	65%	£33.0m	£37.7m	£42.5m	£37.1m
Payout ¹ (% of max)		10%	30%	65%	27.3%
SWC	15%	24.2%	23.0%	21.9%	21.6%
Payout ¹ (% of max)		0%	10%	15%	15.0%
Individual objectives	20%				20.0%
Overall (% of salary)					62.3%
Overall (% of max)					62.3%

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

Each Executive Director was given a number of individual non-financial objectives, tailored to their role and to business requirements in the year under review. Nick Jefferies and Simon Gibbins each earned 100% for their performance against their non-financial objectives achieved during the year.

Nick Jefferies

- Grow design opportunities and wins
- Increase proportion of revenue from D&M
- Integrate acquisitions in line with objectives
- Appoint new Audit Committee Chair
- Develop acquisition opportunity pipeline
- Develop investor base

Simon Gibbins

- Ensure adequate equity and debt funding to meet expansion plans
- Further develop internal audit function, including recruitment of a new Head of Internal Audit
- Review of control framework and processes. Implementation of fraud control initiatives and cyber security work
- Contingency cost planning and actions in the event of FY20 downturn
- Develop improved metrics for tracking movements in working capital
- Continue to proactively manage analyst base, including year-end and FY20 communications
- Appoint new Audit Committee Chair

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 20% out of the available 20% for this element of their bonus. This means that, in total for the year under review, Nick Jefferies earned a bonus of 77.5% of his salary and Simon Gibbins earned a bonus of 62% of his salary.

Notwithstanding the strong performance over the year, in the light of the Board's decision to not declare a final year dividend, the Remuneration Committee has decided to withhold the payment of Executive Directors' bonuses until later in the financial year.

2017 LTIP vesting (audited)

LTIP Awards were granted on 31 March 2017 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 2017 to 31 March 2020. 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%

discoverIE's TSR performance was 122.6% over the three-year period to 31 March 2020. This ranked the Company in the top 2% of the FTSE Small Cap and 116.9% above CPI growth of 5.7% over the period. This strong performance has resulted in full vesting for this award. The vested awards are subject to a two-year holding period.

Share awards made during the year (audited)

As disclosed in last year's report, 166,236 and 92,006 LTIP awards 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. The face value of the awards is based on a share price of £4.21, being the three-day average share price directly prior to the grant of the award.

In addition to the grants set out above, 15,379 awards with a face value of £64,746 were granted 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 +30 ppts	100%
Between CPI +10ppts and CPI +30 ppts	Straight-line vesting between 25% and 100%
Below CPI +10 ppts	0%

EPS Growth (one-third weighting)

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

Performance will be measured over three years from 31 March 2019 to 31 March 2022 using, for the two TSR measures, 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 for Executive Directors. Pension contributions/cash allowances for the Executive Directors are set out in the policy table on page 108 of this Report.

Directors' interests under the Long Term Incentive Plan

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 109.

	Number held at 31.03.19	Movements during the year				Number held at 31.03.18	Vested but not exercised	Share value at 31.03.19 £	When exercisable
		Granted	Vested	Exercised	Lapsed				
Nick Jefferies									
	245,192(v) ¹	–	–	–	–	245,192	245,192	1,203,893	Mar 2020 to Mar 2025
	223,567(v) ²	–	–	–	–	223,567	223,567	1,097,714	Mar 2021 to Mar 2026
	242,788(v) ³	–	242,788	–	–	242,788	242,788	1,192,089	Mar 2022 to Mar 2027
	163,371(nv)	–	–	–	–	163,371	–	802,152	Mar 2023 to Mar 2028
	166,236(nv)	166,236	–	–	–	–	–	816,219	Apr 2024 to Apr 2029
Simon Gibbins									
	120,192(v) ⁴	–	–	–	–	120,192	120,192	590,143	Mar 2020 to Mar 2025
	98,437(v) ⁵	–	–	–	–	98,437	98,437	483,326	Mar 2021 to Mar 2026
	106,900(v) ⁶	–	106,900	–	–	106,900	106,900	524,879	Mar 2022 to Mar 2027
	83,255(nv) ⁷	–	–	–	–	83,255	–	408,782	Mar 2023 to Mar 2028
	92,006(nv) ⁸	92,006	–	–	–	–	–	451,749	Apr 2024 to Apr 2029

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

- 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 resulted in 100% vesting on 31 March 2018.
- 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 resulted in 100% vesting on 31 March 2019.
- The award, in the form of a nil-cost option over 242,788 shares in the Company, was made to Nick Jefferies on 31 March 2017. The performance conditions attached to the award resulted in 100% vesting on 31 March 2020.
- 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 resulted in 100% vesting on 31 March 2018.
- 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 resulted in 100% vesting on 31 March 2019.
- The award, in the form of a nil-cost option over 106,900 shares in the Company, was made to Simon Gibbins on 31 March 2017. The performance conditions attached to the award resulted in 100% vesting on 31 March 2020.
- An additional award of 13,916 nil-cost options 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 on the March 2018 award. This is in addition to the 83,255 shares set out above and is subject to the same vesting and exercise conditions.
- An additional award of 15,379 nil-cost options was made on 30 April 2019 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 on the April 2019 award. This is in addition to the 92,006 shares set out above and is subject to the same vesting and exercise conditions.

DIRECTORS' REMUNERATION REPORT

Directors' interests (audited)

The interests of the Directors, who held office as at 31 March 2020 (including family interests), in ordinary shares (fully paid, 5p) of the Company, were as follows:

	Shares held at 31 March 2020				Unencumbered shares held at 31 March 2019	Value of current shareholding (% of salary)
	Unencumbered shares	Nil cost options vested but not exercised and outside of holding period	Shares/nil cost options vested but subject to additional holding period	Shares/nil cost options subject to performance conditions		
Nick Jefferies	965,750	245,192	466,355	329,607	960,931	1,775%
Simon Gibbins	267,489	120,192	205,337	175,261	257,670	939%
Tracey Graham	9,358	–	–	–	6,949	
Malcolm Diamond	27,316	–	–	–	19,907	
Bruce Thompson	25,000	–	–	–	8,000	
Clive Watson	12,500	–	–	–	–	

The interests of all Directors at 24 June 2020 are unchanged from those at 31 March 2020. The values of current shareholdings for Nick Jefferies and Simon Gibbins have been valued using the share price as at 31 March 2020 of 491p and include all options that have vested.

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 remuneration policy, Executive Directors are required to build up/maintain a shareholding of at least 250% of salary within seven years. Both of the Executive Directors meet the shareholding requirements. The figures for shares/nil cost options subject to performance conditions exclude any additional awards to Executive Directors 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 2020, approximately 5.46m shares (6.15%) 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% in ten years' dilution limit.

Payments for loss of office (audited)

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

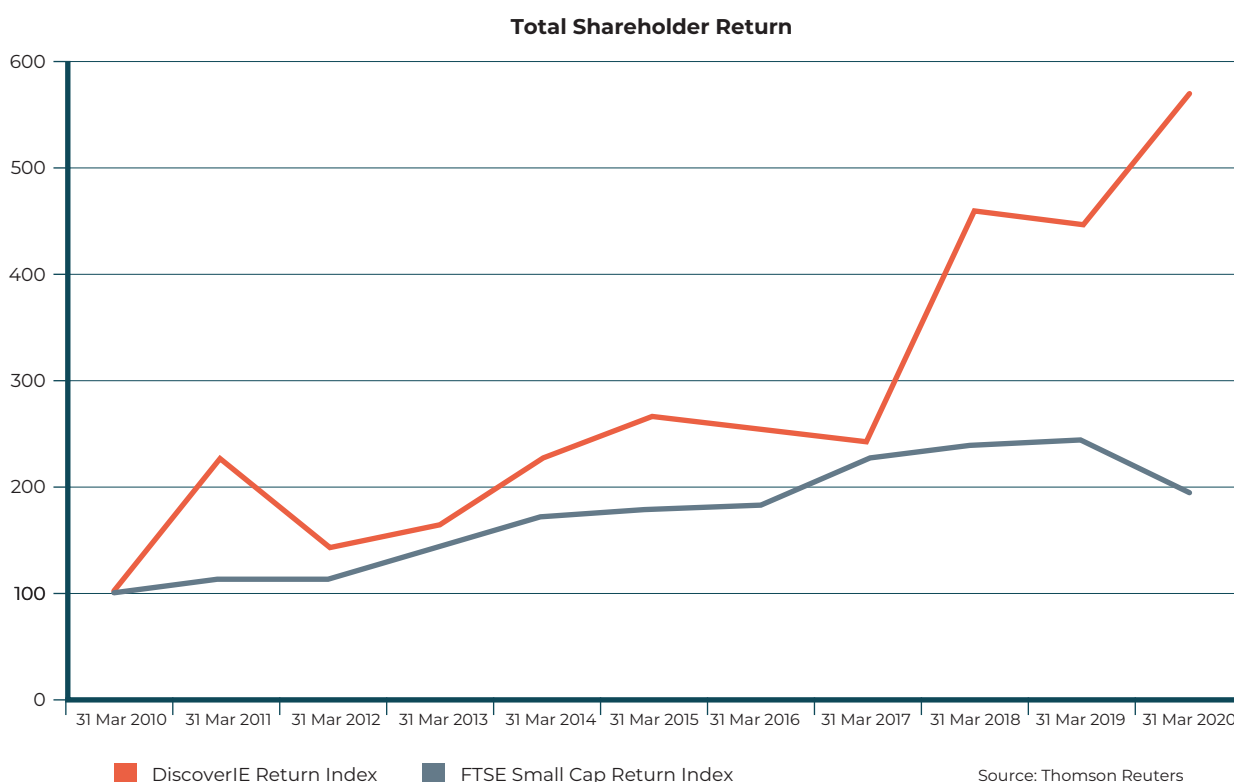
Payments to past Executive Directors (audited)

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

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

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 2010 between that date and 31 March 2020 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 and as the Company is a constituent of the Index. 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.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Single figure of total remuneration (£'000)	590	1,613	999	572	1,246	1,321	665	1,803	1,796	2,093
Salary (£'000)	280	297	320	320	330	425	429	438	453	467
Bonus outcome (% of maximum)	100	10	20	55	59	60	43.5	63.7	69.2	62.0
LTIP outcome (% of maximum)	–	94	88	9	100	100	–	100	100	100
Turnover (£m)	210	207	177	212	271	288	338	387.9	438.9	466.4
EBIT (£m) ¹	6	7	5	7	13	16	20	24.5	30.6	37.1

1. Continuing operations

DIRECTORS' REMUNERATION REPORT

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 Positek Ltd and Sens-Tech Ltd, which were both acquired during the year).

	2020 £'000	2019 £'000	% change
Group Chief Executive			
Salary	467	453	3.1%
Benefits	11	11	0.0%
Bonus ¹	362	392	-7.7%
Single figure total	2,093	1,796	16.5%
Average per UK employee			
Salary	38.0	36.2	5.0%
Benefits	4.9	5.0	-2.0%
Bonus	4.1	6.7	-38.8%

1. In accordance with the Remuneration Policy, 20% of the Group Chief Executive's bonus is in the form of deferred shares and the figure for 2020 includes the bonus earned but which has not been paid. As noted on page 116 above, payment of the 2020 bonus has been deferred until later in the year.

CEO pay ratio

The table below sets out the pay ratios for the Group Chief Executive in relation to the equivalent pay for the lower quartile, median and upper quartile of the Group's UK employees (calculated on a full-time basis).

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	Option B	83:1	57:1	40:1

Notes:

- The Company determined the remuneration figures for the employee at each quartile with reference to a date of 31/3/20.
- The Company used calculation method B as the Gender Pay Gap data is already collated for UK employees and was therefore readily available.
- Following a review, the Committee was satisfied that the three individuals reported on are representative of the lower quartile, median and upper quartile employees. No adjustments or estimates were used.

Set out in the table below is the total pay and benefits as well as the salary component of remuneration for the employees identified as being at the relevant percentiles.

£	25th percentile	Median	75th percentile
Salary	£22,950	£34,543	£45,996
Total pay and benefits	£25,250	£37,096	£52,898

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.

	2020 £m	2019 £m	% change
Remuneration paid to or receivable by all employees	88.1	86.6	1.7%
Distributions to Shareholders by way of dividends (net of share issues)	8.1	6.7	20.9%

Statement of implementation of the remuneration policy in the financial year ending 31 March 2021

The Company intends to implement the policy in the financial year ended 31 March 2021 in the way described in the "Remuneration at a glance" section and policy table for the Executive Directors on pages 105 to 107.

There will be no increase to Executive Directors' base salaries for the year ending 31 March 2021. As disclosed in the Committee Chair's letter introducing this report, the Executive Directors have agreed a temporary 20% reduction in the salary they will be paid for 3 months from 1 June 2020.

The Committee has approved performance measures for the annual bonus for the Executive Directors for the year ending 31 March 2021, and consistent with last year, 80% is based on financial performance and 20% on personal or strategic objectives. As managing cash resources and establishing tighter working capital controls will be particularly important in 2021, the bonus measures have been reweighted to reflect this and therefore 56% of the bonus will be based on EBIT, 24% on Simplified Working Capital (and 20% on personal objectives).

The Committee has also taken the opportunity, in line with guidance in this area, to apply a 50% target payout under each financial measure. Due to the close link between targets and the long-term strategy, the bonus targets for the year ending 31 March 2021 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 will grant LTIP awards in line with the policy after the announcement of full year results. The award for the Group Chief Executive will be over shares with a face value of 135% of salary and 100% for the Group Finance Director. The performance measures will continue to be based on absolute TSR, relative TSR and underlying earnings growth measures. The Committee considered carefully the EPS target range and has agreed to set a growth range of 4% to 10% p.a.. This growth range is appropriately challenging against the backdrop of COVID-19 related headwinds and the internal and external outlook.

In line with the Executive Directors, it has been agreed that there will be no increase in fees for the Non-Executive Directors from the previous year. As such, the fees of the Non-Executive Directors, including the additional fees payable, remain as follows:

As at 1 April 2020	Committee			Total £
	Basic fee £	Chair fee £	SID fee £	
Malcolm Diamond	140,000	–	–	140,000
Tracey Graham	46,000	8,000	–	54,000
Bruce Thompson	46,000	–	8,000	54,000
Clive Watson	46,000	8,000	–	54,000

As disclosed in the Committee Chair's letter introducing this report, the Chairman and Non-Executive Directors have agreed a temporary 20% reduction in the fees they will be paid from 1 June 2020.

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 2020 were £3,700.

During the year, the Remuneration Committee decided to undertake a tender exercise and appointed independent advisers, FIT Remuneration Consultants LLP (FIT). FIT is also a signatory to the Remuneration Consultants' Code of Conduct. FIT does not provide any services other than advice to the Remuneration Committee. The fees paid to FIT for advising the Committee for the period 1 December 2019 to 31 March 2020 were £10,000.

Shareholder voting

AGM resolutions	For ¹		Against		Withheld ²
2018 Binding vote on the Directors' Remuneration Policy	47,004,246	95.56%	2,186,425	4.44%	9,067
2019 Approval of the Annual Report on Remuneration	50,304,344	80.27%	12,368,008	19.73%	3,496,123

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the 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 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 affairs of the Group and Company and of the profit or loss of the Group and 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 also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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.

Directors' confirmations

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 and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in on pages 72 to 73 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 Company, together with a description of the principal risks and uncertainties that it faces.



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Transportation

The Transportation market is one of our key target markets, and our focus on mass transportation and electrification of vehicles in particular, is well aligned with the UN Sustainable Development Goals.

- ➔ Read more on pages 18 to 19 for details of **our target markets**
- ➔ Read more on page 56 to 57 for our **alignment with the UN SDGs**

Contributing to the UN Sustainable Development Goals



Sustainable Cities and Communities

The Group serves the mass transportation market and provides charging solutions for electric vehicles, both of which will help reduce the use of fossil fuels as electrified transportation increases.





Fulfilling our purpose

DEVELOPING ELECTRONICS FOR A MORE SUSTAINABLE FUTURE

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 consolidated 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 2020 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 2020; 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: £1,679,000 (2019: £1,365,000), based on 5% of Underlying profit before tax.
 - Overall Company materiality: £1,511,000 (2019: £1,170,000), based on 1% of total assets, limited by component materiality.
-
- 78% of Group revenue (2019: 82%) and 77% (2019: 81%) of Group underlying profit before tax (on an absolute basis) covered through full scope audit procedures.
-
- Goodwill impairment assessment (Group);
 - Accounting for acquisitions during the year (Group);
 - Presentation of adjustments included in underlying profit before tax (Group);
 - COVID-19 and going concern (Group);
 - Valuation of inventory (Group); and
 - 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 and application of bias in accounting estimates. 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 fraud and non-compliance with laws and regulation;
- 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, in particular in relation to impairment of goodwill and going concern assessment (see related key audit matter below); 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

Goodwill impairment assessment (Group)

Refer to page 92 (Audit Committee Report), note 2 (Significant accounting judgements and estimates) and note 17 for the related disclosures on goodwill.

The Group carried £117.3 million of goodwill at 31 March 2020 (2019: £85.3 million).

The recoverability of the carrying value of goodwill is contingent on future cash flows of the underlying cash-generating units ('CGUs') and there is a risk that if these cash flows do not meet the Directors' expectations, the goodwill may be impaired.

We focused our assessment on the estimates and judgements used by management in their impairment model include appropriate downside sensitivities. In light of the current uncertainties as a result of the COVID-19 outbreak we have focused on CGUs which had a material goodwill balance and had a headroom of less than five times of the carrying value of the CGU.

No impairment charge was recognised in the year ended 31 March 2020 and 31 March 2019.

How our audit addressed the key audit matter

We evaluated and challenged the Directors' future cash flow forecasts in the goodwill impairment model and the process by which they were prepared. We tested the cash flow forecast by comparing it with the FY21 forecast prepared and presented to the Board in March 2020 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 future cash flows using lower short and longer term growth rates and profit margins forecast.

We engaged PwC's valuations experts to assess the reasonableness of the discounts rates used. We consider the discount these to be within the acceptable range.

We compared the total value in use calculated in management's goodwill models to the Group's market capitalisation of £435.5 million at 31 March 2020 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 not to be plausible.

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 has been appropriately assessed and that no impairment exists. In addition, we have audited the disclosures in respect of goodwill impairment and are satisfied that they remain appropriate.

Key audit matter

Accounting for acquisitions during the year (Group)
Refer to page 92 (Audit and Risk Committee Report), note 2 (Accounting Policies) and note 11 (Business combinations).

The Group completed three acquisitions during the year:

- Hobart, which is a US based designer and manufacturer of custom transformers, inductors and magnetic components;
- Positek, which is a UK based designer and manufacturer of rugged, high accuracy linear rotary tilt and submersible sensors supplying the international markets; and
- Sens-Tech, which is a UK based business specialising in X-ray detection and data acquisition modules supplying international markets.

Accounting for these acquisitions 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

- £5.3 million of goodwill and £5.4 million of intangibles relating to Hobart's customer relationships. The total consideration for the acquisition was £12.5 million.
- £2.7 million of goodwill and £1.8 million of intangibles relating to Positek's customer relationships. The total consideration for the acquisition was £5.5 million.
- £27.4 million of goodwill and £32.4 million of intangibles relating to Sens-Tech's customer relationships. The total consideration for the acquisition was £70 million.

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 management in respect of the acquisitions and inspected relevant contracts and information including the Sale and Purchase Agreements;
- 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 rates and assumptions used for forecasts;
- Engaged the PwC's valuation experts to assess the reasonableness of the discount rates applied and the methodology used in the valuation of intangibles;
- Assessed whether the Directors' identification and valuation of other known and contingent liabilities associated with acquisitions was complete; and
- Inspected the relevant underlying contracts to assess conclusions reached by the Directors in respect of the accounting for contingent consideration.

Based upon the above, we are satisfied that the Directors have applied reasonable judgements in the provisional accounting for the acquisitions during the year.

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 92); Accounting policies (note 2); and note 6 (Underlying profit before tax).

£13.3 million (2019: £7.9 million) of net costs incurred in the year are presented as adjustments to the Group's underlying profit before tax. These include:

- £4.0 million of acquisition costs;
- £9.0 million of amortisation of acquired intangibles; and
- £0.3 million in respect of the Group's IAS 19 pension charge for the year.

The Group present underlying performance measures on the face of the consolidated income statement as supplementary information

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 need to be classified appropriately and 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 2020 is consistently applied and appropriately disclosed.

Key audit matter

COVID-19 and going concern (Group)

The COVID-19 pandemic in early 2020 has affected individuals and businesses across the world. There have been varying impacts on the countries where the Group operates.

Given the unprecedented nature of the pandemic, the impact on the Group is difficult to predict and there remains an uncertainty in the short term and longer term. The Directors have considered the potential impact of the disruptions caused by the COVID-19 pandemic on the way business is carried out across the Group.

During the year ended 31 March 2020, the Group made a profit after tax of £14.3 million and had net current assets of £93.8 million at the year-end. The Group holds a cash and cash equivalent balance (net off bank overdraft) of £34.8 million. Despite this position at the year end, due to the impact of COVID-19 outbreak there is an uncertainty over the expected future cash flows and continuity of business at the expected levels.

The Directors performed a going concern assessment based on their base case updated for May 2020 actual cash flow forecasts which considers the impact of COVID-19 for the rest of the FY21 financial year, and other associated key risk factors including acquired company forecast and associated future earn-out payments, latest views on supplier and customer payments impacting working capital and latest forecast foreign exchange rates. The May 2020 cash flow forecast also incorporates the savings actions previously announced by the Group including pay and headcount freezes and deferral of non-essential capital expenditure. The assessment carried out by the Directors is for a period of at least twelve months from the date of approval of these financial statements.

The Directors' assessment included preparing a severe but plausible downside scenario including revenue and EBITDA downside trading sensitivities and identified mitigating actions that could be taken to reduce cash expenditure if necessary, considering the levels of funding accessible by the Group.

The Directors concluded based on these forecasts and sensitivities, that there was sufficient headroom in respect of covenants and liquidity beyond the severe but plausible downside scenario, to prepare the financial statements on a going concern basis.

Directors have also considered the risk of impairment of non-current assets, increased credit risk on trade receivables, obsolescence of inventory and working practices across the Group.

We have focussed on this risk due to the evolving nature of the pandemic, the uncertainties involved and the magnitude of any potential impact on the financial statements.

The Directors have included their assessment of the impact of COVID-19 at various places across the Annual report.

Further details are set out in note 2 to the consolidated financial statements.

How our audit addressed the key audit matter

In assessing management's consideration of the potential impact of COVID-19, we have undertaken the following audit procedures:

- We discussed with management and the Board the critical estimates and judgements applied in their latest assessments in order to understand and challenge the rationale underlying the factors incorporated and the sensitivities applied as a result of COVID-19;
- We reviewed the judgements included by management in their 'expected credit loss' model with respect to the impact of COVID-19. We considered the position of the trade receivables subsequent to the year end to assess the appropriateness of management's judgements applied in the model.

In assessing the appropriateness of the going concern assumption used in preparing the financial statements, we:

- Tested the mathematical accuracy of the Directors' cash flow forecast and validated the opening cash position;
- Validated the underlying cash flow projections for the Group and assessed the basis of the judgements applied;
- Reviewed the sensitivity analysis carried out by the Directors to assess the impact of the key assumptions underlying the forecast such as reduction in sales, increase in working capital and expected level of operating expenses;
- Assessed the impact of the Directors' severe but plausible downside scenarios on the headroom available on liquidity and covenants under the Group's revolving credit facility of £180m; Reviewed the Directors' plan on available mitigating factors where required and included within the cash flow forecast; and

We audited the disclosures included in the Annual Report in respect of this risk, including going concern, and impairment sensitivities and consider them reasonable.

Our conclusion in respect of going concern is set out below on page 135.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF discoverIE GROUP PLC

Key audit matter

Valuation of inventory (Group)

Refer to page 92 (Audit and Risk Committee Report), note 2 (Significant accounting estimates) and note 20 (Inventories).

The balance of gross inventories at 31 March 2020 was £77.3 million, against which a provision of £8.9 million was held (2019: gross inventories £73.4 million, provision of £7.2m).

The completeness of the inventory provision was a focus of our audit for the following reasons:

- The Group holds large quantities of inventory comprising many different types of product, often held for long periods of time, which raises the risk of inventory obsolescence.
- There is uncertainty about the impact of product life cycles, the value recoverable from any excess stock, and future sales levels which require management to make assumptions based on information available at year end.
- The output from the Group's accounting systems is subject to a manual process that considers the age of the individual items held to calculate the inventory provision.

Carrying value of investments (Company)

Refer to note 2 and note 5 of the Company financial statements.

The Company holds investments in its subsidiaries of £200.2 million (2019: £168.9m).

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 £22.6 million in discoverIE Management Services Limited ('DMS'), the Group's service Company that derives revenue from intercompany recharges. There was a £10 million impairment recorded against the DMS investment in the current year.

Management has performed an assessment of the recoverable amount of the investment and compared this to the carrying value using the same cash flow methodology applied in the impairment test for goodwill described above.

The results showed that an impairment of £10 million is required.

How our audit addressed the key audit matter

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 completeness, and noted no material exceptions.

We assessed the reasonableness of management's judgement regarding the obsolescence percentage applied and expected future sales levels by comparing these assumptions to historic write-offs and historic sales; particularly considering the expected impact of COVID-19 on future sales.

We found the assumptions to be reasonable.

We assessed the aging of the inventory to identify if there are any individual items which indicates a risk of obsolescence. We did not identify any material items which would require additional provision.

We obtained management's assessment of the carrying value of the investments and we challenged:

- the key assumptions for short and long term growth rates in the forecast cash flows for 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.

We performed sensitivity analysis on the key assumptions within the cash flow forecasts. This included sensitising the discount rate applied to the future cash flows, and the short and longer term growth rates and operating income forecast.

Following the conclusion of our procedures above, we are satisfied that the impairment charge recorded and the carrying value of the investment in DMS is appropriate.

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 & Manufacturing ('D&M') and Custom Supply ('CS'), operating in 23 countries.

Across the 23 countries, the Group has 61 component business operations. We performed an audit of the complete financial information of 28 (2019: 25) of these components and one component which includes all consolidation entries ("full scope components"), which were selected based on their size or risk characteristics. This covered 78% (2019: 82%) of the Group's revenue and 77% (2019: 81%) of the Group's underlying profit before tax (on an absolute basis).

For 9 (2019: 11) 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 24 components in aggregate represent 11% (2019: 14%) of the Group's underlying profit before tax (on an absolute basis). For these components, the Group audit team performed central risk assessment analytical procedures.

In establishing our overall approach to the Group audit, we determined the nature of work that 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 29 full scope components, audit procedures were performed on 17 components directly by the Group audit team, with component auditors performing audit procedures over the remaining 12 components. Of the 9 specified procedures components, 7 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.

Our planned visit to the client's sites and certain full scope component teams was cancelled due to the travel restrictions as a result of the COVID-19 outbreak; however no changes were made to the extent of our oversight of the component, nor to the extent of the work performed by the component. We held numerous meetings with our component teams, including via video conference, and performed remote reviews of the key working papers associated with the component team's audit. 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. In the previous financial year the Group audit team visited those entities considered to be full scope components in UK, US, Netherlands and Norway, however in the current year all the supervision activities over the component audit teams were through remote arrangements.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF discoverIE GROUP PLC

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	£1,679,000 (2019: £1,365,000).	£1,511,000 (2019: £1,170,000).
How we determined it	5% of Underlying 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 £1,511,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £84,000 (Group audit) (2019: £68,000) and £84,000 (Company audit) (2019: £68,000) 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

We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

We 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.

Outcome

We have nothing material to add or to draw attention to.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

We 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 Report, 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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

Corporate Governance Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report (on page 89) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA ("DTR") is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report (on pages 76 to 89) 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)

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF discoverIE GROUP PLC

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 83 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 48 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 122, 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 92 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Financial Statements set out on page 122, 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 3 years, covering the years ended 31 March 2018 to 31 March 2020.

Richard Porter (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 June 2020

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2020

	notes	2020 £m	2019 £m
Revenue	4	466.4	438.9
Cost of sales		(309.7)	(293.9)
Gross profit		156.7	145.0
Selling and distribution costs		(58.1)	(57.7)
Administrative expenses		(74.8)	(64.6)
Operating profit	7	23.8	22.7
Finance income	9	0.6	0.5
Finance costs	9	(4.9)	(3.9)
Profit before tax		19.5	19.3
Tax expense	10	(5.2)	(4.7)
Profit for the year		14.3	14.6
Earnings per share	13		
Basic		17.0p	20.0p
Diluted		16.5p	19.4p

SUPPLEMENTARY INCOME STATEMENT INFORMATION

	notes	2020 £m	2019 £m
Underlying Performance Measures			
Operating profit	7	23.8	22.7
Add back: Exceptional items	6	-	(0.2)
Acquisition costs	6	4.0	1.8
Amortisation of acquired intangible assets	18	9.0	5.9
IAS 19 pension administrative charge	32	0.3	0.4
Underlying operating profit		37.1	30.6
Profit before tax		19.5	19.3
Add back: Exceptional items	6	-	(0.2)
Acquisition costs	6	4.0	1.8
Amortisation of acquired intangible assets	18	9.0	5.9
Total IAS 19 pension charge	32	0.3	0.4
Underlying profit before tax		32.8	27.2
Underlying earnings per share	13	30.2p	27.2p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2020

	notes	2020 £m	2019 £m
Profit for the year		14.3	14.6
Other comprehensive income/(loss):			
<i>Items that will not be subsequently reclassified to profit or loss:</i>			
Actuarial gain on defined benefit pension scheme	32	2.4	0.1
Deferred tax charge relating to defined benefit pension scheme	10	(0.5)	–
		1.9	0.1
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences on translation of foreign subsidiaries		(4.6)	(1.1)
		(4.6)	(1.1)
Other comprehensive loss for the year, net of tax		(2.7)	(1.0)
Total comprehensive income for the year, net of tax		11.6	13.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2020

	notes	2020 £m	2019 £m
Non-current assets			
Property, plant and equipment	14	25.2	24.4
Intangible assets – goodwill	16	117.3	85.3
Intangible assets – other	18	64.9	34.4
Right of use assets	15	21.1	–
Defined benefit surplus	32	1.8	–
Deferred tax assets	10	6.1	5.1
		236.4	149.2
Current assets			
Inventories	20	68.4	66.2
Trade and other receivables	21	90.1	88.7
Current tax assets		2.1	1.3
Cash and cash equivalents	22	36.8	22.9
		197.4	179.1
Total assets		433.8	328.3
Current liabilities			
Trade and other payables	29	(87.6)	(87.7)
Other financial liabilities	23	(4.3)	(1.7)
Lease liabilities	15	(5.3)	–
Current tax liabilities		(5.5)	(5.5)
Provisions	26	(0.9)	(1.1)
		(103.6)	(96.0)
Non-current liabilities			
Trade and other payables	29	(3.1)	(0.2)
Other financial liabilities	23	(93.8)	(84.5)
Lease liabilities	15	(14.7)	–
Pension liability	32	–	(2.5)
Provisions	26	(4.7)	(2.7)
Deferred tax liabilities	10	(13.4)	(7.7)
		(129.7)	(97.6)
Total liabilities		(233.3)	(193.6)
Net assets		200.5	134.7
Equity			
Share capital	30	4.4	3.7
Share premium		138.8	106.9
Merger reserve		22.7	2.9
Currency translation reserve		(2.2)	2.4
Retained earnings		36.8	18.8
Total equity		200.5	134.7

The financial statements on pages 138 to 142 were approved by the Board of Directors on 24 June 2020 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 2020

	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 2018	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 30)	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
Profit for the year	-	-	-	-	14.3	14.3
Other comprehensive loss	-	-	-	(4.6)	1.9	(2.7)
Total comprehensive income	-	-	-	(4.6)	16.2	11.6
Shares issued (note 30)	0.7	31.9	27.9	-	-	60.5
Share-based payments including tax	-	-	-	-	1.8	1.8
Transfer to retained earnings	-	-	(8.1)	-	8.1	-
Dividends (note 12)	-	-	-	-	(8.1)	(8.1)
At 31 March 2020	4.4	138.8	22.7	(2.2)	36.8	200.5

The £27.9m merger reserve arising during the year is available for distribution and £8.1m was transferred to retained earnings for the payment of the dividend.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2020

	notes	2020 £m	2019 £m
Net cash flow from operating activities	25	37.4	22.4
Investing activities			
Acquisition of shares in subsidiaries (net of cash/(debt) acquired)		(72.6)	(21.3)
Acquisition related contingent consideration		(1.0)	(1.3)
Purchase of property, plant and equipment		(5.3)	(4.2)
Purchase of intangible assets – software		(1.0)	(1.2)
Proceeds from disposal of property, plant and equipment		–	0.2
Interest received		0.5	0.4
Net cash used in investing activities		(79.4)	(27.4)
Financing activities			
Net proceeds from the issue of shares		60.5	0.1
Proceeds from borrowings	24	41.9	17.2
Repayment of borrowings	24	(31.3)	(1.2)
Payment of lease liabilities		(6.0)	–
Interest paid on lease liabilities		(0.6)	–
Dividends paid	12	(8.1)	(6.7)
Net cash generated from financing activities		56.4	9.4
Net increase in cash and cash equivalents¹		14.4	4.4
Cash and cash equivalents at 1 April		20.8	16.2
Effect of exchange rate fluctuations		(0.4)	0.2
Cash and cash equivalents at 31 March		34.8	20.8
Reconciliation to cash and cash equivalents in the consolidated statement of financial position			
Net cash and cash equivalents shown above		34.8	20.8
Add back: bank overdrafts	23	2.0	2.1
Cash and cash equivalents presented in current assets in the consolidated statement of financial position	22	36.8	22.9

1. Further information on the consolidated statement of cash flows is provided in notes 24 and 25.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

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

The consolidated 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 2020 were authorised for issue by the Board of Directors on 24 June 2020. discoverIE Group plc is a public limited company incorporated and domiciled in the UK with its registered office situated at 2 Chancellor Court, Occam Road Surrey Research Park, Guildford, Surrey, GU2 7AH. 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 and have been applied consistently to all years presented in these Consolidated financial statements, with the exception of IFRS 16 'Leases' which has been adopted from 1 April 2019.

2. Accounting policies

Basis of preparation

The Group's consolidated 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. They have been prepared on a historical cost basis except where otherwise stated.

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

Basis of consolidation

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

Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries at 31 March 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its control over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

Associates

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

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

2. Accounting policies continued

Going concern

In line with IAS1 'Presentation of financial statements' and revised guidance on 'risk management, internal control and related financial and business reporting', management has taken into account all available information about the future for a period of at least, but not limited to, 12 months from the date of approval of the financial statements when assessing the group's ability to continue as a 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 04 to 69. 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 40 to 45.

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.

The Viability Base Case, as stated on page 48, has been subjected to sensitivity analysis involving flexing a number of the underlying main assumptions, both individually and in conjunction. The sensitivities take into account the principal risks and uncertainties set out on pages 50 to 55, notably COVID-19 pandemic, economic downturn, Brexit, loss of key customers and suppliers, underperformance of acquired businesses, major business disruption, liquidity and debt covenants and foreign currency.

In respect of COVID-19, the Directors have modelled 'severe but plausible' downside scenarios to the Viability Base Case. The Directors prepared these scenarios based on an underlying analysis of the potential further impact of COVID-19 this year and future years additional to that already factored into the Viability Base Case.

These downsides include a much longer term, and deeper impact with a further double-digit organic sales growth downside to the Viability Base Case in FY2020/21. Downside sales impact was varied by market sector with organic falls in the year ranging above 30% in some markets. A further downside was also applied the following year with FY2021/22 experiencing a mid-single digit organic sales decline below the downside sales position in FY2020/21. Additionally, gross margin was materially reduced and working capital materially increased.

Even after factoring in these significant additional downsides to the Viability Base Case, there remains good headroom in our banking covenants and significant liquidity. This is supported by the fact that the Group sells a wide portfolio of different products across a diverse set of industries and geographies, has a global supply chain network, and has well-established relationships with its customers. As a consequence, the Directors believe that the Group is well placed to manage its principal risks and uncertainties as disclosed on pages 50 to 55 of the Strategic Report.

The Directors are confident that the Company and the Group have sufficient 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.

2. Accounting policies continued

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.

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 year.

Operating cash flow

“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 and IFRS 16 costs.

Free cash flow

“Free cash flow” is defined as net cash flow before 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 plus net debt, including an annualisation for acquisitions.

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 (Cursor Controls was acquired on 16 October 2018, Hobart and Positek on 15 April 2019 and Sens-Tech on 16 October 2019).

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 IFRS9 ‘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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

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 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 in administrative expenses, on a straight-line basis over the expected useful economic lives as follows.

Customer relationships	5–10 years
Patents	Patent term

(c) Intangible assets – research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally generated intangible asset arising from the Group's development activities is capitalised only if all of the following conditions are met: (a) an asset is created that can be identified (such as software, new processes and product development costs); (b) it is probable that the asset created will generate future economic benefits; and (c) the development cost of the asset can be measured reliably. Internally generated intangible assets are amortised on a straight-line basis over their useful lives between 5 and 10 years. Where no internally generated intangible asset can be capitalised, development expenditure is recognised as an expense in the period in which it is incurred.

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

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.

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 values, 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

2. Accounting policies continued

At subsequent measurement

Financial assets mainly comprise of "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.

Fair value through profit or loss ("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 fair value through other comprehensive income ("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.

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 amounts due from customers for goods and services sold in the ordinary course of business. They are held with the object of collecting the contractual cashflows and are measured at amortised cost less expected credit losses. Trade receivables are assessed for impairment in accordance with IFRS9 '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 IFRS9, 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. Expected credit loss is assessed separately for each of the Group's trading divisions and is based on each trading division's three-year historical credit loss experience.

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

- Macro-economic factors such as growth rates or interest rates
- Other material factors such as customer concentration; changes in technologies; Brexit; Covid-19

In addition 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.

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.

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 unwinding 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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

2. Accounting policies continued

Dividends

Dividends are recognised when they meet the criteria for recognition as a liability. In relation to final dividends, this is when the dividend is approved by the shareholders in the general meeting, and in relation to interim dividends, when paid.

Leases

Policy applicable from 1 April 2019

Recognition

At inception the Group assesses whether a contract is or contains a lease. This assessment involves the exercise of judgement about whether it depends on a specific asset, whether the Group obtains substantially all the economic benefits from the use of that asset and whether the Group has the right to the direct use of the asset. The Group recognises a right of use ("ROU") asset and a lease liability at the commencement of the lease.

Short-term and low-value assets

The Group has not made use of the exemptions for leases of low-value assets and short-term leases (leases shorter than 12 months) as such they are recognised at inception.

Non-lease components

Fees for components such as property taxes, maintenance, repairs and other services which are either variable or transfer benefits separate to the Group's right to use the asset are separated from lease components based upon their stand-alone selling price. These components are expensed in the income statement as incurred.

Measurement

Lease liabilities

Lease liabilities are initially measured at the present value of future lease payments at the commencement date. Lease payments are discounted using the interest rate implicit in the lease, if this rate is readily available. If not, then lessee's incremental borrowing rate is used. The incremental borrowing rate is a combination of government bond yields, used as a proxy for a risk-free rate, calculated over various periods linked to existing lease terms. This rate is adjusted for borrowing costs and risks specific to each entity. Lease payments include the following payments due within the non-cancellable term of the lease, as well as the term of any extension options where these are considered reasonably certain to be exercised:

- Fixed payments
- Variable payments that depend on an index or rate
- The exercise price of purchase or termination options if it is considered reasonably certain these will be exercised.

Subsequent to the commencement date, the lease liability is measured at the initial value, plus an interest charge determined using the incremental borrowing rate, less lease payments made. The interest expense is recorded in finance costs in the income statement. The liability is remeasured when future lease payments change, when the exercise of extension or termination options becomes reasonably certain, or when the lease is modified.

Right of use assets

The ROU asset is initially measured at cost, being the value of the lease liability plus initial direct costs and the cost of any restoration obligations, less any incentives received.

The ROU asset is subsequently measured at cost less accumulated depreciation and impairment losses. The ROU asset is adjusted for any re-measurement of the lease liability. The ROU asset is subject to testing for impairment where there are any impairment indicators. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the asset's useful life.

Policy prior to 1 April 2019

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2. Accounting policies continued

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, any 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. A pension scheme asset is recognised if the employer has an unconditional right to receive a surplus arising on the wind-up of the scheme. 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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

2. Accounting policies continued

Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational activities. It principally employs forward foreign exchange contracts to hedge the risks associated with foreign currency fluctuations relating to certain firm commitments and highly probable forecast transactions. Certain derivative financial instruments are designated as hedging instruments in line with the Group's risk management policies. Hedges of foreign currency exposure on firm commitments and highly probable forecast transactions are accounted for as a cash flow hedge. The Group does not enter into speculative derivative contracts.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. All derivative financial instruments are initially recognised in the statement of financial position at fair value and are subsequently re-measured to their fair value at each reporting date. The fair value of forward exchange contracts is calculated by reference to current forward exchange contracts with similar maturity profiles.

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 17).

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 2020 are set out in note 32.

Inventories

The carrying amounts of inventories are stated with due allowance for excess, obsolete or slow-moving items. Group management exercises judgement in assessing net realisable value. Provisions for slow-moving and obsolete inventory are based on management's assessment of the nature and condition of the inventory, including assumptions around future demand and market conditions.

Trade Receivables

The trade receivables impairment provision requires the use of estimation techniques by Group management. The estimate is made based on the assessments of the credit risk profile of a customer, the ageing profile of receivables, historical experience, and expectations about future market conditions.

Exceptional Items

The Group aims to be both consistent and clear in its recognition and disclosure of exceptional gains and losses. Management judgement is required in assessing the nature and amounts of transactions that satisfy the conditions for classification as an exceptional item.

2. Accounting policies continued

Leases

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The extension and termination options held are exercisable only by the Group and not by the lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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 16	Leases	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

1. Period beginning on or after

IFRS 16, 'Leases'

IFRS 16 'Leases' replaces IAS 17 and relates to the classification, measurement and recognition of leases. The impact of adoption of IFRS 16 is material on the consolidated financial statements and is disclosed in note 35.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- The Group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The adoption of IFRIC 23 had no material impact on corporate tax liabilities.

New standards not yet applied

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group in the current or future reporting years.

4. Revenue

Group revenue is analysed below:

	2020 £m	2019 £m
Sale of goods	454.5	428.7
Rendering of services	11.9	10.2
Total revenue	466.4	438.9

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

5. Operating segment information

The Group organises its businesses into two divisions, Design & Manufacturing and Custom Supply.

- The Design & Manufacturing division manufactures custom electronic products that are uniquely designed or modified from a standard product for a specific customer requirement. The products are manufactured at one of our in-house manufacturing facilities or, in some cases, by third party contractors.
- The Custom Supply division provides technically demanding, customised electronic, photonic and medical products to the industrial, medical and healthcare markets, both from a range of high-quality, international suppliers (often on an exclusive basis) and from discoverIE's Design & Manufacturing division.

These two divisions have been assessed as the reportable operating segments of the Group. Within each reportable operating segment are aggregated businesses units with similar characteristics such as the method of acquiring products for sale (manufacturing versus distribution), the nature of customers and products, risk profile and economic characteristics.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is reported and evaluated based on operating profit or loss earned by each segment without allocation of central administration costs including directors' salaries, investment revenue and finance costs, and income tax expense.

Segment revenue and results

	Design & Manufacturing £m	Custom Supply £m	Unallocated £m	Total £m
2020				
Revenue	297.9	168.5	–	466.4
Result				
Underlying operating profit/(loss)	38.1	7.3	(8.3)	37.1
Acquisition costs	(3.8)	(0.2)	–	(4.0)
Amortisation of acquired intangible assets	(9.0)	–	–	(9.0)
IAS 19 pension charge	–	–	(0.3)	(0.3)
Operating profit/(loss)	25.3	7.1	(8.6)	23.8
	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

5. Operating segment information continued

Segment assets and liabilities

2020	Design & Manufacturing £m	Custom Supply £m	Total £m
Assets and liabilities			
Segment assets (excluding goodwill and other intangible assets)	144.4	59.2	203.6
Goodwill and other intangible assets	170.9	10.5	181.4
	315.3	69.7	385.0
Central assets			2.0
Cash and cash equivalents			36.8
Pension asset			1.8
Current and deferred tax assets			8.2
Total assets			433.8
Segment liabilities	(72.4)	(38.4)	(110.8)
Central liabilities			(5.5)
Other financial liabilities			(98.1)
Current and deferred tax liabilities			(18.9)
Total liabilities			(233.3)
Net assets			200.5

2019	Design & Manufacturing £m	Custom Supply £m	Total £m
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

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).

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

5. Operating segment information continued

Other segment information

	Depreciation and amortisation ¹		Additions to non current assets ¹	
	2020 £m	2019 £m	2020 £m	2019 £m
Design & Manufacturing	18.0	10.3	83.7	24.8
Custom Supply	2.6	0.5	3.9	0.4
Central	0.4	0.3	0.4	0.5
	21.0	11.1	88.0	25.7

1. Includes right of use assets, 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 (excluding pension asset) by geographical location are detailed below:

	Revenue from external customers		Non current assets	
	2020 £m	2019 £m	2020 £m	2019 £m
UK	60.2	65.2	59.0	45.5
Europe	281.5	280.8	152.6	96.2
Rest of the World	124.7	92.9	23.0	7.5
	466.4	438.9	234.6	149.2

6. Underlying profit before tax

	2020 £m	2019 £m
Profit before tax	19.5	19.3
Add back Acquisition Costs	4.0	1.8
Amortisation of acquired intangible assets	9.0	5.9
Total IAS 19 pension charge	0.3	0.4
Exceptional Items	-	(0.2)
Underlying profit before tax	32.8	27.2

The tax impact of the underlying profit adjustments above is a credit of £1.4m (2019: £2.0m).

a. In the year there were £4.0m of acquisition costs. Costs of £1.5m were incurred in relation to the acquisition of Hobart, Positek and Sens-Tech and £0.3m in relation to ongoing acquisitions. Contingent consideration of £2.0m was charged in relation to current and past acquisitions. Costs of £0.2m were incurred in relation to the integration of RSG into the Custom Supply division.

In the prior 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.

b. Amortisation charge for intangible assets recognised on acquisition of £9.0m being amortisation of acquired customer relationships, patents and brands. The equivalent charge last year was £5.9m. The increase relates to the four acquisitions during the last two years (Cursor Controls in October 2018, Hobart and Positek in April 2019 and Sens-Tech in October 2019).

c. Pension costs related to the Group's legacy defined benefit pension scheme (see note 32).

d. There were no exceptional charges this year. Last year there was net exceptional income of £0.2m comprising exceptional income of £1.1m partly offset by an exceptional charge of £0.9m incurred in relation to the equalisation of Guaranteed Minimum Pensions (GMPs) in the Sedgemoor Group Pension Fund. The exceptional income of £1.1m related to a fraud, perpetrated against the Group last year in a small US subsidiary leading to new subsidiary management and tightened Group controls. Insurance receipts of £2.6m were recovered, offset by the fraud cost incurred during last year of £1.5m (out of the total cost of the fraud of £4.0m).

7. Operating profit

Amounts charged/(credited) to the consolidated income statement are as follows:

	2020 £m	2019 £m
Employee costs (note 8)	94.0	88.4
Depreciation of property, plant and equipment (note 14)	4.8	4.6
Depreciation of right of use assets	6.6	-
Amortisation of other intangible assets (note 18)	9.6	6.5
Net foreign exchange differences	(0.3)	0.1
Inventories (amounts included in cost of sales):		
Cost of inventories	309.7	294.0
Write-down of inventories to net realisable value	1.8	1.8
Operating lease rentals	-	6.2
Auditors' remuneration:		
Audit of the Group financial statements (including parent company)	0.2	0.2
Audit of local subsidiary financial statements	0.8	0.6

The fee for non audit services is not material.

8. Employee costs and Directors' emoluments

	2020 £m	2019 £m
Wages and salaries	76.4	71.6
Social security costs	12.8	12.3
Other pension costs	3.5	3.4
Share-based payments (note 31)	1.3	1.1
	94.0	88.4

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

	2020	2019
Sales and marketing	544	570
Manufacturing and service	3,321	3,236
Administration	529	475
	4,394	4,281

At 31 March 2020 the Group had 4,339 employees (2019: 4,283).

	2020 £	2019 £
Directors' emoluments		
Aggregate emoluments in respect of qualifying services	1,353,637	1,332,680
Aggregate contribution to defined contribution scheme	79,230	75,560
	1,432,867	1,408,240
Highest paid director		
Emoluments in respect of qualifying services	839,316	855,664
Pension contributions to the defined contribution scheme	61,523	59,731
	900,839	915,395

Retirement benefits are accruing to two directors under a defined contribution pension scheme (2019: two).

Further details of directors' emoluments are provided in the Remuneration report on pages 102 to 121.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

9. Finance income/(costs)

	2020 £m	2019 £m
Interest receivable and similar income	0.6	0.5
Finance income	0.6	0.5
Finance costs on bank loans and overdrafts	(3.8)	(3.6)
Finance costs on lease liabilities	(0.6)	–
Amortisation of borrowing costs	(0.5)	(0.3)
Finance costs	(4.9)	(3.9)

10. Tax expense

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

	2020 £m	2019 £m
Current taxation:		
UK corporation tax	–	–
UK adjustments in respect of prior years	(0.1)	–
	(0.1)	–
Overseas tax	6.5	5.5
Overseas adjustments in respect of prior years	0.3	(0.3)
	6.8	5.2
Total current taxation expense	6.7	5.2
Deferred taxation		
Origination and reversal of temporary differences within the UK	(0.8)	0.4
Origination and reversal of temporary differences overseas	–	(0.4)
Adjustment in respect of prior years	–	(0.1)
Increased recognition of historic losses	(0.8)	(0.4)
Impact of tax rate changes	0.1	–
Total deferred taxation credit	(1.5)	(0.5)
Tax expense reported in the consolidated income statement	5.2	4.7
	2020	2019
Tax recognised in other comprehensive expense	£m	£m
Decrease in deferred tax asset on pension deficit	(0.5)	–
Tax reported in other comprehensive expense	(0.5)	–
	2020	2019
Tax recognised in equity	£m	£m
Increase in deferred tax asset on share based payments	0.5	0.3
Tax reported in equity	0.5	0.3

10. Tax expense continued

The effective rate of taxation for the year is higher (2019: higher) than the standard rate of taxation in the UK of 19% (2019: 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 2020 and 31 March 2019 respectively is presented below:

	2020 £m	2019 £m
Profit before tax	19.2	19.3
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	3.6	3.7
Effect of:		
Different tax rates in overseas companies	1.4	1.0
Tax losses not recognised	(0.6)	0.3
Non-deductible expenses	1.3	0.5
Adjustments to deferred taxation in respect of prior years	–	(0.1)
Increased recognition of historic losses	(0.8)	(0.4)
Impact of tax rate changes on deferred tax	0.1	–
Adjustments to current taxation expense in respect of prior years	0.2	(0.3)
Total tax reported in the consolidated income statement	5.2	4.7

Deferred tax

	2020 £m	2019 £m
<i>Deferred tax liabilities</i>		
Accelerated capital allowances	(0.4)	(0.5)
Intangibles	(11.5)	(6.6)
Pensions	(0.3)	–
Other temporary differences	(1.2)	(0.6)
Gross deferred tax liabilities	(13.4)	(7.7)

Deferred tax assets

Decelerated capital allowances	0.4	0.7
Pensions	0.3	0.6
Tax losses	2.2	1.7
Share-based payment plans	2.2	1.2
Other temporary differences	1.0	0.9
Gross deferred tax assets	6.1	5.1

Deferred tax credit in the consolidated income statement

	2020 £m	2019 £m
<i>Consolidated income statement</i>		
Decelerated capital allowances	–	(0.3)
Other temporary differences	(1.5)	(0.2)
	(1.5)	(0.5)

At 31 March 2020, the Group had not recognised any deferred tax asset in respect of tax losses of approximately £23.1m (2019: £28.0m). Deferred tax assets are not recognised where there is insufficient evidence that losses will be utilised.

At 31 March 2020, there was a £0.7m recognised deferred tax liability (2019: £0.1m) 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 £0.7m deferred tax liability, undistributed profits of its overseas subsidiaries will not be distributed in the near future where an additional tax charge would arise.

Prior to 31 March 2020, the previously enacted reduction in the UK corporation tax rate to 17% had been reversed and hence the 19% rate will continue to apply from 1 April 2020. The 19% rate has therefore been applied in the measurement of the Group's UK based deferred tax assets and liabilities at 31 March 2020.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

11. Business combinations

Acquisitions in the year ended 31 March 2020

Acquisition of Hobart

On 15 April 2019, the Group completed the acquisition of 100% of the share capital and voting equity interests of Coil-Tran Corporation and 85% of the share capital and voting equity interests of Coil-Tran de Mexico SA de CV (trading as Hobart Electronics). The fair value of the non-controlling interest in Coil-Tran de Mexico is assessed as immaterial.

Hobart Electronics ("Hobart") was acquired for an initial cash consideration of £11.5m (\$15.2m) on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities. In addition, further contingent cash consideration of up to £3.1m (\$4.0m) is payable subject to achieving certain operational and profit growth targets during the three-year period ending 31 March 2022.

Hobart is a US based designer and manufacturer of custom transformers, inductors and magnetic components.

The provisional fair value of the identifiable assets and liabilities of Hobart at the date of acquisition were:

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.1
Intangible assets – other	5.4
Inventories	1.9
Trade and other receivables	0.8
Cash and cash equivalents	0.3
Trade and other payables	(0.9)
Current tax liabilities	(0.2)
Provisions (current)	(0.2)
Total identifiable net assets	7.2
Provisional goodwill arising on acquisition	5.3
Total investment	12.5
<i>Discharged by</i>	
Cash	11.5
Contingent consideration	1.0
	12.5

Included in the £5.3m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. These include the value of expected operational benefits.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	11.5
Transaction costs of the acquisition (included in operating cash flows) ¹	0.4
Net cash acquired	(0.3)
	11.6

1. Acquisition costs of £0.2m and £0.3m were expensed as incurred in the years ended 31 March 2020 and 31 March 2019 respectively. These were included within administrative expenses (note 6).

Included in cash flow from investing activities is the cash consideration of £11.5m and the net cash acquired of £0.3m.

From the date of acquisition to 31 March 2020, Hobart contributed £9.9m to revenue and £0.5m to profit after tax of the Group.

11. Business combinations continued

Acquisition of Positek

On 15 April 2019, the Group completed the acquisition of 100% of the share capital and voting equity interests of Positek Limited ("Positek").

Positek was acquired for an initial cash consideration of £4.2m on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities. In addition, further contingent cash consideration of up to £0.4m is payable subject to achievement of certain integration objectives and profit target for the 12 month period ending 30 September 2020.

Positek is a UK based designer and manufacturer of rugged, high accuracy linear rotary tilt and submersible sensors supplying the international markets.

The provisional fair value of the identifiable assets and liabilities of Positek at the date of acquisition were:

	Provisional fair value recognised at acquisition £m
Intangible assets – other	1.8
Inventories	0.3
Trade and other receivables	0.2
Cash and cash equivalents	1.1
Trade and other payables	(0.1)
Current tax liabilities	(0.2)
Deferred tax liabilities (non-current)	(0.3)
Total identifiable net assets	2.8
Provisional goodwill arising on acquisition	2.7
Total investment	5.5
<i>Discharged by</i>	
Cash	5.3
Contingent consideration	0.2
	5.5

Included in the £2.7m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. These include the value of expected operational benefits. 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	5.3
Transaction costs of the acquisition (included in operating cash flows) ¹	0.2
Net cash acquired	(1.1)
	4.4

1. Acquisition costs of £0.1m and £ 0.1m were expensed as incurred in the years ended 31 March 2020 and 31 March 2019 respectively. These were included within administrative expenses (note 6).

Included in cash flow from investing activities is the cash consideration of £5.3m and the net cash acquired of £1.1m.

From the date of acquisition to 31 March 2020, Positek contributed £1.8m to revenue and £0.5m to profit after tax of the Group.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

11. Business combinations continued

Acquisition of Sens-Tech

On 16 October 2019, the Group completed the acquisition of 100% of the share capital of Xi-Tech Limited and its subsidiary, Sens-Tech Limited ("Sens-Tech").

Sens-Tech was acquired for an initial cash consideration of £58.0m on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities and a placing of shares. In addition, further contingent cash consideration of up to £12m is payable subject to the achievement of certain profit growth targets over a three year period ending 31 March 2022. The fair value of the contingent consideration will be recognised in the consolidated income statement over the performance period from the acquisition date.

Sens-Tech, is a UK based business specialising in X-ray detection and data acquisition modules supplying international markets.

The provisional fair value of the identifiable assets and liabilities of Sens-Tech at the date of acquisition were:

	Provisional fair value recognised at acquisition £m
Intangible assets – other	32.4
Inventories	2.0
Trade and other receivables	2.6
Cash and cash equivalents	12.8
Trade and other payables	(1.2)
Current tax liabilities	0.2
Deferred tax liabilities (non-current)	(6.2)
Total identifiable net assets	42.6
Provisional goodwill arising on acquisition	27.4
Total investment	70.0
<i>Discharged by</i>	
Cash	70.0
Contingent consideration	–
	70.0

Included in the £27.4m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. These include the value of expected operational benefits. 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	70.0
Transaction costs of the acquisition (included in operating cash flows) ¹	1.2
Net cash acquired	(12.8)
	58.4

1. Acquisition costs of £1.2m were expensed as incurred in the year ended 31 March 2020 and were included within administrative expenses (note 6).

Included in cash flow from investing activities is the cash consideration of £70.0m and the net cash acquired of £12.8m.

From the date of acquisition to 31 March 2020, Sens-Tech contributed £8.7m to revenue and £1.5m 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 £16.7m and the consolidated revenue for the Group would have been £476.4m.

11. Business combinations continued

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 whilst retaining its distinct brand identity.

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

	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
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.

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12. Dividends

	2020 £m	2019 £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 2019 of 6.75p (2018: 6.35p)	5.4	4.6
Interim dividend for the year ended 31 March 2020 of 2.97p (2019: 2.80p)	2.7	2.1
Total amounts recognised as equity distributions during the year	8.1	6.7

	2020 £m	2019 £m
Proposed for approval at AGM:		
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2020 of 0.0p (2019: 6.75p)	–	5.4
Summary		
Dividends per share declared in respect of the year	2.97p	9.55p
Dividends per share paid in the year	9.72p	9.15p
Dividends paid in the year	£8.1m	£6.7m

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:

	2020 £m	2019 £m
Profit for the year attributable to equity holders of the parent:	14.3	14.6
	Number	Number
Weighted average number of shares for basic earnings per share	83,997,130	72,979,791
Effect of dilution – share options	2,878,352	2,419,122
Adjusted weighted average number of shares for diluted earnings per share	86,875,482	75,398,913
Basic earnings per share	17.0p	20.0p
Diluted earnings per share	16.5p	19.4p

Underlying earnings per share is calculated as follows:

	2020 £m	2019 £m
Net profit for the year	14.3	14.6
Exceptional items	–	(0.2)
Acquisition costs	4.0	1.8
Amortisation of acquired intangible assets	9.0	5.9
IAS 19 pension charge	0.3	0.4
Tax effect of the above	(1.4)	(2.0)
Underlying profit	26.2	20.5
	Number	Number
Weighted average number of shares for basic earnings per share	83,997,130	72,979,791
Effect of dilution – share options	2,878,352	2,419,122
Adjusted weighted average number of shares for diluted earnings per share	86,875,482	75,398,913
Underlying earnings per share	30.2p	27.2p

At the year end, there were 3,306,166 ordinary share options in issue that could potentially dilute underlying earnings per share in the future, of which 2,878,352 are currently dilutive (2019: 2,629,936 in issue and 2,419,122 dilutive).

14. Property, plant and equipment

	Land and buildings £m	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost				
At 1 April 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
Reclassification	(0.7)	0.9	(0.2)	–
Additions	0.3	0.5	4.5	5.3
Disposals	–	(0.2)	(0.1)	(0.3)
Arising from business combinations	–	–	0.1	0.1
Exchange adjustments	0.2	–	0.3	0.5
At 31 March 2020	11.4	4.0	32.8	48.2
Accumulated depreciation				
At 1 April 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
Reclassification	(0.3)	0.5	(0.2)	–
Charge for the year	0.5	0.4	3.9	4.8
Disposals	–	(0.1)	(0.1)	(0.2)
Exchange adjustments	0.1	–	0.1	0.2
At 31 March 2020	3.4	2.2	17.4	23.0
Net book value at 31 March 2020	8.0	1.8	15.4	25.2
Net book value at 31 March 2019	8.5	1.4	14.5	24.4

Land and buildings includes land with a cost of £0.8m (2019: £0.8m) that is not subject to depreciation.

At 31 March 2020 the Group had capital expenditure commitments for plant and equipment of £0.3m (2019: £0.4m) for which no provision has been made.

15. Leases

15.1 Leasing arrangements

The Group leases manufacturing and warehousing facilities, offices and various items of plant, machinery, equipment and vehicles.

Manufacturing and warehouse facilities generally have lease terms between 3 and 10 years. Lease contracts generally include extension and termination options and variable lease payments, which are discussed further above in 'Significant accounting judgements and estimates' on page 153.

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for the year ended 31 March 2020

15. Leases continued

15.2 Carrying value of right of use assets

Set out below are the carrying amounts of right-of-use ("ROU") assets recognised and movements during the year:

	Land and Buildings £m	Plant and machinery £m	Total £m
At 31 March 2019	–	–	–
Change in accounting policy	17.8	2.9	20.7
At 1 April 2019 (revised)	17.8	2.9	20.7
Additions/modifications	5.8	1.0	6.8
Depreciation charge	(5.0)	(1.6)	(6.6)
Exchange adjustments	0.1	0.1	0.2
At 31 March 2020	18.7	2.4	21.1

15.3 Carrying value of lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	Total £m
At 31 March 2019	–
Change in accounting policy	(19.8)
At 1 April 2019 (revised)	(19.8)
Additions	(5.5)
Lease modifications	(0.6)
Interest for the year	(0.6)
Lease payments	6.6
Exchange adjustments	(0.1)
At 31 March 2020	(20.0)

	31 March 2020 £m	1 April 2019 £m
Current liabilities	5.3	5.7
Non-current liabilities	14.7	14.1
	20.0	19.8

15.4 Amounts recognised in the consolidated income statement

	2020 £m
Depreciation of ROU assets	6.6
Interest expense (included in finance cost – see note 9)	0.6
	7.2

15.5 Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. For a description of judgements and estimates associated with extension and termination options, see note 35.4.

Variable lease payments based upon an index or rate are accounted for once rental amounts are changed.

16. Intangible assets – goodwill

Cost	£m
At 1 April 2018	113.8
Arising from business combinations	9.0
Exchange adjustments	(0.7)
At 31 March 2019	122.1
Arising from business combinations	35.4
Exchange adjustments	(3.4)
At 31 March 2020	154.1
Impairment	£m
At 31 March 2019 and 31 March 2020	(36.8)
Net book value at 31 March 2020	117.3
Net book value at 31 March 2019	85.3

17. Impairment testing of goodwill

The carrying value of goodwill is analysed as follows:

	2020 £m	2019 £m
Custom Supply		
Acal BFi	9.9	9.6
Medical	0.6	0.6
Design & Manufacturing		
Stortech	3.6	3.6
Hectronic	0.6	0.6
MTC	1.9	2.0
Myrra	5.3	5.1
Noratel	25.9	29.8
Foss	5.1	5.6
Flux	0.6	0.6
Contour	7.7	7.7
Variohm	6.0	6.0
Santon	5.3	5.1
Cursor Controls	9.0	9.0
Hobart	5.7	–
Positek	2.7	–
Sens-Tech	27.4	–
	117.3	85.3

Goodwill acquired through business combinations is allocated to cash-generating units (CGUs). Following the integration of the RSG business into Acal BFi and Plitron business into Noratel, management has reviewed the status of the CGUs and concluded that both RSG and Plitron are no longer independent CGUs and have therefore allocated the goodwill relating to RSG and Plitron to Acal BFi and Noratel respectively. Impairment reviews were carried out at this time and no adjustments were necessary.

The movement in goodwill compared to prior year relates to the movement in foreign exchange with the exception of Hobart, Positek and Sens-Tech which were acquired in the year (refer to note 11 for details). Hobart was also subject to a foreign exchange movement.

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for the year ended 31 March 2020

17. 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 FY2021 forecast made in March 2020 and management projections thereon. Compound Annual Growth Rate (CAGR) for revenue growth between 2% and 7% (2019: between 2.5% and 10%) have been used depending on size and sector in which the CGU operates. Annual cash flow growth rates beyond the five-year period are assumed at 2% (2019: 2%) for all CGUs in line with the average long-term growth rates.

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 13% to 16% (2019: 10% to 15%).

Sensitivity to changes in assumptions

The Group has conducted sensitivity analysis on the impairment test of each CGUs carrying value. 5 year sales CAGR (2021-2025) of between 0% and 4% has been applied in the sensitivity analysis, taking into account the latest estimate of the impact of the Covid-19 pandemic, size of the CGU and the sector in which the CGU operates in. 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.

18. Intangible assets – other

	Acquired intangibles			Total £m
	Software & Development £m	Customer/ Supplier Relationships £m	Patents & Brands £m	
Cost				
At 1 April 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
Arising from business combinations	–	39.5	–	39.5
Additions	1.0	–	–	1.0
Exchange adjustment	(0.1)	(1.5)	0.1	(1.5)
At 31 March 2020	13.5	86.1	5.6	105.2
Accumulated amortisation				
At 1 April 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
Charge for the year	0.6	8.5	0.5	9.6
Exchange adjustment	–	(1.1)	–	(1.1)
At 31 March 2020	10.2	28.5	1.6	40.3
Net book value at 31 March 2020	3.3	57.6	4.0	64.9
Net book value at 31 March 2019	3.0	27.0	4.4	34.4

19. Investments in associates

	£m
Cost	
At 31 March 2019 and 31 March 2020	5.4
Impairment	
At 31 March 2019 and 31 March 2020	(5.4)
Net book amount 31 March 2019 and 31 March 2020	–

Associates	Country of incorporation	% equity interest 2020 and 2019
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 2020 that would lead to this impairment being reversed.

20. Inventories

	2020 £m	2019 £m
Finished goods and goods for resale	36.0	39.6
Raw materials and work in progress	32.4	26.6
Total inventories	68.4	66.2

As at 31 March 2020, the provision for realisable value against total inventories was £8.9m (2019: £7.2m).

21. Trade and other receivables

	2020 £m	2019 £m
Trade receivables	80.3	78.5
Other receivables	6.9	7.1
Prepayments and contract assets	2.9	3.1
	90.1	88.7

Trade receivables are non-interest bearing; are generally on 30 to 60 days' terms and are shown net of expected credit losses. As at 31 March 2020, the amount of expected credit losses recorded against trade receivables is £1.1m (2019: £0.8m). The movements in the expected credit losses during the year were as follows:

	2020 £m	2019 £m
At 1 April	0.8	0.8
Charge for the year	0.3	0.1
Amounts written off	(0.1)	(0.1)
Exchange adjustment	0.1	–
At 31 March	1.1	0.8

As at 31 March, the aging analysis of trade receivables net of expected credit losses is as follows:

	Total £m	Not due £m	Overdue				
			<30 days £m	30–60 days £m	60–90 days £m	90–120 days £m	>120 days £m
2020	80.3	67.4	9.7	2.1	0.5	0.2	0.4
2019	78.5	63.7	11.8	1.2	1.3	0.1	0.4

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22. Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	36.8	22.9

Cash at bank earns interest at floating rates, based on daily bank deposit rates. The Group only deposits cash surpluses with major banks of high credit standing (£28.0m with HSBC; credit rating of AA-, £2.1m with Danske Bank; credit rating of A+ and the remaining balance of £6.7m with various financial institutions; credit rating of BBB- or higher) in line with its treasury policy. The Group has offsetting agreements in place with both HSBC and Danske and accordingly cash balances are shown net of overdrafts held with these banks. The fair value of cash and cash equivalents is £36.8m (2019: £22.9m).

23. Other financial liabilities

	Effective interest rate %	Maturity	Current		Non-current	
			2020 £m	2019 £m	2020 £m	2019 £m
Bank overdrafts	Variable	On demand	2.0	2.1	–	–
Unsecured bank loans	Variable		2.8	–	0.2	2.8
Revolving Credit Facility (RCF)	Variable		–	–	94.8	83.1
Capitalised debt costs			(0.5)	(0.4)	(1.2)	(1.4)
Total other financial liabilities			4.3	1.7	93.8	84.5
Lease liabilities			5.3	–	14.7	–
Trade and other payables			75.0	78.0	3.1	0.2
Total			84.6	79.7	111.6	84.7

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 2020, the RCF drawdowns of £94.8m were denominated in Sterling and Euros which bear interest based on LIBOR and EURIBOR, plus a facility margin. The RCF is unsecured and runs until June 2024.

Trade and other payables above include only contractual obligations.

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

	Within 1 year £m	2–5 years £m	>5 years £m	Total £m
At 31 March 2020				
Fixed and floating rate	4.3	93.8	–	98.1
Lease liabilities	5.3	10.4	4.3	20.0
Trade and other payables	75.0	3.1	–	78.1
	84.6	107.3	4.3	196.2

	Within 1 year £m	2–5 years £m	Total £m
At 31 March 2019			
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

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

	2020 £m	2019 £m
Sterling	52.8	42.2
Euro	40.5	39.2
US dollar	4.4	4.1
Other currencies	0.4	0.7
	98.1	86.2

24. Movements in cash and net debt

	1 April 2019 £m	Cash flow £m	Non cash changes £m	31 March 2020 £m
Year to 31 March 2020				
Cash and cash equivalents	22.9	13.5	0.4	36.8
Bank overdrafts	(2.1)	0.9	(0.8)	(2.0)
Net cash	20.8	14.4	(0.4)	34.8
Bank loans under one year	–	(2.7)	(0.1)	(2.8)
Bank loans over one year	(85.9)	(7.9)	(1.2)	(95.0)
Capitalised debt costs	1.8	–	(0.1)	1.7
Total loan capital	(84.1)	(10.6)	(1.4)	(96.1)
Net debt	(63.3)	3.8	(1.8)	(61.3)

Bank loans over one year above include £94.8m (2019: £83.1m) drawn down against the Group's revolving credit facility.

	1 April 2018 £m	Cash flow £m	Non cash changes £m	31 March 2019 £m
Year to 31 March 2019				
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)

Supplementary information to the statement of cash flows

Underlying Performance Measure	2020 £m	2019 £m
Increase/(decrease) in net cash	3.8	(11.6)
Add: Business combinations	75.9	24.2
Dividends paid	8.1	6.7
Less: Net proceeds from share issue	(60.5)	(0.1)
Free cash flow	27.3	19.2
Net finance costs	3.7	3.4
Taxation	6.4	3.8
Legacy pension scheme funding	1.8	1.7
Executive options issuance	0.1	1.6
Exceptional cash flow	–	(1.1)
Operating cash flow	39.3	28.6

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25. Reconciliation of cash flows from operating activities

	2020 £m	2019 £m
Profit for the year	14.3	14.6
Tax expense	5.2	4.7
Net finance costs	4.3	3.4
Depreciation of property, plant and equipment	4.8	4.6
Depreciation of right of use assets	6.6	–
Amortisation of intangible assets – other	9.6	6.5
Loss on disposal of property, plant and equipment	0.1	0.1
Change in provisions	(0.3)	0.2
Pension scheme funding	(1.8)	(1.7)
IAS 19 pension administration charge	0.3	1.3
Impact of equity-settled share-based payment expense and associated taxes	1.3	(0.5)
Operating cash flows before changes in working capital	44.4	33.2
Decrease/(increase) in inventories	2.7	(6.6)
Decrease/(increase) in trade and other receivables	1.9	(4.9)
(Decrease)/increase in trade and other payables	(1.0)	8.3
Decrease/(increase) in working capital	3.6	(3.2)
Cash generated from operations	48.0	30.0
Interest paid	(4.2)	(3.8)
Income taxes paid	(6.4)	(3.8)
Net cash flow from operating activities	37.4	22.4

26. 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)
At 31 March 2019	2.9	0.9	3.8
Arising during the year	0.6	1.6	2.2
Arising from business combinations	–	0.2	0.2
Utilised	(0.2)	(0.1)	(0.3)
Released	(0.1)	(0.2)	(0.3)
Exchange difference	0.1	(0.1)	–
At 31 March 2020	3.3	2.3	5.6

	2020 £m	2019 £m
Analysis of total provisions:		
Current	0.9	1.1
Non-Current	4.7	2.7
	5.6	3.8

26. Provisions continued

Severance and retirement indemnity

The severance provision relates to severance costs payable to employees.

Retirement indemnity provision of £2.8m (2019: £2.5m), 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 dilapidations provisions, warranty provisions, onerous contracts and restructuring. The provisions greater than one year are expected to be utilised within one to three years.

27. 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, excluding lease liabilities, a 1% increase in interest rates would decrease the Group's profit before tax by approximately £0.6m (2019: £0.6m).

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	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Profit before tax – (loss)/gain						
10% appreciation	(1.0)	(0.2)	1.8	1.8	(0.5)	(1.0)
10% depreciation	1.2	0.3	(1.8)	(1.8)	0.7	1.2

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

27. Financial risk controls continued

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 approximately 7% 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 2020, the Group had net cash of £34.8m (2019: £20.8m), excluding borrowings of £96.1m (2019: £84.1m). The Group had total working capital facilities available of £190.6m (2019: £190.2m) with a number of major UK and overseas banks, of which £180.0m (2019: £180.0m) were committed facilities. The Group had drawn £98.1m against total facilities at 31 March 2020. During the year the Group exercised its option to extend its syndicated banking facility of £180m, by one 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 facilities are subject to certain financial covenants, which, following review, had significant headroom at 31 March 2020.

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 2020 was within this range at 1.25 times. In order to maintain such a gearing range and provide the funding for acquisitions, the Group issued new shares in April 2019 and October 2019. In February 2020 the Group exercised its option to extend the term of the facility by a further year to June 2024.

28. 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 2020 £m	Fair value 2020 £m	Carrying amount 2019 £m	Fair value 2019 £m
Financial assets				
Cash at bank and in hand	36.8	36.8	22.9	22.9
Financial liabilities at amortised cost				
Bank overdrafts and short-term borrowings	(4.9)	(4.9)	(2.1)	(2.1)
Non-current interest-bearing loans and borrowings:				
Fixed and floating rate borrowings	(93.8)	(93.8)	(84.5)	(84.5)
Lease liabilities	(20.0)	(20.0)	-	-
Contingent consideration	(3.3)	(3.3)	(0.2)	(0.2)

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.

29. Trade and other payables

Current

	2020 £m	2019 £m
Trade payables	57.1	58.9
Other payables	19.6	17.6
Accrued expenses and contract liabilities	10.9	11.2
	87.6	87.7

Trade payables are non-interest bearing and are settled in accordance with credit terms. 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 current year other payables is contingent consideration of £0.2m which relates to the acquisition of Positek. Prior year includes contingent consideration of £1.0m relating 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 £0.5m (2019: £0.6m) subject to such an arrangement.

Non-Current

	2020 £m	2019 £m
Other payables	3.1	0.2

Included in non-current trade and other payable is a £3.1m contingent payment relating to the acquisitions of Cursor Controls, Hobart and Sens-Tech. For 2019, £0.2m related to the acquisition of Cursor Controls.

30. Share capital

Allotted, called up and fully paid	2020 Number	2020 £m	2019 Number	2019 £m
Ordinary shares of 5p each	88,705,915	4.4	73,358,847	3.7

During the year, 15.3m shares were issued raising £60.5m (of which £0.7m was share capital, with the balance allocated to share premium account and merger reserve as set out below).

On 18 April 2019, 7,309,867 shares were issued for a gross consideration of £29.2m before costs and £28.2m after costs. The shares were issued at 400 pence per share, a discount of 3.85 per cent to the closing share price of 416 pence per share on 15 April 2019. The shares were issued under a cash box structure and accordingly, £0.3m was share capital with the balance of £27.9m being allocated to a merger reserve. This amount is fully available for distribution.

On 17 October 2019, 8,034,840 shares were issued for a gross consideration of £33.3m before costs and £32.3m after costs. The shares were issued at 415 pence per share, a discount of 3.9 per cent to the closing share price of 432 pence per share on 16 October 2019. £0.4m was share capital with the balance of £31.9m being allocated to share premium account.

During the year to 31 March 2020, employees exercised 2,361 share options under the terms of the various share option schemes (2019: 1,940,991).

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:

	2020 £m	2019 £m
a) Approved and Unapproved Executive Share Option Schemes	–	–
b) discoverIE Group plc long-term incentive plan ("the LTIP")	1.3	1.1
	1.3	1.1

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

31. Share-based payment plans continued

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 ten 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.

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

Grant date	30 April 2019
Share price at grant date	£4.25
Exercise price	£4.02
Number of employees	3
Shares under option	17,433
Vesting period (years)	3
Expected volatility	31.35%
Option life (years)	10
Expected life (years)	6.5
Risk-free rate of return	0.9%
Expected dividends expressed as a dividend yield	2.23%
Fair value	£1.18

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 (2019: £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 2020

Outstanding at 1 April 2019	Forfeited during the year	Exercised during the year	Granted during the year	Outstanding at 31 March 2020	Exercise price (pence)	Exercise dates
2,948		(2,948)		–	302.00	2018–2025
23,791		(23,791)		–	226.25	2019–2026
35,098	(1,374)	(6,871)	–	26,853	219.50	2020–2027
14,278	(2,348)	(2,350)	–	9,580	402.00	2021–2028
–	(3,999)	(645)	17,433	12,789	421.17	2022–2029
76,115	(7,721)	(36,605)	17,433	49,222		

31. Share-based payment plans continued

At 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		

Changes in share options

A reconciliation of option movements over the year to 31 March 2020 is shown below:

	2020		2019	
	Number	Weighted average exercise price	Number	Weighted average price
Outstanding at 1 April	76,115	£2.59	143,332	£2.26
Granted	17,433	£4.21	–	–
Exercised	(36,605)	£2.46	(67,217)	£2.40
Forfeited	(7,721)	£3.79	–	–
Outstanding at 31 March	49,222	£3.07	76,115	£2.59
Exercisable at 31 March	26,853	£2.20	2,948	£3.02

The weighted average remaining contractual life for the share options outstanding at 31 March 2020 is 7.7 years (2019: 7.9 years).

The range of exercise prices for options outstanding at the end of the year was £2.20 to £4.21 (2019: £2.20 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.

For awards made in 2020 (2019: no awards), 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:

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for the year ended 31 March 2020

31. Share-based payment plans continued

Awards granted in the year ended 31 March 2020:

Grant date	30 April 2019 EPS	30 April 2019 TSR	30 April 2019 CPI
Share price at grant date	£4.25	£4.25	£4.25
Exercise price	nil	nil	nil
Number of employees	17	17	17
Shares under option	238,384	238,383	238,383
Vesting period (years)	3	3	3
Expected volatility	n/a	32.6%	32.6%
Option life (years)	10	10	10
Expected life (years)	5	5	5
Risk-free rate of return	n/a	0.75%	0.75%
Expected dividend yield	2.23%	2.23%	2.23%
Fair value	£3.60	£2.18	£1.66

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. A further 11,912 share awards were granted during the year which will be valued in the next financial year.

The total charge for the year relating to the LTIP schemes was £1.3m (2019: £1.1m).

Outstanding LTIP

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

31 March 2020

Outstanding at 1 April 2019	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 March 2020	Exercise dates
617,935	–	–	(2,361)	615,574	2020–2025
590,796	–	–	–	590,796	2021–2026
788,765	–	(27,149)	–	761,616	2022–2027
632,440	–	(21,322)	–	611,118	2023–2028
–	727,062	–	–	727,062	2024–2029
2,629,936	727,062	(48,471)	(2,361)	3,306,166	

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	

The weighted average remaining contractual life for the share options outstanding at 31 March 2020 is 7.1 years (2019: 7.5 years).

The range of exercise prices for options outstanding at the end of the year was nil (2019: nil).

32. Pension

Defined contribution schemes

The Group makes payments to various defined contribution pension schemes, the assets of which are held in separately administered funds. In the United Kingdom, the relevant scheme is the discoverIE Group plc Employee Pension Scheme ('the discoverIE scheme'). Contributions by both employees and Group companies are held in externally invested trustee-administered funds.

The Group contributes a specified percentage of earnings for members of the discoverIE scheme, and thereafter has no further obligations in relation to the discoverIE scheme. At the year end, 192 employees were active members of the discoverIE scheme (2019: 223). The total cost charged to the consolidated income statement in relation to the UK-based discoverIE scheme was £617,000 (2019: £638,000). Employer contributions in respect of other UK-based schemes and overseas pension schemes were £427,000 (2019: £368,000) and £2,484,000 (2019: £2,425,000) respectively. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2019/20 but based on actual salary levels in 2020/21.

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 2018, 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 2015. This required contributions of £1.8m p.a. over the year to 31 March 2020 with future contributions increasing by 3% each April payable over the period to 30 September 2022. There is a risk that adverse experience could lead to a requirement for additional contributions to recover any deficit that arises.

A pension scheme asset has been recognised as the employer has an unconditional right to receive a surplus arising on the wind-up of the scheme.

The estimated amount of employer contributions expected to be paid to the Sedgemoor Scheme during 2020/21 is £1.8m (2019/20: £1.8m).

The results of the triennial funding valuation as at 31 March 2018 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:

	2020	2019
Rate of increase of salaries	n/a	n/a
Rate of increase of pensions in payment	2.1%	2.4%
Discount rate	2.5%	2.4%
Inflation assumption – RPI	2.6%	3.3%
Inflation assumption – CPI	1.8%	2.2%

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 2019 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 2020 was 12 years (2019: 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 45% of the assets in equities, property, infrastructure and other return seeking investments and 55% in liability driven investments, corporate bonds and cash. As at 31 March 2020 the investment strategy hedged 75% of interest rate risk and 70% of inflation risk relative to the Sedgemoor Scheme's liability value for cash funding purposes.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

32. Pension continued

The Sedgemoor Scheme assets are held exclusively within instruments with quoted prices in an active market, other than the property fund. Re-measurements are recognised immediately through other comprehensive income.

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

	2020 £m	2019 £m
Pension administration costs (recognised in administrative expenses)	0.3	0.4
Past service cost	–	0.9
Total	0.3	1.3

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 in the prior year (see note 6).

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

	2020 £m	2019 £m
Re-measurement gains:		
Return on plan assets (excluding amounts included in net interest expense)	0.5	–
Actuarial changes arising from changes in financial assumptions	2.3	0.1
Actuarial gains recorded in the consolidated statement of comprehensive income	2.8	0.1

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:

	2020 £m	2019 £m
Equities	2.3	3.5
Bonds	9.4	11.5
Property	3.8	3.9
Diversified Growth Fund	4.8	5.7
Cash	6.0	1.7
Liability driven investments	6.4	5.4
Infrastructure	4.9	5.0
Fair value of scheme assets	37.6	36.7
Present value of funded defined benefit obligations	(35.8)	(39.2)
Asset/(liability) recognised in the consolidated statement of financial position	1.8	(2.5)

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

	2020 £m	2019 £m
Opening defined benefit obligation	39.2	39.6
Net interest cost	0.9	1.0
Actuarial losses due to:		
Changes in financial assumptions	(2.3)	(0.1)
Benefits paid	(2.0)	(2.2)
Past service costs	–	0.9
Closing defined benefit obligations	35.8	39.2

32. Pension continued

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

	2020 £m	2019 £m
Opening fair value of scheme assets	36.7	36.6
Interest on scheme assets	0.9	1.0
Actual return on plan assets less interest on plan assets	0.5	-
Pension administration costs	(0.3)	(0.4)
Contributions	1.8	1.7
Benefits paid	(2.0)	(2.2)
Closing fair value of scheme assets	37.6	36.7

Sensitivities

The sensitivity of the 2020 pension liabilities to changes in assumptions are as follows:

Assumption	Change in assumption	Increase in scheme deficit £m
Discount rate	Decrease by 0.5%	2.3
Inflation	Increase by 0.5%	1.0
Life expectancy	Increase by 1 year	2.1

33. Related party disclosures

As at 31 March 2020 the Group's subsidiaries are set out below. Unless otherwise stated, the Group holds (directly or indirectly) 100% of the total voting rights of all subsidiaries.

Except where noted, all material subsidiaries have a 31 March year end and the shares carry the same voting rights as their effective interest.

UK registered subsidiaries exempt from audit: discoverIE Nordic Holdings Ltd (company no. 03118969) and Contour Holdings Ltd (company no. 06846542) qualify to take the statutory audit exemption as set out within section 479A of the Companies Act 2006 for the year ended 31 March 2020. discoverIE Group plc will guarantee the debts and liabilities of those companies at the balance sheet date in accordance with section 479C of the Companies Act 2006. discoverIE Electronics Ltd, Variohm Holdings Ltd, Cursor Controls Holdings Ltd and Xi-Tech Ltd also qualify to take the statutory audit exemption within section 479A of the Companies Act 2006 for the year ended 31 March 2020.

Name and nature of business	Registered address	Country of incorporation and registration
Custom Supply		
Acal BFi UK Limited	3 The Business Centre, Molly Millars Lane, Wokingham, RG41 2EY	England
Acal BFi Central Procurement UK Ltd	3 The Business Centre, Molly Millars Lane, Wokingham, RG41 2EY	England
Vertec Scientific Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Vertec Scientific SA (pty) Ltd	8 Charmaine Avenue, President Ridge, Randburg 2194 Johannesburg	South Africa
Acal BFi France SAS	4 allée du Cantal – ZI Petite Montagne Sud – 91090 Lisses, Evry	France
Acal BFi Belgium NV/SA	Lozenberg 4, 1932 Zaventem, Brussels	Belgium
Acal BFi Germany GmbH	Assar-Gabrielsson-Straße 1, 63128, Dietzenbach, Germany	Germany
Acal BFi Nordic AB	P.O. Box 3002, 750 03 Uppsala, Stockholm	Sweden
Acal BFi Netherlands BV	Luchthavenweg 53, 5657EA, Eindhoven	Netherlands
Acal BFi Italy Srl	Via Cascina Venina n.20/A, 20090 Assago, Milan	Italy
RSG Electronic Components GmbH	Sprendlinger Landstr. 115, 63069 Offenbach, Germany	Germany

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Name and nature of business	Registered address	Country of incorporation and registration
Design & Manufacturing		
Myrra SAS	2 Boulevard de La Haye, 77600 Bussy-Saint-Georges	France
Myrra Power Sp Zoo	Ul Warszawska 1, 05-310 Kaluszyn	Poland
Zhongshan Myrra Electronic Co Ltd ¹	39-2 Industrial Road, Xiaolan Industrial Park, Xiaolan Town, 528400, Zhongshan, Guangdong Province	China
Myrra Hispania Srl	c/Mataro 43 Pol. Ind. les Grases, 08980 Saint Feliu De Llobregat, Barcelona	Spain
Myrra Deutschland GmbH	Lebacher Strabe 4, 66113 Saarbrücken	Germany
Myrra Hong Kong Ltd	42/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong	Hong Kong
Noratel AS	Postboks 133, Elektroveien 7, 3300 Hokksund	Norway
Noratel UK Ltd	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Noratel Denmark A/S	Naverland 15, 2600 Glostrup, Copenhagen	Denmark
Noratel Finland OY	Kiertokatu 5, PB 11, 24280, Salo Helsinki	Finland
Foshan Noratel Electric Co Ltd ¹	NO 22-2 Xingye Road, Zone C Shishan Science & Technology Industrial Park, Nanhai District, Foshan City, Guangdong Province 528225	China
Noratel Germany AG	Elsenthal 53, DE-94481 Grafenau, Bremen	Germany
Noratel India Power Components Pvt Ltd	Nila Technopark, Trivandrum, Kerala, 695581	India
Noratel SP Z.o.o	ul. Szczecinska 1K, Dobra Szczecinska PL-72-003	Poland
Danselbud Noratel Transformator Sp Zoo	ul. Szczecinska 1K, Dobra Szczecinska PL-72-003	Poland
Noratel International Pvt Ltd	P.O Box 15, phase II, Katunayake KEPZ	Sri Lanka
Noratel Sweden AB	Lars Lindahlsväg 2, Bo Lars Lindahlsväg 2, Box 108, Laxå 69522 x 108, Laxå 69522	Sweden
Noratel North America Inc	# 300. 7731 Little Avenue, Charlotte NC 28226	USA
Noratel Power Engineering Inc	# 1117 East Janis Street, Carson, CA 90746	USA
Foss Fiberoptisk Systemsalg AS	Dansrudveien 45, N-3036 Drammen	Norway
Foss Fibre Optics s.r.o	Odborarska 52, 831 02 Bratislava	Slovakia
Flux A/S	Industrivangen 5, 4550 Asnaes	Denmark
Flux International Ltd	41/27, 23 Village No. 6, Phuncaroen Lane, Bangna-Trad Km 16.5, Bang Chalong (Bangkok), Bang Phli District, Samut Prakan Province, 10540	Thailand
Hectronic AB	P.O. Box 3002, 750 03 Uppsala, Sweden	Sweden
MTC Micro Tech Components GmbH	Hausener Straße 9, 89407 Dillingen a.d., Donau	Germany
EMC Innovation Limited	Woolim Lions Valley C-409, 283 Bupyeong-daero, Bupyeong-gu, Cheongcheon-Dong, Incheon	South Korea
Stortech Electronics Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Contour Electronics Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England

Name and nature of business	Registered address	Country of incorporation and registration
Contour Electronics Asia Limited	Room 601, 6/F Shing Yip Industrial Building, 19-21 Shing Yip Street, Kwun Teng, Kowloon	Hong Kong
Plitron Manufacturing Incorporated	8-601 Magnetic Drive, Toronto, Ontario, M3J 3J2	Canada
Ixthus Instrumentation Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Heason Technology Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Herga Technology Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Variohm-Eurosensor Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Santon Holland B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands
Santon Group B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands
Santon Switchgear Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Santon Circuit Breaker Services B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands
Santon Hekendorpstraat B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands
Santon International B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands
Santon GmbH	Oberstrasse 1, Altes Rathaus Hinsbeck, Postfach 5217, 41334 Nettetal	Germany
Cursor Controls Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
NSI bvba	Haakstraat 1A, 3740 Bilzen, Belgium	Belgium
Sens-Tech Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Coil-Tran LLC (trading as Hobart Electronics)	160 South Illinois Street, Hobart, Indiana, 46342-4512	USA
Coil-Mag LLC (trading as IMAG Electronics)	160 South Illinois Street, Hobart, Indiana, 46342-4512	USA
Coil-Tran de Mexico SA de CV ²	Calle Matamoros 124, Colonia Centro, Municipio Agualeguas, Nuevo Leon, Mexico, CP 65800	Mexico
Positek Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Management services		
discoverIE Management Services Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Holding companies		
Acal Electronic Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Trafo Holding AS	Postboks 133, Hokksund, 3301	Norway
discoverIE Nordic Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
discoverIE BV	Luchthavenweg 53, 5657 EA Eindhoven	Netherlands
discoverIE Europe Holding BV	Luchthavenweg 53, 5657 EA Eindhoven	Netherlands
discoverIE GmbH	Oppelner Straße 5, 82194 Gröbenzell, Germany	Germany

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

Name and nature of business	Registered address	Country of incorporation and registration
discoverIE France Holdings SAS	4 Allée du Cantal – ZI Petite Montagne Sud – 91090 Lisses, Evry	France
DiscoverIE US Holdings Inc.	850 New Burton Road, Suite 201, Dover, DE 19904	USA
Sedgemoor Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Contour Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
discoverIE Electronics Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Aramys SAS	2 Boulevard de La Haye, 77600 Bussy-Saint-Georges	France
Variohm Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
EWAC Holding B.V.	Hekendorpstraat 69, 3079 DX Rotterdam	Netherlands
Cursor Controls Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Xi-Tech Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Dormant companies		
Cabcon Ltd	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Eurosensor Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Acal Supply Chain Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Acal BFi Iberia SL	C/Anabel Segura, 7, Planta Acceso, 28108 Alcobendas, Madrid	Spain
Acal Electronics Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
BFi Optilas Denmark A/S	Jernabanegade 238, 4000 Roskilde Copenhagen	Denmark
BFi Optilas Ltd	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Sedgemoor Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Sedgemoor Group Supplementary Pension Trustees Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Sedgemoor Group Pension Trustees Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Townsend-Coates Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Actech Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Advanced Crystal Technology Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Bosunmark Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Gothic Crellon Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England

Name and nature of business	Registered address	Country of incorporation and registration
Radiatron Holdings Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Radiatron Components Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Amega Group Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Amega Electronics Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
Phoenix America LLC	850 New Burton Road, Suite 201, Dover, DE 19904	USA
DiscoverIE North America LLC	850 New Burton Road, Suite 201, Dover, DE 19904	USA

1. Zhongshan Myrra Electric Co Ltd and Foshan Noratel Electric Co Ltd have 31 December year ends
2. 15% of Coil-Tran de Mexico SA de CV is owned by local management

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 74. Remuneration is set out below in aggregate. The charge for share-based payments of £1.0m (2019: £0.9m) relates to the Group's LTIP as detailed in note 31.

	2020 £m	2019 £m
Short-term employee benefits	3.2	3.2
Share-based payments	1.0	0.9
	4.2	4.1

Associate Undertakings

Details of the Group's investments in associates are provided in note 19.

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 102 to 121.

34. Exchange rates

The profit and loss accounts of overseas subsidiaries are translated into sterling at average rates of exchange for the year and consolidated statements of financial position are translated at year end rates. The main currencies are the US Dollar, the Euro and the Norwegian Krone. Details of the exchange rates used are as follows:

	Year to 31 March 2020		Year to 31 March 2019	
	Closing rate	Average rate	Closing rate	Average rate
US Dollar	1.2360	1.2722	1.3090	1.3139
Euro	1.1281	1.1448	1.1651	1.1340
Norwegian Krone	12.9847	11.4639	11.2536	10.9175

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2020

35. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

35.1 Impact on the consolidated statement of financial position

The change in accounting policy affected the following items in the statement of financial position on 1 April 2019:

		£m
Right of use assets	Increase	20.7
Lease liabilities	Increase	19.8

There was no impact on retained earnings at 1 April 2019.

Lease liabilities

On adoption of IFRS 16 the Group recognised liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 April 2019.

The lease liabilities at 31 March 2020 and 1 April 2019 were as follows:

	31 March 2020 £m	1 April 2019 £m
Current liabilities	(5.3)	(5.7)
Non-current liabilities	(14.7)	(14.1)
	(20.0)	(19.8)

Lease liabilities recorded at 1 April 2019 can be reconciled to operating lease commitments as at 31 March 2019 as follows:

	1 April 2019 £m
Operating lease commitments as at 31 March 2019	16.4
Add: Adjustments as a result of a different treatment of extension and termination options	4.9
Gross future lease cash flows	21.3
Effect of discounting	(1.5)
Lease liability recognised as at 1 April 2019	19.8

The Group has not made use of the exemptions for leases of low-value assets and short-term leases (leases shorter than 12 months).

Right of use assets

The Group has not restated prior year comparators, with right of use assets being set equal to lease liabilities at the date of transition in line with the simplified approach under IFRS 16. Values have been adjusted for the cost of any restoration obligations and by the amount of prepaid or accrued lease payments relating to leases recognised in the statement of financial position as at 31 March 2019. These adjustments amounted to £0.9m. There were no onerous lease contracts that would have required an adjustment to the right of use assets at the date of application.

The recognised right of use assets relate to the following types of assets:

	31 March 2020 £m	1 April 2019 £m
Land and buildings	18.7	17.8
Plant and equipment	2.4	2.9
Total	21.1	20.7

Properties are depreciated over the shorter of the lease term or useful life and plant and equipment over periods of two to five years.

35. Changes in accounting policies continued

35.2 Impact on the consolidated income statement and earnings per share

For the year ended 31 March 2020 Underlying operating profit was unchanged as a result of applying IFRS 16. Profit before tax was £0.6m lower due to interest expenses being higher at the beginning of the lease term.

The impact on the income statement and earnings per share for the year was:

	£m
Lease expense	6.6
Depreciation	(6.6)
Underlying operating profit	0.0
Interest	(0.6)
Underlying profit before tax	(0.6)
Underlying EPS	(0.7)p

There was no impact on underlying profit by operating segments for the year.

35.3 Impact on the consolidated statement of cash flows

Payments in respect of leases which were previously recognised within cash flows from operating activities are now recorded within cash flow from financing activities, separated between payment of interest and payment of principal elements. This has resulted in a net nil impact on cash flow but increased net cash flow from operating activities and decreased net cash generated from financing activities by £6.6m.

35.4 Judgements and estimates

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The extension and termination options held are exercisable only by the Group and not by the lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

35.5 Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Reliance on previous assessments on whether leases were onerous
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

36. Events after the reporting date

There were no matters arising, between the statement of financial position date and the date on which these financial statements were approved by the Board of Directors, requiring adjustment in accordance with IAS10, Events after the reporting period. The following important non-adjusting event should be noted:

COVID-19

The impact of COVID-19 has been fully considered in both the Going Concern assessment of the Group which is included in note 2 to the Group's financial statements and in the Viability Statement on page 48. This did not have any impact on the judgements made in the preparation of the financial statements and conclusions reached as at 31 March 2020.

COMPANY BALANCE SHEET

as at 31 March 2020

	notes	2020 £m	2019 £m
Fixed assets			
Investments	5	200.2	168.9
Current assets			
Debtors	6	23.1	3.1
Cash at bank and in hand		5.6	4.2
Total current assets		28.7	7.3
Creditors: amounts falling due within one year	7	(12.8)	(13.0)
Net current assets/(liabilities)		15.9	(5.7)
Non-current liabilities			
Other financial liabilities	8	(11.8)	(10.2)
Net assets		204.3	153.0
Capital and reserves			
Called up share capital	9	4.4	3.7
Share premium accounts		138.8	106.9
Merger reserve		22.7	2.9
Profit and loss account		38.4	39.5
Total shareholders' funds		204.3	153.0

The loss of the parent company for the financial year was £2.4m (2019: £18.5m profit).

These financial statements on pages 188 to 189 were approved by the Board of Directors on 24 June 2020 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 2020

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 April 2018	3.6	106.9	2.9	27.1	140.5
Total comprehensive income 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
Total comprehensive loss for the year	–	–	–	(2.4)	(2.4)
Share-based payments	–	–	–	1.3	1.3
Shares issued (note 9)	0.7	31.9	27.9	–	60.5
Transfer to retained earnings	–	–	(8.1)	8.1	–
Dividends	–	–	–	(8.1)	(8.1)
At 31 March 2020	4.4	138.8	22.7	38.4	204.3

The £27.9m merger reserve arising during the year is available for distribution and £8.1m was transferred to retained earnings for the payment of the dividend.

The above includes £32.6m of reserves available for distribution to shareholders which is comprised of £12.8m out of the £38.4m Profit and loss account and £19.8m out of the £22.7m Merger reserve as at 31 March 2020.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2020

1. Basis of preparation

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. None of the new standards which became effective in the year had an impact on the Company.

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 Company acts as a holding company for investments in the subsidiaries and does not engage in any trading activities directly. The Company holds sufficient net current assets as at 31 March 2020 to continue as a going concern.

The factors considered in the going concern assessment of the Group are considered in note 2 to the Group's consolidated financial statements. 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.

2. Summary of significant accounting policies continued

Income recognition

Dividend income is recognised when the Company's right to receive payment is established.

Investments

Investments in subsidiary and associate undertakings are stated initially at cost, being the fair value of the consideration given and including directly attributable transaction costs. The carrying values are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

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.

Judgment and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgments, estimates and assumptions that affects the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Value of investments

Investments in subsidiaries are reviewed annually for impairment when indicators for impairment are identified. Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use or consideration of the net asset value of the entity. The value in use calculations require the entity to estimate the future cash flows, expected to arise from the investments and suitable discount rates in order to calculate present values.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2020

3. Profit of the parent company

The loss of the parent company for the financial year was £2.4m (2019: £18.5m profit). By virtue of section 408(3) of the Companies Act 2006, the Company is exempt from presenting a separate profit and loss account.

4. Employees

There were no employees of the Company during the year (2019:nil).

5. Investments

	Subsidiary undertakings £m
At 1 April 2018	167.8
Share-based payments	1.1
At 31 March 2019	168.9
Investment in subsidiaries	40.0
Impairment of investment	(10.0)
Share-based payments	1.3
At 31 March 2020	200.2

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

The investment in discoverIE Management Services Ltd was impaired by £10.0m following the annual impairment test. The recoverable amount of the investment at the reporting date was determined based on discounted cash flow calculations, using the forecast for FY21 and applying a growth rate of 5% up to FY25. Annual cash flow growth rates beyond the five-year period are assumed at 2% in line with the average long-term growth rates. The pre-tax discount rate applied to cash flow projections was 11.5%.

6. Debtors

	2020 £m	2019 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	21.3	–
Corporation tax	1.6	3.0
Deferred tax	–	–
Prepayments	0.2	0.1
	23.1	3.1

Amounts owed by subsidiary undertakings bore interest at a sterling base rate plus a margin of 1.75% or at a nil rate.

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

7. Creditors

	2020 £m	2019 £m
Amounts falling due within one year:		
Bank overdrafts	1.3	–
Amounts owed to subsidiary undertakings	10.5	10.6
Other payables	0.3	1.2
Accruals	0.7	1.2
	12.8	13.0

Bank overdrafts bear interest at 1.75% over LIBOR.

Amounts owed to subsidiary undertakings bore interest at a nil rate and are repayable on demand.

8. Other financial liabilities

Other financial liabilities of £11.8m at 31 March 2020 (2019: £10.2m) comprise drawdowns on the Group's revolving credit facility (see note 23 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.

9. Called up share capital

	2020	2020	2019	2019
Allotted, called up and fully paid	Number	£m	Number	£m
Ordinary shares of 5p each	88,705,915	4.4	73,358,847	3.7

During the year, 15.3m shares were issued raising £60.5m (of which £0.7m was share capital, with the balance allocated to share premium account and retained earnings as set out below).

On 18 April 2019, 7,309,867 shares were issued for a gross consideration of £29.2m before costs and £28.2m after costs. The shares were issued at 400 pence per share, a discount of 3.85 per cent to the closing share price of 416 pence per share on 15 April 2019. The shares were issued under a cash box structure and accordingly, £0.3m was share capital with the balance £27.9m being allocated to retained earnings. This amount is fully available for distribution.

On 17 October 2019, 8,034,840 shares were issued for a gross consideration of £33.3m before costs and £32.3m after costs. The shares were issued at 415 pence per share, a discount of 3.9 per cent to the closing share price of 432 pence per share on 16 October 2019. £0.4m was share capital with the balance of £31.9m being allocated to share premium account.

At 31 March 2020, there were outstanding nil-priced LTIPs for employees of subsidiaries to purchase up to 3,306,166 (2019: 2,629,936) ordinary shares of 5p each between 2020 and 2029. These are subject to certain performance conditions as disclosed in note 31 of the Group Financial Statements. During the year to 31 March 2020, employees exercised 2,361 share options under the terms of the LTIP scheme (2019: 1,940,991).

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.

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Corporate information	IBC



Industrial & Connectivity

Industrial & Connectivity is one of our target markets. Our focus on improving efficiency, automation and communication is well aligned with the UN Sustainable Development Goals.

- ➔ Read more on pages 18 to 19 for details of **our target markets**
- ➔ Read more on page 56 to 57 for our **alignment with the UN SDGs**

Contributing to the UN Sustainable Development Goals



Industry, Innovation and Infrastructure

The Group works closely with others in developing innovations that provide for more efficient energy use and improved infrastructure for communities of the future.



Fulfilling our purpose

INNOVATIVE ELECTRONICS TO HELP CREATE INDUSTRIES AND COMMUNITIES OF THE FUTURE



FIVE YEAR RECORD

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Group income statement					
Revenue	466.4	438.9	387.9	338.2	287.7
Gross profit	156.7	145.0	126.7	111.0	92.6
Underlying operating profit	37.1	30.6	24.5	20.0	16.3
Underlying profit before tax	32.8	27.2	21.9	17.2	14.5
Profit before tax	19.5	19.3	14.6	4.1	8.8
Profit for the year	14.3	14.6	10.6	3.5	6.6
Earnings per share					
Underlying diluted earnings per share	30.2p	27.2p	22.3p	19.2p	17.0p
Fully diluted earnings per share	16.5p	19.4p	14.2p	4.1p	10.0p
Dividend per share	2.97p	9.55p	9.0p	8.5p	8.05p
Group statement of financial position					
Net debt	(61.3)	(63.3)	(52.4)	(30.0)	(38.1)
Non-current assets	236.4	149.2	136.4	122.2	108.4
Net assets	200.5	134.7	126.8	122.5	101.3

PRINCIPAL LOCATIONS

Group head office

Country	Company	Location
United Kingdom	discoverIE Group plc / discoverIE Management Services Ltd	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, Rome
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
	Sens-Tech Limited	Egham
	Stortech Electronics Limited	Harlow
Variohm-Eurosensor Limited	Towcester	
Belgium	NSI BVBA	Bilzen
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, Hadsund
	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
	Santon GmbH	Nettetal
	Variohm-Eurosensor	Heidelberg

PRINCIPAL LOCATIONS

Design & Manufacturing division continued

Country	Company	Location
Hong Kong	Contour Asia Ltd	Kowloon
	Myrra Hong Kong Limited	Wanchai
India	Noratel India Power Components Pvt Ltd	Kerala and Bangalore
Mexico	Hobart Electronics	Agualeguas, Nogales
Netherlands	Santon Holland BV	Rotterdam
Norway	Foss AS	Drammen
	Noratel AS	Hokksund, Hamar
Poland	Myrra Poland 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 LLC.	Charlotte, NC
	Noratel Power Engineering LLC.	Carson, CA

FINANCIAL CALENDAR 2020/21

Annual General Meeting

19 August 2020

Results

Interim results for the six months to 30 September 2020

Late November 2020

Preliminary announcement for the year to 31 March 2021

Early June 2021

Annual Report 2021

Late June 2021

CORPORATE INFORMATION

Registered office

discoverIE Group plc

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

Telephone: 01483 544500

Incorporated in England
and Wales with registered
number: 2008246

Auditors

PricewaterhouseCoopersLLP

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

Equiniti Limited

Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: 0371 384 2001

Stockbrokers

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