

Company number:
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Acal plc
Annual Report and Accounts
for the year ended 31 March 2017

Stock code: ACL
www.acal.co.uk

Innovative Electronics

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Welcome to our 2017 Annual Report

Acal designs, manufactures and supplies customer-specific electronic products to over 25,000 companies around the world, supplying customers in the transportation, medical, renewable energy and industrial sectors.

Acal's market proposition is unique. Working with selected technologies, the Group helps customers solve technical challenges and innovate by creating application-specific product designs. No other company offers this capability on Acal's scale.

Established in 1986, Acal has transformed itself in recent years. The Company has pursued a strategy of creating a high-margin, differentiated business; developing sophisticated, customer-specific products; investing in first-class engineers and design and manufacturing facilities; and building scale via targeted acquisitions. The new strategy has delivered results, as sales from

continuing operations have grown from £177m in 2013 to £338m in 2017; and underlying EPS has grown by 18% compound annual growth rate.

Acal has operating companies and manufacturing facilities in many European and Asian markets, including: the UK, Germany, France, the Nordic region, Benelux, Italy, Poland, Slovakia, China, India, Sri Lanka; South Korea, the US, Canada and South Africa.

Acal operates through the following wholly owned businesses: Acal BFI, Contour, Flux, Foss, Hectronic, MTC, Myrra, Noratel, Plitron, RSG, Stortech, Variohm and Vertec.

Visit our investor website www.acal.co.uk

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

- Latest news and press releases
- Reports and presentations

Our investment case

Focus on customised electronics

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

➔ Read more in **Our business model** on pages 6 and 7

Attractive markets

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

➔ Read more in the **Market review** on pages 8 and 9

Drivers of future performance

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

➔ Read more in **Our strategy** on page 10

Strong financials

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

➔ Read more on the **Key strategic indicators** on page 14, **Key performance indicators** on pages 15 and 16, and the **Finance review** on pages 24 to 27

Signposting icons

- ➔ Icon for signposting to content in other sections of the report
- ➔ Icon for signposting to content online

Contents

Strategic report

| | |
|-----------------------------------|----|
| Highlights | 2 |
| Group at a glance | 3 |
| Chairman's statement | 4 |
| Our business model | 6 |
| Market review | 8 |
| Our strategy | 10 |
| Product case studies | 11 |
| Key strategic indicators | 14 |
| Key performance indicators | 15 |
| Operating review | 17 |
| Finance review | 24 |
| Risk management | 28 |
| Principal risks and uncertainties | 30 |
| Corporate social responsibility | 33 |

Corporate governance

| | |
|---------------------------------------|----|
| The Board | 38 |
| The Group Executive Committee | 40 |
| Directors' report | 41 |
| Board report on corporate governance | 44 |
| Audit Committee report | 48 |
| Nomination Committee report | 51 |
| Directors' remuneration report | 53 |
| Directors' responsibilities statement | 71 |

Financial statements

| | |
|---|-----|
| Group | |
| Independent auditor's report to the members of Acal plc | 72 |
| Consolidated income statement | 82 |
| Consolidated statement of comprehensive income | 83 |
| Consolidated statement of financial position | 84 |
| Consolidated statement of changes in equity | 85 |
| Consolidated statement of cash flows | 86 |
| Notes to the Group financial statements | 87 |
| Company | |
| Company balance sheet | 128 |
| Company statement of changes in equity | 129 |
| Notes to the Company financial statements | 130 |

Other information

| | |
|------------------------------|-----|
| Five year record | 134 |
| Principal locations | 135 |
| Shareholder notes | 136 |
| Financial calendar 2017/2018 | 137 |
| Corporate information | 137 |

Highlights

Revenue growth¹ (CER)

+18%

Underlying operating profit growth¹ (CER)

+23%

Underlying profit before tax¹

+19%

Underlying EPS¹

+13%

Dividend per share

+6%

Order book (CER)

+22%

Financial highlights

- Sales & order growth accelerating through the second half
 - Full year sales increased 18% (6% CER)
 - Second half organic sales grew¹ 6%, and orders 7%
 - Year-end order book up 22% CER, and 13% organically, at £109m
- Growing underlying operating profitability & increased efficiency
 - Underlying operating profit up 23%
 - Efficiency programme generates £4m annualised benefits (£6.4m one-off costs)
- Underlying earnings per share up 13%
- Excellent operating cash flow¹ which increased by 66% to £27.1m
 - Gearing reduced to 1.2x
- Full year dividend increased by 6%
 - Seventh consecutive year of increased dividend (+67% overall)

Operational highlights

- Good operational progress in line with key strategic and performance targets
 - Design & Manufacturing sales account for 52% of Group revenue (FY 2015/16: 48%)
 - Cross-selling sales growth of 53%
 - International sales grow to 19% (FY 2015/16: 17%)
- Variohm acquired in January 2017 and performing very well, with first cross-selling design win achieved
- Strong trading momentum continues in the new year
 - Further good organic growth in Q1 sales and orders
 - Developing acquisition opportunities

¹ See Note 2 to the Group financial statements on pages 87 to 94.

➔ Read more about our **Key strategic indicators** on page 14 and **Key performance indicators** on pages 15 and 16

➔ Read more about **Our strategy** on page 10

Group at a glance

Our divisions

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

Revenue

- Design & Manufacturing
52%
£175.6m
- Custom Distribution
48%
£162.6m

Underlying operating profit*

- Design & Manufacturing
80%
£20.2m
- Custom Distribution
20%
£5.2m

*Before unallocated costs

Design & Manufacturing

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

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

Margin:

11.5%

Number of employees:

3,299

Read more about **Design & Manufacturing** in the **Operating review** on pages 19 and 20

Custom Distribution

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

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

Margin:

3.2%

Number of employees:

443

Read more about **Custom Distribution** in the **Operating review** on page 21

Chairman's statement

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

Malcolm Diamond MBE

Chairman

In this, my first report as Chairman, I am pleased to report that the Group has again delivered strong results in a year that saw a strong second half preceded by a slower first half.

After twelve years as Chairman, Richard Moon retired on 31 March 2017. Richard led the Group's transformation into an international designer, manufacturer and supplier of custom electronics with a highly focused market proposition. During that time, the Group completed 13 acquisitions, five non-core disposals, and has delivered 18% CAGR underlying EPS growth in the last four years along with a 67% increase in the dividend over the last seven years.

I am delighted to take on the chairmanship of the Group and to work with the Executive Team and Board colleagues to drive the Group's strategy and growth plans forward. The strategy is both clear and well established and underpins the success of the business in recent years. The Board intends to build on these achievements and, for my part, I believe my own commercial experience will provide strategic support to the Executive Team as they roll out their ongoing ambitious growth plans.

The Group delivered good growth in underlying earnings again this year, despite weaker demand in the first half that reflected wider economic uncertainties. Management was quick to respond, implementing a Group-wide, efficiency and cost reduction programme that has delivered sustainable savings and benefits for the years ahead.

Acquisitions into our Design & Manufacturing division play an important part in strengthening and developing the Group's commercial offering and I am pleased to report that these are performing well and contributing positively to the Group.

Strategy

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

With our key markets being worldwide, management continue to see the opportunity to expand beyond Europe, as well as within Europe, to create a growing global designer and manufacturer of differentiated components and electronic products.

Group results

Group sales for the year increased by 18% to £338.2m and by 6% at constant exchange rates ("CER"), the difference reflecting the translation benefit of Sterling weakness during the year.

Underlying operating profit, which excludes acquisition-related costs, exceptional costs, amortisation of acquired intangibles and the IAS19 legacy pension cost, increased by £3.7m to £20.0m (up 23% and up 5% CER) with underlying profit before tax increasing by £2.7m to £17.2m (up 19%).

Underlying earnings per share for the year increased by 13% to 19.2p (up from 17.0p last year).

There were exceptional costs for the year of £6.9m mainly related to the Group's efficiency programme announced in October 2016. Together with other underlying adjustments, profit before tax for the year on a reported basis was £4.8m (FY 2015/16: £9.4m), with fully diluted earnings per share of 5.1p (FY 2015/16: 10.9p).

Cash generation was very strong with operational cash flow that increased 66%, reducing net debt at the year end to £30.0m, resulting in a Group gearing ratio of 1.2 times (down from 1.7 times last year end) comfortably ahead of our target of 1.5 to 2.0 times.

Acquisition

In January this year, the Group acquired Variohm Holdings Limited ("Variohm"), a UK based designer, manufacturer and distributor of high quality sensors, switches and motion measurement systems, for an initial cash consideration of £10.6m, and contingent consideration of up to £1.85m payable in the year ended 31 March 2019. This acquisition was funded by a placing of new equity that raised £13.6m net of costs.

Variohm has significant alignment with our core technologies and market focus and is performing very well. We are delighted to welcome their employees into the Group.

On behalf of the Board, I would like to thank shareholders for their support in funding this transaction.

Dividend

The Board is recommending an increase in the final dividend per share of 6% to 6.05 pence per share, giving a full year dividend per share of 8.5 pence, representing an increase of 6% for the year and a cover against underlying earnings of 2.3 times. The final dividend is payable on 28 July 2017 to shareholders registered on 16 June 2017. Since 2010, the annual dividend per share has risen by 67% and the total dividend payment by over 250%.

The Board aims to maintain a progressive dividend policy together with long term dividend cover of between 2 to 3 times underlying earnings.

Employees

The Group consists of 3,800 employees in 23 countries around the world. The Board believes that by adopting an entrepreneurial and decentralised operating environment, together with rigorous planning, review, support and investment, the Group is able to continue to foster an ambitious and successful culture.

On behalf of the Board, I would like to thank all our employees for their commitment and hard work this year. Their dedication remains essential in helping us to achieve our goals.

Summary

It is widely accepted that the ideal business growth plan is to drive organic profit growth at a rate well ahead of inflation, whilst adding carefully targeted, profitable acquisitions in dynamic market sectors that bring product, geographic or management capability to the business.

Acal has already established its pedigree in this regard with our Executive Team.

There remain many exciting opportunities for the business and with an ambitious Board and management team, we expect to see further developments in the year ahead.

Malcolm Diamond MBE

Chairman

6 June 2017

Our business model

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



Identification of opportunity

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



Design and quotation

We design a solution that is cost effective for our customers. Speed is important – the ability to provide customers with a quote quickly. Whilst some solutions are designed completely from scratch, we have "platform product ranges" that can be modified to meet our customers' needs. This approach saves customers cost, time and removes the risk that comes with pursuing a fully customised solution. Customers will work with a dedicated team of engineers to create a design that matches their requirements.



Sample and approvals

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



Production

All products are tailored to our customers' manufacturing methods. We are able to maintain complete control of the product manufacturing process, ensuring both high standards and reliable components. Quality is assured through our advanced testing procedures.



Supply

Our global footprint means that we are able to provide consistent supply around the world. We have the international footprint that means we can reach customers in their design and production centres in multiple locations.

Repeat revenue streams

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

Cross-selling opportunities

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

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

Acquisition strategy and criteria

Acal acquires businesses that are successful, profitable and growing in our existing and adjacent technology areas. For example, by acquiring Variohm, Acal has added to the Group's existing range of temperature and pressure sensors and expanded the range to include load sensors, switching and sensor systems. The businesses operate in markets with good growth prospects and long-term growth drivers similar to Acal's focus markets.

Often the businesses are led by entrepreneurial managers who wish to remain with the business post acquisition. We encourage this as it helps to retain a successful entrepreneurial culture.

Acal's business is focused on five technology areas:

How we add value to acquired companies

Acal operates a decentralised structure, with business units operating within a pre-agreed business plan, supported by the Group's governance, controls and centralised treasury function, whilst retaining their commercial capability and branding. We develop the performance of the business and support growth investment requirements. Depending upon the circumstances of an acquisition, we will help them to internationalise sale channels and expand their customer base, develop and expand the product range, invest in management capability and succession planning, invest in manufacturing and infrastructure, enable growth with existing large customers, improve manufacturing and infrastructure efficiency, and expand businesses through further acquisitions.

Our global reach:

➔ Read more in the **Operating review** on pages 17 to 23

Market review

Long-term technology trends

A major trend in the industrialised world over the last 20 years has been the growing importance of electronics. This continuing trend is fuelled by three key factors: the continuous reduction in cost of computing power; the growing possibilities for new applications due to further miniaturisation; and the growing customer demand for information and convenience.

Acal's market position

Our serviceable market is estimated to be worth £20 billion internationally, representing the niche electronic components market, and in itself representing less than 10% of the total global electronic components market. Needless to say, there remain numerous opportunities for growth across a wide range of markets and applications. Acal identifies customer opportunities where we can create a differentiated, engineered product solution, avoiding products that are more susceptible to commoditisation and price pressure.

In particular, the Group focuses on four target markets, which account for around half of Group turnover: medical, renewable energy, industrial connectivity and transportation. These are expected to drive the Group's organic revenue well ahead of GDP over the economic cycle and create acquisition opportunities. Growth in these markets is driven by increasing electronic content in products, and by global macro trends such as a growing middle class population, an expanding transport infrastructure, an ageing affluent population and the increasing need for renewable sources of energy.

"There remain numerous opportunities for growth across a wide range of markets and applications."

Nick Jefferies

Group Chief Executive

Our sales by industry sector

● Our key markets

47%

| | |
|-------------------------|-----|
| Industrial Connectivity | 24% |
| Medical | 13% |
| Renewable | 6% |
| Transport | 4% |

● Other markets

53%

| | |
|----------------|-----|
| Automation | 8% |
| Automotive | 6% |
| Communications | 13% |
| Consumer | 5% |
| Distribution | 6% |
| Defence | 5% |
| Oil and gas | 1% |
| Research | 2% |
| Other | 6% |

Our key markets

Medical

Growth in medical

This market is driven by the increasing use of technology in diagnosing, monitoring and controlling medical conditions as well as an increasingly affluent and ageing global population which nowadays accounts for the majority of healthcare spending in developed economies. As an example, a recent report by IC Insights, a leading electronic market research company, forecasts the sales of electronics into medical applications to rise by a CAGR of 7.3% between 2015 and 2020.

Industrial connectivity

Growth in industrial connectivity

Technology is creating opportunities for connectivity everywhere and becoming increasingly important in industry. A recent report by leading research firm Markets and Markets expects the overall market size for global machine-to-machine connections to rise by 11.6% CAGR between 2015 and 2020.

Renewable energy

Growth in renewable energy

The combination of increased need for electricity, reducing acceptance of nuclear and coal as sources, and falling costs all favour the demand for renewable energy. So much so that the International Energy Agency expects renewable electricity generation to outpace all other sources and surpass coal as the largest power source by around 2030, and to account for 50% of the additional energy created by then.

Transportation

Growth in transportation

Transport markets are growing around the world, driven by increasing demand and falling costs, whether it be rail, air or automotive. The electronics content is rising, for instance to add convenience features, or for safety or security. For example, IC Insights expects integrated circuit sales, a proxy for electronic content, into the automotive market to rise by a CAGR of 10.4% between 2015 and 2020.

Our strategy

“Since 2009, our strategy has been to create an international supplier of customised electronics to growth markets which are differentiated from the wider market. The strategy comprises four elements.”

Nick Jefferies

Group Chief Executive

| Strategic priorities | Definition | Link to key strategic indicators |
|---|--|--|
| Moving up the value chain | To move up the electronics value chain by focusing on differentiated products with higher operating margins ➔ Read more on pages 17 to 23 in the Operating review | — Increase share of Group revenue from Design & Manufacturing |
| Growing sales well ahead of GDP | To grow sales well ahead of GDP by focusing on structural growth markets and realising operational efficiencies from cross-selling ➔ Read more on pages 17 to 23 in the Operating review | — Increase underlying operating margin |
| Acquiring high quality Design & Manufacturing businesses | To acquire businesses that broaden and strengthen Acal's technological expertise with complementary products, customers, suppliers and geographies ➔ Read more on pages 17 to 23 in the Operating review | — Increase share of Group revenue from Design & Manufacturing — Increase underlying operating margin — Build sales beyond Europe |
| Internationalising the business | To develop sales internationally by following existing customers' international needs and by developing local market sales ➔ Read more on pages 17 to 23 in the Operating review | — Build sales beyond Europe |

PRODUCT CASE STUDIES

Industrial Connectivity

The requirement of the customer

Acal is working with a number of businesses as part of a major project by the Norwegian Public Roads Administration. Norway is in the process of converting all radio broadcasting from FM to digital radio ("DAB") and by the end of 2017, radio broadcasters in Norway will only use DAB.

In accordance with EU regulation, all road tunnels must have emergency communication to all vehicles. If there is an accident in a tunnel, the emergency services must be able to talk directly to the car radios inside the tunnel. This is a simple process with FM radio but far more complex for DAB.

The solution we developed

Whilst the requirement for each tunnel is the same, the end solution differs per tunnel depending on its size, length and location. Other factors can also affect the design solution. Acal has designed bespoke cores that enable its customers to use fibre optics, making it possible to communicate in an emergency via DAB.

Benefits to the customer

Health and safety regulations are increasing. Not only does Acal assist with DAB communications, it uses fibre optic technology to enable video surveillance within road tunnels. Furthermore, it provides customers with solutions to technological challenges which are increasingly complex, using components such as:

- Media converters (converting an electric signal to an optic signal and vice versa);

- Splicing enclosures; and

- Patching panels and boxes.

As a result, Acal is able to provide a bespoke solution partnering with different businesses involved in tunnel safety, thereby benefiting its customers and the travelling public alike.

PRODUCT CASE STUDIES

Transportation

The requirements of the customer

Acal's initial relationship was with a company which specialised in the development of customised and integrated vehicle tracking and fleet management solutions. The original requirement was to work with the customer to develop a bespoke computer which would be used to run their fleet management software.

Acal developed the relationship, ensuring both flexible supply and a bespoke product which met the customer's requirements.

The initial customer was subsequently acquired by a larger organisation which had developed its own computers. On the strength of the existing relationship, Acal were asked to upgrade these computers in order that they could use the fleet management software.

The solution we developed

Acal worked with the customer's engineers on a design. It became clear that the best solution was a new bespoke design which would meet all of the customer's requirements. Hectronic collaborated with the customer on the design of the elements used to log driver data and record additional management data such as speed, mileage and fuel consumption. These elements were bespoke to the customer's requirements.

Different divisions worked together to design and specify the sensing elements for recording speed, acceleration, location, pressure and altitude, using sensing, GPS and wifi systems.

Benefits to the customer

The fleet management computer and sensors were produced to the customer's specific requirements by engineers from two Acal divisions. The result was a highly optimised solution for the customer, which was designed, manufactured and supplied by the Group.

PRODUCT CASE STUDIES

Renewable energy

Wind
measurement
and pitch
controller

Airflow,
temperature
and pressure
switches

Power supply
for pitch
controller

Turbine power
converters and
inductors

Strategic report

Medical

Embedded
computers and
displays

Power isolator
and protection
for operating
theatres

Cabling and
connectors for
cardiovascular
monitors

Cabling and
connectors
for medical
equipment

Toroidal isolation
transformers
used in
C-Arm X-ray
Machines and x-ray
generators

Foot switches
which control the
height and position
of the operating
table

Key strategic indicators

Increase share of Group revenue from Design & Manufacturing¹

52%

Definition

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

Why we measure this

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

Commentary on performance

The D&M division generated 52% of Group sales, up from 48% last year, and 54% when annualised for recent acquisitions, further progress towards our mid-term target of 75% of revenue from D&M.

Link to strategic priorities

- Moving up the value chain; and
- Acquiring high quality Design & Manufacturing businesses.

Increase underlying operating margin

5.9%

Definition

Underlying operating profits as a percentage of margins.

Why we measure this

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

Commentary on performance

Increased to 5.9% from 5.7% last year. The eighth consecutive year of increasing margin. The second half of the year was stronger than the first, at 6.2%. This is further progress toward our mid-term target of 8.5%.

Link to strategic priorities

- Growing sales well ahead of GDP; and
- Acquiring high quality Design & Manufacturing businesses.

Build sales beyond Europe¹

19%

Definition

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

Why we measure this

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

Commentary on performance

19% of sales were generated beyond Europe, up from 17% in the prior year, further progress towards our mid-term target of 30%.

Link to strategic priorities

- Internationalising the business; and
- Acquiring high quality Design & Manufacturing businesses.

 Read about **Our Strategy** on page 10

Key performance indicators

Sales growth
+6% CER

Increase
cross-selling

Underlying EPS growth

+53%

+13%

-1% (H2 6%) Organic

Definition

Two measures are used to calculate sales growth:

- 1 Organic sales growth is calculated at constant exchange rates and includes the equivalent pre-acquisition period for recent acquisitions and excludes the sales from Acal BFi Spain which was closed during the year.
- 2 Constant Exchange Rate (CER) growth measures the total increase in sales, both organic growth and the additive effect of acquisitions.

Why we measure this

- 1 Organic sales growth measures the success of the Group in generating new business and growth.
- 2 CER growth measures the total growth of the Group and drives overall levels of profitability and earnings.

Commentary on performance

- 1 Organic sales growth accelerated through the second half, with 6% growth, following a slower first half where sales declined by 7% amidst macro uncertainties. Our target is to be consistently delivering growth well ahead of GDP.
- 2 CER sales grew by 6% as the annualising effects of the acquisitions in the prior year of Flux, Contour and Plitron came through, along with the acquisition of Variohm towards the end of the year.

Definition

Sales between Group operating companies.

Why we measure this

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

Commentary on performance

Cross-selling grew by 53% (35% CER) generating £4.6m of revenue in the year; this is further good progress towards our three year goal of £10m sales from cross-selling.

Definition

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

Why we measure this

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

Commentary on performance

Underlying EPS per share grew by 13% in the year; this is in line with our target of exceeding 10% growth annually.

Key performance indicators continued

Dividend growth

+6%

Definition

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

Why we measure this

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

Commentary on performance

The full year dividend has increased by 6%, reflecting the strong performance of the year and confidence in future prospects. This is the seventh consecutive year of increase, over which time the dividend has risen by 67%.

Return on Capital Employed (ROCE)¹

13.0%

Definition

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

Why we measure this

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

Commentary on performance

ROCE was 13.0%, up from 11.6% in the prior year, good progress towards our three year target of exceeding 15%.

Operating cash flow¹

136%

Definition

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

Why we measure this

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

Commentary on performance

Operating cashflow was very strong at 136% of underlying operating profits in the year, up from 100% the prior year. Our target is to be consistently above 85% of underlying operating profits.

Operating review

"This year saw a strong return to organic growth, excellent cash flow and a year end order book that reached a record high of £109m, 22% higher at CER than the prior year."

Nick Jefferies

Group Chief Executive

Overview

The Group's business is focused on identifying, creating and supplying differentiated electronic product designs to high quality customers, that leads to repeating revenue. We have invested significantly over recent years in leadership, sales, engineering and customer support to build the quality of our revenue, and we are seeing the results of this strategy with rising volumes, increasing profits, strong cash flow and a strong order book. Acal is well positioned for further growth in the year ahead.

This year saw a strong return to organic growth in the second half following a slower first half. Second half sales benefitted from rising demand in existing projects as well as higher numbers of new customer project launches, resulting in Group organic sales growth of 6%. Strong order intake over the same period led to a year end order book that was 22% higher at CER than the prior year, and 13% higher organically. This contrasted with the first half where, despite a high level of new project wins over the previous 12 months, Group organic revenues reduced by 7% as a result of lower customer sales volume amidst wider economic uncertainty.

Overall, including the acquisitions of Flux, Plitron, Contour and Variohm, revenue increased by 18% on a reported basis (6% CER) to £338.2m and orders increased by 21% (9% CER); a book to bill ratio of 1.04.

Underlying operating profit increased to £20.0m, up 23% on last year (5% CER), representing a 5.9% operating margin, an increase of 0.2ppts on last year. Underlying EPS increased by 13% to 19.2p.

Group strategy

Acal designs, manufactures and supplies highly differentiated electronic components and products.

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

In a highly fragmented market, there exists an opportunity to consolidate suppliers, offering a product range that is tailored to meet the needs of the Group's common customer base (multinational, large and mid-sized original equipment manufacturers (OEMs)) and operating to uniformly high standards. Our four target markets (transportation, medical, renewable energy and industrial connectivity), are long term, international, growth markets driven by excellent fundamentals where our customers depend upon Acal products.

Operating review continued

Our strategy comprises four elements:

- 1 Move up the value chain into higher margin products;
 - Continue building revenues in the Design & Manufacturing ("D&M") division where operating margins for our businesses are higher (>10%);
 - Optimise performance in the Custom Distribution division to achieve an operating margin of 5% and to develop cross-selling of D&M division products;
- 2 Grow sales well ahead of GDP over the economic cycle;
 - Focus on structural growth markets where an essential need for Acal products exists;
- 3 Acquire high quality businesses that strengthen and develop the Group's commercial offering;
- 4 Internationalise the business by developing sales in North America and Asia.

The Group has made good progress again this year:

- The higher margin D&M division generated 52% of Group sales (up from 48% last year), and 54% of Group sales when annualised for acquisitions. Some 80% of Group underlying operating profit contribution was delivered by the D&M division (up from 78% reported last year); importantly, customer concentration remains low with no one customer accounting for more than 4% of Group sales;
- Following restructuring during the year and strong organic growth in the second half, operating margins in Custom Distribution increased to 4.1% in the second half from 2.1% in the first half;

- D&M cross-selling generated £4.6m of Group sales (up 53% from £3.0m for last year, 35% CER);
- Variohm Holdings Limited, a high quality sensors business, was acquired in January 2017 and is performing very well;
- International sales now represent 19% of Group sales (up from 17% from last year).

Key strategic and performance indicators

In November 2014, we set out our key strategic objectives for the business as we move the Group further up the value chain. The progress of the Group is measured through our key strategic indicators ("KSIs"), while the financial performance of the business is measured through our key performance indicators ("KPIs"). Our KSI targets are set for the mid-term being a 3 to 5 year period, while KPIs are 3 year targets.

Given the good progress in recent years and the level of growth opportunities we see ahead, the Board increased each of the Group's KSIs in November 2016. The target share of D&M sales was increased to 75% from 65%; target underlying operating margin was increased to 8.5% from 7%; and the sales target for internationalising the business beyond Western Europe was increased to 30% from 20%. Additionally, the Board has updated its KPIs to better align with the Group's operational and financial objectives.

➔ Read more in the **Key strategic indicators** on page 14

➔ Read more in the **Key performance indicators** on pages 15 and 16

Divisional results

Divisional and Group performances for the year ended 31 March 2017 are set out and reviewed below.

| | FY 2016/17 | | | FY 2015/16 | | | Revenue growth | CER revenue growth | Organic revenue growth |
|---------------------|---------------|--|-------------|---------------|--|-------------|----------------|--------------------|------------------------|
| | Revenue £m | Underlying operating profit ¹ £m | Margin | Revenue £m | Underlying operating profit ¹ £m | Margin | | | |
| D&M | 175.6 | 20.2 | 11.5% | 137.6 | 16.5 | 12.0% | 28% | 14% | -1% |
| Custom Distribution | 162.6 | 5.2 | 3.2% | 150.1 | 4.7 | 3.1% | 8% | -2% | 0% |
| Unallocated costs | — | (5.4) | — | — | (4.9) | — | — | — | — |
| Total | 338.2 | 20.0 | 5.9% | 287.7 | 16.3 | 5.7% | 18% | 6% | -1% |

¹ Underlying operating profit excludes acquisition-related costs, exceptional costs, amortisation of acquired intangibles and IAS19 pension costs.

With approximately 80% of Group sales in non-Sterling currencies, the translation of Group results into Sterling has benefited from its weakness following the UK's European Referendum on 23 June 2016 ("Referendum"). So, while Group revenue grew 6% CER, it rose 18% on a reported basis. Conversely, weaker Sterling put pressure on UK import costs in the second half of the year impacting UK margins, where approximately 90% of UK cost of goods are non-Sterling.

Order book

Orders grew strongly in the second half and at the year end the order book reached a record high of £109m, an increase of 22% CER (£20m) over last year. On an organic basis, the order book increased by 13%.

The order book is driven by repeating revenues from existing customer projects and the conversion of customer design wins from new projects into orders. During the year, new project wins were registered with a total estimated lifetime project value of £127m over five years. We expect this to begin converting into orders during the new financial year.

Approximately 90% of the order book is for delivery within twelve months from the time of order, and it is this conversion into sales which is driving the continued momentum in sales into FY 2017/18. The remainder of the order book is for delivery within a further six months.

By working with high quality customers, we build an order book that leads to stable and repeating revenues.

Design & Manufacturing ("D&M") division

The D&M division designs, manufactures and supplies electronic components and products for specific customer requirements. Over 80% of the products are manufactured in-house, the balance being manufactured by approved third party contractors. The division's business units are aligned with the Group's core technology areas, namely Power & Magnetics, Communication & Sensors, Electromechanical & Cabling, and Microsystems. The division's principal manufacturing facilities are in China, India, Poland, Sri Lanka and Thailand.

| | FY 2016/17 | | | FY 2015/16 | | | | | |
|--------------|---------------|--|--------------|---------------|--|--------------|-------------------|--------------------------|------------------------------|
| | Revenue £m | Underlying operating profit ¹ £m | Margin | Revenue £m | Underlying operating profit ¹ £m | Margin | Revenue growth | CER revenue growth | Organic revenue growth |
| H1 | 81.8 | 10.0 | 12.2% | 65.9 | 7.7 | 11.7% | 24% | 13% | -4% |
| H2 | 93.8 | 10.2 | 10.9% | 71.7 | 8.8 | 12.3% | 31% | 15% | 3% |
| Total | 175.6 | 20.2 | 11.5% | 137.6 | 16.5 | 12.0% | 28% | 14% | -1% |

¹ Underlying operating profit excludes acquisition-related costs, exceptional costs, amortisation of acquired intangibles and IAS19 pension costs.

Operating review continued

Divisional revenue increased by 28% to £175.6m (FY 2015/16: £137.6m). On a CER basis, sales increased by 14% driven by the previous year's second half acquisitions of Flux, Contour and Plitron and this year's acquisition of Variohm. In total, acquisitions generated growth of 15%, with organic sales reducing by 1%.

Organic growth levels reflect a slower first half, where organic revenue reduced by 4%. This was a result of generally lower customer demand levels amidst widespread macroeconomic uncertainty, which led to lower capital expenditure and delayed investment programmes in end markets.

As expected, second half revenues accelerated in the fourth quarter following a number of customers' new product launches and increasing volume demand across most markets. This resulted in organic revenue growth for the second half of 3% and order growth of 3%. Orders for the division were up 14% CER compared with last year, with a book to bill for the year of 1.05 (H1: 1.03; H2 1.07).

Divisional revenue was 52% of Group revenue (FY 2015/16: 48%), and 54% when annualised for acquisitions. This represents further good progress towards our mid-term divisional target for D&M to reach 75% of Group revenue.

As part of the Group's ongoing focus on efficiency improvements, a Group-wide efficiency and cost reduction programme was implemented during the year. In the D&M division, this led, in the first half of the year, to the closure of three production sites in the Nordic region, with manufacture being transferred to other existing, lower cost facilities, and the further integration of purchasing and production processes in the division. The cost of this efficiency programme was £1.6m and is included in exceptional costs.

Underlying D&M operating profit for the year of £20.2m was £3.7m higher than last year (FY 2015/16: £16.5m) and up £1.9m CER (+10%). The underlying operating margin for the year of 11.5% was 0.5ppts lower than last year mainly due to the weakness in Sterling impacting purchase pricing in the second half, with second half operating margins being 1.4ppts lower. Overall, the division generated 80% of the Group's profit contribution from 52% of Group sales.

As with previous years, a number of operational investments are underway, which include expanding magnetics production capacity in China, expanding electromagnetic shielding production capacity in South Korea and expanding fibre optic production capacity in Slovakia. Capital expenditure remains within historic levels.

Variohm

In January 2017, the Group acquired Variohm Holdings Limited, a UK based designer, manufacturer and distributor of highly differentiated sensors, switches and motion measurement systems to industrial customers in the UK, Europe and North America, via its three main brands, Variohm, Herga and Heason. Its key markets are consistent with Acal's key markets including medical, transportation and industrial, and collectively account for two thirds of Variohm sales.

Variohm was acquired for an initial cash consideration of £10.6m and generated revenue for its year ended 30 April 2016 (its final year before acquisition) of £19.4m generating a pre-tax profit of £1.6m. Additionally, a contingent cash consideration of up to a maximum of £1.85m is payable in the year ending 31 March 2019, subject to the satisfaction of certain conditions and growth targets during the year ending 31 March 2018. Since acquisition, Variohm has performed very well.

We expect the business to benefit from access to Acal's broader, international customer base, to create new revenue opportunities from cross-selling across the Group. Cross-selling activities are already underway and since the year end, the first design win was achieved, ahead of plan.

Custom Distribution division

The Custom Distribution 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 Acal's D&M division. A high degree of technical knowledge is required during the sales process, with Acal's engineers helping original equipment manufacturers solve their design challenges. Acal is the only industrial electronics business which provides such a comprehensive range of customer-specific products and solutions across Europe. The division comprises two businesses, Acal BFi and Vertec.

The customer engagement, sales and support process in Acal BFi is similar to that of the D&M division, the difference being that the products sold are manufactured by a third party supplier, rather than by Acal.

Acal BFi supplies industrial markets and accounts for the majority of Custom Distribution revenue. It supplies products from a selected group of manufacturers (including Acal's own D&M businesses) to over 20,000 customers in five technology areas: Communications & Sensors, Power & Magnetics, Electromechanical & Cabling, Microsystems, and Imaging & Photonics. The business operates across Europe, with centralised warehousing, purchasing, finance, customer contact management and IT systems. Vertec supplies exclusively-sourced medical imaging and radiotherapy products into medical and healthcare markets in the UK and South Africa.

| | FY 2016/17 | | | FY 2015/16 | | | Revenue growth | CER revenue growth | Organic revenue growth |
|--------------|---------------|--|-------------|---------------|--|-------------|----------------|--------------------|------------------------|
| | Revenue £m | Underlying operating profit ¹ £m | Margin | Revenue £m | Underlying operating profit ¹ £m | Margin | | | |
| H1 | 74.9 | 1.6 | 2.1% | 76.3 | 2.6 | 3.4% | -2% | -10% | -10% |
| H2 | 87.7 | 3.6 | 4.1% | 73.8 | 2.1 | 2.8% | 19% | 6% | 9% |
| Total | 162.6 | 5.2 | 3.2% | 150.1 | 4.7 | 3.1% | 8% | -2% | 0% |

¹ Underlying operating profit excludes acquisition-related costs, exceptional costs, amortisation of acquired intangibles and IAS19 pension costs.

Divisional revenue for the year was 8% higher at £162.6m (FY 2015/16: £150.1m), and in line with last year organically. As with the D&M division, a strong second half saw a return to organic growth of 9% offsetting a slower first half.

The weaker first half reflected strong prior year comparators, some loss of momentum during the re-structuring programme discussed below, as well as weak market conditions throughout Europe. Second half sales growth resumed, a result of improved commercial focus following the implementation of a regional sales-led structure and improving market conditions.

Orders for the division were up 6% (CER) compared with the prior year and second half orders increased by 11%. Book to bill for the year was 1.02 (H1: 1.01; H2 1.03).

Underlying operating profit for the year of £5.2m was up £0.5m on last year (down £0.4m CER). Second half underlying operating profit was up £1.5m year-on-year. The underlying operating margin was 3.2%, 0.1ppt ahead of last year, with a second half margin of 4.1%. The divisional mid-term target is for an operating margin of 5%.

The efficiency programme implemented during the year included the regionalisation of sales operations around Europe, a reduction in management headcount, closure of the Spanish operation and a reduction of administrative costs. The cost of this efficiency programme was £4.8m and is included within exceptional costs.

Operating review continued

Cross-selling

For acquired businesses, cross-selling provides new customer and geographic opportunities as a straightforward route to expanding organic growth opportunities. For businesses already within the Acal Group, cross-selling expands the sales opportunity by widening the range of products that can be supplied to existing customers. In both cases, cross-selling creates stronger customer relationships.

Having achieved its overall target last year of exceeding 5% of Group revenues (when including cross-selling within Acal BFi), the focus of our new strategic target is now on cross-selling D&M products between Group companies. This initiative generated sales of £4.6m (1.4% of revenues), an increase of 53% over last year (35% CER).

Acquisitions

Acquisitions build complementary product and/or geographic capability supplying common markets and customers, and create future organic growth opportunities. Further information on our acquisition strategy can be found on page 7.

Acquisition performance

Over the last six years, ten businesses have been acquired in the D&M division at a cost of £129m. On a weighted average basis, revenues of the acquired businesses have grown organically by 4% per annum (organically at CER) and operating profits by 6% per annum since acquisition. We measure acquisition return on investment ("ROI") as the current year operating profit attributable to each business over the acquisition costs (including earn outs, expenses and integration costs).

Overall, our FY 2016/17 acquisition ROI was 16%. The Group, which has a weighted average cost of capital of c.10%, targets an ROI of 15% for acquisitions. During the year, six businesses exceeded target ROI with a range of 17% to 44%, mostly the result of several years' profitable growth from businesses acquired in earlier years. While two smaller businesses performed below our expectations, following changes, they are expected to improve in the year ahead.

Acquisition case study – MTC GmbH

MTC, based in Dillingen, Germany was acquired in October 2011 and is a good example of how we develop and invest in businesses following acquisition. At the time of acquisition, MTC manufactured a range of electromagnetic shielding products.

Since acquisition, organic revenue has grown 15% CER per annum, and operating profits 20% CER per annum. Operating margin has increased from 15% to 20%. Furthermore, the following have been achieved:

- Appointed a new Managing Director as successor to retiring vendor;
- Doubled the number of active customers;
- More than doubled the product range;
- Enlarged the organisation – headcount increasing by 40%;
- Increased sales into target markets from 30% to 55%;
- Introduced new sales territories;
- Established cross-selling, which now accounts for 9% of revenue;
- Moved to new larger offices; and
- Invested in additional production capacity in Asia.

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

Group priorities for the year ahead

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

- 1 Further organic sales growth;
- 2 Optimising efficiency;
 - Further production efficiencies through smarter working practices
 - Delivering benefits from the regional sales leadership structure
 - Continued growth in cross-selling
- 3 Integrating the Variohm acquisition;
 - Organic growth
 - Establish cross-selling
- 4 Further value enhancing acquisitions.

Summary and outlook

As expected, the second half of the year saw accelerating levels of organic growth in sales and orders, and excellent cash flow. This strong momentum has continued into the new financial year which we entered with an order book 22% higher at CER than the prior year, and which is driving further good growth in this first quarter as the order book converts into sales.

Our efficiency plan has been implemented, delivering £4m in sustainable annual savings and at a better than anticipated cost of implementation.

Variohm Group, acquired in January 2017, is performing very well. Cross-selling activities are underway with a number of exciting opportunities identified and our first design win has been achieved, ahead of plan.

This is the seventh consecutive year in which the dividend has increased, an increase of 67% in total, reflecting the transformation of the Group over this period. In the last four years alone, revenues have almost doubled and underlying operating profits quadrupled. We plan to continue this strong rate of progression through further organic growth and high quality acquisitions over the next five years.

Nick Jefferies

Group Chief Executive
6 June 2017

Finance review

“Another year of good progress with double-digit EPS growth and strong cash flow.”

Simon Gibbins

Group Finance Director

Orders and revenue

Group revenue for the year increased by 18% over last year to £338.2m, and by 6% CER, the difference reflecting the translation benefit of Sterling weakness since last year. While organic revenue was 1% lower, the acquisitions of Flux, Contour and Plitron last year, and Variohm this year, less the closure of the Spanish distribution business, contributed an additional 7% growth in revenues.

| £m | FY 2016/17 | FY 2015/16 | % | H1 % | H2 % |
|--------------------------|---------------|---------------|------------|------------|-----------|
| Reported revenue | 338.2 | 287.7 | 18% | 10% | 23% |
| FX translation impact | – | 32.8 | – | – | – |
| Underlying revenue (CER) | 338.2 | 320.5 | 6% | 1% | 11% |
| Acquisitions/closures | (3.2) | 16.6 | – | – | – |
| Organic revenue | 335.0 | 337.1 | -1% | -7% | 6% |

Group orders increased by 9% CER with a book to bill ratio of 1.04 (H1: 1.02, H2: 1.05). Organically, orders were up 3% for the year, reducing 1% in the first half and growing 7% in the second half.

With approximately 80% of Group sales in non-Sterling currencies, the translation of Group results into Sterling has benefited from its weakness following the UK's European Referendum. Sterling declined by 13% on average against the Euro in the year compared with last year, by 13% on average against the US Dollar and by 12% against Nordic currencies on average.

Gross profit and margin

Gross profit for the year increased by 20% over last year. This growth rate is higher than the corresponding revenue growth rate due to further improvements in gross margin for the year, which increased 0.6ppts to 32.8% (FY 2015/16: 32.2%), although growth was limited by Sterling weakness in the year.

Sterling weakness which followed the Referendum put pressure on UK import costs in the second half of the year, impacting UK gross margins. Approximately 20% of Group revenues are from UK subsidiaries where around 90% of cost of goods are non-Sterling, mainly US Dollar. Sterling declined by 13% on average against the US Dollar in the year and by 16% in the second half compared with the second half last year. The Group continued with its active hedging policy, which hedges transactions from the point of order through to payment. Whilst this protected gross margins in the first half, second half gross margins were impacted as new order hedging was contracted at the stronger US Dollar rates such that the gross margin on organic sales was down 0.5ppts for the year.

Despite the currency pressures, this remains the Group's highest annual gross margin and has increased by nearly 7ppts in the last eight years, a reflection of the increasingly differentiated nature of our products and sustainability of the business.

Underlying operating costs

During the year an efficiency and cost reduction programme was implemented to remove £4m (4.4%) of Group underlying operating costs on an annualised basis. Of this, £1.7m of savings were achieved this year and the remainder will flow through next year as the full annualised benefit is realised. The cost of implementing these changes was £6.4m, lower than originally anticipated (£8m).

In the D&M division, the programme involved the closure of three small Nordic production sites and the further integration of purchasing and production processes. In the Custom Distribution division, it included the regionalisation of sales operations, a reduction in management headcount, the closure of the Spanish business and a reduction in administrative costs whilst maintaining customer and sales focus.

As a result of this programme, underlying operating costs in the year reduced by 1% organically, excluding the impact of acquisitions. Including the cost bases of companies acquired over the last two years (Flux, Contour, Plitron and Variohm), and as adjusted for the closure of our Spanish business, Group underlying operating costs increased by 6% CER.

Overall reported costs were up 27% as detailed below:

| £m | FY 2016/17 | FY 2015/16 | % | £m | FY 2016/17 | FY 2015/16 |
|--------------------------------------|---------------|---------------|-----|---|---------------|---------------|
| Organic costs | 90.0 | 90.6 | -1% | Selling and distribution costs | 49.4 | 43.4 |
| Closure/ (acquisitions) | 1.0 | (4.8) | - | Administrative expenses | 41.6 | 32.9 |
| Underlying costs (CER) | 91.0 | 85.8 | 6% | Underlying adjustments | 12.3 | 4.9 |
| FX translation | | (9.5) | - | Reported costs | 103.3 | 81.2 |
| Underlying adjustments | | | | Selling and distribution costs, and administrative expenses, are higher than last year, due to the inclusion of operating costs of the recently acquired businesses, together with the translation impact arising from the weaker Sterling during the year. Underlying adjustments, which are included in the financial statements within administrative expenses, are discussed below. | | |
| Exceptional costs | 6.9 | 0.2 | - | | | |
| Acquisition-related costs | 1.2 | 1.6 | - | | | |
| Amortisation of acquired intangibles | 3.9 | 2.8 | - | | | |
| IAS 19 pension administration cost | 0.3 | 0.3 | - | | | |
| Reported costs | 103.3 | 81.2 | 27% | | | |

Group operating profit and margin

Group underlying operating profit for the year was £20.0m, up £3.7m (+23%) on last year, and up 5% CER, delivering a Group underlying operating margin of 5.9%, up 0.2ppts on last year (H1: 5.6%, H2: 6.2%).

Reported Group operating profit for the year (after accounting for the underlying adjustments discussed below) was £7.7m, compared with £11.4m last year. The £3.7m decrease primarily reflects the impact of exceptional costs this year of £6.9m. These related to the Group's efficiency and cost reduction programme of £6.4m together with integration costs of £0.5m, more than offsetting the increase in underlying profitability.

| £m | FY 2016/17 | | | FY 2015/16 | | |
|--------------------------------------|------------------|--------------|-------------------|------------------|--------------|-------------------|
| | Operating profit | Finance cost | Profit before tax | Operating profit | Finance cost | Profit before tax |
| Underlying | 20.0 | (2.8) | 17.2 | 16.3 | (1.8) | 14.5 |
| Underlying adjustments | | | | | | |
| Exceptional costs | (6.9) | - | (6.9) | (0.2) | - | (0.2) |
| Acquisition-related costs | (1.2) | - | (1.2) | (1.6) | - | (1.6) |
| Amortisation of acquired intangibles | (3.9) | - | (3.9) | (2.8) | - | (2.8) |
| IAS 19 pension cost | (0.3) | (0.1) | (0.4) | (0.3) | (0.2) | (0.5) |
| Reported | 7.7 | (2.9) | 4.8 | 11.4 | (2.0) | 9.4 |

Underlying adjustments

Underlying adjustments for the year comprise exceptional restructuring and integration costs of £6.9m (FY 2015/16: £0.2m), acquisition-related costs of £1.2m (FY 2015/16: £1.6m), the amortisation of acquired intangibles of £3.9m (FY 2015/16: £2.8m) and the IAS19 legacy pension cost of £0.4m (FY 2015/16: £0.5m).

Exceptional costs for the year comprise £6.4m related to the Group's efficiency and cost reduction programme detailed above and £0.5m related to the integration of Flux into the D&M division. Acquisition-related costs of £1.2m comprised earn-out accruals of £0.9m and costs related to the acquisition of Variohm in January 2017 of £0.3m.

The £1.1m increase in the amortisation charge since last year relates to the amortisation of intangibles identified as part of the acquisitions of Flux, Contour and Plitron last year and Variohm this year. The total annualised amortisation cost for next year is expected to be around £4.6m.

Financing costs

Group finance costs of £2.9m (FY 2015/16: £2.0m), comprised underlying finance costs (being interest and facility fees arising from the Group's banking and pooling facilities), together with an IAS19 pension finance charge.

Underlying finance costs for the year were £2.8m and were up £1.0m from last year due mainly to the debt funding of the Flux, Contour and Plitron acquisitions during the second half of last year. Included within finance costs is the amortisation of the upfront arrangement fees associated with the Group's syndicated banking facility of approximately £0.3m per annum.

The IAS19 pension finance cost for the year was £0.1m compared with £0.2m last year.

Finance review continued

Underlying tax rate

The underlying effective tax rate for the year was 24%. This was 2ppts higher than last year's rate (FY 2015/16: 22%) due mainly to the profit mix shifting towards higher tax territories.

The overall effective tax rate of 27% was higher than the underlying effective tax rate of 24% mainly due to no tax relief being recognised for exceptional costs (within underlying adjustments) in countries with unrecognised tax losses.

Profit before tax and EPS

Underlying profit before tax for the year was £17.2m, an increase of £2.7m (19%) compared with last year. This increase, offset partly by the increased underlying effective tax rate for the year and the increased equity base following the equity placing in January 2017, resulted in underlying diluted earnings per share for the year of 19.2p, up 13% on last year.

After the underlying adjustments discussed above, reported profit before tax was £4.8m, £4.6m below last year, with reported fully diluted earnings per share of 5.1p compared with 10.9p last year.

| £m | FY 2016/17 | | FY 2015/16 | |
|--------------------------------------|------------|-------------|------------|-------|
| | PBT | EPS | PBT | EPS |
| Underlying | 17.2 | 19.2p | 14.5 | 17.0p |
| Underlying adjustments | | | | |
| Exceptional costs | (6.9) | – | (0.2) | – |
| Acquisition-related costs | (1.2) | – | (1.6) | – |
| Amortisation of acquired intangibles | (3.9) | – | (2.8) | – |
| IAS 19 pension cost | (0.4) | – | (0.5) | – |
| Reported | 4.8 | 5.1p | 9.4 | 10.9p |

Working capital

Working capital at 31 March 2017 was £55.5m, equivalent to 15% of annualised final quarter sales at CER. This compares with working capital of £53.2m at 31 March 2016, being 17% of last year's annualised final quarter sales at CER. Continued tight management of working capital has seen this ratio reduce. The D&M division has 19% working capital as a percentage of sales (2ppts better than last year), compared with 9% in Custom Distribution (3ppts better than last year) because of higher inventory requirements in D&M (raw material and finished goods). Improvements in working capital in Custom Distribution reflected improvements in debtor days and stock turns.

Group trade debtor and trade creditor days outstanding at 31 March 2017 were both lower than last year at 51 days (down 5 days) and 57 days (down 5 days) respectively, with the measure similar in both divisions. Group inventory turns were also better at 5.7 times (up 0.3 turns), with turns of 9.9 times in Custom Distribution and 3.9 times in D&M.

ROCE (return on capital employed, as defined in note 2 to the Group financial statements) for the year was 13.0%, up 1.4ppts on last year. Our three year target is to achieve a ROCE of at least 15%.

Cash flow

Net debt at 31 March 2017 was £30.0m, compared with £38.1m at 31 March 2016. The impact of foreign exchange on net debt balances in the year was only £0.2m.

| | FY 2016/17 | FY 2015/16 |
|----------------------------------|---------------|---------------|
| Net debt at 1 April | (38.1) | (19.0) |
| Free cash flow (see table below) | 21.3 | 10.2 |
| Acquisition-related cash flow | (13.8) | (20.8) |
| Equity issuance | 13.6 | – |
| Exceptional payments | (6.4) | (1.4) |
| Legacy pension | (1.6) | (1.6) |
| Dividends | (5.2) | (4.9) |
| Foreign exchange impact | 0.2 | (0.6) |
| Net debt at 31 March | (30.0) | (38.1) |

Net acquisition cash flows of £13.8m comprise a £10.6m upfront outflow for the acquisition of Variohm in January 2017, £1.0m of acquired debt on acquisition, associated acquisition costs of £0.3m and the cash cost of earn-out payments made in the period of £1.9m. Cash payments of exceptional items for the year totalled £6.4m (including payments of prior year accruals) and related mainly to the Group's efficiency and cost reduction programme. Further exceptional cash costs of £1m are expected next year as this year's accrued costs are paid.

Dividend payments increased by £0.3m to £5.2m following the 6% increase of last year's dividend. The Group will continue to review the level of future dividend growth in relation to its policy of long term dividend cover of 2 to 3 times underlying earnings per share.

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

| £m | FY 2016/17 | FY 2015/16 |
|-------------------------------------|---------------|---------------|
| Underlying profit before tax | 17.2 | 14.5 |
| Finance costs | 2.8 | 1.8 |
| Non-cash items ¹ | 4.5 | 3.5 |
| Underlying EBITDA | 24.5 | 19.8 |
| Working capital | 5.9 | (1.2) |
| Capital expenditure | (3.3) | (2.3) |
| Operating cash flow | 27.1 | 16.3 |
| Finance costs | (2.8) | (1.8) |
| Taxation | (3.0) | (4.3) |
| Free cash flow | 21.3 | 10.2 |

¹ Non-cash items comprise depreciation (£3.0m), amortisation (£0.7m), loss on disposal (£0.2m) and share based payments (£0.6m)

Underlying EBITDA of £24.5m was 24% higher than last year. £5.9m was released from working capital as the Group finished the year strongly. Capital expenditure at £3.3m was £1.0m higher than last year with increased investment in the D&M division, in particular new production lines in Noratel and Myrra, plus a full year's capital expenditure for businesses acquired last year. Tax payments were £1.3m lower than last year due to the use of tax losses brought forward, together with tax receipts from prior years following the conclusion of certain tax audits; further tax repayments are not expected next year.

Operating cash flow of £27.1m was £10.8m higher than last year (up 66%) and represented 136% of underlying operating profit, comparing very favourably with our target of 85%. Free cash flow (after finance costs and taxation) was £21.3m, which was £11.1m higher than last year (up 109%) and 163% of underlying profit after tax, again comparing very favourably with our target of 90%.

Banking facilities

During July 2016, the Group increased its syndicated banking facility from £90m to £120m and extended the remaining term of the facility by two years out to five years ending in July 2021. In addition, the Group has a £30m accordion facility which it can use to extend the total facility up to £150m. The syndicated facility is available both for acquisitions and for working capital purposes.

With net debt at 31 March 2017 of £30.0m, the Group's gearing ratio (being net debt divided by underlying EBITDA, annualised for acquisitions) was 1.2 times (2015/16: 1.7 times), better than our target range of 1.5 to 2.0 times.

While the working capital performance was particularly strong at the year end, the average net debt balance since the acquisition of Variohm in January 2017, was £36m.

Balance sheet

Net assets of £123.8m at 31 March 2017 were £21.9m higher than at the end of the last financial year (31 March 2016: £101.9m). The increase primarily relates to the equity placing in January 2017 together with translation gains on currency net assets due to the weakness in Sterling since last year, offset by the payment of dividends. The movement in net assets is summarised as follows:

| £m | FY 2016/17 |
|--|---------------|
| Net assets at 31 March 2016 | 101.9 |
| Net profit after tax | 3.5 |
| Equity placing (net of issue costs) | 13.6 |
| Dividend paid | (5.2) |
| Currency net assets – translation impact | 11.4 |
| Loss on defined benefit scheme (inc tax) | (1.7) |
| Share based payments (inc tax) | 0.3 |
| Net assets at 31 March 2017 | 123.8 |

The Group's IAS19 pension liability, associated with its legacy defined benefit pension scheme, increased during the year by £1.1m to £6.0m at 31 March 2017. At the half year, the liability had risen to £8.2m following a sharp fall in gilt and corporate bond rates, particularly following the UK's European Referendum. However, a subsequent increase in gilt and corporate bond rates in the second half reduced the liability to the level reported.

Together with an associated deferred tax liability of £0.4m (31 March 2016: £0.7m), the Group's overall pension liability increased from £5.6m at 31 March 2016 to £6.4m at 31 March 2017. An annual cash payment of £1.6m was made this year. Payments are growing by 3% each year in accordance with the plan agreed with the pension Trustee in 2009, until 2022. The next triennial valuation will be at 31 March 2018.

Risks and uncertainties

The principal risks faced by the Group are detailed on pages 30 to 32. These risks include but are not limited to: the economic environment, particularly within Europe; the impact arising from the UK's decision to leave the European Union; the performance of acquired companies; loss of major customers or suppliers; technological change; major business disruption; cyber security; liquidity and debt covenants; exposure to adverse foreign currency movements; obligations in respect of a legacy defined benefit pension scheme; and loss of key personnel.

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

Simon Gibbins

Group Finance Director
6 June 2017

Risk management

Risk management framework

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

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

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

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

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

Viability statement

In accordance with the revised UK Corporate Governance Code, the Directors have assessed the prospects of the Group over a period significantly longer than 12 months from the approval of the financial statements. The Board has concluded that the most relevant time period for this review should be the three-year period ending 31 March 2020 which coincides with the rolling annual long range plan.

The long range plan, which includes the budget for the year ending 31 March 2018, is built up by each operating company, applying assumed growth rates and it considers the Group's cash flows, cash and financial covenant headroom under existing borrowing facilities, and other key financial ratios over the period. The plan is subject to sensitivity analysis, which involves flexing a number of the underlying main assumptions, both individually and in conjunction, together with mitigating actions that the Directors would consider undertaking.

During July 2016, the Group increased its syndicated banking facility from £90m to £120m and extended the remaining term of the facility by two years out to five years ending in July 2021. In addition, the Group has a £30m accordion facility which it can use to extend the total facility up to £150m. The syndicated facility is available both for acquisitions and for working capital purposes.

The Strategic Report on pages 2 to 36 sets out the key details of the Group's financial performance, capital management, business environment and principal risks and uncertainties. The financial risk management section of the consolidated financial statements, starting on page 114 sets out the principal financial risks the Group is exposed to, including foreign exchange, interest rate, credit and liquidity risk, together with the Group's policies for monitoring, managing and mitigating its exposures to these risks.

Based on this assessment, the Board believes that, taking into account the Group's current position, having regard to the available committed borrowing facilities available to the Company, and subject to the principal risks and uncertainties faced by the business as documented on pages 30 to 32 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.

Risk management framework



Board

- Overall responsibility for corporate strategy and risk management
- Defines the Group's appetite for risk

Audit Committee

- Reviews effectiveness of Group's risk management framework and internal controls
- Ensures compliance with relevant laws
- Oversees effectiveness of Group's Risk Management function

Group Executive Committee

- Management of the Group and delivery of the strategy
- Monitoring of the key risks
- Regular reviews of the Risk Management framework

Group Risk Management

- Responsible for the integration of the Risk Management framework
- Monitors compliance with the Group's internal controls and policies
- Conducts or commissions Internal Audit

Operating Companies

- Identify internal and external risks
- Responsible for the implementation of risk mitigation actions and compliance with internal controls and policies
- Responsible for compliance with relevant laws

Principal risks and uncertainties

| Risks and uncertainties | Mitigating action |
|---|---|
| <p>Economic environment</p> <p>A key external risk affecting the Group remains the challenge of macroeconomic and market conditions, especially in Europe. These conditions, which are underpinned by slow economic growth, could adversely affect the Group in a number of ways, including:</p> <ul style="list-style-type: none"> — Any slowdown in order intake and increased competition, due to the lack of end-user demand could ultimately affect the Group's profitability through a reduction in sales and/or lower margins; — Equity and debt raising conditions may become more challenging which could impact on the Group's ability to raise funds for value-adding acquisitions, a core part of the Group's stated strategy. | <p>Economic environment</p> <ul style="list-style-type: none"> — Transition into a differentiated specialist supplier should help reduce exposure to major shocks in the economic environment; — Diversification into different markets, locations and product offerings; — Careful monitoring of performance against targets and incentive plans for staff; — Identifying and completing value-adding and earnings enhancing acquisitions; — Increasing our committed credit facility from £90m to £120m and extending its term to July 2021, thereby increasing the Group's medium-term committed headroom; — Robust policy for hedging transactional exposures to reduce margin exposure. |
| <p>Brexit</p> <p>It is unclear, what effect, if any, the exit of the UK from the EU will have on the Group's business.</p> | <p>Brexit</p> <ul style="list-style-type: none"> — The Group closely monitors the impact on it, on the macroeconomic environment, and on regulatory and tax frameworks; — Focus on foreign exchange volatility and hedging operations to mitigate FX risks; — Flexible production facilities enable movement of production to other countries if so required. |
| <p>Business acquisitions</p> <p>Value-adding acquisitions are a core part of the Group's growth strategy. These acquisitions may underperform, key employees may leave and expected synergies and cross-selling opportunities may not be realised.</p> | <p>Business acquisitions</p> <ul style="list-style-type: none"> — Detailed due diligence on target businesses; — Seek appropriate warranties and indemnities from vendors; — Use of earn-out structures, where possible, to retain and incentivise key management; — Continuous monitoring of the acquired business against budgeted performance and review meetings with management. |
| <p>Loss of major customers</p> <p>A core part of the Group's organic growth strategy is winning new key customers and maintaining existing key accounts:</p> <ul style="list-style-type: none"> — Major customers are continually reviewing suppliers and in some circumstances reducing the number of suppliers. | <p>Loss of major customers</p> <ul style="list-style-type: none"> — Culture of high quality customer service and long-term development of customer relationships. — Reducing Group dependency on any single customer, with the largest customer less than 4% of Group revenues; — Careful monitoring of key accounts by senior management; — Robust customer quality management systems. |

| Risks and uncertainties | Mitigating action |
|---|---|
| <p>Loss of major suppliers</p> <p>The Custom Distribution division is dependent on its key suppliers which it represents in a number of markets. Loss of key suppliers may adversely impact relationships with key customers and reduce sales.</p> | <p>Loss of major suppliers</p> <ul style="list-style-type: none"> — Reducing Group dependency on any single supplier, with the largest supplier less than 4% of Group revenues; — Exiting low value supplier relationships; — Careful monitoring of key accounts by senior management; — Maintaining long-term supplier relationships; — Strong customer relationships which support and enhance relationships with suppliers. |
| <p>Technological change</p> <p>The inability to develop technology to meet technological changes resulting in lost sales.</p> | <p>Technological change</p> <ul style="list-style-type: none"> — Diversified business, in both Manufacturing and Distribution; — Custom Distribution division is highly diversified into a number of differentiated technology units; — Focus on established technologies with low capital requirements. |
| <p>Major business disruption</p> <p>The Group has a number of manufacturing facilities, warehouses, other operational premises and systems in the UK, Europe, Asia, North America and South Africa. Major damage to any of these facilities could adversely affect the business.</p> | <p>Major business disruption</p> <ul style="list-style-type: none"> — Disaster recovery and business continuity plans; — Multiple manufacturing sites and warehousing enabling the movement of some production and warehousing from one facility to another; — Insurance cover. |
| <p>Cyber security</p> <p>Attacks from computer viruses and/or hackers could result in business disruption, financial loss and access to confidential data. The recent attacks have reinforced the need to be diligent.</p> | <p>Cyber security</p> <ul style="list-style-type: none"> — Central IT security guidance policy; — Robust anti-virus and anti-spam software and specialised target threat protection services; — Solid back-up policies in place; — Secure private networking. |
| <p>Liquidity and debt covenants</p> <p>The Group's ability to operate depends on access to short and medium-term funding. From time to time, such funding requires refinancing, the success of which depends on the financial condition of the Group and the risk appetite of the lending market.</p> <p>The Group's £120m revolving credit facility is subject to compliance with certain financial debt covenants. There is a risk that the covenants may be breached if the profitability of the Group substantially deteriorates and/or its net debt increases materially.</p> | <p>Liquidity and debt covenants</p> <ul style="list-style-type: none"> — Central treasury function to oversee the Group's cash resources and financing requirements; — Ongoing review of headroom against committed facilities and financial covenants; — Working capital controls and monitoring of key working capital metrics; — Issuance of equity to fund the cost of certain acquisitions; — Increasing the facility from £90m to £120m during the year and extended term to July 2021. |

Principal risks and uncertainties continued

| Risks and uncertainties | Mitigating action |
|---|---|
| <p>Foreign currency</p> <p>The Group's main foreign exchange exposures relate to the translation of results and net assets denominated in foreign currencies into sterling (translational exposure), and the occurrence of transactions in currencies other than the operational currency of the transacting company (transactional exposure).</p> | <p>Foreign currency</p> <ul style="list-style-type: none"> — Use of forward currency contracts to hedge transactional exposure for committed and forecast sales and purchases in foreign currency; — Currency borrowings as a natural hedge against same currency assets; — Regular review of foreign currency exposures by the central treasury function; — Reporting of results at constant exchange rates. |
| <p>Retirement benefit obligations</p> <p>The funding position of the Group's legacy post-retirement defined benefit scheme (the Sedgemoor Scheme – see note 32 to the Group financial statements) may be adversely affected by poor investment performance, changes in interest and inflation rates, improved mortality rates or changes in the regulatory environment. Such changes could increase the charge to the income statement and/or the level of cash contributions required to be made to the scheme.</p> | <p>Retirement benefit obligations</p> <ul style="list-style-type: none"> — The Sedgemoor Scheme was closed to new members in 2000 and, shortly thereafter, future service benefits ceased to accrue to existing members; — Deficit recovery plans are agreed with the Trustee of the Scheme based on actuarial advice and the results of Scheme valuations; — Regular monitoring of the assets and liabilities of the fund by the Company and the Trustee; — Investment strategy reviews are carried out at least every three years. |
| <p>People</p> <p>The performance of the Group depends on its ability to continue to attract, motivate and retain staff.</p> <p>The electronics industry is very competitive and the Group's employees may be targeted by other companies for recruitment.</p> | <p>People</p> <ul style="list-style-type: none"> — Staff development, training programmes and succession planning; — Appropriate remuneration and rewards for personal and business success; — Regular remuneration benchmarking; — Use of earn-out structures, where possible, to retain and incentivise key management from acquired companies. |

Corporate social responsibility

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

Employees

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

Culture and values

Management at all levels is committed to giving consideration to corporate social responsibility in its actions, endeavours to show due respect for human rights and works to high standards of integrity and ethical propriety. As an international organisation, Acal takes account of cultural differences between the various territories in which it operates.

Acal's values are essential to how it operates and to the long-term success and growth of the Group.

Diversity

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

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

| | 2017 | | 2016 | |
|--------------------------------|-------------|---------------|------|--------|
| | Male | Female | Male | Female |
| Total gender split | 55% | 45% | 53% | 47% |
| Senior managers and executives | 73% | 27% | 75% | 25% |
| Directors | 71% | 29% | 71% | 29% |

Development and training

Employees are encouraged to develop their knowledge and skills and to progress their careers to the mutual benefit of themselves and the Group companies they work for. It is the responsibility of management to ensure that they comply with all local laws and regulations, including those relating to the employment of underage staff.

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

Recruitment and retention

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


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

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

Corporate social responsibility continued

Health and safety

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


 Read more at www.acal.co.uk

Business ethics


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

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

The Group's statement of intent on business relationships can be found on its website (www.acal.co.uk).

 Read more at www.acal.co.uk

The Group operates a "whistle-blowing" policy whereby employees can report in confidence any suspected wrongdoing. This policy can be found on its website (www.acal.co.uk).

 Read more at www.acal.co.uk

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

Anti-bribery


Acal is committed to applying the highest standards of integrity, honesty and fairness in its business activities everywhere. A zero-tolerance approach is taken towards bribery and corruption in all its forms by, or of, its employees or any persons or companies acting on its behalf. It is Acal'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 world-wide procedures to enforce and monitor effective anti-bribery procedures in accordance with the UK Bribery Act 2010.

Community

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

The Group has been a Foundation Champion of the Community Foundation for Surrey since 2015. As a Foundation Champion, the Group assists the Foundation in meeting some of the support costs it incurs in sourcing, vetting and following up on the 200-300 grants that it makes to local causes across Surrey each year. Further information on the Group's charitable giving can be found on its website (www.acal.co.uk).

 Read more at www.acal.co.uk

Environment

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

Greenhouse gas emissions

Greenhouse gas (GHG) emissions per £m of sales decreased 13% compared with the prior year as a result of finding more efficient ways to produce and supply our goods. Investments led to lower usage of electricity, despite the increased revenues. Acal's most significant emissions arise from the use of electricity (75% of the total emissions (2015: 78%)), which comprises all of the Scope 2 emissions. 68% (2015: 76%) of the Scope 1 emissions arise from transport fuel, the remainder arising mainly from the use of gas and oil for heating.

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

GHG emissions for the period from 1 January 2016 to 31 December 2016 (tonnes of CO₂ equivalent):

| | YE 31/12/16 | YE 31/12/15 ¹ |
|---|--------------|--------------------------|
| Total Scope 1 emissions ² | 1.931 | 1.709 |
| Total Scope 2 emissions | 5.886 | 5.959 |
| – Location-based | | |
| Total Scope 2 emissions | 6.732 | |
| – Market-based | | |
| Total gross scope 1 and 2 emissions | 7.817 | 7.669 |
| – Location-based | | |
| <i>Intensity measurement</i> | | |
| <i>(tonnes CO₂e per £m sales):</i> | | |
| Location-based | 23,3 | 26,6 |

¹ Market-based Scope 2 emissions not available.

² Excludes refrigerants, air conditioning and heat pumps.

Regens Wagner Foundation

MTC Micro Tech Components GmbH supports the employment of mentally and physically challenged adults through the use of the production facility at the Regens Wagner Foundation, (the "Foundation"). The Foundation is a charity established in 1885, which aims to improve the lives of disabled people by providing work opportunities in a supportive environment as well as care, therapy and accommodation.

The partnership between MTC and the Foundation began in 2007 and, initially, individuals were employed to assemble some of MTC's products in Germany. In 2009, an MTC wrapping machine was installed in the facility, along with a dedicated production line for fabric over foam gaskets. Each month, approximately 10,000m of fabric over foam gaskets are produced.

Up to ten mentally and physically challenged adults are involved in the handling of MTC orders via the Foundation. The close partnership not only provides employment to individuals who may otherwise struggle to find employment in this respect but also an improved customer offering as the factory is used to produce customer-specific parts.

Apprenticeships

Apprentices Nathan and Jordan are a great example of the apprenticeship programme. The first qualification offered to apprentices is the two-year BTEC in Mechanical Engineering. Both apprentices achieved this qualification and began studying for an HNC, a two-year qualification with a one-year top up level to HND level.

Not only were Nathan and Jordan offered lots of practical opportunities, they both spent time in the accounts, returns and sales and purchasing departments. This allowed them to get a feel for the business as a whole.

"The experience could not have been better. The amount of opportunities I have had personally to work with others of such great experience and also knowledge has been incredible. I continue to learn every day and find new ways of solving problems which increases my all round knowledge of the engineering sector."

Nathan

Nathan and Jordan were also able to work at a sister company, exposing them to a different work environment and helping them with their education as apprentices.

"It was a great experience. It served as a multi-purpose visit, giving me valuable knowledge in the manufacturing side of products and allowing me to complete many units of my apprenticeship just from the vast variation in what each company does."

Jordan

Methodology

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

The reporting period is 1 January 2016 to 31 December 2016.

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

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

Acal has reported on all emission sources for which it deems itself responsible. Emissions of the recently acquired company Variohm Holdings Limited are not included, as the acquisition completed in January 2017. Long leased vehicles and properties under operational control have been included in Scope 1 and 2 emissions.

The Strategic Report, as set out on pages 2 to 36, has been approved by the Board.

On behalf of the Board

Nick Jefferies

Group Chief Executive
6 June 2017

Simon Gibbins

Group Finance Director

The Board

Our experienced board focuses on strategic development, operational implementation, financial control and risk management

Malcolm Diamond MBE

Position: Non-Executive Chairman since 1 April 2017; Non-Executive Director since November 2015; Chairman of the Nomination Committee and member of the Remuneration Committee.¹

Independent: Yes

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

Skills and 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.

Nick Jefferies

Position: Group Chief Executive since January 2009; Chairman of the Group Executive Committee and a member of the Nomination Committee.

Other Appointments: None

Skills and experience: With 30 years' experience, Nick brings extensive knowledge of the electronics industry. Formerly General Manager for electronics globally at Electrocomponents plc, he started his career as an electronics design engineer for Racal Defence (now part of Thales plc), before joining Toshiba and then Hitachi's European electronic component businesses.

Simon Gibbins

Position: Group Finance Director since July 2010 and a member of the Group Executive Committee.

Other Appointments: None

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

Richard Brooman

Position: Senior Non-Executive Director since December 2014; Non-Executive Director since January 2013; Chairman of the Audit Committee and member of the Remuneration and Nomination Committees.

Independent: Yes

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

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

Tracey Graham

Position: Non-Executive Director since November 2015; member of the Audit and Remuneration Committees.²

Independent: Yes

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

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

Henrietta Marsh

Position: Non-Executive Director since May 2013; Chairman of the Remuneration Committee and member of the Audit and Nomination Committees.

Independent: Yes

Other Appointments: Non-Executive Director and Chairman of the Remuneration Committee at Electric Word plc. Member nominated trustee of the 3i plc Pension Fund.

Skills and experience: Henrietta has 30 years' experience in the financial services industry. She was the founder Chairman of the AIM VCT Managers Group and is a member of the London Stock Exchange's AIM Advisory Group. Henrietta was previously responsible for AIM investment at Living Bridge EP LLP and was a Director of 3i plc, where she worked as a fund manager. Among previous appointments, she was Non-Executive Director and Chairman of the Remuneration Committee at Alternative Networks plc and Dods Group plc.

Joanna Harkus Madge

Position: Group Company Secretary since 1 April 2017 and a member of the Group Executive Committee.

Other Appointments: None

Skills and experience: Joanna joined Acal as Group Company Secretary Designate in January 2017 and became Group Company Secretary on 1 April 2017. A qualified Chartered Secretary, she previously held that position at Arle Capital Partners Limited (formerly part of Candover Investments plc).

¹ Malcolm Diamond resigned as a member of the Audit Committee on 31 January 2017. He was appointed as Chairman of the Nomination Committee and as a member of the Remuneration Committee with effect from 1 April 2017.

² Tracey Graham was appointed as a member of the Audit Committee on 31 January 2017.

The Group Executive Committee

Nick Jefferies
Group Chief Executive

For biography see page 38.

Simon Gibbins
Group Finance Director

For biography see page 38.

Joanna Harkus Madge
Group Company Secretary

For biography see page 39.

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.

Paul Neville
Group Commercial Director

Paul joined Acal in March 2009 and is responsible for running the Design & Manufacturing division. Formerly responsible for Acal's M&A programme, Paul led the acquisition of 13 businesses, 10 of which are now within the D&M division. He has many years' experience in both financial and operational senior management positions for listed public companies.

Martin Pangels
Group Commercial Director

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

Paul Webster
Group Product Management and Cross-Selling Director

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

Directors' report

The Directors present their Annual Report with the audited financial statements for the year ended 31 March 2017.

Principal activities of the Group

Acal designs, manufactures and supplies customer-specific electronic products to over 25,000 companies around the world, supplying customers in the transportation, medical, renewable energy and industrial sectors. Acal's market proposition is unique. Working with selected technologies, the Group helps customers solve technical challenges and innovate by creating application-specific product designs. Acal has two divisions: Custom Distribution and Design & Manufacturing. The majority of its sales come from products and solutions, which are either created uniquely for a customer or sourced exclusively. Technologies include Communications & Sensors, Electromechanical & Cabling, Imaging & Photonics, Microsystems, and Power & Magnetics. The Business Model is explained in further detail on pages 6 and 7 of the Strategic Report. The Group's businesses comprise Acal BFi, Contour, Flux, Foss, Hectronic, MTC, Myrra, Noratel, Plitron, RSG, Stortech, Variohm and Vertec. Acal has operating companies and manufacturing facilities in a number of markets, including the UK, Germany, France, the Nordic region, Benelux, Italy, Poland and Slovakia, as well as in Asia (China, India, Sri Lanka, South Korea and Thailand), and the US, Canada and South Africa.

Financial results and dividends


Information contained in the Strategic Report includes the Operating Review, the Finance Review and the Viability Statement.

The results of the Group for the year to 31 March 2017 are set out in detail in the consolidated income statement on page 82. The key strategic and performance indicators of the business are set out in the Strategic Report on pages 14 to 16.

The Directors recommend a final dividend of 6.05p per share (2016: 5.72p) payable on 28 July 2017 to shareholders registered at the close of business on 16 June 2017. The final dividend, together with the interim dividend of 2.45p per share (2016: 2.33p), makes a total dividend for the year of 8.50p per ordinary share (2016: 8.05p). The total dividends on ordinary shares have a cash cost of £6.0m (2016: £5.7m).

Directors

The Directors of the Company are set out in the Board Report on Corporate Governance on pages 44 to 47, which is also publicly available on the Company's website (www.acal.co.uk).

 Read more at www.acal.co.uk

Directors' remuneration, service contracts and Directors' interests are disclosed in the Directors' Remuneration Report on pages 53 to 70.

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

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

Corporate social responsibility

The Group recognises the importance of its responsibilities in relation to the environment, to social and community issues and to business ethics, as well as to its employees. Further information, including information on greenhouse gas emissions, is included in the Corporate Social Responsibility statement on pages 33 and 36.

Additional information for shareholders

The following provides the additional information required for shareholders, as a result of the implementation of the Takeover Directive into UK Law.

At 31 March 2017, the Company's issued share capital consisted of 70,680,974 ordinary shares of 5p each. On a show of hands at a general meeting of the Company, every holder of ordinary shares present in person is entitled to vote and, on a poll, every member present in person or by proxy and entitled to vote has one vote for every ordinary share held. There are no restrictions on the transfer of ordinary shares in the Company, other than those which may be imposed by law or regulation from time to time.

The Company's Articles of Association may be amended by a special resolution at a general meeting of the shareholders. Directors are appointed by ordinary resolution at a general meeting of the shareholders. The Board can appoint a Director but anyone so appointed must be elected by an ordinary resolution at the next general meeting. Any Director who has held office for more than three years since their last appointment must offer themselves for re-election at the next Annual General Meeting.

The Directors have the power to manage the Company's business, subject to the provisions of the Company's Articles of Association, law and applicable regulations. The Directors also have the power to issue and buy-back shares in the Company pursuant to the terms and limitations of resolutions passed by shareholders at each Annual General Meeting of the Company.

Directors' report continued

Details of the Group's borrowing facilities are provided in the Finance Review section of the Strategic Report on page 27. These agreements contain a change of control provision, which may result in the facility being withdrawn or amended upon a change of control of the Group. The Group is party to a number of commercial agreements which, in line with normal practice in the industry, may be affected by a change of control following a takeover bid.

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

Directors' interests in the share capital of the Company are shown in the table on page 60. Substantial shareholder interests, of which the Company has been notified, are shown below.

Placing

6,418,308 new ordinary shares were issued on 20 January 2017 at a price of 220p per ordinary share, raising gross proceeds of £14.1m (the "Placing"). The net proceeds of the Placing were used to repay the acquisition funding of Variohm, to fund any future contingent payment and for working capital and general corporate purposes.

Issue of shares under share option and long-term incentive schemes

50,098 new ordinary shares were issued during the year under the Group's long-term incentive schemes.

Substantial shareholdings

As at 31 March 2017, the Company had been notified of the following major shareholdings equal to, or in excess of, 3% of the issued share capital:

| | Holdings of ordinary shares (5p) | % holding |
|--|---|----------------------|
| Aberdeen Group | 8,815,408 | 12.5 |
| Hargreave Hale Investment Management (UK) | 8,115,007 | 11.5 |
| Unicorn Asset Management (UK) | 5,256,435 | 7.4 |
| Legal & General Investment Management Ltd (UK) | 4,729,511 | 6.7 |
| BlackRock Inc | 3,242,721 | 4.6 |
| AXA SA | 2,936,499 | 4.2 |
| Chelverton Asset Management | 2,816,585 | 4.0 |
| Franklin Resources | 2,639,779 | 3.7 |

As at 6 June 2017, the Company has been notified of the following changes to the major shareholdings shown above:

| | Holdings of ordinary shares (5p) | % holding |
|---|---|----------------------|
| Hargreave Hale Investment Management (UK) | 8,550,252 | 12.1% |
| Chelverton Asset Management | 3,643,614 | 5.16% |

Acquisition of company's own shares

At the end of the financial year, the Directors had authority to purchase through the market up to 6,424,733 of the Company's ordinary shares at prices ranging between the nominal value and an amount equal to the higher of: (a) 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased; and (b) that stipulated by Article 5(i) of the Buy-back and Stabilisation Regulations 2003.

The authority expires at the earlier of the conclusion of the 2017 Annual General Meeting or on 25 October 2017. The Directors will seek to renew this authority at the next Annual General Meeting.

No shares were purchased under this authority during the year.

Financial risk management

The Group's policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit and liquidity risk are disclosed in note 26 to the Group financial statements on pages 114 and 115.

Going concern

The Group's business activities, together with factors which may adversely impact its future development, performance and position, and its viability statement are included in the Strategic Report on pages 2 to 36. 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 24 to 27.

The Group has significant financial resources, well established contracts with a number of suppliers and a broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its principal risks and uncertainties that are disclosed on pages 30 to 32 of the Strategic Report.

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

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

Auditor

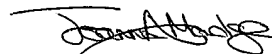
A resolution will be proposed at the forthcoming Annual General Meeting for the reappointment of Ernst & Young LLP as auditor of the Company. As noted on page 48, the Company is undergoing an audit tender.

Disclosure of information to auditor

The Directors, who were members of the Board at the time of approving this Report, are set out on pages 38 to 39. Having made enquiries of fellow Directors and of the Company's auditor, each Director confirms that:

- i) to the best of their knowledge and belief, there is no information (i.e. information needed by the auditor in connection with preparing the audit report) of which the auditor is unaware; and
- ii) each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the Board



Joanna Harkus Madge

Group Company Secretary

6 June 2017


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

Registered number: 02008246

Board report on corporate governance

The Acal Group is committed to effective corporate governance and continues to operate appropriate procedures and applies the principles of the UK Corporate Governance Code (the "Code"), published by the Financial Reporting Council in September 2014. The Board has considered each of the main headings included within the Code and has concluded that Acal complied with the provisions of the Code throughout the year to 31 March 2017.

As disclosed in the Directors' Report on page 41, this Report is publicly available on the Company's website (www.acal.co.uk).

 Read more at www.acal.co.uk

Governance framework

The Board sets a framework of controls which are used to mitigate the adverse impact of material risks, including a formal schedule of matters reserved for its decision. Certain strategic decision-making powers and authorities of the Company are reserved as matters for the Board. These include:

- determination of the Group's overall strategy and management;
- recommending or declaring dividends;
- the approval of financial statements; business plans; financing and treasury matters;
- major capital expenditure and commitments;
- maintaining sound internal controls and risk management systems;
- review of the Group's overall corporate governance; and
- any litigation of a material nature.

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

Leadership

Chairman and Group Chief Executive

The Company has both a Chairman and a Group Chief Executive. There is a clear division of responsibilities, which has been agreed by the Board, and details of their respective roles are available from the Company on request. The Chairman is 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. The Group Chief Executive is responsible for the day-to-day management of the Group's businesses and reporting their progress to the Board. Major decisions have to be made by the Board as a whole, and no one individual has unfettered power of discretion.

Board composition

Acal 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 Richard Moon as Non-Executive Chairman; Richard Brooman, Malcolm Diamond, Tracey Graham and Henrietta Marsh as Non-Executive Directors; Nick Jefferies as Group Chief Executive; and Simon Gibbins as Group Finance Director.

Richard Moon stepped down as a Non-Executive Chairman with effect from 31 March 2017. Malcolm Diamond, following a formal, rigorous and transparent procedure, was appointed as Non-Executive Chairman with effect from 1 April 2017. Malcolm joined the Board as a Non-Executive Director in November 2015.

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

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

Activities of the Board

At each meeting of the Board there are standing items, which include:

- Review and approval of the minutes of previous meetings;
- Status update on any matters outstanding from previous meetings;
- Updates from the Board Committees on activities since the last Board meeting;
- Report from the Group Chief Executive;
- Report from the Group Finance Director;
- Investors matters;
- Pension matters;
- Health and safety and environmental matters; and
- Risk management.

The Board also considers special agenda items, including the preliminary results; dividend planning; budgets; annual objectives for the Group; assessment of internal controls; AGM planning; and Board effectiveness and evaluation.

Meetings of the Board

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

| Board Attendance | Committees | | | | Overall Attendance % |
|------------------------------|------------|-------|--------------|------------|----------------------|
| | Board | Audit | Remuneration | Nomination | |
| Richard Brooman | 8/8 | 3/3 | 3/3 | 5/5 | 100 |
| Malcolm Diamond ¹ | 7/8 | 2/3 | – | – | 82 |
| Simon Gibbins | 8/8 | – | – | – | 100 |
| Tracey Graham | 8/8 | – | 3/3 | – | 100 |
| Nicholas Jefferies | 8/8 | – | – | 5/5 | 100 |
| Henrietta Marsh | 8/8 | 3/3 | 3/3 | 5/5 | 100 |
| Richard Moon | 8/8 | – | 3/3 | 5/5 | 100 |

¹ Malcolm Diamond was unable to attend the Board and Audit Committee meeting on 23 November 2016.

Group Executive Committee

The Group Executive Committee comprises: Nick Jefferies, who is the Chairman, together with Simon Gibbins, Joanna Harkus Madge, who is also the Secretary, Jeremy Morcom, Paul Neville, Martin Pangels and Paul Webster. For their biographies see page 40. Gary Shillinglaw was a member of the Committee during the year and retired with effect from 31 March 2017. Joanna Harkus Madge was appointed as a member and Secretary of the Committee on 1 April 2017. Jeremy Morcom was appointed as a member of the Committee on 13 March 2017.

During the year to 31 March 2017, there were 11 meetings of the Committee. Other senior managers attend the Committee meetings, by invitation, for specific topics.

The Committee is responsible for the Group's day-to-day operations, for delivering results and for driving growth for shareholders. The powers delegated to the Committee are contained in its written terms of reference, which are available on request and are on the Company's website (www.acal.co.uk).

➔ Read more at www.acal.co.uk

Effectiveness Independence

As noted above, the Board currently comprises two Executive Directors and, including the Chairman, four Non-Executive Directors. Each Director has a role, and no individual or small group of individuals determines the Board's decision-making.

No Non-Executive Director who served during the year:

- has held an executive position within the Company or the Group;
- has, or has had, within the recent past, a material business relationship with the Company, either directly or indirectly;
- receives remuneration, other than a Director's fee, participates in the Company's share incentive schemes or is a member of the Company's pension scheme;

- has close family ties with any of the Company's advisers, Directors or senior employees;
- holds cross-directorships or has significant links with other Directors through involvement in other companies or bodies;
- represents a significant shareholder; or
- has served on the Board for more than nine years from the date of their appointment to the Board.

In the Board's opinion, the Non-Executive Chairman and the Non-Executive Directors of the Company are considered to be independent.

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

The Chairman meets with the Non-Executive Directors, without Executive Directors present, as and when required but at least once each year. The Non-Executive Directors meet, as necessary, without the Chairman present and, as stated below, the Senior Non-Executive Director leads the process of annually appraising the Chairman's performance, in consultation with the other Non-Executive Directors, while taking into account the views of the Executive Directors.

Time allocation

On the appointment of Malcolm Diamond as Chairman, an assessment was made of the time commitment expected for him to carry out the role and note was taken of his other significant commitments. He is Non-Executive Chairman of Trifast plc and Flowtech Fluidpower PLC. The Nomination Committee has concluded that these Chairmanships do not preclude him from fulfilling his obligations as Chairman of Acal plc.

Board report on corporate governance continued


Induction of new Directors

While appointments to the Board are the responsibility of the full Board, the Nomination Committee has a duty to ensure that, when making recommendations to the Board on suitable candidates, it takes into account the Board's existing balance of skills and experience and has due regard for diversity. The process for making Board appointments is fully described in the Nomination Committee report set out on page 51 and 52 of this Annual Report and Accounts.

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

The Nomination Committee is chaired by Malcolm Diamond. Richard Brooman, Henrietta Marsh and Nick Jefferies are the other members of the Committee. Richard Moon resigned as Chairman of the Committee on 31 March 2017.

The Nomination Committee met formally five times during the year. The terms of reference for the Nomination Committee are available on request and are on the Company's website (www.acal.co.uk).

 Read more at www.acal.co.uk

Information and professional development

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

Board evaluation

During the year, the Board undertook a formal and rigorous annual evaluation of its own performance, together with that of its Committees and individual Directors, including the Chairman. Each Director is asked to appraise each of these areas on the basis of a detailed questionnaire. The Chairman co-ordinates discussions with individual Directors on their performance and the Senior Non-Executive Director co-ordinates discussion with the Chairman on his performance. The results of the process are then summarised for presentation to, and discussion by, the Board and any actions to be taken are identified. As a result of the 2017 evaluation, individual Directors will continue to undertake personal development in order to maintain an updated level of skills and knowledge in areas such as corporate governance and financial reporting.

Re-election

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

At the next Annual General Meeting of the Company, a resolution will be proposed for the re-election of Simon Gibbins. Having taken into account the formal evaluation of his performance, the Board believes that Simon Gibbins has made an effective contribution to the Board, demonstrates commitment to his role and is recommended for re-election.

Conflicts of interest

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

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

Liability insurance

Each Director is covered by appropriate Directors' and Officers' liability insurance, at the Company's expense.

Accountability

Financial reporting

The Directors have acknowledged in the Directors' Responsibilities Statement on page 71 their responsibility for preparing the financial statements of the Company and the Group. The auditor has included in the audit report a statement of responsibilities.

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

Remuneration

The level and make-up of Directors' remuneration

The level and make-up of the Directors' remuneration is set out in the Directors' Remuneration Report on page 53 to 70. As this shows, a proportion of an Executive Director's overall remuneration is designed to promote the long-term success of the Company by being performance-related through annual bonus and long-term share incentive schemes.

Procedure on Board remuneration


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

Relations with shareholders

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

Throughout the year, meetings are held with institutional shareholders, as well as stockbroking analysts. These meetings include discussions on governance and strategy matters. It is a responsibility of the Chairman to ensure that shareholder views are communicated to the Board as a whole. Frequent communication occurs between the Company, via the Executive Directors, and shareholders and analysts, particularly following results announcements and trading updates. Investor relations information, as well as presentations and news releases, are made available on the Company's website (www.acal.co.uk). Members of

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

 Read more at www.acal.co.uk

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

Annual General Meeting

The level of proxy voting, together with the number of votes cast for and against each resolution and abstentions, will be made available at the AGM after voting on a show of hands has been completed and will be published on the Company's website (www.acal.co.uk). A separate resolution will be presented on each substantially separate issue. The proxy form relating to the AGM includes an option for votes to be withheld. Notice of the Meeting will be sent to shareholders at least 20 working days before the Meeting.

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

Approval

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


Joanna Harkus Mädge

Group Company Secretary
6 June 2017

Audit Committee report

“The Committee is responsible for reviewing the scope and results of the audit, the accounting policies and systems of internal control of the Group, as well as the effectiveness and cost-efficiency of the audit.”

Richard Brooman

Chairman of the Audit Committee

Dear Shareholder,

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

The Committee and external auditor

The Committee comprises: me, Richard Brooman, as Chairman, together with Tracey Graham and Henrietta Marsh. Tracey Graham was appointed as a member of the Committee on 31 January 2017. Malcolm Diamond served as a member of the Committee during the year and resigned on 31 January 2017 following the announcement of his appointment as Non-Executive Chairman. The Group Chief Executive and the Group Finance Director are present, although no Executive Director has a right of attendance. The Chairman is also invited to the meetings of the Committee. The Board is satisfied that the members of the Committee have recent and relevant financial experience. The Directors' summary biographies can be found on pages 38 and 39 of this Annual Report and Accounts.

The Committee is responsible for reviewing the scope and results of the audit, the accounting policies and systems of internal control of the Group, as well as the effectiveness and cost-efficiency of the audit. Whilst the Board has overall responsibility for risk management, the Committee monitors its effectiveness and reviews in detail the risk register. In addition, it considers and monitors the independence and objectivity of the Group's external auditor, as well as the extent of any non-audit services provided by the auditor. The interim statement, the preliminary announcement of results and the annual financial statements are considered by the Committee prior to their approval by the Board. As Chairman of the Committee, I maintain direct communication with the external auditor, independently of the management of the Company.

The Committee met three times during the year and its principal activities during the period included reviews of:

- the interim and full year results;
- the key business risks, processes and internal control systems of the Group;
- the scope and results of the external audit;

- the continued independence and objectivity of the external auditor, including an understanding of the external auditor's own standards and procedures for maintaining their independence and reviewing the level of non-audit services provided by the auditor, in order to ensure that these were not significant enough to prejudice their independence and objectivity as the auditor;
- the performance of the external auditor;
- the plan for tendering the external audit for next year as required under EU regulations being ten years since the previous tender;
- the arrangements whereby staff may raise, in confidence, any concern they may have about possible improprieties.

The Committee considers the appointment or reappointment of the external auditor, including the timing of rotation of the incumbent audit partner, on an annual basis. Ernst & Young LLP has served as the Company's auditor since 2005 with the last audit tender taking place in 2008. The current lead audit partner has been in that role for the last two years.

EU regulations for Public Interest Entities (“PIEs”) require that from June 2016, all PIEs must tender their audit every ten years. Our next financial year, being the year ending 31 March 2018, will be ten years since our last audit tender. Accordingly, we are in the process of tendering the audit in order that any change of external auditor will be in place in time for the interim review for our half year ending 30 September 2017.

To cover the period until the tender process is completed, the Committee has recommended that the Board presents a resolution to shareholders at the 2017 Annual General Meeting for the reappointment of Ernst & Young LLP.

Part of at least one Committee meeting per year is held with only the Non-Executive Directors and representatives from the external auditor present, thereby providing an opportunity for any concerns to be raised without executive management present.

As Chairman of the Committee, I report to the Board on any significant matters arising from the activities of the Committee.

Financial reporting and significant judgments

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 judgments. Support from the external auditor is sought when undertaking these assessments.

The main issues assessed in the year under review are set out below:

Impairment of goodwill

A consideration of the carrying value of goodwill and the assumptions underlying the impairment review. The judgments 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.

Accounting for acquisitions

A review of the acquisition accounting for material acquisitions during the year, including the appropriateness of the assumptions used in assessing the fair value of assets and liabilities acquired.

Valuation of the legacy defined benefit pension scheme

A review of the appropriateness of the assumptions used in the valuation of the legacy defined benefit pension scheme under IAS 19 – Employee Benefits.

The recognition and valuation of judgemental provisions

A determination of the appropriateness of the assumptions used in the recognition and valuation of judgemental provisions which relate mainly to onerous contracts, inventory, severance indemnities, acquisition earn-out arrangements, long-term bonus plans, restructuring and integration.

Presentation of exceptional items

A review of the appropriateness of items disclosed as exceptional in the supplementary income statement information and notes to the consolidated financial statements, in line with the Group's stated policy.

Revenue recognition

A review of the appropriateness of the accounting for revenue either side of the year-end.

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

Internal controls

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

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

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

Audit Committee report continued

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

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

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

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

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

Internal Audit

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

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

Terms of reference

The Committee has written terms of reference, which are available on request and are on the Company's website (www.acal.co.uk).

➔ Read more at www.acal.co.uk

Richard Brooman

Chairman of the Audit Committee
6 June 2017



Nomination Committee report

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

Malcolm Diamond MBE

Chairman of the Nomination Committee

Dear Shareholder,

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

Composition

The majority of the Committee members are independent Non-Executive Directors. During the year under review, the Committee was chaired by Richard Moon, with Richard Brooman, Henrietta Marsh and Nick Jefferies as Committee members. Richard Moon resigned as Chairman of the Committee with effect from 31 March 2017. I was appointed as Chairman of the Committee with effect from 1 April 2017.

Key duties

The Committee's key duties are:

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

Nomination Committee report continued

Appointment of Directors

The Committee's principal role is to make recommendations to the Board on suitable candidates to fill Board vacancies, as and when they arise. In managing this process, the Committee takes into account the Board's existing balance of skills, knowledge and experience and has due regard for diversity. A job specification is prepared and agreed by the Committee. Unless the appointment is as an Executive Director, for which a suitable candidate is available from within the Group, the Committee will consult appropriate executive search or other organisations with databases of candidates before a short-list of suitable candidates is produced for agreement by the Committee. Candidates meet all members of the Committee, which then makes recommendations to the Board. Adopted practice is for all members of the Board to meet with the relevant candidate before an appointment is finally made.

Diversity

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

Succession planning

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

In November 2015, the Board reviewed succession planning for (i) the Executive Directors, (ii) the members of the Group Executive Committee and (iii) other senior managers. The review covered 38 senior managers across the Group's businesses and addressed, in particular:

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

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

What the Committee did in the year under review

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

- reviewing the composition and structure of the Board and the Committees and, following the resignation of Richard Moon as Chairman of the Board, recommending the appointment, which was duly approved, of myself as Chairman;
- recommending to the Board the appointments, which were duly approved, of Tracey Graham as a member of the Audit Committee and myself as Chairman of the Nomination Committee and as a member of the Remuneration Committee; and
- recommending to the Board the reappointments, which were duly approved, of the Non-Executive Directors upon the conclusion of their specified terms of office; in each case, the Committee's recommendation was made after careful consideration of the individual's independence, performance and ability to continue to contribute to the Board in the light of the knowledge, skills, commitment and experience required.


Terms of reference

The Committee's terms of reference are available upon request and are on the Company's website (www.acal.co.uk).

➔ Read more at www.acal.co.uk

Malcolm Diamond MBE

Chairman of the Nomination Committee
6 June 2017



Directors' remuneration report

This remuneration report complies with current regulations, having been prepared in accordance with the Companies Act 2006; the recommendations of the UK Corporate Governance Code; the requirements of the UKLA Listing Rules; and the disclosure requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Annual statement

Information not subject to audit



"The Company's remuneration philosophy for Executive Directors and other senior executives is to motivate, retain and, when necessary, attract senior management of the right calibre."

Henrietta Marsh

Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, it is my pleasure to present the Directors' Remuneration Report (the "Report") for the year ended 31 March 2017.

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

This Report is split into four sections: this Annual Statement, a Remuneration at a Glance Summary, the Annual Report on Remuneration, and the Directors' Remuneration Policy, (the "Policy"). The Policy was approved by shareholders at the 2015 AGM, with minor changes made in 2016 to improve readability and its administration. At the 2016 AGM, 98.5% of the votes cast (excluding withheld votes) were in favour of the Annual Report on Remuneration. No changes have been made to the Policy for 2017 but the Policy is reproduced in full for both ease of reference and in order to provide context to the decisions taken by the Remuneration Committee (the "Committee") during the year. The Annual Report on Remuneration will be subject to an advisory shareholder vote at the forthcoming Annual General Meeting.

Business performance and the Executive Directors' remuneration outcomes for the year ended 31 March 2017

Financial performance during the year was good. It benefited from: a strong organic performance in the second half; currency effects, which are taken into account of in the budgeting process; and an acquisition, which was also reflected in the budget when it was completed. The weaker first half meant that the results were behind our expectations as at the start of the year and as a result the EBIT component of bonuses was at the lower end of the range. Excellent strategic progress was made with significant investment in efficiency, the acquisition of Variohm and expansion and development of the top team and as a result the bonus awards for non-financial objectives were at the higher end of the range. Cash performance was also very good and the bonus awards were at the higher end of the range.

In light of the performance described above, for the year ended 31 March 2017, the Committee has decided to award annual bonus payments of 43.5% and 32.9% of maximum to the Group Chief Executive and Group Finance Director, respectively. This compares with awards of 59.5% and 48.1% respectively for the year ended 31 March 2016. Further details are shown on pages 56 and 57 of this Report.

Directors' remuneration report continued

The nil-cost options awarded to Nick Jefferies and Simon Gibbins on 31 March 2014 under the Company's 2008 Renewed Long Term Incentive Plan had performance conditions relating to share price performance for the three years to 31 March 2017. Although the share price has subsequently recovered, it was 224.75p at the point of measurement, and consequently the options did not vest and have therefore lapsed.

Remuneration for the year ending 31 March 2018

The Committee has decided to increase each Executive Director's salary by 2%, contingent on achieving the Group EBIT budget for the year ending 31 March 2018.

The maximum bonus opportunity for Executive Directors will remain at prior year levels of 100% of salary, with 65% of the bonus dependent on EBIT, 15% on Simplified Working Capital ("SWC") and the remaining 20% on personal objectives. The EBIT and SWC ranges for the year under review have been set out on pages 56 and 57.

On 31 March 2017, the Committee made LTIP awards of 125% and 90% of salary to Nick Jefferies and Simon Gibbins, respectively (compared with 125% and 90%, respectively, in the previous year). Vesting of these awards is linked 50% to relative TSR and 50% to absolute TSR. Please see page 59 for further details.

As discussed in last year's Report, Executive Directors now receive a cash allowance, in lieu of pension. The cash allowances are equivalent to 15% of salary for Nick Jefferies and 6.5% for Simon Gibbins, less the employer's NI contribution to ensure that it is of neutral cost to the Company.

Dialogue with the Company's shareholders and future policy

The Committee takes account of the views of the Company's shareholders on remuneration and engages with them as appropriate. We welcome any feedback that shareholders wish to give. We intend to review the Policy over the next year, which we will consider together with advisory comments made by shareholders last year as well as recent market and corporate governance trends.

We look forward to your presence at the Annual General Meeting on 25 July 2017, where there will be an advisory vote on the Report.

Henrietta Marsh

Chairman of the Remuneration Committee
6 June 2017



Remuneration at a glance

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 2017 are also shown.

Corporate performance for the year

Underlying profit before tax

Underlying diluted earnings per share

Full year dividend per share

Share price (as at 31 March)

Remuneration outcomes for the Executive Directors for the year ended 31 March 2017

| | Nick Jefferies £000 | | Simon Gibbins £000 | |
|-------------------------------------|------------------------------------|-------|-----------------------------------|-------|
| Salary FY2017 | 429 | | 263 | |
| Bonus (£k and as % of salary) | 187 | 43.5% | 86 | 32.9% |
| Taxable benefits | 11 | | 11 | |
| Pension benefits/allowance | 57 | | 15 | |
| Value of LTIP vesting | – | | – | |
| Single figure of total remuneration | 684 | | 375 | |

Key features of Executive Directors' remuneration packages for the year ending 31 March 2018

Nick Jefferies

Salary of £429,250 p.a. with an additional £8,585 p.a. payable in June 2018, conditional upon the achievement of the Group EBIT budget for the year ending 31 March 2018; annual maximum bonus opportunity of 100% of salary (up to 60% of salary for target performance); LTIP award of 125% of salary vesting in full after three years (subject to satisfying performance conditions), but not exercisable until after five years, with dividend equivalents accruing from the vesting date until the exercise date; pension allowance of 15% of salary; car allowance and family medical insurance.

Simon Gibbins

Salary of £262,500 p.a. with an additional £5,250 p.a. payable in June 2018, conditional upon the achievement of the Group EBIT budget for the year ending 31 March 2018; annual maximum bonus opportunity of 100% of salary (up to 50% of salary for target performance); LTIP award of 90% of salary vesting in full after three years (subject to satisfying performance conditions), but not exercisable until after five years, with dividend equivalents accruing from the vesting date until the exercise date; pension allowance of 6.5% of salary; car allowance and family medical insurance.

Possible remuneration outcomes for the Executive Directors for the year ending 31 March 2018 are shown on page 68.

Directors' remuneration report continued

Annual report on remuneration

Introduction

The following section is required by legislation and explains how the Policy was implemented during the year ended 31 March 2017.

An advisory resolution to approve the Report will be put to shareholders at the forthcoming Annual General Meeting.

Information subject to audit

Single total figure of remuneration for Executive Directors

The table below sets out the single total figure of remuneration received by each Executive Director for the year ended 31 March 2017 and the prior year:

| | | Salary £000 | Benefits ¹ £000 | Bonus ² £000 | LTIP ³ £000 | Pension ⁴ £000 | Total £000 |
|----------------|-------------|----------------|-------------------------------|----------------------------|---------------------------|------------------------------|---------------|
| Nick Jefferies | FY17 | 429 | 11 | 187 | – | 57 | 684 |
| | FY16 | 425 | 11 | 253 | 568 | 64 | 1,321 |
| Simon Gibbins | FY17 | 263 | 11 | 86 | – | 15 | 375 |
| | FY16 | 250 | 11 | 120 | 263 | 18 | 662 |

¹ Taxable benefits comprise car allowance (£9,000 each) and family medical insurance. The benefits cost the Company £10,911 and £10,776 in total for Nick Jefferies and Simon Gibbins respectively.

² For performance in the year under review, a bonus of 43.5% and 32.9% of salary is payable to Nick Jefferies and Simon Gibbins, respectively. Further details can be found on page 56 and 57.

³ The performance conditions attached to the 2014 LTIP award granted to Nick Jefferies and Simon Gibbins on 31 March 2014 were not met and therefore the option did not vest on 31 March 2017. Further details can be found on page 57.

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

Single total figure of remuneration for Non-Executive Directors

| | Basic Fee | | Committee Chair Fees | | SID Fee | | Total | |
|------------------------------|----------------|---------|----------------------|-------|--------------|-------|----------------|---------|
| | FY17 | FY16 | FY17 | FY16 | FY17 | FY16 | FY17 | FY16 |
| | £ | £ | £ | £ | £ | £ | £ | £ |
| Richard Moon ¹ | 118,000 | 112,000 | – | – | – | – | 118,000 | 112,000 |
| Richard Brooman | 36,500 | 35,000 | 5,000 | 4,333 | 6,000 | 4,667 | 47,500 | 44,000 |
| Henrietta Marsh | 36,500 | 35,000 | 5,000 | 4,333 | – | – | 41,500 | 39,333 |
| Tracey Graham ² | 36,500 | 14,583 | – | – | – | – | 36,500 | 14,583 |
| Malcolm Diamond ² | 36,500 | 14,583 | – | – | – | – | 36,500 | 14,583 |

¹ Fees were paid to Synergie Global Limited, of which Richard Moon is Chairman and a shareholder. There is a basic fee, which was increased to £112,000 p.a. from 1 April 2016, following a benchmarking exercise, and a car allowance of £6,000 p.a.

² Appointed as a Director with effect from 1 November 2015.

Incentive outcomes for Executive Directors for the year ended 31 March 2017

Annual bonus in respect of performance for the year

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

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

Nick Jefferies

| | Weighting | 85% Budget | Budget | 115% Budget | Actual |
|---------------------------------|-----------|---------------|--------|----------------|--------------|
| Group EBIT (£m) | 65% | £19.3m | £22.7m | £26.0m | £20.0m |
| Vesting ¹ (% of max) | | 10% | 30% | 65% | 14.3% |
| SWC | 15% | 23.2% | 22.1% | 21.0% | 21.8% |
| Vesting ¹ (% of max) | | 0% | 10% | 15% | 11.4% |
| Individual objectives | 20% | | | | 17.8% |
| Overall | | | | | 43.5% |

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

Simon Gibbins

| | Weighting | 85% Budget | Budget | 115% Budget | Actual |
|---------------------------------|-----------|---------------|--------|----------------|--------------|
| Group EBIT (£m) | 65% | £19.3m | £22.7m | 26.0m | £20m |
| Vesting ¹ (% of max) | | 0% | 20% | 65% | 4.3% |
| SWC | 15% | 23.2% | 22.1% | 21.0% | 21.8% |
| Vesting ¹ (% of max) | | 0% | 10% | 15% | 11.4% |
| Individual objectives | 20% | | | | 17.2% |
| Overall | | | | | 32.9% |

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

Each Executive Director was given a number of individual non-financial objectives, tailored to their role and to business requirements in the year under review. The following provides an overview of key non-financial objectives achieved during the year for each Executive Director.

| Nick Jefferies | Simon Gibbins |
|--|--|
| <ul style="list-style-type: none"> — Increased proportion of Design & Manufacturing businesses through organic and acquisitive growth; — Delivered Acal BFi efficiency improvements; — Developed people capabilities by strengthening leadership skills within the Group; — Successful integration of recent acquisitions. | <ul style="list-style-type: none"> — Ensured adequacy of Group debt and equity funding to meet expansion plans; — Upgraded the quality of financial reporting, systems and controls in Design & Manufacturing companies; — Developed Group financial information and reporting including enhanced risk management data; — Further developed the Internal Audit function. |

The Committee decided to award Nick Jefferies 17.8% and Simon Gibbins 17.2% out of the available 20% for their achievement of these personal objectives. This means that, in total for the year under review, Nick Jefferies received a bonus of 43.5% of his salary and Simon Gibbins received a bonus of 32.9% of his salary.

2014 LTIP vesting

LTIP Awards were granted on 31 March 2014 to Nick Jefferies and Simon Gibbins with vesting dependent on relative TSR performance against a comparator group made up of constituents of the FTSE Small Cap Index (50%) and absolute TSR in excess of CPI (50%) from 28 March 2014 to 28 March 2017. The specific targets are as follows:

| | |
|---|--|
| Relative TSR ranking against the FTSE Small Cap (50% weighting) | |
| Relative TSR ranking against peers | % of award vesting |
| Upper quartile (or above) | 100% |
| Between median and upper quartile | Straight-line vesting between 25% and 100% |
| Below median performance | 0% |
| Absolute TSR performance (50% weighting) | |
| Absolute TSR performance | % of award vesting |
| Equal to or above CPI +20ppts | 100% |
| Between CPI + 10ppts and CPI +20ppts | Straight-line vesting between 25% and 100% |
| Below CPI +10ppts | 0% |

The TSR is measured by Orient Capital Limited and makes a standard TERP adjustment for the discounted rights issue in June 2014. Acal's TSR performance was +3.4% from 31 March 2014 to 31 March 2017. Acal's TSR rank was therefore at the 26th percentile against the FTSE Small Cap and 1ppt above CPI growth. This meant that the performance conditions were not met and the award did not vest.

Directors' remuneration report continued

Share awards made during the year

242,788 and 106,900 shares were granted on 31 March 2017 to Nick Jefferies and Simon Gibbins respectively. The following table contains details of these awards.

| Director | Face value as % of Salary | Face value | Number of shares | Threshold vesting (% of face value) | Maximum vesting (% of face value) | End of performance period |
|----------------|---------------------------|------------|------------------|-------------------------------------|-----------------------------------|---------------------------|
| Nick Jefferies | 125% | £536,561 | 242,788 | 25% | 100% | 31 March 2020 |
| Simon Gibbins | 90% | £236,249 | 106,900 | | | 31 March 2020 |

The number of shares for these awards was calculated using the closing share price as of 30 March 2017 of 221p.

Vesting of these awards is subject to the same performance TSR conditions as the 2014 LTIP awards. Performance will be measured over three years from date of grant (i.e. from 31 March 2017 to 31 March 2020). Vested shares will be subject to an additional two-year holding period.

Pension arrangements

The Company does not operate a defined benefit pension scheme. Pension contributions/cash allowances for the Executive Directors are set out in the policy table on page 64 of this Report.

Executive share option schemes ("the Option Schemes")

The performance criteria for the Option Schemes are set out on page 66. Movements in the Executive Directors' holdings of options under the Option Schemes during the year under review are shown below.

| | Number held at 31.03.17 | Movements during the year | | | | Number held at 31.03.16 ¹ | Gain on vesting date £000 ² | When exercisable |
|----------------|-------------------------|---------------------------|--------|-----------|--------|--------------------------------------|--|----------------------|
| | | Granted | Vested | Exercised | Lapsed | | | |
| Nick Jefferies | 18,819 | – | – | – | – | 18,819 | 7 | Sep 2013 to Sep 2020 |
| Simon Gibbins | – | – | – | – | – | – | n/a | n/a |

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

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

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

2008 long-term incentive plan and the 2008 renewed long-term incentive plan ("the LTIPs")

Movements in the Executive Directors' holdings of nil-cost options under the LTIPs during the year are shown below. The performance criteria for the LTIPs are set out in the policy table on page 65. The figures below include adjustments made to holdings during the year ended 31 March 2015 for the Company's rights issue in June 2014.

| | Number held at 31.03.17 | Movements during the year | | | | Number held at 31.03.16 | Vested but not exercised | Share value at 31.03.17 £ | When exercisable |
|----------------|-------------------------|---------------------------|--------|-----------|---------|-------------------------|--------------------------|---------------------------|----------------------|
| | | Granted | Vested | Exercised | Lapsed | | | | |
| Nick Jefferies | | | | | | | | | |
| | 804,587(v) ¹ | – | – | – | – | 804,587 | 804,587 | 1,808,309 | Mar 2012 to Mar 2019 |
| | 340,105(v) ² | – | – | – | – | 340,105 | 340,105 | 764,386 | Mar 2013 to Mar 2020 |
| | 264,593(v) ³ | – | – | – | – | 264,593 | 264,593 | 594,673 | Mar 2015 to Mar 2022 |
| | 233,696(v) ⁴ | – | – | – | – | 233,696 | 233,696 | 525,232 | Mar 2016 to Mar 2023 |
| | – (l) ⁵ | – | – | – | 183,081 | 183,081 | – | – | – |
| | 245,192(nv) | – | – | – | – | 245,192 | – | 551,069 | Mar 2020 to Mar 2025 |
| | 223,567(nv) | – | – | – | – | 223,567 | – | 502,467 | Mar 2021 to Mar 2026 |
| | 242,788(nv) | 242,788 | – | – | – | – | – | 545,666 | Mar 2022 to Mar 2027 |
| Simon Gibbins | | | | | | | | | |
| | 192,431(v) ⁶ | – | – | – | – | 192,431 | 192,431 | 432,489 | Jul 2013 to Jul 2020 |
| | 122,638(v) ⁷ | – | – | – | – | 122,638 | 122,638 | 275,629 | Mar 2015 to Mar 2022 |
| | 108,318(v) ⁸ | – | – | – | – | 108,318 | 108,318 | 243,445 | Mar 2016 to Mar 2023 |
| | – (l) ⁹ | – | – | – | 84,683 | 84,683 | – | – | – |
| | 120,192(nv) | – | – | – | – | 120,192 | – | 270,132 | Mar 2020 to Mar 2025 |
| | 98,437(nv) | – | – | – | – | 98,437 | – | 221,237 | Mar 2021 to Mar 2026 |
| | 106,900 (nv) | 106,900 | – | – | – | – | – | 240,258 | Mar 2022 to Mar 2027 |

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

¹ Nick Jefferies holds a nil-cost option over 804,587 shares (as adjusted) in the Company, which vested and became exercisable on 31 March 2012.

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

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

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

⁵ The 2014 award performance conditions were not met and the award did not vest. Further details can be found on page 57.

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

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

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

⁹ The 2014 award performance conditions were not met and the award did not vest. Further details can be found on page 57.

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

Directors' remuneration report continued

Directors' interests

The interests of the Directors, who held office as at 31 March 2017 (including family interests) in ordinary shares (fully paid, 5p) of the Company, were as follows:

| | Shares held at 31 March 2017 | | | | | Value of current shareholding (% of salary) |
|-----------------|------------------------------|---|---|---|---|---|
| | Unencumbered shares | Nil cost options vested but not exercised | Shares/nil cost options vested but subject to additional holding period | Shares/nil cost options subject to performance conditions | Unencumbered shares held at 31 March 2016 | |
| Nick Jefferies | 78,341 | 1,642,981 | – | 711,547 | 73,796 | 901% |
| Simon Gibbins | 33,275 | 423,387 | – | 325,529 | 28,730 | 391% |
| Richard Moon | 76,690 | – | – | – | 67,600 | |
| Richard Brooman | 10,272 | – | – | – | 8,000 | |
| Henrietta Marsh | 12,272 | – | – | – | 10,000 | |
| Tracey Graham | 6,818 | – | – | – | – | |
| Malcolm Diamond | 14,545 | – | – | – | 10,000 | |

The interests of the Directors in the shares of the Company at 6 June 2017 are unchanged from those at 31 March 2017. The values of current shareholdings for Nick Jefferies and Simon Gibbins have been valued using the share price as of 31 March 2017 of 224.75p. 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.

Dilution

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

As of 31 March 2017, around 4.1m shares (5.8% in the last ten years) have been, or may be, issued to settle awards made in the last 10 years in connection with all share schemes and executive share schemes, respectively. The Company is committed to remaining within The Investment Association's 10% dilution limit.

Payments for loss of office

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

Payments to past Executive Directors

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

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

Pay for performance

The graph on the next page shows Total Shareholder Return (TSR), in terms of change in value (with dividends deemed to be reinvested gross on the ex-dividend date) of an initial investment of £100 on 1 April 2009 between that date and 31 March 2017 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 remuneration and actual variable pay outcomes over the same period.

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

Total Shareholder Return: Acal vs. FTSE Small Cap Index

Group Chief Executive remuneration

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

¹ Nick Jefferies joined the Company in January 2009.

Percentage increase in the remuneration of the Group Chief Executive

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

| | 2017 £000 | 2016 £000 | % change |
|-----------------------|--------------|--------------|----------|
| Group Chief Executive | | | |
| Salary | 429.5 | 425.0 | +1% |
| Benefits | 11.0 | 11.0 | 0% |
| Bonus | 186.8 | 253.0 | -34% |
| Single figure total | 684.2 | 1,321 | -52% |
| Average per employee | | | |
| Salary | 16.3 | 16.1 | +1% |
| Benefits | 0.6 | 0.7 | -14% |
| Bonus | 1.0 | 0.9 | +11% |

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 acquisitions and disposals made in both financial years.

| | 2017 £m | 2016 £m | % change |
|---|-------------|------------|----------|
| Remuneration paid to or receivable by all employees | 72.1 | 72.5 | -0.5% |
| Distributions to shareholders by way of dividends (net of share issues) | 5.2 | 4.9 | 6.1% |

Directors' remuneration report continued

Statement of implementation of the Remuneration Policy in the financial year ending 31 March 2018

The Company intends to implement the Policy in the financial year ended 31 March 2018 in the way described in the "Remuneration at a Glance" section and policy table for the Executive Directors on pages 55, 63 to 65.

The Remuneration Committee has approved salary increases for the Executive Directors for the year ending 31 March 2018 of 2%, contingent on achieving the Group EBIT budget for the year ending 31 March 2018. These salary increases are in line with expected UK salary inflation and lower than the average increase across the Group, given Acal's operations in developing countries.

With effect from 1 April 2017, the fees of the Non-Executive Directors, including the additional fees payable, will be as follows:

| | |
|-----------------|---------------|
| Malcolm Diamond | £118,000 p.a. |
| Richard Brooman | £52,000 p.a. |
| Tracey Graham | £41,000 p.a. |
| Henrietta Marsh | £46,000 p.a. |

The basic fee for a Non-Executive Director is £41,000 p.a. In addition, the Committee Chair fee is £5,000 p.a. and the Senior Non-Executive Director fee is £6,000 p.a.

Composition and role of the Remuneration Committee

The Committee operated throughout the year under review, in accordance with the provisions of the UK Corporate Governance Code. As of 31 March 2017, the Remuneration Committee comprised four members:

Henrietta Marsh (Chairman)
Richard Brooman
Tracey Graham
Richard Moon

Richard Moon resigned from the Committee with effect from 31 March 2017 and Malcolm Diamond was appointed to the Committee on 1 April 2017.

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 full terms of reference for the Committee are available on the Company's website or on request from the Group Company Secretary.

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

During the year under review, the Committee held three formal meetings. The key activities in the 2017 financial year were as follows:

- reviewed and approved the Executive Directors' performance against financial and non-financial objectives for the year ended 31 March 2017 and the 2014 LTIP targets and determined the bonuses payable;
- determined salary increases for Executive Directors and the GEC for the year ending 31 March 2018; and
- reviewed and approved the annual bonus structure for Executive Directors and the GEC for the year ending 31 March 2018.

Advisers

During the year, the Committee received independent advice on executive remuneration from Kepler, a brand of Mercer. Kepler is a signatory to the Remuneration Consultants' Code of Conduct. Other than in relation to advice on remuneration, neither Kepler (nor its parent, Mercer) provide other services to the Company. The fees paid to Kepler for advice during the year ended 31 March 2017 were £2,700.

Shareholder voting

| 2016 AGM resolutions | For ¹ | | Against | | Withheld ² |
|---|------------------|--------|---------|------|-----------------------|
| Approval of the Annual Report on Remuneration | 49,514,399 | 98.51% | 719,983 | 1.5% | 1,827,912 |

¹ Includes votes at the Chairman's discretion.

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

Directors' remuneration policy

Information not subject to audit

Introduction

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013, shareholders approved our Policy through a binding vote at the AGM on 29 July 2015. The Remuneration Policy has been implemented from that date. Following the minor changes made to the Policy last year to improve readability and its administration (or to the benefit of shareholders), this year the Policy has simply been updated with data for the year ending 31 March 2018, where relevant. The Committee regularly reviews the Executive Directors' remuneration packages to ensure that they reflect the Company's own particular circumstances and are aligned with the Company's key strategic objectives, as set out in the Strategic Report on pages 2 to 36 of this Annual Report and Accounts, and with the long-term interests of its shareholders.

When reviewing the Policy, the Committee:

- considers market practice in terms of the structure and levels of executive remuneration;
- takes account of pay and employment conditions elsewhere in the Group;
- ensures that the 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 matters into account when adjudicating bonuses and LTIP outcomes; and
- enters into open dialogue and consults with key shareholders, when looking to make material changes to the Policy.

The Committee believes that the Policy, described more fully in the following Policy table, enables the Company to recruit high quality staff in new and higher technology areas and to retain its most able people.

| | Purpose and link to strategy | Operation | Opportunity | Performance metrics |
|--------------------|--------------------------------------|--|---|-----------------------------|
| Base salary | To attract and retain quality staff. | Salaries are reviewed annually and normally fixed for 12 months, effective 1 April. The outcome is influenced by: <ul style="list-style-type: none"> — role, experience and performance; — average change in broader workforce pay; and — total organisational salary budgets. Salaries are also benchmarked against companies of a comparable size and complexity which operate internationally, in similar sectors. | Any percentage increases will ordinarily be in line with those across the wider workforce. However, salary increases may be higher in exceptional circumstances, such as the need to retain a critical executive, or an increase in the scope of the executive's role (including promotion to a more senior role) and/or in the size of the Group. | Continued good performance. |

Directors' remuneration report continued

| | Purpose and link to strategy | Operation | Opportunity | Performance metrics |
|---------------------|---|--|---|--|
| Benefits | To provide competitive rewards for staff welfare. | Directors are entitled to healthcare, car allowance, life assurance and critical illness cover. | Insurance cover based on market rates. | Not applicable. |
| Pension | To facilitate long-term savings provision. | The Company operates a defined contribution pension scheme. Contributions are benchmarked periodically against companies of a comparable size and complexity which operate internationally, in similar sectors. Executive Directors may take a cash allowance in lieu of pension contributions. | Maximum Company contribution: Group Chief Executive 15.0% of salary; Group Finance Director 6.5% of salary. | Not applicable. |
| Annual bonus | <p>The principal long-term measure of shareholder interests is total shareholder return. The Committee considers that this will be enhanced through the setting and attainment of various short-term targets, which are within the control of the Executive Directors. These are incentivised through the bonus plan which rewards the achievement of annual financial and strategic business targets.</p> <p>The Company's policy is that a substantial proportion of an Executive Director's overall remuneration is performance-related.</p> | <p>Targets (financial and non-financial) are determined and reviewed by the Committee annually and are selected to be relevant for the year in question.</p> <p>Actual bonus payable is determined by the Committee after the financial year end, based on performance against these targets.</p> <p>Financial objectives are updated to reflect acquisitions, disposals and currency movements during the year.</p> <p>Clawback applies to both paid and unpaid bonus in the event of material misstatement of information or misconduct.</p> | <p>Award for achievement of budgeted financial and non-financial objectives:</p> <p>Group Chief Executive – 60% of salary;</p> <p>Group Finance Director – 50% of salary.</p> <p>Maximum opportunity of 100% of salary for significant over-achievement of budgeted financial objectives.</p> | <p>Performance metrics reflect strategic goals and milestones.</p> <p>For the year ending 31 March 2018 the metrics are:</p> <p>Group EBIT: up to 65% of salary for over-budget performance.</p> <p>Simplified Working Capital: up to 15% of salary for over-budget performance.</p> <p>Non-financial objectives: up to 20% of salary.</p> |

| | Purpose and link to strategy | Operation | Opportunity | Performance metrics |
|---------------------------------|--|--|---|--|
| Long Term Incentive Plan | To motivate executives to deliver shareholder value over the longer term. | <p>Awards of conditional shares over nil-cost options are typically granted annually, with vesting dependent on the achievement of performance conditions over the following three years. Vested awards are subject to a two-year holding period. Dividend equivalents will be paid on vested awards. Part of an LTIP award may be satisfied using an HMRC approved company share option scheme (CSOP). Other than this, the Company no longer makes awards of approved share options to Executive Directors except, potentially, in the case of new recruits (see recruitment policy).</p> <p>Clawback applies to both vested and unvested awards in the event of material misstatement of information or misconduct.</p> | Maximum opportunity: 150% of salary. | <p>Performance metrics reflect strategic goals and milestones. The exercise of the award is dependent upon the individual's continued employment for a five-year period from the date of grant and the satisfaction by the Company of certain performance conditions over the three-year vesting period.</p> <p>For the financial year ending 31 March 2018 the conditions are:</p> <ul style="list-style-type: none"> — 50% of the award is based on relative total shareholder return; — 50% of the award is based on absolute total shareholder return in excess of CPI; and — At threshold performance, up to 25% of the award vests. |
| Shareholding guidelines | To align Executive Directors' interests with those of shareholders through the build-up and retention of a meaningful personal shareholding. | <p>Executive Directors will have five years from appointment to accumulate the required shareholding requirement.</p> <p>Shares held which are no longer subject to performance conditions count towards the requirement.</p> <p>In the case of existing Executive Directors, the shareholding requirement has already been met.</p> | Executives will be required to hold shares with a value equivalent to 200% of salary. | Not applicable. |

Directors' remuneration report continued

Notes to Policy table

Annual bonus and share incentive schemes

The Committee will operate the annual bonus, share option schemes and LTIPs according to their respective rules (or relevant documents) and in accordance with the UKLA Listing Rules, where relevant. The Committee retains discretion, consistent with market practice, in a number of respects in the operation and administration of these plans.

In relation to the annual bonus plan, the Committee retains discretion to determine:

- the participants;
- the determination of the actual payment;
- the timing of payment;
- the treatment of leavers, based on the rules of the plan and individual circumstances;
- the treatment on a change of control;
- any changes to measures, weightings and targets from one bonus cycle to the next; and
- any adjustment to performance targets if certain events occur (e.g. acquisitions and disposals).

For the share option schemes and the LTIPs, the Committee has the discretion (and is not limited) to determine:

- the participants;
- the size of an award;
- the timing of grant;
- vesting levels;
- the treatment of leavers, based on the rules of the particular plan and individual circumstances;
- any discretion required when dealing with a change of control or restructuring of the Group;
- potential adjustments if certain events occur (e.g. rights issues, corporate restructuring events and special dividends); and
- the annual review of performance measures and weightings prior to the start of each new LTIP cycle, and the targets for any share option grants.

In relation to the Company's share option schemes and LTIPs, the Committee retains the ability to adjust the targets and/or set different measures if events occur (e.g. a material acquisition and/or the divestment of a Group business and/or rights issue) which cause it to determine: (a) that the conditions are no longer appropriate, and (b) that an amendment is required so that the conditions achieve their original purpose, albeit are not materially less difficult to satisfy. Where relevant, any use of the above will be explained in the Report and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Details of share awards granted to the current Executive Directors are disclosed on page 59 of this Annual Report and Accounts. Awards which have yet to vest remain eligible to vest, based on their original award terms.

Further detail on share incentive schemes

Approved and unapproved executive share option plans

The Group operates an approved executive share option scheme, known as the Acal plc 2010 Company Share Option Plan ("the CSOP"). On the grant of an option under the CSOP, the Committee may impose a performance target and any further condition on the exercise of an option, which the Committee determines to be appropriate.

The Group also operates an unapproved executive share option scheme, known as the Acal plc 2014 Unapproved Share Option Plan. The rules are similar to the rules of the CSOP mentioned above.

Long-term incentive plans (the “LTIPs”)

The Company operates two LTIPs, namely the 2008 Long-Term Incentive Plan (“the 2008 LTIP”), which is now closed to the granting of new awards, and the 2008 Renewed Long-Term Incentive Plan (“the 2008 Renewed LTIP”), under which the first awards were granted on 31 March 2014.

The LTIPs involve participants receiving awards of nil-cost options. In the opinion of the Committee, the LTIPs provide a strong link between management reward and the returns experienced by shareholders, while encouraging key executives to build and maintain a shareholding.

The rules of the two LTIPs are virtually identical and provide that, each year, the Executive Directors, and selected senior managers, are eligible to be granted nil-cost options over shares worth up to a maximum of 150% of base salary. Subject to this limitation, actual grant levels are determined by the Committee, based upon factors such as the individual's contribution to the Group's success.

Pursuant to the rules of the 2008 Renewed LTIP, approved by shareholders in July 2013, awards which vest must be held for a further two years before they become exercisable. For awards granted from 31 March 2014, vested awards will attract dividend equivalents, from the date of vesting up until the date of exercise. Consequently, when the awards have been exercised, additional Company shares will be transferred to the individual, equivalent to the dividends (interim and final) paid by the Company from the time when the awards vested to the date on which they are exercised. In calculating the number of additional shares to be awarded by way of dividend equivalents, the Company's closing share price on the business day immediately preceding the date of exercise will be used.

The performance conditions which apply to the 2008 Renewed LTIP will be kept under review by the Committee to ensure that they remain aligned with the Company's strategy. Therefore, they may be subject to change for future grants in order to reflect this strategy. Any change might require prior consultation with the Company's major shareholders.

Pension arrangements

The Company currently operates a defined contribution (money purchase) pension scheme. In accordance with best practice, no fluctuating payments made to the Executive Directors or to the other members of the Group Executive Committee are pensionable. With effect from 1 March 2013, the Company introduced a Salary Exchange arrangement for the payment of personal pension contributions. Under the arrangement, an employee agrees to give up an amount of salary equal to their personal pension contribution to the Acal Group Employee Pension Scheme (“the Scheme”). In exchange, the Company pays an amount directly into the Scheme on their behalf, additional to the employer's pension contribution already paid by the Company. At the time, this arrangement (which was approved by HMRC) was viewed to be both beneficial to the employee and the Company. However, 2015 Budget pension changes have meant that this arrangement is no longer beneficial for those earning above £210,000 p.a. wishing to make a contribution of over £10,000 into the Scheme. Therefore, the Company has agreed to provide greater flexibility by offering a cash allowance in lieu of pension contributions.

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 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.

Directors' remuneration report continued

Fees for Non-Executive Directors

Fees for the Non-Executive Directors are determined on behalf of the Board by the Non-Executive Directors' Remuneration Committee, while fees for the Chairman are determined by the Committee. When determining fees, due regard is given to fees paid to Non-Executive Directors in other similarly-sized UK quoted companies, the time commitment and the responsibilities of the roles. Non-Executive Directors cannot participate in any of the Company's share incentive schemes. As disclosed on page 62 of this Annual Report and Accounts, additional fees, over and above the base fee payable to the Non-Executive Directors, are payable for chairing the Audit and Remuneration Committees and for acting as Senior Non-Executive Director.

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

Retirement and re-election of Directors

In accordance with the Company's Articles of Association, each Director has to be elected by the shareholders at the AGM following their appointment as a Director, and to retire, and be subject to re-election, at the AGM of the Company at intervals of not more than three years.

Non-Executive Directors, who have served for more than nine years, are subject to annual re-election. Any recommendation to reappoint a Non-Executive Director is preceded by a review by the Nomination Committee. This review takes into account his/her performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required, plus his/her independent status. The need for progressive refreshment of the Board is also considered.

See the Corporate Governance section of this Annual Report and Accounts for further details on the retirement, election and re-election of Directors.

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 2018.

Group Chief Executive

Group Finance Director

¹ Minimum in the bar charts above is fixed remuneration only (i.e. salary, pension and benefits).

² Target assumes that 25% of the Long-Term Incentive Plan (LTIP) award granted in the year ended 31 March 2017 vests (125% of salary for the Group Chief Executive and 90% of salary for the Group Finance Director) and bonuses have been earned at the target levels (60% of salary for the Group Chief Executive and 50% of salary for the Group Finance Director) as stated in the policy table on pages 64 and 65.

³ Maximum assumes that the maximum LTIP award vests (125% and 90% of salary for the Group Chief Executive and Group Finance Director) and the maximum bonus (100% of salary) have been earned as stated in the policy table on pages 64 and 65.

Recruitment policy for Executive Directors

Principles

When appointing or recruiting an Executive Director, remuneration will be set with reference to relevant market data, internal relativities, and experience of the individual and the remuneration policy in place for other Executive Directors.

Details

The main components of remuneration are salary, bonus, long-term incentives, share options, pension (or a cash allowance in lieu of a pension contribution), benefits (which may include those relating to relocation such as: flights; immigration costs; relocation allowance; shipping and storage; temporary living accommodation; housing allowances; annual leave travel; international medical insurance cover; legal and tax services; school fees; school search; movement of pets; termination of car leases and costs of replacement goods) and compensation for loss of earnings from his/her previous employment which are forfeited in order to take up the role.

The approach for each component will be to set each in line with the remuneration policy for Executive Directors, except that 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.

Maximum

The maximum level of variable remuneration which may be granted will be 100% of salary under the bonus plan, 150% under the LTIP and the HMRC maximum under the approved share option schemes (these limits already apply to the existing bonus, LTIP plans and share option schemes). In addition, a new recruit may be awarded unapproved share options of up to 300% of salary. Pre-existing contractual agreements for internal candidates will be honoured on appointment to an Executive Director role.

Directors' contracts

Nick Jefferies has a service contract with a company within the Acal Group dated 26 November 2008 (as amended), incorporating notice periods of one year from the Company and one year from him. In January 2015, he committed to stay with Acal for at least the following three years. Simon Gibbins also has a service contract with a company within the Acal Group dated 10 June 2010, incorporating notice periods of one year from the Company and one year from him.

The following letters of appointment are in place in relation to the Chairman and to the Non-Executive Directors:

- a. with Malcolm Diamond for his services dated 28 November 2016 (as amended), which expires on 31 March 2018 and which may be terminated earlier;
- b. with Richard Brooman for his services dated 7 December 2012 (as amended), which expires on 31 December 2017 and which may be terminated earlier;
- c. with Henrietta Marsh for her services dated 22 April 2013 (as amended), which expires on 30 April 2018 and which may be terminated earlier; and
- d. with Tracey Graham for her services dated 23 October 2015, which expires on 31 October 2017 and which may be terminated earlier.

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

Directors' remuneration report continued

Policy on payment for loss of office

Policy on setting of notice periods

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 pre-determined 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 in the event of failure.

How termination payments are determined

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

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

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

If identified as a "good leaver" under the LTIPs and share option schemes' rules, (including those 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 vesting date or on such earlier date as the Committee may determine, to the extent that they have vested. If, in the judgment of the Committee, greater progress towards achievement of targets has been made as a result of the performance of the Executive Director, it may, at its absolute discretion, decide to vest up to 100% of the outstanding award. This is under exceptional circumstances only.

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

Consideration of employment conditions elsewhere in the Group

The Policy 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 62 of this Annual Report and Accounts, when setting the Policy the Committee takes account of pay and employment conditions elsewhere in the Group, but has not used any remuneration comparison measures between the Executive Directors and other employees.

Consideration of shareholder views

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

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each year. Under the provisions of this law, the Directors have prepared the consolidated financial statements in accordance with IFRS, as adopted by the European Union, and the Company financial statements in accordance with United Kingdom (UK) Accounting Standards and applicable law.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the consolidated financial statements have complied with IFRS as adopted by the European Union, subject to any material departures being disclosed and explained;
- state for the Company financial statements whether the applicable UK Accounting Standards have been followed, subject to any material departures being disclosed and explained; 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 confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and the Group and enable them to ensure that the consolidated financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Annual Report for the year ended 31 March 2017 is published in hard copy printed form and made available on the Group's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available from outside the UK, where comparable legislation may be different.

The Directors individually and together, as at the date of this Report, confirm to the best of their knowledge that:

- the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group;
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that the Group faces; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's and the Group's performance, business model and strategy.

Independent auditor's report

to the members of Acal plc

Our opinion on the financial statements

In our opinion:

- the Acal plc's Group financial statements and Parent Company financial statements (the "financial statement") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Acal plc's financial statements comprise:

| Group | Parent company |
|---|---|
| Consolidated income statement for the year ended 31 March 2017 | Company balance sheet as at 31 March 2017 |
| Consolidated statement of comprehensive income for the year ended 31 March 2017 | Company statement of changes in equity for the year ended 31 March 2017 |
| Consolidated statement of financial position as at 31 March 2017 | Related notes 1-11 |
| Consolidated statement of changes in equity for the year ended 31 March 2017 | |
| Consolidated statement of cash flows for the year ended 31 March 2017 | |
| Related notes 1 to 35 | |

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Overview of our audit approach

| | |
|--|--|
| Risks of material misstatements | <ul style="list-style-type: none">— Inappropriate revenue recognition— The risk of management override arising from:<ul style="list-style-type: none">— the recognition and valuation of judgemental provisions; and— the presentation of recurring items as exceptional |
| Audit scope | <ul style="list-style-type: none">— We performed an audit of the complete financial information of 10 components and audit procedures on specific balances and key audit risks items on a further 34 components.— The components where we performed full or specific audit procedures accounted for:<ul style="list-style-type: none">— 99% of normalised profit before tax (Profit before tax adjusted for non-recurring exceptional items) of profit-making entities;— 92% of normalised results before tax of loss making entities;— 100% of revenue; and— 98% of total assets. |
| Materiality | <ul style="list-style-type: none">— Overall Group materiality is £574k, which represents 5% of normalised profit before tax |

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below, which were designed in the context of the financial statements as a whole and consequently, we do not express an opinion on these individual areas.

| Risk | Our response to the risk | What we concluded to the Audit Committee |
|---|---|---|
| <p>Inappropriate revenue recognition</p> <p>The Group has reported revenues of £338.2m (2016: £287.7m).</p> <p>We determined that there might be a risk of material misstatement associated with revenue recognition as revenue is the most significant item in the consolidated income statement and impacts the majority of the key performance indicators, and key strategic indicators set-out in the Chief Executive Officer's operating review. Revenue substantially arises from the sale of goods, which was the focus of our audit procedures.</p> <p>The risk of inappropriate revenue recognition arises from the following:</p> <ul style="list-style-type: none"> — recognition of revenue in the wrong period; — revenue recognised is not in line with the Group policy and IFRS; and — manipulation of year-end revenue through management override. <p>Audit procedures on revenue at full, specific and specified procedures scope locations covered 100% of reported revenue.</p> <p>Refer to Audit Committee Report (page 49); Accounting policies (page 92); and Note 4 of the Consolidated financial statements (page 95)</p> | <p>We tested the correct application of the timing of revenue recognition through substantive testing and, where appropriate, we also tested internal controls supporting revenue recognition.</p> <p>Our procedures included the following:</p> <ul style="list-style-type: none"> — We reviewed revenue recognition treatments applied and determined whether these are consistent with the group accounting policies and IFRS. — We audited specific customer relationships to determine whether revenue has been recognised on a basis appropriate to the circumstances of the specific contract. — We tested sample of sales made near year-end, reviewed the terms of shipment and assessed whether the revenue was recognised in the appropriate period. — We selectively tested entries posted to revenue not originating from the sales ledger (incorporating manual adjustments) and credit notes issued subsequent to the year-end. — We also performed analytical review procedures to identify significant fluctuations and trends and obtained explanations for unusual variances. | <p>We have concluded that revenue recognised in the year is materially correct on the basis of the procedures performed both at group and by component audit teams.</p> |

Independent auditor's report continued

to the members of Acal plc

| Risk | Our response to the risk | What we concluded to the Audit Committee |
|--|---|--|
| <p>Management override arising from the recognition and valuation of judgemental provisions</p> <p>The Group has reported total provisions of £8.4m as at 31 March 2017 (2016: £6.5m).</p> <p>The Group's trading operations principally comprise of non-complex transactions, which involve limited judgement. We determined that certain provisions (as set-out below) contain a risk of material misstatement as this is the principal area of judgement in the Group's statement of financial position.</p> <p>We identified risk might be present in the following:</p> <ul style="list-style-type: none"> a. Judgemental sales related accruals; b. Transfer pricing provisions; and c. Other judgemental provisions such as warranty, restructuring, onerous contracts and dilapidation provisions. <p>We have covered 96% of the reported provisions with our audit procedures.</p> <p>Refer to Audit Committee Report (page 49); Accounting policies (page 91); and Note 25 of the Consolidated financial statements (page 113)</p> | <ul style="list-style-type: none"> — We reviewed unusual journal entries at the subsidiary and group levels with specific emphasis on the release of provisions. — In respect of sales related accruals (including warranties) we reviewed specific customer agreements to determine whether unrecorded performance obligations existed; — We audited the completeness of uncertain tax positions, and transfer pricing provisions with the assistance of our tax specialist. — We ensured restructuring accruals complied with the recognition criteria under IAS 37. — We reviewed judgements made in recording dilapidation provisions and compared these to the terms of underlying rental agreements. — We challenged management's assumptions supporting the provisions and corroborated the explanations to the evidence we obtained. Particularly, we reviewed the historical accuracy of provisions and examined the utilisation or release of previously recorded provisions. | <p>We concluded that the basis for recognising provisions, and the release of provisions were appropriate.</p> |

| Risk | Our response to the risk | What we concluded to the Audit Committee |
|--|---|---|
| <p>Management override arising from the presentation of recurring items as exceptional</p> | <ul style="list-style-type: none"> — We obtained a breakdown of exceptional items and reviewed the sufficiency of disclosure explaining the nature of the exceptional items, and challenges reported by the Chairman/CEO. — We ensured all items presented as exceptional are consistent with Group accounting policy. — We verified whether the supporting disclosure in the Annual Report is consistent with the costs being reported as exceptional in prior periods. | <p>We noted the Group launched and completed a restructuring and efficiency improvement programme across both segments in FY 2017 which resulted in material restructuring costs. Management recognised these costs as an exceptional item.</p> <p>In the 2017 Annual report, the Group changed its presentation of acquisition related costs which was historically included in exceptional items. Acquisition related costs are now excluded from exceptional items but presented separately in arriving at underlying profit before tax. We agree that this presentation better reflects a key aspect of Acal's ongoing strategy which is to continue to grow through business acquisitions.</p> <p>We concluded that those items presented as exceptional items are appropriate as they are significant to the understanding of the results of the Group.</p> |
| <p>£6.9m (FY 16: £0.2m) of costs incurred in the year are classified as exceptional.</p> | | |
| <p>The Group presented underlying performance measures on the face of its consolidated income statement. These measures include underlying operating profit, underlying profit before tax and underlying earnings per share. The IFRS profit was adjusted for exceptional items, acquisition costs, amortisation of acquired intangible assets and IAS 19 pension administrative charge. Management believes that these performance measures provide investor 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 apparent on an IFRS basis, given that certain strategic, non-recurring, infrequent or non-cash items are not indicative of the underlying operating performance of the Group.</p> | | |
| <p>We focused on this area because the presentation of such items is not defined by IFRSs and it therefore requires judgement by the management when identifying exceptional items. Consistency in identifying and disclosing items that management considers exceptional is also important to maintain comparability of the results year to year.</p> | | |
| <p>The audit of judgements made in classifying costs as exceptional was performed by the Group team.</p> | | |
| <p>Refer to Audit Committee Report (page 49); Accounting policies (page 91); and Note 6 of the Consolidated financial statements (page 97)</p> | | |

Independent auditor's report continued

to the members of Acal plc

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, these enable us to form an opinion on the consolidated financial statements. In allocating a scope to individual components we took into account size, the country risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal audit results and the perception of fraud in the relevant location.

The Group has a diverse complex structure, which includes 87 components spread across 22 locations. In line with the Group's operating model the individual components typically operate in a decentralised manner. In assessing the risk of material misstatement to the Group financial statements, and ensuring we have adequate quantitative coverage of significant accounts in the financial statements, we selected 44 components covering entities within the United Kingdom, Germany, France, Poland, Norway, Sweden, India, Sri Lanka, China, South Africa, Thailand, Italy, Spain, Belgium, Netherlands, Hong Kong, Finland, the United States of America, Denmark, Slovakia and Canada, which represent the principal business units within the Group.

Of the 44 components selected, we performed an audit of the complete financial information of 10 components ("full scope components"), which were selected based on their size or risk characteristics. For 24 components ("specific scope components"), we performed audit procedures on specific accounts that we determined had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile. For the remaining 10 components ("specified procedures components"), we have performed tailored audit procedures to address any significant risk or items involving judgement and estimates.

Of the remaining 43 components, none is individually more than 1% of the Group's normalised profit before tax. For these components, we performed other procedures, including analytical procedures, testing of entity level controls at Group level and review of the Group financial statement close process to respond to any potential risks of material misstatement to the Group financial statements.

The graphs and table below summarise the reporting components and the extent of audit procedures:

**Normalised profit
before tax for profit
making entities**

**Normalised pre-tax
results for loss making
entities**

Revenue

Assets

Changes to our scoping at component level arose due to differing contributions of components to the Group's results, these primarily related to acquisitions, which contributed to the Group's earnings. For FY 2017, we have re-scoped certain specific scope entities to specified procedures taking into consideration their size, nature of activities and associated risks.

Components not audited by EY global network firms were isolated to China, which comprises 15% (FY 16: 13%) of normalised profit before tax and 5% (FY 16: 6%) of group revenue. Additional supervisory and review procedures were performed by our local EY global network firm, who subsequently provided us as a Group team with a summary of their findings.

The audit scope of specific scope and specified procedures components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. We also instructed four locations, namely, China, India, Sri Lanka and South Africa, with higher exposure to fraud and corruption risk to perform specified procedures over certain aspects of cash payments, and with respect to certain types of transactions relating to hospitality, gifts, entertainment and charitable donations.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the nature of work that needs to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. Of the 10 full scope components, audit procedures were performed on four components directly by the Group team. For the 34 specific and specified procedures scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor or a suitably senior member of the Group team participates in the closing meetings of six full scope components. During the current year's audit cycle, visits were undertaken by the Group audit team to the component teams in France and Sweden. These visits involved discussing audit issues with the component teams, meeting with local management, attending audit closing meetings and reviewing key audit working papers on areas that carry a risk of material misstatement to the Group. For the other full scope locations in Germany and Norway, the primary audit engagement team attended the audit closing meetings with local management by phone. A full scope component in China was not audited by the EY global network firms. Additional supervisory and review of audit work was performed by the local EY global network firm.

We held a planning meeting, which all international teams were required to attend. We also held a closing briefing with audit teams in Poland, India, Sri Lanka and South Africa to discuss their audit findings, specifically focusing on areas of material misstatement and on procedures related to fraud and corruption. We also issued detailed reporting instructions to component teams setting out our expectation of procedures to be performed, including those on areas of potential material misstatement. The above, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Independent auditor's report continued

to the members of Acal plc

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £574k, which is 5% of normalised profit before tax which was calculated by adding back non-recurring costs related to restructuring and business acquisitions to the reported Group profit before tax. We believe that the normalised profit before tax provides a consistent year to year basis for determining materiality and is the most relevant performance measure to the stakeholders of the Group. Detailed audit procedures are performed on material non-recurring items.

During the course of our audit we reassessed initial materiality based on the actual reported performance of the Group in the year.

| | |
|----------------|--|
| Starting basis | Profit before tax |
| Adjustments | Adjusted for non-recurring items |
| Materiality | Total £11.5m (materiality basis) Materiality of £574k (5% of materiality basis) |

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement at planning was that performance materiality was 75% (FY 16: 75%) of materiality, calculated at £430k (FY 16: £393k).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £86k to £237k (2016: £75k to £280k).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report all uncorrected audit differences in excess of £29k (FY 16: £26k), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion and concluded the impact of unadjusted audit differences to be immaterial.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 71, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- based on the work undertaken in the course of the audit
 - the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
 - the Strategic Report and the Director's Report have been prepared in accordance with applicable legal requirements;

Independent auditor's report continued

to the members of Acal plc

Matters on which we are required to report by exception

| | | |
|--|---|----------------------------------|
| ISAs (UK and Ireland) reporting | <p>We are required to report to you if, in our opinion, financial and non-financial information in the annual report is:</p> <ul style="list-style-type: none"> — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or — otherwise misleading. <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the annual report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the audit committee that we consider should have been disclosed.</p> | We have no exceptions to report. |
| Companies Act 2006 reporting | <p>In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.</p> <p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> — adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or — the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or — certain disclosures of directors' remuneration specified by law are not made; or — we have not received all the information and explanations we require for our audit; or — a Corporate Governance Statement has not been prepared by the company. | We have no exceptions to report. |
| Listing Rules review requirements | <p>We are required to review:</p> <ul style="list-style-type: none"> — the directors' statement in relation to going concern, which is set-out on page 43; and the longer-term viability, which is set out on page 28; and — the 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. | We have no exceptions to report. |

Statement on the Directors' Assessment of the Principal Risks that Would Threaten the Solvency or Liquidity of the Entity

ISAs (UK and Ireland) reporting

We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:

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

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' 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 entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Ernst & Young LLP

Steven Dobson (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
6 June 2017

Notes:

¹ The maintenance and integrity of the Acal plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site; and

² Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

for the year ended 31 March 2017

| | notes | 2017 £m | 2016 £m |
|---|-------|----------------|------------|
| Revenue | 4 | 338.2 | 287.7 |
| Cost of sales | | (227.2) | (195.1) |
| Gross profit | | 111.0 | 92.6 |
| Selling and distribution costs | | (49.4) | (43.4) |
| Administrative expenses (including exceptional items) | | (53.9) | (37.8) |
| Operating profit | 7 | 7.7 | 11.4 |
| Finance revenue | 9 | 0.2 | 0.3 |
| Finance costs | 9 | (3.1) | (2.3) |
| Profit before tax | | 4.8 | 9.4 |
| Tax expense | 10 | (1.3) | (2.2) |
| Profit for the year | | 3.5 | 7.2 |
| Earnings per share | 13 | | |
| Basic | | 5.3p | 11.4p |
| Diluted | | 5.1p | 10.9p |

Supplementary income statement information

| Underlying Performance Measure | | 2017 £m | 2016 £m |
|--|----|--------------|------------|
| Operating profit | 7 | 7.7 | 11.4 |
| Add back: Exceptional items | 6 | 6.9 | 0.2 |
| Acquisition costs | 6 | 1.2 | 1.6 |
| Amortisation of acquired intangible assets | 17 | 3.9 | 2.8 |
| IAS 19 pension administrative charge | 32 | 0.3 | 0.3 |
| Underlying operating profit | | 20.0 | 16.3 |
| Profit before tax | | 4.8 | 9.4 |
| Add back: Exceptional items | 6 | 6.9 | 0.2 |
| Acquisition costs | 6 | 1.2 | 1.6 |
| Amortisation of acquired intangible assets | 17 | 3.9 | 2.8 |
| Total IAS 19 pension charge | 32 | 0.4 | 0.5 |
| Underlying profit before tax | | 17.2 | 14.5 |
| Underlying earnings per share | 13 | | |
| Basic | | 20.0p | 17.9p |
| Diluted | | 19.2p | 17.0p |

Consolidated statement of comprehensive income

for the year ended 31 March 2017

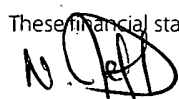
| | notes | 2017 £m | 2016 £m |
|--|-------|--------------|-------------|
| Profit for the year | | 3.5 | 7.2 |
| Other comprehensive income: | | | |
| <i>Items that will not be subsequently reclassified to profit or loss:</i> | | | |
| Actuarial (loss)/gain on defined benefit pension scheme | 32 | (2.0) | 0.7 |
| Deferred tax credit/(charge) relating to defined benefit pension scheme | 10 | 0.3 | (0.2) |
| | | (1.7) | 0.5 |
| <i>Items that may be subsequently reclassified to profit or loss:</i> | | | |
| Exchange differences on translation of foreign subsidiaries | | 11.4 | 3.4 |
| Effective portion of changes in fair value of cash flow hedges | | - | (0.7) |
| | | 11.4 | 2.7 |
| Other comprehensive profit for the year, net of tax | | 9.7 | 3.2 |
| Total comprehensive profit for the year, net of tax | | 13.2 | 10.4 |

Consolidated statement of financial position

for the year ended 31 March 2017

| | notes | 2017 £m | 2016 £m |
|--------------------------------|-------|----------------|------------|
| Non-current assets | | | |
| Property, plant and equipment | 14 | 16.0 | 14.7 |
| Intangible assets – goodwill | 15 | 72.6 | 63.6 |
| Intangible assets – other | 17 | 28.1 | 24.6 |
| Deferred tax assets | 10 | 5.5 | 5.5 |
| | | 122.2 | 108.4 |
| Current assets | | | |
| Inventories | 19 | 50.1 | 42.9 |
| Trade and other receivables | 20 | 77.3 | 65.5 |
| Cash and cash equivalents | 21 | 22.2 | 19.9 |
| | | 149.6 | 128.3 |
| Total assets | | 271.8 | 236.7 |
| Current liabilities | | | |
| Trade and other payables | 28 | (71.9) | (55.2) |
| Other financial liabilities | 22 | (1.3) | (0.8) |
| Current tax liabilities | | (2.6) | (2.7) |
| Provisions | 25 | (2.6) | (3.0) |
| | | (78.4) | (61.7) |
| Non-current liabilities | | | |
| Other financial liabilities | 22 | (50.9) | (57.2) |
| Pension liability | 32 | (6.4) | (5.6) |
| Provisions | 25 | (5.8) | (3.5) |
| Deferred tax liabilities | 10 | (6.5) | (6.8) |
| | | (69.6) | (73.1) |
| Total liabilities | | (148.0) | (134.8) |
| Net assets | | 123.8 | 101.9 |
| Equity | | | |
| Share capital | 29 | 3.5 | 3.2 |
| Share premium | | 108.9 | 95.6 |
| Merger reserve | | 3.0 | 3.0 |
| Currency translation reserve | | 7.0 | (4.4) |
| Retained earnings | | 1.4 | 4.5 |
| Total equity | | 123.8 | 101.9 |

These financial statements were approved by the Board of Directors on 6 June 2017 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 2017

| 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 2015 | 3.1 | 92.7 | 3.0 | (7.8) | 1.7 | 92.7 |
| Profit for the year | – | – | – | – | 7.2 | 7.2 |
| Other comprehensive loss | – | – | – | 3.4 | (0.2) | 3.2 |
| Total comprehensive loss | – | – | – | 3.4 | 7.0 | 10.4 |
| Shares issued (note 29) | 0.1 | 2.9 | – | – | – | 3.0 |
| Share-based payments including tax | – | – | – | – | 0.7 | 0.7 |
| Dividends (note 12) | – | – | – | – | (4.9) | (4.9) |
| At 31 March 2016 | 3.2 | 95.6 | 3.0 | (4.4) | 4.5 | 101.9 |
| Profit for the year | – | – | – | – | 3.5 | 3.5 |
| Other comprehensive income | – | – | – | 11.4 | (1.7) | 9.7 |
| Total comprehensive income | – | – | – | 11.4 | 1.8 | 13.2 |
| Shares issued (note 29) | 0.3 | 13.3 | – | – | – | 13.6 |
| Share-based payments including tax | – | – | – | – | 0.3 | 0.3 |
| Dividends (note 12) | – | – | – | – | (5.2) | (5.2) |
| At 31 March 2017 | 3.5 | 108.9 | 3.0 | 7.0 | 1.4 | 123.8 |

On 20 January 2017, the Company issued 6,418,308 new Ordinary shares to new and existing shareholders through an equity placing. The terms of the issue were fixed through a placing agreement, with an issue price of 220 pence per share. The net proceeds were £13.6m, being gross proceeds on issue of £14.1m less directly attributable expenses of £0.5m.

The difference between the nominal value of the shares issued and the gross proceeds has been credited to the share premium account. The directly attributable transaction costs of £0.5m related to the issue of shares have been debited to the share premium account.

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

Consolidated statement of cash flows

for the year ended 31 March 2017

| | notes | 2017 £m | 2016 £m |
|---|-------|---------------|------------|
| Net cash flow from operating activities | 24 | 14.5 | 8.2 |
| Investing activities | | | |
| Acquisition of shares in subsidiaries (net of cash/(debt) acquired) | 11 | (11.6) | (19.9) |
| Acquisition related contingent consideration | | (0.3) | – |
| Purchase of property, plant and equipment | | (2.8) | (1.6) |
| Purchase of intangible assets – software | | (0.6) | (0.7) |
| Proceeds from disposal of property, plant and equipment | | 0.1 | 0.1 |
| Interest received | 9 | 0.2 | 0.3 |
| Net cash used in investing activities | | (15.0) | (21.8) |
| Financing activities | | | |
| Net proceeds from the issue of shares | 29 | 13.6 | – |
| Proceeds from borrowings | 23 | – | 9.9 |
| Repayment of borrowings | 23 | (9.2) | – |
| Dividends paid | 12 | (5.2) | (4.9) |
| Net cash from financing activities | | (0.8) | 5.0 |
| Net decrease in cash and cash equivalents¹ | | (1.3) | (8.6) |
| Cash and cash equivalents at 1 April | | 19.2 | 26.6 |
| Effect of exchange rate fluctuations | | 3.1 | 1.2 |
| Cash and cash equivalents at 31 March | | 21.0 | 19.2 |
| Reconciliation to cash and cash equivalents in the consolidated statement of financial position | | | |
| Cash and cash equivalents shown above | | 21.0 | 19.2 |
| Add back: bank overdrafts | 22 | 1.2 | 0.7 |
| Cash and cash equivalents presented in current assets in the consolidated statement of financial position | 21 | 22.2 | 19.9 |

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

Notes to the Group financial statements

for the year ended 31 March 2017

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

The financial statements, which comprise the results of Acal plc ('the Company') and its subsidiaries (collectively referred to as 'the Group' for the year ended 31 March 2017) were authorised for issue by the Board of Directors on 6 June 2017. Acal plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares are traded on the London Stock Exchange.

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

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

2. Accounting policies

Basis of preparation

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

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

Basis of consolidation

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

Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries at 31 March 2017. 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 power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

Associates

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

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

Notes to the Group financial statements continued

for the year ended 31 March 2017

2. Accounting policies continued

Going concern

The Group's business activities, together with factors which may adversely impact its future development, performance and position, are set out in the Strategic Report on pages 2 to 36. 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 24 to 27.

The Group has significant financial resources, well established distribution contracts with a number of suppliers and a broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its principal risks and uncertainties as disclosed on pages 30 to 32 of the Strategic Report.

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

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

Underlying profits and earnings

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

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

Underlying operating profit

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

Acquisition costs are attributable costs in connection with business combinations and include contingent consideration where it is treated as an expense and movement in contingent consideration where it is treated as purchase price.

Underlying EBITDA

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

Underlying profit before tax

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

Underlying effective tax rate

"Underlying effective tax rate" is defined as the effective tax rate on underlying profit before tax.

Underlying earnings per share

"Underlying earnings per share" is calculated as underlying profit before tax reduced by the underlying effective tax rate, divided by the weighted average number of ordinary shares (for diluted earnings per share purposes) in issue during the period.

Operational cash flow

"Operational cash flow" is defined as Underlying EBITDA adjusted for the investment in, or release of, working capital and less the cash cost of capital expenditure.

Free cash flow

"Free cash flow" is defined as net cash flow before the payment/receipt of acquisition costs, exceptional items, payments to the legacy defined benefit pension scheme, dividend payments, net proceeds from equity fund raising, the cost of acquisitions and proceeds from business disposals.

2. Accounting policies continued

Return On Capital Employed ("ROCE")

"ROCE" is defined as underlying operating profit as a percentage of net assets (including goodwill) plus net debt.

Organic basis

Reference to 'organic' basis included in the Chairman's statement, Operating Review and Finance Review of the Strategic Report means at constant exchange rates ("CER"), including the equivalent pre-acquisition periods of Flux, Contour and Plitron which were acquired last year, and Variohm, which was acquired this year and excluding the sales of Acal BFi Spain which was closed in December 2016.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 'Financial instruments: Recognition and Measurement' either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements, are accounted for separately from the business combination in accordance with their nature and applicable IFRS. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition-date fair value can be measured reliably.

If the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in the consolidated income statement.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (or groups of cash-generating units) that are expected to benefit from the business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and shall not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed of operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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.

Notes to the Group financial statements continued

for the year ended 31 March 2017

2. Accounting policies continued

(b) Acquired intangible assets – business combinations

Intangible assets that are acquired as a result of a business combination include customer and supplier relationships and brands that can be separately identified and measured at fair value on a reliable basis, together with the associated deferred tax liability. Amortisation is charged to the consolidated income statement on a straight line basis over the expected useful economic lives as follows.

| | |
|-------------------------------------|------------|
| Customer and supplier relationships | 5–10 years |
| Brands | 5 years |

(c) Intangible assets – research and development

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

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on a straight-line basis to write off the cost, less residual value, over the estimated useful life at the following rates:

| | | |
|------------------------|-------------------------|--|
| Land and buildings: | Freehold property | 2–4% per annum |
| | Leasehold buildings | Shorter of lease term or useful life |
| | Land is not depreciated | |
| Leasehold improvements | | 10–20% per annum or over the life of the lease |
| Plant and equipment | | 5–33% per annum |

Property, plant and equipment is reviewed for impairment in accordance with IAS 36 'Impairment', when there are events or changes in circumstances that indicate that the carrying value may not be recoverable.

Impairment of assets

At each reporting date, the Group reviews the carrying value of its assets to determine whether there is any indication that the assets are impaired. If any such indication exists, or when annual impairment testing for an asset is required, such as in the case of goodwill, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount and an impairment loss is immediately recognised as an expense.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, an impairment loss is reversed to the extent that the asset's carrying value does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Such reversals are recognised in the consolidated income statement. Any impairment charge on goodwill is not reversed.

Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are presented in trade and other receivables in the consolidated statement of financial position.

Financial assets are assessed for impairment in accordance with IAS 39 'Financial instruments: Recognition and Measurement', when there are events or changes in circumstances that indicate that the carrying value may not be recoverable.

2. Accounting policies continued

Inventories

Inventories comprise goods held for resale and work in progress and are stated at the lower of cost and net realisable value after making allowance for any obsolete or slow moving items. Cost comprises direct materials, inward carriage and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition.

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. The decision to make a provision for doubtful debts is determined by using profiles, based on past practice in addition to assessment of the credit worthiness of each customer and related aging of overdue balances. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash and cash equivalents as defined above, net of outstanding bank overdrafts to the extent that offsetting agreements are in place.

Borrowings

Borrowings are initially recognised at fair value net of any associated issue costs. Borrowings are subsequently recorded at amortised cost, with any difference between the amount initially recorded and the redemption value recognised in the consolidated income statement using the effective interest rate method.

Provisions

Provisions for warranties, onerous contracts, retirement benefits and restructuring costs are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. In relation to the provision for onerous contracts, an assessment is made for impairment of any related assets.

Provisions are discounted to present value when the effect is material using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost.

Exceptional items

The Group discloses exceptional items by virtue of their nature, size or incidence so as to allow a better understanding of the underlying trading performance of the Group. The Group includes, where material, the profit or loss on disposal of property, investments or businesses and other financial assets, asset impairments, significant restructuring and acquisition related integration 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.

Notes to the Group financial statements continued

for the year ended 31 March 2017

2. Accounting policies continued

Revenue recognition

Revenue represents the invoiced value of goods, commission and other services provided to third parties, after deducting discounts, VAT and similar taxes levied overseas. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. In particular:

- a. Revenue from the sale of products is recognised upon transfer to the customer of the significant risks and rewards of ownership. This is generally when goods are dispatched to customers;
- b. Revenue from rendering of services, which primarily comprise maintenance and outsourcing contracts, is recognised over the life of the contract reflecting performance of the contractual obligations to the customer;
- c. Interest income is recognised as the interest accrues using the effective interest method;
- d. Dividend income is recognised when the shareholders' right to receive the payment is established.

Segment reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

Dividends

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease.

The Group has not entered into any material finance leases.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, in accordance with the effective interest rate method.

Pensions

Payments to defined contribution pension schemes are charged as an expense as they fall due.

In respect of defined benefit pension schemes, the obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation, reduced by the fair value of the scheme assets. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur in the consolidated statement of comprehensive income. Net interest costs are included in finance costs and pension administration costs are included in administration expenses.

Share based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, calculated using an option pricing model, and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. In valuing equity-settled transactions, no account is taken of non-market vesting conditions.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and hence the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognised in the consolidated income statement, with a corresponding entry in equity.

2. Accounting policies continued

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the reporting date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the reporting date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the consolidated income statement.

Derivative financial instruments

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

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

Hedge accounting – cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the years when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Significant accounting judgements and estimates

Estimation uncertainty

Key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The most significant areas in which assumptions are made and estimates used are in determining:

Goodwill impairment

The Group tests annually whether goodwill is impaired in accordance with its accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates of future cash flows and the selection of suitable discount rates (note 16).

Notes to the Group financial statements continued

for the year ended 31 March 2017

2. Accounting policies continued

The recognition and quantification of provisions

Judgement is used in determining the value of provisions carried. For onerous contracts, which relate to property, this is primarily based around assumptions on rent and related costs for the period the property is vacant and assumptions over future rental incomes. Other provisions are estimated based on factors such as historical experience and expectations of future events that management believe to be reasonable. Note 25 provides details of provisions.

Contingent consideration

The amounts recognised for contingent consideration in relation to business combinations are the Directors' best estimates of the actual amounts which will be payable based on the forecast performance of the acquired businesses. Note 11 provides details of contingent considerations arising from business combinations.

Fair value of assets acquired in a business combination

Judgements and estimates are required in assessment of fair value of the consideration and net assets acquired, including the identification and valuation of intangible assets. Note 11 provides details on business combinations.

Retirement benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net expense for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations. The actuarial assumptions used in determining the carrying amount at 31 March 2017 are set out in note 32.

Current assets

In the course of normal trading activities, judgement is used to establish the carrying value of various elements of working capital, principally inventory and trade receivables. Provisions are made against obsolete or slow-moving inventories and doubtful debts. The provisions are based on the facts available at the time the financial statements are approved and are also determined by using profiles, based on past practice, applied to certain aged inventory and trade receivables categories.

3. New accounting standards and financial reporting requirements

New standards and interpretations not applied

The following standards and interpretations, which have been issued by the IASB, become effective after the current year end and have not been early adopted by the Group:

| International Accounting Standards (IAS/IFRS/IFRIC) | | Effective date ¹ |
|---|---|-----------------------------|
| IFRS 9 | Financial Instruments: Classification and measurement | 1 January 2018 |
| IFRS 15 | Revenue from Contracts with Customers | 1 January 2018 |
| IFRS 16 | Leases | 1 January 2019 |

¹ Period beginning on or after

IFRS 15 is the converged standard on revenue recognition. It replaces IFRS 11 'Construction contracts', IAS 18 'Revenue', and related interpretations. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

3. New accounting standards and financial reporting requirements continued

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

IFRS 15 will become effective for the Group for the year ending 31 March 2019. A review of the impact of adopting this standard is ongoing and will be finalised in FY18.

A full impact assessment of IFRS 15 and the other new standards above will be carried out in due course.

4. Revenue

Group revenue is analysed below:

| | 2017 £m | 2016 £m |
|-----------------------|------------|------------|
| Sale of goods | 332.9 | 283.0 |
| Rendering of services | 5.3 | 4.7 |
| Total revenue | 338.2 | 287.7 |

5. Operating segment information

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

- 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 a few cases, by third party contractors.
- The Custom Distribution 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 Acal's Design & Manufacturing division.

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

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

Segment revenue and results

| | Design & Manufacturing £m | Custom Distribution £m | Unallocated £m | Total £m |
|--|---------------------------------|------------------------------|-------------------|--------------|
| 2017 | | | | |
| Revenue | 175.6 | 162.6 | – | 338.2 |
| Result | | | | |
| Underlying operating profit/(loss) | 20.2 | 5.2 | (5.4) | 20.0 |
| Exceptional items | (2.1) | (4.8) | – | (6.9) |
| Acquisition costs | (1.2) | – | – | (1.2) |
| Amortisation of acquired intangible assets | (3.9) | – | – | (3.9) |
| IAS 19 pension charge | – | – | (0.3) | (0.3) |
| Operating profit/(loss) | 13.0 | 0.4 | (5.7) | 7.7 |

Notes to the Group financial statements continued

for the year ended 31 March 2017

5. Operating segment information continued

| | Design & Manufacturing £m | Custom Distribution £m | Unallocated £m | Total £m |
|--|------------------------------|---------------------------|-------------------|-------------|
| 2016 | | | | |
| Revenue | 137.6 | 150.1 | – | 287.7 |
| Result | | | | |
| Underlying operating profit/(loss) | 16.5 | 4.7 | (4.9) | 16.3 |
| Exceptional items | – | (0.2) | – | (0.2) |
| Acquisition costs | (1.6) | – | – | (1.6) |
| Amortisation of acquired intangible assets | (2.5) | (0.3) | – | (2.8) |
| IAS 19 pension charge | – | – | (0.3) | (0.3) |
| Operating profit/(loss) | 12.4 | 4.2 | (5.2) | 11.4 |

Segment assets and liabilities

| | Design & Manufacturing £m | Custom Distribution £m | Total £m |
|--|------------------------------|---------------------------|-------------|
| 2017 | | | |
| Assets and liabilities | | | |
| Segment assets | | | |
| (excluding goodwill and other intangible assets) | 88.7 | 53.6 | 142.3 |
| Goodwill and other intangible assets | 91.0 | 9.0 | 100.0 |
| | 179.7 | 62.6 | 242.3 |
| Central assets | | | 1.8 |
| Cash and cash equivalents | | | 22.2 |
| Deferred tax assets | | | 5.5 |
| Total assets | | | 271.8 |
| Segment liabilities | (40.5) | (35.9) | (76.4) |
| Central liabilities | | | (3.9) |
| Other financial liabilities | | | (52.2) |
| Pension liability | | | (6.4) |
| Current and deferred tax liabilities | | | (9.1) |
| Total liabilities | | | (148.0) |
| Net assets | | | 123.8 |

| | Design & Manufacturing £m | Custom Distribution £m | Total £m |
|--|------------------------------|---------------------------|-------------|
| 2016 | | | |
| Assets and liabilities | | | |
| Segment assets | | | |
| (excluding goodwill and other intangible assets) | 72.8 | 49.3 | 122.1 |
| Goodwill and other intangible assets | 78.7 | 8.6 | 87.3 |
| | 151.5 | 57.9 | 209.4 |
| Central assets | | | 1.9 |
| Cash and cash equivalents | | | 19.9 |
| Deferred tax assets | | | 5.5 |
| Total assets | | | 236.7 |
| Segment liabilities | (29.6) | (27.7) | (57.3) |
| Central liabilities | | | (4.4) |
| Other financial liabilities | | | (58.0) |
| Pension liability | | | (5.6) |
| Current and deferred tax liabilities | | | (9.5) |
| Total liabilities | | | (134.8) |
| Net assets | | | 101.9 |

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).

5. Operating segment information continued

Other segment information

| | Depreciation and amortisation ¹ | | Additions to non current assets ¹ | |
|------------------------|--|------------|--|------------|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| Design & Manufacturing | 6.8 | 4.5 | 13.6 | 22.1 |
| Custom Distribution | 0.5 | 0.8 | 0.4 | 0.4 |
| Central | 0.3 | 0.3 | 0.0 | 0.2 |
| | 7.6 | 5.6 | 14.0 | 22.7 |

¹ Includes goodwill, acquired intangibles and related amortisation.

Geographical information

The Group's revenue from external customers based on customer locations and information about its segment assets by geographical location are detailed below:

| | Revenue from external customers | | Non current assets | |
|-------------------|---------------------------------|------------|--------------------|------------|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| UK | 58.3 | 53.3 | 30.6 | 21.7 |
| Europe | 225.4 | 190.6 | 83.9 | 79.6 |
| Rest of the World | 54.5 | 43.8 | 7.7 | 7.1 |
| | 338.2 | 287.7 | 122.2 | 108.4 |

6. Underlying profit before tax

| | 2017 £m | 2016 ¹ £m |
|--|------------|-------------------------|
| Profit before tax | 4.8 | 9.4 |
| Add back: Exceptional Items | (a) 6.9 | 0.2 |
| Acquisition Costs | (b) 1.2 | 1.6 |
| Amortisation of acquired intangible assets | (c) 3.9 | 2.8 |
| Total ISA 19 pension charge | (d) 0.4 | 0.5 |
| Underlying profit before tax | 17.2 | 14.5 |

¹ The presentation of underlying adjustments includes acquisition costs which were included in exceptional items in the prior year. The prior year presentation has been amended accordingly. The Group believes this presentation better reflects one of its strategies which is to continue to grow through business acquisitions.

The tax impact of the underlying profit adjustments above is a credit of £2.8m (2016: £1.0m).

- a. Restructuring costs relating to Acal BFi totalling £4.8m, included the closure of the Spanish business, management headcount reduction and integration of the purchasing department. Restructuring in the Noratel Group totalling £1.6m included closure of three smaller Noratel production sites, with the production being transferred to other existing production facilities. £0.5m costs relate to acquisition related integration in Flux.

Last year, Acal BFi restructuring costs were £0.2m, which related to the termination of the UK Managing Director.

- b. £0.3m costs incurred in relation to the acquisition of Variohm (2016: £1.0m costs incurred mainly in relation to the acquisitions of Flux, Contour and Plitron).

A £0.9m charge was provided for contingent consideration relating to the acquisitions of the Noratel Group, Foss and Contour. Last year a £0.6m charge was provided for the contingent consideration relating to the acquisitions of the Myrra Group and Contour.

- c. Amortisation charge for intangible assets recognised for business combinations (see note 17).
d. Pension costs related to the Group's legacy defined benefit pension scheme (see note 32).

Notes to the Group financial statements continued

for the year ended 31 March 2017

7. Operating profit

Amounts charged to the consolidated income statement are as follows:

| | 2017 £m | 2016 £m |
|--|------------|------------|
| Employee costs (note 8) | 73.5 | 62.1 |
| Depreciation of property, plant and equipment (note 14) | 3.0 | 2.2 |
| Amortisation of other intangible assets (note 17) | 4.6 | 3.4 |
| Net foreign exchange differences | 0.2 | 0.1 |
| Inventories (amounts included in cost of sales): | | |
| Cost of inventories | 225.7 | 193.4 |
| Write-down of inventories to net realisable value | 1.2 | 1.1 |
| Operating lease rentals: | | |
| Minimum lease payments recognised as an operating lease expense | 5.3 | 4.5 |
| Auditors' remuneration: | | |
| Audit of the Group financial statements (including parent company) | 0.2 | 0.2 |
| Audit of local subsidiary financial statements | 0.4 | 0.4 |
| Tax and other non-audit services | – | 0.1 |

8. Employee costs and Directors' emoluments

| | 2017 £m | 2016 £m |
|--------------------------------|------------|------------|
| Wages and salaries | 60.6 | 50.6 |
| Social security costs | 9.9 | 8.5 |
| Pension costs | 2.4 | 2.3 |
| Share-based payments (note 31) | 0.6 | 0.7 |
| | 73.5 | 62.1 |

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

| | 2017 £m | 2016 £m |
|---------------------------|------------|------------|
| Sales and marketing | 592 | 585 |
| Manufacturing and service | 2,727 | 2,712 |
| Administration | 400 | 364 |
| | 3,719 | 3,661 |

At 31 March 2017 the Group had 3,757 employees (2016: 3,807).

| | 2017 £ | 2016 £ |
|--|-----------|-----------|
| Directors' emoluments | | |
| Aggregate emoluments in respect of qualifying services | 986,524 | 1,069,823 |
| Aggregate contribution to money purchase pension schemes | 71,574 | 82,000 |
| | 1,058,098 | 1,151,823 |
| Highest paid director | | |
| Emoluments in respect of qualifying services | 626,885 | 688,621 |
| Pension contributions to the defined contribution scheme | 56,580 | 63,750 |
| | 683,465 | 752,371 |

Retirement benefits are accruing to two directors under a defined contribution pension scheme (2016: two).

Further details of directors' emoluments are provided in the remuneration report on pages 53 to 70.

9. Finance revenue/(costs)

| | 2017 £m | 2016 £m |
|--|--------------|--------------|
| Interest receivable and similar income | 0.2 | 0.3 |
| Finance revenue | 0.2 | 0.3 |
| Finance costs on bank loans and overdrafts | (3.0) | (2.1) |
| Net pension finance charge (note 32) | (0.1) | (0.2) |
| Finance costs | (3.1) | (2.3) |

10. Taxation

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

| | 2017 £m | 2016 £m |
|--|--------------|--------------|
| Current taxation: | | |
| UK corporation tax | | |
| UK adjustments in respect of prior years | 0.1 | – |
| | 0.1 | – |
| Overseas tax | 3.5 | 3.7 |
| Overseas adjustments in respect of prior years | (0.9) | 0.1 |
| | 2.6 | 3.8 |
| Total current taxation expense | 2.7 | 3.8 |
| Deferred taxation | | |
| Origination and reversal of temporary differences within the UK | (0.2) | 0.1 |
| Origination and reversal of temporary differences overseas | (0.2) | (0.5) |
| Adjustment in respect of prior years | (0.8) | (0.4) |
| Increased recognition of historic losses | – | (0.6) |
| Impact of tax rate changes | (0.2) | (0.2) |
| Total deferred taxation credit | (1.4) | (1.6) |
| Tax expense reported in the consolidated income statement | 1.3 | 2.2 |

| | 2017 £m | 2016 £m |
|--|------------|------------|
| Tax recognised in other comprehensive income | | |
| Increase/(decrease) in deferred tax asset on pension deficit | 0.3 | (0.2) |
| Tax reported in other comprehensive income | 0.3 | (0.2) |

| | 2017 £m | 2016 £m |
|---|------------|------------|
| Tax recognised in equity | | |
| (Decrease)/increase in deferred tax asset on share based payments | (0.3) | 0.1 |
| Tax reported in equity | (0.3) | 0.1 |

The effective rate of taxation for the year is higher (2016: higher) than the standard rate of taxation in the UK of 20% (2016: 20%). A reconciliation of the tax expense applicable to the profit before tax at the statutory tax rate to the actual tax expense at the Group's effective tax rate for the years ended 31 March 2017 and 31 March 2016 respectively is presented below:

| | 2017 £m | 2016 £m |
|--|------------|------------|
| Profit before tax | 4.8 | 9.4 |
| Profit before taxation multiplied by standard rate of corporation tax in the UK of 20% (2016: 20%) | 1.0 | 1.9 |
| <i>Effect of:</i> | | |
| Different tax rates in overseas companies | 0.7 | 0.8 |
| Tax losses not recognised / (utilisation of previous unrecognised losses) | 0.6 | (0.1) |
| Non-deductible expenses | 0.8 | 0.7 |
| Adjustments to deferred tax in respect of prior years | (0.8) | (0.4) |
| Increased recognition of historic losses | – | (0.6) |
| Impact of tax rate changes on deferred tax | (0.2) | (0.2) |
| Adjustments to tax expense in respect of prior years | (0.8) | 0.1 |
| Tax reported in the consolidated income statement | 1.3 | 2.2 |

Notes to the Group financial statements continued

for the year ended 31 March 2017

10. Taxation continued

Deferred tax

| | 2017 £m | 2016 £m |
|---|------------|------------|
| <i>Deferred tax liabilities</i> | | |
| Accelerated capital allowances | (0.5) | (0.9) |
| Other temporary differences | (6.0) | (5.9) |
| Gross deferred tax liabilities | (6.5) | (6.8) |
| <i>Deferred tax assets</i> | | |
| Decelerated capital allowances | 1.0 | 1.1 |
| Pensions | 1.0 | 0.9 |
| Tax losses | 1.2 | 1.5 |
| Other temporary differences | 2.3 | 2.0 |
| Gross deferred tax assets | 5.5 | 5.5 |
| | | |
| | 2017 £m | 2016 £m |
| Deferred tax credit in the consolidated income statement | | |
| <i>Consolidated income statement</i> | | |
| Decelerated capital allowances | (0.3) | (0.2) |
| Other temporary differences | (1.1) | (1.4) |
| | (1.4) | (1.6) |

At 31 March 2017, the Group had not recognised any deferred tax asset in respect of tax losses of approximately £28.3m (2016: £26.3m). Deferred tax assets are not recognised where there is insufficient evidence that losses will be utilised.

At 31 March 2017, there was no recognised deferred tax liability (2016: nil) for taxes that would be payable on the remittance of certain of the Group's overseas subsidiaries' unremitted earnings, as the Group has determined that the undistributed profits of its overseas subsidiaries will not be distributed in the near future where an additional tax charge would arise.

A reduction in the UK corporation tax rate to 17% had been substantively enacted at 1 April 2017 with effect from 1 April 2020. From 1 April 2017, a rate of 19% will be applicable until the 17% rate becomes effective. Rates of 17% and 19% have been applied in the measurement of the Group's UK based deferred tax assets and liabilities at 31 March 2017 based on an estimate of when the UK deferred tax is expected to crystallise.

11. Business combinations

During the year, the Group completed the acquisition of Variohm Holdings Limited ('Variohm') which has expanded the Group's design and manufacturing capabilities.

The net cash flow on the acquisition (including net cash/(debt) acquired and before transaction costs) during the year was £11.6m.

Acquisitions in the year ended 31 March 2017

Acquisition of Variohm

On 20 January 2017, the Group completed the acquisition of 100% of the share capital and voting equity interests of Variohm Holdings Limited ('Variohm'), for a cash consideration of £10.6m. In addition, a contingent consideration of £0.5m is payable in July 2018, subject to certain conditions and a maximum contingent consideration of up to £1.35m also payable in July 2018, subject to Variohm achieving agreed performance targets. The fair value of the contingent consideration at the acquisition date was estimated to be £1.6m.

Variohm owns 100% of the share capital and voting equity interests of Ixthus Instrumentation Limited, Heason Technology Limited, Herga Technology Limited and Variohm-Eurosensor Limited, all based in the UK. Variohm is a designer, manufacturer and distributor of electronic sensors and switches.

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

| | Provisional fair value recognised at acquisition £m |
|--|--|
| Property, plant and equipment | 0.5 |
| Intangible assets – customer relationships | 4.4 |
| Inventories | 3.0 |
| Trade and other receivables | 3.3 |
| Net debt | (1.0) |
| Trade and other payables | (2.4) |
| Current tax liabilities | (0.3) |
| Provisions (current) | (0.1) |
| Deferred tax liabilities (non-current) | (0.8) |
| Provisions (non-current) | (0.1) |
| Total identifiable net assets | 6.5 |
| Provisional goodwill arising on acquisition | 5.8 |
| Total investment | 12.3 |
| <i>Discharged by</i> | |
| Cash | 10.6 |
| Purchase price adjustment | 0.1 |
| Contingent consideration | 1.6 |
| | 12.3 |

The fair value of the trade receivables is equal to their gross amounts. It is expected that the full contractual amounts of the trade receivables can be collected.

Included in the £5.8m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. None of the goodwill recognised is expected to be deductible for corporate tax purposes.

Notes to the Group financial statements continued

for the year ended 31 March 2017

11. Business combinations continued

Net cash outflows in respect of the acquisition comprise:

| | Total £m |
|--|---------------------|
| Cash consideration | 10.6 |
| Transaction costs of the acquisition (included in cash flows from operating activities) ¹ | 0.3 |
| Net debt acquired | 1.0 |
| | 11.9 |

¹ Transaction costs of £0.3m were expensed as incurred in the year ended 31 March 2017 and were included within administrative expenses (note 6).

From the date of acquisition to 31 March 2017, Variohm contributed £4.9m to revenue and £0.4m to profit after tax of the Group. If the business combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £3.9m and the consolidated revenue for the Group would have been £354.9m.

Acquisitions in the year ended 31 March 2016

Acquisition of Flux

On 5 November 2015, the Group completed the acquisition of 100% of the share capital and voting equity interests of Flux A/S ("Flux"), for a cash consideration of £2.7m. Flux owns 100% of the share capital and voting equity interests of Flux International Limited based in Thailand. The cash consideration and related acquisition expenses were met from the Group's debt facility.

Flux, which is headquartered in Denmark and has a manufacturing facility in Thailand, is a designer and manufacturer of customised magnetic components for use across the range of industrial, high reliability and space grade applications. Flux has been acquired from Niels Overgaard Christensen Holdings AS, a Danish company founded in 1980 and which is wholly owned by Mr Niels Overgaard Christensen.

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

| | Fair value recognised at acquisition £m |
|--|--|
| Property, plant and equipment | 0.5 |
| Intangible assets – other | 0.1 |
| Intangible assets – customer relationships | 0.4 |
| Inventories | 1.6 |
| Trade and other receivables | 2.2 |
| Net debt | (1.3) |
| Trade and other payables | (1.0) |
| Current tax liabilities | – |
| Deferred tax liabilities (non-current) | (0.2) |
| Total identifiable net assets | 2.3 |
| Goodwill arising on acquisition | 0.4 |
| Total investment | 2.7 |
| Discharged by | |
| Cash | 2.7 |

The fair value of the trade receivables is equal to their gross amounts. It is expected that the full contractual amounts of the trade receivables can be collected.

Included in the £0.4m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. None of the goodwill recognised is expected to be deductible for corporate tax purposes.

11. Business combinations continued

Net cash outflows in respect of the acquisition comprise:

| | Total £m |
|--|---------------------|
| Cash consideration | 2.7 |
| Transaction costs of the acquisition (included in cash flows from operating activities) ¹ | 0.2 |
| Net debt acquired | 1.3 |
| | 4.2 |

¹ Transaction costs of £0.2m were expensed as incurred in the year ended 31 March 2016 and were included within administrative expenses (note 6).

From the date of acquisition to 31 March 2016, Flux contributed £3.4m 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 £7.3m and the consolidated revenue for the Group would have been £292m.

Acquisition of Contour

On 7 January 2016, the Group completed the acquisition of 100% of the share capital and voting equity interests of Contour Holdings Limited and its affiliate Contour Electronics Asia Limited (together defined as 'Contour'), for an initial consideration of £17.5m. The initial consideration comprises £14.5m in cash, funded from the Group's existing debt facilities, and the issue to the vendors of new ordinary shares of 5p each in Acal ("New Ordinary Shares") to the fair value of £3.0m. Contingent consideration of £1.0m is payable in April 2019, subject to certain conditions and an earn-out of up to £6.0m will be payable after July 2019, subject to Contour achieving agreed growth targets.

The contingent consideration of £1.0m is linked to the continued employment of the management vendors and will be expensed on a straight line basis over the period from acquisition date to 31 March 2019. The fair value of the earn-out at acquisition was estimated to be £1.0m. There were no changes in the fair value between the acquisition date and 31 March 2017.

Contour designs and manufactures custom cabling assemblies and connectors for use in industrial and medical applications. Engineering and low volume production is located at Contour's facility in Hampshire in the UK with higher volume production undertaken through partners in Asia.

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

| | Fair value recognised at acquisition £m |
|--|--|
| Property, plant and equipment | 0.4 |
| Intangible assets – customer relationships | 8.8 |
| Inventories | 1.0 |
| Trade and other receivables | 2.8 |
| Cash and cash equivalents | 1.3 |
| Trade and other payables | (1.2) |
| Current tax liabilities | (0.5) |
| Provisions (current) | (0.1) |
| Deferred tax liabilities (non-current) | (1.7) |
| Total identifiable net assets | 10.8 |
| Goodwill arising on acquisition | 7.7 |
| Total investment | 18.5 |
| <i>Discharged by</i> | |
| Cash | 14.5 |
| Shares | 3.0 |
| Contingent consideration | 1.0 |
| | 18.5 |

Notes to the Group financial statements continued

for the year ended 31 March 2017

11. Business combinations continued

During the year the provisional fair value of the customer relationships intangible asset was increased by £1.4m with an associated £0.2m increase in deferred tax liability. As a result the goodwill value decreased by the same amount.

The fair value of the trade receivables is equal to their gross amounts. It is expected that the full contractual amounts of the trade receivables can be collected.

Included in the £7.7m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. None of the goodwill recognised is expected to be deductible for corporate tax purposes.

Net cash outflows in respect of the acquisition comprise:

| | Total £m |
|--|---------------------|
| Cash consideration | 14.5 |
| Transaction costs of the acquisition (included in cash flows from operating activities) ¹ | 0.3 |
| Cash acquired | (1.3) |
| | 13.5 |

¹ Transaction costs of £0.3m were expensed as incurred in the year ended 31 March 2016 and were included within administrative expenses (note 6).

From the date of acquisition to 31 March 2016, Contour contributed £3.2m to revenue and £0.3m 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 £8.2m and the consolidated revenue for the Group would have been £297m.

Acquisition of Plitron

On 1 February 2016, the Group completed the acquisition of 100% of the share capital and voting equity interests of Plitron Manufacturing Inc., ("Plitron") for a cash consideration of £1.8m. The acquisition was funded from Acal's existing debt facility.

Contingent consideration of £0.3m will be payable to the sellers upon receipt of certain trade receivables. The fair value of the contingent consideration at acquisition date and 31 March 2016 was nil.

An additional contingent consideration of up to £0.1m will be payable after March 2018, subject to Plitron achieving agreed customer revenue targets. The fair value of the additional contingent consideration at acquisition date and 31 March 2016 was nil. Plitron, based in Toronto, Canada, is a designer and manufacturer of custom toroidal transformers for transportation, medical and industrial applications.

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

| | Fair value recognised at acquisition £m |
|--|--|
| Property, plant and equipment | 0.2 |
| Intangible assets – customer relationships | 0.7 |
| Inventories | 0.3 |
| Trade and other receivables | 1.0 |
| Cash and cash equivalents | (0.2) |
| Trade and other payables | (0.9) |
| Current tax liabilities | (0.1) |
| Deferred tax liabilities (non-current) | (0.2) |
| Total identifiable net assets | 0.8 |
| Goodwill arising on acquisition | 1.0 |
| Total investment | 1.8 |
| <i>Discharged by</i> | |
| Cash | 1.8 |

11. Business combinations continued

The fair value of the trade receivables is £0.3m lower than their gross amounts.

Included in the £1.0m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree, due to their nature. None of the goodwill recognised is expected to be deductible for corporate tax purposes.

Net cash outflows in respect of the acquisition comprise:

| | Total £m |
|--|---------------------|
| Cash consideration | 1.8 |
| Transaction costs of the acquisition (included in cash flows from operating activities) ¹ | 0.1 |
| Net debt acquired | 0.2 |
| | 2.1 |

¹ Transaction costs of £0.1m were expensed as incurred in the year ended 31 March 2016 and were included within administrative expenses (note 6).

From the date of acquisition to 31 March 2016, Plitron contributed £0.7m to revenue and £nil to profit after tax of the Group. If the business combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £7.0m and the consolidated revenue for the Group would have been £292m.

12. Dividends

| | 2017 £m | 2016 £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 2016 of 5.72p (2015: 5.4p) | 3.7 | 3.4 |
| Interim dividend for the year ended 31 March 2017 of 2.45p (2016: 2.33p) | 1.5 | 1.5 |
| Total amounts recognised as equity distributions during the year | 5.2 | 4.9 |

| | 2017 £m | 2016 £m |
|--|--------------------|------------|
| Proposed for approval at AGM: | | |
| Equity dividends on ordinary shares: | | |
| Final dividend for the year ended 31 March 2017 of 6.05p (2016: 5.72p) | 4.3 | 3.7 |
| Summary | | |
| Dividends per share declared in respect of the year | 8.50p | 8.05p |
| Dividends per share paid in the year | 8.17p | 7.73p |
| Dividends paid in the year | £5.2m | £4.9m |

Notes to the Group financial statements continued

for the year ended 31 March 2017

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:

| | 2017 £m | 2016 £m |
|--|-------------------|---------------|
| Profit for the year attributable to equity holders of the parent: | 3.5 | 7.2 |
| | Number | Number |
| Weighted average number of shares for basic earnings per share | 65,427,064 | 63,304,752 |
| Effect of dilution – share options | 2,790,308 | 3,008,388 |
| Adjusted weighted average number of shares for diluted earnings per share | 68,217,372 | 66,313,140 |
| Basic earnings per share | 5.3p | 11.4p |
| Diluted earnings per share | 5.1p | 10.9p |

Underlying earnings per share is calculated as follows:

| | 2017 £m | 2016 £m |
|--|-------------------|---------------|
| Net profit for the year | 3.5 | 7.2 |
| Exceptional items | 6.9 | 0.2 |
| Acquisition costs | 1.2 | 1.6 |
| Amortisation of acquired intangible assets | 3.9 | 2.8 |
| IAS 19 pension charge | 0.4 | 0.5 |
| Tax effect of the above | (2.8) | (1.0) |
| Underlying earnings | 13.1 | 11.3 |
| | Number | Number |
| Weighted average number of shares for basic earnings per share | 65,427,064 | 63,304,752 |
| Effect of dilution – share options | 2,790,308 | 3,008,388 |
| Adjusted weighted average number of shares for diluted earnings per share | 68,217,372 | 66,313,140 |
| Underlying basic earnings per share | 20.0p | 17.9p |
| Underlying diluted earnings per share | 19.2p | 17.0p |

At the year end, there were 4,847,184 ordinary share options in issue that could potentially dilute underlying earnings per share in the future, of which 2,790,308 are currently dilutive (2016: 4,587,098 in issue and 3,008,388 dilutive).

14. Property, plant and equipment

| | Land and buildings £m | Leasehold improvements £m | Plant and equipment £m | Total £m |
|--|-----------------------------|---------------------------------|------------------------------|-------------|
| Cost | | | | |
| At 1 April 2015 | 6.3 | 2.5 | 11.8 | 20.6 |
| Additions | 0.2 | 0.1 | 1.3 | 1.6 |
| Disposals | – | (0.2) | (0.8) | (1.0) |
| Arising from business combinations | – | 0.3 | 0.8 | 1.1 |
| Exchange adjustments | 0.4 | – | 0.4 | 0.8 |
| At 31 March 2016 | 6.9 | 2.7 | 13.5 | 23.1 |
| Additions | 0.2 | 0.1 | 2.5 | 2.8 |
| Disposals | – | (0.2) | (0.7) | (0.9) |
| Arising from business combinations | – | – | 0.5 | 0.5 |
| Exchange adjustments | 0.6 | 0.1 | 1.3 | 2.0 |
| At 31 March 2017 | 7.7 | 2.7 | 17.1 | 27.5 |
| Depreciation | | | | |
| At 1 April 2015 | 1.2 | 1.7 | 3.9 | 6.8 |
| Charge for the year | 0.3 | 0.1 | 1.8 | 2.2 |
| Disposals | – | (0.2) | (0.7) | (0.9) |
| Exchange adjustments | 0.2 | – | 0.1 | 0.3 |
| At 31 March 2016 | 1.7 | 1.6 | 5.1 | 8.4 |
| Charge for the year | 0.3 | 0.2 | 2.5 | 3.0 |
| Disposals | – | (0.2) | (0.3) | (0.5) |
| Exchange adjustments | 0.2 | 0.1 | 0.3 | 0.6 |
| At 31 March 2017 | 2.2 | 1.7 | 7.6 | 11.5 |
| Net book value at 31 March 2017 | 5.5 | 1.0 | 9.5 | 16.0 |
| Net book value at 31 March 2016 | 5.2 | 1.1 | 8.4 | 14.7 |

Land and buildings includes land with a cost of £0.8m (2016: £0.8m) that is not subject to depreciation.

15. Intangible assets – goodwill

| | |
|---|---------------|
| Cost | £m |
| At 1 April 2015 | 88.4 |
| Arising from business combinations | 10.6 |
| Exchange adjustments | 1.4 |
| At 31 March 2016 | 100.4 |
| Arising from business combinations | 4.3 |
| Exchange adjustments | 4.7 |
| At 31 March 2017 | 109.4 |
| Impairment | £m |
| At 31 March 2016 and 31 March 2017 | (36.8) |
| Net book value at 31 March 2017 | 72.6 |
| Net book value at 31 March 2016 | 63.6 |

Notes to the Group financial statements continued

for the year ended 31 March 2017

16. Impairment testing of goodwill

The carrying value of goodwill is analysed as follows:

| | 2017 £m | 2016 £m |
|------------------------|-------------|-------------|
| Custom Distribution | | |
| Acal BFi UK | 3.3 | 3.3 |
| Compotron | 5.1 | 4.7 |
| Medical | 0.6 | 0.6 |
| Design & Manufacturing | | |
| Stortech | 3.6 | 3.6 |
| Electronic | 0.6 | 0.6 |
| MTC | 2.0 | 2.0 |
| Myrra | 5.1 | 4.7 |
| RSG | 1.2 | 1.1 |
| Noratel | 30.1 | 27.1 |
| Foss | 5.7 | 5.2 |
| Flux | 0.6 | 0.6 |
| Contour | 7.7 | 9.0 |
| Plitron | 1.2 | 1.1 |
| Variohm | 5.8 | – |
| | 72.6 | 63.6 |

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 Variohm which was acquired in the year and Contour, Plitron and Flux where the provisional fair value of acquired net assets was finalised during 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 2018 budget and management projections thereon. Revenue growth rates in the post-budget management projections between 2.5% and 10% (2016: between 5% and 10%) have been used depending on size and sector in which the CGU operates. Annual cash flow growth rates beyond the five-year period are assumed at 2% to 2.5% (2016: 2%) for all CGUs in line with the average long-term growth rate for the relevant markets.

Discount rates reflect the current market assessment of the risks specific to each CGU. The discount rate was estimated based on the average percentage of a weighted average cost of capital for the industry and then further adjusted to reflect management's assessment of any risk specific to the Group. The pre-tax discount rate applied to the cash flow projections of CGUs varies from 11% to 16% (2016: 14% to 21%).

Sensitivity to changes in assumptions

The Group has conducted sensitivity analysis on the impairment test of each CGUs carrying value. With regard to all the CGUs above, the Directors believe that no reasonably possible changes in any of the key assumptions would cause the carrying value of the CGU to materially exceed its recoverable amount, with the exception of Acal BFi UK.

For the Acal BFi UK CGU, with allocated goodwill of £3.3m, there is a reasonably possible change in the key assumption of revenue growth which could erode the estimated headroom amount by which the carrying value of the CGU exceeds its recoverable amount. A compound annual growth rate (CAGR) in revenues of less than 2% for the five-year forecast period would result in the recoverable amount of the business equalling its carrying value.

17. Intangible assets – other

| | Acquired intangibles | | | Total £m |
|--|---------------------------------|--|--------------|-------------|
| | Software & Development £m | Customer/ Supplier Relationships £m | Brands £m | |
| Cost | | | | |
| At 1 April 2015 | 9.6 | 19.6 | 0.7 | 29.9 |
| Arising from business combinations | 0.1 | 8.5 | – | 8.6 |
| Additions | 0.7 | – | – | 0.7 |
| Disposals | (0.4) | – | – | (0.4) |
| Exchange adjustment | 0.2 | 0.6 | 0.1 | 0.9 |
| At 31 March 2016 | 10.2 | 28.7 | 0.8 | 39.7 |
| Arising from business combinations | – | 5.8 | – | 5.8 |
| Additions | 0.6 | – | – | 0.6 |
| Disposals | (0.2) | – | – | (0.2) |
| Exchange adjustment | 0.2 | 2.2 | – | 2.4 |
| At 31 March 2017 | 10.8 | 36.7 | 0.8 | 48.3 |
| Amortisation | | | | |
| At 1 April 2015 | 7.5 | 3.6 | 0.5 | 11.6 |
| Disposals | (0.4) | – | – | (0.4) |
| Charge for the year | 0.6 | 2.6 | 0.2 | 3.4 |
| Exchange adjustment | – | 0.4 | 0.1 | 0.5 |
| At 31 March 2016 | 7.7 | 6.6 | 0.8 | 15.1 |
| Disposals | (0.2) | – | – | (0.2) |
| Charge for the year | 0.7 | 3.9 | – | 4.6 |
| Exchange adjustment | 0.1 | 0.6 | – | 0.7 |
| At 31 March 2017 | 8.3 | 11.1 | 0.8 | 20.2 |
| Net book value at 31 March 2017 | 2.5 | 25.6 | – | 28.1 |
| Net book value at 31 March 2016 | 2.5 | 22.1 | – | 24.6 |

The computer software capitalised at 31 March 2017 includes the implementation of an ERP system within the Acal BFi business. This ERP system has a carrying amount of £0.6m (2016: £0.7m).

18. Investments in associates

| | £m |
|--|--------------|
| Cost | |
| At 31 March 2016 and 31 March 2017 | 5.4 |
| Impairment | |
| At 31 March 2016 and 31 March 2017 | (5.4) |
| Net book amount 31 March 2016 and 31 March 2017 | – |

| Associates | Country of incorporation | % equity interest 2017 and 2016 |
|---------------------------------------|--------------------------|------------------------------------|
| Scientific Digital Business (Pte) Ltd | Singapore | 40 |

Impairment of associate investments

In 2009, the Directors took the view that the associate investments should be fully impaired, due to continuing losses in those businesses. There have been no changes in 2017 that would lead to these impairments being reversed.

19. Inventories

| | 2017 £m | 2016 £m |
|-------------------------------------|-------------|-------------|
| Finished goods and goods for resale | 31.0 | 27.8 |
| Raw materials and work in progress | 19.1 | 15.1 |
| Total inventories | 50.1 | 42.9 |

As at 31 March 2017, the provision for realisable value against total inventories was £7.1m (2016: £6.0m).

Notes to the Group financial statements continued

for the year ended 31 March 2017

20. Trade and other receivables

| | 2017 £m | 2016 £m |
|--------------------------------|-------------|------------|
| Trade receivables | 69.1 | 58.9 |
| Other receivables | 4.9 | 3.4 |
| Prepayments and accrued income | 3.3 | 3.2 |
| | 77.3 | 65.5 |

Trade receivables are non-interest bearing, are generally on 30 to 60 days' terms and are shown net of a provision for impairment. As at 31 March 2017, trade receivables of £0.9m (2016: £1.2m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

| | 2017 £m | 2016 £m |
|-------------------------|------------|------------|
| At 1 April | 1.2 | 1.3 |
| Acquired | – | – |
| Charge for the year | 0.1 | 0.1 |
| Amounts written off | (0.5) | (0.3) |
| Unused amounts reversed | – | – |
| Exchange adjustments | 0.1 | 0.1 |
| At 31 March | 0.9 | 1.2 |

As at 31 March, the analysis of trade receivables that were past due but not impaired is as follows:

| | Total £m | Neither past due nor impaired £m | Past due but not impaired | | | | |
|------|-------------|---|---------------------------|------------------|------------------|-------------------|--------------------|
| | | | <30 days £m | 30–60 days £m | 60–90 days £m | 90–120 days £m | >120 days £m |
| 2017 | 69.1 | 58.9 | 7.3 | 1.1 | 1.4 | – | 0.4 |
| 2016 | 58.9 | 48.7 | 7.6 | 1.5 | 0.6 | – | 0.5 |

21. Cash and cash equivalents

| | 2017 £m | 2016 £m |
|--------------------------|-------------|------------|
| Cash at bank and in hand | 22.2 | 19.9 |

Cash at bank earns interest at floating rates, based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposit rates. The Group only deposits cash surpluses with major banks of high credit standing, in line with its treasury policy. The fair value of cash and cash equivalents is £22.2m (2016: £19.9m).

22. Financial liabilities

| | Effective interest rate % | Maturity | Current | | Non-current | |
|-----------------------------------|---------------------------------|-----------|-------------|-------------|-------------|-------------|
| | | | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| Bank overdrafts | Variable | On demand | 1.2 | 0.7 | – | – |
| Unsecured bank loans | Variable | | 0.1 | 0.1 | 0.1 | 0.4 |
| Revolving Credit Facility (RCF) | Variable | | – | – | 50.8 | 56.8 |
| Total other financial liabilities | | | 1.3 | 0.8 | 50.9 | 57.2 |
| Trade and other payables | | | 62.8 | 47.4 | – | – |
| Provisions | | | 0.1 | 0.1 | 0.1 | – |
| Total | | | 64.2 | 48.3 | 51.0 | 57.2 |

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

Included in unsecured bank loans are euro-denominated loans of £0.2m carrying fixed interest rates of between 2% and 8%.

On 20 July 2016, the Group entered into an amendment and restatement of its original committed multi-currency revolving credit facility. This increased the committed facilities from £90m to £120m, and made provision for additional availability of a further £30m via an Accordion Facility. The period of the facility was extended to 19 July 2021, that is for a five-year period from the start of the amended facility. At 31 March 2017, the facility drawdowns of £50.8m were denominated primarily in Sterling, US Dollars, Euros and Norwegian Kroner which bear interest based on LIBOR, USDLIBOR, EURIBOR and NIBOR respectively, plus a facility margin. The facility is secured against the shares of certain Group subsidiaries.

Trade and other payables and provisions 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 | Total £m |
|-------------------------|------------------------|--------------------|--------------|
| At 31 March 2017 | | | |
| Fixed and floating rate | 1.3 | 50.9 | 52.2 |
| Trade payables | 62.8 | – | 62.8 |
| Provisions | 0.1 | 0.1 | 0.2 |
| | 64.2 | 51.0 | 115.2 |
| | | | |
| | Within 1 year £m | 2–5 years £m | Total £m |
| At 31 March 2016 | | | |
| Floating rate | 0.8 | 57.2 | 58.0 |
| Trade payables | 47.4 | – | 47.4 |
| Provisions | 0.1 | – | 0.1 |
| | 48.3 | 57.2 | 105.5 |

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

| | 2017 £m | 2016 £m |
|------------------|-------------|-------------|
| Sterling | 17.0 | 26.0 |
| Euro | 23.6 | 22.7 |
| US dollar | 6.0 | 4.2 |
| Other currencies | 5.6 | 5.1 |
| | 52.2 | 58.0 |

Notes to the Group financial statements continued

for the year ended 31 March 2017

23. Movements in cash and net debt

| | 31 March 2016 £m | Cash flow £m | Foreign exchange £m | 31 March 2017 £m |
|------------------------------|------------------------|-----------------|---------------------------|------------------------|
| Year to 31 March 2017 | | | | |
| Cash at bank and in hand | 19.9 | (1.2) | 3.5 | 22.2 |
| Bank overdrafts | (0.7) | (0.1) | (0.4) | (1.2) |
| Cash and cash equivalents | 19.2 | (1.3) | 3.1 | 21.0 |
| Bank loans under one year | (0.1) | 0.4 | (0.4) | (0.1) |
| Bank loans over one year | (57.2) | 8.8 | (2.5) | (50.9) |
| Total loan capital | (57.3) | 9.2 | (2.9) | (51.0) |
| Net debt | (38.1) | 7.9 | 0.2 | (30.0) |

Bank loans over one year above include £50.8m (2016: £56.8m) drawn down against the Group's revolving credit facility.

| | 31 March 2015 £m | Cash flow £m | Foreign exchange £m | 31 March 2016 £m |
|------------------------------|------------------------|-----------------|---------------------------|------------------------|
| Year to 31 March 2016 | | | | |
| Cash at bank and in hand | 26.7 | (8.4) | 1.6 | 19.9 |
| Bank overdrafts | (0.1) | (0.2) | (0.4) | (0.7) |
| Cash and cash equivalents | 26.6 | (8.6) | 1.2 | 19.2 |
| Bank loans under one year | (0.1) | 0.2 | (0.2) | (0.1) |
| Bank loans over one year | (45.5) | (10.1) | (1.6) | (57.2) |
| Total loan capital | (45.6) | (9.9) | (1.8) | (57.3) |
| Net debt | (19.0) | (18.5) | (0.6) | (38.1) |

Supplementary information to the statement of cash flows

| Underlying Performance Measure | 2017 | 2016 |
|---------------------------------------|---------------|-----------|
| Continuing operations | £m | £m |
| Increase/(decrease) in net cash | 7.9 | (18.5) |
| Add: Business combinations | 13.8 | 20.8 |
| Exceptional cash flow | 6.4 | 1.4 |
| Legacy pension scheme funding | 1.6 | 1.6 |
| Dividends paid | 5.2 | 4.9 |
| Less: Net proceeds from share issue | (13.6) | – |
| Free cash flow | 21.3 | 10.2 |
| Net finance costs | 2.8 | 1.8 |
| Taxation | 3.0 | 4.3 |
| Operating cash flow | 27.1 | 16.3 |

24. Reconciliation of cash flows from operating activities

| | 2017 £m | 2016 £m |
|---|--------------|------------|
| Profit for the year | 3.5 | 7.2 |
| Tax expense | 1.3 | 2.2 |
| Net finance costs | 2.9 | 2.0 |
| Depreciation of property, plant and equipment | 3.0 | 2.2 |
| Amortisation of intangible assets – other | 4.6 | 3.4 |
| Loss on disposal of property, plant and equipment | 0.2 | – |
| Acquisition related contingent consideration | (1.6) | – |
| Change in provisions | 1.4 | (0.5) |
| Pension scheme funding | (1.6) | (1.6) |
| IAS 19 pension administration charge | 0.3 | 0.3 |
| Equity-settled share-based payment expense | 0.6 | 0.7 |
| Operating cash flows before changes in working capital | 14.6 | 15.9 |
| (Increase)/decrease in inventories | (0.1) | 1.7 |
| (Increase)/decrease in trade and other receivables | (3.8) | 3.4 |
| Increase/(decrease) in trade and other payables | 9.8 | (6.4) |
| Decrease/(increase) in working capital | 5.9 | (1.3) |
| Cash generated from operations | 20.5 | 14.6 |
| Interest paid | (3.0) | (2.1) |
| Income taxes paid | (3.0) | (4.3) |
| Net cash flow from operating activities | 14.5 | 8.2 |

25. Provisions

| | Deferred consideration £m | Severance and retirement indemnity £m | Other £m | Total £m |
|------------------------------------|------------------------------|--|-------------|-------------|
| At 1 April 2016 | 3.1 | 2.1 | 1.3 | 6.5 |
| Arising during the year | 0.7 | 1.5 | 0.4 | 2.6 |
| Arising from business combinations | 1.6 | – | 0.3 | 1.9 |
| Released during the year | – | – | (0.3) | (0.3) |
| Utilised | (1.9) | (0.6) | (0.3) | (2.8) |
| Exchange difference | 0.2 | 0.2 | 0.1 | 0.5 |
| At 31 March 2017 | 3.7 | 3.2 | 1.5 | 8.4 |
| | 2017 £m | 2016 £m | | |
| Analysis of total provisions: | | | | |
| Current | 2.6 | 3.0 | | |
| Non-Current | 5.8 | 3.5 | | |
| | 8.4 | 6.5 | | |

Deferred consideration

Of the total £3.7m deferred consideration, £1.4m contingent consideration relates to the acquisition of Contour and £1.6m contingent consideration relates to the acquisition of Variohm (refer to note 11). The remaining £0.7m relates to earn-outs in respect of the Noratel and Foss acquisitions.

Severance and retirement indemnity

The severance provision relates to severance costs payable to employees.

Retirement indemnity provision of £1.9m (2016: £1.6m), relates to retirement and leaving indemnity schemes in Sri Lanka, India and Italy. The schemes are unfunded. The service cost, representing deferred salaries accruing to employees, is included as an operating expense and determined by reference to local laws and actuarial assumptions where applicable. The key actuarial assumptions used in relation to valuation of the Sri Lankan scheme comprise of mortality rates, staff turnover (16% up to age of 50 and nil% thereafter), retirement age (55 years), discount rate (11%) and salary increases (7% to 9%).

Other

Other provisions relate to warranty provisions, onerous contracts, dilapidations and general restructuring. The provisions greater than one year are expected to be utilised within one to three years.

Notes to the Group financial statements continued

for the year ended 31 March 2017

26. Financial risk controls

Management of financial risk

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

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

Management of interest rate risk

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

Based on the Group's debt position at the year end, a 1% increase in interest rates would decrease the Group's profit before tax by approximately £0.5m (2016: £0.6m).

Management of foreign exchange risk

The Group's shareholders' equity, earnings and cash flows are exposed to foreign exchange risks, due to the mismatch between the currencies in which it purchases stock and the final currency of sale to its customers.

It is Group policy to hedge identified significant foreign exchange exposure on its committed operating cash flows. This is carried out centrally based on forecast orders and sales.

The following table demonstrates the sensitivity to a 10% change in the US Dollar and Euro rates against Sterling with all other variables remaining constant, of the Group's profit before tax, due to changes in the fair value of monetary assets and liabilities.

| | £ currency impact | | US\$ currency impact | | Euro currency impact | |
|---------------------------------|----------------------|------------|-------------------------|------------|-------------------------|------------|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| Profit before tax – (loss)/gain | | | | | | |
| 10% appreciation | (0.8) | (0.3) | 1.6 | 1.4 | (0.6) | (0.5) |
| 10% depreciation | 1.0 | 0.3 | (1.6) | (1.4) | 0.8 | 0.6 |

Management of credit risk

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

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

As well as credit risk exposures inherent within the Group's outstanding receivables, the Group is exposed to counterparty credit risk arising from the placing of deposits and entering into derivative financial instrument contracts with banks and financial institutions.

The Group manages exposure to credit risk by entering into financial instrument contracts only with highly credit-rated authorised counterparties which are reviewed and approved annually by the Board.

Counterparties' positions are monitored on a regular basis to ensure that they are within the approved limits and that there are no significant concentrations of credit risks.

Management of liquidity risk

The Group manages its exposure to liquidity risk and maximises its flexibility in meeting changing business needs by managing the cash generation of its operations, combined with bank borrowings and access to long-term debt. In its funding strategy, the Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of overdrafts, bank loans and facilities.

26. Financial risk controls continued

At 31 March 2017, the Group had net cash of £20.9m (2016: £19.1m), excluding long-term borrowings of £51.0m (2016: £57.2m). The Group had total working capital facilities available of £132.6m (2016: £89.3m) with a number of major UK and overseas banks, of which £128.6m (2016: £88.8m) were committed facilities. The Group had drawn £50.8m against total facilities at 31 March 2017. As part of taking out the committed facilities with a syndicate of three major banks, all of the previous facilities of the Group were cancelled. The maturity of committed facilities is to 19 July 2021. The facilities are subject to certain financial covenants which, following review, had significant headroom at 31 March 2017.

Management of capital

The Group aims to maximise shareholder value by maintaining an appropriate debt/equity capital structure. It uses a number of mechanisms to manage debt/equity levels, as appropriate, in the light of economic and trading conditions, and the future capital investment requirements of the business. Capital is made up entirely of equity and is analysed in the consolidated statement of changes in equity. Trading capital is made up of net operating assets, which include tangible and intangible assets (excluding goodwill) plus working capital.

27. Financial assets and liabilities

Fair values

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

| | Carrying amount 2017 £m | Fair value 2017 £m | Carrying amount 2016 £m | Fair value 2016 £m |
|--|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
| Financial assets | | | | |
| Cash at bank and in hand | 22.2 | 22.2 | 19.9 | 19.9 |
| Financial liabilities at amortised cost | | | | |
| Bank overdrafts and short-term borrowings | (1.3) | (1.3) | (0.8) | (0.8) |
| Non current interest-bearing loans and borrowings: | | | | |
| Fixed and floating rate borrowings | (50.9) | (50.9) | (57.2) | (57.2) |
| Contingent consideration (including earn-outs) | (3.7) | (3.7) | (3.1) | (3.1) |

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

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

At 31 March 2017, the Group held forward currency hedging contracts designated as hedges of sales and purchases for which the Group has firm commitments or considers to be highly probable forecast transactions. The forward currency contracts are used to hedge the foreign currency risk of the firm commitments and the highly probable forecast transactions. The cash flow hedges have been assessed to be highly effective and an unrealised fair value loss of £nil (2016: loss of £0.7m) is included in other comprehensive income. The fair value of the forward contracts at 31 March 2017 has been estimated using an independent forward pricing present value calculation (level 2).

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

All financial instruments above are classified as Level 1 and Level 2 with the exception of contingent consideration which is classified as Level 3. There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the year.

Notes to the Group financial statements continued

for the year ended 31 March 2017

28. Trade and other payables

| | 2017 £m | 2016 £m |
|--------------------------------------|-------------|-------------|
| Trade payables | 45.8 | 34.4 |
| Other payables | 18.6 | 13.5 |
| Accrued expenses and deferred income | 7.5 | 7.3 |
| | 71.9 | 55.2 |

Trade payables are non-interest bearing and are settled taking into account local best practice. Other payables are non-interest bearing and are settled throughout the year. Accrued expenses are non-interest bearing and are settled throughout the year. Deferred income is recognised over the term of the underlying contract.

29. Share capital

| Allotted, called up and fully paid | 2017 Number | 2017 £m | 2016 Number | 2016 £m |
|------------------------------------|----------------|------------|----------------|------------|
| Ordinary shares of 5p each | 70,680,974 | 3.5 | 64,212,568 | 3.2 |

On 20 January 2017, the Company issued 6,418,308 new ordinary shares to new and existing shareholders through an equity placing. The terms of the issue were fixed through a placing agreement, with an issue price of 220 pence per share. The net proceeds were £13.6m, being gross proceeds on issue of £14.1m less directly attributable expenses of £0.5m.

The difference between the nominal value of the shares issued and the gross proceeds has been credited to the share premium account. The directly attributable transaction costs of £0.5m related to the issue of shares have been debited to the share premium account.

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

During the year to 31 March 2017, 50,098 share options were exercised by employees under the terms of the various share option schemes (2016: 82,928).

30. Commitments and contingencies

Operating lease commitments

The Group leases various buildings under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Group also leases certain motor vehicles and items of machinery. These leases have an average life of between three and five years with no renewal option included in the contracts. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 2017 £m | 2016 £m |
|---|-------------|------------|
| Due within one year | 4.6 | 3.4 |
| Due after one year but not more than five years | 9.0 | 5.7 |
| Due after more than five years | 1.0 | 0.7 |
| | 14.6 | 9.8 |

Future minimum sublease rentals expected to be received over the term of non-cancellable operating leases are £0.1m (2016: £0.2m).

31. Share-based payment plans

The Group operates various share-based payment plans. The various schemes are explained below and have been separated into two separate disclosures. The charge to the income statement in respect of each of these schemes is:

| | 2017 £m | 2016 £m |
|---|------------|------------|
| a) Approved and Unapproved Executive Share Option Schemes | – | – |
| b) Acal plc long-term incentive plan ("the LTIP") | 0.6 | 0.7 |
| | 0.6 | 0.7 |

a) Approved and Unapproved Executive Share Option Schemes

The Group operates an approved and an unapproved executive share option scheme, the rules of which are similar in all material respects. The grant of options to Executive Directors and senior management is recommended by the Remuneration Committee on the basis of their contribution to the Group's success. The options vest after three years.

The exercise price of the options is equal to the closing mid-market price of the shares on the trading day prior to the date of the grant. Exercise of all options is subject to continued employment. The life of each option granted is seven years. There are no cash settlement alternatives.

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

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

| | 31 March 2017 | 1 August 2016 | 19 August 2015 | 7 July 2015 |
|--|------------------|------------------|-------------------|----------------|
| Grant date | | | | |
| Share price at grant date | £2.13 | £2.20 | £3.07 | £2.99 |
| Exercise price | £2.195 | £2.2625 | £3.01 | £3.02 |
| Number of employees | 4 | 4 | 1 | 3 |
| Shares under option | 35,098 | 30,394 | 4,511 | 14,331 |
| Vesting period (years) | 3 | 3 | 3 | 3 |
| Expected volatility | 37.69% | 38.12% | 34.74% | 35.31% |
| Option life (years) | 10 | 10 | 10 | 10 |
| Expected life (years) | 7 | 7 | 7 | 7 |
| Risk-free rate of return | 0.58% | 0.59% | 1.39% | 1.44% |
| Expected dividends expressed as a dividend yield | 4.07% | 3.10% | 3.77% | 3.56% |
| Fair value | £0.54 | £0.62 | £0.75 | £0.83 |

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 (2016: £nil).

Notes to the Group financial statements continued

for the year ended 31 March 2017

31. Share-based payment plans continued

Outstanding share options

A summary of the options over ordinary shares that have been granted under various Group share option schemes and remain outstanding is given below:

31 March 2017

| Outstanding at 1 April 2016 | Forfeited during the year | Exercised during the year | Granted during the year | Outstanding at 31 March 2017 | Exercise price (pence) | Exercise dates |
|--------------------------------|---------------------------------|---------------------------------|-------------------------------|------------------------------------|------------------------------|-------------------|
| 56,457 | – | – | – | 56,457 | 148.00 | 2013–2020 |
| 39,919 | – | (21,723) | – | 18,196 | 201.00 | 2016–2024 |
| 21,397 | (6,077) | – | – | 15,320 | 218.00 | 2017–2024 |
| 18,842 | (4,511) | – | – | 14,331 | 302.00 | 2018–2025 |
| – | (6,603) | – | 30,394 | 23,791 | 226.25 | 2019–2026 |
| – | – | – | 35,098 | 35,098 | 219.50 | 2020–2027 |
| 136,615 | (17,191) | (21,723) | 65,492 | 163,193 | | |

At 31 March 2016

| Outstanding at 1 April 2015 | Forfeited during the year | Exercised during the year | Granted during the year | Outstanding at 31 March 2016 | Exercise price (pence) | Exercise dates |
|--------------------------------|---------------------------------|---------------------------------|-------------------------------|------------------------------------|------------------------------|-------------------|
| 56,457 | – | – | – | 56,457 | 148.00 | 2013–2020 |
| 24,814 | – | (24,814) | – | – | 131.00 | 2015–2022 |
| 39,919 | – | – | – | 39,919 | 201.00 | 2016–2024 |
| 21,397 | – | – | – | 21,397 | 218.00 | 2017–2024 |
| – | – | – | 18,842 | 18,842 | 302.00 | 2018–2025 |
| 142,587 | – | (24,814) | 18,842 | 136,615 | | |

Changes in share options

A reconciliation of option movements over the year to 31 March 2017 is shown below:

| | 2017 | | 2016 | |
|-------------------------|----------|---------------------------------------|----------|---------------------------------------|
| | Number | Weighted average exercise price | Number | Weighted average exercise price |
| Outstanding at 1 April | 136,615 | £1.96 | 142,587 | £1.70 |
| Granted | 65,492 | £2.23 | 18,842 | £3.02 |
| Exercised | (21,723) | £2.01 | (24,814) | £1.31 |
| Forfeited | (17,191) | £2.43 | – | – |
| Outstanding at 31 March | 163,193 | £2.01 | 136,615 | £1.96 |
| Exercisable at 31 March | 56,457 | £1.48 | 56,457 | £1.48 |

The weighted average remaining contractual life for the share options outstanding at 31 March 2017 is 6.9 years (2016: 6.6 years).

The range of exercise prices for options outstanding at the end of the year was £1.48 to £3.02 (2016: £1.48 to £3.02).

b) The LTIP

Since 2008, the Group has operated the LTIP as a replacement for the approved and unapproved executive share option scheme detailed above. The LTIP involves a conditional award of shares on a grant of a nil-cost option. The award of shares to Executive Directors and senior management is recommended by the Remuneration Committee on the basis of such factors as their contribution to the Group's success. The LTIPs are equity settled and there are no cash settled alternatives. The release of an award is dependent on the individual's continued employment for a three-year holding period from the date of grant and the satisfaction by the Company of certain performance conditions.

For awards made in 2016 and 2017, the performance conditions are as follows:

- 50% of the award is based on the Company's comparative total shareholder return ("TSR") against a comparator group made up of the constituents of the FTSE Small Cap Index; and
- 50% of the award is based on the Company's absolute total shareholder return as measured against the Consumer Price Index ("CPI").

31. Share-based payment plans continued

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 2017 awards were approved by the Remuneration Committee on 28 March 2017 and a valuation of these awards was carried out in the year ended 31 March 2017. The fair value per award granted and the assumptions used in the calculation are as follows:

Awards granted in the year ended 31 March 2017:

| Grant date | 31 March 2017 TSR | 31 March 2017 CPI |
|---------------------------|----------------------|----------------------|
| Share price at grant date | 2.25 | 2.25 |
| Exercise price | nil | nil |
| Number of employees | 12 | 12 |
| Shares under option | 394,382 | 394,383 |
| Vesting period (years) | 3 | 3 |
| Expected volatility | 31.37% | 31.37% |
| Option life (years) | 10 | 10 |
| Expected life (years) | 5 | 5 |
| Risk-free rate of return | 0.12% | 0.12% |
| Expected dividend yield | 4.07% | 4.07% |
| Fair value | £1.22 | £.59 |

Awards granted in the year ended 31 March 2016:

| Grant date | 31 March 2016 TSR | 31 March 2016 CPI |
|---------------------------|----------------------|----------------------|
| Share price at grant date | 2.45 | 2.45 |
| Exercise price | nil | nil |
| Number of employees | 10 | 10 |
| Shares under option | 309,210 | 309,211 |
| Vesting period (years) | 3 | 3 |
| Expected volatility | 31.16% | 31.16% |
| Option life (years) | 10 | 10 |
| Expected life (years) | 5 | 5 |
| Risk-free rate of return | 0.47% | 0.47% |
| Expected dividend yield | 2.86% | 2.86% |
| Fair value | £1.28 | £0.66 |

The expected volatility is based on historical volatility over a term commensurate with the expected life of each award. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The total charge for the year relating to the LTIP schemes was £0.6m (2016: £0.7m).

Outstanding LTIP

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

31 March 2017

| Outstanding at 1 April 2016 | Granted during the year | Expired during the year | Forfeited during the year | Exercised during the year | Outstanding at 31 March 2017 | Exercise dates |
|--------------------------------|-------------------------------|-------------------------------|---------------------------------|---------------------------------|------------------------------------|-------------------|
| 804,587 | – | – | – | – | 804,587 | 2012–2019 |
| 447,377 | – | – | – | – | 447,377 | 2013–2020 |
| 271,948 | – | – | – | – | 271,948 | 2014–2021 |
| 654,469 | – | – | – | – | 654,469 | 2015–2022 |
| 662,025 | – | – | – | (50,098) | 611,927 | 2016–2023 |
| 478,581 | – | – | (478,581) | – | – | 2017–2024 |
| 649,690 | – | – | – | – | 649,690 | 2018–2025 |
| 618,421 | – | – | – | – | 618,421 | 2019–2026 |
| – | 788,765 | – | – | – | 788,765 | 2020–2027 |
| 4,587,098 | 788,765 | – | (478,581) | (50,098) | 4,847,184 | |

Notes to the Group financial statements continued

for the year ended 31 March 2017

31. Share-based payment plans continued

31 March 2016

| Outstanding at 1 April 2015 | Granted during the year | Expired during the year | Forfeited during the year | Exercised during the year | Outstanding at 31 March 2016 | Exercise dates |
|--------------------------------|-------------------------------|-------------------------------|---------------------------------|---------------------------------|------------------------------------|-------------------|
| 804,587 | – | – | – | – | 804,587 | 2012–2019 |
| 447,377 | – | – | – | – | 447,377 | 2013–2020 |
| 271,948 | – | – | – | – | 271,948 | 2014–2021 |
| 708,874 | – | – | – | (54,405) | 654,469 | 2015–2022 |
| 690,548 | – | – | – | (28,523) | 662,025 | 2016–2023 |
| 478,581 | – | – | – | – | 478,581 | 2017–2024 |
| 649,690 | – | – | – | – | 649,690 | 2018–2025 |
| – | 618,421 | – | – | – | 618,421 | 2019–2026 |
| 4,051,605 | 618,421 | – | – | (82,928) | 4,587,098 | |

The weighted average remaining contractual life for the share options outstanding at 31 March 2017 is 6.0 years (2016: 6.4 years).

The range of exercise prices for options outstanding at the end of the year was nil (2016: nil).

32. Pensions

Defined contribution schemes

The Group makes payments to various defined contribution pension schemes, the assets of which are held in separately administered funds. In the United Kingdom, the relevant scheme is the Acal Group Employee Pension Scheme ('the Acal 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 Acal scheme, and thereafter has no further obligations in relation to the Acal scheme. At the year end, 208 employees were active members of the Acal scheme (2016: 187). The total cost charged to the consolidated income statement in relation to the UK-based Acal scheme was £520,000 (2016: £733,000). Employer contributions in respect of other UK-based schemes and overseas pension schemes were £56,000 (2016: £13,000) and £1,877,000 (2016: £1,586,000) respectively. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2016/17 but based on actual salary levels in 2017/18.

Defined benefit schemes

The acquisition of the Sedgemoor Group in June 1999 brought with it certain defined benefit pension schemes, the principal one of which was the Sedgemoor Group Pension Fund (together 'the Sedgemoor Scheme'). The Sedgemoor Scheme is funded by the Company, provides retirement benefits based on final pensionable salary and its assets are held in a separate trustee-administered fund.

Following the acquisition of the Sedgemoor Group, the Sedgemoor Scheme was closed to new members. Shortly thereafter, employees were given the opportunity to join the Acal Scheme and future service benefits ceased to accrue to members under the Sedgemoor Scheme.

Contributions to the Sedgemoor Scheme are determined in accordance with the advice of independent, professionally qualified actuaries and are set based upon funding valuations carried out every three years.

Based upon the results of the triennial funding valuation at 31 March 2015, the Sedgemoor Scheme's Trustees agreed with Sedgemoor Limited on behalf of the participating employers to continue the participating employers' contributions under the deficit recovery plan agreed at the previous valuation at 31 March 2012. This required contributions of £1.6m p.a. increasing by 3% each April payable over the period to 31 March 2022.

The estimated amount of employer contributions expected to be paid to the Sedgemoor Scheme during 2017/18 is £1.7m (2016/17: £1.6m).

The results of the triennial funding valuation as at 31 March 2015 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19.

32. Pensions continued

The main actuarial assumptions used are set out as follows:

| | 2017 | 2016 |
|---|------|------|
| Rate of increase of salaries | n/a | n/a |
| Rate of increase of pensions in payment | 2.4% | 2.2% |
| Discount rate | 2.4% | 3.3% |
| Inflation assumption – RPI | 3.2% | 2.8% |
| Inflation assumption – CPI | 2.1% | 1.8% |

The discount rate is based on the yields on AA grade sterling corporate bonds at the reporting date.

Pensioner mortality assumptions are based on the 'S2NA' table, projected from 2007 and with long-term improvement rates in line with CMI 2015 core projections based on each member's actual date of birth with a long-term annual rate of improvement of 1.25% for males and for females (last year CMI 2014 core projections were used rather than CMI 2015).

The weighted average duration of the defined benefit obligation at 31 March 2017 was 14 years (2016: 13 years).

The investment strategy is set by the Trustee of the Sedgemoor Scheme. The current strategy is to invest 50% of the assets in equities, property and other return seeking investments and 50% in liability driven investments, corporate bonds, cash and other bond related instruments. As at 31 March 2017 the investment strategy hedged 40% of interest rate risk and 40% of inflation risk. The hedging levels are due to be increased to 50% and then 60% at the end of June 2017 and the end of September 2017 respectively.

The Sedgemoor Scheme assets are held exclusively within instruments with quoted prices in an active market, other than the property fund. Re-measurements are recognised immediately through other comprehensive income.

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

| | 2017 £m | 2016 £m |
|--|------------|------------|
| Pension administration costs (recognised in administrative expenses) | 0.3 | 0.3 |
| Net interest cost on pension scheme deficit (recognised in finance cost) | 0.1 | 0.2 |
| Total | 0.4 | 0.5 |

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

| | 2017 £m | 2016 £m |
|---|------------|------------|
| Re-measurement (losses) / gains: | | |
| Return on plan assets (excluding amounts included in net interest expense) | 2.3 | (1.2) |
| Actuarial changes arising from changes in financial assumptions | (4.6) | 2.0 |
| Actuarial changes | | |
| Deferred tax movement on funding surplus under IAS 19 valuation | 0.3 | (0.1) |
| Actuarial (losses)/gains recorded in the consolidated statement of comprehensive income | (2.0) | 0.7 |

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:

| | 2017 £m | 2016 £m |
|---|--------------|--------------|
| Equities | 4.1 | 4.6 |
| Bonds | 11.6 | 16.7 |
| Property | 3.7 | 2.3 |
| Absolute Return Fund | 5.1 | 5.1 |
| Diversified Growth Fund | 5.4 | 4.9 |
| Cash | 2.7 | 0.2 |
| Liability driven investments | 3.9 | – |
| Fair value of scheme assets | 36.5 | 33.8 |
| Present value of funded defined benefit obligations | (42.9) | (39.4) |
| Liability recognised in the consolidated statement of financial position | (6.4) | (5.6) |

Included in the pension liability of £6.4m (2016: £5.6m) is deferred tax of £0.4m (2016: £0.7m) in relation to a funding surplus under IAS 19 based on the agreed funding plan. Excluding deferred tax liability, the pension liability at the year end was £6.0m (2016: £4.9m).

Notes to the Group financial statements continued

for the year ended 31 March 2017

32. Pensions continued

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

| | 2017 £m | 2016 £m |
|---|------------|------------|
| Opening defined benefit obligation | 39.4 | 42.1 |
| Net interest cost | 1.2 | 1.3 |
| Actuarial losses/(gains) due to: | | |
| Changes in financial assumptions | 4.6 | (2.0) |
| Deferred tax movement on funding surplus under IAS 19 valuation | (0.3) | 0.1 |
| Benefits paid | (2.0) | (2.1) |
| Closing defined benefit obligations | 42.9 | 39.4 |

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

| | 2017 £m | 2016 £m |
|---|------------|------------|
| Opening fair value of scheme assets | 33.8 | 34.7 |
| Interest on scheme assets | 1.1 | 1.1 |
| Actual return on plan assets less interest on plan assets | 2.3 | (1.2) |
| Pension administration costs | (0.3) | (0.3) |
| Contributions | 1.6 | 1.6 |
| Benefits paid | (2.0) | (2.1) |
| Closing fair value of scheme assets | 36.5 | 33.8 |

Sensitivities

The sensitivity of the 2017 pension liabilities to changes in assumptions are as follows:

| Assumption | Change in assumption | Increase in scheme deficit £m |
|-----------------|----------------------|-------------------------------------|
| Discount rate | Decrease by 0.5% | 3.1 |
| Inflation | Increase by 0.5% | 1.2 |
| Life expectancy | Increase by 1 year | 1.5 |

33. Related party disclosures

As at 31 March 2017 the Group's subsidiaries are set out below:

| Name and nature of business | Registered Office | Country of incorporation and registration | Type of share |
|--|---|---|-----------------|
| Custom distribution | | | |
| Acal BFi UK Ltd | 3 The Business Centre, Molly Millars Lane, Wokingham, RG41 2EY | England | Ordinary Shares |
| Acal Central Procurement Ltd | 3 The Business Centre, Molly Millars Lane, Wokingham, RG41 2EY | England | Ordinary Shares |
| Vertec Scientific Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Vertec Scientific SA (pty) Ltd | 8 Charmaine Avenue, President Ridge, Randburg 2194 | South Africa | Ordinary Shares |
| Acal BFi France SAS | 4 allée du Cantal – ZI Petite Montagne Sud – 91090 LISSES | France | Ordinary Shares |
| Acal BFi Belgium NV/SA | Lozenberg 4, 1932 Zaventem | Belgium | Ordinary Shares |
| Acal BFi Germany GmbH | Assar-Gabrielsson-Straße 1, 63128, Dietzenbach, Germany | Germany | Ordinary Shares |
| Acal BFi Nordic AB | P.O. Box 3002, 750 03 Uppsala, Sweden | Sweden | Ordinary Shares |
| Acal BFi Netherlands BV | Luchthavenweg 53, 5657EA, Eindhoven | Netherlands | Ordinary Shares |
| Acal BFi Italy Srl | Via Cascina Venina n.20/A, 20090 Assago, Milan | Italy | Ordinary Shares |
| Design and Manufacturing | | | |
| Myrra SAS | 2 boulevard de La Haye, 77600 Bussy, Saint Georges | France | Ordinary Shares |
| Myrra Poland Sp | Ul Warszawska 1, 05-310 Kaluszyń | Poland | Ordinary shares |
| Zhongshan Myrra Electronic Co Ltd | 39-2 Industrial Road, Xiaolan Industrial Park, Xiaolan Town 528400, Guangdong | China | Ordinary shares |
| Myrra Hispania Srl | c/Mataro 43 Pol. Ind. les Grases, 08980 Saint Feliu De Llobregat, Barcelona | Spain | Ordinary shares |
| Myrra Germany GmbH | Lebacher Strabe 4, 66113 Saarbrücken | Germany | Ordinary shares |
| Myrra Hong Kong Ltd | 42/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong | Hong Kong | Ordinary shares |
| Noratel AS | Postboks 133, Hokksund, 3301 | Norway | Ordinary shares |
| Noratel UK Ltd | 7 George House, Princes Court, Beam Heath Way, Nantwich, Cheshire CW5 6GD | England | Ordinary shares |
| Noratel Spain SL | C/Ramon Gomez de la Serna no. 5, 1E, 29602 Marbella-Málaga | Spain | Ordinary shares |
| Noratel Denmark A/S | Kirkebjerg Parkvej 45, Brøndby 2605 | Denmark | Ordinary shares |
| Noratel Finland OY | Kiertokatu 5, PB 11, Salo 24280 | Finland | Ordinary shares |
| Foshan Noratel Electric Co Ltd | NO 22-2 Xingye Road, Zone C Shishan Science & Technology Industrial Park, Nanhai District, Foshan City, Guangdong | China | Ordinary shares |
| Noratel Germany AG | Providence 528225 | | |
| Noratel India Power Components Pvt Ltd | Elenthal 53, Grafenau DE-94481 | Germany | Ordinary shares |
| Noratel SP Z.o.o | Nila Techopark, Trivandrum 695581 | India | Ordinary shares |
| | ul. Szczecinska 1K, Dobra Szczecinska PL-72-003 | Poland | Ordinary shares |
| Danselbud Noratel Transformator Sp Zoo | ul. Szczecinska 1K, Dobra Szczecinska PL-72-003 | Poland | Ordinary shares |
| Noratel International Pvt Ltd | P.O Box 15, phase II, Katunayanke KEPZ | Sri Lanka | Ordinary shares |

Notes to the Group financial statements continued

for the year ended 31 March 2017

33. Related party disclosures continued

| Name and nature of business | Registered Office | Country of incorporation and registration | Type of share |
|------------------------------------|---|---|-----------------|
| Noratel Sweden AB | Lars Lindahlsväg 2, Bo Lars Lindahlsväg 2, Box 108, Laxå 69522 x 108, Laxå 69522 | Sweden | Ordinary shares |
| Noratel North America Inc | # 300. 7731 Little Avenue, Charlotte NC 28226 | USA | Ordinary shares |
| Noratel Power Engineering Inc | # 1117 East Janis Street, Carson, CA 90746 | USA | Ordinary shares |
| Foss Fiberoptisk Systemsalg AS | Dansrudveien 45, N-3036 Drammen | Norway | Ordinary shares |
| Optocon Technologies s.r.o. | Strojnicka 29, SK-821 05 Bratislava | Slovakia | Ordinary shares |
| Flux A/S | Industrivangen 5, 4550 Asnaes | Denmark | Ordinary shares |
| Flux International Ltd | BLK C 5, 41/27 Bangna-Trad KM. 16.5, Bangchalong, Bangplee | Thailand | Ordinary shares |
| Hectronic AB | P.O. Box 3002, 750 03 Uppsala, Sweden | Sweden | Ordinary Shares |
| RSG Electronic Components GmbH | Sprendlinger Landstr. 115, 63069 Offenbach, Germany | Germany | Ordinary Shares |
| MTC Micro Tech Components GmbH | Hausener Straße 9, 89407 Dillingen a.d., Donau | Germany | Ordinary Shares |
| EMC Innovation Limited | Woolim Lions Valley C-409, 283 Bupyeong-daero, Bupyeong-gu, Incheon | South Korea | Ordinary Shares |
| Stortech Electronics Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Contour Electronics Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Contour Electronics Asia Ltd | Room 601, 6/F Shing Yip Industrial Building, 19-21 Shing Yip Street, Kwun Teng, Kowloon | Hong Kong | Ordinary shares |
| Plitron Manufacturing Incorporated | 8-601 Magnetic Drive, Toronto, Ontario, M3J 3J2 | Canada | Ordinary shares |
| Ixthus Instrumentation Limited | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Heason Technology Limited | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Herga Technology Limited | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Variohm-Eurosensor Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Management services | | | |
| Acal Management Services Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |

33. Related party disclosures continued

| Name and nature of business | Registered Office | Country of incorporation and registration | Type of share |
|--|--|---|-----------------|
| Holding companies | | | |
| Acal Electronic Holdings Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Trafo Holding AS | Postboks 133, Hokksund, 3301 | Norway | Ordinary Shares |
| Acal Nordic Holdings Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Acal BV | Luchthavenweg 53, 5657 EA Eindhoven | Netherlands | Ordinary shares |
| Acal Europe Holdings BV | Luchthavenweg 53, 5657 EA Eindhoven | Netherlands | Ordinary shares |
| Acal GmbH | Oppelner Straße 5, 82194 Gröbenzell, Germany | Germany | Ordinary Shares |
| Acal France Holdings SAS | 4 allée du Cantal – ZI Petite Montagne Sud – 91090 LISSES | France | Ordinary Shares |
| Sedgemoor Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Contour Holdings Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Acal NewCo Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Aramys SAS | 2 boulevard de La Haye, 77600 Busy Saint Georges | France | Ordinary shares |
| Variohm Holdings Limited | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Dormant companies | | | |
| Cabcon Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Eurosensor Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Acal Supply Chain Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Acal BFi Iberia SL | C/Anabel Segura, 7, Planta Acceso, 28108 Alcobendas, Madrid | Spain | Ordinary Shares |
| EAF Group Holding BV | Luchthavenweg 53, 5657 EA Eindhoven | Netherlands | Ordinary shares |
| EAF Netherlands BV | Luchthavenweg 53, 5657 EA Eindhoven | Netherlands | Ordinary shares |
| Acal Electronics Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| BFi Optilas Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Sedgemoor Holdings Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Sedgemoor Group Supplementary Pension Trustees Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Sedgemoor Group Pension Trustees Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Townsend-Coates Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |

Notes to the Group financial statements continued

for the year ended 31 March 2017

33. Related party disclosures continued

| Name and nature of business | Registered Office | Country of incorporation and registration | Type of share |
|---------------------------------|--|---|-----------------|
| Actech Holdings Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Advanced Crystal Technology Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Bosunmark Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Gothic Crellon Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Radiatron Holdings Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Radiatron Components Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Amega Group Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |
| Amega Electronics Ltd | 2 Chancellor Court, Occam Road, Surrey Research Park, Guildford GU2 7AH | England | Ordinary Shares |

All subsidiaries operate in their country of incorporation. All material subsidiaries have a 31 March year end and the shares carry the same voting rights as their effective interest.

33. Related party disclosures continued

Related parties

Remuneration of key management personnel

The remuneration of the Directors, who are key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is provided in the Directors Remuneration report on pages 53 to 70.

| | 2017 £m | 2016 £m |
|------------------------------|------------|------------|
| Short-term employee benefits | 1.1 | 1.1 |
| Share-based payments | – | 0.8 |
| | 1.1 | 1.9 |

Associate Undertakings

Details of the Group's investments in associates are provided in note 18.

Terms and conditions of transactions with related parties

All transactions with related parties were on an arm's length basis. Outstanding balances at year end are unsecured and settlement occurs in cash.

Transactions with other related parties

Details of transactions with Directors are detailed in the Remuneration report on pages 53 to 70

34. Events after the reporting date

Dividend

A final dividend of 6.05p per share (2016: 5.72p), amounting to a dividend of £4.3m (2016: £3.7m) and bringing the total dividend for the year to 8.50p (2016: 8.05p), was declared by the Board on 30 May 2017. The Acal plc financial statements do not reflect this dividend.

35. Exchange rates

The profit and loss accounts of overseas subsidiaries are translated into sterling at average rates of exchange for the year and consolidated statement of financial positions are translated at year end rates. The main currencies are the US Dollar and the Euro. Details of the exchange rates used are as follows:

| | Year to 31 March 2017 | | Year to 31 March 2016 | |
|-----------|-----------------------|--------------|-----------------------|--------------|
| | Closing rate | Average rate | Closing rate | Average rate |
| US Dollar | 1.2496 | 1.3096 | 1.4383 | 1.5081 |
| Euro | 1.1689 | 1.1921 | 1.2633 | 1.3665 |

Company balance sheet

for the year ended 31 March 2017

| | note | 2017 £m | 2016 £m |
|-------------------------------------|------|------------|------------|
| Fixed assets | | | |
| Investments | 4 | 177.1 | 176.6 |
| Current assets | | | |
| Debtors | 5 | 5.2 | 4.8 |
| Cash at bank and in hand | | 1.1 | 0.8 |
| Total current assets | | 6.3 | 5.6 |
| Creditors: | | | |
| Amounts falling due within one year | 6 | (22.5) | (27.0) |
| Net current liabilities | | (16.2) | (21.4) |
| Non-current liabilities | | | |
| Other financial liabilities | 7 | (12.0) | (15.0) |
| Provisions | 8 | (1.4) | (1.2) |
| | | (13.4) | (16.2) |
| Net assets | | 147.5 | 139.0 |
| Capital and reserves | | | |
| Share capital | 9 | 3.5 | 3.2 |
| Share premium | | 108.9 | 95.6 |
| Merger reserve | | 3.0 | 3.0 |
| Profit and loss account | | 32.1 | 37.2 |
| Shareholders' funds | | 147.5 | 139.0 |

The (loss)/profit of the parent company for the financial year was £(0.5)m (2016: £0.4m).

These financial statements were approved by the Board of Directors on 6 June 2017 and signed on its behalf by:

Nick Jefferies

Group Chief Executive



Simon Gibbins

Group Finance Director



Company statement of changes in equity

at 31 March 2017

| | Share capital £m | Share premium £m | Merger reserve £m | Profit and loss account £m | Total £m |
|-------------------------|------------------------|------------------------|-------------------------|----------------------------------|--------------|
| At 1 April 2015 | 3.1 | 92.7 | 3.0 | 41.0 | 139.8 |
| Profit for the year | – | – | – | 0.4 | 0.4 |
| Share-based payments | – | – | – | 0.7 | 0.7 |
| Shares issued | 0.1 | 2.9 | – | – | 3.0 |
| Dividends | – | – | – | (4.9) | (4.9) |
| At 31 March 2016 | 3.2 | 95.6 | 3.0 | 37.2 | 139.0 |
| Profit for the year | – | – | – | (0.5) | (0.5) |
| Share-based payments | – | – | – | 0.6 | 0.6 |
| Shares issued (note 9) | 0.3 | 13.3 | – | – | 13.6 |
| Dividends | – | – | – | (5.2) | (5.2) |
| At 31 March 2017 | 3.5 | 108.9 | 3.0 | 32.1 | 147.5 |

Notes to the Company financial statements

for the year ended 31 March 2017

1. Basis of accounting

The separate financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101), on the going concern basis and under the historical convention modified for fair values, and in accordance with the Companies Act 2006 and with applicable accounting standards.

These financial statements and accompanying notes have been prepared in accordance with the Reduced Disclosure Framework for all periods presented.

A separate profit and loss account dealing with the results of the company has not been presented as permitted by section 408(3) of the Companies Act 2006.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of IAS 1 'Presentation of financial statements'
 - 10(d) (statement of cash flows)
 - 16 (statement of compliance with all IFRS)
 - 111 (cash flow statement information)
 - 134-136 (capital management disclosures)
- IFRS 7 'Financial instruments: Disclosures'
- IAS 7 'Statement of cash flows'
- IAS 24 (paragraph 17) 'Related party disclosures' (key management compensation)
- IAS 24 'Related party disclosures' (the requirement to disclose related party transactions between two or more members of a group)

For the following disclosures, as the Group financial statements include the equivalent disclosures, the company has taken the exemptions available under FRS 101:

- FRS 2 Share-based payments in respect of group settled equity share-based payments
- Certain disclosures required by IFRS 13 Fair Value Measurement and disclosures required by IFRS 7 Financial Instrument Disclosures

2. Summary of significant accounting policies

Going concern

The Group's business activities, together with factors which may adversely impact its future development, performance and position, are set out in the Strategic Report on pages 2 to 36. 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 24 to 27.

The Group has significant financial resources, well established distribution contracts with a number of suppliers and a broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its principal risks and uncertainties as disclosed on pages 30 to 32 of the Strategic Report.

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

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

2. Summary of significant accounting policies continued

Income recognition

Dividend income is recognised when the Company's right to receive payment is established.

Fixed asset investments

Investments in subsidiary and associate undertakings are stated initially at cost, being the fair value of the consideration given and including directly attributable transaction costs. The carrying values are reviewed for impairment if events or changes in circumstances indicate the carrying values may not be recoverable.

Dividends

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

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, in accordance with the effective interest rate method.

Share-based payments

In preparing the financial statements, the Company has applied IFRS 2 'Share-based payments'. Although the Company does not incur a charge under this standard, the issuance by the Company to its subsidiaries of a grant over the Company's options represents additional capital contributions by the Company in its subsidiaries. The additional capital contribution is based on the fair value of the grant issued, allocated over the underlying grant's vesting period.

Further information on share based payments is provided in note 31 of the Group accounts.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Deferred tax assets are regarded as recoverable and recognised in the financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

3. Profit of the parent company

The (loss)/profit of the parent company for the financial year was £(0.5)m (2016: £0.4m). By virtue of section 408(3) of the Companies Act 2006, the Company is exempt from presenting a separate profit and loss account.

4. Fixed asset investments

| | Subsidiary undertakings £m |
|----------------------------|---|
| At 1 April 2015 | 157.3 |
| Investment in subsidiaries | 18.6 |
| Share-based payments | 0.7 |
| At 31 March 2016 | 176.6 |
| Adjustment to investment | (0.1) |
| Share-based payments | 0.6 |
| At 31 March 2017 | 177.1 |

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

The investment in subsidiaries in the year ended 31 March 2016 relates to the acquisition of Contour Holdings Limited. Further information on this acquisition is provided in note 11 of the Group accounts.

Notes to the Company financial statements continued

for the year ended 31 March 2017

5. Debtors

| | 2017 £m | 2016 £m |
|---|------------|------------|
| Amounts falling due within one year: | | |
| Amounts owed by subsidiary undertakings | 4.0 | 4.0 |
| Corporation tax | 0.9 | 0.5 |
| Deferred tax | 0.1 | 0.1 |
| Prepayments | 0.2 | 0.2 |
| | 5.2 | 4.8 |

The deferred tax asset comprises temporary timing differences.

6. Creditors

| | 2017 £m | 2016 £m |
|---|-------------|-------------|
| Amounts falling due within one year: | | |
| Bank loans and overdrafts | 0.7 | 9.6 |
| Amounts owed to subsidiary undertakings | 21.0 | 16.7 |
| Other creditors | 0.4 | 0.3 |
| Accruals and deferred income | 0.4 | 0.4 |
| | 22.5 | 27.0 |

7. Financial liabilities

Financial liabilities of £12.0m at 31 March 2017 (2016: £15.0m) comprise drawdowns on the Group's revolving credit facility (see note 22 to the Group financial statements). The amount is denominated in Sterling and bears interest based on LIBOR. The facility is secured against the shares of certain Group subsidiaries.

8. Provisions

| | Contingent consideration £m |
|-------------------------|-----------------------------------|
| At 1 April 2016 | 1.2 |
| Arising during the year | 0.2 |
| At 31 March 2017 | 1.4 |

| | 2017 £m | 2016 £m |
|--------------------------------------|------------|------------|
| Analysis of total provisions: | | |
| Current | – | – |
| Non-Current | 1.4 | 1.2 |
| | 1.4 | 1.2 |

Contingent consideration

The provision at 31 March 2017 of £1.4m (2016: £1.2m) relates to contingent consideration in respect of the acquisition of Contour.

9. Share capital

| Allotted, called up and fully paid | 2017 Number | 2017 £m | 2016 Number | 2016 £m |
|---|------------------------|--------------------|----------------|------------|
| Ordinary shares of 5p each | 70,680,974 | 3.5 | 64,212,568 | 3.2 |

On 20 January 2017, the Company issued 6,418,308 new ordinary shares to new and existing shareholders through an equity placing. The terms of the issue were fixed through a placing agreement, with an issue price of 220 pence per share. Net proceeds were £13.6m, being gross proceeds on issue of £14.1m less directly attributable expenses of £0.5m.

The difference between the nominal value of the shares issued and the gross proceeds has been credited to the share premium account. The directly attributable transaction costs of £0.5m related to the issue of shares have been debited to the share premium account.

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

At 31 March 2017, there were outstanding options for employees of subsidiaries to purchase up to 4,847,184 (2016: 4,587,098) ordinary shares of 5p each between 2017 and 2027. The range of exercise prices was nil (2016: nil). These are subject to certain performance conditions as disclosed in note 31 of the Group Financial Statements. During the year to 31 March 2017, 50,098 share options were exercised by employees under the terms of the LTIP scheme (2016: 82,928).

10. Related parties

The Company is exempt under the terms of IAS 24 from disclosing related party transactions with wholly-owned entities that are part of the Group as these transactions are fully eliminated on consolidation.

The Company has given guarantees and offset arrangements to support bank facilities made available to subsidiary undertakings.

11. Share-based payments

For detailed disclosures of share-based payments granted to the employees of subsidiaries refer to note 31 of the Group Financial Statements.

Five year record

| | 2017 £m | 2016 £m | 2015 £m | 2014 £m | 2013 £m |
|---|------------|------------|------------|------------|------------|
| Group income statement – continuing operations | | | | | |
| Revenue | 338.2 | 287.7 | 271.1 | 211.6 | 177.4 |
| Gross profit | 111.0 | 92.6 | 84.4 | 63.0 | 54.4 |
| Underlying operating profit | 20.0 | 16.3 | 13.4 | 7.1 | 5.5 |
| Underlying profit before tax | 17.2 | 14.5 | 11.8 | 6.3 | 5.0 |
| Profit before tax | 4.8 | 9.4 | 4.3 | 4.2 | 0.7 |
| Profit for the year from continuing operations | 3.5 | 7.2 | 2.9 | 3.7 | 2.1 |
| (Loss)/profit for the year from discontinued operations | – | – | – | (2.4) | (4.0) |
| Profit/(loss) for the year | 3.5 | 7.2 | 2.9 | 1.3 | (1.9) |
| Earnings per share – continuing operations | | | | | |
| Underlying diluted earnings per share | 19.2p | 17.0p | 15.4p | 11.8p | 9.8p |
| Fully diluted earnings per share | 5.1p | 10.9p | 4.8p | 8.1p | 5.2p |
| Dividend per share | 8.5p | 8.05p | 7.6p | 6.8p | 6.2p |
| Group statement of financial position | | | | | |
| Net (debt)/cash | (30.0) | (38.1) | (19.0) | 1.8 | 11.8 |
| Non-current assets | 122.2 | 108.4 | 88.6 | 33.1 | 30.9 |
| Net assets | 123.8 | 101.9 | 92.7 | 48.5 | 51.5 |

2013 and 2014 have been restated on a continuing basis. For these years, earnings per share and dividend per share have also been restated to reflect the bonus element of the rights issue during 2015.

Principal locations

Group head office

| Country | Company | Location |
|----------------|----------|-----------|
| United Kingdom | Acal plc | Guildford |

Custom distribution division

| Country | Company | Location |
|----------------|--|--|
| United Kingdom | Acal BFi UK Ltd Central Procurement UK Ltd Vertec Scientific Ltd | Wokingham, Bracknell, Milton Keynes Wokingham Silchester |
| Belgium | Acal BFi Belgium NV/SA | Brussels |
| Denmark | Acal BFi Nordic AB | Copenhagen |
| Finland | Acal BFi Nordic AB | Helsinki |
| France | Acal BFi France SAS | Evry |
| Germany | Acal BFi Germany GmbH | Dietzenbach, Munich |
| Ireland | Acal BFi UK Ltd | Maynooth |
| Italy | Acal BFi Italia Srl | Milan |
| Netherlands | Acal BFi Netherlands BV | Eindhoven |
| Norway | Acal BFi Nordic AB | Honefoss |
| South Africa | Vertec Scientific SA (pty) Ltd | Johannesburg |
| Spain | Acal BFi Iberia SL | Madrid |
| Sweden | Acal BFi Nordic AB | Stockholm, Uppsala |

Design & manufacturing division

| Country | Company | Location |
|----------------|---|--|
| United Kingdom | Contour Electronics Ltd Heason Technology Ltd Herga Technology Ltd Ixthus Instrumentation Ltd Noratel UK Ltd Stortech Electronics Ltd Variohm-Eurosensor Ltd Plitron Manufacturing Inc | Hook Horsham Bury St. Edmunds Towcester Nantwich Harlow Towcester Toronto |
| Canada | Foshan Noratel Electric Co Ltd | Foshan City |
| China | Zhongshan Myrra Electronic Co Ltd | Zhongshan, Shanghai |
| Denmark | Noratel Denmark A/S Flux A/S | Brøndby Asnaes |
| Finland | Noratel Finland OY | Salo |
| France | Myrra SAS | Bussy-Saint-Georges |
| Germany | MTC Micro Tech Components GmbH Noratel Germany AG RSG Electronic Components GmbH | Dillingen Grafenau, Bremen Offenbach |
| Hong Kong | Contour Asia Ltd | Kowloon |
| India | Noratel India Power Components Pvt Ltd | Kerala |
| Netherlands | Noratel Netherlands BV | Nieuwegein |
| Norway | Foss AS Noratel AS | Drammen Hamar |
| Poland | Myrra Poland Sp Noratel Sp | Kaluszyn Szczecinska |
| Slovakia | Optocon Technologies sro | Bratislava |
| South Korea | EMC Innovation Ltd | Cheongcheon-Dong |
| Sri Lanka | Noratel International Pvt Ltd | Katunayake |
| Sweden | Hectronic AB Noratel Sweden AB | Uppsala Laxa, Vaxjo |
| Thailand | Flux International Ltd | Bangkok |
| USA | Noratel North America Inc Noratel Power Engineering Inc | Charlotte Carson |

Further details of the Group's locations can be found on the Acal plc website www.acal.co.uk

Financial calendar 2017/2018

Annual General Meeting

25 July 2017

Results

| | |
|--|--------------------|
| Interim report for the six months to 30 September 2017 | Late November 2017 |
| Preliminary announcement for the year to 31 March 2018 | Early June 2018 |
| Annual report 2018 | Late June 2018 |

Dividend payments

| | |
|--|-------------------|
| Final dividend for the year to 31 March 2017 | 28 July 2017 |
| Interim dividend for the six months to 30 September 2017 | Late January 2018 |
| Final dividend for the year to 31 March 2018 | Late July 2018 |

Corporate information

Registered office

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

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

Auditor

Ernst & Young LLP

Corporate solicitors

White & Case LLP

Principal bankers

Clydesdale Bank plc
Danske Bank A/S
HSBC Bank plc

Registrars

Equiniti Limited

Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone 0371 384 2001

Stockbrokers

Peel Hunt LLP