



DELIVERING INNOVATION WITH PURPOSE

discoverIE

discoverIE Group plc

Annual Report and Accounts
for the year ended 31 March 2021

WELCOME TO THE 2021 ANNUAL REPORT

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

Innovation with purpose

discoverIE's purpose is to create innovative electronics that help to improve the world and people's lives.

➔ Read more about our purpose, mission and values on pages 04 to 05.

➔ Read more about our approach to sustainability on pages 58 to 69.

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



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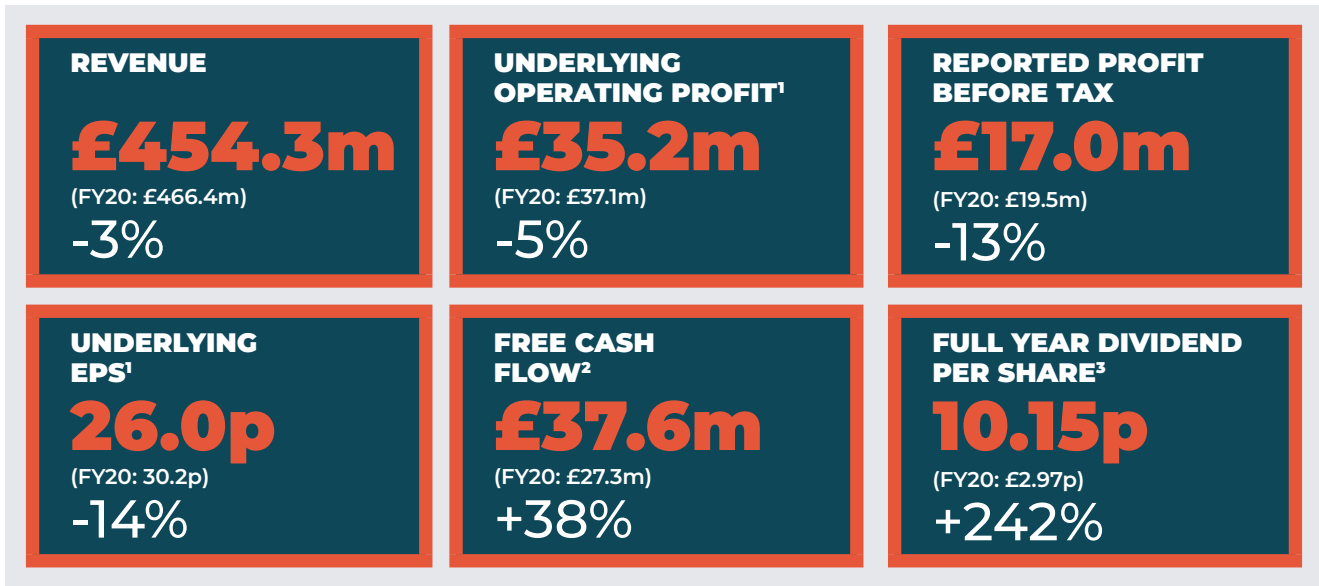
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Read our Impact Report 2021

We are focused on providing electronics that help the planet and its people. This report seeks to demonstrate some of the key benefits that our products provide in helping tackle climate change and improving healthcare.



HIGHLIGHTS



Strong second half order growth⁴ with sales returning to organic growth⁵ by year end

- H2 orders up 12% organically and 40% above H1
- H2 sales up 10% on H1 and returned to organic growth for the last two months
- Record year end order book, up 11% organically to £181m

Resilient trading during pandemic reflects strength of operating model and target market⁶ focus

- Group adapted quickly to pandemic, creating safe working practices and maintaining service levels
- Full year Group sales 6% lower organically with target markets well ahead of wider markets
- Gross margin increased by 0.6ppts to 34.2% (FY 2019/20: 33.6%)
- Underlying operating expenses reduced by 2% and working capital by 13%
- Underlying PBT recovered to be 3% higher than last year in H2, and 4% lower for the year
- EPS of 26.0p, ahead of expectations

Excellent cash generation with resumption of acquisitions and dividends in H2

- £38m of free cash flow, up 38% on last year and 157% of post-tax profit
- Two acquisitions completed during H2 for £21m (Phoenix and Limitor)
- ROCE⁷ for the year recovered well to 14.5% (H2: 15.6%; H1 12.7%)
- Year-end gearing down to 1.1x, well below target range of 1.5x to 2.0x
- Full year dividend increased by 6% over FY 2018/19 (last full dividend payment)

Key strategic initiatives on track towards FY 2024/25 targets

- 65% of Group sales in D&M⁸, up 1ppt, with a target of greater than 75%
- Sales in target markets of 70%, up 2ppts, with a target of 85%
- Carbon emissions reduced by 19% and by 6% underlying⁹
- Underlying operating margin of 7.7%, 0.3ppts lower, with a target of 12.5%

New year has started well with record order book

- Strong order intake continues and ahead of sales
- Organic sales growth over the last two years
- Completed US sensor acquisition (Control Products Inc) in May 2021
- Strong pipeline of acquisition opportunities

Notes

1. 'Underlying Operating Profit', 'Underlying EBITDA', 'Underlying Operating Expenses', '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 £11.1m, acquisition and merger expenses of £2.0m and the IAS19 pension charge relating to a legacy defined benefit scheme of £1.4m) totalling £14.5m. Equivalent underlying adjustments within the FY 2019/20 underlying results totalled £13.3m.
2. Free cash flow is cash flow before dividends, acquisitions and equity fund raising.
3. No final dividend declared for FY 2019/20 as part of COVID-19 cash saving measures. The final dividend for this year is 6% higher than the last full dividend declared in FY 2018/19.
4. Growth rates are at constant exchange rates ("CER") and refer to the comparable prior year period unless stated. The average sterling rate of exchange against the Euro weakened by 2% compared with the average rate last year, and by 2% on average against the three Nordic currencies, but strengthened by 3% compared with the US dollar rate for last year.
5. Organic growth for the Group is calculated at CER and is shown excluding the first 12 months of acquisitions post completion (Sens-Tech was acquired in October 2019, Phoenix in October 2020 and Limitor in February 2021).
6. Target markets are renewable energy, medical, transportation, industrial & connectivity.
7. 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.
8. D&M is the Group's Design & Manufacturing division.
9. Carbon emission reductions were 19% from CY 2019 to CY 2020 on a like-for-like basis excluding acquisitions in CY2020; on an underlying basis (i.e. with emissions adjusted to normalise the impact of COVID-19), carbon emission reductions were 6%.

INVESTMENT CASE

Focus on customised electronics



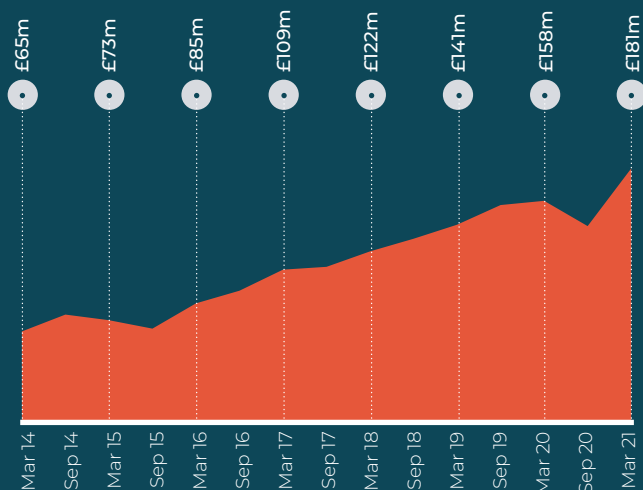
Highly differentiated electronic products with optimised performance for the applications of our customers

➔ Read more about our customised electronics on pages 20 and 21

Drivers of future performance

- Project wins and new opportunities driving future organic growth
- Order book
- Cross-selling opportunities between our businesses
- International expansion
- Good track record of value-accretive acquisitions, with a robust acquisition pipeline

Order Book (£m)



Attractive growth markets



Markets with increasing electronic content

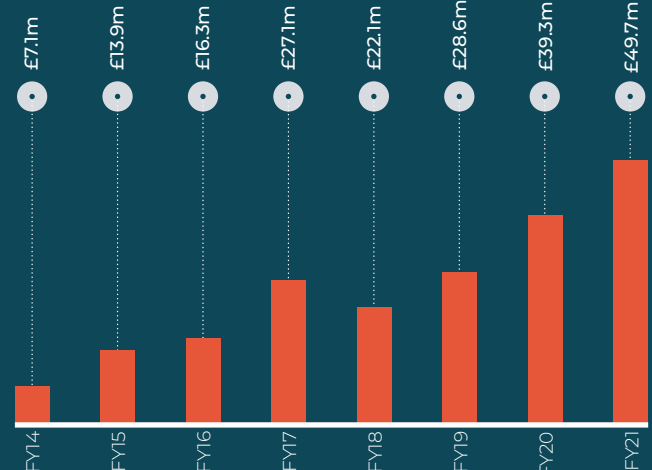
Long term growth driven by both technology trends and economic factors

➔ Read more about our market review on pages 16 and 17

Strong financials

- Solid balance sheet
- Progressive dividend policy
- Sustainable, profitable growth
- Excellent cash generation
- Proactive management of ESG-related matters

Operating Cash Flow (£m)



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

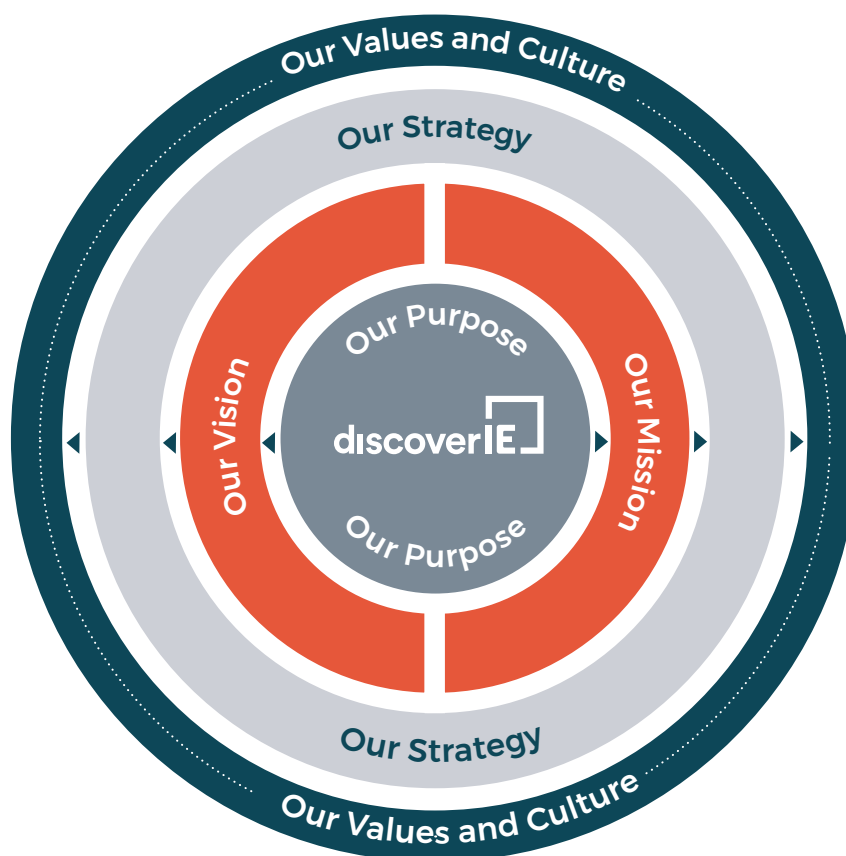
What we want to be

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



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 66 to 69



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 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 about our strategy on pages 18 to 19

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:

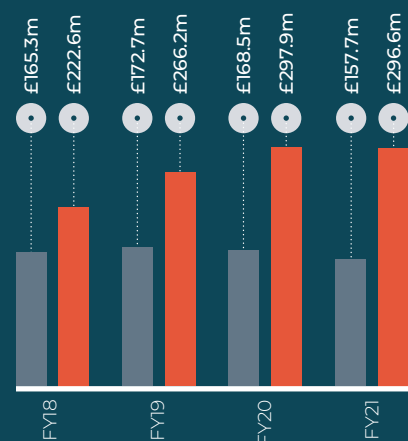
- Honest, reliable and trusting
- Decentralised decision-making close to the customer
- Open, constructive communication and willingness to listen
- Non-political, non-bureaucratic
- Performance, target and results driven

GROUP AT A GLANCE

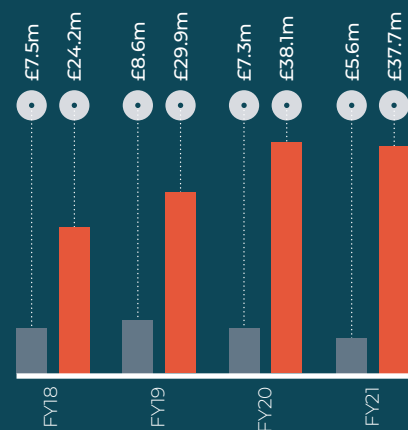
Our divisions

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 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

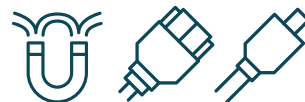
3.6%

NUMBER OF EMPLOYEES

396

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 to customer specifications to over 5,000 customers.

**UNDERLYING
OPERATING MARGIN**

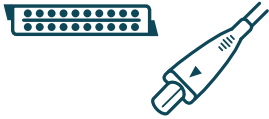
12.7%

**NUMBER OF
EMPLOYEES**

3,831

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

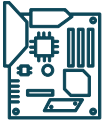


End use example:

- Data centres

Hectronic

Embedded computers



End use example:

- Transportation

Hobart

Linear transformers



End use example:

- Solar power

Limator

Thermal & energy sensors

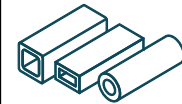


End use example:

- Professional coffee machines

MTC

EMC-shielding

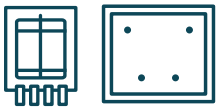


End use examples:

- PCs, servers and peripherals

Myrra

Transformers and power supplies



End use example:

- Electric vehicle chargers

Noratel

Power transformers

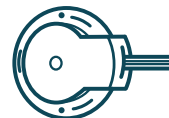


End use example:

- Wind turbines

Phoenix

Magnetic sensors & encoders



End use example:

- Motion control & sensing

Positek

Linear transducers



End use example:

- Specialised vehicles & transportation

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

Our two divisions operate across 24 countries. 28% of Group sales for the year were beyond Europe.

During the year, the Group acquired new facilities in the USA, Germany and Hungary. We expanded facilities in Bangalore and plans are underway to expand capacity in Mexico and Norway.

As a global supplier, we are able to follow the opportunities of our customers internationally, matching our product diversity with quality, flexibility and technical engineering wherever there is a need for our solutions.

COUNTRIES

+24

DESIGN & MANUFACTURING

Contour ^{Co}
UK
Hong Kong

Cursor
Controls ^{Cu}
UK
Belgium

Flux ^{Fl}
Denmark
Thailand

Foss ^{Fo}
Norway
Slovakia

Hectronic ^{He}
Sweden

Hobart ^{Ho}
USA
Mexico

Limitor ^L
Germany
Hungary

MTC ^M
Germany
South Korea

Myrra ^{My}
France
China
Poland
Germany
Hong Kong

Noratel ^N
Norway
China
India
Sri Lanka
Poland
Germany
Sweden
UK
Denmark
Finland
USA
Canada

Phoenix ^{Ph}
USA

Positek ^{Po}
UK

Santon ^{Sa}
Netherlands
UK
Germany

Sens-Tech ^{Se}
UK

Stortech St
UK

Variohm ^{Va}
UK
Germany



North America

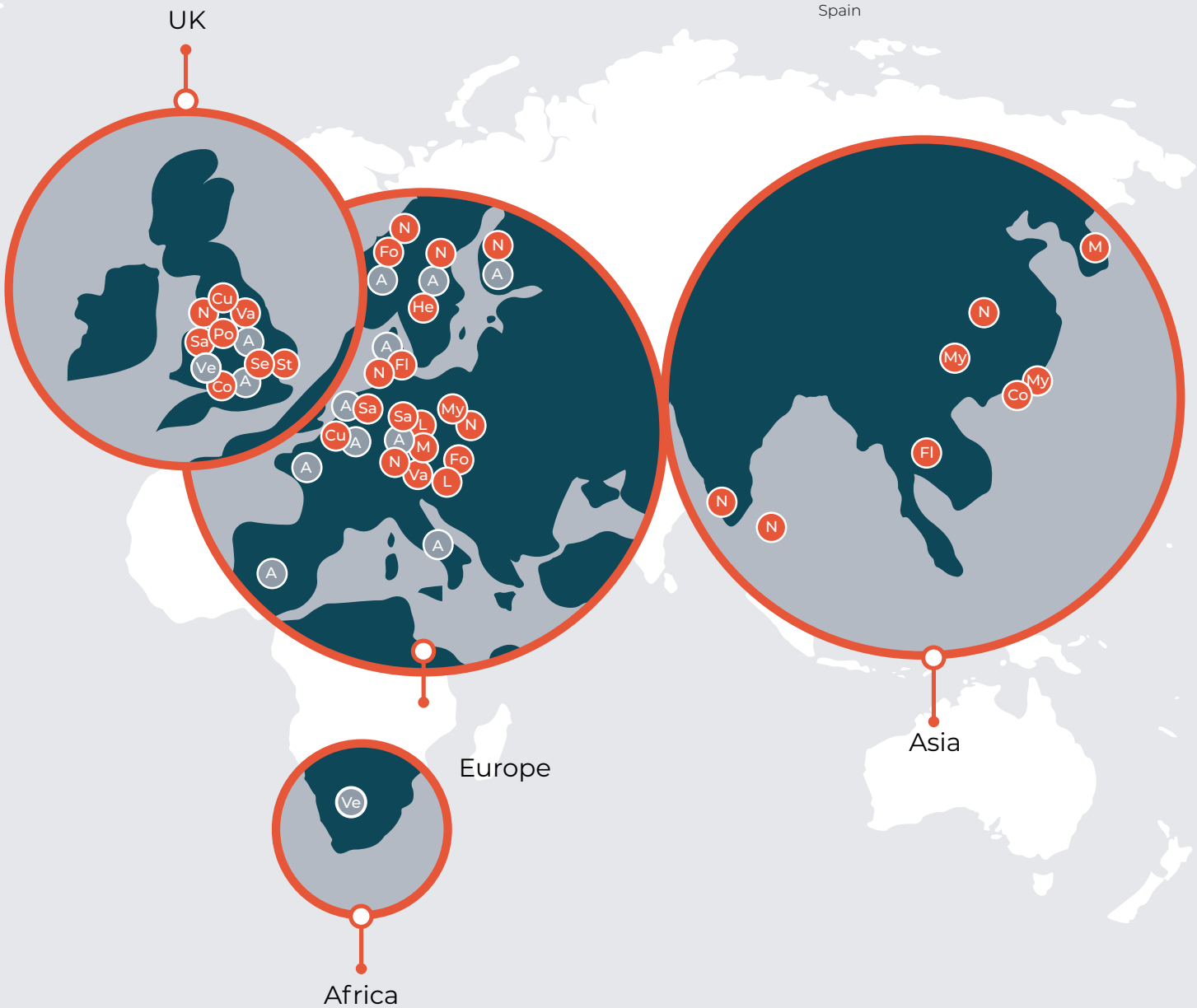


Read more about the internationalisation of our business on page 19

CUSTOM SUPPLY

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

- Vertec** (Ve)
 UK
 South Africa



CHAIRMAN'S STATEMENT



“The Group has demonstrated the quality and resilience of its businesses and is well positioned for continued growth in the year ahead.”

Malcolm Diamond MBE
Chairman

2021 HIGHLIGHTS

GROUP REVENUE

£454.3m

UNDERLYING OPERATING PROFIT

£35.2m

This year coincided with the unprecedented COVID-19 pandemic, testing every aspect of the Group's business.

The Group's multiple operations around the world responded quickly, establishing safe working practices and maintaining continuity. While the effects of the pandemic are evident in these results, the Group's ability to mitigate the impact and to rebound strongly in the second half represents a very creditable performance, while continuing to make progress on the strategic priorities.

Cash generation was very strong, reflecting both the quality of earnings generated by the business and the efficient nature of the Group's operating model. This, together with a number of prudent actions taken in the first half, such as suspending acquisitions and dividends, served to reduce gearing to the lowest level in seven years, minimised risk and enabled a strong recovery as conditions improved in the second half.

The Group is committed to reducing the impact of its business operations on the environment. Along with its focus on selling into markets that are aligned with a sustainable future, the Group has introduced an important sustainability target this year, to reduce its carbon emissions by 50% over five years, and good progress has been made to date.

Throughout the year, the Group has demonstrated the quality and resilience of its businesses and with good levels of operational and funding capacity, is well positioned for continued growth in the year ahead.



Strategy

discoverIE is a customised electronics business operating internationally, focusing on structurally growing markets 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 our target markets being worldwide and major customers operating internationally, the business is expanding both within and beyond Europe, building an international electronics group supplying complex, value-added solutions for international customers.

Alongside organic growth, acquisitions have made a significant contribution to the development of the D&M division and over the 11 years to 31 March 2021, we have acquired 16 specialist, high margin D&M businesses which have been integrated successfully, helping to drive our growth. An additional business has been acquired since the year end. We have a well-developed and disciplined approach to acquisitions and continue to see significant scope for further expansion of the D&M division with several acquisition opportunities in development.

The Group's capital-light model delivers strong cash flows which we look to reinvest into accelerating the strategy and delivering further value creation for shareholders.

Sustainability and Social Responsibility

The Group provides innovative electronics that help customers create new technologies for a sustainable world. Applications which use our products help reduce power consumption and increase efficiency, such as wind turbines for renewable energy, charging infrastructure for vehicle electrification and wireless and fibre optic communications. This focus on sustainability forms the core of our target markets where, through targeted growth initiatives, we aim to grow our revenues organically. These trends are reported in our key strategic indicators as target market sales. Additionally, the Group has reduced emphasis in market areas that are inconsistent with a long term sustainable agenda.

The Group also aims to be a socially responsible employer, adhering to the highest ethical standards both internally and externally through its supply chain, with excellent employee relations and a commitment to increasing diversity in the workplace.

Reporting to the Board, the Group Executive Committee has responsibility for ESG implementation around the Group and each member has the achievement of ESG objectives included in their bonus plans.

CHAIRMAN'S STATEMENT

Group Results Summary

Group sales for the year reduced by 3% to £454.3m, with underlying operating profit, which excludes acquisition-related costs, reducing by 5% to £35.2m and underlying profit before tax reducing by 4% to £31.5m.

Underlying earnings per share for the year reduced by 14% to 26.0p (FY 2019/20: 30.2p) as a result of the combined effect of share capital increasing by 6% following equity fund-raising last year, the underlying tax rate increasing by 4ppts to 24% and profitability reducing by 5%.

After accounting for acquisition-related costs of £14.5m (FY 2019/20: £13.3m), profit before tax for the year on a reported basis was £17.0m, 13% lower than last year (FY 2019/20: £19.5m) with fully diluted earnings per share of 13.0p (FY 2019/20: 16.5p).

Free cash flow increased by 38% to £37.6m (157% of underlying profit after tax) driven by an inflow from lower working capital as well as swift operational actions taken in response to COVID-19. This resulted in net debt reducing by £35.9m during the year (before including the cost of two acquisitions) with net debt at the year end of £47.2m and a gearing ratio of 1.1x, reducing by 0.15x over the year (gearing: 1.25x at 31 March 2020).

Acquisitions

The Group paused acquisitions during the first half during the height of the pandemic to preserve resources, recommencing in the second half. The Group made two acquisitions of specialist sensor manufacturers: the German-based Limitor GmbH ("Limitor") and the trade and assets of the US-based Phoenix America Inc ("Phoenix"), for a combined initial cash consideration of £21.2m on a debt free, cash free basis.

Both businesses are being integrated into the Group and now operate within the Variom sensors cluster in the D&M division, retaining their distinct identity and high-quality management teams. Their complementary product ranges and wider access to customers should create cross-selling opportunities in our target markets and drive further growth. Both businesses have started well and in line with expectations, delivering organic growth in orders and sales.

Since the year end, we have also acquired Control Products Inc ("CPI"), a New Jersey, USA, based designer and manufacturer of custom, rugged sensors and switches for £8m on a debt free, cash free basis.

We are delighted to welcome the employees of all three businesses into the Group.

COVID-19

The Group responded decisively to the coronavirus pandemic at the beginning of the year, prioritising the well-being of employees and trading partners, supporting customers, quickly developing solutions for medical market customers, maintaining business continuity and preserving resources.

Widespread changes were made to operating procedures across the Group's 29 international manufacturing locations with high levels of operational continuity and only a small number of short term site closures, as required by local government regulations, which has continued into the new year.

Employees and Culture

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

The Group comprises approximately 4,400 employees in 24 countries around the world. By adopting an entrepreneurial and decentralised operating environment, together with rigorous planning, review, support, investment and controls, and with a commitment to increasing diversity, the Group has created an ambitious and successful culture.

We aim to achieve a culture across the Group that:

- is entrepreneurial
- is honest, reliable, trusting and non-political
- enables decision making close to the customer through a decentralised structure
- enables open, constructive communication with a willingness to listen
- is performance, target and results driven

Dividend

Last year, with the onset of COVID-19, the Board took the prudent decision not to declare a final dividend for FY 2019/20. With an improving outlook by the third quarter, and strong cash flow, the Board reinstated dividends in November 2020 with a 6% increase in this year's interim dividend to 3.15p per share (H1 2019/20: 2.97p per share).

With the Group's performance continuing to improve, the Board is recommending a final dividend of 7.0p per share, giving a full year dividend of 10.15p per share, 6% higher than the pre-pandemic dividend for FY 2018/19 of 9.55p per share. This represents a cover against underlying earnings of 2.6 times (FY 2018/19: 2.8 times). The final dividend is payable on 3 August 2021 to shareholders registered on 11 June 2021. Since 2010, the annual dividend per share has doubled and the total dividend payment has increased by nearly 400%.

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

Summary

With these results, the Group has demonstrated its strength and adaptability through a year of unprecedented market and operational conditions. The benefits of discoverIE's clear commercial and operational strategy, which delivered strong organic growth during the 'up' cycle of the previous few years, have enabled the Group to demonstrate real resilience through the pandemic and leave it well positioned to capitalise on the significant long term opportunities ahead.

By focussing on custom products in attractive growth markets, the Group has a high-quality business with excellent prospects. The customised electronics market remains highly fragmented, providing scope to further build capability and extend geographic coverage through disciplined acquisitions.

Despite the challenges still posed by the pandemic in certain parts of the world, the Board and management are excited by the opportunities ahead to continue building a global business that attracts and retains high quality employees, delivers exceptional value to our customers, grows long term returns for our shareholders, contributes to the creation of a sustainable environment and that adheres to the highest standards.

Malcolm Diamond

Chairman

03 June 2021

BUSINESS MODEL

discoverIE is an international leader in customised electronics focusing on markets with sustained growth prospects and increasing electronic content. Our purpose is to create innovative electronics that help to improve the world and people's lives.

OUR INPUTS

Our purpose, 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.

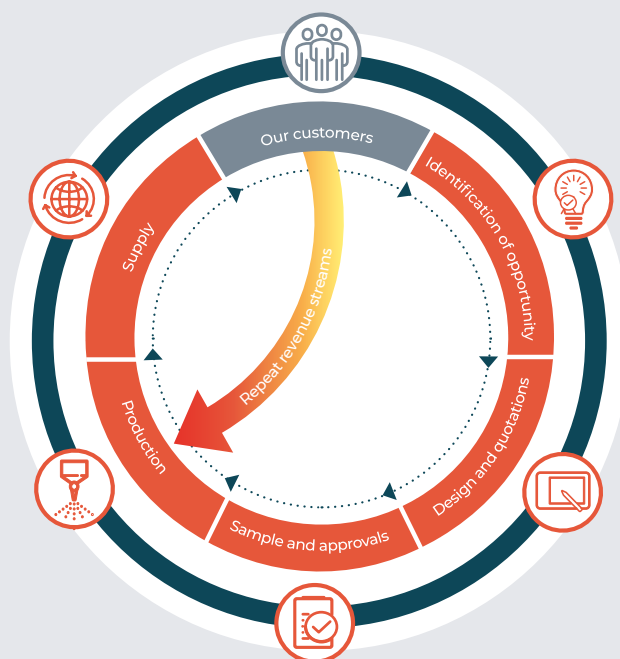
Long-term customer relationships

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 heavily in our businesses and make acquisitions that add to our expertise.

BUSINESS 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 its 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.

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.

Our competitive advantages

Global reach

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

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.

Differentiated products

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



Our customers

Large customer base, spread geographically and across multiple industries. Our customers are Original Equipment Manufacturers that require solutions for their product-specific applications. With rising electronic content, customers are increasingly dependent on technology to develop their next-generation products.



Identification of opportunity

By working closely with our customers, we are able to understand their needs and jointly develop appropriate solutions. We understand our customers, how they operate and how our components and solutions fit into their products. The solutions we provide result in an enhanced performance of our customers' products, which benefits both customers and their end users.



Design and quotation

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



Sample and approvals

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



Production

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



Supply

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

VALUE CREATION

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

Growth areas where electronics will drive efficiency, intelligence and sustainability

Long-term technology 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.

Sales in target markets' continue to increase

TARGET MARKETS

£317.0m

70%

OTHER MARKETS

£137.3m

30%



Notes

1. Target markets are renewable energy, transportation, medical and industrial & connectivity



RENEWABLE ENERGY

Mega trends

Decarbonisation & Diversification

Market drivers

- Geopolitical consensus
- Growing public awareness
- Legislative and regulatory regimes
- Cost of energy

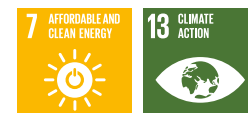
Technology integration

- Increasing scale of wind turbines
- Diversification of solar systems

discoverIE's solutions

- Power inductors
- Turbine blade pitch control
- Airflow measurement

Our global impact





TRANSPORTATION

Mega trends

Electrification & Autonomous vehicles

Market drivers

- Decarbonisation
- 'Safety-centric' agenda
- Mass transit & route vehicles

Technology integration

- Electric vehicles
- Mass transit & route vehicles
- Autonomous vehicles
- High speed rail

discoverIE's solutions

- Charging
- Sensing systems
- Power control
- Cabin monitoring & control

Our global impact



MEDICAL

Mega trends

Artificial intelligence, sensing & analytics

Market drivers

- Proactive & preventative medicine
- Technological & biological fusion
- Predictive analytics

Technology integration

- Monitoring & control
- Automation & robotics
- Advanced surgery

discoverIE's solutions

- Embedded diagnostics
- Interface device & cabling
- Power systems

Our global impact



INDUSTRIAL AND CONNECTIVITY

Mega trends

Connectivity, automation & Industrial Internet of Things

Market drivers

- Remote monitoring & control
- Quality control
- Precision & automation

Technology integration

- Automation & robotics
- 'Smart factories'
- Artificial intelligence
- Increasing electronic content

discoverIE's solutions

- Wireless telematics
- Fibre optic connectivity
- Communication technologies
- Wireless robotics control
- Power control

Our global impact



OUR STRATEGY



“Our strategy is clear and our continued strong performance demonstrates the success of our model. The Group is well positioned for growth in the coming years.”

Nick Jefferies
Group Chief Executive

Our vision is to design and supply innovative customised electronics that help our customers create ever better technical solutions around the world.

Our strategic aim

To grow our business in customised electronics by focusing on markets with sustained growth prospects, driven by 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 product.

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 strategy in our Corporate governance report on pages 74 to 84

Strategic priorities	Progress made	Link to key strategic indicators	Link to risks
 <p>Growing sales well ahead of GDP Grow sales well ahead of GDP over the economic cycle by focusing on structural growth markets.</p>	<p>The Group had resilient trading during H1 FY 2020/21 despite the pandemic, reflecting the strength of our operating model. Full year Group sales were 6% lower organically, with target markets well ahead of wider markets. There was strong order growth in H2 FY2020/21 and sales returned to organic growth for the last two months of the year.</p>	<p>C D</p>	<p>1 4 5 7 8</p>
 <p>Continue building revenues in the higher margin D&M division Continue building revenues in the Design & Manufacturing ("D&M") division where operating margins for our businesses are higher than in Custom Supply.</p>	<p>The higher margin D&M division delivered 65% of Group sales in FY2020/21, up 1ppt on last year (FY 2019/20: 64%).</p> <p>D&M generated 87% of the Group's underlying operating profit contribution (FY 2019/20: 84%).</p>	<p>A B</p>	<p>2 4 5 6 7</p>
 <p>Acquire high quality businesses Acquire businesses within attractive growth markets.</p>	<p>During the year, the Group completed two acquisitions, the business of Phoenix in October 2020 and then Limitor in February 2021.</p>	<p>A B C D</p>	<p>1 2</p>
 <p>Internationalising the business Internationalise the business by developing sales in North America and Asia.</p>	<p>The acquisition of Phoenix brought in a new US business and the acquisition of Limitor brought in a German business with manufacturing capacity also in Hungary.</p> <p>Sales beyond Europe accounted for 28% of total sales.</p>	<p>C</p>	<p>1 2 7</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

Risks

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

INNOVATION WITH PURPOSE

We create innovative electronics that make a difference to the planet and people's lives. We create products that deliver value for our consumers in a number of areas, contributing to a better future:

Investing in renewable energy electronic solutions



Our innovative electronics are used in renewable energy solutions, contributing to the generation of efficient fossil-free sources of energy

Customer application examples

- Vertical 'cone' scanning LiDAR for wind turbines, used to analyse wind speed and direction
- Roller blind with solar panels built in to generate solar energy
- LiDAR for sensing wind to help wind energy projects harvest as much power as possible

Sustainability benefits

- Our products ensure maximum efficiency and yield, allowing for the increase of energy produced from wind.
- Roller sun blinds are an innovative solution for offices and homes which can be lowered to block the sun and generate renewable electricity.
- Our reactors are used to filter the converted power and to supply the grid with clean electricity.

Relevant target markets



Advancing the electrification of transportation



We provide electrification solutions, encouraging the conversion from fossil fuel usage to renewable energy

Customer application examples

- Electrical motors used for powering electrical vehicles and hybrid electric vehicles
- Pressure transmitter used in zero-emission buses running on hydrogen based power
- Charging solutions for electric vehicles

Sustainability benefits

- Our products are used in hybrid and electric vehicles which reduce or avoid particle concentrations in urban areas and limit the emission of greenhouse gases
- Our hypercharger is three times faster than a normal charger, contributing to further efficiencies, reducing particle emission and greenhouse gases.
- Our product is used on zero-emission buses, contributing to the reduction of greenhouse gas emissions and the UK Government's target to be net-zero by 2050.

Relevant target markets



Read our Impact Report 2021

This Report provides examples of how our products benefit the planet and its people.

Please find it at www.discoverIEplc.com

Renewable energy



Transportation



Medical



Industrial & connectivity



Contributing to improving efficiencies in energy use



Our products are designed to minimise energy consumption and emissions, ensuring great performance efficiently and effectively

Customer application examples

- Wireless thermostat that customers can control remotely, with flexibility
- HVDC switches used in high-voltage, direct current (HVDC) electric power transmission systems
- UniQ Heat battery: an energy storage solution used in household boilers

Sustainability benefits

- Our products reduce greenhouse gas emissions and energy consumption.
- Our HVDC technology allows for efficiencies by reducing power losses from 6.5% to 3.5% compared to alternative methods.
- When installed in a household, our product generates proven energy savings of between 40% and 80% and carbon dioxide emission reductions of between 20% and 40% per unit.

Relevant target markets



Enhancing the quality of life and care for people



We are improving lives through innovation, providing products that are used across the medical industry

Customer application examples

- Nebulisers for effective aerosol drug delivery, a technique of administering medication directly into the airway and lungs
- World-class DXA systems for measuring bone density
- Transformers for intensive care ventilators

Sustainability benefits

- Our product increases the effectiveness of the inhaled medication. The product results in faster symptom control, reduced likelihood of hospital admittance and shorter stays for spontaneously breathing patients.
- On average, the bone density densitometer benefits 20 patients per day, typically equating to 34,300 patients each year.
- Our product is used in intensive care ventilators, providing life-sustaining ventilation and breathing support for critical care patients in hospitals during the COVID-19 pandemic.

Relevant target markets



KEY STRATEGIC INDICATORS

A Increase share of Group revenue from D&M¹

FY25 Target **>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 65% of Group sales, up 1ppt on last year (FY 2019/20: 64%), generating 87% of the Group's underlying operating profit contribution (FY 2019/20: 84%); importantly, customer concentration remains low with no single customer accounting for more than 7% of Group sales.

¹ As a percentage of Group revenue

B Increase underlying operating margin

FY25 Target **12.5%**



Definition

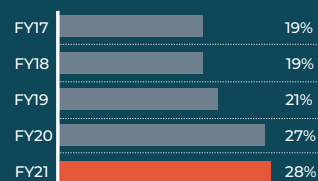
Underlying operating profits as a percentage of sales.

Commentary

Underlying operating margin was impacted by reduced sales in the year resulting from the global slowdown caused by the pandemic partly offset by savings from lower operating costs, reducing by 0.3ppts to 7.7%. We aim to achieve organic margin improvement through growth-based efficiencies and to acquire businesses with margins that are higher than our D&M division, with a target in the next four years to increase the margin to 12.5%.

C Build sales beyond Europe¹

FY25 Target **40%**



Definition

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

Commentary

28% of Group sales were beyond Europe, in line with last year, with sales arising from stronger organic growth in Asia and the acquisition of the US-based Phoenix, being offset by weaker organic sales in North America and the acquisition of the German-based Limitor. We continue to seek acquisitions with high quality international revenues with a target to reach 40% of sales by FY 2024/25.

¹ As a percentage of Group revenue

D Target market sales¹

FY25 Target **85%**



Definition

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

Commentary

In June 2020, we introduced a new mid-term target of achieving 85% of Group sales from our target markets, all of which have long-term growth momentum. Since first publishing this data, target market sales have increased from 56% of Group sales in FY 2016/17 to 70% this year, with an increase of 2ppts over last year. As in previous years, sales in target markets outperformed sales in other markets with target market sales in D&M reducing by 3% organically compared with other markets which were 10% lower.

¹ As a percentage of Group revenue

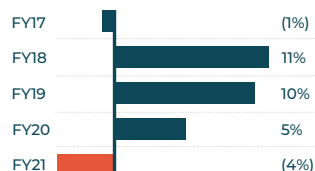
KEY PERFORMANCE INDICATORS

① Sales growth

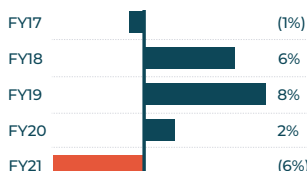
CER



D&M Organic



Group Organic



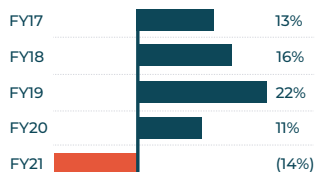
Commentary

Group organic sales reduced by 6% driven by a stronger performance in our D&M target markets where organic sales were 3% lower. Second half organic sales reduced by 3% and returned to growth for the last two months of the year.

■ Targets **Well Ahead of GDP**

② Underlying EPS growth

■ Target **>10%**



Commentary

Underlying EPS for the year was 14% below last year (FY 2019/20: +11%), a combination of the equity issuance in the second half last year, and increased underlying tax rates as well as the impact of COVID-19.

③ Dividend growth

■ Target **Progressive**



Commentary

As part of cash conservation actions taken earlier in the year, a final dividend for last year was not paid. Dividends resumed this year at a level 6% higher than in FY 2018/19 (the last full dividend payment year).

For FY 2019/20, the 6% increase was in the H1 interim dividend over FY 2018/19.

④ ROCE⁽¹⁾

■ Target **>15%**



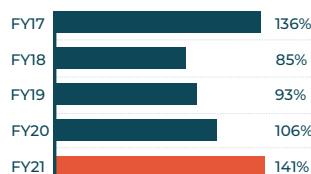
Commentary

ROCE reduced to 14.5% (FY 2019/20: 16.0%) reflecting the lower underlying operating profit resulting from COVID-19. First half ROCE reduced to 12.7% before recovering to 15.6% in the second half, which is ahead of our 15% target.

1. Defined in Note 2 of the financial statements

⑤ Operating profit conversion

■ Target **>85% of underlying operating profit**

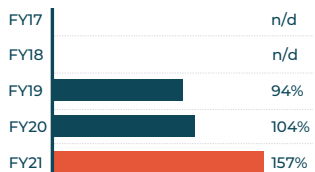


Commentary

Operating cash conversion for the year was very strong at 141% of underlying operating profit, significantly above our 85% target, reflecting tight management of working capital, working capital inflow from lower sales and lower capital expenditure throughout the year. Over the last eight years since targets were introduced, operating cash conversion has been consistently strong through the cycle.

⑥ Free cash conversion⁽¹⁾

■ Target **>85% of underlying PAT**



Commentary

Strong operating cash flow has translated into strong free cash conversion (being cash available for dividends and acquisitions) at 157% of profit after tax, again significantly ahead of our 85% target. This target was established last year as we seek to become a business which can increasingly and repeatedly self-fund acquisitions.

1. Defined in Note 2 of the financial statements

⑦ Carbon emissions

■ Target **50% reduction vs CY2019**



Commentary

A new target was introduced during the year for the reduction of carbon emissions from our existing businesses by 50% over five years. Additionally for new acquisitions, we are targeting that within the first five years of ownership, at least 50% of their energy demand is generated from renewable sources. For calendar year 2020, carbon emissions reduced by 19% on a like-for-like basis and by 6% on an underlying basis adjusted for the effects of COVID-19.

- 22.91 tCO₂e/ £m turnover
- 21.54 tCO₂e/ £m turnover
- 11.45 tCO₂e/ £m turnover

STRATEGIC AND OPERATIONAL REVIEW



“While Group sales reduced by 4% CER to £454.3m, strong second half order growth resulted in a record order book at year-end of £181m, 15% higher than last year at CER, and 11% higher organically.”

Nick Jefferies
Group Chief Executive

Overview

The Group is pursuing its clear and established strategy of focussing on growing opportunities for customised electronic products in targeted growth markets, namely renewable energy, medical, transportation and industrial & connectivity. Group organic sales were 6% lower than last year (4% lower in the D&M division and 8% lower in the Custom Supply division) due to the effects of COVID-19. Performance in our target markets, which accounted for 70% of Group sales, has been better than other markets which were more severely affected by the global pandemic. Including acquisitions, Group sales reduced by 3% on a reported basis and by 4% CER to £454.3m.

As a result of the uncertainty caused by the onset of the pandemic, customers significantly reduced their placement of new orders in April and May 2020 to cover a much shorter period with the result that orders for the first half were 18% lower than last year organically with a book to bill ratio of 0.91:1. The situation stabilised over the summer, and orders picked up strongly in the second half being 40% higher than the first half at CER and up 12% organically, as longer term orders resumed. Orders were significantly ahead of sales with the book to bill ratio of 1.19:1 for the second half and 1.05:1 for the full year. This strong second half order growth resulted in a record order book at the year-end of £181m, 15% higher than last year at CER, and 11% higher organically.

During the year, we introduced a carbon emissions reduction target, with the intention to reduce Group emissions by 50% over five years. Along with the focus on selling into markets that are aligned with a sustainable future, this target reflects the Group's commitment to reducing the impact of its operations on the environment. A good start has been made with underlying carbon emissions reducing by 6% in calendar 2020 since last year. Overall carbon emissions reduced by 19%, the difference being savings arising from the impact of the pandemic on our operations including sites closures, freight and travel reductions.



COVID-19

The Group responded decisively to the emergence of the COVID-19 pandemic, prioritising the well-being of employees, supporting customers and trading partners, developing fast solutions for medical market customers, and maintaining business continuity. Whilst sales in China, which were impacted by the pandemic at the end of last year have recovered quickly and returned to growth, its effects have been felt across all other regions where the Group operates.

The Group has operations in 24 countries, with 29 manufacturing facilities in 18 of those countries across Europe, the UK, Asia and the Americas. Four facilities (Sri Lanka, California and two in India) were required by government mandate to close for short periods during the first half. By the year end, all sites were open with capacity mostly back to normal levels as organic sales growth returned to the Group in the last two months of the year. The recent escalation of the pandemic in India, where the Group has two production facilities, and Sri Lanka, has resulted in some disruption to those operations. We expect this situation may continue for some time and are making arrangements to mitigate the impact. The effects on the Group overall are expected to be minimal.

With a decentralised structure, the Group was able to adapt quickly to establish safe working practices and appropriate distancing measures, with each business making changes to suit its particular needs and welfare requirements. At its peak, around 650 employees were working from home although this has since reduced.

During the year we took prudent actions to preserve cash and reduce operating expenses, including:

- Deferral of non-essential capital expenditure and other discretionary spend
- Freezes in pay rises and hiring
- 20% salary reduction for the Board and Group Executive Committee for three months and reduced bonuses for the Group Executive Committee
- Increased focus on working capital efficiency

These actions led to organic operating costs being 2% lower than last year, a reduction of 4% over last year's second half run rate, with working capital and capital expenditure being 13% and 43% lower than last year respectively. These reductions all helped to achieve strong operating cash generation for the year of £49.7m, up 26% on last year (141% of underlying operating profits).

Additionally, during the first half, acquisitions were deferred and no final dividend was made for the year ended 31 March 2020. By the second half with an improving outlook, continuing strong cash generation and low gearing, the Group repaid all UK furlough payments received, resumed acquisitions with two deals completed, and resumed its dividend with a 6% uplift compared with FY 2018/19, the last year pre-pandemic.

STRATEGIC AND OPERATIONAL REVIEW

Sustainability and Social Responsibility

The Group provides innovative electronics that help customers create new technologies for a sustainable world. Applications which use our products help reduce power consumption and increase efficiency, such as wind turbines for renewable energy, charging infrastructure for vehicle electrification and wireless and fibre optic communications. This focus on sustainability forms the core of our target markets where, through targeted growth initiatives, we aim to grow our revenues organically. These trends are reported in our key strategic indicators as target market sales. Additionally, the Group has reduced emphasis in market areas that are inconsistent with a long term sustainable agenda.

Our target sales markets are well aligned to a sustainable agenda and last year we set ourselves the goal of achieving 85% of sales from those target markets by the end of FY 2024/25. By the end of this year, sales from target markets were 70% of Group sales and 75% of sales in our D&M division.

Please refer to the Group's Impact Report which will be published online with the Annual Report and Accounts and which illustrates how the Group is helping meet the sustainability challenges facing the world today.

Carbon emissions

During the year we introduced carbon reduction targets for the Group. With 29 manufacturing locations, the primary source (80%) of our emissions is from purchased electricity (Scope 2 emissions). The remainder are mainly from vehicles (Scope 1).

We plan to reduce emissions by sourcing electricity from renewable and lower or zero carbon sources and to reduce electricity demand through more efficient working practices. This will include both sustainably generated grid sourced power and the installation of renewable power sources at some sites.

It is planned to achieve a 50% reduction in carbon emissions from existing businesses over 5 years and additionally, it is targeted that for newly acquired businesses, within the first 5 years of ownership, at least 50% of their energy demand will be generated from renewable sources.

During the year the Group committed to invest c.£1m in capital expenditure for renewable energy generation in Sri Lanka and Poland which will be installed in the coming year. Good progress towards our targets has been made in calendar year 2020 with a 6% year-on-year reduction in underlying carbon emissions. Overall carbon emissions were 19% lower.

Brexit

As expected, discoverIE has not been materially impacted by Brexit, and although there was some minor disruption in the first few weeks as new border processes were established, this has since settled.

As an international business, exposure to Brexit risks are low, with only 12% of sales in the UK and minimal cross border trade between the UK & the EU. The majority of sales in the UK are of products manufactured outside the EU, predominantly in Asia and the US, and are unaffected.

Prior to Brexit, changes had 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.

Group Strategy

The Group designs, manufactures and supplies customised electronics, operating internationally and focusing on structurally growing markets which are driven by increasing electronic content and where there is an essential need for our products. With our target markets and global customer base, the business is expanding both in Europe and beyond Europe (28% of Group sales and 36% of D&M sales are now outside Europe) as we build a geographically diverse electronics group.

Acquisitions have made a significant contribution to the development of the D&M division and over the 11 years to 31 March 2021, we have acquired 16 specialist, high margin D&M businesses which have been integrated successfully, helping to drive our growth alongside our key organic focus. A further acquisition has been completed since the year end. We have a well-developed and disciplined approach to acquisitions and the use of capital, and we see significant scope for further expansion of the D&M division with several acquisition opportunities in development.

Our strategy comprises four elements:

1. Grow sales well ahead of GDP over the economic cycle by focussing on the structural growth markets that form our target 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 operations in North America and Asia.

These elements are underpinned by a core objective of generating strong cash flows from a capital-light model, and delivering long-term sustainable returns.



Target Markets

Our four focus target markets of renewable energy, medical, transportation, and industrial & connectivity, account for 75% of D&M turnover and 70% of Group turnover. These markets are expected to drive the Group's organic revenue growth well ahead of GDP over the economic cycle and create acquisition opportunities.

During the year, sales to target markets continued to perform well ahead of sales into other markets, both in the D&M division and in the Group overall. Target market sales reduced by only 3% organically while other markets reduced by 9%, resulting in D&M organic sales being 4% lower organically and Group organic sales being 6% lower.

Growth in these markets is driven by increasing electronic content and by global trends such as the accelerating need for renewable sources of energy and an ageing affluent population.

Renewable Energy

Mega trend – decarbonisation and diversification of energy sources

The increasing global requirement for clean electricity is leading to the rapid deployment of sustainable energy generation. According to the International Energy Agency ("IEA"), renewable energy production needs to increase by 7% p.a. globally, driving the proportion of global electricity production coming from renewable energy to increase from 28% in 2019 to 49% in 2030. The Group's focus is on wind and solar energy which in 2020 accounted for around two thirds of global growth. We anticipate that demand for renewable energy will accelerate further.

Medical

Mega trend – sensing, analytics and artificial intelligence

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 expected to continue growing steadily. The medical sensors market is forecast to grow by 10% p.a. (2021 – 2026) according to Mordor market intelligence.

Transportation

Mega trend – vehicle electrification

The Group is particularly focussed on rail and bus transportation, electrification infrastructure and specialist vehicle electrification, all of which are important for the urban environment and consistent with the sustainability agenda. Electronic content is increasingly driven by electrification, safety, intelligence, automation and convenience. External reports indicate that the rail electrification and vehicle charging markets will grow at a combined 11% p.a. from 2020 through to 2025.

Industrial & Connectivity

Mega trend – industrial automation and connectivity

Technology proliferation is creating opportunities for widespread connectivity of equipment and devices, and is being increasingly adopted in industry and automation for remote monitoring and control. With a focus on sustainable markets, we concentrate on improving efficiency in industrial market applications that are aligned with a sustainable growth agenda, including fibre optic and wireless connectivity applications within these markets. According to Grandview research, the global industrial automation market is forecast to grow by 8.6% p.a. from 2019 to 2025.

STRATEGIC AND OPERATIONAL REVIEW

Engineering-led Sales Model

Our business model has three core capabilities:

- **Engineering** - our primary and leading differentiator. By understanding our customers' design challenges we design and create products that address their specific needs.
- **Manufacturing** - we manufacture individually designed products to a repeatedly and consistently high standard at one or more of our production facilities internationally.
- **Logistics** - we supply our products internationally to customers' various production locations 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**
 - By listening to and understanding customers' needs, we help 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, leading to multiple years of repeated monthly demand and creating stable, recurring revenue streams.

- **Regional manufacturing**

- Manufacturing locations in Europe, Asia and the Americas provide 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 and its financial performance have been measured through key strategic indicators ("KSIs") and key performance indicators ("KPIs"). Our KSI targets have been raised each time they are achieved, and in June 2020, we set increased targets for 31 March 2025.

Key Strategic indicators	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY25 Target
1. Increase share of Group revenue from D&M ¹	18%	37%	48%	52%	57%	61%	64%	65%	>75%
2. Increase underlying operating margin	3.4%	4.9%	5.7%	5.9%	6.3%	7.0%	8.0%	7.7%	12.5%
3. Build sales beyond Europe ¹	5%	12%	17%	19%	19%	21%	27%	28%	40%
4. Target market sales ¹	n/d	n/d	n/d	56%	62%	66%	68%	70%	85%

1. As a percentage of Group revenue

n/d: not previously disclosed

During the year, the Group made further progress with its KSIs despite the impact of COVID-19.

- The higher margin D&M division delivered 65% of Group sales, up 1ppt on last year (FY 2019/20: 64%), generating 87% of the Group's underlying operating profit contribution (FY 2019/20: 84%); importantly, customer concentration remains low with no single customer accounting for more than 7% of Group sales;
- Underlying operating margin was impacted by reduced sales in the year resulting from the global slowdown caused by the pandemic partly offset by savings from lower operating costs, reducing by 0.3ppts to 7.7%. We aim to achieve organic margin improvement through growth-based efficiencies and to acquire businesses with margins that are higher than our D&M division, with a target in the next four years to increase the Group's margin to 12.5%;
- 28% of Group sales were beyond Europe, in line with last year, with sales arising from stronger organic growth in Asia and the acquisition of the US based Phoenix, being offset by weaker organic sales in North America and the acquisition of the Germany based Limator. We continue to seek acquisitions with high quality international revenues with a target to reach 40% of sales by FY 2024/25; and
- In June 2020, we introduced a new mid-term target of achieving 85% of Group sales from our target markets, all of which have long-term growth momentum. Since first publishing this data, target market sales have increased from 56% of Group sales in FY 2016/17 to 70% this year, with an increase of 2ppts over last year. As in previous years, sales in target markets outperformed sales in other markets with target market sales in D&M reducing by 3% organically compared with other markets which were 10% lower.

Key Performance indicators	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Target
1. Sales growth									
CER	17%	36%	14%	6%	11%	14%	8%	(4%)	Well ahead of GDP
D&M organic	3%	9%	3%	(1%)	11%	10%	5%	(4%)	
Group organic	2%	3%	3%	(1%)	6%	8%	2%	(6%)	
2. Underlying EPS growth	20%	31%	10%	13%	16%	22%	11%	(14%)	>10%
3. Dividend growth	10%	11%	6%	6%	6%	6%	6% ¹	6% ²	Progressive
4. ROCE ³	15.2%	12.0%	11.6%	13.0%	13.7%	15.4%	16.0%	14.5%	>15%
5. Operating profit conversion ³	100%	104%	100%	136%	85%	93%	106%	141%	>85% of underlying operating profit
6. Free cash conversion ³						94%	104%	157%	>85% of underlying PAT
7. Carbon emissions								(6%) ⁴	50% reduction to CY25

1. 6% increase in the H1 2019/20 interim dividend; a final dividend was not proposed for FY 2019/20 due to COVID-19

2. 6% increase over FY 2018/19, the last full dividend payment year

3. Defined in note 2 of the Group consolidated financial statements

4. Annual carbon emissions for CY 2020 reduced by 19% on a like-for-like basis and by 6% on an underlying basis (adjusted to normalise the impact of COVID-19)

STRATEGIC AND OPERATIONAL REVIEW

The performance of each of our KPIs for this year was as follows:

- Group organic sales reduced by 6% driven by a stronger performance in our target markets in D&M where organic sales were 3% lower. Second half organic sales reduced by 3% and returned to growth for the last two months of the year;
- Underlying EPS for the year was 14% below last year (FY 2019/20: +11%), a combination of the equity issuance in the second half last year, increased underlying tax rates and the impact of COVID-19;
- As part of the cash conservation actions taken earlier in the year, a final dividend for last year was not paid. With greater visibility and improving conditions, dividends resumed this year at a level 6% higher than in FY 2018/19 (the last full year dividend payment year), aligned with our progressive dividend policy;
- ROCE reduced to 14.5% (FY 2019/20: 16.0%) reflecting the lower underlying operating profit resulting from COVID-19. First half ROCE reduced to 12.7% before recovering to 15.6% in the second half, ahead of our 15% target;
- Operating cash conversion for the year was very strong at 141% of underlying operating profit, reflecting tight management of working capital, working capital inflow from lower sales and lower capital expenditure throughout the year. Over the last eight years since targets were introduced, operating cash conversion has been consistently strong through the cycle;
- Strong operating cash flow has translated into strong free cash conversion (being cash available for dividends and acquisitions) at 157% of profit after tax. This target was established last year as we seek to become a business which can increasingly and repeatedly self-fund acquisitions; and
- A new target was introduced during the year for the reduction of carbon emissions from our existing businesses by 50% over five years. Additionally for new acquisitions, we are targeting that within the first five years of ownership, at least 50% of their energy demand is generated from renewable sources. For calendar year 2020, carbon emissions reduced by 19% on a like-for-like basis and by 6% on an underlying basis adjusted for the effects of COVID-19.

Order Book

During the second half, the Group order book grew strongly and finished the year at a record level of £181m, an increase of 15% CER compared with last year. Second half orders increased 29% over the first half more than offsetting the 11% year on year reduction in the first half. On an organic basis, the Group order book increased by 11%.

The order book is driven by repeating revenues from existing customer projects as well as by the conversion of new project design wins into new orders. The pandemic had the effect of customers temporarily shortening their order windows amidst the uncertainty. During the second half, customers resumed placing longer term orders. Over 80% of the order book is for delivery within twelve months from the time of order.

Design Wins

Project design wins are a measurement of new business creation. By working with customers at an early stage in their project design cycle, we identify opportunities for our products to be specified into their designs, which then lead to future revenue streams.

Design wins were 15% lower for the year, with the second half being 12% lower and the first half 19% lower. Second half design wins were 3% higher sequentially than the first half and were supported by an increase in new project activity, albeit that this was still lower than for the same prior year period.

Over 90% of design wins in the D&M division and 60% in the Custom Supply division were in the target markets.

The Group has a strong bank of design wins built up over several years that creates the basis for the strong order growth now being experienced.

Divisional Results

Divisional and Group performance for the year ended 31 March 2021 are set out and reviewed below.

Divisions	FY 2020/21			FY 2019/20			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	296.6	37.7	12.7%	297.9	38.1	12.8%	0%	(1%)	(4%)
Custom Supply	157.7	5.6	3.6%	168.5	7.3	4.3%	(6%)	(8%)	(8%)
Head office costs		(8.1)			(8.3)				
Total	454.3	35.2	7.7%	466.4	37.1	8.0%	(3%)	(4%)	(6%)

1. Underlying operating profit excludes acquisition-related costs.

Design & Manufacturing Division

The D&M division designs, manufactures and supplies highly differentiated, innovative components for electronic applications. Over 85% of the products are manufactured in-house, with the division's principal manufacturing facilities being in China, Hungary, India, Mexico, the Netherlands, Poland, Slovakia, Sri Lanka, Thailand, the US and the UK.

Growth in the first half was impacted by short term site closures, as required by local government regulations in Sri Lanka, India and the US to combat COVID-19. These sites were all open during the second half and operating at normal capacity by the end of the year. Our two Chinese facilities, which were closed temporarily in the fourth quarter of the last financial year, recovered quickly with Asian sales up 11% this year. All other sites remained open throughout the year, several with essential supplier status classification, and a number operated at reduced capacity but are mostly now back to normal capacity. At the time of writing, lockdown restrictions are affecting our sites in India and Sri Lanka and while causing some disruption, these are minor in nature at a Group level.

Demand in our German and Rest of Europe businesses was resilient with organic sales 3% and 1% lower than last year respectively. Organic sales in other territories were more impacted, including the UK (15% lower), the Nordic region (8% lower) and North America (17% lower). Asia and North America now account for 36% of D&M revenues up from 22% five years ago. Demand was much better in target markets (75% of D&M sales) with sales only 3% lower than last year compared with 9% in the other markets.

Organic orders recovered strongly in the second half increasing by 10%, partially offsetting an 18% fall in the first half for a net 4% organic reduction for the year to £307.0m with a book to bill ratio of 1.04:1. Second half orders were 40% higher than the first half at CER.

The second half also saw a noticeable improvement in organic sales being only 2% lower than last year compared with 7% lower in the first half for a net 4% reduction in organic sales for the year. Together with a 3% sales contribution from acquisitions, overall reported sales of £296.6m were broadly level with last year (FY 2019/20: £297.9m), with second half reported sales increasing by 1%.

D&M revenue was 65% of Group revenue, an increase of 1ppt over last year (FY 2019/20: 64%) and further progress towards our mid-term target for D&M to exceed 75% of Group revenue.

Underlying operating profit of £37.7m was £0.4m (1%) lower than last year (FY 2019/20: £38.1m), or 1% lower at CER, and was 87% of the Group's underlying profit contribution, up 3ppts on last year (FY 2019/20: 84%).

The underlying operating margin of 12.7% was 0.1ppts lower than last year (FY 2019/20: 12.8%) reflecting the positive effect of operating efficiencies and higher margin acquisitions largely offsetting the impact of lower sales resulting from the pandemic.

STRATEGIC AND OPERATIONAL REVIEW

Acquisitions

We acquire businesses that are successful and profitable with good growth prospects, led by entrepreneurial management teams where we can invest for growth and operational performance development. We operate a decentralised structure and an entrepreneurial culture with the business unit leadership empowered to make decisions and act quickly. The market is highly fragmented with many opportunities to acquire and consolidate. According to circumstances, the Group adds value in some of or all of the following areas:

- Internationalising sales channels and expanding the customer base, including Group cross-selling initiatives;
- Focussing sales development onto target market areas and enabling growth with larger customers;
- Developing and expanding the product range;
- Investing in management capability ('scaling up') and succession planning;
- Capital investment in manufacturing and infrastructure, improving efficiency in manufacturing, warehousing and freight;
- Finance & administrative support, such as treasury, banking, legal, pension, tax & insurance;
- Installing Group risk, control, ESG and diversity policies;
- Longer term strategic planning for the business; and
- Expanding the acquired business through further acquisitions.



During the year, the Group completed two acquisitions:-

1. In October 2020, the trade and assets of Phoenix America Inc ("Phoenix"), a US designer and manufacturer of magnetically actuated sensors, encoders and related products, for an initial cash consideration of \$11.0m (£8.5m) on a debt free, cash free basis and a contingent payment of up to \$1.5m (£1.2m), subject to the achievement of certain growth targets over a three year period. Phoenix is based in Fort Wayne, Indiana.
2. In February 2021, Limitor GmbH, a German designer and manufacturer of custom thermal safety sensors and limiters, for an initial consideration of €14.5m (£12.8m) on a debt free, cash free basis and a contingent payment of up to €3.5m (£3.1m) subject to the achievement of certain growth targets over a three year period. Limitor is based near Urbach, Germany, with production in Pécs, Hungary.

Both will operate within the Variomh business cluster in the D&M division, retaining their distinct brand identity and high-quality management. Their complementary product ranges and wider access to customers will create cross-selling opportunities in our target markets which are expected to drive further growth.

Also, since the year end, in May 2021, we completed the acquisition of Control Products Inc ("CPI"), a New Jersey, USA, based designer and manufacturer of custom, rugged sensors and switches, for \$11.4m (£8.1m) on a debt free, cash free basis.

In the 11 years to 31 March 2021, the Group has successfully completed 16 D&M acquisitions contributing to an increase in D&M revenues from £15m in FY 2012/13 to £297m in FY 2020/21 with Group operating margins increasing by 5ppts to 8% over the same period, and increasing D&M operating margins to c. 13%. The Group's operating model is well established, facilitating the smooth integration of acquired businesses, with a combination of investment in growth and efficiency while leveraging the Group's commercial infrastructure. The D&M businesses acquired and owned for at least two years, delivered an average return on investment of 16% over the life of those acquisitions, ahead of our target of 15%. While this is a 1ppt lower average than last year due to the pandemic's impact on profits, it illustrates the strength and resilience of our acquired businesses.

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 the D&M division. Additionally, the division acts as a sales channel through which to cross-sell D&M products.

The division comprises two businesses, Acal BFi and Vertec. Acal BFi supplies industrial markets and accounts for most of the divisional revenue. It supplies products from third party manufacturers 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.

The division's trading for the year was more impacted by the pandemic than D&M, due to sales being predominately in Europe and with a lower percentage of sales in the more resilient target markets (60% of sales in target markets in Custom Supply compared with 75% in D&M). Reported divisional revenue was 6% lower than last year at £157.7m (FY 2019/20: £168.5m) with organic sales 8% lower, the difference being the translation benefit from a net weakening of Sterling compared with last year. The second half saw a noticeable improvement with organic sales 6% lower compared with 10% lower in the first half. Orders of £173.0m were in line with last year organically with a book to bill ratio of 1.09:1. Similar to D&M, second half orders increased by 16% organically, offsetting a similar level fall in the first half to be c.40% ahead of first half levels.

Underlying operating profit for the year reduced by £1.7m on last year to £5.6m (or £1.8m lower at CER) with an underlying operating margin of 3.6% (FY 2019/20: £7.3m at 4.3%). Gross margins remained strong and operating expenditure reducing 4% compared with last year's second half run rate, partly offsetting the impact of lower sales.

Summary and Outlook

This year challenged us in ways we couldn't have foreseen. Our dedicated employees responded quickly, creating a new normal operating environment with COVID safety at its core, whilst continuing operations with minimal disruption to customers.

The second half saw a strong recovery following the uncertainty of the first half, with orders increasing organically by 12% year-on-year and the Group returning to organic sales growth by the year end. A record order book, up 15%, leads the way for sales growth in the year ahead. Together with robust gross margins and tight management of expenditure throughout the year, underlying earnings ended the year ahead of expectations.

Cash generation was excellent with £38m of free cash flow for the year reducing gearing to 1.1x. As well as demonstrating the cash generating capability of our businesses and the strength of the operating model, this provides us with the capacity to pursue further value enhancing acquisitions.

The new financial year has started well with organic sales growth ahead of last year and the year before and continuing strong orders running ahead of sales across all territories.

With a clear strategy focussed on long-term high quality growth markets, a diversified customer base, excellent order book and a strong pipeline of acquisition opportunities, we are well positioned to make further progress on our key strategic priorities.

Nick Jefferies

Group Chief Executive

03 June 2021

FINANCE REVIEW



“The Group continues to be highly cash generative, with free cash flow for the year of £37.6m, an increase of 38% over last year.”

Simon Gibbins
Group Finance Director

2021 HIGHLIGHTS

GROUP GROSS MARGIN

34.2%

OPERATING CASH FLOW

£49.7m

Revenue and Orders

Reflecting the impact of the pandemic across the Group, sales of £454.3m were 6% lower organically than last year, second half sales being 3% lower and first half sales being 8% lower. The acquired businesses of Sens-Tech in October last year, and Phoenix and Limitor this year, added 2% to sales, such that overall Group sales reduced by 3% on both a CER and reported basis (FY 2019/20: £466.4m).

£m	FY 2020/21	FY 2019/20	%
Reported revenue	454.3	466.4	(3%)
FX translation impact		4.6	
Underlying revenue (CER)	454.3	471.0	(4%)
Acquisitions	(9.5)	-	
Organic revenue	444.8	471.0	(6%)

With 90% of Group sales in non-Sterling currencies, the translation of Group results into Sterling was positively impacted by Sterling being on average 2% weaker against the Euro and Nordic currencies during the year, partially offset by 3% strength against the US dollar.

Group orders reduced by 2% organically for the year to £480.0m with a book to bill ratio of 1.06:1. Second half orders rebounded strongly growing 12% organically with a book to bill ratio of 1.19:1 following the pandemic-impacted first half with orders 18% lower and a book to bill ratio of 0.91:1.

Gross Margin and Gross Profit

Group gross margin increased 0.6ppts in the year to 34.2% (FY 2019/20: 33.6%). This is the highest Group gross margin since the current strategy was implemented 11 years ago. Organic gross margins were robust and increased by 0.1ppt with high gross margin acquisitions adding 0.5ppts.

With the benefit of the higher gross margin year-on-year, gross profit for the year of £155.3m was only 1% lower than last year (FY 2019/20: £156.7m).

The Group continues with its policy of hedging foreign exchange transactions from the point of order through to settlement.

Underlying Operating Costs

At the outset of the pandemic, the Group took prudent actions to preserve cash and reduce expenditure including deferral of discretionary spend, freezes in pay rises and hiring, a three month 20% salary reduction for the Board and Group Executive Committee and reduced bonus opportunity for the Group Executive Committee. The combined effect of these actions was to reduce Group underlying operating costs for the year by 2% organically and by 4% compared with the second half run rate from last year.

£m	FY 2020/21	FY 2019/20	%
Organic operating costs	118.0	120.4	(2%)
Acquisition operating costs	2.1		
Underlying operating costs (CER)	120.1	120.4	0%
FX translation		(0.8)	
Underlying adjustments (see below)	14.5	13.3	
Reported operating costs	134.6	132.9	1%

£m	FY 2020/21	FY 2019/20
Selling and distribution costs	57.8	58.1
Administrative expenses	76.8	74.8
Reported operating costs	134.6	132.9

Group Operating Profit and Margin

Group underlying operating profit for the year was £35.2m, a reduction of £1.9m on last year (FY 2019/20: £37.1m), delivering a Group underlying operating margin of 7.7%, 0.3ppts lower than last year (FY 2019/20: 8.0%).

Reported Group operating profit for the year (after accounting for the underlying adjustments discussed below) was £20.7m, £3.1m lower than last year.

£m	FY 2020/21			FY 2019/20		
	Operating profit	Finance Cost	Profit before tax	Operating profit	Finance Cost	Profit before tax
Underlying	35.2	(3.7)	31.5	37.1	(4.3)	32.8
Underlying adjustments						
Acquisition & merger expenses	(2.0)	-	(2.0)	(4.0)	-	(4.0)
Amortisation of acquired intangibles	(11.1)	-	(11.1)	(9.0)	-	(9.0)
Legacy pension cost	(1.4)	-	(1.4)	(0.3)	-	(0.3)
Reported	20.7	(3.7)	17.0	23.8	(4.3)	19.5

FINANCE REVIEW

Underlying Adjustments

Underlying adjustments for the year comprise acquisition and merger expenses of £2.0m (FY 2019/20: £4.0m), the amortisation of acquired intangibles of £11.1m (FY 2019/20: £9.0m) and the IAS19 legacy pension cost of £1.4m (FY 2019/20: £0.3m).

Acquisition expenses of £2.0m mainly comprise the transactions costs incurred in acquiring Phoenix and Limator, ongoing transaction costs and the integration costs of North American businesses within the Noratel cluster. The £2.1m increase in the amortisation charge since last year to £11.1m relates to the annualisation of the amortisation charge for Sens-Tech together with amortisation for Phoenix and Limator. The increased pension charge of £1.1m compared with last year relates mainly to a one off adjustment relating to historic commutation terms for legacy scheme members.

Financing Costs

Total finance costs for the year were £3.7m (FY 2019/20: £4.3m). This year's charge comprises underlying finance costs (being interest and facility fees arising from the Group's banking facilities) of £3.1m (FY 2019/20: £3.7m) and an IFRS 16 interest charge of £0.6m, in line with last year.

Finance costs (excluding IFRS 16 interest charge) of £3.1m were £0.6m lower than last year due to lower average net debt this year resulting from strong cash generation.

Underlying Tax Rate

The underlying effective tax rate for the year was 24%, an increase of 4ppts over last year due to a greater proportion of group profits arising in higher taxed countries, such as China, and the recognition last year of certain tax losses not available this year.

The overall effective tax rate of 29% (FY 2019/20: 27%) was higher than the underlying effective tax rate due to there being no tax relief on acquisition costs and a lower rate of tax relief on amortisation of acquired intangibles (within underlying adjustments above).

Profit Before Tax and EPS

Underlying profit before tax ("PBT") for the year of £31.5m was £1.3m lower than last year (FY 2019/20: £32.8m), with underlying EPS for the year reducing to 26.0p (FY 2019/20: 30.2p). On the back of improving conditions, underlying PBT rebounded in the second half rising £0.5m on last year (+3%) partly offsetting a £1.8m reduction in the first half at the height of the pandemic. The reduction in underlying EPS of 14% was higher than that for underlying profit before tax (4%) due to higher underlying tax rates and the issuance of new equity in October 2019, increasing weighted average fully diluted shares by 6% to 92.2m shares (FY 2019/20: 86.9m shares).

£m	FY 2020/21		FY 2019/20	
	PBT	EPS	PBT	EPS
H1 Underlying	13.8	11.3p	15.6	14.4p
H2 Underlying	17.7	14.7p	17.2	15.8p
FY Underlying	31.5	26.0p	32.8	30.2p
Underlying adjustments				
Acquisition & merger expenses	(2.0)		(4.0)	
Amortisation of acquired intangibles	(11.1)		(9.0)	
Legacy pension cost	(1.4)		(0.3)	
Reported	17.0	13.0p	19.5	16.5p

After the underlying adjustments above, reported profit before tax was £17.0m, a reduction of £2.5m compared with last year (FY 2019/20: £19.5m) with reported fully diluted earnings per share of 13.0p reducing by 3.5p compared with last year (FY 2019/20: 16.5p).

Working Capital

Working capital at 31 March 2021 was £61.6m, equivalent to 13.1% of annualised second half sales at CER and was £9.3m (13%) lower than the prior year (31 March 2020: £70.9m at 14.4% of annualised sales). This reduction is partly due to the lower demand in the year with organic sales reducing by 6%, and partly reflects tight management across the Group, with debtor days reducing 4 days to 48 days partly offset by creditor days decreasing by 2 days to 61 days. Due to the lower sales, stock turns reduced by 0.2 turns to 5.0 turns.

Working capital performance was strong across both divisions: in D&M, working capital was 17.0% of sales (FY 2019/20: 17.7%) and in Custom Supply, it was 9.6% of sales (FY 2019/20: 11.1%).

Return on Capital Employed

ROCE for the year (return on capital employed, as defined in note 2 to the Group consolidated financial statements) including an annualisation of acquisitions, was 14.5%, a reduction of 1.5ppts on last year reflecting lower underlying operating profit resulting from COVID-19 taking it below our target of 15%. The impact was particularly noticeable in the first half with ROCE reducing to 12.7% before recovering to 15.6% in the second half, ahead of our target. The full year Group ROCE is expected to improve further next year.

Cash Flow

Net debt at 31 March 2021 was £47.2m compared with £61.3m at 31 March 2020. Excluding spend on acquisitions, net debt reduced by £35.9m in the year (59% of last year's net debt) demonstrating continuing strong cash generation by the Group.

£m	FY 2020/21	FY 2019/20
Opening net debt	(61.3)	(63.3)
Free cash flow (see table below)	37.6	27.3
Acquisition related cash flow	(21.8)	(75.9)
Equity issuance	0.1	60.5
Dividends	(2.8)	(8.1)
Foreign exchange impact	1.0	(1.8)
Net debt at 31 March	(47.2)	(61.3)

While dividends and acquisitions were put on hold in the first half as part of our cash preservation measures in response to the pandemic, the second half saw a resumption of both as conditions improved. The acquisitions of Phoenix and Limitor, associated acquisition expenses and earnout payments totalled £21.8m. The acquisition outflow last year of £75.9m comprised the acquisition of Sens-Tech in October 2019 for £58.4m together with Hobart and Positek acquired in April 2019. The payment of an interim dividend of £2.8m was £0.2m higher than last year's interim following a 6% increase. Included last year was £5.5m paid in respect of the FY 2018/19 final dividend payment with no final dividend paid for FY 2019/20.

FINANCE REVIEW

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

£m	FY 2020/21	FY 2019/20
Underlying profit before tax	31.5	32.8
Net finance costs	3.7	4.3
Non-cash items*	13.2	13.5
Underlying EBITDA	48.4	50.6
Working capital	11.6	1.6
Capital expenditure	(3.6)	(6.3)
IFRS 16	(6.7)	(6.6)
Operating cash flow	49.7	39.3
Net finance costs	(3.1)	(3.7)
Taxation	(7.2)	(6.4)
Legacy pensions	(1.8)	(1.8)
Executive share option exercises	–	(0.1)
Free cash flow	37.6	27.3

* Non-cash items are depreciation, amortisation and share based payments. Includes £6.6m IFRS 16 depreciation for FY 2020/21 (FY 2019/20: £6.6m)

Underlying EBITDA of £48.4m was 4% lower than last year (FY 2019/20: £50.6m). With a heightened focus on working capital optimisation during the year and partly as a result of a 6% reduction in organic sales, an £11.6m inflow was generated from working capital compared with an inflow of £1.6m last year. Around 50% of this year's savings are expected to reverse as we invest in working capital to support growth.

Capital expenditure was also restricted during the year to mainly maintenance costs giving a 43% reduction to £3.6m (FY 2019/20: £6.3m). Capital expenditure levels are expected to increase next year to around £8.5m spend for the full year.

Combined with the other cash conservation measures taken by the Group this year, £49.7m of operating cash was generated in the year, an increase of 26% over last year (FY 2019/20: £39.3m). This represents 141% of underlying operating profit during the year, well above our 85% target. Over the last 7 years, the Group has consistently achieved high levels of cash conversion averaging in excess of 100%.

Finance cash costs of £3.1m were £0.6m lower than last year due to reduced average net debt balances in the year. Tax payments of £7.2m were £0.8m higher than last year, reflecting last year's increased Group profitability.

Free cash flow (being cash flow before dividends and acquisitions) for the year was £37.6m, an increase of 38% over last year (FY 2019/20: £27.3m). Our free cash conversion for the year was 157% of profit after tax, again well ahead of our 85% target.

Banking Facilities

The Group has a £180m syndicated banking facility which extends to June 2024, together with a £60m accordion increasing the total facility to £240m if required. The syndicated facility is available both for acquisitions and for working capital purposes.

With net debt at 31 March 2021 of £47.2m, the Group's gearing ratio at the end of the year (being net debt divided by underlying EBITDA as annualised for acquisitions) was 1.1x a reduction of 0.15x from last year despite completing two acquisitions. Excluding the acquisitions, on a like-for-like basis, the gearing would have been 0.7x at the year end. Including the post year end acquisition of CPI, pro-forma gearing at 31 March 2021 increased to 1.25x; with our target gearing range being between 1.5x and 2.0x, plenty of debt capacity remains for further acquisitions.

Balance Sheet

Net assets of £208.8m at 31 March 2021 were £8.3m higher than at the end of the last financial year (31 March 2020: £200.5m). The increase primarily relates to the net profit after tax for the year of £12.0m offset by dividends paid in the year and movements on the Group's legacy defined benefit scheme. The movement in net assets is summarised below:

£m	FY 2020/21
Net assets at 31 March 2020	200.5
Net profit after tax	12.0
Dividend paid	(2.8)
Currency net assets – translation impact	(0.6)
Loss on defined benefit scheme	(2.8)
Shares issued	0.1
Share based payments (inc tax)	2.4
Net assets at 31 March 2021	208.8

Defined Benefit Pension Scheme

The Group's IAS19 pension liability, associated with its legacy defined benefit pension scheme, increased during the year by £2.8m from a surplus of £1.8m at 31 March 2020 to a deficit of £1.0m at 31 March 2021.

At the end of last year, corporate bond yields temporarily increased due to the COVID-19 situation, converting the net liability at 31 March 2019 of £2.5m to a net surplus at 31 March 2020. Since last year end, corporate bond yields have reverted back to previous levels and historic commutation rates for legacy scheme members have been subject to a one off adjustment, resulting in a £1.0m liability at the year end. Over the last two years, there has been a net liability reduction of £1.5m.

Annual payments of £1.8m are payable, growing by 3% each year until September 2022 in accordance with the plan agreed with the pension trustees as part of the most recently completed triennial valuation at 31 March 2018. The next triennial valuation will be at 31 March 2021.

Risks and Uncertainties

The principal risks faced by the Group are covered in more detail on pages 47 to 52. These risks are: 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; climate-related risks; loss of major customers or suppliers; technological change; major business disruption; cyber security; loss of key personnel; inventory obsolescence; product liability; liquidity and debt covenants; exposure to adverse foreign currency movements; obligations in respect of a legacy defined benefit pension scheme; and non-compliance with legal and regulatory requirements.

The Group's risk management processes cover identification, impact assessment, likely occurrence and mitigation actions where practicable. 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, committed banking facility of £180m and the adaptability we have as an organisation. The Group's performance over the last year has demonstrated this well.

Simon Gibbins

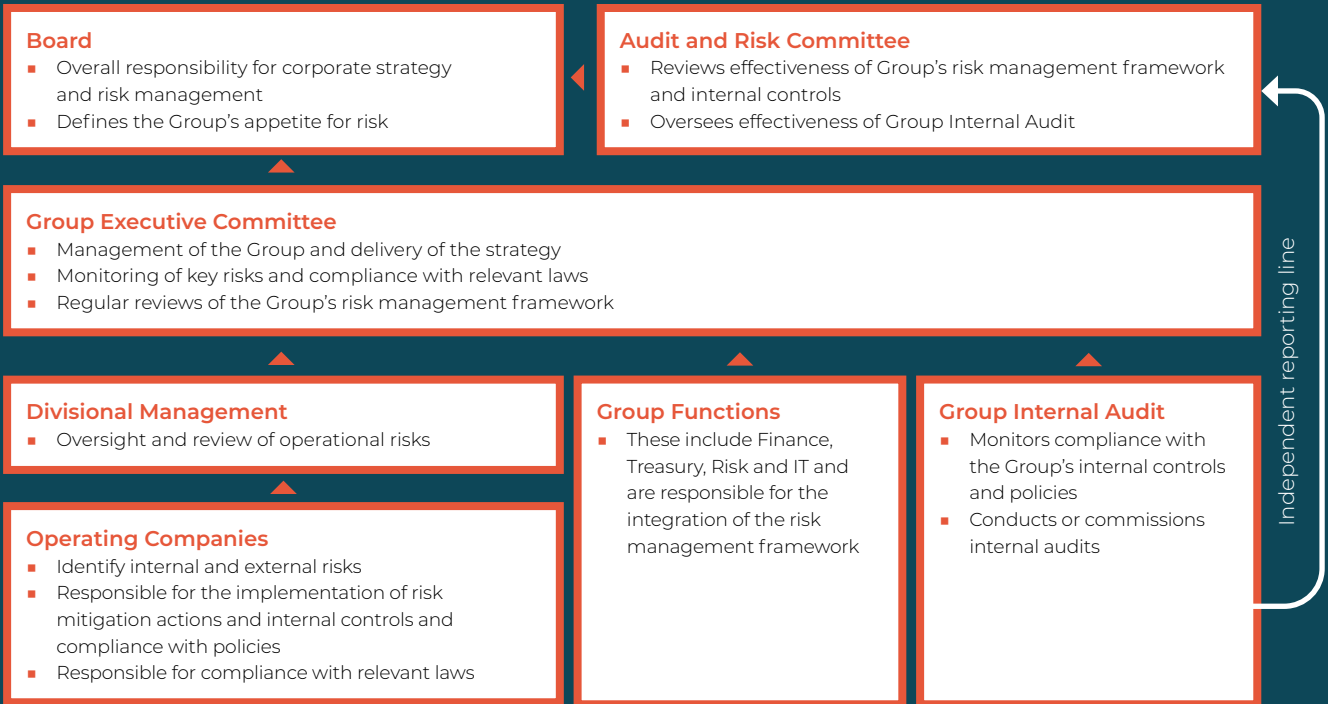
Group Finance Director

03 June 2021

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. This is conducted within a series of delegated authority levels. 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 risk, finance, IT, treasury and tax. This focuses on monitoring and compliance with risk control systems and processes implemented by the Group.

The Group Internal Audit function provides independent assurance of the operation of risk management processes, internal controls and governance, and serves as the third line of defence. 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. The team reassessed scheduling of activities in light of COVID-19 travel restrictions, identifying those matters that could be reviewed remotely. Other activities carried out by the function include reviewing and updating Group policies and improving processes and procedures where opportunities for improvement have been identified during previous audits.

The Group operates a decentralised model which is target and results driven with a strong culture of open, constructive communication and a willingness to listen. The Group Internal Audit function applies this culture in how it operates and monitors matters across the Group.

In pursuing the Group strategy (detailed on pages 18 to 19, a number of key objectives are agreed annually for the Group and for each business unit. Progress against these is 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 strategy and objectives assists with the effective identification and management of existing or emerging risks that have the potential to prevent or hinder these objectives from being achieved.



Risk Profile

The Group's overall risk profile is mitigated by a number of overriding factors, including:

- Our business units operate largely independently of one another and so if an issue arose in any one business, it would be unlikely to affect other businesses in the Group.
- We operate in 24 countries and no single country represents more than 21% of group turnover or profit.
- Most of the Group's businesses operate on separate IT systems, which assists in minimising the risks of a major cyber security incident affecting the wider Group.
- The Group operates from over 70 separate sites and so if an incident were to occur at one site, that would not directly affect the other businesses within the Group. Further, there exists the ability to switch production between certain sites if needed, which the Group did at certain times during the last year, where facilities were affected by COVID-19.
- The Group has very limited reliance on any single customer or supplier, with the largest customer representing less than 7% of revenue and the largest supplier representing less than 4%.
- The Group manufactures and sells multiple product lines, across multiple geographies and market sectors, removing reliance on any single revenue stream. This is further reinforced by the innovative, bespoke nature of the Group's products, which continue to evolve as circumstances change.
- The Group operates in structural growth markets, which reflect long-term needs and are less cyclical in nature.

The Group's performance and adaptability throughout the COVID-19 pandemic demonstrates the resilience of the Group's model.

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 as to the nature and level of risks that the Group should accept.

discoverIE draws a clear distinction between those risks that it is more willing to take (typically relating to advancing business prospects) and those that it is less willing to accept (e.g., safety, reputational, regulatory or compliance risks). The following table provides a summary:

Risk Tolerant (Willing to take greater risk)	Risk Neutral (Taking a balanced approach to risk)	Risk Averse (Taking as little risk as possible)
Product innovation	Investment in facilities	Product safety
Operating in new markets	Business development initiatives	Health & safety
	Acquisitions	Cyber risks
	New customers and suppliers in existing markets	Regulatory/covenant compliance
	Foreign exchange translational risk	Foreign exchange transactional risk
		Markets with greater business cyclicity

Regardless of the appetite in respect of a particular risk, all risks are identified and managed in the appropriate manner.

RISK MANAGEMENT

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 a number of discrete steps to identify, assess and mitigate risks.

Step 1	<p>Two processes are conducted in parallel:</p> <ul style="list-style-type: none"> ■ A top-down review of the Group Risk Register to: <ul style="list-style-type: none"> – identify new or emerging risks – assess changes to existing risks – consider the potential impact and likelihood of risks, linking each risk to the Group's corporate strategy – evaluate potential mitigating actions and controls – consider the residual risks remaining after the applications of the Group's internal control processes (and if appropriate the implementation of further mitigating actions) ■ A bottom-up review by the management of each business to: <ul style="list-style-type: none"> – identify new or emerging risks – assess changes to existing risks – consider the potential impact and likelihood of risks – evaluate potential mitigating actions and controls – consider residual risks <p>This initial exercise is conducted by Divisional Management and the Group Risk function</p>
Step 2	<ul style="list-style-type: none"> ■ Comparison of the results of the top-down and bottom-up identification processes above <p>The benefits of conducting both top-down and bottom-up reviews are:</p> <ul style="list-style-type: none"> – increased assurance that all risks have been identified, and doing so from multiple perspectives – ensuring alignment between local management and Head Office – ensuring that businesses 'own' the risks most relevant to their individual operating unit <ul style="list-style-type: none"> ■ An assessment of any differences identified and update the Group Risk Register as appropriate
Step 3	Consolidation into common themes / topics
Step 4	<ul style="list-style-type: none"> ■ Review of the Group Risk Register by the Group Executive Committee. This review focuses on: <ul style="list-style-type: none"> – the materiality of each of the risks identified – prioritisation of the allocation of the Group's resources to the most important areas – clarity of ownership for each of the risks identified <p>This review takes into account the Group's risk appetite in respect of the various types of risk identified.</p> <p>The Group Risk Register (both detailed and consolidated) is then updated as appropriate following the review.</p> <p>This is then summarised in a table of principal risks and uncertainties, the final version of which (for FY21) is set out on pages 47 to 52.</p>
Step 5	<p>Review by the Audit and Risk Committee – this includes:</p> <ul style="list-style-type: none"> – consideration of the Group's risk management framework – review of the Group Risk Register – identification of any other areas of potential risk – review of the table of principal risks and uncertainties – challenging actual or potential control weaknesses – review of the effectiveness of the Group's internal controls and risk management systems

The above processes are conducted twice each financial year:

- an interim review, typically completed shortly ahead of announcement of the Group's interim results, focuses predominantly on changes during the period
- a more thorough and comprehensive review is then completed shortly prior to the Group's full year preliminary results announcement

Further information on the Group's principal risks and uncertainties ("PRUs") is detailed on pages 47 to 52.

As noted above, a key element in assessing the Group's principal risks is considering likelihood and potential magnitude of impact, over a range of time horizons, as well as whether the risks are new or emerging, or have changed in importance during the year. The below diagram provides a summary of the PRUs on that basis.

Risk Heat Map



RISK MANAGEMENT

Ongoing monitoring, mitigation and improvement

In addition to the processes outlined above, key risks, and the internal control processes adopted to address these risks, are monitored on an ongoing basis. Among other controls, this includes a review by the Group Executive Committee in all of its regularly scheduled meetings (typically seven per year) and escalation to the Board of any material developments as and when they arise.

discoverIE continually pursues improvements in its Enterprise Risk Management Framework. During FY21 the Risk Management Policy was reviewed and a revised version approved.

A summary of this continual cycle of risk identification, determination of the Group's response, establishment of systems and processes to mitigate, communication and ongoing monitoring, is outlined in this diagram.

Climate related risks and opportunities

The UK Government has recently introduced a new Listing Rule 9.6.8(8), and separately launched a consultation (24 March 2021), in relation to climate-related financial disclosures. These build upon the recommendations of the Financial Stability Board's (FSB) Task Force on Climate-related Financial Disclosures ("TCFD").

The aim of those measures is to assist with the achievement by the UK of a transition through to becoming a 'net zero' economy. The Company has set its own internal emissions reduction target (see page 62 and pages 64 to 65 for details) and, once sufficient progress has been made, consideration will be given to adopting a 'net zero' target.

Although reporting is not yet mandatory, we provide our preliminary report below in respect of the following matters:

1. The "Four Pillars" of the TCFD recommendations.
2. Physical risks to Group facilities.
3. Transition risks.
4. Opportunities.



1. The “Four Pillars” of the TCFD recommendations	
Governance	The Group’s governance arrangements are described on pages 40 (governance of risks), 60 (governance of “ESG” matters) and 74 to 84 (governance generally). Together these demonstrate the strong governance arrangements we have in place, including in relation to climate-related risks.
Strategy	The Group’s target markets, which in FY21 represented over 70% of revenue, are aligned to the UN SDGs. The UN SDGs are based on long-term trends, including the need to address climate-related risks. The Group is expected to benefit from the response of governments and customers to those risks.
Risk Management	Climate-related risks are managed within the Group’s standard risk management processes, as outlined on pages 40 to 44. Further details in relation to the specific risks presented by climate change are set out below.
Metrics and Targets	<p>The Group has set the following key targets:</p> <p>We report annually against sales into our target markets. This provides audited financial data demonstrating the impact of our strategy. As noted above, the Group expects to benefit from the global response to climate change and this will be reflected in our annual financial reporting.</p> <p>Please see pages 62 and 64 for our internal environmental targets.</p> <p>We have also published a separate “Impact Report” (see www.discoverIEplc.com), which provides a snapshot of some of the benefits that our products bring to the global fight against climate change</p>

2. Physical risks to Group facilities

The physical risks presented by climate change fall into the following broad categories:

- Threats to the Group’s facilities
- Supply chain risks
- Availability of resources

We comment on the potential threats to the Group’s facilities below and will assess supply chain risks and availability of resources in the context of the required TCFD disclosures during the course of FY2022 ready for full disclosure next year.

Group facilities

- We have conducted preliminary analysis in respect of each of the Group’s 74 sites based on the Munich Re database and modelling provided by RSM. The analysis assessed:
 - the likelihood of any of the following events occurring at or near to each of those sites: earthquakes, winterstorm, hailstorm, lightning, tornado, tropical cyclone, wildfire, flash flood, river flood and coastal flood
 - the impact at each site
 - modelling against a range of scenarios and timescales (e.g., 1 in 100-year events).
- Based on this preliminary analysis, the risks to the Group’s facilities from climate-related risks is currently considered to be low. The data used is based on current climatic conditions.

Further work will be conducted in the coming year.

3. Transition risks

The TCFD recommendations require companies to assess transition risks, which are those arising from the changes in technology, markets, policy, regulation, and consumer sentiment which will result from the transition to a low-carbon economy. As noted above, this transition is complementary to the Group’s strategy and expected to drive long-term, sustainable growth for the Group.

4. Opportunities

For the reasons explained above, and elsewhere in this Annual Report and Accounts, the Group expects to see opportunities arising from the response of governments and customers to the challenges of climate change.

VIABILITY STATEMENT

In accordance with section 4.31 of the 2018 UK Corporate Governance Code, the Directors have assessed the viability of the Group over a 3-year period to 31 March 2024. In making this assessment, the Directors have considered the Group's current financial position, recent and historic financial performance and forecasts, its strategy and business model and the principal risks and uncertainties. The impact of COVID-19 pandemic has also been considered in determining the effect of severe but plausible downside scenarios.

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 2024. 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 budget for the year ending 31 March 2022 and forecast progression thereon. The budget is a consolidation of sales, profits, working capital and cash flow forecasts made by each operating company and head office, incorporating associated key risk factors including acquired company forecasts and associated future earnout payments, latest views on supplier and customer payments impacting working capital and latest forecast foreign exchange rates.

The budget for the financial year ending 31 March 2022 assumes a steady recovery from the COVID-19 pandemic. Future growth for the financial years 2022/23 and 2023/24 assume steady sales growth 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:

1. Gearing: net debt to Adjusted EBITDA (being Underlying EBITDA, excluding IFRS16 plus the annualisation of acquisitions) of less than 3.0x and
2. Interest cover: Adjusted EBITDA to interest greater than 4.0x.

At 31 March 2021, the Group had net debt of £47.2m (giving undrawn facilities of nearly £120m) and was significantly inside these covenants with gearing of 1.1x and interest cover of 16.1x.

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 2021.

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 47 to 52, notably instability in the economic environment, loss of key customers and suppliers, underperformance of acquired businesses, major business disruption, liquidity restriction, breach of debt covenants and adverse foreign currency movements arising from a stronger Sterling.

The Directors have modelled downside scenarios to the Viability Base Case based on an underlying analysis of the potential further impact of COVID-19 and adverse macroeconomic factors additional to that already factored into the Viability Base Case.

The most severe but plausible downside scenario assumes a recurrence of Covid-19 in the second half of FY 2021/22 and adverse macroeconomic factors resulting in a significant decline in second half sales of FY 2021/22, negative sales growth in FY 2022/23 and modest growth thereon in FY 2023/24. Additionally, gross margin was reduced, working capital materially increased, significant one-off expenditures (product liability, major customer insolvency or litigation) included, and an increase in the Group effective tax rate.

Even after factoring in these significant additional downsides to the Viability Base Case, there remains good headroom both in terms of liquidity and 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, low customer/supplier concentration, has a global supply chain network, diverse manufacturing capacity, and has well-established and in many cases long term relationships with its customers. These factors are considered important in mitigating many of the risks that could affect the long-term viability of the Group.

Further mitigation actions not included in the Viability Base Case or sensitivity downsides include further operational and capital expenditure reductions, including pay rise, bonus and hiring freezes, pay reductions, redundancies, dividend reductions and equity raises.

The Strategic Report on pages 02 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 47 to 52 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 financial statements.

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 46.

Risk description	Potential impact	Mitigating actions	Change in the year
Strategic risk			
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 the ongoing impact of COVID-19 	<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 	<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 A long-term credit facility is in place with significant headroom Careful monitoring of stock levels and customers in relevant geographies to identify any issues early 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 has reduced during the year, as economies start to rebound The UK has now left the EU. However, the direct impact of Brexit is expected to be limited and to date this has proven to be the case <p>Link to KSIs: B C D</p> <p>Link to KPIs: 1 2 3 4 5 6 7</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"> The acquisition programme was put on hold early in FY21 while impact of COVID-19 assessed; restarted in October 2020 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 and forecast Hiring of experienced finance personnel Specific risk management programme for first 12 months post-acquisition before becoming part of the Group ongoing risk and internal audit programme 	<p>↔</p> <ul style="list-style-type: none"> Phoenix, acquired in October 2020, and Limator, acquired in February 2021, have performed well since acquisition <p>Link to KSIs: A B C D</p> <p>Link to KPIs: 1 2 3 4 5 6</p>

PRINCIPAL RISKS AND UNCERTAINTIES

Risk description	Potential impact	Mitigating actions	Change in the year
3 Climate-related risks			
<ul style="list-style-type: none"> Global warming leads to greater extremes of weather events and other local issues Our products or other activities or decisions in relation to climate related risks may be judged negatively by external stakeholders 	<ul style="list-style-type: none"> The operations of Group facilities are affected by the impact of climate change (e.g., through weather related events) Supply chains are affected due to the impact of climate change on their operations Customer revenues are impacted by climate related effects on their businesses Reputational impact and deterioration of relationships with external stakeholders and staff 	<ul style="list-style-type: none"> An initial assessment of the physical risks of climate change to the Group's facilities has been conducted using the Munich Re database, further details of which are on page 45; the preliminary analysis indicates that such risks are considered to be low The Group has diverse supply chains and the ability to switch from individual suppliers that encounter issues Given the Group's Target Markets, customer revenues are expected to increase as a result of climate-related matters which could offset the risk impact in other areas ESG matters are discussed at all meetings of the Board and Group Executive Committee, to ensure that the right activities are being prioritised and implemented 	<p style="text-align: center;"></p> <ul style="list-style-type: none"> No change in the underlying risks during the year; however, further and more detailed analysis will be conducted in order to assess those risks in greater detail <p>Link to KSIs: B D</p> <p>Link to KPIs: 1 2 3 4 5 6 7</p>

Operational risk			
4 Loss of major customers			
<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 Robust customer quality management systems (including ISO9001) 	<p style="text-align: center;"></p> <ul style="list-style-type: none"> While risk from COVID-19 impacting customers remains, particularly in some geographies, strong improvement in order rates were seen in the second half of the year <p>Link to KSIs: A B D</p> <p>Link to KPIs: 1 2 5 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** Underlying EPS growth
- 3** Dividend growth
- 4** Return on capital employed
- 5** Operating cash flow
- 6** Free cash flow
- 7** Carbon Emission reductions

Risk description	Potential impact	Mitigating actions	Change in the year
5 Loss of major suppliers			
<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 4% 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 style="text-align: center;">↔</p> <ul style="list-style-type: none"> ■ While risk from COVID-19 impacting suppliers remains (e.g., enforced closures, reduced staffing), the Group reviewed its risk management processes in this area by way of a thematic audit and confirmed there were no material deficiencies in the Group's risk management processes <p>Link to KSIs: A B</p> <p>Link to KPIs: 1 2</p>
6 Technological changes			
<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 ■ Inventory write offs 	<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 	<p style="text-align: center;">↔</p> <p>Link to KSIs: A B</p> <p>Link to KPIs: 1 2</p>
7 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 ■ Interruption in initiatives being taken to reduce carbon emissions 	<ul style="list-style-type: none"> ■ Disaster recovery and business continuity plans in place ■ Multiple manufacturing sites and warehousing enabling some movement between facilities ■ Insurance cover 	<p style="text-align: center;">↔</p> <ul style="list-style-type: none"> ■ COVID-19 caused disruption to certain manufacturing facilities in Q4 19 and H1 20 but these were of short duration ■ Acquisition of Phoenix, with facilities in the US ■ Acquisition of Limitor with facilities in Germany and Hungary <p>Link to KSIs: A B C</p> <p>Link to KPIs: 1 2 3 4 5 6 7</p>

PRINCIPAL RISKS AND UNCERTAINTIES


Risk description	Potential impact	Mitigating actions	Change in the year
8 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 policy Robust anti-virus and anti-spam software and specialised target threat protection services Robust backup procedures in place Secure private networking Third-party cyber security assessments completed and recommendations being implemented Different operating units operating on separate IT systems minimises risk of a major incident impacting the wider Group 	<p>↔</p> <ul style="list-style-type: none"> External Cyber assessments completed December 2019 Group wide investment in enhanced end-point security solutions, with central monitoring capability, being rolled out. <p>Link to KSIs: B</p> <p>Link to KPIs: ① ② ⑤ ⑥</p>
9 Loss of key personnel			
<ul style="list-style-type: none"> Key employees leave, and effective replacements cannot be recruited on a timely basis 	<ul style="list-style-type: none"> Loss of expertise Potential business disruption Reduced growth 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 The number of separate business units, each with their own management teams, minimises the risk that the underperformance of any one business impacts the Group as a whole 	<p>↔</p> <p>Link to KSIs: B</p> <p>Link to KPIs: ① ②</p>
10 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: ① ② ③ ⑤ ⑥</p>

Key strategic indicators


- A** Increase share of Group revenue from Design & Manufacturing
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Key performance indicators


- 1** Sales growth
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- 7** Carbon Emission reductions

Risk description	Potential impact	Mitigating actions	Change in the year
11 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"> ▪ Orders built to specific customer requirements; many are non-cancellable, and non-returnable ▪ Certain supplier stock return rights (Custom Supply Division) ▪ Purchasing to reliable sales forecasts ▪ Provisioning and write-off policies to cover potential obsolescence 	<p style="text-align: center;"></p> <p>Link to KSIs: B</p> <p>Link to KPIs: 2 4</p>

Financial risk


12 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"> ▪ The Group has an existing revolving credit facility of £180m which runs to June 2024 with c.£130m undrawn at the 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"> ▪ Very strong cash flow in the year with gearing at 31 March 2021 reducing to 1.1x from 1.25x last year and with two acquisitions completed. <p>Link to KPIs: 3 4 5 6</p>

13 Foreign currency

<ul style="list-style-type: none"> ▪ With only 12% of sales in Sterling, the Group deals in many currencies for both its purchases and sales, which differ to its reporting currency, and so the Group has translational and operational exposures 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> <p>Despite COVID-19, movements in our currencies have been relatively low this year, with only £0.2m adverse impact on underlying profits from translation.</p> <p>Link to KPIs: 2 5 6</p>
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PRINCIPAL RISKS AND UNCERTAINTIES

Risk description	Potential impact	Mitigating actions	Change in the year
14 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. In the early part of FY21 those valuations reduced but have since rebounded strongly. The allocation of assets in the portfolio across different asset classes and the existence of hedging arrangements has also meant that the risks are not significant <p>Link to KPIs: 5 6</p>

Regulatory / compliance risk			
15 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 export controls and supplier and customer credit risk 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: 5 6</p>

Key strategic indicators

- A** Increase share of Group revenue from Design & Manufacturing
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Key performance indicators

- 1** Sales growth
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STAKEHOLDER ENGAGEMENT

Stakeholder engagement

The Group considers it important to engage with our various stakeholder groups in a proactive and constructive manner and the below provides a summary of the ways in which we do so.

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 ■ Employee 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"> ■ 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

STAKEHOLDER ENGAGEMENT

Why it is important to engage	Stakeholder key interests	Opportunities
 <p>Shareholders</p> <p>To understand their requirements and generate returns and value. 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 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



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
- Board Diversity Policy

Day-to-day responsibility for implementation of these policies (other than the Board Diversity Policy) 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.

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 53 and 54 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 2021. This section is incorporated by reference into the Strategic Report.

STAKEHOLDER ENGAGEMENT

Section 172 of the Companies Act 2006 (the "Act")	discoverIE's response
<p>Long-term decision-making (s.172(a))</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>In FY21, the Board:</p> <p>Considered 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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
<p>Employee Interests (s. 172(b))</p> <p>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.</p>	<p>In FY21, the Board:</p> <p>Received updates on how COVID-19 was affecting staff and the measures being implemented within businesses to minimise the risk of the pandemic spreading across the workforce, including working from home where possible.</p> <p>Continued to operate a Workforce Advisory Panel, to ensure that the communications between the Board, Group Executive Committee, individual operating companies and Group staff were optimised.</p> <p>Reviewed Board and Senior Management diversity and succession, remuneration and employment relations and arrangements across the Group.</p>
<p>Relations with external parties (s. 172(c))</p> <p>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.</p>	<p>In FY21:</p> <p>Noting the pressure that businesses have been under during the COVID-19 pandemic, the Board ensured that suppliers continued to be paid on time and that the Group continued to serve our customers effectively.</p> <p>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.</p>
<p>Community & Environment (s. 172(d))</p> <p>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.</p>	<p>During the year:</p> <p>The Board continued its focus on environmental, social and governance matters and agreed a series of specific targets for the Group, further details of which can be found on pages 62 to 65.</p> <p>The Board also continued its support for the Community Foundation for Surrey.</p>

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 which promote corporate responsibility and ethical behaviour.

In FY21:

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.

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, the first being Phoenix, in October 2020 and the second being Limitor, in Germany and Hungary.

Receives Investor Relations updates at every Board meeting and direct feedback from investors during specific consultation exercises (including in particular on the Remuneration Policy to be put to Shareholders at the forthcoming annual general meeting) 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 2021, held 14 meetings. This included a significant number of additional meetings early in FY21, as the impact of COVID-19 was considered and addressed. The Board's agenda considers all relevant matters at scheduled meetings.
- 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, keeping them informed as to financial and commercial performance and regulatory and legal affairs.

SUSTAINABILITY



“We have taken active steps in recent months to intensify our approach to ESG, to deliver tangible benefits to our various stakeholders in years to come.”

Simon Gibbins
Group Finance Director

Part 1 – Overview

18 months ago we began intensifying our approach to environmental, social and governance (“ESG”) matters.

Whilst already well positioned, with a focus on target markets aligned with a sustainable future and products that enable significant benefits for customers in these areas, the Group undertook a comprehensive review to see where further improvements could be made. With the help of external consultants, the following steps were undertaken:





The diagram below summarises the core pillars of our ESG strategy (Our Planet, Our Products and Our People), how they come together to meet Our Purpose and how they are underpinned by our internal governance arrangements. More detail is provided on the following pages.



SUSTAINABILITY

Part 2 – Governance

From the outset of our review, ESG was a specific agenda item in all scheduled meetings of the Board and Group Executive Committee ('GEC'). It became clear early on that ESG had to be considered in the context of the business and our general strategy, and not be seen as separate.

It was therefore decided that each member of the GEC would have specific ESG responsibilities with oversight and challenge brought by the Board.

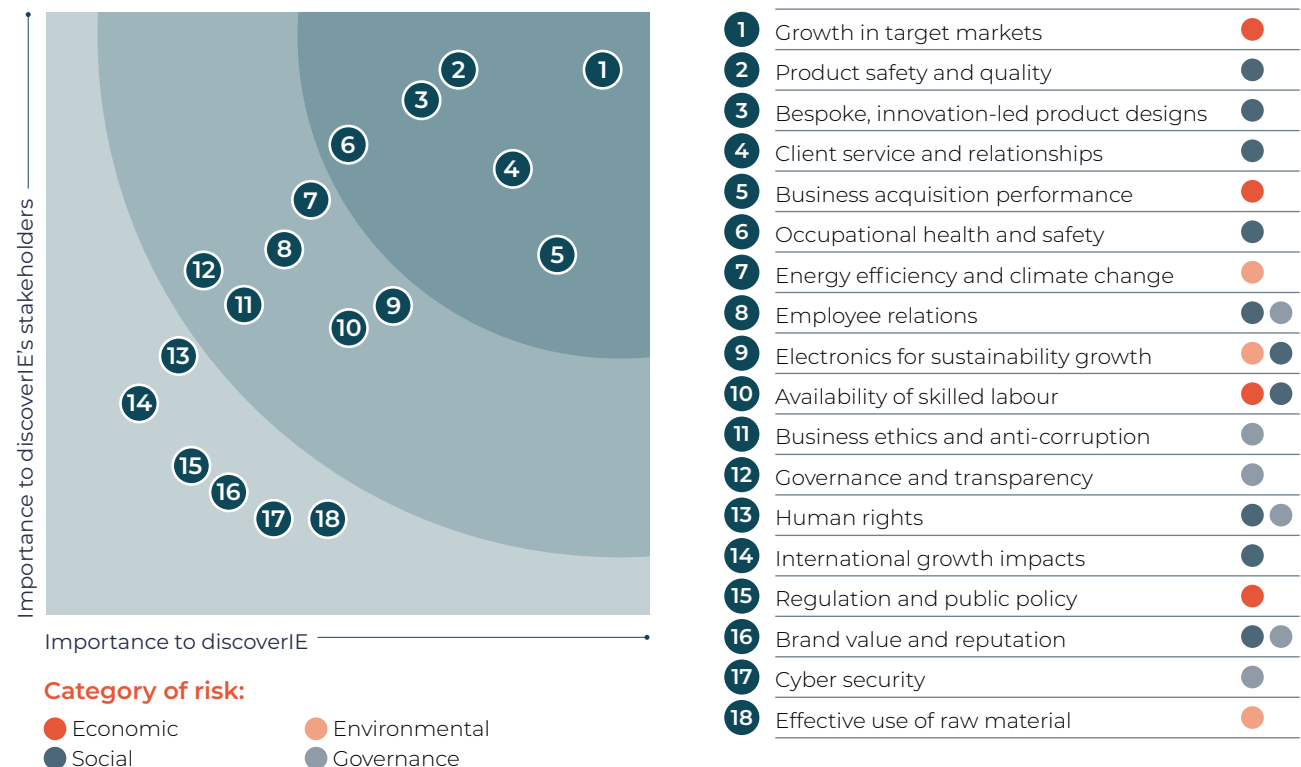
The Board	In line with the Group's general governance arrangements, the Board is responsible for oversight and challenge of the Group's ESG strategy and its delivery
Nick Jefferies	Responsible for setting the overall direction of the Group's approach to ESG, deciding on priorities and ensuring alignment with wider business strategy
Simon Gibbins	Responsible for ensuring the right resources are in place and liaising with investors in relation to ESG matters
Greg Davidson	Day-to-day lead on ESG matters; recommending initiatives, monitoring delivery and internal and external reporting
Martin Pangels	Ensuring that ESG is built into the long-term strategy for individual businesses across the Group
Paul Neville	Leading the implementation of our ESG strategy within the D&M division
Paul Webster	Leading the implementation of our ESG strategy within the Custom Supply division
Jeremy Morcom	Ensuring that ESG is actively considered in identifying and completing acquisitions

Each member of the GEC now has specific targets within their personal objectives relating to ESG, with a proportion of annual bonus dependent upon achievement of those targets

Part 3 – Materiality and Priorities

Materiality

External consultants were engaged to help conduct a materiality assessment for the Group, ensuring that as many potential topics as possible were considered in the process. Each topic was prioritised, both for the Group itself and its various stakeholders (customers, suppliers, investors and employees) concluding in a set of ESG priorities for the Group. The result is outlined in the matrix below:



Priorities

With a number of the highest priorities already subject to separate targets, for example through our key strategic and performance indicators, it was agreed that our ESG priorities should be as follows:

Material issue	Reason	Risks	Opportunities
Energy efficiency and climate change	This affects everyone and is a global concern.	Increased costs of working; increased risks of damage from environmental causes. See also page 45 in the Risk management section and page 48 in the table of Principal risks and uncertainties.	Market opportunities in our key target markets.
Occupational health & safety and employee relations	Our people are our most important asset and key to our success.	Poor practices risk injury to our staff which, as well as the risk, would affect morale and lead to retention issues. Unhappy staff would lead to high turnover, resulting in a loss of key knowledge and a less productive organisation.	A safe and happy working environment leads to a higher employee retention and a more productive workforce.
Product safety	The sale of our products is key to our success as an organisation.	Unsafe products will damage sales and could lead to reputational harm and liability issues.	Customer confidence in our product safety leads to repeat business, providing sustainable long-term revenues.

These priorities led to the adoption of the targets set out below.






SUSTAINABILITY

Part 4 - Targets

A summary of our ESG-specific targets is below.

Category/ Primary Aim	How we measure this	Targets	Progress
Our Planet			
Minimise our negative impact on the environment	Carbon intensity	50% reduction against 2019 emissions	<ul style="list-style-type: none"> ● 22.91 tCO₂e/ £m turnover ● 21.54 tCO₂e/ £m turnover ● 11.45 tCO₂e/ £m turnover <p>➔ Read more on pages 64 to 65</p>
	ISO14001 accreditations	>80% of the Group's operations to be covered by an ISO14001 accreditation by 2025	<ul style="list-style-type: none"> ● 31% ● 80% of Group covered by ISO14001 <p>Operations generating 31% of Group revenue had ISO14001 accreditation at 31 March 2021</p>
	Energy audits conducted at Group sites	>80% of all Group sites to have been subject to an energy audit within the last 5 years	<ul style="list-style-type: none"> ● 11% ● 80% <p>As at 31 March 2021, energy audits had been conducted at 8 of the Group's 74 sites within the previous five years.</p>
	Company cars	50% of company cars to be electric or hybrid by 2025	<ul style="list-style-type: none"> ● 91% fossil fuel ● 9% electric/ hybrid ● 50% <p>As at 31 December 2020, 23 of the Group's 253 company cars were electric/hybrid.</p>



Category/ Primary Aim	How we measure this	Targets	Progress
Our People			
Keeping our people safe and happy	Proportion of global workforce covered by ISO45001 compliant occupational health & safety system	>80% of employees to be covered by 2025	2021  6% Target  80% of staff covered by ISO45001
	No. of H&S Representatives and trained H&S staff across the Group	Maintain a ratio of at least 1:50 trained H&S staff to total employees	2020  Ratio of 1:47 Target  Ratio of 1:50
	Staff turnover	Unplanned labour turnover of no more than 15% pa	2020  <10% Target  15% max
➔ Read more on page 66			
Our Products			
Ensuring the quality and reliability of our products	Share of Group products covered by an ISO9001 system	Ensure that at least 80% of all products are built in accordance with ISO9001 accredited processes	2020  88% Target  80%



SUSTAINABILITY

Our Planet

Greenhouse gas emissions

As noted in the table in Part 4, our target is to reduce our carbon emissions by 50% from 2019 levels within 5 years.

Target & 'Net Zero'

We have prioritised reducing our carbon emissions by 50% rather than adopting a 'net zero' target which can only be achieved through the purchase of carbon offsets. Once sufficient progress has been made, consideration will be given to adopting a 'net zero' target.

Our target is calculated on an energy intensity metric capturing Scope 1 & 2 emissions, using 'market-based' emissions data¹. The target is a 50% reduction in the number of tonnes of CO₂e per £m revenue.

In 2019, our emissions were 22.91 tCO₂e / £m revenue, making our 2025 target 11.45 tCO₂e / £m revenue. In 2020, the figure was 18.52 tCO₂e / £m revenue, a 19% reduction on 2019 levels, or 6% on an underlying basis (with emissions adjusted to normalise the impact of COVID-19).

Methodology

Emissions data is reported in accordance with the UK Government's 'Environmental Reporting Guidelines: Including Streamlined Energy and Carbon Reporting Guidance', and the GHG Protocol Corporate Reporting Standard, using the 2020 emission conversion factors published by the Department for Environment, Food and Rural Affairs (Defra) and the Department for Business, Energy & Industrial Strategy (BEIS). The assessment follows the dual reporting approach for assessing Scope 2 emissions from electricity usage. The operational control approach has been used.

The data for the years ended 31 December 2019 and 31 December 2020, respectively, have been independently assessed by Carbon Footprint Ltd, a leading carbon and energy management company.



As well as enabling us to report our emissions data, Carbon Footprint have helped us identify new initiatives to further reduce our emissions going forward.

1. Scope 1 & 2 emissions are most directly within the Group's control; the 'market-based' measure of emissions is considered the most accurate.

Reducing our carbon emissions

Targeting a 50% reduction in the Group's carbon emissions over 5 years through a combination of:

- Buying electricity from renewable sources where possible
- Implementing energy reduction measures
- Installing renewable energy electricity sources on site

For newly acquired businesses targeting that at least 50% of energy used is from renewable sources within the first 5 years of ownership

Investment expected

c.£3m
over five years

Greenhouse gas emissions

The table below summarises our GHG emissions during the reporting year 1 January 2020 to 31 December 2020. This differs from our financial year to be consistent with previous emissions assessments.

Scope	Element	2019 (tCO ₂ e)	2020 (tCO ₂ e)
Direct emissions (Scope 1)	Company owned vehicles, gas, gas oil, LPG, site diesel and refrigerant chemicals	2,640.99	1,644.70
Indirect emissions (Scope 2 Location Based)	Purchased electricity and District Heating	7,298.55	6,600.54
Total tCO₂e (Scope 1 & 2) (Location-Based)		9,939.53	8,245.24
Other indirect emissions (Scope 3)	Transmission and distribution of electricity and district heating	590.38	604.08
Total tCO₂e (Scope 3) (Location-Based)		590.38	604.08
Gross Total (Location Based)		10,529.92	8,849.32
Gross Total (Market Based) (Scope 1 & 2 only)		10,534.44	8,377.33
Intensity metric (Location-based): Tonnes of CO ₂ e per £M turnover		22.69	19.57
Total energy consumption (kWh)		26,236,422	22,824,386
UK based emissions (%)		9.45	4.46
UK based energy consumption (%)		-	12.70
Intensity metric: Tonnes of CO₂e (Scope 1 & 2) per £M turnover (market-based emissions)		22.68	18.52¹

1. A reduction of 6% in emissions is referred to elsewhere in this Annual Report and Accounts. That figure has been adjusted to reflect reduced operational capacity at certain sites as a result of COVID-19.

Other environmental impacts

A number of Group companies have ISO14001 accreditation and, as noted above, targets have been set to increase this.

In addition to compliance with environmental laws, Group companies are encouraged to manage natural resources carefully, minimise waste and recycle. Although the majority of our products are non-hazardous, where such items are involved, it minimises the environmental risks by use of appropriate labelling and technical information, in conjunction with training and procedures for handling, storage and disposal. The Group has implemented procedures to comply 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.

The Group also has a number of other initiatives underway, as summarised below.

Environmental initiatives

- Plans in progress for installation of solar panels at our facility in Sri Lanka and investigations underway at one of our China facilities
- Installation of natural source heat pump at one of our facilities in Poland
- 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
- Encouragement of remote working where appropriate
- Installation of filters to reduce air emissions
- Planting of trees near our facilities
- Use of more efficient packing materials to minimise waste production and recycling of such materials – cardboard boxes are shredded and used as packing materials
- Use of electric forklifts instead of diesel

SUSTAINABILITY

Our People

Keeping our people safe and happy



Health and safety

The Group aims to provide clean, healthy and safe working conditions. 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. In line with that aim, the Group introduced a new Group Health & Safety Policy during the year, to reinforce responsibilities and minimum standards, a summary of which is as follows:

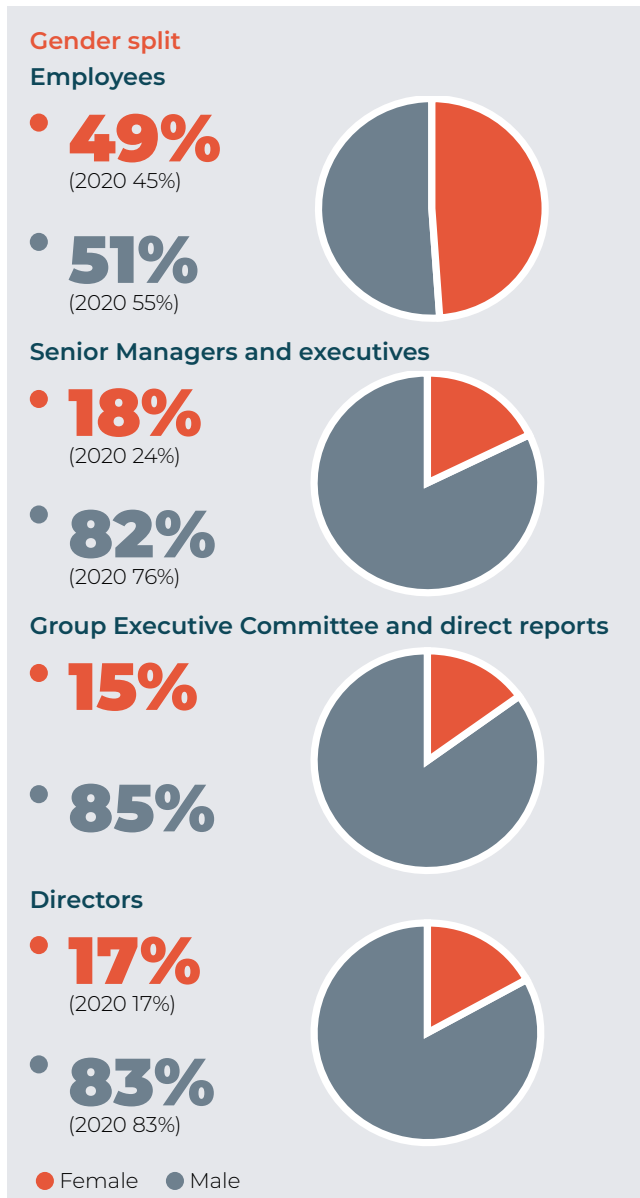
Responsibility & Ownership	The Group operates a decentralised management structure. The management of each of our businesses is best placed to identify and manage the health and safety risks relevant to their business. They must ensure that those risks are properly identified and managed.																
Minimum Requirements	<p>The Policy sets out certain minimum expectations which are for individual management teams to determine how best to achieve within their businesses. The minimum expectations include the following:</p> <ul style="list-style-type: none"> ■ Each business to have its own local H&S Policy and communicate to all concerned ■ Appropriate resources must be in place ■ Responsible individuals to be identified within each business and those individuals to have suitable training ■ Appropriate documentation to be maintained ■ A 'speak up' culture is to be encouraged, with employees positively asked to identify potential risks or hazards and bring them to the attention of those responsible for health and safety ■ Appropriate risk assessments to be performed and recommendations actioned ■ Training to be provided 																
Reporting	<p>Operating companies report each month in respect of health and safety issues, including the number of on-site accidents, near misses and mitigation. The following chart summarises the Group's accidents and near misses over the last three financial years.</p> <table border="1"> <caption>Accidents and Near Misses per Employee (per annum)</caption> <thead> <tr> <th>Year</th> <th>Accidents per employee (per annum)</th> <th>Accidents per employee leading to absence >5 days (per annum)</th> <th>Near misses per employee (per annum)</th> </tr> </thead> <tbody> <tr> <td>FY19</td> <td>0.020</td> <td>0.002</td> <td>0.003</td> </tr> <tr> <td>FY20</td> <td>0.022</td> <td>0.004</td> <td>0.003</td> </tr> <tr> <td>FY21</td> <td>0.018</td> <td>0.004</td> <td>0.003</td> </tr> </tbody> </table>	Year	Accidents per employee (per annum)	Accidents per employee leading to absence >5 days (per annum)	Near misses per employee (per annum)	FY19	0.020	0.002	0.003	FY20	0.022	0.004	0.003	FY21	0.018	0.004	0.003
Year	Accidents per employee (per annum)	Accidents per employee leading to absence >5 days (per annum)	Near misses per employee (per annum)														
FY19	0.020	0.002	0.003														
FY20	0.022	0.004	0.003														
FY21	0.018	0.004	0.003														

As at 31 December 2020, the Group had over 90 health & safety representatives across our workforce of 4,200 employees, a ratio of 1:47, which is well ahead of guidance. The Group conducted over 6,500 hours of health & safety training in the year to 31 December 2020.

Equality and Diversity

The Group is committed to ensuring our people are treated with respect, and are empowered and appropriately rewarded. Our employment policies are based on equal opportunities for all, and on there being no discrimination on grounds of colour, ethnic origin, gender, age, religion, political or other opinion, disability or sexual orientation. The policies are fair, equitable and consistent with the skills and abilities of employees and the needs of the Group's businesses and aim to ensure that everyone is accorded equal opportunity for recruitment, training and promotion. The Group does not tolerate any sexual, physical or mental harassment.

Our Board Diversity Policy can be found on the Company website: www.discoverIEplc.com. Set out below is an analysis of the number of employees by gender during the year.



Development and training

Employees are encouraged to develop their knowledge and skills and to progress their careers to the mutual benefit of themselves and the Group companies they work for. It is the responsibility of management to ensure that they comply with all local laws and regulations. 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 in accordance with Provision 5 of the UK Corporate Governance Code, 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.

SUSTAINABILITY

Our Products

Fulfilling our purpose and ensuring product safety & reliability

Product Benefits

Our products bring considerable benefits to customers, helping enable a sustainable future.

For details of the alignment of our target markets with the United Nations Sustainable Development Goals please see pages 16 and 17.

The vast majority of the Group's products are manufactured under ISO9001 systems, thereby increasing safety and reliability

Read our impact Report 2021



This Report provides just a few examples of the ways in which our products are helping in the global fight against climate change, and how they are helping people personally.

It can be found on the Company's website: www.discoverIEplc.com

General Business Ethics and Compliance

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 has a zero tolerance approach to modern slavery, servitude, forced or compulsory labour and human trafficking 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.

The Group's modern slavery statement and its 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. 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.

Our compliance

The following table contains a summary of how discoverIE has addressed certain ESG matters.

Topic	Reference / Comment
General	
The benefits of our products	➔ Please see pages 16 to 17 and our separate Impact Report, which can be found at www.discoverIEplc.com .
Governance	Please see: <ul style="list-style-type: none"> ➔ The Corporate Governance Report on pages 74 to 84 ➔ For ESG governance, page 60 ➔ For Risk management, page 40 ➔ For governance of climate-related risks, page 45
Targets	<ul style="list-style-type: none"> ➔ Key performance indicators and key strategic indicators can be found on pages 22 and 23 ➔ ESG-specific targets can be found on pages 62 and 63
AGM voting	Conducted by poll.
Risk Management	➔ Read more on pages 40 to 45
Climate-related risks	➔ Read more on pages 45 and 48
Materiality assessment	➔ Read more on page 60
Remuneration	<ul style="list-style-type: none"> ➔ Please see the Remuneration Report on pages 94 to 118 ▪ A portion of remuneration is dependent upon ESG objectives for the Executive Directors and the GEC
Policies	
Board diversity policy	Please see the Company's website: www.discoverIEplc.com
Anti-bribery and corruption policy	
Whistleblowing policy	
Other	
Tax strategy	Please see the Company's website: www.discoverIEplc.com
Regulatory compliance / fines	There were no prosecutions or fines of the Group during FY 2020/21.

The Strategic Report, as set out on pages 02 to 69, has been approved by the Board.

On behalf of the Board

Nick Jefferies
Group Chief Executive
3 June 2021

Simon Gibbins
Group Finance Director
3 June 2021

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

None



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

A N R

Appointment to the Board

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

Independent

Yes

Previous experience

Bruce brings a wide range of strategic and leadership expertise to the Board with proven experience of growing international industrial businesses.

During his executive career, Bruce was Chief Executive Officer of Diploma plc. Prior to joining Diploma, Bruce was a director with the technology and management consulting firm Arthur D. Little Inc., both in the UK and the USA.

External appointments

Non-Executive Director and Chair of Avon Rubber plc



Clive Watson

Non-Executive Director

A N R

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. He also 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 and Non-Executive Director of Trifast plc



Greg Davidson

Group General Counsel & Company Secretary

G

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

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

THE GROUP EXECUTIVE COMMITTEE



Nick Jefferies

Group Chief Executive

➔ For biography see page 70



Simon Gibbins

Group Finance Director

➔ For biography see page 70



Greg Davidson

Group General Counsel & Company Secretary

➔ For biography see page 71



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 events of the last year have demonstrated both the importance and resilience of the Group’s governance arrangements”

Malcolm Diamond MBE
Chairman

Chairman’s Governance Overview

discoverIE is a strong business, with a clear purpose and set of values. This is underpinned by a governance structure that enables the Group’s long-term objectives to be met.

The events of the last year have demonstrated the importance of our governance arrangements. The resilience that the Group has shown, responding quickly to changing circumstances, and establishing safe working practices and maintaining continuity, is testament to their effectiveness.

These structures help ensure we are well positioned for continued growth and to meet the social and environmental challenges facing the world today.

Malcolm Diamond MBE

3 June 2021



Compliance with the UK Corporate Governance Code 2018

During the year ended 31 March 2021, the Company complied with the UK Corporate Governance Code 2018 (the “Code”), with the exception of provision 38 (alignment of pensions) which, in accordance with guidance, the Company will comply with from 1 January 2023.

Section	Progress made	Further Information
 <p>Board Leadership and Company Purpose</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 then implemented properly throughout the Group.	 Read more on pages 76 to 79
 <p>Division and Responsibilities</p>	The respective roles and responsibilities of the Executive and Non-Executive Directors are clear and consistently applied, providing for constructive and effective dialogue and clear accountability.	 Read more on pages 80 to 81
 <p>Composition, Succession and Evaluation</p>	The Board has a healthy balance of skills, knowledge and experience and the appointment process is rigorous and carefully applied. Annual evaluations keep the effectiveness of the Board and its Committees under regular review to ensure this remains the case.	 Read more on pages 82 to 83
 <p>Audit, Risk and Internal control</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.	 Read more on page 84
 <p>Remuneration</p>	Remuneration supports the Company's strategy and is appropriate to the nature and size of the business. The Board has clear processes in place and aims to report in a straightforward and easy to understand way, with a view to providing external stakeholders with reassurance that pay, performance and wider interests are aligned.	 Read more on page 84

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 70 to 72.

There were no changes during the year ended 31 March 2021. Bruce Thompson is Senior Independent Director, Tracey Graham is Chair of the Remuneration Committee and Clive Watson is Chair of the Audit and Risk Committee.

All of the Non-Executive Directors have considerable expertise in their respective roles.

Section 172 Statement

The Board takes seriously all of its duties, including those set out in section 172 of the Companies Act 2006. The statement required by section 172(1) explaining how it has taken those duties into account can be found on pages 55 to 57.

Stakeholder engagement

We engage proactively with our stakeholder groups.

➔ Read more on pages 53 to 57

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 on pages 58 to 69

➔ Read more on pages 40 to 45



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 the following priorities:

- Grow sales well ahead of GDP over the economic cycle by focusing on structural growth markets
- Move up the value chain into higher margin products
- Acquire businesses with attractive growth markets and strong operating margins
- Further internationalise the business by developing sales in North America and Asia
- Generate strong cash flows and sustainable returns while reducing impact on the environment

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 22 and 23.

CORPORATE GOVERNANCE REPORT



Board Leadership and Company Purpose

Employee Engagement

A high-quality workforce is vital to the success of the Group. There are a range of employee engagement initiatives in place across the Group and these include the following:

- Works Councils and staff representative meetings
- Employee meetings
- Quarterly performance updates
- Staff surveys
- Social and team-building events
- Health & wellbeing reviews
- Workforce Advisory Panel

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 (both in China) 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 Board intends to resume these visits once conditions allow.

The purpose of the Workforce Advisory 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. This helps the Board to monitor and assess the culture of the organisation.

A number of operational changes have already been implemented as a result of the interaction. In the coming year, it is intended that this will include increased collaboration between different businesses within the Group.

Time Allocation, Board and Committee Meetings and Attendance

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

Director	Committees				Overall Attendance %
	Board	Audit and Risk	Remuneration	Nomination	
Malcolm Diamond	14 / 14	3 / 3	6 / 6	1 / 1	100%
Simon Gibbins	14 / 14	3 / 3	6 / 6	1 / 1	100%
Tracey Graham	14 / 14	3 / 3	6 / 6	1 / 1	100%
Nick Jefferies	14 / 14	3 / 3	6 / 6	1 / 1	100%
Bruce Thompson	14 / 14	3 / 3	6 / 6	1 / 1	100%
Clive Watson	14 / 14	3 / 3	6 / 6	1 / 1	100%

Time is provided at the start and the end of each meeting for the Chairman to meet privately with the Senior Independent Director and Non-Executive Directors. During FY 2020/21, the Board was mindful of the additional time commitment required of the Non-Executive Directors as a result of COVID-19, both for the Company and also for their other appointments. These commitments were taken into account in the preparation and planning of meetings to ensure that all Directors were able to allocate sufficient time to discharge their responsibilities.

Board approval is required prior to any Director accepting any external appointments.

Board activities

Topic	Key activities and discussions in 2020/21	Key priorities in 2021/22
Strategy	<ul style="list-style-type: none"> ■ Oversaw the Group's response to COVID-19 ■ Reviewed and approved the acquisitions of Phoenix and Limitor ■ Reviewed key strategic indicators ("KSIs") and key performance indicators ("KPIs") 	<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 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 and emerging risks (see pages 47 to 52) ■ Considered the Group's exposure to climate related and other ESG risks ■ Monitored compliance with the anti-bribery and corruption policy ■ Reviewed internal audit reports and actions taken to address findings identified 	<ul style="list-style-type: none"> ■ Review key risks and ensure that the Group's internal control process remains appropriate
Governance	<ul style="list-style-type: none"> ■ Reviewed and engaged with major shareholders and proxy bodies on the remuneration policy due to be put to Shareholders at the 2021 annual general meeting ■ 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 ■ Reviewed and approved the FY 2019/20 Annual Report 	<ul style="list-style-type: none"> ■ Build further understanding and plan actions in relation to new regulations over the period
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"> ■ Continue to monitor health and safety performance across the Group ■ Consideration of the Group's capacity as it continues to grow
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"> ■ Focus on increasing diversity both for the Board and across the Group more generally

CORPORATE GOVERNANCE REPORT



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, Tracey Graham, Bruce Thompson and Clive Watson 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 but would benefit from increased diversity. The Non-Executive Directors constructively challenge management proposals where appropriate and carefully monitor management performance and reporting on an ongoing basis. The Company has both a Chairman and a Group Chief Executive.

There is a clear division of responsibilities, which has been agreed by the Board, and 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.
- Approval of 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.

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 resources are in place.


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 90 to 91

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), and controls.

 Further information on the Audit and Risk Committee is on pages 85 to 89

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 94 to 118

Group Executive Committee

The Group Executive Committee comprises: Nick Jefferies, who is the Chairman of the Committee, together with Simon Gibbins, Greg Davidson, who is also the Secretary, Jeremy Morcom, Paul Neville, Martin Pangels and Paul Webster. For their biographies see page 72.

In previous years, the Committee typically met 6 – 7 times a year. However, in response to COVID-19, during the year ended 31 March 2021, the Committee held weekly meetings to consider latest developments and the Group's response, in addition to its ordinarily scheduled bi-monthly meetings. The Committee met over 30 times during the year ended 31 March 2021.

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

CORPORATE GOVERNANCE REPORT



Composition, succession and evaluation

Current Composition

The biographies of the current members of the Board and Group Executive Committee are set out on pages 70 to 71 and 72 respectively.

Work of the Nomination Committee

The Nomination Committee Report, which can be found on pages 90 to 91, describes the work of the Nomination Committee in ensuring that the Board continues to have the right mix of skills, knowledge and experience, and the process for ensuring that there is an effective process in place for succession planning. As noted in the Nomination Committee Report, the Board considers that steps should be taken to improve the diversity of the Board and wider Group.

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

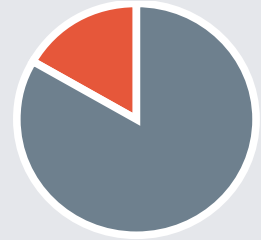
Gender diversity

- Female (1)

17%

- Male (5)

83%



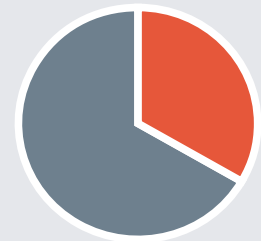
Independence

- Executive (2)

33%

- Non-executive (4)

67%



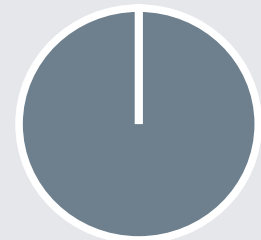
Board tenure

- <1 year (0)

0%

- >1 year (6)

100%



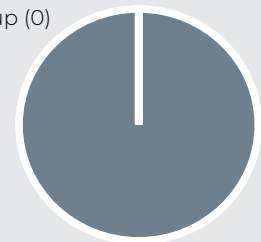
Ethnic diversity

- Mixed/multiple ethnic group (0)

0%

- White (6)

100%



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 2021 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 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 2021 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 AGM.

Summary of the 2021 Board evaluation

Board composition

The composition of the Board was positively rated but diversity should be improved.

Board's expertise

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

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. Further details on the Group's approach to risk are set out in the Risk Management section of this Annual Report and Accounts on pages 40 to 45.

CORPORATE GOVERNANCE REPORT



Audit, Risk and Internal Control

The Strategic Report notes that delivering the Group's strategic priorities in a sustainable and responsible manner 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 40 to 45.
- The Group's Principal Risks and Uncertainties are set out on pages 47 to 52.
- Finally, the Audit & Risk Committee Report on pages 85 to 89 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 94 to 118). In its approach to remuneration, during the year ended 31 March 2021, 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 employer pension contributions for any newly appointed Executive Directors shall be the same as those for the general UK workforce and that the contributions for the current Executive Directors will be aligned with the general workforce with effect from 1 January 2023.

Approval

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

Greg Davidson

Group General Counsel and Company Secretary

3 June 2021



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	2019
Tracey Graham	2017
Bruce Thompson	2019

The Group Company Secretary acts as Secretary to the Committee.

➔ Details of **individual Directors’ attendance** can be found on page 78

Dear Shareholder,

I am pleased to report on the activities of the Audit and Risk Committee (“the Committee”) during the year under review.

Meetings

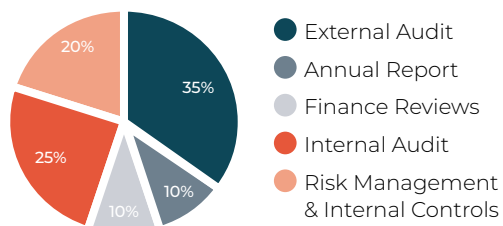
During the year, the Committee met three times and also met privately with the external auditor. The Committee comprised the people shown in the table on the left, all of whom were Non-Executive Directors.

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, the Group Projects 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 risks and judgement. The Committee also received sufficient, reliable and timely information from management on significant changes to financial accounting standards and reporting requirements, regulatory and governance changes and developments 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 70 and 71) 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



AUDIT AND RISK COMMITTEE REPORT

Committee activities during FY21

June 2020

- Reviewed results of the external audit of the FY20 Annual Report and Accounts
- Reviewed the going concern and viability statements
- Reviewed the FY20 Annual Report and Accounts
- Agreed a revised risk management and internal audit programme for FY21
- Discussed the overall adequacy and effectiveness of the Group's internal controls
- Reviewed the self-assessment of the Group Internal Audit function and the adequacy of its resources
- Considered the impact of COVID-19 on the Group's key controls environment
- Reviewed and approved the revised Risk Management Policy
- Reviewed and approved the internal audit charter
- Half yearly review of the Group Risk Register

November 2020

- Reviewed half year results and judgemental accounting areas, in particular the impact of COVID-19 on going concern and goodwill
- Reviewed regulatory update
- Half yearly review of the Group Risk Register including, in particular, subsidiary risk reporting

January 2021

- Reviewed external audit planning report for FY21 Annual Report and Accounts (including review and approval of audit scope and fees)
- Agreed a risk management and internal audit programme for FY22



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

After each meeting of the Committee, the Chair of the Committee reports to the Board, to enable the Board to discharge its responsibilities.

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. Following recent and upcoming regulatory changes, this includes consideration and review of the Group's exposure to climate-related risks and opportunities. 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 in conjunction with the Board. If any issues are reported that require further investigation, this is typically conducted by the Group Internal Audit function, which reports back to the Committee as to their findings and whether any further action is necessary or desirable. During the year a small number of reports were made, with the majority proving to be routine HR matters. None of the matters reported were found to be a cause for concern.
- Monitoring compliance with the UK Corporate Governance Code

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	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. Specifically, this included a review of any businesses not performing in line with expectations, to assess any potential impact on the carrying value of goodwill.
COVID-19	A review of the potential impact of COVID-19 on the Group and re-scheduling of Group Internal Audit activities to enable continued effectiveness during lockdowns.
Accounting for acquisitions	A review of the initial accounting for the acquisitions of Phoenix and Litoro 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 incentive 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.
Going Concern and Viability	A review of the assumptions underpinning the going concern and viability statements.

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

In respect of each significant matter reviewed by the Committee, the Committee considered the assumptions made, the reasonableness of judgements in their context, and how such matters have been presented. The Committee evaluated and challenged each of these to ensure that the Annual Report and Accounts is complete and accurate in all material respects.

Tax strategy

In March 2021, the Committee approved the Group Tax Strategy, which can be found on the Company's website at www.discoverIEplc.com.

AUDIT AND RISK COMMITTEE REPORT

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 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 management and 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 resource requirements of the Group Internal Audit function
- 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 to the Group Financial Director and, independently, to me, as Chair of the Committee.

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 staff, supported by the Group Projects Manager and outsourced providers as deemed necessary. Further details on the operation of the Group Internal Audit function can be found in the Risk Management section on page 40.

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 suitability of resources available to the Group Internal Audit function was considered in the year. 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 formal Annual Opinion for FY21 issued by the Group Internal Audit function was reviewed by the Committee, concluding that there were no material failings or weaknesses identified in the Group's internal control systems.

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.

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
- Audit Partner rotation.

Audit performance and effectiveness

The performance and effectiveness of the external auditor and related audit is reviewed annually by the Committee. This covers the robustness of the audit at both a Head Office and entity level.

The review covers the following:

- Robustness of the audit plan and, in particular, the identification of significant risks
- Execution of the above plan, including the auditor's ability to challenge management on key accounting judgements and assumptions adopted
- Ensuring the auditor demonstrates a deep and thorough knowledge of the business to enable them to reach appropriate conclusions on key accounting judgements
- Quality of reports provided to the Committee
- Communication between auditor and the Committee
- Feedback from management on the quality of the audit team
- Professional scepticism of the auditor.

The Committee concluded that the audit team had the necessary professionalism, experience and understanding of the business to carry out a thorough and robust audit. As a result, the performance of PwC was considered satisfactory.

Auditor independence


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. The Committee accepts that certain work of a non-audit nature is best undertaken by the external auditor. 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 (£5,000).

The Company last undertook a tender for external audit services in 2017 which led to the appointment of PwC. There are no contractual obligations restricting the Committee's choice of external auditors. The external auditors are required to rotate the audit partner at least every five years and the current lead audit partner, Chris Hibbs, was assigned to the discoverIE audit in 2021. The Committee recommended to the Board that it proposes to shareholders that PwC be re-appointed at the annual general meeting.

Additional key areas of focus in 2021/22

- Continue to assess the potential impact of, and the Group's response to, COVID-19 and Brexit
- Continue to assess progress against additional measures being rolled out following cyber risk review
- Further assessment of exposure to ESG-related risks including to climate-related risks and opportunities
- Review the accounting for new acquisitions
- Monitor the development and assess the impact of the UK's audit and governance reform proposals as set out in the BEIS consultation published on 18 March 2021

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 and Risk Committee

3 June 2021

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.”

Malcolm Diamond MBE
Chairman of the Nomination Committee

Member	Since
Malcolm Diamond	2017
Tracey Graham	2018
Nick Jefferies	2009
Bruce Thompson	2019
Clive Watson	2021

The Group Company Secretary acts as Secretary to the Committee.

2020/21 key achievements

- Recommended to the Board the re-appointment of Bruce Thompson, which was duly approved
- Identification of priorities for the coming year

Key areas of focus in 2021/22

- Increasing diversity for the Board and wider Group
- Continued evaluation of knowledge and skills

Dear Shareholder,

During the year, the Committee met once, with all Committee members attending and participated in a separate evaluation process which identified areas for improvement, especially in relation to diversity. The Committee’s recommendations were 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. Unless the appointment is as an Executive Director, for which a suitable candidate is available from within the Group, the Committee will create a short-list of suitable candidates for final selection 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 made.

Diversity and Succession planning

The Board is committed to a culture which attracts and retains talented people and to ensure that a proper process exists for succession planning for the Board and senior management.

The Company's Board Diversity Policy, which commits the Company to aiming to comply with both the Hampton-Alexander Review on gender diversity and the Parker Review on ethnic diversity, can be found on the Company's website www.discoverIEplc.com. Please see page 67 of the Sustainability report for a summary of the Group's current gender diversity and page 82 of the Corporate governance report for the current Board composition.

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

3 June 2021

DIRECTORS' REPORT

The Directors' report for the financial year ended 31 March 2021 is set out below. Certain matters required to be included in the Directors' report are included in the Strategic report, as the Board considers them to be of strategic importance, as follows:

Disclosure	Location
Future business developments	Throughout the Strategic report (page 02 to 69)
Risk management	Risk management and principal risks and uncertainties (pages 40 to 52)
Employee involvement	Sustainability report (pages 66 to 67)
Greenhouse gas emissions	Sustainability report (pages 64 to 65)
Stakeholder engagement	Please see pages 53 to 57

The Group's policies and processes for managing its capital, its financial risk management objectives, its financial instruments and hedging activities and exposure to credit and liquidity risk are disclosed in note 26 to the Group financial statements on pages 167 to 168.

Both the Directors' report and the Strategic report have been drawn up in accordance with 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 audited consolidated financial statements set out the results of the Group for the financial year to 31 March 2021 and are shown on pages 130 to 181. The key strategic and performance indicators of the business are set out in the Strategic report on pages 02 to 69.

The Directors recommend a final dividend of 7.0p per share (2019/20: nil) which, together with the interim dividend of 3.15p per share (2019/20: 2.97p), makes a total dividend for the year of 10.15p per ordinary share (2019/20: 2.97p). Subject to approval by Shareholders of the recommended final dividend, the dividend award to Shareholders for 2020/21 will total £9.0m (2019/20: £2.9m). If approved, the Company will pay the final dividend on 3 August 2021 to Shareholders on the register of members at 11 June 2021.

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

Directors

Board membership and biographical details of the Directors are on pages 70 and 71 and are incorporated by reference.

Copies of Executive Directors' service contracts are available to Shareholders for inspection at the London office of the Company's corporate solicitors, White & Case LLP 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 94 to 118.

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 2021, the Company's issued share capital consisted of 89,455,915 ordinary shares of 5p each (no shares are held in treasury).

Details of movements in the Company's issued share capital can be found on page 170 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 2021, 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	10,973,504	12.27%
Blackrock	6,569,057	7.34%
Kempen Capital Management NV	4,700,000	5.25%
Franklin Templeton Investments	4,319,549	4.83%
Montanaro Investment Managers	4,260,000	4.76%
Canaccord Genuity Wealth Mgt	4,000,000	4.47%
Charles Stanley	3,803,431	4.25%
Legal & General Investment Mgt	3,763,933	4.21%
Swedbank Robur	2,700,000	3.02%

As at 1 June 2021, the Company had been notified of, or was aware of, the following shareholders holding 3% or more of the issued share capital of the Company:

Shareholder	Holdings of ordinary shares (5p)	% of issued share capital
Aberdeen Standard Investments	10,811,513	12.09%
Blackrock	6,201,884	6.93%
Kempen Capital Management NV	4,800,000	5.37%
Franklin Templeton Investments	4,319,549	4.83%
Montanaro Investment Managers	4,257,985	4.76%
Canaccord Genuity Wealth Mgt	4,000,000	4.47%
Legal & General Investment Mgt	3,755,986	4.20%
Charles Stanley	3,717,772	4.16%
Franklin Templeton Fund Management	3,500,000	3.91%
Swedbank Robur	2,777,630	3.11%

Authority to purchase own shares

At the annual general meeting held on 19 August 2020, Shareholders authorised the Company to purchase in the market up to 10% of its issued share capital (8,945,591 ordinary shares) and, as at 31 March 2021, all of this authority remained in force and unused. This authority is renewable

annually, and a special resolution will be proposed at the 2021 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.

Change of control

Details of the Group's borrowing facilities are provided in the Finance review section of the Strategic report on page 38. These agreements contain a change of control provision, which may result in the facility being withdrawn or amended upon a change of control of the Group. The Group is party to a number of commercial agreements which, in line with industry practice, 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 (2019/20: 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 11.00am on Thursday 29 July 2021 will be sent to Shareholders separately from this report. The venue for the meeting is The Technology Centre, Surrey Research Park, 40 Occam Rd, Guildford GU2 7YG. Details of the arrangements for that meeting will be as set out in the Notice for that meeting.

Going concern

For the reasons explained in the Viability Statement on page 46, 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
3 June 2021

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

Registered number: 02008246

DIRECTORS' REMUNERATION REPORT




“I have been hugely impressed by the extraordinary commitment of everyone at discoverIE and, in particular, the flexible approach to the challenging and changing conditions presented by the pandemic in order to serve customers and protect safety.”

Tracy Graham
Chair of the Remuneration Committee

Member	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 78

2020/21 key achievements

- Consultation with the Company's largest 22 Shareholders in relation to the remuneration policy to be put to Shareholders for approval at the 2021 annual general meeting
- Consideration of the impact of COVID-19 on remuneration outcomes for 2020/21 and our approach to setting pay in 2021/22
- Setting of appropriate incentive measures and targets for Executive Directors and senior management
- A review of other remuneration-related items within the UK Corporate Governance Code and the latest views from investors and proxy voting agencies
- Oversight of wider workforce remuneration
- Consideration of gender pay gap data

Key areas of focus in 2021/22

- 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
- Keeping abreast of corporate governance and regulatory developments
- Monitoring of performance against all personal objectives, including in particular the sustainability / ESG measures included in the objectives for the Executive Directors and Group Executive Committee

ANNUAL STATEMENT

Information not subject to audit

Dear Shareholder,

On behalf of the Board, it is my pleasure to present our Directors' Remuneration Report for the year ended 31 March 2021. This report comprises:

- This Annual Statement which summarises the work of the Remuneration Committee (the 'Committee') in 2020/21.
- The revised Directors' Remuneration Policy (the 'Policy') which sets the parameters for how our Directors will be remunerated going forward and which will take effect from the date of our 2021 annual general meeting, subject to Shareholder approval.

- The Annual Report on Remuneration which provides (i) details of the remuneration earned by Directors and the link between Company performance and pay in the year ended 31 March 2021 and (ii) how we intend to implement the new Policy in 2021/22.

This has been a busy year for the Committee as we set and evaluated pay in the context of the disruption caused by the global pandemic. Alongside this, we embarked on a review of Directors' remuneration as the policy approved by Shareholders in 2018 approached the end of its three-year life. This review involved a comprehensive shareholder consultation exercise with Shareholders holding 74% of our issued share capital and I am grateful for the helpful and constructive feedback received.

In addition as part of the Board's commitment to wider societal matters this year we introduced a sustainability component into all Executive Directors' and senior leaders' personal objectives.

Business performance and resulting remuneration outcomes for the year ending 31 March 2021

Throughout 2020 I was hugely impressed by the extraordinary commitment of all colleagues at discoverIE. The immediate and flexible approach to the challenging and changing conditions presented by the pandemic, to serve customers and protect colleague safety, was a testament to the global business working successfully together.

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.

The Group experienced disruption to the business particularly during the first half of FY 2020/21 as a result of the outbreak of COVID-19 and took active measures to protect the well-being of our employees, with changes to create socially distanced operating procedures and shift patterns for those in manufacturing and operations. Many office based staff switched to home working for a period. At the same time employees were focussed on minimising supply disruption to customers.

As part of our cash preservation measures, the Board and Group Executive Committee took a 20% reduction in fees and base salaries for a period of three months, the Group was granted a certain level of state support and the Board decided that no final dividend would be declared for FY 2019/20. A small number of staff were placed on furlough for a limited period of time.

As the year progressed, the Group's cash position remained strong and during the second half trading performance improved significantly with the Group returning to order growth, and by the end of the year sales growth. As a result, the Company resumed dividends, paying an interim dividend in January 2021, and the Company has since repaid all UK government support monies received.

Performance for the year as a whole was very resilient, with the Company delivering £35.2m in underlying operating profit, 5% lower than the prior year and an operating cash flow of £49.7m, up 26% on the prior year. Key to these results was the organic trading which at -6% was considerably better than the wider market, along with operating efficiencies.

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 02 to 69.

Annual bonus

The annual bonus for the Executive Directors for FY 2020/21 was based on operating profit targets (56%), simplified working capital (24%) and non-financial objectives (20%).

Given the impact of the pandemic on the business in the early part of the 2020/21 financial year, the profit targets were set later than usual to provide greater visibility on the short-term outlook. As a result of the delay, the Committee decided to halve the potential profit element of the bonus, resulting in a reduced bonus opportunity for the year of 90% of salary (from 125%) for the Group Chief Executive and 72% of salary (from 100%) for the Group Finance Director.

Based on the strong performance during the year in the circumstances, the profit performance was just above the maximum target, the Simplified Working Capital target was met in full and non-financial objectives were determined to have been substantially met (resulting in an 80% payout for this element). This performance would have resulted in bonuses of 94% of the reduced maximum (or £396,741 for the Group Chief Executive and £213,900 for the Group Finance Director).

While the Committee believes these outcomes are a fair reflection of the financial and operational performance of the Company during 2020/21, the Executive Directors felt that bonuses should be adjusted to reflect the reduced salaries received during the year (i.e., net of the voluntary 20% reduction applied for three months of the financial year) and no higher than those earned for FY 2019/20 and therefore proposed that bonuses were reduced so that they would be c.8% lower than the prior year.

DIRECTORS' REMUNERATION REPORT

The Committee commended and accepted management's proposal and, therefore, reduced the bonus outcomes above by a further 16% and 17% for the Group Chief Executive and Group Finance Director respectively, resulting in awards of c.75% and c.60% of the salary paid during the year to the Group Chief Executive and Group Finance Director respectively for FY 2020/21. The table below sets out a summary of the adjustments applied to the FY 2020/21 annual bonus.

	Maximum bonus opportunity	Bonus opportunity following reduction to the operating profit element	Actual formulaic outcome following reduced profit element	Executive Director voluntary reductions	
				Reduction to reflect lower salary (20% for three months)	Reduction to produce outcome 8% lower than 2020
Group Chief Executive	£583,443 125% of salary	£420,079	£396,741	£376,904	£332,796
Group Finance Director	£310,000 100% of salary	£223,200	£213,900	£203,205	£177,680

In line with the remuneration policy, 20% of the bonus for the Group Chief Executive will be delivered in deferred share awards. Further details of the bonus for 2020/21 are set out in the Annual Report on Remuneration.

Long term incentives vesting

The Group Chief Executive and Group Finance Director received awards under the LTIP in March 2018 that were based on absolute TSR, relative TSR and EPS performance criteria.

- Relative TSR – discoverIE ranked in the top 10% of the TSR peer group, thereby achieving this element in full
- Absolute TSR – discoverIE's TSR of 79.3% over the period was above CPI + 30%, thereby achieving this element in full
- EPS – a CAGR of 5.3% over the period from FY18 to FY21 led to 27.7% of this element vesting

This performance has resulted in 75.9% of the LTIP awards granted in March 2018 vesting. The 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.

2021 Directors' Remuneration Policy

Background, business and remuneration context

Since 2009, discoverIE has transformed into a designer, manufacturer and supplier of customised electronic components and sub-assembly units, focusing on four high quality, growth target markets which now account for 68% of Group sales and this is expected to continue to rise.

With a focus on delivering sustainable long-term growth with lower cyclicalities, the Group has increased electronics revenues from £120m in 2010 to approaching £500m today, from loss making to underlying EBITDA of £51m in FY20. Over this period, the Group made 19 acquisitions for a total consideration of £274m and disposed of 4 non-core legacy businesses for £12m. Of the acquisitions, £135m (49%) was funded with new equity, c.£75m (27%) self-funded through internal cash flow and disposal proceeds and the remainder (c.£50m) through bank debt. The business has become considerably more international and complex.

Nick Jefferies joined the Group in January 2009 when the Group's enterprise value was £6m and Simon Gibbins was appointed Finance Director the following year. As at the end of the financial year ending 31 March 2021, the enterprise value was c.£650m, and over this period c.£430m of incremental equity value has been generated for Shareholders with the Company transitioning from the FTSE Fledgling index through to the upper quartile of the FTSE SmallCap. The Group now employs c. 4,400 people and operates internationally with principal operating units located in Continental Europe, the UK, China, Sri Lanka, India and North America. The current management team has overseen this extraordinary transformation of the Company. discoverIE has been one of the best performing companies in the FTSE All-Share over the period of their tenure.

The Committee is mindful of the need to motivate and retain this successful team and is proposing a revised policy that it believes is competitive and fair and recognises the achievements set out above. While we are not looking to reward for past achievements, we believe it is important that the Executive Directors are rewarded appropriately for future delivery.

The primary aims of the proposed changes to the new policy are therefore to ensure that Executive Directors' remuneration is:

- aligned with discoverIE 's strategy at this stage of its development and support the business's medium and long-term plans;
- aligned with practice internally and externally;
- competitive and fair against companies of our size and geographical complexity;
- focused on delivering long-term sustainable returns; and
- compliant with Shareholders' latest views on executive pay and the requirements of the 2018 UK Corporate Governance Code.

Proposed changes to remuneration

Following a comprehensive consultation exercise with our largest shareholders, the Committee is proposing the following changes:

- The annual bonus opportunities to be 150% of salary for the Group Chief Executive and 125% for the Group Finance Director (previously 125% and 100%). The Policy for target bonus will be reduced from 60% of maximum to 50% of maximum. Bonus deferral will apply to all Executive Directors and not just the Group Chief Executive as was previously the case.
- The 2021 LTIP grant levels to be set at 150% of salary for the Group Chief Executive and 135% of salary for the Group Finance Director (previously 135% and 100%). The Policy limit to be increased to 175% of salary although there is no current intention to make grants at this level.

The Committee understands that the resulting proposed levels are in line with award levels in similar sized companies and not higher than the median for companies of our size. For the avoidance of doubt, we regard market practice as one input only of several, but when we look at the competitiveness of pay, we look at total target, maximum and realised remuneration.

- The Group Chief Executive's pension contribution of 15% of salary will be reduced to the workforce level from 1 January 2023 (currently, 6.5% of salary).
- A 250% of salary shareholding guideline will continue to apply for the current Executive Directors and a two-year post cessation shareholding guideline has been introduced. A 200% of salary shareholding guideline will apply for new appointments, in line with typical market practice in this area.
- The LTIP rules are being updated to include enhanced malus and clawback provisions and dividend equivalent provisions covering dividends paid in the vesting and holding periods.
- The recruitment policy has been amended so that the ability to grant 300% of salary LTIP awards to new recruits has been removed with limits now in accordance with the normal policy limit (i.e., up to 175% of salary going forward).

These steps bring the Company into line with good practice in these areas and enhances alignment with employees and Shareholders.

Application of policy in 2021

The Committee had been planning to increase Executive Directors' salaries in line with the workforce at the start of the 2020/21 financial year. However, with COVID-19 challenges facing the Company, the Committee determined that Executive Directors should not receive a salary increase in 2020/21 and the Board and Group Executive Committee took a voluntary 20% salary reduction for three months from 1 June 2020. Employees in non-management production positions received base salary increases in-line with inflation. Following consultation with Shareholders, the Committee has decided to increase the salaries of the Executive Directors

by 5% from 1 April 2021 in line with wider increases for high performing members of the workforce. These increases will be below the overall workforce increase for the two-year period. The Committee considers the proposed increases are appropriate and proportionate recognising the strong performance of the Executive Directors and the Group.

The bonus measures will remain unchanged for FY 2021/22 although we have taken the opportunity to slightly amend the weightings, resulting in the bonus being based on operating profit targets (60%), Simplified Working Capital (24%) and non-financial objectives (16%). This reweighting results in the proposed increase in opportunity under the new policy being subject to the financial measures. The Committee has decided to remove absolute TSR from the LTIP measures and so for the 2021 award, 50% will be based on relative TSR and 50% on EPS growth. The EPS growth targets have been increased from those applied last year (4%p.a. to 10%p.a.) so that the threshold and maximum targets are 5%p.a. and 12%p.a. respectively. Vesting of the EPS element shall also be subject to an underpin requiring the Committee to be satisfied with the Group's annual rate of return on capital employed (ROCE) over the measurement period. Further details of the approach for 2021 can be found on page 118 in the Annual Report on Remuneration.

Other key activities in the year ending 31 March 2021

During the year under review, the Committee held six formal meetings. As well as the review 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 2020 to determine the bonuses payable and reviewed performance against the 2017 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 2021 and the 2018 LTIP Awards
- Determined salary increases for Executive Directors as well as other GEC members for the forthcoming year
- Reviewed and approved the annual bonus structure for Executive Directors and senior management for the year ending 31 March 2022
- Implemented a deferred bonus scheme, in line with the Company's remuneration policy

There will be three remuneration related votes at the forthcoming annual general meeting. The first is to approve the directors' remuneration report, the second to approve the Directors' Remuneration Policy and a third to approve the new Long Term Incentive Plan rules. We hope that you will support these resolutions.

Tracey Graham

Chair of the Remuneration Committee

3 June 2020

DIRECTORS' REMUNERATION REPORT

Remuneration at a glance

When determining the Remuneration Policy, the Committee has ensured that the Directors' Remuneration Policy and practices are consistent with the six factors set out in Provision 40 of the Corporate Governance Code:

CLARITY

Our Directors' Remuneration Policy is well understood by our senior executive team and the Company invited its principal Shareholders and shareholder representative groups to consult on the updated Remuneration Policy and received good feedback. This report sets out the remuneration arrangements for the Executive Directors in a clear and transparent way.

SIMPLICITY

The Committee is mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. Therefore, a key objective of the Committee is to ensure that our Directors' Remuneration Policy and practices are straightforward to communicate and operate. The Committee's approach to performance measures has always been that they must be understandable for participants in the schemes in order to ensure they are effective.

RISK

Our Directors' Remuneration Policy has been designed to ensure that inappropriate risk-taking is discouraged, including the use of a blend of financial, non-financial and shareholder return targets. Shares play a significant role in our incentive arrangements; this includes the deferral under the annual bonus; malus/clawback provisions operate within our incentive plans.

PREDICTABILITY

Our incentive plans are subject to individual caps, with our share plans also subject to standard dilution limits. The potential value and composition of the Executive Directors' remuneration packages at below threshold, target and maximum scenarios are provided in the relevant policy.

PROPORTIONALITY

There is a clear link between individual awards, delivery of strategy and our long-term performance. The Committee has discretion to override formulaic results to ensure that they are appropriate and reflective of overall performance.

ALIGNMENT TO CULTURE

The variable incentive schemes and performance measures are designed to be consistent with the Group's purpose, values and strategy.

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 2021 are also shown.

Nick Jefferies FY21



● Fixed remuneration	£516k
○ Bonus	£333k
○ LTIPs	£868k

FY20



● Fixed remuneration	£540k
○ Bonus	£362k
○ LTIPs	£1,192k

Simon Gibbins FY21



● Fixed remuneration	£324k
○ Bonus	£178k
○ LTIPs	£442k

FY20



● Fixed remuneration	£339k
○ Bonus	£193k
○ LTIPs	£525k

Corporate performance for the year

Revenue

£454.3m



Underlying Operating Profit

£35.2m



Underlying EPS

26.0p



DIRECTORS' REMUNERATION REPORT

Remuneration outcomes for the Executive Directors for the year ended 31 March 2021

	Nick Jefferies £000		Simon Gibbins £000	
Salary FY21	443		295	
Bonus (£k and as % of salary)	333	75%	178	60%
Taxable benefits	11		12	
Pension benefits/allowance	62		18	
Value of LTIP vesting	868		442	
Single figure of total remuneration	1,717		945	

The annual bonus for the year ending 31 March 2021 was based on the achievement against financial and non-financial measures. The bonus outcomes for the year were 75% of salary for the Group Chief Executive and 60% 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.

LTIP awards were granted to both executive directors on 31 March 2018. These awards were based on absolute and relative TSR conditions, and EPS performance, measured for the three-year period ending 31 March 2021. The Company's TSR performance, being in the top 10% of the TSR peer group, and with an Absolute TSR growth of 79.4%, each over that three-year period, has resulted in full vesting of those elements of award. EPS growth for the period FY18 to FY21 was 5.3% CAGR, which resulted in 27.7% of that element of the award vesting. As a result, 75.9% of the total 2018 LTIP award vested.

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 2022

The table below sets out a summary of how the remuneration policy will apply during 2021/22 subject to approval of the new Directors' Remuneration Policy at the 2021 annual general meeting.

Possible remuneration outcomes for the Executive Directors for the year ended 31 March 2022 are shown on page 108.

Remuneration element	Remuneration for year ending 31 March 2022
Base salary	<ul style="list-style-type: none"> Salaries for FY 2021/22 are: <ul style="list-style-type: none"> £490,091 for the Group Chief Executive. £325,500 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. 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 150% of salary for Group Chief Executive and 125% of salary for Group Finance Director. Target bonus opportunity is 50% of maximum. Performance metrics are based 84% on financial measures and the remaining 16% 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.
LTIP	<ul style="list-style-type: none"> LTIP awards for FY 2021/22 will be made in line with policy, with grant sizes of 150% of salary for the Group Chief Executive and 135% of salary for the Group Finance Director¹. Performance metrics and targets will be based 50% on underlying EPS growth and 50% on Relative TSR. Vesting of the EPS element shall also be subject to an underpin requiring the Committee to be satisfied with the Group's annual rate of return on capital employed (ROCE) over the measurement period.
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

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

DIRECTORS' REMUNERATION POLICY

Information not subject to audit

This part of the Directors' Remuneration Report sets out the remuneration policy which will be put forward for shareholder approval at the Annual General Meeting on 29 July 2021 and, if approved, will take formal effect 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 2008.

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.

Key objectives of our reward policy

As described in the Annual Statement, the Remuneration Committee undertook a comprehensive review of the Executive Directors' remuneration arrangements and engaged with the Company's largest shareholders on the proposed changes. The primary aims of the proposed changes to the new policy are to deliver a remuneration package that is:

- Aligned with discoverIE's strategy at this stage of its development and supports the business's medium and long-term plans
- Consistent with practice internally and externally
- Competitive and fair compared against companies of our size and geographical complexity
- Focused on delivering long-term sustainable returns
- Compliant with shareholders' latest views on executive pay and the requirements of the 2018 UK Corporate Governance Code
- Able to attract and retain 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.

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 bonus 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 changes to the 2021 Directors' Remuneration Policy

Details of the key changes proposed in the 2021 policy can be summarised as follows:

- Increase in incentive opportunity – following a comprehensive Shareholder consultation exercise the annual bonus and LTIP individual limits have been increased. The maximum bonus opportunity is 150% of salary per annum for the Group Chief Executive and 125% of salary for other Executive Directors and the maximum LTIP award grant value is 175% of salary per annum
- Pension contributions for all directors will be aligned with the rate applying for the majority of the UK workforce from 1 January 2023
- Bonus deferral has been introduced for all Executive Directors. 20% of any bonus earned will be deferred in shares for three years
- Annual bonus and LTIP performance metrics – greater flexibility has been introduced on the choice of performance metrics and their weightings
- A post-cessation shareholding guideline has been introduced, requiring Executive Directors to retain shares for two years after ceasing to be a director
- Malus and clawback provisions have been strengthened by including additional triggers
- Recruitment Policy – the ability to grant a new Executive Director up to 300% of salary in performance shares has been removed so that any awards granted (excluding those for the purpose of a buyout) are subject to the limits set out in the remuneration policy table.

DIRECTORS' REMUNERATION REPORT

Remuneration policy table

Element, purpose and link to strategy	Operation	Maximum Opportunity	Performance targets
<p>Base salary</p> <p>To attract and retain quality staff.</p>	<p>Salaries are normally reviewed annually with increases typically effective from 1 April.</p> <p>In determining Executive Directors' salaries, the Remuneration Committee takes into account:</p> <ul style="list-style-type: none"> ■ Each Director's role, competence, experience 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 and against companies which operate internationally, in similar sectors.</p>	<p>There is no prescribed maximum or maximum increase.</p> <p>However, any percentage increases will ordinarily be in line with those across the wider workforce.</p> <p>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>Although there are no formal performance conditions, any increase in base salary is only implemented after careful consideration of individual contribution and performance and having due regard to the factors set out in the 'Operation' column of this table.</p>
<p>Benefits</p> <p>To help retain employees and remain competitive in the marketplace.</p>	<p>Directors, along with other senior UK executives, may receive certain benefits such as a car allowance, life assurance and critical illness cover, and family medical insurance.</p> <p>Any reasonable business-related expense (and any tax thereon) can be reimbursed if determined to be a taxable benefit.</p> <p>Executive Directors will be eligible to participate in any all-employee share plan operated by the Company, on the same terms as other eligible employees.</p> <p>For external and internal appointments or relocations, the Company may pay certain relocation and/or incidental expenses as appropriate.</p>	<p>There is no prescribed maximum as insurance cover can vary based on market rates.</p> <p>The maximum level of participation in all-employee share plans is subject to the limits imposed by the relevant tax authority from time to time.</p>	<p>Not applicable</p>

Element, purpose and link to strategy	Operation	Maximum Opportunity	Performance targets
<p>Pension</p> <p>To facilitate long-term savings provisions.</p>	<p>The Company operates a defined contribution pension scheme.</p> <p>Executive Directors may take a cash allowance in lieu of pension contributions</p>	<p>The Group Chief Executive currently receives a Company contribution of 15% of base salary which will reduce to the contribution rate applying to the majority of the UK workforce rate in place at the time (currently 6.5% of salary) from 1 January 2023.</p> <p>For the Group Finance Director and any new Executive Directors appointed to the Board, the pension contribution will be in line with the majority of the UK workforce.</p>	<p>Not applicable</p>
<p>Annual bonus</p> <p>To reward the achievement of annual financial and strategic business targets.</p>	<p>Bonus is based on performance targets determined and reviewed by the Committee and are selected to be relevant for the year in question.</p> <p>Any payment is discretionary and the 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>20% of any bonus earned is deferred into discoverIE shares for a period of three years. Where applicable, dividends may accrue on deferred bonus shares.</p> <p>Malus and clawback provisions apply to cash and deferred elements of the bonus, applying in the event of material misstatement of the Company's financial results, an error of calculation or in the event of serious misconduct, material reputational damage or corporate failure.</p>	<p>The maximum bonus opportunity is 150% of salary for the Group Chief Executive and 125% of salary for other Executive Directors. Maximum bonus is payable for significant over-achievement of financial and non-financial bonus objectives.</p> <p>Typically, no more than 50% of the maximum bonus opportunity will be payable for achieving target performance.</p>	<p>The Committee sets performance measures and targets that are appropriately stretching each year, taking into account key strategic and financial priorities and ensuring there is an appropriate balance between incentivising Executive Directors to meet targets, while ensuring they do not drive unacceptable levels of risk or inappropriate behaviours.</p> <p>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>A graduated scale of targets is normally set for each measure, with no payout for performance below a threshold level of performance.</p> <p>The Committee has discretion to amend the pay-out should any formulaic outcome not reflect the Committee's assessment of overall business or individual performance.</p>

DIRECTORS' REMUNERATION REPORT

Element, purpose and link to strategy	Operation	Maximum Opportunity	Performance targets
<p>Long Term Incentive Plan</p> <p>To motivate Executives to deliver Shareholder value over the longer term.</p>	<p>Awards of conditional shares or nil-cost options are typically granted annually, which vest after three years dependent on the achievement of performance conditions and continued service.</p> <p>Vested awards are subject to a two-year post vesting holding period (net of tax, if applicable) in respect of their vested awards.</p> <p>Dividend equivalents may be paid in respect of awards to the extent they vest by reference to dividends declared during the award's vesting period and holding period.</p> <p>Malus and clawback may apply to vested and unvested LTIP awards in the event of material misstatement of the Company's financial results, an error of calculation or in the event of serious misconduct, material reputational damage or corporate failure.</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 maximum award in respect of any one financial year is an award over shares of market value at grant of 175% of salary.</p> <p>The 2021 LTIP grant level for the Group Chief Executive is 150% of salary and 135% of salary for the Group Finance Director.</p> <p>The Committee may increase the grant size of an LTIP award on grant (subject to the maximum award limit) if the award terms include that participants bear the cost of the Company's liability to employer's National Insurance arising on the settlement of their awards. The increased award size ensures that the participants are in a neutral position on an after-tax basis, assuming no change in tax rates.</p> <p>The Company is committed to remaining within the Investment Association's 10% dilution limit.</p>	<p>Performance metrics reflect the Group's strategic goals and milestones.</p> <p>The performance conditions may include, and are not limited to, relative or absolute TSR, earnings per share growth, return based measures, strategic measures and ESG-related objectives.</p> <p>The Committee retains discretion to set alternative weightings or performance measures for awards granted over the life of the policy.</p> <p>Threshold performance will normally result in no more than 25% of the award vesting.</p> <p>The Committee retains discretion to adjust vesting levels taking into account such factors as it considers relevant, including, but not limited to, the overall performance of the Company or the relevant Participant who holds the Award.</p>
<p>Shareholding guidelines</p> <p>To further align the interests of Executives with those of Shareholders.</p>	<p>Executive Directors are expected to accumulate the required shareholding requirement.</p> <p>Shares held which are no longer subject to performance conditions count towards the requirement (on a net of tax basis, if applicable).</p> <p>Executive Directors are required to retain at least 50% of their net of tax vested share awards until the in-employment shareholding guideline is met.</p>	<p>The current Executive Directors are required to build up and hold shareholdings to the value of 250% of salary.</p> <p>Any new Executive Directors appointed will be required to build up and hold shareholdings to the value of 200% of salary.</p> <p>Post cessation: Executive Directors are normally required to hold shares at a level equal to the lower of their shareholding at cessation and 200% of salary, for two years post-employment, from share awards granted after the date of approval by Shareholders of this policy. This excludes any shares vesting from share plan awards made before such approval and shares purchased with own funds.</p>	<p>Not applicable.</p>

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 current 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 for FY 2021/22 is EBIT and the cash management metric is Simplified Working Capital.

The LTIP measures for the first grant under this policy will be assessed against EPS growth targets and relative TSR. These measures were identified as those most relevant to driving sustainable bottom-line business performance, as well as providing value for Shareholders.

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.

Discretions and judgements

The Committee will operate the annual bonus plan and long-term incentive plan according to their respective rules and ancillary documents. Consistent with market practice, the Committee has discretion in a number of respects in relation to the operation of each plan. Discretions include:

- who participates in the plan;
- determining the timing of grants of awards and/or payments;
- determining the quantum of an award and/or payment;
- determining the extent of vesting;
- how to deal with a change of control or restructuring of the Group;
- whether an Executive Director or a senior manager is a good/bad leaver for incentive plan purposes and whether the proportion of awards that vest do so at the time of leaving or at the normal vesting date(s);
- how and whether an award may be adjusted in certain circumstances (e.g., for a rights issue, a corporate restructuring or for special dividends);
- what the weighting, measures and targets should be for the annual bonus plan and LTIP plans from year to year; and
- the Committee also retains the ability within the policy to vary and/or adjust targets and/or set different measures or weightings for the annual bonus plan and LTIP plans, if events occur that cause it to consider it appropriate to do so, and, in the case of the LTIP, any amended performance conditions are not materially less challenging than the original conditions would have been but for the events in question.

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.

All historical awards that have been granted before the date this policy came into effect and still remain outstanding (including those detailed on page 114 of the Annual Report on Remuneration) and remain eligible to vest based on their original award terms.

DIRECTORS' REMUNERATION REPORT

Recruitment (and appointment) policy

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

Element	Recruitment policy
Base salary	<p>New Executive Director appointments will be offered a salary in line with the existing remuneration policy. The Committee will take into account a number of factors, including the current pay for other Executive Directors, external market forces, the expertise, skills and experience of the individual and current level of pay.</p> <p>Where the Committee has set the salary of a new appointment at a discount to the market level initially until proven, they may receive an uplift or a series of planned increases to bring the salary to the appropriate market position over time.</p>
Benefits	<p>Benefits provision would be in line with normal policy.</p> <p>The Committee may agree that the Company will meet appropriate relocation costs and/or incidental expenses as appropriate.</p>
Pension	<p>Pension contribution (or a cash allowance in lieu of contribution) provision will be no more than the general workforce contribution rate in place at the time (currently 6.5% of salary).</p>
Annual bonus	<p>Eligible to take part in the annual bonus, with a maximum bonus opportunity not in excess of the limits set out in the policy.</p> <p>Depending on the timing of the appointment, the Committee may deem it appropriate to set different annual bonus performance conditions for the first performance year of appointment.</p>
Long Term Incentive Plan	<p>An LTIP award may be granted upon appointment but not in excess of the limits set out in the policy.</p> <p>An LTIP award may be made shortly following an appointment (assuming the Company is legally permitted to do so).</p>
Compensation for forfeited remuneration	<p>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.</p> <p>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.</p> <p>In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment.</p>
Chairman and non-executive directors	<p>For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved Remuneration Policy.</p>

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 2024
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.

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 base salary and cash equivalent of other benefits for the applicable notice period.

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 is commenced, for each month that instalments of the PILON remain payable, the monthly amount paid may be reduced by the amount received from such alternative employment.

If identified as a 'good leaver' for the purposes of the bonus plan, the bonus payout will be pro-rated based on the Committee's reasonable assessment of the achievement of the performance measures in respect of the relevant financial year.

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' 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.

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 will ordinarily be 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.

DIRECTORS' REMUNERATION REPORT

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. 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 110 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.

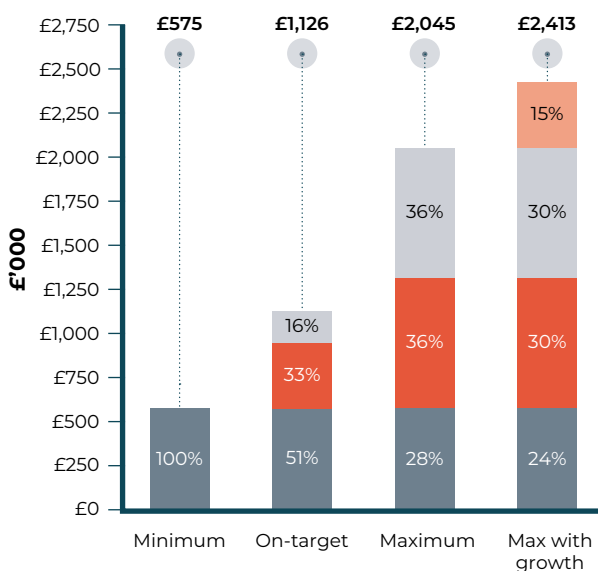
External appointments

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.

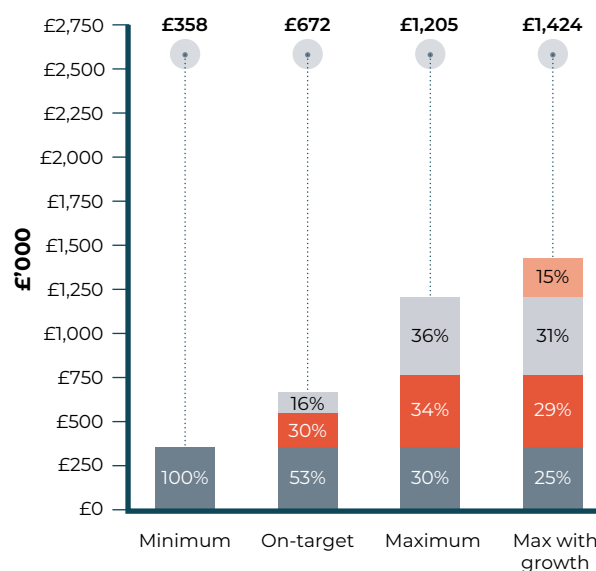
Illustrations of the application of the Executive Directors' remuneration policy

The bar charts below illustrate some possible outcomes of the application of the policy for the year ending 31 March 2022.

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 150% and 135% of salary for the Group Chief Executive and Group Finance Director respectively) and bonuses have been earned at the target levels (75% of salary for the Group Chief Executive and 62.5% 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 150% and 135% of salary for the Group Chief Executive and Group Finance Director) and the maximum bonus (150% and 125% 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 108 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.

Employee Engagement

As outlined on page 53 there are a range of employee engagement initiatives in place across the Group and, as part of this employee engagement, there is the opportunity for employees to ask questions and provide feedback on the strategy of the Company, including how this links to remuneration.

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. This includes a comprehensive Shareholder consultation exercise undertaken with the Group's largest Shareholders in determining the changes applied to this Directors' Remuneration Policy.

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 2021 and the prior year.

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

		Salary ¹ £000	Benefits ² £000	Pension ³ £000	Total Fixed Remuneration	Bonus ⁴ £000	LTIP ⁵ £000	Total Variable Remuneration	Total £000
Nick Jefferies	FY21	443	11	62	516	333	868	1,201	1,717
	FY20	467	11	62	540	362	1,192	1,554	2,093
Simon Gibbins	FY21	295	12	18	324	178	442	620	944
	FY20	310	11	18	339	193	525	718	1,057

- Each of the Executive Directors voluntarily waived 20% of their base salary for the three-month period from June 2020 to August 2020.
- Taxable benefits comprise car allowance (£9,000 each) and family medical insurance. The total value of benefits for 2021 were £11,148 and £11,571 for Nick Jefferies and Simon Gibbins respectively.
- 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 NI contributions) respectively.
- For performance in the year under review, a bonus of 75.1% and 60.3% of salary paid during the year is payable to Nick Jefferies and Simon Gibbins, respectively. Further details can be found on pages 110 to 112. In accordance with the Remuneration Policy, 20% of Nick Jefferies' bonus will be in the form of deferred shares.
- 75.9% of the 2018 LTIP award granted to Nick Jefferies and Simon Gibbins on 31 March 2018 vested on 31 March 2021. Further details can be found on page 112. Of the FY21 LTIP values shown in the table above, £369,514 of Nick Jefferies and £188,306 of Simon Gibbins, is attributed to share price growth over the vesting period.

DIRECTORS' REMUNERATION REPORT

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

	Basic fee ²		Committee Chair fees		SID fee		Total	
	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20
	£	£	£	£	£	£	£	£
Malcolm Diamond	133,000	140,000	–	–	–	–	133,000	140,000
Richard Brooman ¹	–	15,333	–	2,667	–	–	–	18,000
Tracey Graham	43,700	46,000	7,600	8,000	–	–	51,300	54,000
Henrietta Marsh ¹	–	15,333	–	–	–	–	–	15,333
Bruce Thompson	43,700	46,000	–	–	7,600	8,000	51,300	54,000
Clive Watson	43,700	26,833	7,600	4,667	–	–	51,300	31,500

1. Stepped off the Board on 25 July 2019

2. Each of the Non-Executive Directors agreed to a 20% reduction in their base fees for the three-month period from June 2020 to August 2020.

Incentive outcomes for Executive Directors for the year ended 31 March 2021

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 operating profit targets (56%), simplified working capital (24%) and non-financial objectives (20%). However, given the impact of the pandemic on the business in the early part of the 2020/21 financial year, the profit targets were set later than usual to provide greater visibility on the short-term outlook. As a result of the delay, the Committee decided to halve the potential profit element of the bonus, resulting in a reduced bonus opportunity for the year of 90% of salary (from 125%) for the Group Chief Executive and 72% of salary (from 100%) for the Group Finance Director.

Based on the strong performance during the year, the profit performance was just above the maximum target, the Simplified Working Capital target was met in full and non-financial objectives were determined to have been substantially met (resulting in an 80% payout for this element). This performance would have resulted in bonuses of 94% of the reduced maximum (or £396,741 for the Group Chief Executive and £213,900 for the Group Finance Director).

While the Committee believes these outcomes are a fair reflection of the financial and operational performance of the Company during 2020/21, the Executive Directors felt that bonuses should be adjusted to reflect the reduced salaries received during the year (i.e., net of the voluntary 20% reduction applied for three months of the financial year) and no higher than those earned for FY 2019/20 and therefore proposed the bonuses are reduced so that they are c.8% lower than the prior year. The Committee commended and accepted management's proposal and, therefore, reduced the bonus outcomes above by a further 16% and 17% for the Group Chief Executive and Group Finance Director respectively, resulting in awards of c. 75% and c. 60% of salary during the year to the Group Chief Executive and Group Finance Director respectively for FY 2020/21.

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 (£m)	56%	£29.8m	£32.2m	£34.6m	£35.2m
Payout ¹ (% of salary)		10%	17.5%	35%	35.0%
SWC	24%	27.0%	24.0%	21.0%	20.0%
Payout ¹ (% of salary)		0%	15%	30%	30.0%
Individual objectives	20%				16.0%
Payout (% of salary)					20.0%
Formulaic outcome (% of salary)					85.0%
Formulaic outcome (% of max)					68.0%
Adjusted actual payout (% of salary)					75.1%
Adjusted actual payout (% of max)					60.0%

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

2. As referred to above, actual performance against the original objectives would have resulted in the payments referred to in the "Formulaic outcome" rows but actual payouts were adjusted as shown

Simon Gibbins (audited)

	Weighting	Threshold	Target	Maximum	Actual
Group underlying EBIT (£m)	56%	£29.8m	£32.2m	£34.6m	£35.2m
Payout ¹ (% of salary)		10%	14%	28%	28.0%
SWC	24%	27.0%	24.0%	21.0%	20.0%
Payout ¹ (% of salary)		0%	12%	24%	24.0%
Individual objectives	20%				16.0%
Payout (% of salary)					16.0%
Formulaic outcome (% of salary)					68.0%
Formulaic outcome (% of max)					68.0%
Adjusted actual payout (% of salary)					60.3%
Adjusted actual payout (% of max)					60.3%

1. Vesting between the points is on a straight-line basis; profit element reduced by 50%

2. As referred to above, actual performance against the original objectives would have resulted in the payments referred to in the "Formulaic outcome" rows but actual payouts were adjusted as shown

DIRECTORS' REMUNERATION REPORT

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 80% for their performance against their non-financial objectives achieved during the year.

Nick Jefferies

- Steer the Group through COVID-19, preserving financial resources whilst maintaining momentum and resources for recovery
- Lay out path to achieving the 5-year plan
- Introduce new business review structure
- Introduce new ESG strategy
- Increase sales in target markets in line with KSI objectives
- Develop acquisition opportunities
- Develop investor base

Simon Gibbins

- Steer the Group through COVID-19, preserving financial resources whilst maintaining momentum and resources for recovery
- Lay out path to achieving the 5-year plan
- Introduce new ESG strategy
- Further develop internal audit function
- Proactively develop analyst and investor base
- Development of HO function

The Committee assessed these achievements against the pre-set personal objectives and in the context of overall business performance and decided to award Nick Jefferies 20% out of the available 25% and Simon Gibbins 16% out of the available 20% for this element of their bonus. This means that, in total for the year under review, and after taking into account the downward adjustments applied above, Nick Jefferies earned a bonus of 75.1% of his salary and Simon Gibbins earned a bonus of 60.3% of his salary.

2018 LTIP vesting (audited)

LTIP Awards were granted on 31 March 2018 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 (1/3), absolute TSR in excess of CPI (1/3) from 31 March 2018 to 31 March 2021 and the growth in EPS between the year ended 31 March 2018 and the year ended 31 March 2021 (1/3). The specific targets were as follows:

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

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

Absolute TSR performance (1/3 weighting)

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

EPS Performance (1/3 weighting)

EPS growth from FY18 to FY21	% of award vesting
Equal to or above 12ppts pa	100%
Between 5ppts pa and 12ppts pa	Straight-line vesting between 25% and 100%
Below 5ppts pa	0%

discoverIE's TSR performance was 79.3% over the three-year period to 31 March 2021. This ranked the Company in the top 10% of the FTSE Small Cap and 75.3% above CPI growth of 4.0% over the period. This strong performance resulted in both of the TSR elements of the award vesting in full. EPS growth from FY18 to FY21 was 5.3% CAGR and so 27.7% of this element of the award vested. This meant that a total of 75.9% of the 2018 LTIP award vested. The vested awards are subject to a two-year holding period.

Share awards made during the year (audited)

The following LTIP awards were granted on 30 June 2020:

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	135%	£630,118	127,039	25%	100%	31 March 2023
Simon Gibbins	100%	£310,000	62,500			31 March 2023

1. The face value of the awards is based on a share price of £4.96, being the three-day average share price directly prior to the grant of the award. In addition to the grants set out above, 10,446 awards with a face value of £51,812 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 and 13,985 awards with a face value of £69,366 were granted to Nick Jefferies in return for him bearing a proportion of such liability. The additional awards ensure they are in a neutral position on an after-tax basis, assuming unchanged tax rates.

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

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

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

Absolute TSR performance (1/3 weighting)

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

EPS Growth (1/3 weighting)

EPS Growth	% of award vesting
Equal to or above 10ppts per annum	100%
Between 4ppts and 10ppts per annum	Straight-line vesting between 25% and 100%
Below 4ppts per annum	0%

Performance will be measured over three years from 1 April 2020 to 31 March 2023 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 FY 2019/20 to FY 2022/23. Vested shares will be subject to an additional two-year holding period.

As noted above, 20% of Nick Jefferies annual bonus is deferred into shares. On 26 October 2020, 5,956 shares were acquired at a price of £6.38 per share (representing 20% of the FY 2019/20 bonus net of tax).

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 103 of this Report.

DIRECTORS' REMUNERATION REPORT

Directors' interests under the Long-Term Incentive Plans

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 on page 113.

	Number held at 31.03.21	Movements during the year				Number held at 31.03.20	Vested but not exercised	Share value at 31.03.21 £	When exercisable
		Granted	Vested	Exercised	Lapsed				
Nick Jefferies	245,192(v) ¹	–	–	–	–	245,192	245,192	1,624,786	Mar 2020 to Mar 2025
	223,567(v) ²	–	–	–	–	223,567	223,567	1,497,899	Mar 2021 to Mar 2026
	242,788(v) ³	–	–	–	–	242,788	242,788	1,626,680	Mar 2022 to Mar 2027
	123,998(v) ⁴	–	123,998	–	39,373	163,371	123,998	830,787	Mar 2023 to Mar 2028
	166,236(nv)	–	–	–	–	166,236	–	1,113,781	Apr 2024 to Apr 2029
	127,039(nv) ¹¹	127,039	–	–	–	–	–	851,161	Jul 2025 to Jun 2030
Simon Gibbins	120,192(v) ⁵	–	–	–	–	120,192	120,192	805,286	Mar 2020 to Mar 2025
	98,437(v) ⁶	–	–	–	–	98,437	98,437	659,528	Mar 2021 to Mar 2026
	106,900(v) ⁷	–	–	–	–	106,900	106,900	716,230	Mar 2022 to Mar 2027
	63,190(v) ^{8,9}	–	63,190	–	20,065	83,255	63,190	423,373	Mar 2023 to Mar 2028
	92,006(nv) ^{9,10}	–	–	–	–	92,006	–	616,440	Apr 2024 to Apr 2029
	62,500(nv) ¹²	62,500	–	–	–	–	–	418,750	Jul 2025 to Jun 2030

(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 163,371 shares in the Company was made to Nick Jefferies on 29 March 2018. The performance conditions attached to the award resulted in 75.9% vesting on 29 March 2021.
- 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.
- The award, in the form of a nil-cost option over 83,255 shares in the Company was made to Simon Gibbins on 29 March 2018. The performance conditions attached to the award resulted in 75.9% vesting on 29 March 2021.
- 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. 75.9% of the 2018 award vested; meaning 63,190 options from the 'base award' vested and 20,065 options from the 'base award' lapsed; and 10,562 options from the NI element vested and 3,353 options from the NI element lapsed.
- 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.
- An additional award of 13,985 nil-cost options was made on 30 June 2020 such that Nick Jefferies is in a net neutral position after tax, assuming unchanged tax rates, as a result of his agreement to take on a proportion of the Company's liability to employer's National Insurance on the June 2020 award. This is in addition to the 127,039 shares set out above and is subject to the same vesting and exercise conditions.
- An additional award of 10,446 nil-cost options was made on 30 June 2020 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 June 2020 award. This is in addition to the 62,500 shares set out above and is subject to the same vesting and exercise conditions.

Directors' interests (audited)

The interests of the Directors, who held office as at 31 March 2021 (including family interests) in ordinary shares (fully paid, 5p) of the Company, were as follows:

	Shares held at 31 March 2021				Unencumbered shares held at 31 March 2021	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	981,400 ¹	468,759	366,786	293,275	965,750	2,484%
Simon Gibbins	267,489	218,629	170,090	154,506	267,489	1,351%
Tracey Graham	9,358	–	–	–	9,358	
Malcolm Diamond	27,316	–	–	–	27,316	
Bruce Thompson	25,000	–	–	–	25,000	
Clive Watson	12,500	–	–	–	12,500	

1. Nick Jefferies holds 965,750 shares outright. In line with the Remuneration Policy, 20% of the FY19 and FY20 bonuses were deferred into shares. The figure of 981,400 above includes the shares bought with those deferred bonuses, which were 9,694 and 5,956 shares respectively.

The interests of all Directors at 1 June 2021 are unchanged from those at 31 March 2021. The values of current shareholdings for Nick Jefferies and Simon Gibbins have been valued using the share price as at 31 March 2021 of 670p and include all options that have vested and are based on salaries as at 1 June 2021.

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 2021, approximately 5.44m shares (6.1% in the last ten years) have been, or may be, issued to settle awards made in the last ten years in connection with all share schemes and executive share schemes, respectively. The Company is committed to remaining within The Investment Association's 10% in 10 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)

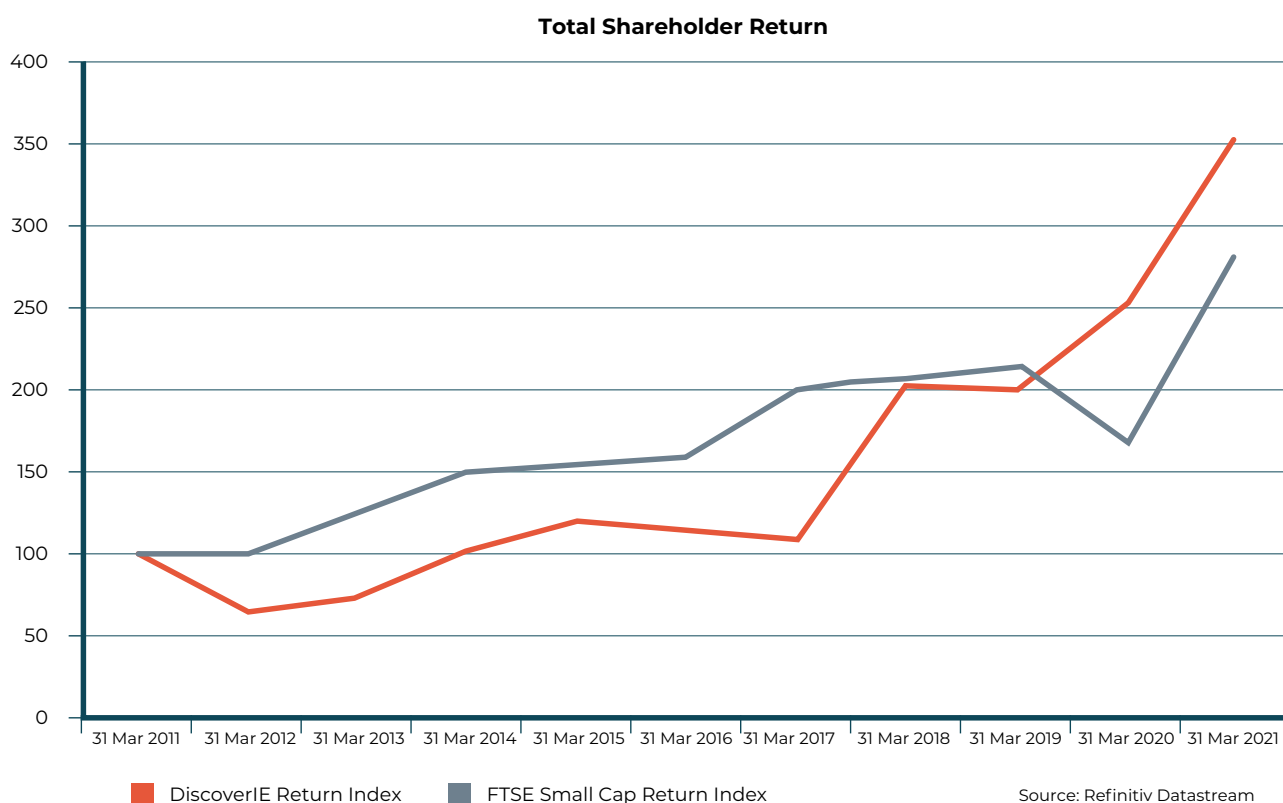
There were no payments to past Executive Directors during the year.

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

DIRECTORS' REMUNERATION REPORT

Pay for performance

The graph below shows Total Shareholder Return (TSR) in terms of change in value (with dividends deemed to be reinvested gross on the ex-dividend date) of an initial investment of £100 on 1 April 2011 between that date and 31 March 2021 in a holding of the Company's shares, compared with the corresponding TSR in a hypothetical holding of £100 invested in the FTSE Small Cap Index. This index has been chosen because it is considered to be a reasonable comparator in terms of the Company's size and its share liquidity. The accompanying table details the Group Chief Executive's single figure of remuneration and actual variable pay outcomes over the same period.



Group Chief Executive single figure of total remuneration history

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

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Single figure of total remuneration (£'000)	1,613	999	572	1,246	1,321	665	1,803	1,796	2,093	1,717
Salary (£'000)	297	320	320	330	425	429	438	453	467	443
Bonus outcome (% of maximum)	10	20	55	59	60	43.5	63.7	69.2	62.0	60.1
LTIP outcome (% of maximum)	94	88	9	100	100	–	100	100	100	75.9
Turnover (£m)	207	177	212	271	288	338	387.9	438.9	466.4	454.3
EBIT (£m) ¹	7	5	7	13	16	20	24.5	30.6	37.1	35.2

1. Continuing operations

Group Chief Executive remuneration

Annual Percentage Change in Remuneration of Directors and employees

As required by the 2019 regulations, the table below shows a comparison of the annual change of each individual Director's pay to the annual change in average UK employee pay. Average employee pay is based on a Full Time Equivalent (FTE) calculation.

	Percentage change in remuneration from 31/3/20 to 31/3/21		
	Percentage change in base salary / fee %	Percentage change in benefits %	Percentage change in profit share award %
Nick Jefferies ¹	-5%	3%	-8%
Simon Gibbins	-5%	3%	-8%
Malcolm Diamond	-5%	-	-
Tracey Graham	-5%	-	-
Bruce Thompson	-5%	-	-
Clive Watson ²	-5%	-	-
All UK employees	+2%	+5%	+49%

- In accordance with the Remuneration Policy, 20% of the Group Chief Executive's bonus is in the form of deferred shares.
- Clive Watson joined the Board in September 2019. Fees in FY 2019/20 were £31,500 for the 7 months remaining that year, a full year equivalent of £54,000. Fees in FY 2020/21 were £51,300. On a pro-rated basis this represented a reduction of 5% per annum in FY 2020/21.

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 employees (calculated on a full-time basis).

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option B	63:1	47:1	25:1
2020	Option B	83:1	57:1	40:1

- The Company determined the remuneration figures for the employee at each quartile with reference to a date of 31/3/21.
- The Group 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	25,500	34,000	52,417
Total pay and benefits	27,170	36,210	68,975

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.

	2021 £m	2020 £m	change %
Remuneration paid to or receivable by all employees	93.8	92.7	1.2%
Distributions to Shareholders by way of dividends (net of share issues)	2.8	8.1	-65.4%

DIRECTORS' REMUNERATION REPORT

Statement of implementation of the remuneration policy in the financial year ending 31 March 2022

The Company intends to implement the policy in the financial year ended 31 March 2022 in the way described in the "Remuneration at a glance" section and policy table for the Executive Directors on pages 98 to 99 and 102 to 104 respectively.

The Committee has approved performance measures for the annual bonus for the Executive Directors for the year ending 31 March 2022, with 84% based on financial performance and 16% on personal or strategic objectives.

On target performance will result in a 50% target payout. Due to the close link between targets and the long-term strategy, the bonus targets for the year ending 31 March 2022 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 approval by Shareholders of the new LTIP scheme at the annual general meeting scheduled for 29 July 2021. The award for the Group Chief Executive will be over shares with a face value of 150% of salary and 135% for the Group Finance Director. The performance measures will be based 50% on relative TSR and 50% on underlying earnings growth measures. The Committee considered carefully the EPS range and has agreed to set a growth target of 5% to 12% p.a. This growth range is appropriately challenging and is higher than the 4%p.a. to 10%p.a. targets applied for last year's awards.

The fees for the Non-Executive Directors increased by 5% with effect from 1 April 2021, as follows:

	Basic fee £	Committee Chair fee £	SID fee £	Total £
As at 1 April 2021				
Malcolm Diamond	147,000	–	–	147,000
Tracey Graham	48,300	8,400	–	56,700
Bruce Thompson	48,300	–	8,400	56,700
Clive Watson	48,300	8,400	–	56,700

Advisers

During the year, the Committee received independent advice on executive remuneration from FIT Remuneration Consultants LLP ("FIT"). FIT were appointed by the Committee in 2019 following a competitive tender process. FIT is a signatory to the Remuneration Consultants' Code of Conduct. FIT does not provide any services other than advice to the Remuneration Committee and the Committee considers FIT to be independent and objective. The fees paid to FIT for advising the Committee for the financial year ended 31 March 2021 were £57,344 based partly on a fixed fee basis and partly based on time spent.

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
2020 Approval of the Remuneration Report (excl. Policy)	68,046,592 97.16%	1,991,774 2.84%	815,048

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 resolution¹

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 accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in 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's 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 Directors' Remuneration Report comply with the Companies Act 2006.

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

Each of the Directors, whose names and functions are listed in on pages 70 and 71 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and loss of the Company; 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF discoverIE GROUP PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- discoverIE Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

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 2021; the Consolidated income statement, Consolidated statement of comprehensive income, the Consolidated and Company statement 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.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 2 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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.

Other than those disclosed in note 7 to the consolidated financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We conducted full scope audits on 27 components including all consolidation adjustments considered as one component (overseas and UK) and specified audit procedures on a further 11 components (overseas and UK).
- The components where full audit work was performed accounted for 75% of the Group's revenue and 81% of the Group's underlying profit before tax. We have considered all the consolidation adjustments as a single full scope component and these are included in the coverage obtained above. In addition, we have performed specified procedures over certain entities that are not included as full scope.

Key audit matters

- Goodwill impairment assessment (Group)
- COVID-19 and Going concern considerations (Group and Company)
- Reporting of underlying adjustments (Group)
- Carrying value of investments (Company)

Materiality

- Overall Group materiality: £1,574,400 (2020: £1,679,000) based on 5% of underlying profit before tax.
- Overall Company materiality: £1,417,000 (2020: £1,511,000) based on 1% of total assets, limited to 90% of Group materiality.
- Performance materiality: £1,180,800 (Group) and £1,062,700 (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.

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.

Accounting for acquisitions and Valuation of inventory, which were key audit matters last year, are no longer included because of the lower level of assessed risk in these areas based on the quantum of acquisitions being lower than prior year, the results of audit procedures over similar transactions and balances in the prior year and management's judgements and estimates applied in these areas not being sufficiently complex to result in a material misstatement in the consolidated financial statements. Otherwise, the key audit matters below are consistent with last year.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF discoverIE GROUP PLC

Key audit matter

Goodwill impairment assessment (Group)

Refer to page 87 (Audit and Risk Committee Report), note 2 (Significant accounting judgements and estimates) and note 17 for the related disclosures on goodwill.

The Group carried £127.9 million of goodwill at 31 March 2021 (2020: £117.3 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 including appropriate downside sensitivities. In light of the current uncertainties as a result of the COVID-19 outbreak we have focused on CGUs which performed significantly below budgeted level for the year ended 31 March 2021 or were more reliant on the long term cash flows to recover the carrying value of the CGU. No impairment charge was recognised in the years ended 31 March 2021 and 31 March 2020.

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 FY22 budget approved by the Board in March 2021 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;
- the discount rate used in the calculations by assessing the discount rate for each CGU based on the country of its operations; and
- assessed the appropriateness of the model prepared to calculate the value in use.

We performed sensitivity analysis on the key assumptions within the cash flow forecasts. This included further sensitising the future cash flows using lower short and longer term sales growth rates while keeping the operating expenses in line with Director's forecast resulting in lower forecast profit margins.

We ascertained the extent to which a change in these assumptions, both individually or in aggregate, would result in a goodwill impairment, and considered the likelihood of such events occurring. We also considered the sufficient and appropriateness of disclosures included in the Group's consolidated financial statements regarding such events.

We engaged PwC's valuation experts to assess the reasonableness of the discount rates used. We consider these to be more conservative when compared to ranges calculated by our valuation experts. This results in an embedded additional headroom within the model prepared by management.

We compared the total value in use calculated in management's goodwill models to the Group's market capitalisation of £597 million at 31 March 2021 to further assess the assumptions within the models.

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.

Key audit matter

COVID-19 and Going concern considerations (Group and Company)

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

Given the nature of the pandemic, it is difficult to predict the impact on the Group 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 and have taken steps during the year to minimise the impact of this on the Group operations.

During the year ended 31 March 2021, the Group made a net profit after tax of £12.0 million and had net current assets of £75.8 million at the year-end. The Group holds a cash and cash equivalent balance (net of bank overdraft) of £28.2 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 forecast levels.

The Directors performed a going concern assessment based on the Group's FY22 budget approved by the Board in March 2021 and forecast growth for FY23 and FY24, 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 foreign exchange rates. 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. They also considered 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.

The 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 including the impact on control environment.

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 in 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, including the assessment of goodwill impairment and related cash flows as described in the key audit matter on 'goodwill impairment assessment'; and
- 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.
- We have assessed the operating effectiveness of the control environment throughout the year through our UK and overseas audits, feeding back any observations to Management. We consider the overall control environment to have operated effectively through the period.
- We have reviewed management's assessments over the net realisable value of inventory and any write downs that are required as a consequence. We consider the position taken at 31 March 2020 to be reflective of the condition, demand and future selling price of the goods.

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

The procedures we performed to address the risks of going concern and our findings are set out in the 'Conclusions relating to going concern' section below.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF discoverIE GROUP PLC

Key audit matter

Reporting of underlying adjustments (Group)

Refer to Audit and Risk Committee Report (page 87); Accounting policies (note 2); and note 6 (Underlying profit before tax).

£14.5 million (2020: £13.3 million) of net costs incurred in the year are presented as adjustments to the Group's underlying profit before tax. These include:

- £2 million of acquisition and integration costs;
- £11.1 million of amortisation of acquired intangibles; and
- £1.4 million in respect of the Group's IAS 19 pension charge for the year.

The Group presents 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 policies 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 (APMs) 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 consolidated financial statements for the year ended 31 March 2021 is consistently applied and appropriately disclosed.

Key audit matter

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 £201.3 million (2020: £200.2m).

We focused on this area due to the size of the investment balances with focus on the risk of impairment arising in the Company's investment of £23.7 million in discoverIE Management Services Limited ("DMS"), the Group's service Company that derives revenue from intercompany recharges.

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

The results showed that no impairment was required against this investment.

How our audit addressed the key audit matter

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;
- We assessed the recoverability of the loans extended by DMS to other Group companies;
- the discount rate used in the calculations by assessing the cost of capital for the Group and comparable organisations; and
- assessed the recoverability of investment in subsidiaries other than DMS by comparing the net asset values of these subsidiaries against the carrying value of the investment. There were no indications of impairment identified

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 no impairment is required 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 24 countries.

Across the 24 countries, the Group has 63 component business operations. We performed an audit of the complete financial information of 26 (2020: 28) 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 75% (2020: 78%) of the Group's revenue and 81% (2020: 77%) of the Group's underlying profit before tax.

For 11 (2020: 9) further components ("specified procedures components"), we performed tailored audit procedures to address any significant risk or balances and transactions involving judgement and estimates. We have also tested balances and transactions within these components which are both material and form a significant part of the respective total balance across the Group.

The remaining 25 components in aggregate represent 12% (2020: 11%) of the Group's underlying profit before tax. For these components, the Group audit team performed central risk assessment analytical procedures.

In establishing our overall approach to the Group audit, we determined the nature of work that 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF discoverIE GROUP PLC

Of the 27 full scope components, audit procedures were performed on 16 components directly by the Group audit team, with component auditors performing audit procedures over the remaining 11 components. Of the 11 specified procedures components, 8 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 consolidated financial statements as a whole.

The Group audit team also joined the audit clearance meetings for each of the full scope components where the work was undertaken by other component auditors.

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

Materiality

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

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

	Financial statements - Group	Financial statements - Company
Overall materiality	£1,574,400 (2020: £1,679,000).	£1,417,000 (2020: £1,511,000).
How we determined it	5% of underlying profit before tax	1% of total assets, limited by Group 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 £42,000 and £1,417,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,180,800 for the Group financial statements and £1,062,700 for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £78,720 (Group audit) (2020: £84,000) and £78,720 (Company audit) (2020: £84,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the Directors' cash flow forecasts for the going concern period and validating the underlying cash flow projections by challenging the basis of the judgements applied and verifying that it is consistent with our existing knowledge and understanding of the business;
- Reviewing 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;
- Assessing 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, including agreeing the terms of the facility to the agreements;
- Reviewing the Directors' identified available mitigating factors where required and included within the cash flow forecast;
- Testing the mathematical accuracy of the Directors' cash flow forecast and validating the opening cash position; and
- assessing the adequacy of the disclosure provided in note 2 of the consolidated and Company financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this 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 and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF discoverIE GROUP PLC

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit and Risk Committee.

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

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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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 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 unusual journals to increase revenue and management bias in determining 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:

- Discussed and interviewed the senior management, internal audit, and the Audit and Risk Committee, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewed incentives and bonus schemes to understand and review drivers that could lead to higher fraud risks;
- Performed unpredictable procedures; and
- Identified and tested journal entries, in particular, journal entries; which had unexpected account combinations, posted by unexpected users, with unusual descriptions or descriptions referring to directors or key management personnel.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 obtained 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 4 years, covering the years ended 31 March 2018 to 31 March 2021.

Christopher Hibbs (Senior Statutory Auditor)

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

3 June 2021

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March 2021

	notes	2021 £m	2020 £m
Revenue	4	454.3	466.4
Cost of sales		(299.0)	(309.7)
Gross profit		155.3	156.7
Selling and distribution costs		(57.8)	(58.1)
Administrative expenses		(76.8)	(74.8)
Operating profit	7	20.7	23.8
Finance income	9	0.3	0.6
Finance costs	9	(4.0)	(4.9)
Profit before tax		17.0	19.5
Tax expense	10	(5.0)	(5.2)
Profit for the year		12.0	14.3
Earnings per share	13		
Basic		13.5p	17.0p
Diluted		13.0p	16.5p

SUPPLEMENTARY INCOME STATEMENT INFORMATION

Underlying Performance Measures	notes	2021 £m	2020 £m
Operating profit	7	20.7	23.8
Add back: Acquisition and merger expenses	6	2.0	4.0
Amortisation of acquired intangible assets	18	11.1	9.0
IAS 19 pension charge	31	1.4	0.3
Underlying operating profit		35.2	37.1
Profit before tax		17.0	19.5
Add back: Acquisition and merger expenses	6	2.0	4.0
Amortisation of acquired intangible assets	18	11.1	9.0
IAS 19 pension charge	31	1.4	0.3
Underlying profit before tax		31.5	32.8
Underlying earnings per share	13	26.0p	30.2p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2021

	notes	2021 £m	2020 £m
Profit for the year		12.0	14.3
Other comprehensive (loss)/income:			
<i>Items that will not be subsequently reclassified to profit or loss:</i>			
Actuarial (loss)/gain on defined benefit pension scheme	31	(3.4)	2.4
Deferred tax credit/(charge) relating to defined benefit pension scheme	10	0.6	(0.5)
		(2.8)	1.9
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Exchange differences on translation of foreign subsidiaries		(0.5)	(4.6)
		(0.5)	(4.6)
Other comprehensive loss for the year, net of tax		(3.3)	(2.7)
Total comprehensive income for the year, net of tax		8.7	11.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2021

	notes	2021 £m	2020 £m
Non-current assets			
Property, plant and equipment	14	23.5	25.2
Intangible assets – goodwill	16	127.9	117.3
Intangible assets – other	18	63.3	64.9
Right of use assets	15	22.4	21.1
Defined benefit pension surplus	31	–	1.8
Deferred tax assets	10	7.9	6.1
		245.0	236.4
Current assets			
Inventories	19	67.7	68.4
Trade and other receivables	20	84.9	90.1
Current tax assets		1.8	2.1
Cash and cash equivalents	21	29.2	36.8
		183.6	197.4
Total assets		428.6	433.8
Current liabilities			
Trade and other payables	28	(94.8)	(87.6)
Other financial liabilities	22	(0.8)	(4.3)
Lease liabilities	15	(4.8)	(5.3)
Current tax liabilities		(5.6)	(5.5)
Provisions	25	(1.8)	(0.9)
		(107.8)	(103.6)
Non-current liabilities			
Trade and other payables	28	(0.8)	(3.1)
Other financial liabilities	22	(75.6)	(93.8)
Lease liabilities	15	(16.7)	(14.7)
Pension liability	31	(1.0)	–
Provisions	25	(5.4)	(4.7)
Deferred tax liabilities	10	(12.5)	(13.4)
		(112.0)	(129.7)
Total liabilities		(219.8)	(233.3)
Net assets		208.8	200.5
Equity			
Share capital	29	4.4	4.4
Share premium		138.8	138.8
Merger reserve		19.9	22.7
Currency translation reserve		(2.7)	(2.2)
Retained earnings		48.4	36.8
Total equity		208.8	200.5

The financial statements on pages 130 to 181 were approved by the Board of Directors on 3 June 2021 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 2021

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 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 29)	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
Profit for the year	–	–	–	–	12.0	12.0
Other comprehensive loss	–	–	–	(0.5)	(2.8)	(3.3)
Total comprehensive income	–	–	–	(0.5)	9.2	8.7
Share-based payments including tax	–	–	–	–	2.4	2.4
Transfer to retained earnings	–	–	(2.8)	–	2.8	–
Dividends (note 12)	–	–	–	–	(2.8)	(2.8)
At 31 March 2021	4.4	138.8	19.9	(2.7)	48.4	208.8

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2021

	notes	2021 £m	2020 £m
Net cash flow from operating activities	24	46.6	37.4
Investing activities			
Acquisition of businesses (net of cash/(debt) acquired)		(20.8)	(72.6)
Acquisition related contingent consideration		–	(1.0)
Purchase of property, plant and equipment		(3.2)	(5.3)
Purchase of intangible assets – software		(0.7)	(1.0)
Proceeds from disposal of property, plant and equipment		0.3	–
Interest received		0.3	0.5
Net cash used in investing activities		(24.1)	(79.4)
Financing activities			
Net proceeds from the issue of shares		0.1	60.5
Proceeds from borrowings	23	9.3	41.9
Repayment of borrowings	23	(27.8)	(31.3)
Payment of lease liabilities		(6.1)	(6.0)
Interest paid on lease liabilities		(0.6)	(0.6)
Dividends paid	12	(2.8)	(8.1)
Net cash (used in)/generated from financing activities		(27.9)	56.4
Net (decrease)/increase in cash and cash equivalents¹		(5.4)	14.4
Net cash and cash equivalents at 1 April		34.8	20.8
Effect of exchange rate fluctuations		(1.2)	(0.4)
Net cash and cash equivalents at 31 March		28.2	34.8
Reconciliation to cash and cash equivalents in the consolidated statement of financial position			
Net cash and cash equivalents shown above		28.2	34.8
Add back: bank overdrafts	22	1.0	2.0
Cash and cash equivalents presented in current assets in the consolidated statement of financial position	21	29.2	36.8

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

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March 2021

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 2021 were authorised for issue by the Board of Directors on 3 June 2021. discoverIE Group plc is a public limited company incorporated and domiciled in England, UK and the registered office is disclosed on page 191. 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.

2. Accounting policies

Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union (IFRS). These consolidated financial statements are prepared under the historical cost convention, unless 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.

Changes in Accounting Policies

In the prior year, the Group adopted IFRS 16 'Leases'; and recognised lease liabilities and right of use assets in respect of the leasing agreements in place as at 1 April 2019 and those which were entered into during the prior year. During the prior year, the Group did not make use of the exemption of applying IFRS 16 for short-term leases (leases shorter than 12 months). In the current year, for the purposes of practical expediency, the Group has decided to make use of the above exemption available under IFRS 16. This change in accounting policy does not have a material impact on the current year and prior year balances and therefore the numbers for prior year have not been restated.

Basis of consolidation

The Group's consolidated 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 for the year ended 31 March 2021. 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

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 and Company'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 2 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 34 to 39.

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 46 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 47 to 52, notably instability in the economic environment, loss of key customers and suppliers, underperformance of acquired businesses, major business disruption, liquidity restriction, breach of debt covenants and adverse foreign currency movements arising from a stronger Sterling.

The most severe but plausible downside scenario assumes a recurrence of COVID-19 in the second half of FY 2021/22 and adverse macroeconomic factors resulting in a significant decline in second half sales of FY 2021/22, negative sales growth in FY 2022/23 and modest growth thereon in FY 2023/24. Additionally, gross margin was reduced, working capital materially increased, significant one-off expenditures (product liability, major customer insolvency or litigation) included, and an increase in the Group effective tax rate.

Even after factoring in these significant additional downsides to the Viability Base Case, there remains good headroom both in terms of liquidity and 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, low customer/supplier concentration, has a global supply chain network, diverse manufacturing capacity, and has well-established and in many cases long term relationships with its customers. These factors are considered important in mitigating many of the risks that could affect the long-term viability of the Group. As a consequence, the Directors believe that the Group is well placed to manage its principal risks and uncertainties as disclosed on pages 47 to 52 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. See note 6.

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 and merger expenses, and the IAS19 pension charge relating to the Group's legacy defined benefit pension scheme) and exceptional items.

2. Accounting policies continued

Acquisition and merger expenses comprise all attributable costs in connection with business acquisitions and disposals and any related integration into the Group. Acquisition costs include contingent consideration where it is treated as an expense and movement in contingent consideration where it is treated as purchase price outside of the 12 month measurement period.

Underlying EBITDA

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

Underlying profit before tax

“Underlying profit before tax” is defined as profit before tax excluding acquisition related expenditure (namely amortisation of acquired intangible assets, acquisition and merger expenses and the 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.

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, Strategic & Operational Review and Finance Review of the Strategic Report means at constant exchange rates (“CER”) and excluding the first 12 months of acquisitions (Sens-Tech was acquired on 16 October 2019, Phoenix on 13 October 2020 and Limator on 11 February 2021).

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

2. Accounting policies continued

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.

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 patents 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 and charged to the consolidated income statement in administrative expenses. 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 2021

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 IFRS 9 ‘Financial instruments’. This requires consideration of both historical and forward-looking information when considering potential impairment of trade receivables. The Group has opted to use the simplified approach allowed under IFRS 9, which requires the calculation of a lifetime expected credit loss. A provision matrix has been created to calculate an expected credit loss. This matrix is based upon historical observed default rates adjusted for forward looking information to create an adjusted default rate. This adjusted default rate is used to calculate an expected credit loss and is compared with the bad debts written off during the previous 36 months. 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 2021

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

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.

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.

The Group has elected to not recognise right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less. The Group decides application of IFRS 16 for low values on a 'lease by lease basis', where the criteria for exemption for low value leases as per IFRS 16 is met. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

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.

2. Accounting policies continued

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.

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.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

2. Accounting policies continued

Significant accounting judgements and estimates

In determining and applying accounting policies, judgement is often required where the choice of specific policy, assumption or accounting estimate to be followed could materially affect the reported amount of assets, liabilities, income and expenses, should it be determined that a different choice may be more appropriate. Estimates and judgements are reviewed on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

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 and judgement is required to identify cash generating units (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 made in assessment of fair value of the consideration and net assets acquired, including the identification and valuation of intangible assets and their useful lives. Note 11 provides details on business combinations. Judgement is required in evaluating whether any contingent consideration is part of purchase price or compensation for post combination services.

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 2021 are set out in note 31.

Inventories

The carrying amounts of inventories are stated with due allowance for excess, obsolete or slow-moving items. The Directors exercise 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 the Directors. 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.

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, the Directors exercise judgement by considering all the 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 Group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 April 2020:

- Definition of Material – Amendments to IAS 1 and IAS 8; and
- Definition of a Business (Amendments to IFRS 3)
- Revised Conceptual Framework for Financial Reporting.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

New standards not yet applied

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2021 reporting period and have not been early adopted by the Group. None of these are expected to have a material impact on the Group in the current or future reporting periods.

4. Revenue

Group revenue is analysed below:

	2021 £m	2020 £m
Sale of goods	443.0	454.5
Rendering of services	11.3	11.9
Total revenue	454.3	466.4

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 business units with similar characteristics such as the method of acquiring products for sale (manufacturing versus distribution), the nature of customers and products, risk profile and economic characteristics.

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

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

5. Operating segment information continued

Segment revenue and results

2021	Design & Manufacturing £m	Custom Supply £m	Unallocated £m	Total £m
Revenue	296.6	157.7	–	454.3
Result				
Underlying operating profit/(loss)	37.7	5.6	(8.1)	35.2
Acquisition and merger expenses	(2.0)	–	–	(2.0)
Amortisation of acquired intangible assets	(11.1)	–	–	(11.1)
IAS 19 pension charge	–	(1.0)	(0.4)	(1.4)
Operating profit/(loss)	24.6	4.6	(8.5)	20.7

2020	Design & Manufacturing £m	Custom Supply £m	Unallocated £m	Total £m
Revenue	297.9	168.5	–	466.4
Result				
Underlying operating profit/(loss)	38.1	7.3	(8.3)	37.1
Acquisition and merger expenses	(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

Segment assets and liabilities

2021	Design & Manufacturing £m	Custom Supply £m	Total £m
Assets and liabilities			
Segment assets (excluding goodwill and other intangible assets)	142.7	53.5	196.2
Goodwill and other intangible assets	180.1	10.2	190.3
	322.8	63.7	386.5
Central assets			3.2
Cash and cash equivalents			29.2
Current and deferred tax assets			9.7
Total assets			428.6
Segment liabilities	(76.4)	(39.1)	(115.5)
Central liabilities			(8.8)
Other financial liabilities			(76.4)
Pension liability			(1.0)
Current and deferred tax liabilities			(18.1)
Total liabilities			(219.8)
Net assets			208.8

5. Operating segment information continued

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

For the purposes of monitoring segment performance and allocating resources between segments, the Directors monitor the net assets attributable to each segment. Assets and liabilities are allocated to reportable segments, with the exception of the pension liability, tax assets and liabilities, cash and all borrowings, central assets (ERP and other Head Office assets) and central liabilities (Head Office liabilities).

Other segment information

	Depreciation and amortisation ¹		Additions to non current assets ¹	
	2021 £m	2020 £m	2021 £m	2020 £m
Design & Manufacturing	20.0	18.0	28.3	83.7
Custom Supply	2.8	2.6	2.4	3.9
Central	0.4	0.4	1.7	0.4
	23.2	21.0	32.4	88.0

¹ Includes right of use assets, goodwill, acquired intangibles and related amortisation.

Design & Manufacturing additions comprised intangible assets £10.1m, goodwill £9.3m, right of use assets £4.6m and tangible assets £4.3m. Custom Supply additions comprised intangible assets £0.1m, right of use assets £2.2m and tangible assets £0.1m. Central additions comprised intangible assets £0.3m, right of use assets £1.3m and tangible assets £0.1m.

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	
	2021 £m	2020 £m	2021 £m	2020 £m
UK	56.7	60.2	57.3	59.0
Europe	268.5	281.5	166.7	152.6
Rest of the World	129.1	124.7	21.0	23.0
	454.3	466.4	245.0	234.6

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

6. Underlying profit before tax

		2021 £m	2020 £m
Profit before tax		17.0	19.5
Add back	Acquisition and merger expenses (a)	2.0	4.0
	Amortisation of acquired intangible assets (b)	11.1	9.0
	Total IAS 19 pension charge (c)	1.4	0.3
Underlying profit before tax		31.5	32.8

The tax impact of the underlying profit adjustments above is a credit of £2.5m (2020: £1.4m).

a. In the year there were £2.0m of acquisition and merger related expenses. £1.8m of transaction costs were incurred in relation to the acquisition of Phoenix, Limitor and ongoing transactions. There was a net contingent consideration credit of £0.2m in relation to current and past acquisitions and £0.4m charge in relation to the integration of acquired businesses in North America.

In the prior year there were £4.0m of acquisition and merger related expenses. Costs of £1.5m were incurred in relation to the acquisition of Hobart, Positek and Sens-Tech and £0.3m in relation to ongoing transactions. 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.

b. Amortisation charge for intangible assets recognised on acquisition of £11.1m being amortisation of acquired customer relationships and patents. The equivalent charge last year was £9.0m. The increase relates to the three acquisitions during the last two years (Sens-Tech in October 2019, Phoenix in October 2020 and Limitor in February 2021).

c. Pension costs of £1.4m this year in respect of the Group's legacy defined benefit pension scheme, mainly relate to a one-off adjustment relating to historic commutation terms for legacy scheme members (see note 31).

7. Operating profit

Amounts charged/(credited) to the consolidated income statement are as follows:

	2021 £m	2020 £m
Employee costs (note 8)	96.8	94.0
Depreciation of property, plant and equipment (note 14)	4.9	4.8
Depreciation of right of use assets (note 15)	6.6	6.6
Amortisation of other intangible assets (note 18)	11.7	9.6
Net foreign exchange differences	(0.4)	(0.3)
Inventories (amounts included in cost of sales):		
Cost of inventories	298.1	309.7
Write-down of inventories to net realisable value	2.6	1.8
Write-back of amounts previously written off	(0.1)	–
Auditors' remuneration:		
Audit of the Group financial statements (including parent company)	0.4	0.2
Audit of local subsidiary financial statements	0.9	0.9

After completion of the 2020 audit of the consolidated financial statements and subsidiary statutory accounts, additional fees amounting to £0.1m were incurred which have been included in the 31 March 2020 analysis above.

The fee for non-audit services is not material. These mainly relate to reporting required by regulators in overseas countries.

8. Employee costs and Directors' emoluments

	2021 £m	2020 £m
Wages and salaries	79.6	76.4
Social security costs	12.5	12.8
Other pension costs	3.6	3.5
Share-based payments (note 30)	1.1	1.3
	96.8	94.0

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

	2021	2020
Sales and marketing	524	544
Manufacturing and service	3,253	3,321
Administration	492	529
	4,269	4,394

At 31 March 2021 the Group had 4,414 employees (2020: 4,339).

	2021 £	2020 £
Directors' emoluments		
Aggregate emoluments in respect of qualifying services	1,271,111	1,353,637
Aggregate contribution to defined contribution scheme	79,230	79,230
	1,350,341	1,432,867
Highest paid director		
Emoluments in respect of qualifying services	787,360	839,316
Pension contributions to the defined contribution scheme	61,523	61,523
	848,883	900,839

Retirement benefits are accruing to two directors under a defined contribution pension scheme (2020: two).

Further details of directors' emoluments are provided in the remuneration report on pages 94 to 118.

9. Finance income/(costs)

	2021 £m	2020 £m
Interest receivable and similar income	0.3	0.6
Finance income	0.3	0.6
Finance costs on bank loans and overdrafts	(2.9)	(3.8)
Finance costs on lease liabilities	(0.6)	(0.6)
Amortisation of borrowing costs	(0.5)	(0.5)
Finance costs	(4.0)	(4.9)

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

10. Tax expense

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

	2021 £m	2020 £m
Current taxation:		
UK adjustments in respect of prior years	–	(0.1)
	–	(0.1)
Overseas tax	7.6	6.5
Overseas adjustments in respect of prior years	–	0.3
	7.6	6.8
Total current taxation expense	7.6	6.7
Deferred taxation		
Origination and reversal of temporary differences within the UK	(1.0)	(0.8)
Origination and reversal of temporary differences overseas	(1.2)	–
Increased recognition of historic losses	(0.4)	(0.8)
Impact of tax rate changes	–	0.1
Total deferred taxation credit	(2.6)	(1.5)
Tax expense reported in the consolidated income statement	5.0	5.2

	2021 £m	2020 £m
Tax recognised in other comprehensive expense		
Increase/(decrease) in deferred tax asset on pension deficit	0.6	(0.5)
Tax reported in other comprehensive expense	0.6	(0.5)

	2021 £m	2020 £m
Tax recognised in equity		
Increase in deferred tax asset on share based payments	1.3	0.5
Tax reported in equity	1.3	0.5

The effective rate of taxation for the year is higher (2020: higher) than the standard rate of taxation in the UK of 19% (2020: 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 2021 and 31 March 2020 respectively is presented below:

	2021 £m	2020 £m
Profit before tax	17.0	19.5
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	3.2	3.7
<i>Effect of:</i>		
Different tax rates in overseas companies	1.2	1.4
Tax losses not recognised	–	(0.7)
Non-deductible expenses	1.0	1.3
Increased recognition of historic losses	(0.4)	(0.8)
Impact of tax rate changes on deferred tax	–	0.1
Adjustments to current taxation expense in respect of prior years	–	0.2
Total tax reported in the consolidated income statement	5.0	5.2

10. Tax expense continued

Deferred tax

	2021 £m	2020 £m
<i>Deferred tax liabilities</i>		
Accelerated capital allowances	(0.3)	(0.4)
Intangibles	(11.1)	(11.5)
Pensions	–	(0.3)
Other temporary differences	(1.1)	(1.2)
Gross deferred tax liabilities	(12.5)	(13.4)
<i>Deferred tax assets</i>		
Decelerated capital allowances	0.2	0.4
Pensions	0.7	0.3
Tax losses	2.2	2.2
Share-based payment plans	3.5	2.2
Other temporary differences	1.3	1.0
Gross deferred tax assets	7.9	6.1
Deferred tax expense/(credit) in the consolidated income statement		
<i>Consolidated income statement</i>		
Decelerated capital allowances	0.1	–
Other temporary differences	(2.7)	(1.5)
	(2.6)	(1.5)

At 31 March 2021, the Group had not recognised any deferred tax asset in respect of tax losses of approximately £19.8m (2020: £23.1m). Deferred tax assets are not recognised where there is insufficient evidence that losses will be utilised.

At 31 March 2021, a £0.5m deferred tax liability (2020: £0.7m) has been recognised for withholding taxes payable on the remittance of certain of the Group's overseas subsidiaries' unremitted earnings. The aggregate amount of unremitted earnings on which deferred tax has not been recognised is £12.9m (2020 £12.2m). No deferred tax has been recognised on this amount as the Group is able to control the timing of these distributions and is not expecting to distribute these profits in the foreseeable future.

The 2021 Budget on 3 March 2021 announced that the UK corporate tax rate will increase from 19% to 25% effective from 1 April 2023. As the rate increase was not substantively enacted at the statement of financial position date, the 19% rate has been applied in the measurement of the Group's UK based deferred tax assets and liabilities at 31 March 2021. If the rate change had been substantively enacted as at 31 March 2021, it would not have had a material impact on the statement of financial position.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

11. Business combinations

Acquisitions in the year ended 31 March 2021

Acquisition of Phoenix

On 13 October 2020, the Group completed the acquisition of the trade and assets of Phoenix America Inc ("Phoenix"). The trade and assets were transferred to a newly incorporated company, Phoenix America LLC.

Phoenix was acquired for an initial cash consideration of £8.5m (\$10.9m) and funded from the Group's existing debt facilities. In addition, a contingent payment of up to £1.2m (\$1.5m) will be payable to the management shareholder subject to Phoenix achieving certain profit targets during the three-year period ended 31 December 2023. The fair value of the contingent consideration will be recognised in the consolidated income statement over the performance period.

Phoenix, based in the USA, is a designer and manufacturer of magnetically actuated sensors, encoders and related products for industrial customers.

The provisional fair value of the identifiable assets and liabilities of Phoenix at the date of acquisition were:

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.5
Intangible assets – other	3.3
Inventories	0.7
Trade and other receivables	0.5
Trade and other payables	(0.2)
Total identifiable net assets	4.8
Provisional goodwill arising on acquisition	3.7
Total investment	8.5
<i>Discharged by</i>	
Cash	8.5
	8.5

Included in the £3.7m 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.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	8.5
Transaction costs of the acquisition (included in operating cash flows) ¹	0.4
	8.9

¹ Acquisition costs of £0.1m and £0.3m were expensed as incurred in the years ended 31 March 2021 and 31 March 2020 respectively. These were included within administrative expenses (note 6).

Included in cash flow from investing activities is the cash consideration of £8.5m.

From the date of acquisition to 31 March 2021, Phoenix contributed £2.5m to revenue and £0.2m to profit after tax of the Group. If the business combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £12.3m and the consolidated revenue for the Group would have been £456.5m.

11. Business combinations continued

Acquisition of Limitor

On 11 February 2021, the Group completed the acquisition of the Limitor Group ("Limitor") via the purchase of 100% of the share capital and voting equity interests of Limitor GmbH and its subsidiary company Limitor Solutions GmbH and 100% of the share capital and voting equity interests of Limitor Hungaria Kft.

Limitor was acquired for an initial cash consideration of £12.8m (€14.6m), before expenses, funded from the Group's existing debt facilities. In addition, a contingent payment of up to £3.1m (€3.5m) will be payable subject to Limitor achieving certain operational and profit growth targets during the three-year period ended 31 March 2024. £0.4m of contingent consideration has been accounted for in the purchase price with the remaining fair value of the contingent consideration to be recognised in the consolidated income statement over the performance period.

Limitor, based in Germany and Hungary, designs and manufactures custom thermal safety components for industrial markets.

The provisional fair value of the identifiable assets and liabilities of Limitor at the date of acquisition were:

	Provisional fair value recognised at acquisition £m
Property, plant and equipment	0.8
Intangible assets – other	6.5
Inventories	0.7
Trade and other receivables	0.9
Cash and cash equivalents	1.0
Trade and other payables	(0.8)
Current tax asset	0.1
Deferred tax liabilities	(1.6)
Total identifiable net assets	7.6
Provisional goodwill arising on acquisition	5.6
Total investment	13.2
<i>Discharged by</i>	
Cash	12.8
Contingent consideration	0.4
	13.2

Included in the £5.6m 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	12.8
Transaction costs of the acquisition (included in operating cash flows) ¹	0.5
Net cash acquired	(1.0)
	12.3

¹ Acquisition costs of £0.5m were expensed as incurred in the year ended 31 March 2021 and were included within administrative expenses (note 6).

Included in cash flow from investing activities is the cash consideration of £12.8m and the net cash acquired of £1.0m.

From the date of acquisition to 31 March 2021, Limitor contributed £1.3m to revenue and £0.2m to profit after tax of the Group. If the business combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £12.7m and the consolidated revenue for the Group would have been £461.2m.

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for the year ended 31 March 2021

11. Business combinations continued

Acquisitions in the year ended 31 March 2020

There have been no changes to the provisional fair values of the assets and liabilities acquired in the prior year.

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 SA de CV 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 fair value of the identifiable assets and liabilities of Hobart at the date of acquisition were:

	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
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 for last year is the cash consideration of £11.5m and the net cash acquired of £0.3m.

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 fair value of the identifiable assets and liabilities of Positek at the date of acquisition were:

	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
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 for last year is the cash consideration of £5.3m and the net cash acquired of £1.1m.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

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 fair value of the identifiable assets and liabilities of Sens-Tech at the date of acquisition were:

	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
Goodwill arising on acquisition	27.4
Total investment	70.0
<i>Discharged by</i>	
Cash	70.0
	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.

12. Dividends

	2021 £m	2020 £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 2020 of 0.0p (2019: 6.75p)	–	5.4
Interim dividend for the year ended 31 March 2021 of 3.15p (2020: 2.97p)	2.8	2.7
Total amounts recognised as equity distributions during the year	2.8	8.1

	2021 £m	2020 £m
Proposed for approval at AGM:		
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2021 of 7.0p (2020: 0.0p)	6.2	–
Summary		
Dividends per share declared in respect of the year	10.15p	2.97p
Dividends per share paid in the year	3.15p	9.72p
Dividends paid in the year	£2.8m	£8.1m

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:

	2021 £m	2020 £m
Profit for the year attributable to equity holders of the parent:	12.0	14.3

	Number	Number
Weighted average number of shares for basic earnings per share	88,753,576	83,997,130
Effect of dilution – share options	3,469,048	2,878,352
Adjusted weighted average number of shares for diluted earnings per share	92,222,624	86,875,482
Basic earnings per share	13.5p	17.0p
Diluted earnings per share	13.0p	16.5p

Underlying earnings per share is calculated as follows:

	2021 £m	2020 £m
Net profit for the year	12.0	14.3
Acquisition and merger expenses	2.0	4.0
Amortisation of acquired intangible assets	11.1	9.0
IAS 19 pension charge	1.4	0.3
Tax effect of the above	(2.5)	(1.4)
Underlying profit	24.0	26.2

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for the year ended 31 March 2021

13. Earnings per share continued

	Number	Number
Weighted average number of shares for basic earnings per share	88,753,576	83,997,130
Effect of dilution – share options	3,469,048	2,878,352
Adjusted weighted average number of shares for diluted earnings per share	92,222,624	86,875,482
Underlying earnings per share	26.0p	30.2p

At the year end, there were 3,928,273 ordinary share options in issue that could potentially dilute underlying earnings per share in the future, of which 3,469,048 are currently dilutive (2020: 3,306,166 in issue and 2,878,352 dilutive).

14. Property, plant and equipment

	Land and buildings £m	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost				
At 1 April 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
Reclassification	0.3	(0.1)	(0.2)	–
Additions	–	0.3	2.9	3.2
Disposals	(0.3)	(0.1)	(0.5)	(0.9)
Arising from business combinations	–	0.3	1.0	1.3
Exchange adjustments	(0.7)	–	(1.4)	(2.1)
At 31 March 2021	10.7	4.4	34.6	49.7
Accumulated depreciation				
At 1 April 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
Reclassification	0.3	(0.1)	(0.2)	–
Charge for the year	0.4	0.4	4.1	4.9
Disposals	(0.1)	(0.1)	(0.4)	(0.6)
Exchange adjustments	(0.2)	(0.2)	(0.7)	(1.1)
At 31 March 2021	3.8	2.2	20.2	26.2
Net book value at 31 March 2021	6.9	2.2	14.4	23.5
Net book value at 31 March 2020	8.0	1.8	15.4	25.2

Land and buildings includes land with a cost of £0.8m (2020: £0.8m) that is not subject to depreciation.

At 31 March 2021 the Group had non-contractual capital expenditure commitments for plant and equipment and leasehold improvements of £1.1m (2020: £0.3m) for which no provision has been made. The commitments are expected to be satisfied within one year of 31 March 2021.

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 144.

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 1 April 2019	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
Additions/modifications	6.7	1.7	8.4
Depreciation charge	(5.0)	(1.6)	(6.6)
Exchange adjustments	(0.5)	–	(0.5)
At 31 March 2021	19.9	2.5	22.4

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 1 April 2019	(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)
Additions	(6.8)
Lease modifications	(1.3)
Interest for the year	(0.6)
Lease payments	6.7
Exchange adjustments	0.5
At 31 March 2021	(21.5)

	2021 £m	2020 £m
Current liabilities	4.8	5.3
Non-current liabilities	16.7	14.7
	21.5	20.0

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

15. Leases continued

15.4 Amounts recognised in the consolidated income statement

	2021 £m	2020 £m
Depreciation of ROU assets	6.6	6.6
Interest expense (included in finance cost – see note 9)	0.6	0.6
	7.2	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 2.

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 2019	122.1
Arising from business combinations	35.4
Exchange adjustments	(3.4)
At 31 March 2020	154.1
Arising from business combinations	9.3
Exchange adjustments	1.3
At 31 March 2021	164.7

Impairment	£m
At 31 March 2020 and 31 March 2021	(36.8)
Net book value at 31 March 2021	127.9
Net book value at 31 March 2020	117.3

17. Impairment testing of goodwill

The carrying value of goodwill is analysed as follows:

	2021 £m	2020 £m
Custom Supply		
Acal BFi	9.6	9.9
Medical	0.6	0.6
Design & Manufacturing		
Stortech	3.6	3.6
Hectronic	0.6	0.6
MTC	2.0	1.9
Myrra	5.1	5.3
Noratel	28.6	25.9
Foss	5.4	5.1
Flux	0.6	0.6
Contour	7.7	7.7
Variohm	6.0	6.0
Santon	5.1	5.3
Cursor Controls	9.0	9.0
Hobart	5.0	5.7
Positek	2.7	2.7
Sens-Tech	27.4	27.4
Phoenix	3.5	–
Limitor	5.4	–
	127.9	117.3

Goodwill acquired through business combinations is allocated to cash-generating units (“CGUs”).

The movement in goodwill compared to prior year relates to the movement in foreign exchange with the exception of Phoenix and Limitor which were acquired in the year (refer to note 11 for details).

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 2021/22 budget and management projections thereon. 5 year Compound Annual Growth Rate (CAGR) for revenue between 1% and 8% (2020: between 2% and 7%) 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% (2020: 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 15% (2020: 13% to 16%).

Sensitivity to changes in assumptions

The Group has conducted sensitivity analysis on the impairment test of each CGUs carrying value 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. The Directors are comfortable that none of the CGUs would experience a carrying value issue with these downside sensitivities. It is possible that with respect to certain CGUs with combined carrying value of goodwill of £32.5m as at 31 March 2021, that further adverse changes in sales assumptions in addition to the current downside assumptions could lead to their carrying values exceeding their recoverable amounts. The Directors have considered plausible scenarios in their assessment as at 31 March 2021 and therefore do not believe that the change in assumptions beyond what is already included in the downside scenarios is probable and therefore no impairment has been recorded.

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for the year ended 31 March 2021

18. Intangible assets – other

	Acquired intangibles			Total £m
	Software & Development £m	Customer/ Supplier Relationships £m	Patents & Brands £m	
Cost				
At 1 April 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
Arising from business combinations	–	9.9	–	9.9
Additions	0.6	–	–	0.6
Exchange adjustment	–	0.2	(0.1)	0.1
At 31 March 2021	14.1	96.2	5.5	115.8
Accumulated amortisation				
At 1 April 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
Charge for the year	0.6	10.6	0.5	11.7
Exchange adjustment	–	0.5	–	0.5
At 31 March 2021	10.8	39.6	2.1	52.5
Net book value at 31 March 2021	3.3	56.6	3.4	63.3
Net book value at 31 March 2020	3.3	57.6	4.0	64.9

19. Inventories

	2021 £m	2020 £m
Finished goods and goods for resale	34.2	36.0
Raw materials and work in progress	33.5	32.4
Total inventories	67.7	68.4

As at 31 March 2021, the provision for realisable value against total inventories was £9.7m (2020: £8.9m).

20. Trade and other receivables

	2021 £m	2020 £m
Trade receivables	75.5	80.3
Other receivables	6.8	6.9
Prepayments and contract assets	2.6	2.9
	84.9	90.1

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 2021, the amount of expected credit losses recorded against trade receivables is £1.2m (2020: £1.1m). The movements in the expected credit losses during the year were as follows:

	2021 £m	2020 £m
At 1 April	1.1	0.8
Charge for the year	0.2	0.3
Amounts written off	(0.1)	(0.1)
Exchange adjustment	–	0.1
At 31 March	1.2	1.1

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
2021	75.5	64.8	7.8	1.1	0.4	0.4	1.0
2020	80.3	67.4	9.7	2.1	0.5	0.2	0.4

21. Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank and in hand	29.2	36.8

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 (£18.7m with HSBC; credit rating of AA-, £0.3m with Danske Bank; credit rating of A+ and the remaining balance of £10.2m with various financial institutions; credit rating of BBB- or higher) in line with its treasury policy. The fair value of cash and cash equivalents is £29.2m (2020: £36.8m).

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22. Other financial liabilities

	Effective interest rate %	Maturity	Current		Non-current	
			2021 £m	2020 £m	2021 £m	2020 £m
Bank overdrafts	Variable	On demand	1.0	2.0	–	–
Unsecured bank loans	Variable		0.3	2.8	2.3	0.2
Revolving Credit Facility (RCF)	Variable		–	–	74.0	94.8
Capitalised debt costs			(0.5)	(0.5)	(0.7)	(1.2)
Total other financial liabilities			0.8	4.3	75.6	93.8
Lease liabilities			4.8	5.3	16.7	14.7
Trade and other payables			79.3	75.0	0.8	3.1
Total			84.9	84.6	93.1	111.6

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

Included in unsecured bank loans are Euro-denominated loans of £0.1m carrying fixed interest rates of 8% and USD-denominated loans of £0.3m carrying fixed interest rates of 1%.

At 31 March 2021, the RCF drawdowns of £74.0m were denominated in Sterling and Euros which bear interest based on LIBOR and EURIBOR, plus a facility margin.

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 2021				
Fixed and floating rate	0.8	75.6	–	76.4
Lease liabilities	5.5	11.1	7.6	24.2
Trade and other payables	79.3	0.8	–	80.1
	85.6	87.5	7.6	180.7
At 31 March 2020				
Fixed and floating rate	4.3	93.8	–	98.1
Lease liabilities	5.9	11.2	4.6	21.7
Trade and other payables	75.0	3.1	–	78.1
	85.2	108.1	4.6	197.9

The carrying amount of the Group's other financial liabilities excluding lease liabilities is denominated in the following currencies:

	2021 £m	2020 £m
Sterling	40.5	66.4
Euro	68.2	65.1
US dollar	25.3	24.5
Other currencies	22.5	20.2
	156.5	176.2

23. Movements in cash and net debt

	1 April 2020 £m	Cash flow £m	Non cash changes £m	31 March 2021 £m
Year to 31 March 2021				
Cash and cash equivalents	36.8	(6.0)	(1.6)	29.2
Bank overdrafts	(2.0)	0.6	0.4	(1.0)
Net cash	34.8	(5.4)	(1.2)	28.2
Bank loans under one year	(2.8)	2.4	0.1	(0.3)
Bank loans over one year	(95.0)	16.1	2.6	(76.3)
Capitalised debt costs	1.7	–	(0.5)	1.2
Total loan capital	(96.1)	18.5	2.2	(75.4)
Net debt	(61.3)	13.1	1.0	(47.2)

Bank loans over one year above include £74.0m (2020: £94.8m) drawn down against the Group's revolving credit facility.

	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)

Supplementary information to the statement of cash flows

Underlying Performance Measure	2021 £m	2020 £m
Increase in net cash	13.1	3.8
Add: Business combinations	21.8	75.9
Dividends paid	2.8	8.1
Less: Net proceeds from share issue	(0.1)	(60.5)
Free cash flow	37.6	27.3
Net finance costs	3.1	3.7
Taxation	7.2	6.4
Executive options issuance	–	0.1
Legacy pension scheme funding	1.8	1.8
Operating cash flow	49.7	39.3

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24. Reconciliation of cash flows from operating activities

	2021 £m	2020 £m
Profit for the year	12.0	14.3
Tax expense	5.0	5.2
Net finance costs	3.7	4.3
Depreciation of property, plant and equipment	4.9	4.8
Depreciation of right of use assets	6.6	6.6
Amortisation of intangible assets – other	11.7	9.6
Loss on disposal of property, plant and equipment	–	0.1
Change in provisions	1.0	(0.3)
Pension scheme funding	(1.8)	(1.8)
IAS 19 pension charge	1.4	0.3
Impact of equity-settled share-based payment expense and associated taxes	1.1	1.3
Operating cash flows before changes in working capital	45.6	44.4
(Increase)/decrease in inventories	(0.1)	2.7
Decrease in trade and other receivables	5.5	1.9
Increase/(decrease) in trade and other payables	6.2	(1.0)
Decrease in working capital	11.6	3.6
Cash generated from operations	57.2	48.0
Interest paid	(3.4)	(4.2)
Income taxes paid	(7.2)	(6.4)
Net cash flow from operating activities	46.6	37.4

25. Provisions

	Severance and retirement indemnity £m	Other £m	Total £m
At 1 April 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
Arising during the year	1.0	1.4	2.4
Utilised	(0.2)	–	(0.2)
Released	(0.2)	(0.2)	(0.4)
Exchange difference	(0.2)	–	(0.2)
At 31 March 2021	3.7	3.5	7.2

25. Provisions continued

Analysis of total provisions:	2021	2020
	£m	£m
Current	1.8	0.9
Non-Current	5.4	4.7
	7.2	5.6

Severance and retirement indemnity

The severance provision relates to severance costs payable to employees.

Retirement indemnity provision of £3.2m (2020: £2.8m), relates to retirement and leaving indemnity schemes in Italy £1.3m, Sri Lanka £0.9m, India £0.5m, and France £0.5m. 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 relates primarily to dilapidations provisions £2.0m, warranty provisions £0.6m and restructuring provisions of £0.3m. The provisions greater than one year are expected to be utilised within one to three years.

26. Financial risk controls

Management of financial risk

The main financial risks faced by the Group are credit risk, liquidity risk and market risk, which include interest rate risk and currency risk. The Board regularly reviews these risks and has approved written policies covering the use of financial instruments to manage these risks.

The Group Finance Director retains the overall responsibility and management of financial risk for the Group. Most of the Group's financing and interest rate and foreign currency risk management is carried out centrally at Group head office. The Board approves policies and procedures setting out permissible funding and hedging instruments, exposure limits and a system of authorities for the approval of transactions.

Management of interest rate risk

The Group has exposure to interest rate risk arising principally from changes in Euro, Sterling and US Dollar interest rates. The Group does not hedge against exposure to interest rate risk.

Based on the Group's debt position at the year end, excluding lease liabilities, a 1% increase in interest rates would decrease the Group's profit before tax by approximately £0.5m (2020: £0.6m).

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for the year ended 31 March 2021

26. Financial risk controls continued

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	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Profit before tax – gain/(loss)						
10% appreciation	0.2	(1.0)	1.1	1.8	(0.6)	(0.5)
10% depreciation	(0.3)	1.2	(1.1)	(1.8)	(0.8)	0.7

Management of credit risk

Credit risk exists in relation to customers, banks and insurers. Exposure to credit risk is mitigated by maintaining credit control procedures across a wide customer base.

The Group is exposed to credit risk that is primarily attributable to its trade and other receivables. This is minimised by dealing with recognised creditworthy third parties who have been through a credit verification process. The maximum exposure to credit risk is limited to the carrying value of trade and other receivables.

As well as credit risk exposures inherent within the Group's outstanding receivables, the Group is exposed to counterparty credit risk arising from the placing of deposits and entering into derivative financial instrument contracts with banks and financial institutions. The Group manages exposure to this 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 2021, the Group had net cash of £28.2m (2020: £34.8m), excluding borrowings of £75.4m (2020: £96.1m). The Group had total working capital facilities available of £190.4m (2020: £190.6m) with a number of major UK and overseas banks, of which £180.0m (2020: £180.0m) were committed facilities. The Group had drawn £79.5m against total facilities at 31 March 2021. 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 2021.

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 2021 was below the range at 1.1 times. In order to maintain such a gearing range and provide the funding for acquisitions, the Group issued new shares in the prior year (April 2019 and October 2019).

27. Financial assets and liabilities

Fair values

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements.

	Carrying amount 2021 £m	Fair value 2021 £m	Carrying amount 2020 £m	Fair value 2020 £m
Financial assets				
Cash at bank and in hand	29.2	29.2	36.8	36.8
Financial liabilities at amortised cost				
Bank overdrafts and short-term borrowings	(1.3)	(1.3)	(4.9)	(4.9)
Non-current interest-bearing loans and borrowings:				
Fixed and floating rate borrowings	(75.6)	(75.6)	(93.8)	(93.8)
Lease liabilities	(21.5)	(21.5)	(20.0)	(20.0)
Contingent consideration	(3.4)	(3.4)	(3.3)	(3.3)

The fair value of loans and borrowings has been calculated by discounting future cash flows, where material, at prevailing market interest rates.

Short-term trade and other receivables and payables have been excluded from the above table as their book values approximate fair values.

28. Trade and other payables

Current

	2021 £m	2020 £m
Trade payables	56.8	57.1
Other payables	25.8	19.6
Accrued expenses and contract liabilities	12.2	10.9
	94.8	87.6

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 £2.6m which relates to the acquisition of Cursor Controls. Prior year includes contingent consideration of £0.2m relating to the acquisition of Positek.

Certain businesses in the Group participate in supply chain finance arrangements whereby suppliers 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 (2020: £0.5m) subject to such an arrangement.

Non-Current

	2021 £m	2020 £m
Other payables	0.8	3.1

Included in non-current trade and other payable is a £0.8m contingent payment relating to the acquisitions of Sens-Tech, Limitor and Phoenix. For 2020, £3.1m related to the acquisition of Cursor Controls, Hobart and Sens-Tech.

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

29. Share capital

Allotted, called up and fully paid	2021 Number	2021 £m	2020 Number	2020 £m
Ordinary shares of 5p each	89,455,915	4.4	88,705,915	4.4

In April 2020 750,000 shares were issued to the Group's Employee Benefit Trust. At 31 March 2021 the Trust held 689,307 shares (2020: nil). During the year to 31 March 2021, employees exercised 60,693 share options under the terms of the various share option schemes (2020: 2,361).

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.

30. 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:

	2021 £m	2020 £m
a) Approved and Unapproved Executive Share Option Schemes	–	–
b) discoverIE Group plc long-term incentive plan ("the LTIP")	1.1	1.3
	1.1	1.3

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	September 2020
Share price at grant date	£6.22
Exercise price	£6.04
Number of employees	6
Shares under option	14,247
Vesting period (years)	3
Expected volatility	32.4%
Option life (years)	10
Expected life (years)	6.5
Risk-free rate of return	0.01%
Expected dividends expressed as a dividend yield	1.71%
Fair value	£1.63

30. Share-based payment plans continued

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 (2020: £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:

At 31 March 2021

Outstanding at 1 April 2020	Forfeited during the year	Exercised during the year	Granted during the year	Outstanding at 31 March 2021	Exercise price (pence)	Exercise dates
26,853	–	(25,162)	–	1,691	219.50	2020–2027
9,580	–	–	–	9,580	402.00	2021–2028
12,789	–	–	–	12,789	421.17	2022–2029
–	–	–	14,247	14,247	603.60	2023–2030
49,222	–	(25,162)	14,247	38,307		

At 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		

Changes in share options

A reconciliation of option movements over the year to 31 March 2021 is shown below:

	2021		2020	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	49,222	£3.07	76,115	£2.59
Granted	14,247	£6.04	17,433	£4.21
Exercised	(25,162)	£2.20	(36,605)	£2.46
Forfeited	–	–	(7,721)	£3.79
Outstanding at 31 March	38,307	£4.75	49,222	£3.07
Exercisable at 31 March	11,271	£3.75	26,853	£2.20

The weighted average remaining contractual life for the share options outstanding at 31 March 2021 is 8.2 years (2020: 7.7 years).

The range of exercise prices for options outstanding at the end of the year was £2.20 to £6.04 (2020: £2.20 to £4.21).

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30. Share-based payment plans continued

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 vesting of an award is dependent on the individual's continued employment for a three-year period from the date of grant and the satisfaction by the Company of certain performance conditions. The exercise of the awards is also subject to a 2 year holding period from the date of vesting.

For awards made in 2021, 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.
- For certain operational management, 25% of the award is based on the Company's absolute earnings per share ("EPS") performance and 75% of the award is based on local earnings targets.

Awards are valued using the Monte Carlo Simulation and Discounted Share Price models. No non-market performance conditions were included in the fair value calculations. The fair value per award granted and the assumptions used in the calculation are as follows:

Awards granted in the year ended 30 March 2021:

Grant date	15 July 2020 EPS	30 June 2020 EPS	30 June 2020 TSR	30 June 2020 CPI
Share price at grant date	£5.90	£5.12	£5.12	£5.12
Exercise price	nil	nil	nil	nil
Number of employees	20	11	11	11
Shares under option	150,165	160,766	160,766	160,766
Vesting period (years)	3	3	3	3
Expected volatility	n/a	n/a	32.6%	32.6%
Option life (years)	10	10	10	10
Expected life (years)	5	5	5	5
Risk-free rate of return	n/a	n/a	-0.08%	-0.08%
Expected dividend yield	1.95%	1.95%	1.95%	1.95%
Fair value	£5.04	£4.38	£2.70	£2.37

The expected volatility is based on historical volatility over a term commensurate with the expected life of each award. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The total charge for the year relating to the LTIP schemes was £1.1m (2020: £1.3m).

30. Share-based payment plans continued

Outstanding LTIP

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

At 31 March 2021

Outstanding at 1 April 2020	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 March 2021	Exercise dates
615,574	–	–	(34,230)	581,344	2020–2025
590,796	–	–	–	590,796	2021–2026
761,616	–	–	–	761,616	2022–2027
611,118	–	–	–	611,118	2023–2028
727,062	–	(8,843)	–	718,219	2024–2029
–	632,463	(5,590)	–	626,873	2025–2030
3,306,166	632,463	(14,433)	(34,230)	3,889,966	

At 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	

The weighted average remaining contractual life for the share options outstanding at 31 March 2021 is 6.6 years (2020: 7.1 years).

The range of exercise prices for options outstanding at the end of the year was nil (2020: nil).

31. 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, 190 employees were active members of the discoverIE scheme (2020: 192). The total cost charged to the consolidated income statement in relation to the UK-based discoverIE scheme was £627,000 (2020: £617,000). Employer contributions in respect of other UK-based schemes and overseas pension schemes were £440,000 (2020: £427,000) and £2,598,000 (2020: £2,484,000) respectively. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2020/21 but based on actual salary levels in 2021/22.

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31. Pension continued

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 2021 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. The next triennial funding valuation is due for the year ended 31 March 2021.

The estimated amount of employer contributions expected to be paid to the Sedgemoor Scheme during 2021/22 is £1.9m (2020/21: £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:

	2021	2020
Rate of increase of salaries	n/a	n/a
Rate of increase of pensions in payment	2.5%	2.1%
Discount rate	1.9%	2.5%
Inflation assumption – RPI	3.4%	2.6%
Inflation assumption – CPI*	2.3%	1.8%

* 3.3% from 2031

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 2021 was 13 years (2020: 12 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 2021 the investment strategy hedged 75% of interest rate risk and 75% of inflation risk relative to the Sedgemoor Scheme's liability value for cash funding purposes.

The Sedgemoor Scheme assets are held exclusively within instruments with quoted prices in an active market, other than the property fund. Re-measurements are recognised immediately through other comprehensive income.

31. Pension continued

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

	2021 £m	2020 £m
Pension charge (recognised in administrative expenses)	1.4	0.3
Total	1.4	0.3

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

	2021 £m	2020 £m
Re-measurement gains:		
Return on plan assets (excluding amounts included in net interest expense)	0.6	0.5
Actuarial changes arising from changes in actuarial assumptions	(3.8)	2.3
Actuarial (losses)/gains recorded in the consolidated statement of comprehensive income	(3.2)	2.8

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:

	2021 £m	2020 £m
Equities	3.5	2.3
Bonds	9.9	9.4
Property	4.1	3.8
Diversified Growth Fund	6.6	4.8
Cash	4.4	6.0
Liability driven investments	5.6	6.4
Infrastructure	4.5	4.9
Fair value of scheme assets	38.6	37.6
Present value of funded defined benefit obligations	(39.6)	(35.8)
(Liability)/asset recognised in the consolidated statement of financial position	(1.0)	1.8

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

	2021 £m	2020 £m
Opening defined benefit obligations	35.8	39.2
Net interest cost	0.9	0.9
Actuarial losses due to:		
Changes in actuarial assumptions	3.8	(2.3)
Pension costs	1.0	-
Benefits paid	(1.9)	(2.0)
Closing defined benefit obligations	39.6	35.8

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31. Pension continued

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

	2021 £m	2020 £m
Opening fair value of scheme assets	37.6	36.7
Interest on scheme assets	0.9	0.9
Actual return on plan assets less interest on plan assets	0.6	0.5
Pension administration costs	(0.4)	(0.3)
Contributions	1.8	1.8
Benefits paid	(1.9)	(2.0)
Closing fair value of scheme assets	38.6	37.6

The pension costs include £0.4m administration costs (2020: £0.3m) and a £1.0m charge (2020: nil) relating to a one-off adjustment relating to historic commutation terms for legacy scheme members.

Sensitivities

The sensitivity of the 2021 pension liabilities to changes in assumptions are as follows:

Assumption	Change in assumption	Increase in scheme deficit £m
Discount rate	Decrease by 0.5%	2.6
Inflation	Increase by 0.5%	0.9
Life expectancy	Increase by 1 year	2.3

32. Related party disclosures

As at 31 March 2021 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 Limited (company no. 03118969); Contour Holdings Limited (company no. 06846542); Variohm Holdings Limited (company no. 05783452); Xi-Tech Limited (company no. 07068708) and Cursor Controls Holdings Limited (company no. 09472278) qualify to take the statutory audit exemption as set out within section 479A of the Companies Act 2006 for the year ended 31 March 2021. discoverIE Group plc will guarantee the debts and liabilities of those companies at the statement of financial position date in accordance with section 479C of the Companies Act 2006. discoverIE Electronics Limited also qualifies to take the statutory audit exemption within section 479A of the Companies Act 2006 for the year ended 31 March 2021.

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 Limited	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) Limited	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-Strabe 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

32. Related party disclosures continued

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 z.o.o	Ul Warszawska 1, 05-310 Kaluszyn	Poland
Zhongshan Myrra Electronic Co Limited ¹	39-2 Industrial Road, Xiaolan Industrial Park, Xiaolan Town, 528400, Zhongshan, Guandong Province	China
Myrra Deutschland GmbH	Lebacher Strabe 4, 66113 Saarbrucken	Germany
Myrra Hong Kong Limited	42/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong	Hong Kong
Noratel AS	Elektroveien 7, 3300 Hokksund	Norway
Noratel UK Limited	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 Limited ¹	NO 22-2 Xingye Road, Zone C Shishan Science & Technology Industrial Park, Nanhai Distric, Foshan City, Guangdong Province 528225	China
Noratel Germany AG	Elsenthal 53, DE-94481 Grafenau, Bremen	Germany
Noratel India Power Components Private Limited	Nila Technopark, Trivandrum, Kerala, 695581	India
Noratel sp z.o.o	ul. Szczecinska 1K, Dobra Szczecinska PL-72-003	Poland
Danselbud Noratel Transformator sp z.o.o	ul. Szczecinska 1K, Dobra Szczecinska PL-72-003	Poland
Noratel International Private Limited	P.O Box 15, Phase 2 KEPZ, Katunayake	Sri Lanka
Noratel Sweden AB	Lars Lindahlsväg 2, Bo Lars Lindahlsväg 2, Box 108, Laxå 69522 x 108, Laxå 69522	Sweden
Noratel North America LLC	13663 Providence Road, Suite 345, Weddington, NC 28104	USA
Noratel Power Engineering LLC	# 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 Limited	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
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
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

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

32. Related party disclosures continued

Name and nature of business	Registered address	Country of incorporation and registration
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
Phoenix America LLC	850 New Burton Road, Suite 201, Dover, DE 19904	USA
Limitor GmbH	Dieselstraße 22, 73660 Urbach, Germany	Germany
Limitor Solutions GmbH	Dieselstraße 22, 73660 Urbach, Germany	Germany
Limitor Hungaria Kft	Pécs, Makay István út 13/b, 7634 Hungary	Hungary
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	Elektroveien 7, Hokksund, 3300	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 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

32. Related party disclosures continued

Name and nature of business	Registered address	Country of incorporation and registration
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 (UK) Limited	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 Limited	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
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

NOTES TO THE GROUP FINANCIAL STATEMENTS

for the year ended 31 March 2021

32. Related party disclosures continued

Name and nature of business	Registered address	Country of incorporation and registration
Myrra Hispania Srl	c/Mataro 43 Pol. Ind. les Grases, 08980 Saint Feliu De Llobregat, Barcelona	Spain
Ixthus Instrumentation Limited	2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH	England
DiscoverIE North America LLC	850 New Burton Road, Suite 201, Dover, DE 19904	USA

¹ Zhongshan Myrra Electronic Co Limited and Foshan Noratel Electric Co Limited 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 72. Remuneration is set out below in aggregate. The charge for share-based payments of £0.7m (2020: £1.0m) relates to the Group's LTIP as detailed in note 30.

	2021 £m	2020 £m
Short-term employee benefits	3.1	3.2
Share-based payments	0.7	1.0
	3.8	4.2

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 94 to 118.

33. 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 2021		Year to 31 March 2020	
	Closing rate	Average rate	Closing rate	Average rate
US Dollar	1.3760	1.3075	1.2360	1.2722
Euro	1.1736	1.1207	1.1281	1.1448
Norwegian Krone	11.7306	11.9697	12.9847	11.4639

34. 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 events should be noted:

Dividends

A final dividend of 7.0p per share (2020: nil), amounting to a dividend of £6.2m (2020: nil) and bringing the total dividend for the year to 10.15p (2020: 2.97p), was declared by the Board on 27 May 2021. The discoverIE group financial statements do not reflect this dividend.

Business Combinations

On 13 May 2021, subsequent to the year end, the Group completed the acquisition of Control Products Inc ("CPI"). CPI was acquired for an initial cash consideration of £8.1m (\$11.4m) on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities. In addition, a contingent payment of up to £3.8m (\$5.4m) will be payable subject to CPI achieving certain profit growth targets over a four year period.

COMPANY BALANCE SHEET

as at 31 March 2021

	notes	2021 £m	2020 £m
Fixed assets			
Investments	5	201.3	200.2
Current assets			
Debtors	6	29.9	23.1
Cash at bank and in hand		3.1	5.6
Total current assets		33.0	28.7
Creditors: amounts falling due within one year	7	(15.0)	(12.8)
Net current assets		18.0	15.9
Non-current liabilities			
Other financial liabilities	8	(9.3)	(11.8)
Net assets		210.0	204.3
Capital and reserves			
Called up share capital	9	4.4	4.4
Share premium account		138.8	138.8
Merger reserve		19.9	22.7
Profit and loss account		46.9	38.4
Total shareholders' funds		210.0	204.3

The profit of the Company for the financial year was £7.4m (2020: £2.4m loss).

These financial statements on pages 182 to 187 were approved by the Board of Directors on 3 June 2021 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 2021

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 April 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
Total comprehensive profit for the year	-	-	-	7.4	7.4
Share-based payments	-	-	-	1.1	1.1
Transfer to retained earnings	-	-	(2.8)	2.8	-
Dividends	-	-	-	(2.8)	(2.8)
At 31 March 2021	4.4	138.8	19.9	46.9	210.0

At 31 March 2021, an amount of £30.2m out of the total £46.9m in the profit and loss account and £17.0m out of total £19.9m in the merger reserve is available for distribution, subject to filing these Financial Statements with Companies House. When making a distribution to shareholders, the Directors determine profits available for distribution by reference to guidance on realised and distributable profits under the Companies Act 2006 issued by the Institute of Chartered Accountants in England and Wales and the Institute of Chartered Accountants of Scotland in April 2017. The profits of the Company have been received in the form of dividends from subsidiary companies which have been paid to the Company in cash. The availability of distributable reserves is dependent on the available cash resources of the Group and other accessible sources of funds and is subject to any future restrictions or limitations at the time such distribution is made.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2021

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's consolidated 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 and thus is dependent on the trading activities of its subsidiaries. The Company holds sufficient net current assets as at 31 March 2021 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.

Income recognition

Dividend income is recognised when the Company's right to receive payment is established.

2. Summary of significant accounting policies continued

Investments

Investments in subsidiary and associate undertakings are stated initially at cost, being the fair value of the consideration given and including directly attributable transaction costs. The carrying values are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

Dividends

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

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, in accordance with the effective interest rate method.

Share-based payments

In preparing the financial statements, the Company has applied IFRS 2 'Share-based payments'. Although the Company does not incur a charge under this standard, the issuance by the Company to its subsidiaries of a grant of options over the Company's shares 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 30 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 affect 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 Directors to estimate the future cash flows, expected to arise from the investments and suitable discount rates in order to calculate present values.

Recoverability of amounts owed by subsidiary undertakings

Annually, the Company considers whether the amounts owed by subsidiaries are recoverable. The recoverable amount is compared to the balance sheet position of the corresponding subsidiary. Where the corresponding subsidiary has net current liabilities or net liabilities the Company considers the estimation of the future cash flows of the subsidiary, alongside the selection of appropriate assumptions including growth rates and discount rates in order to calculate the present value of those cash flows to assess the recoverability of these balances.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 March 2021

3. Profit of the company

The profit of the company for the financial year was £7.4m (2020: £2.4m loss). By virtue of section 408(3) of the Companies Act 2006, the Company is exempt from presenting a separate profit and loss account.

4. Employees

No remuneration was paid or is payable to the directors in their capacity as directors of the Company (2020: £nil). The directors also provide services to other group undertakings and received remuneration from a fellow group undertaking, discoverIE Management Services Limited in respect of services to the Group.

5. Investments

	Subsidiary undertakings £m
At 1 April 2019	168.9
Investment in subsidiaries	40.0
Impairment of investment	(10.0)
Share-based payments	1.3
At 31 March 2020	200.2
Share-based payments	1.1
At 31 March 2021	201.3

Details of all direct and indirect holdings in subsidiaries are provided in note 32 of the Group Financial Statements.

6. Debtors

	2021 £m	2020 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	28.0	21.3
Corporation tax	1.7	1.6
Other debtors	0.1	–
Prepayments	0.1	0.2
	29.9	23.1

Amounts owed by subsidiary undertakings bore interest at a sterling base rate plus a margin of 1.75% and at USD one month LIBOR plus a margin of 2%. All amounts are repayable on demand.

7. Creditors

	2021 £m	2020 £m
Amounts falling due within one year:		
Bank loans and overdrafts (see note 8)	1.9	1.3
Amounts owed to subsidiary undertakings	12.0	10.5
Other payables	0.1	0.3
Accruals	1.0	0.7
	15.0	12.8

Amounts owed to subsidiary undertakings bore interest at a nil rate and are repayable on demand.

8. Other financial liabilities

Other financial liabilities of £9.3m at 31 March 2021 (2020: £11.8m) comprise drawdowns on the Group's revolving credit facility (see note 22 to the Group consolidated 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

Allotted, called up and fully paid	2021 Number	2021 £m	2020 Number	2020 £m
Ordinary shares of 5p each	89,455,915	4.4	88,705,915	4.4

In April 2020 750,000 shares were issued to the Group's Employee Benefit Trust. At 31 March 2021 the Trust held 689,307 shares (2020: nil). During the year to 31 March 2021, employees exercised 60,693 share options under the terms of the various share option schemes (2020: 2,361).

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.

At 31 March 2021, there were outstanding options for employees of subsidiaries to purchase up to 3,928,273 (2020: 3,306,166) ordinary shares of 5p each between 2020 and 2030 at prices ranging from £nil per share to £6.04 per share. These are subject to certain performance conditions as disclosed in note 30 of the Group consolidated financial statements. During the year to 31 March 2021, employees exercised 60,693 share options under the terms of the various share option schemes (2020: 2,361). The shares exercised during the year ended 31 March 2021 were settled by the Trust.

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 30 of the Group Financial Statements.

12. Post balance sheet events

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 events should be noted:

Dividends

A final dividend of 7.0p per share (2020: nil), amounting to a dividend of £6.2m (2020: nil) and bringing the total dividend for the year to 10.15p (2020: 2.97p), was declared by the Board on 27 May 2021. The discoverIE plc financial statements do not reflect this dividend.

Business Combinations

On 13 May 2021, subsequent to the year end, an indirectly held subsidiary of the Company completed the acquisition of Control Products Inc ("CPI"). CPI was acquired for an initial cash consideration of £8.1m (\$11.4m) on a debt free, cash free basis, before expenses, funded from the Group's existing debt facilities. In addition, a contingent payment of up to £3.8m (\$5.4m) will be payable subject to CPI achieving certain profit growth targets over a four year period.

FIVE YEAR RECORD

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Group income statement					
Revenue	454.3	466.4	438.9	387.9	338.2
Gross profit	155.3	156.7	145.0	126.7	111.0
Underlying operating profit	35.2	37.1	30.6	24.5	20.0
Underlying profit before tax	31.5	32.8	27.2	21.9	17.2
Profit before tax	17.0	19.5	19.3	14.6	4.1
Profit for the year	12.0	14.3	14.6	10.6	3.5
Earnings per share					
Underlying diluted earnings per share	26.0p	30.2p	27.2p	22.3p	19.2p
Fully diluted earnings per share	13.0p	16.5p	19.4p	14.2p	4.1p
Dividend per share	10.15p	2.97p	9.55p	9.0p	8.5p
Group statement of financial position					
Net debt	(47.2)	(61.3)	(63.3)	(52.4)	(30.0)
Non-current assets	245.0	236.4	149.2	136.4	122.2
Net assets	208.8	200.5	134.7	126.8	122.5

The figures for 2020 onwards included the impact of the adoption of IFRS16.

PRINCIPAL LOCATIONS

Group head office

Country	Company	Location
United Kingdom	discoverIE Group plc / discoverIE Management Services Limited	Guildford

Custom Supply division

Country	Company	Location
United Kingdom	Acal BFi UK Limited	Wokingham, Bracknell
	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 Italy Srl	Milan, Rome
Netherlands	Acal BFi Netherlands BV	Eindhoven
Norway	Acal BFi Nordic AB	Honefoss
South Africa	Vertec Scientific SA (pty) Ltd	Johannesburg
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
	Noratel UK Limited	Nantwich
	Positek Limited	Cheltenham
	Santon Switchgear Limited	Newport
	Sens-Tech Limited	Egham
	Stortech Electronics Limited	Harlow
	Variohm-Eurosensor Limited	Towcester
Belgium	NSI BVBA	Bilzen
Canada	Noratel Canada Inc	Toronto

PRINCIPAL LOCATIONS

Design & Manufacturing division continued

Country	Company	Location
China	Foshan Noratel Electric Co Limited	Foshan City
	Zhongshan Myrra Electronic Co Limited	Zhongshan
Denmark	Noratel Denmark A/S	Glostrup
	Flux A/S	Asnaes
Finland	Noratel Finland OY	Salo
France	Myrra SAS	Bussy-Saint-Georges
Germany	Limitor GmbH	Urbach
	Limitor Solutions GmbH	Urbach
	MTC Micro Tech Components GmbH	Dillingen
	Noratel Germany AG	Grafenau, Bremen
	Santon GmbH	Nettetal
	Variohm-Eurosensor	Heidelberg
Hong Kong	Contour Asia Limited	Kowloon
	Myrra Hong Kong Limited	Wanchai
Hungary	Limitor Hungaria Elektromechanikai Gyarto Kft.	Pecs
India	Noratel India Power Components Pvt Limited	Kerala, Bangalore
Mexico	Hobart Electronics	Agualeguas, Nogales
Netherlands	Santon Holland BV	Rotterdam
Norway	Foss AS	Drammen
	Noratel AS	Hokksund, Hamar
Poland	Myrra Poland sp. z o.o.	Kaluszyn
	Noratel sp. z o.o.	Szczecinska
Slovakia	Foss Fibre Optics s.r.o.	Bratislava
South Korea	EMC Innovation Limited	Cheongcheon-Dong
Sri Lanka	Noratel International Pvt Limited	Katunayake
Sweden	Hectronic AB	Uppsala
	Noratel Sweden AB	Laxa, Vaxjo
Thailand	Flux International Limited	Bangkok
USA	Hobart Electronics	Hobart, IN
	IMAG Electronics	Tempe, AZ
	Noratel North America LLC	Charlotte, NC
	Noratel Power Engineering LLC	Carson, CA
	Phoenix America LLC	Wayne County, IN

FINANCIAL CALENDAR 2021/22

Annual General Meeting

29 July 2021

Results

Interim results for the six months to 30 September 2021	Late November 2021
Preliminary announcement for the year to 31 March 2022	Early June 2022
Annual Report 2022	Late June 2022

CORPORATE INFORMATION

Registered office

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Incorporated in England and Wales
with registered number: 2008246

Auditors

PriceWaterhouseCoopers LLP

Corporate solicitors

White & Case LLP

Principal bankers

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

Registrars

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Stockbrokers

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