



annual report and accounts  
for the year ended 31 March 2012

european leader in  
advanced technology  
solutions

acal

Acal is a European specialist provider of technology products and services. With operations in eleven countries across Western Europe, and in South Africa and South Korea, the business operates in clearly defined market niches where customers appreciate the added value that comes from high levels of technical support and customised solutions.

"The business has performed well during the year delivering a 9% growth in underlying operating profit and free cash flow of £10.5m, building upon the significant progress of the last two years. The Group has benefited from taking market share from smaller independent competitors who are unable to match the breadth and technical depth of our offer and has continued to attract new supply partners to our business.

The plan to become a fully specialist business is now largely complete and on schedule. The business is resourced to take benefit from the growing pipeline of new opportunities and is well positioned for further growth when economic conditions improve.

Given the continuing difficult economic conditions in Europe and the uncertainty of the timing and pace of a recovery, we remain cautious for the year ahead, but well positioned to accelerate growth as and when conditions improve."

**Nick Jefferies**  
Group Chief Executive  
29 May 2012

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# financial highlights

## operating performance

	FY 2012	FY 2011
Revenue	<b>£257.8m</b>	£264.8m
Gross profit	<b>£77.9m</b>	£75.2m
Underlying operating profit <sup>1</sup>	<b>£8.1m</b>	£7.4m
Underlying profit before tax <sup>1</sup>	<b>£7.2m</b>	£7.1m
Profit before tax	<b>£2.7m</b>	£1.9m
Underlying diluted EPS <sup>1</sup>	<b>19.9p</b>	18.6p
Fully diluted EPS	<b>7.1p</b>	5.7p
Dividend per share	<b>8.0p</b>	7.47p

## highlights

- Underlying operating profit up 9% to £8.1m
- Gross Profit up 4% with gross margin up 1.8ppts to 30.2%
- Underlying diluted EPS up 7%
- Free cash flow<sup>2</sup> up 98% to £10.5m, being 130% of underlying operating profit
- Full year dividend increased by 7% to 8.0p

## 3 year highlights<sup>3</sup>

- Gross profit up 77% driven by gross margin up 3.7ppts
- Underlying operating margin up 3.0ppts to 3.1%
- Underlying diluted EPS up 23.7p to 19.9p
- Working capital ratio to sales reduced by 23%
- Free cash flow<sup>2</sup> generated of £22.4m
- Dividend increased by 14%
- 4 value enhancing acquisitions<sup>4</sup>

See inside back cover for the notes to the operating performance and highlights.

# chairman's statement

the board believes that there is significant opportunity to generate further long term value for shareholders



total shareholder  
return up  
**130%**  
over 3 years

This is the third full year since the Group changed its strategy to become a differentiated specialist electronics business, and I am pleased to report another year of progress with improvements in both operating performance and efficiency. The business model of focusing on the supply of technically demanding, bespoke electronics for industrial applications, is becoming established amongst our key trading partners, fulfilling a need not met by other channels.

During this three year period, the Group has returned to profitability, increased operating margins each year, and generated £22m of cumulative free cash flow. This has been achieved through a near doubling of Electronics sales as well as a sustained increase in gross margins. Over the same period, total shareholder return increased 130% up to 31 March 2012, and the annual dividend has returned to growth, up 14% in the last 2 years. All this against a backdrop of unparalleled economic uncertainty affecting markets globally.

In addition to developing the existing business during this three year period, the Group has invested £22m in acquiring four Electronics businesses, and disposed of two loss making Supply Chain operations, ATM Parts and Retail. The Board is pleased with the progress of each acquisition and looks forward to the benefits of accelerated growth as the acquired businesses gain access to our technical specialists and larger pan European customer base.

The European economic and Global electronics contraction during the year slowed our rate of progress, particularly in the second half, but improvements in the quality and efficiency of the core business continued to be made. Annualised operating costs were reduced by £6m during the year as the Group reacted quickly to the changing conditions as well as continuing the move away from lower margin, non specialist business in both the Electronics and Supply Chain divisions. We expect growth to accelerate when economic conditions improve. 90% of Acal's European business is conducted in stronger economies with limited exposure to higher risk areas.

The Group is well positioned, and the Board believes that there is significant opportunity to generate further long term value for shareholders by continuing to build its leading position in the specialist electronics marketplace, both organically and through acquisition.

## Results

Underlying operating profitability for the year grew by 9% to £8.1m, and underlying operating margin increased by 0.3 percentage points to 3.1%, driven by efficiency improvements and gross margin growth.

Overall Group revenues declined by 3% to £258m, partly as a result of the discontinuation of non specialist Electronics products as the Group continues to re-align itself as a specialist supplier (£5m impact this year and a further £11m impact is expected for next year) and partly as a result of the market slowdown in the second half.

This reduction in revenues was offset by a significant increase in gross margins of 1.8 percentage points resulting in reported gross profits being up 4%.

Exceptional costs for the year totalled £3.4m (2010/11: £4.4m), of which £2.2m relate to the following restructuring initiatives: (i) the non-specialist discontinuations referred to above (£0.7m) and (ii) cost reductions in response to market conditions (£1.5m). Other exceptional costs comprised expenses of acquisition, disposal and integration, and the development cost of our new web marketing capability.

Operating cost reductions for the year totalled £6m on an annualised basis of which £1.4m arose in this financial year.

Including exceptional items, amortisation of acquired intangibles and IAS19 pension finance charges, reported profit before tax was £2.7m (2010/11: £1.9m).

Underlying diluted earnings per share were up 7% to 19.9 pence (2010/11: 18.6 pence). Including underlying adjustments, fully diluted earnings per share were up 25% to 7.1 pence (2010/11: 5.7 pence).

The balance sheet remains robust with net assets at the year end of £49.1m (2010/11: £51.3m), including net cash of £6.3m (2010/11: £6.7m). The year end net cash balance remained similar to the prior year as the generation of cash from profits and reductions in working capital were offset by the outflows due to the acquisitions of Hectronic and MTC, exceptional restructuring projects and dividend payments.

Committed banking facilities of £19m, plus £13m of uncommitted facilities leave the Group well positioned to capitalise on any new opportunities that may arise.

### Acquisitions

Hectronic, based in Uppsala, Sweden, was acquired in June 2011 for £1.2m. The business supplies custom designed computers for industrial control applications.

MTC, based near Munich, Germany, was acquired in October 2011 for up to £3.3m including earn-out. The business supplies custom designed electromagnetic shielding products for industrial applications.

Both businesses supply own branded products, providing customised, individually designed solutions and have significantly enhanced opportunities for accelerated growth throughout the Acal network.

Compotron based in Munich and acquired in January 2011, has performed strongly since acquisition. The integration into the existing German business of Acal BFi is proceeding ahead of plan, and is forecast to complete in the autumn.

It remains part of the Board's strategy to accelerate growth through the acquisition of value enhancing specialist electronic businesses, complementing organic growth. The Group targets businesses where the opportunity exists to build our market position in either a specific technology or geography, and where the opportunity for above average growth exists.

### Dividend

It is the Board's intention to maintain a progressive dividend policy wherever practical to do so, and as such the Board is recommending an increase to the final dividend of 7% to 5.5 pence per share, giving a full year dividend increase of 7% to 8 pence per share and with a cover of 2.5 times on an underlying basis. In total, the dividend has been increased by 14% over the last 2 years. Over the medium term, it is the Board's intention to maintain dividend coverage in the range of two to three times earnings.

The dividend is payable on 27 July 2012 to shareholders on the register as at 15 June 2012.

### Employees

This year has presented many operational challenges as we integrated further acquisitions, exited the bulk of our remaining non-specialist products, reduced costs in response to market conditions, and embarked upon the journey to develop a new web marketing capability. As ever, our employees have responded to the challenges admirably, and on behalf of the Board I would like to thank them for their continued dedication and commitment.

I would also like to welcome those employees from Hectronic and MTC who have joined the Group this year through acquisition.

### The year ahead

Economic conditions continue to be very challenging, with little forward visibility. Whilst the business will undoubtedly continue to feel the effects of such uncertainty, the Board believes that the focus on supplying highly differentiated electronics to industrial customers will continue to build long term value for shareholders.

### Richard Moon

Chairman

29 May 2012

dividend  
increase of  
**14%**  
over 2 years

## our board

our experienced board focuses  
on strategic development, financial  
control and risk management



**Richard Moon**

**Non-Executive Chairman**

Richard joined the Board in September 2004 and became Chairman in April 2005. Formerly a Director of Racal Electronics plc and Chief Executive of Thales plc, he is Non-Executive Chairman of Seven Technologies Holdings Limited and is a Director of Synergie Business Limited.

**Nick Jefferies**

**Group Chief Executive**

Nick joined Acal as Group Chief Executive in January 2009. Formerly General Manager for Electronics globally at Electrocomponents plc, and having previously held senior positions at Arrow Electronics, he started his career as an Electronics Design Engineer for Racal Defence (now part of Thales plc).

**Simon Gibbins ACA**

**Group Finance Director**

Simon was appointed as Group Finance Director in July 2010. A Chartered Accountant, he was previously Global Head of Finance and Deputy CFO at Shire plc. Prior to joining Shire in 2000, he spent 6 years with ICI plc in various senior finance roles, both in the UK and overseas. His earlier career was spent with Coopers & Lybrand in London.

**Audit Committee**

E A Barton (Chairman)  
I R Fraser  
G J Williams

**Remuneration Committee**

G J Williams (Chairman)  
E A Barton  
I R Fraser  
R J Moon

**Nomination Committee**

R J Moon (Chairman)  
E A Barton  
N J Jefferies  
G J Williams

**Eric Barton MA****Senior Non-Executive Director**

Eric was appointed as a Non-Executive Director in September 2002. Previously, he was a Director of 3i plc for 13 years. An experienced Non-Executive Director of both public and private companies, Eric has acted as Chairman of the Audit Committee of three publicly listed companies, namely Morse plc, Informa plc and Telecity plc.

**Graham Williams MBA CA****Non-Executive Director**

Graham was appointed to the Board in December 2003. His early business experience was gained in private equity with Charterhouse and Barclays Private Equity, both in the UK and France. A board member of Hays plc for 19 years, and now on their pension fund's investment committee, he is also a schools' governor.

**Ian Fraser MA(Oxon) MBA****Non-Executive Director**

Ian became a Non-Executive Director in January 2010. He is the Group Chief Executive of Brammer plc. Prior to joining Brammer in 1998, he was Group Managing Director of Reliance Security Group plc. His earlier career was mainly spent with Raychem Corporation.

**Gary Shillinglaw FCIS****Group Company Secretary**

Gary joined Acal as Group Company Secretary in August 2008. A qualified Chartered Secretary, he has previously held the position of Group Company Secretary in a number of listed and non-listed public companies, including Countryside Properties plc, B&Q plc and First Leisure Corporation plc.

# chief executive's review

significant progress has been made in the three years since the new strategy was implemented



Acal is the leading supplier of specialist Electronics in Europe and the only such specialist supplier offering a broad range of complementary technologies across Europe. Technologies include Communications, Electromagnetic Shielding, Imaging, Microsystems, Magnetics, Photonics, Power, Sensors and Specialist Semiconductors. The business operates in technically demanding market niches, supplying a range of industrial sectors, mostly in high technology manufacturing, where customers appreciate the added value that comes from high levels of technical support and customised solutions.

As well as being the market leader, Acal is the only specialist supplier in Europe to operate across multiple territories, technologies and industrial sectors. With an increasing focus on selling solutions rather than individual components, our customers appreciate the technical expertise that we are able to provide to their design and manufacturing challenges. Around three quarters of Electronics division sales come from products that are either uniquely created for one customer and/or exclusively sourced. With such a model, Acal's risk exposure to any one territory, technology or sector is greatly reduced. Our suppliers are now able to gain access to around 25,000 customers through Acal, rather than directly via multiple, country specific vendors.

## Group Objectives

The Group has a number of key objectives for the short and medium term in order to build a high performance, growth oriented business. Significant progress has been made in the three years since the new strategy was implemented and these remain priorities.

**Growth ahead of GDP over the business cycle. Organic growth will be further enhanced by acquisitions.**

Electronics sales have nearly doubled over the last three years (CAGR 21%) and total Group sales are up 56% (CAGR 16%) over that period, resulting from a combination of organic and acquisitive growth. Excluding non specialist discontinuations, underlying specialist electronics sales grew by 27% CAGR.

Whilst short term sales will be subject to the influence of wider economic trends, both the rate of high technology innovation and the proliferation of high technology into every day applications is expected to continue at rates well in excess of GDP.

## Develop and maintain attractive margins

Over the last three years, the Group has moved from loss into profit, achieving an underlying operating margin of 3.1% in the reported year, with gross margins having risen by 3.7 percentage points over the same period.

Our target in the medium term remains to achieve 5% underlying operating margins through a combination of continuing robust gross margins, further improvements in operating efficiency and increasing volumes.

## Enhance growth through selective, value enhancing acquisitions

Acquisitions play an important part in developing the long term performance of the business. The Group's strategy is to acquire businesses that provide complementary products and or geographic coverage, enhancing the combined customer offer as well as enabling efficiency improvements through varying levels of operational integration.

Over the last three years, four businesses were acquired of which three were immediately earnings enhancing, whilst the fourth, Hectronic has performed in line with our expectations communicated at the time of acquisition (namely, earnings neutral for this year and expected to be earnings enhancing thereafter). The £22.6m invested in acquisitions generated a pre tax return on investment (including integration costs) of 26% this year.

electronics sales  
growth of 21%  
CAGR over 3 years

We retain staff resources dedicated to delivering suitable acquisitions on an ongoing basis.

#### Develop healthy cash flow to fund future growth and dividends

The Group focuses on free cash flow generation in order to monitor its ability to convert underlying operating profits into cash and as such, targets free cash flow in excess of 60% of underlying operating profit, and dividend cover of between two and three times over the cycle.

Free cash flow for this year was £10.5m, (130% of underlying operating profit) and £22.4m for the last 3 years (151% of underlying operating profit for that 3 year period).

#### Create strong returns on trading capital employed ("ROTCE")

ROTCE was 21.7% for the current financial year. This is up 3.4 percentage points over last year and 20.8 percentage points over the year ended 31 March 2009. The Group targets to deliver ROTCE in excess of 25% in the medium term.

#### Deliver value growth for shareholders

Long term total shareholder return ("TSR") is targeted to be within the upper quartile. In the three year period to 31 March 2012, TSR grew by 130%, being in the top 27% performance ranking when compared to the FTSE Small Cap Index.

#### Group strategy

The specialist Electronics market place is highly fragmented, characterised by many medium and smaller sized businesses throughout Europe.

It is three years since the implementation of the specialist approach, and the Group has made significant progress re-positioning the Electronics business, improving performance, improving the quality of earnings, reducing risk and enhancing future prospects. There are three key elements to the strategy;

- 1 Grow presence in key markets
- 2 Expand the specialist product offer
- 3 Increase operational efficiency

#### Grow presence in key markets

The Group has built its position in the key markets in Europe through organic growth with selective value enhancing acquisitions. Similar specialist markets exist internationally, and to the extent that they offer higher growth opportunities within a growth oriented economy, also offer scope for further geographic expansion.

90% of the group's european sales come from stronger economies

Currently, 90% of the Group's European sales come from stronger economies. Within this, 63% comes from the UK & Germany. The Group has little exposure to the peripheral Eurozone countries. Organic growth is driven by the design and subsequent conversion into production, of electronic equipment that require specialist products. Production demand can be influenced by general economic factors, and as such, the manufacturing PMI index provides a useful indicator of macro-economic demand trends. However, customers' design activity is less influenced by such factors. Our design opportunities have continued to grow during the year.

Hectronic, acquired in June 2011, has strengthened our management capabilities in the Nordic region while MTC, acquired in October 2011, has further enhanced our capabilities in Germany. Both offer the opportunity to expand sales throughout the network of Acal companies.

#### Expand the specialist product offer

The Group continues to expand the range of specialist technologies and products on offer through the addition of complementary products to existing technology units, the appointment of new suppliers and the creation of additional technology units.

During the year thirteen new suppliers were engaged, expanding our technology offer in four technology units, and bringing the total number of new suppliers over the last two years to twenty four. Of these we expect around two thirds to grow into significant generators of revenue over a three year period. The nature of the business means that there will always be a degree of churn as established products become commoditised and replaced by new technologies. We continue to seek well established and differentiated suppliers that are looking to expand into a broader industrial

24  
new suppliers  
over the last  
2 years

customer base. With the rate of technology innovation and proliferation into a wider range of applications continuing apace, we remain optimistic of future opportunities.

The design cycle for new products takes between six months and two years to reach production. Once reached, demand may continue for several years, providing a degree of future visibility. Customer design and development activity has been less affected during the current economic slowdown, and is expected to help fuel sales growth as economic conditions improve and new projects are released into production.

The acquisition of Hectronic has expanded an existing technology area into the Nordic region. The business provides custom designed computers for challenging industrial control applications and complements the Group's similar existing Microsystems business in the UK. The business has sub contract manufacturing partners in Sweden, Germany and Taiwan.

The acquisition of MTC brought a new product technology capability to the Group. MTC supply custom and standard Electromagnetic shielding solutions to industrial customers. Their fast turnaround on custom designs enables them to offer a high level of service on medium and small production quantities that is typically not available elsewhere. The business owns a production facility in South Korea, and has manufacturing capability in Germany.

#### **Increase operational efficiency**

The Group continues to target improvements in its operational efficiency through increasing sales of highly differentiated, higher margin value-added products and solutions whilst maintaining tight control of operating expenses and working capital.

#### **Higher margin products**

Gross margins increased throughout the year, being 3.7 percentage points higher than three years ago.

This has been achieved through a change in the sales mix as the Group focuses on selling more highly differentiated products and solutions and through acquisitions of wholly specialist businesses as well as, to a lesser degree, the discontinuation of non specialist products.

#### **Tight control of operating expenses**

In response to weaker market conditions, operating expenses were reduced by an annualised total of £6m (9% of last year's underlying operational cost base) of which £1.4m was recognised this year. Of the total annualised savings, £4.7m came from Electronics, and £1.3m from Supply Chain.

There were three areas of cost reduction;

**1 General cost reductions, incorporating the integration of sales and marketing in preparation for a single brand Electronics web launch – £3.7m reduction**

The two formerly independent trading brands (Acal Technology & BFi Optilas) are being merged into one in preparation for the launch of the new web capability later this summer. This integration was brought forward by nine months in response to economic conditions.

The main cost reduction was in the Spanish business in response to a revenue decline of 35% in the year, as a result of the difficult economic environment. This cost reduction amounted to £1.5m or 42%.

In addition cost savings were generated from the consolidation of central administration and finance functions from two locations into one.

**2 Discontinuation of non specialist business – £1.0m reduction**

Sales of non specialist Electronics products were further reduced in line with our stated strategy. The discontinued products were multi distributed and provided less differentiation for Acal in the eyes of our customers. With total revenues discontinued of £5m this year and £11m next year, 86% of ongoing Electronics sales now come from specialist products. Over time, this proportion is expected to further increase to in excess of 90%, mostly as a result of organic growth of existing specialist products, complemented by further acquisitions.

**3 Supply Chain division cost reductions – £1.3m reduction**

The loss making Retail sector operation was disposed of to a third party for a nominal consideration,

## further growth in operating performance and profitability

including the transfer of 11 employees under TUPE. Additionally, reductions were made within the Division's low margin operations through the reduction of staff and certain unprofitable sales contracts. The cost savings are part of an ongoing transition of the business towards more highly differentiated customer contracts, reducing reliance on standard parts trading.

### Tight control of Working Capital

Working capital remained low at 12.0% of sales (2010/11: 12.0%).

Significant gains in working capital efficiency have been achieved and sustained over the three years since the introduction of the new strategy. With the higher degree of customisation and specialisation, customers place orders in advance of requirements, reducing the need for the Group to hold uncommitted inventory.

Average debtor days improved to record low levels, being 50 days at the end of the year, 5 days better than prior year. As well as being a generally well capitalised customer base, the Group's customers are sourcing specialist and often single sourced products and are therefore more likely to pay on time so as to ensure timely delivery of future requirements.

### Operating performance

The year has seen further growth in operating performance and profitability. Underlying operating profits increased by 9% to £8.1m, and underlying operating margin increased by 0.3 percentage points to 3.1%.

Despite market conditions weakening during the year with a resulting flattening of sales growth (leading to reported Group revenues being down 3%), gross and operating margins continued to increase, as the benefits of the strategy continued to come through. Reported gross profits increased by 4%, as gross margins increased to 30.9% in H2, one year ahead of our target.

Like for like operating expenses excluding acquisitions were down 3% for the year, with the second half reduced by 7%, being a reflection of the cost saving initiatives taken. As reported above, actions were taken in response to weaker economic conditions, which resulted in the reduction of £1.4m of operating expenses during the year (£6.0m on an annualised basis). There was a one off exceptional charge of £2.2m, with a further £1.3m to come in the new year. In total, these one off costs represent a payback period of approximately 7 months.

### Divisional performance

	Sales £m	2012 Underlying operating profit £m	Underlying operating margin %	Sales £m	2011 Underlying operating profit £m	Underlying operating margin %
Electronics	207.1	10.8	5.2%	210.5	10.3	4.9%
Supply Chain	50.7	1.3	2.6%	54.3	1.2	2.2%
Unallocated <sup>1</sup>		(4.0)	-1.6%		(4.1)	-1.5%
Total	257.8	8.1	3.1%	264.8	7.4	2.8%

<sup>1</sup> % of Total Sales

### Electronics division

The Electronics division delivered underlying operating profits of £10.8m, up 5% over last year. Reported sales of £207.1m were down 2% year on year and down 9% on a like for like basis as the focus on specialisation continued. Excluding the discontinuations of the non specialist business, reported revenues grew by 1%. Underlying operating margins increased by 0.3 percentage points to 5.2%. The business profile has continued to evolve and improve. Three years ago, 55% of Electronics division sales were from specialist products. By the second half of the year, this had risen to 86% of ongoing sales. We expect this figure to continue to rise, albeit more slowly. Three years ago, the largest supplier represented approximately 7% of Group revenues. Today, the largest supplier accounts for less than 3% which is a reflection of the Group's move to build a lower risk, more diversified business model. Based on data provided by IDEA, the European electronics distribution industry association, our market share grew throughout the year.

During the period, the Group received two awards in recognition of business performance. In January, Honeywell Sensing and Control awarded Acal the Gold Partner Award, recognising outstanding

new web capability  
will increase  
customer reach

organic sales growth in the calendar year 2011, and being their fastest growing distributor in Europe. In March, Avago awarded Acal the Partnership Excellence award, in recognition of three years of exceptionally high sales growth. Both awards represent significant market share gains.

By region, reported sales in Northern and Central Europe grew by 5% and 8% respectively, including the effect of recent acquisitions and excluding sales of terminated non-specialist products. In Southern Europe, comprising France, Italy and Spain, sales declined by 13% on the same basis. Within this, sales in Spain declined by 35% as a result of the cancellation of a number of public expenditure projects. Of the four primary technology groups, three reported growth of between 2% and 8%, whilst the Light and Imaging unit reported a decline of 14% driven principally by the decline of Imaging projects in Spain.

#### Web development

During the year the development of a new Electronics web platform began, creating a marketing platform with which to reach new customers. The web platform will operate under one brand and provide much greater visibility of, and access to, the Electronic Division's wide range of specialist products and solutions, suppliers and technologies. The platform will create a unique capability in this sector of the market. Access will be provided via local language websites in each of the twelve countries that the Electronics Division operates in.

The new website is expected to be launched in the second half of the coming financial year.

Under IFRS, software and development expenditure does not qualify for capitalisation over its useful life. Therefore, a one-off charge of £0.3m has been taken in the year, with a further £1.0m to come in the year ahead. Beyond that, ongoing running costs will be included within underlying operating expenses.

#### Supply Chain division

The Supply Chain division provides service parts and inventory solutions to IT service providers, as well as aftermarket warranty services in the UK and Germany to original equipment manufacturers ("OEMs").

Profitability in the Supply Chain division increased by 8% to £1.3m (2011: £1.2m). The business continued to develop higher margin contract business, reducing dependence on lower margin traded products, and discontinuing sales of less differentiated products and services as described above. As a consequence, reported revenues for the year declined by 7% to £50.7m, with like for like sales down 4%. Underlying operating margin was up 0.4 percentage points on last year to 2.6%.

Roll out of the extension to an existing major contract, announced at the time of the interim results, has progressed well and is delivering as expected. Additionally, a contract with a large multinational, market leading hardware and service provider was won in the fourth quarter, to manage the provision of certain spare parts throughout Europe. Revenues are expected to begin modestly.

#### Summary and outlook

The business has performed well during the year delivering a 9% growth in underlying operating profit and free cash flow of £10.5m, building upon the significant progress of the last two years. The Group has benefited from taking market share from smaller independent competitors who are unable to match the breadth and technical depth of our offer and has continued to attract new supply partners to our business.

The plan to become a fully specialist business is now largely complete and on schedule. The business is resourced to take benefit from the growing pipeline of new opportunities and is well positioned for further growth when economic conditions improve.

Given the continuing difficult economic conditions in Europe and the uncertainty of the timing and pace of a recovery, we remain cautious for the year ahead, but well positioned to accelerate growth as and when conditions improve.

#### Nick Jefferies

Group Chief Executive  
29 May 2012

## CompoTRON GmbH

CompoTRON GmbH ("CompoTRON"), a German-based specialist provider of electronic communication and fibre optics components to the European industrial electronics markets, was acquired by Acal in January 2011.

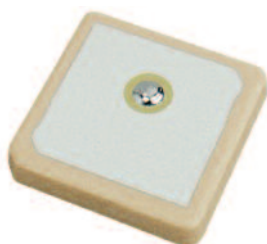
As a supplier of radio frequency and microwave components, plus fibre optics transceivers, CompoTRON complements Acal's Communications business. Acal's geographic reach presents the opportunity for CompoTRON to expand its sales throughout Europe.

The acquisition marked a further step in the implementation of Acal's European specialisation strategy, enhancing its position in the German specialist electronics market.



"Joining the Acal Group is an excellent opportunity for CompoTRON to transfer our experience and knowledge into other European countries and extend our customer base by using Acal's geographic reach."

**Werner Brack**  
Managing Director  
May 2012



The main component of the car aerial shown in the photograph above is a GPS patch antenna supplied by CompoTRON.

## Honeywell Sensing and Control Gold Performance Award for EMEA

**Honeywell**  
SENSING AND CONTROL



**Paul Webster**  
Acal's Group Product  
Management and  
Operations Director



Honeywell Sensing & Control (HS&C) are a leading global manufacturer of pressure, temperature, airflow and humidity sensors, and safety, wireless and explosion proof switches for use in harsh environments such as aerospace, offshore, medical, military and industrial applications.

Acal BFi supports customers with the specification and design adoption of HS&C's specialist products throughout Europe.

In 2011 Acal BFi was recognised by HS&C for outstanding sales growth with the 2011 Gold Performance Award for EMEA.

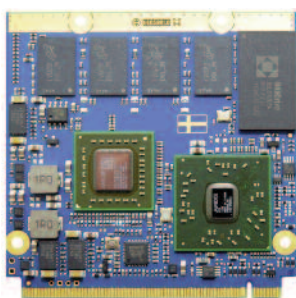
"Acal BFi developed many new business opportunities with major OEMs and generated significant growth for Honeywell products during 2011, demonstrating the strong alignment of HS&C's products with Acal BFi's sales strategies," stated Tony Sugalski, President HS&C.

## Hectronic AB

Acquired in June 2011, Hectronic AB ("Hectronic") is a specialist provider of embedded computing technology to industrial electronics markets within the Nordic region.

It brings to the Acal Group expertise in additional industrial computing technologies and strengthens Acal's Nordic-based specialist electronics business.

Headquartered in Sweden, Hectronic provides its customers with in-house design to their own specification and an outsourced manufacturing capability. It complements Acal's UK Microsystems activity, while Acal's market access will create sales expansion opportunities for Hectronic products across Europe.



Hectronic designs and supplies customised embedded computing solutions to the defence, industrial and control markets. Solutions are created either through a full custom design, or a semi custom design using standard building blocks with customised interfaces.



"Being a part of the Acal Group is a major step for Hectronic towards reaching the whole European market. Many of the Group's customers will benefit from the increased product offering from Acal/Hectronic."

**Stefan Lof**  
Managing Director  
May 2012

# MTC Micro Tech Components GmbH



The acquisition of MTC Micro Tech Components GmbH and its affiliate EMC Innovation Limited (together "MTC") in October 2011 represented further progress in the implementation of Acal's specialisation strategy.

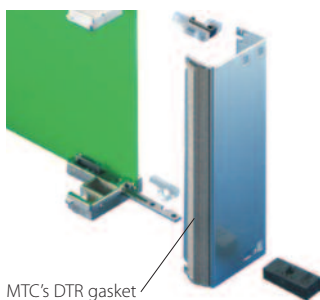
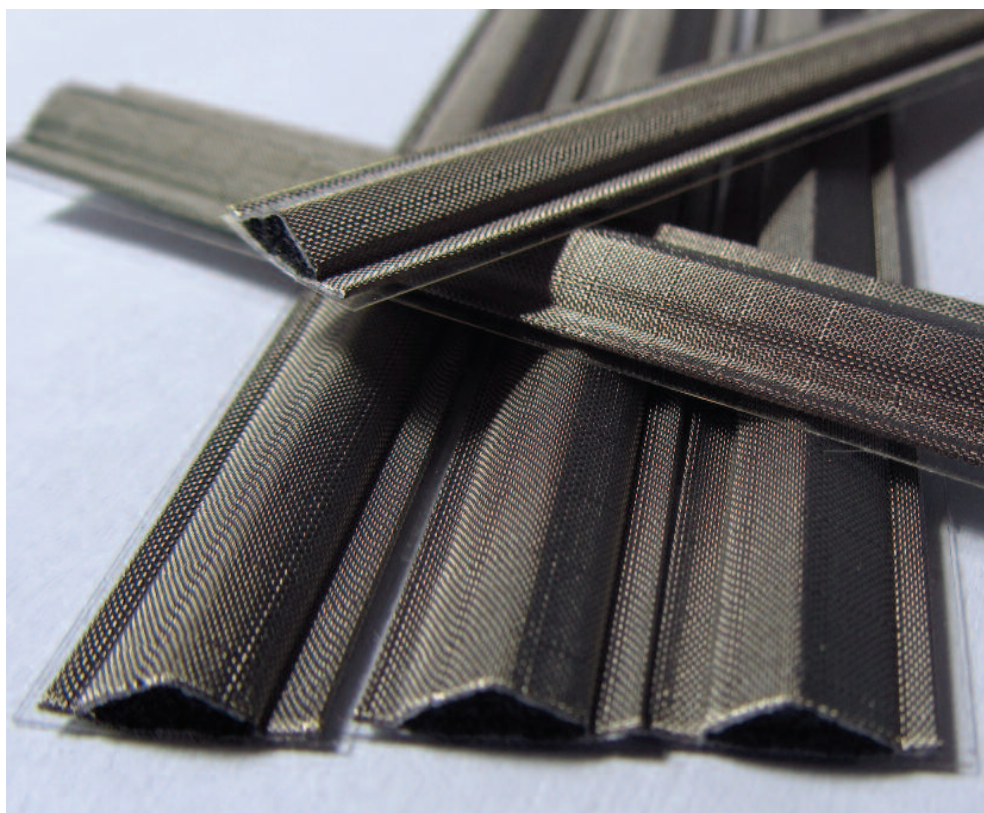
Based in Germany, with an in-house manufacturing facility in South Korea, MTC is a specialist provider of own brand electromagnetic shielding and thermal management products to the European and Asian industrial electronics markets.

Operating in a rapidly growing niche market, it is planned to achieve sales growth for MTC by selling its products through Acal's European organisation



"Due to the recent large increase in MTC's product portfolio, and the ability to sell MTC's products through Acal's European sales organisation, we are looking forward to considerable growth for MTC in Europe."

**Gerhard Baecher**  
Managing Director  
May 2012



MTC's DTR gasket\* was developed in collaboration with its customer, Schroff, to offer a perfect solution to shield front plates in a subrack system.

The gasket is optimized for rack and mounted plug-in-boards i.e. MicroTCA as far as shielding and mechanical exposure is concerned.

\* International patents granted

## Avago Technologies Performance Excellence Award for RF and Fibre Optics



Avago are a global market leading manufacturer of Radio Frequency (RF) and Fibre Optic components for use in communication systems.

The Acal BFi Communications business unit takes Avago's range of specialist products to market throughout Europe enabling customers to implement designs using their disruptive FBAR and emerging WaferCap technologies. This has achieved design success in applications such as Femtocell base stations, Optical LNBs and Mast Head amplifiers.

In recognition, Acal BFi received the Performance Excellence Award for Best Product Line Performer 2011 for RF and Fibre Optic products from Avago.

"Performance Excellence Awards are given only in recognition of exceptional achievement and Acal BFi has earned this award by maintaining three consecutive years of high growth against a backdrop of a difficult and highly competitive market place", explains Steffi Kircher, Avago Technologies' director of distribution, Europe. "The foundations of this growth are based on the strong relationship which exists between Acal BFi and Avago Technologies through which we have been able to nurture and support our end-customers through challenging times".

**AVAGO**  
TECHNOLOGIES



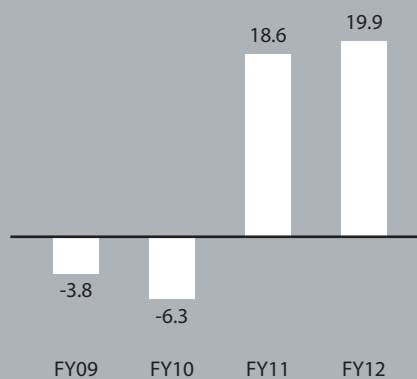
**Lee Austin**  
Acal BFi's Business  
Development Director,  
Communications

# three year performance

## financial

- total shareholder return over 3 years of 130%
- £22.4m of cumulative free cash flow, 151% of underlying operating profit
- 26% pre tax return on acquisition investments

underlying earnings  
per share p



dividend per share p



free cash flow<sup>1</sup> £m



<sup>1</sup> Free cash flow before exceptional cash payments and payments to legacy pension scheme

return on trading  
capital employed<sup>2</sup> %

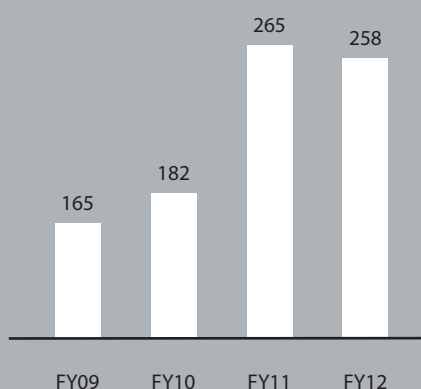


<sup>2</sup> Return on trading capital employed:  
Return = underlying operating profit  
Trading capital = fixed assets excluding goodwill plus working capital

## operational

- electronics sales growth of 21% CAGR over 3 years
- specialist sales account for 86% of ongoing electronics sales
- gross margins increased by 3.7 percentage points over 3 years

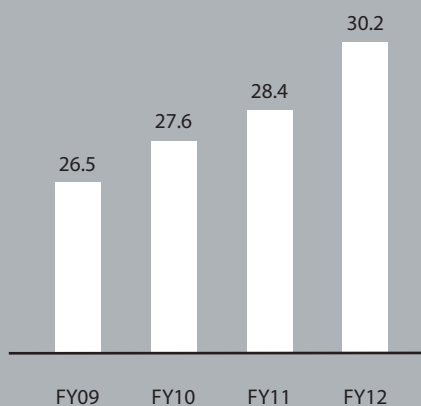
group sales £m



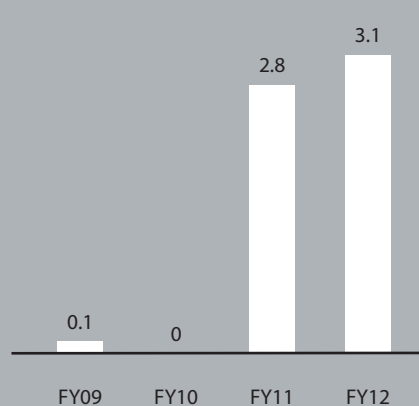
specialist electronics sales %



gross margin %



operating margin %



## our group executive committee

our experienced executive committee focuses on leading and developing the Group, delivering results and driving growth for shareholders



**Nick Jefferies**

**Group Chief Executive**

Nick joined Acal as Group Chief Executive in January 2009. Formerly General Manager for Electronics globally at Electrocomponents plc, and having previously held senior positions at Arrow Electronics, he started his career as an Electronics Design Engineer for Racal Defence (now part of Thales plc).

**Simon Gibbins ACA**

**Group Finance Director**

Simon was appointed as Group Finance Director in July 2010. A Chartered Accountant, he was previously Global Head of Finance and Deputy CFO at Shire plc. Prior to joining Shire in 2000, he spent 6 years with ICI plc in various senior finance roles, both in the UK and overseas. His earlier career was spent with Coopers & Lybrand in London.

**Tony Lioveri MBA ACMA MCIM**

**Group Marketing Director**

Tony was appointed as Group Marketing Director in May 2012. A member of the Chartered Institute of Marketing, his previous roles include Digital Strategic Consulting Director of e-Business for Epson Europe and Head of e-Commerce and Strategy Executive at Electrocomponents plc. His earlier career was spent with Dow Chemical Company.



**Paul Neville ACA**

**Group Commercial Director**

Paul was appointed Group Commercial Director in March 2009. A Chartered Accountant, he has over 15 years experience of working in senior management positions for listed public companies, including Wincanton plc and Uniq plc. Prior to joining Acal, he was Group Chief Executive of an AIM listed software development company.

**Martin Pangels**

**Group Strategy and Development Director**

Martin is Group Strategy and Development Director. He joined Acal in July 2010 after working as an advisor to the business. Prior to joining Acal, Martin spent 9 years at Electrocomponents plc, where he was Regional General Manager for Europe, and 6 years with Bain & Company as a strategy consultant.

**Paul Webster**

**Group Product Management and Operations 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).

**Gary Shillinglaw FCIS**

**Group Company Secretary**

Gary joined Acal as Group Company Secretary in August 2008. A qualified Chartered Secretary, he has previously held the position of Group Company Secretary in a number of listed and non-listed public companies, including Countryside Properties plc, B&Q plc and First Leisure Corporation plc.

# finance review

specialist focus drives  
continuing growth in  
margins, earnings and  
cash flow generation



## **Increase in gross margin more than offsets revenue reduction**

### **a) Revenues**

Group revenue for the year reduced by 3% to £257.8m (2010/11: £264.8m) and down 8% on a like for like basis. This reduction reflects three key factors:-

- i The previously announced strategic move away from lower margin fulfilment Electronics products taking the level of specialist Electronics revenues to 86% on ongoing sales (up from 78% at the end of last year). This resulted in a sales reduction of £5.0m for this year and an additional £11m for next year.
- ii A tougher sales environment since last year. PMI manufacturing indices are a useful barometer for the industrial markets that Acal sells into. The average European manufacturing PMI is down from 57 in H2 2010/11 to 48 in H2 2011/12 (where above 50 is indicative of growth).
- iii Last year strong growth. First half like for like sales in 2010/11 in the Electronics division grew by over 30%.

As the business shifts to a higher margin, more specialist model, management view gross profit and operating profit as better indicators of growth in the business than revenues.

In the second half, Group revenues were £124.1m (H2 2010/11: £137.5m). Excluding the planned discontinuations, reported sales were 7% lower. The first half, which was largely before the market downturn, saw revenues up 5% to £133.7m (H1 2010/11: £127.3m).

### **b) Gross margins**

The focus on specialisation saw gross margins improve significantly from 28.4% last year to 30.2%, a rise of 1.8 percentage points. This reflects the impact of three core initiatives during the year:-

- i Organic growth in both divisions. Through a series of initiatives focused on selling more highly differentiated, higher gross margin products, approximately 1.1 percentage points was added to the Group gross margin.
- ii The three recent businesses acquired namely Compotron (January 2011), Hectronic (June 2011) and MTC (October 2011), are wholly specialist businesses commanding attractive gross margins. In total, these acquisitions added approximately 0.5 percentage points to the Group gross margin.
- iii The active shift away from low margin non-specialist Electronics products as described above. In addition, Supply Chain disposed of its loss making, low margin Retail operations in January 2012 and its loss making, low margin ATM business in September 2010. These initiatives added approximately 0.2 percentage points to the Group gross margin.

H2 gross margins were 30.9%, up sequentially by 1.4 percentage points over H1 gross margins of 29.5%, and up 2.4 percentage points over last year's second half gross margin (H2 2010/11: 28.5%). Overall, the Group's change in strategy has driven gross margin up by 4.4 percentage points since 2009 from 26.5%.

gross margins up  
by 1.8 percentage  
points

gross profit up

4%

**Gross profits continue to grow**

The Group's focus on specialisation and higher gross margins has resulted in gross profit growth to £77.9m for the year, up £2.7m or up 4% over last year's gross profit of £75.2m. This overall rise for the year comprises a reduction in like for like gross profits of 5% which was more than offset by the benefit of acquisitions +8% and foreign exchange rates +1%.

In H2, gross profit of £38.4m was down only 2% compared to last year (H2 2010/11: £39.2m) as the strong gross margin growth (up 2.5 percentage points on last year) offset the reduction in sales. H1 gross profit was £39.5m, which was an increase of 10% on last year (H1 2010/11: £36.0m), again driven by the strong gross margin growth (up 1.2 percentage points over the previous year).

**Maintaining a tight cost base**

Overall operating costs increased by 2% to £74.0m, up £1.3m from last year. These include exceptional costs of £3.4m (2010/11: £4.4m) and amortisation of acquired intangibles of £0.8m (2010/11: £0.3m). Excluding these items, underlying operating costs increased only 3% to £69.8m (2010/11: £68.0m). Excluding the impact of acquisitions/disposals and foreign exchange, operating costs were down 3% (or £1.9m).

Key to this reduction has been a continued tight control of the cost base together with the impact of restructuring initiatives taken during the year. These initiatives, the associated cost savings and one off exceptional costs are dealt with in the Chief Executive's Review.

For H2, underlying operating costs were £34.4m, £0.2m below H2 2010/11. Overall operating costs increased by 1% to £37.1m, up £0.5m from last year. These include exceptional costs of £2.3m (H2 2010/11: £1.5m) and amortisation of acquired intangibles of £0.4m (H2 2010/11: £0.3m). Excluding the impact of acquisitions/disposals and foreign exchange, operating costs were down 7% (or £2.3m) as the savings from the cost saving initiatives took effect.

**Exceptional items**

Exceptional items for the year totalled £3.4m (2010/11: £4.4m) of which £2.2m related to restructuring costs in both Electronics (£1.8m) and Supply Chain (£0.4m). Associated with these projects, additional restructuring costs of £1.3m are expected next year.

Other exceptional costs this year totalled £1.2m, comprising £0.7m for the acquisition of Hectronic and MTC (including related integration expenses), £0.2m related to the disposal of Supply Chain's Retail operation and £0.3m development costs related to the new web platform. Total development costs for the web platform are expected to be £1.3m (£1.0m in 2012/13) with a staggered launch date commencing in Q3 2012/13.

**Growing operational profitability**

Underlying operating profits for the year were £8.1m, up 9% on last year (2010/11: £7.4m), giving an underlying operating margin of 3.1% up from 2.8% from last year.

Second half underlying operating profits of £4.0m were down £0.6m on the strong second half comparative from last year and down £0.1m from H1. Operating margin for the second half was 3.2%, which was 0.1 percentage points ahead of the first half, continuing the drive towards our medium term target of 5%. Since H1 2010, operating margins have risen nearly 6 percentage points.

Reported operating profits for the year (including exceptional items of £3.4m and amortisation on acquired intangibles of £0.8m) were £3.9m up £1.4m compared with last year's operating profit of £2.5m

**Increased finance costs reflecting investment in acquisitions and restructuring**

Net finance costs for the year of £1.2m (2010/11: £0.6m) comprised a net interest charge of £0.9m and an IAS 19 pension finance charge of £0.3m relating to a legacy defined benefit pension scheme.

underlying  
operating  
profits up

9%

Net interest charges of £0.9m were up £0.6m from last year and comprised interest and facility fees arising from the operation of the Group's committed and uncommitted facilities. The additional interest charge reflects the increased use of committed facilities during the year to fund investment in acquisitions and restructuring.

The IAS 19 charge was £0.3m for the year, in line with last year.

#### **Underlying tax rate remains low**

The underlying effective tax rate at 18% was lower than the UK tax rate of 26% mainly due to the utilisation of tax losses in certain territories which are now profitable. This compares favourably to an underlying effective rate in 2010/11 of 23% due to the increased use of unrecognised tax losses. At the year end, the Group had approximately £17m of tax losses covering certain territories that it should have access to in future depending on the level of profitability in those territories.

The overall effective tax rate was 22% (2010/11: 11%). This rate is higher than the underlying effective tax rate due to the lower rate of tax relief anticipated on exceptional costs.

Losses in Germany have now been fully utilised giving rise to an increase in the amount of tax paid in the period to £1.1m (2010/11: net tax recovered £0.6m).

#### **Continued earnings improvement**

Increased underlying profits and a better underlying tax rate combined to achieve underlying diluted earnings per share for the year of 19.9 pence, up 7% on last year (2010/11: 18.6 pence). Of this, underlying earnings per share of 10.2 pence was generated in the second half being marginally higher than the first half performance of 9.7 pence per share.

Including underlying adjustments, the fully diluted earnings per share for the year was 7.1 pence (2010/11: 5.7 pence), up 25%.

#### **Further dividend growth**

For the year ended 31 March 2012, the Board has recommended a final dividend of 5.5 pence per share (H2 2010/11: 5.14 pence per share), an increase of 7%. An interim dividend of 2.5 pence per share was paid in January 2012 (H1 2010/11: 2.33 pence per share), making the total dividend for the year 8.0 pence per share (2010/11: 7.47 pence per share), an increase of 7%.

The dividend is payable on 27 July 2012 to shareholders on the register as at 15 June 2012.

#### **Continuing acquisition strategy**

On 1 June 2011 Acal acquired 100% of Hectronic, for a cash consideration of SEK12m (£1.2m). At the date of acquisition, Hectronic had an overdraft of SEK 5m (£0.5m) giving a total cost on a debt free basis of SEK 17m (£1.7m).

On 5 October 2011, Acal acquired 100% of MTC for an upfront cash consideration of €2.6m (£2.3m). Additionally, deferred contingent cash consideration of up to €1.1m (£1.0m) will be payable in January 2013 subject to the business achieving agreed growth targets over the period to 31 December 2012. At the date of acquisition MTC had cash of €0.6m (£0.5m), giving a total cost on a debt free basis of €2.0m (£1.8m).

Expenses for the two acquisitions totalled £0.4m and have been included in exceptional items.

#### **Disposal of non core assets**

On 31 January 2012, the Group sold its loss-making Retail spare parts operation (part of the Supply Chain division) for nominal consideration. Costs of disposal were £0.2m and have been treated as an exceptional item.

underlying  
diluted EPS up  
7%

working capital  
reduction of  
**£3.3m**

#### Working capital remains low

Working capital remains low at 12.0% of second half sales (2010/11: 12.0%) with working capital reducing by £3.3m to £29.7m. This was achieved primarily through the improvement in trade debtors which at the year end reduced to 50 days (31 March 2011: 55 days), reflecting higher German sales (with lower debtor days, following the acquisitions of Compotron and MTC) and lower Spanish sales (with higher debtor days) and improved collection processes. Trade capital creditors outstanding at the year end reduced to 49 days (31 March 2011: 52 days).

Inventory performance continued to be strong, with turns of 7.6 at the year end (2010/11: 7.9), within which the Electronics division achieved turns of 9.8 (FY 2010/11: 9.8)

#### Strong free cash flow generation

Underlying operating cash flow generated in the year was £10.2m being underlying operating profit of £8.1m adjusted for key non-cash items of £2.1m comprising depreciation of £1.2m, amortisation (excluding amortisation on acquired intangibles) of £0.3m, and share based payments of £0.6m. Underlying operating cash was up 12% compared to last year (2010/11: £9.1m).

Working capital improvements noted above gave rise to £3.6m of cash inflow (2010/11: outflow of £2.7m). Capital expenditure totalled £1.3m and was in line with last year (2010/11: £1.3m). Net interest payments increased from £0.3m last year to £0.9m reflecting utilisation of resources to fund acquisitions and restructuring costs. Tax payments totalled £1.1m as the Group started paying tax in Germany (following the utilisation of brought forward losses) and South Africa. This compares to a net tax receipt last year of £0.5m when the Group benefited from the carry back of losses against previously taxed profits.

free cash flow up  
**98%**

Taking into account the cash impact of working capital, interest and tax, free cash flow totalled £10.5m and represented 130% of underlying operating profit. This is up 98% on last year (2010/11: £5.3m).

Exceptional cash payments in the period totalled £3.9m (2010/11: £5.1m) and related mainly to the BFI integration booked last year, and the 2012 restructuring initiatives. A further £2.5m of exceptional cash payments are due next year in relation to this year's restructuring initiatives. Payments made to the legacy defined benefit scheme totalled £0.7m (2010/11: £0.7m). For the year ended 31 March 2013, this payment will increase to £1.45m in line with the current funding plan agreed with the trustees.

This resulted in free cash flow after exceptionals and legacy pension fund payments, of £5.9m (2010/11: cash outflow of £0.5m).

The Group invested £4.0m of this free cash flow into acquisitions during the year (2010/11: £4.4m). This comprised £1.2m for Hectronic paid in June 2011, £0.5m paid as a final working capital settlement for Compotron and £2.3m for MTC in October 2011. An earn out of £1.4m will be payable to Compotron management in January 2013, with the company already hitting its required earn out performance criteria. Up to £1.0m of earn-out will be payable to MTC management, also in January 2013, subject to MTC achieving specific performance criteria.

The dividend paid for the year totalled £2.2m (2010/11: £2.0m). Overall net cash outflow for the year was £0.3m (2010/11 net cash out flow: £6.9m) Together with a small foreign exchange loss on translation of £0.1m, the Group's net cash balance reduced by £0.4m from £6.7m at 31 March 2011 to £6.3m at 31 March 2012.

#### Committed funding remains strong

In addition to the year end net cash balance of £6.3m, the Group also had access to committed working capital facilities of £19m which it requires from time to time to fund inter-month outflows of working capital. Such inter-month outflows resulted in a net average cash across the final quarter of the year of £1.0m. In addition to its committed facilities, the Group also had access at the year end to uncommitted working capital facilities of £13m.

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### Pension deficit

The Group has a legacy defined benefit scheme that relates to the acquisition of Sedgemoor Limited in 1999. The scheme has been closed to both new entrants and new contributions since 2000.

Assets of the defined benefit scheme were valued at £29.8m at 31 March 2012 (31 March 2011: £29.1m). Scheme liabilities under IAS19 were valued by the actuaries at £36.3m (31 March 2011: £34.6m). The increase of £1.7m relates to the reduction in yields on long term corporate bonds during the year. The net deficit at 31 March 2012 is £6.5m (31 March 2011: £5.5m). Further details are given in note 33 to the Group financial statements.

For existing and new Acal employees, the Group operates a defined contribution scheme.

### Net assets

Net assets at 31 March 2012 of £49.1m were £2.2m below net assets at the end of last year (£51.3m) with net after tax profits for the year of £2.1m and shares based payments of £0.6m being offset by the cost of dividends in the period of £2.2m, the increased IAS 19 liability on the legacy pension fund of £1.0m and translational movements on currency net assets of £1.6m.

### Risks and uncertainties

The global economy remains vulnerable to major shocks such as a further banking crisis or sovereign debt defaults. As a result, the Group's sales and profits could be exposed to worsening global economic conditions and a loss of wider economic business confidence.

The other risks and uncertainties which may have the largest impact on performance are:

- Commercial risks – product demand, loss of major suppliers or customers, technological change, competition, product liability, loss of contracts, supply chain disruption, major damage to premises, loss of IT systems and loss of key personnel.
- Financial risks – liquidity, foreign currency, interest rates and credit risks, retirement benefits funding and acquisitions.

The Group is well positioned to manage such risks and uncertainties if they arise with its strong balance sheet and combined net cash and committed facilities of over £25m at the end of the period.

Acal's risk management processes cover identification, impact assessment, likely occurrence and mitigation actions. Some level of risk, however, will always be present.

### Simon Gibbins

Group Finance Director  
29 May 2012

well positioned to  
manage risks and  
uncertainties

# corporate information and financial calendar

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## corporate information

Registered office	Stockbrokers
Acal plc	Oriel Securities Limited
2 Chancellor Court	
Occam Road	Principal bankers
Surrey Research Park	Barclays Bank PLC
Guildford	Lloyds TSB Bank plc
Surrey GU2 7AH	
Telephone 01483 544500	Auditors
	Ernst & Young LLP
Incorporated in England	Registrars
and Wales with	Equiniti Limited
registered number 2008246	

## financial calendar 2012/2013

Annual General Meeting	19 July 2012
Results	
Interim report for the six months to 30 September 2012	Late November 2012
Preliminary announcement for the year to 31 March 2013	Late May 2013
Annual report 2013	Late June 2013
Dividend payments	
Final dividend 2011/2012	27 July 2012
Interim dividend 2012/2013	Late January 2013
Final dividend 2012/2013	Late July 2013

# directors' report

The Directors present their Annual Report with the audited financial statements for the year ended 31 March 2012. This report is the "management report" for the purpose of the Disclosure Rules and Transparency Rules. The Business Review referred to below is to be treated as being part of this Report.

## Results and dividends

The results of the Group for the year to 31 March 2012 are set out in detail in the consolidated income statement on page 45.

The Directors recommend a final dividend of 5.50p per share (2011: 5.14p). The final dividend together with the interim dividend of 2.50p (2011: 2.33p) makes a total dividend for the year of 8.00p per ordinary share (2011: 7.47p). The total dividends on ordinary shares will absorb £2,278,384 (2011: £2,126,000).

## Principal activities and business review

Acal plc is the parent company of a sales, marketing and services group with two divisions: Electronics and Supply Chain. During the year the Group acquired 100% of the issued share capital of Hectronic AB, a specialist provider of embedded computing technology to industrial electronic markets. Further details of the acquisition are set out in note 11 to the financial statements. The Group also acquired MTC Micro Tech Components GmbH and its affiliate EMC Innovation Limited. MTC is a specialist provider of electromagnetic shielding products to the European and Asian industrial electronic markets. Further details of this acquisition are set out in note 11 to the financial statements. There were no other major changes to the Group's activities during the year under review. On a regular basis the Board reviews all businesses within the Group to ensure that its strategy is being delivered and to examine other opportunities to enhance shareholder value. At the date of this Report the Board has taken no decisions which could result in any significant changes in activities during the current financial year.

During the year the Group's turnover decreased by 3% over the prior year whilst underlying profit before tax was £7.2 million compared to a profit of £7.1 million in the prior year. The consolidated statement of financial position as at the year-end and the equivalent statement as at 31 March 2011 are shown on page 47. A review of the business and future developments of the Group is presented in the Chairman's Statement, in the Chief Executive's Review and in the Finance Review on pages 2 to 3, 6 to 10 and 20 to 24.

The Group does not have contractual or other arrangements with any contractors, customers or suppliers that are critical to the business.

## Key performance indicators

Our progress on our strategic objectives is monitored by the Board of Directors by reference to the following key performance indicators applied on a Group-wide basis:

	Year ended 31 March 2012	Year ended 31 March 2011
Underlying operating profit*	<b>£8.1m</b>	£7.4m
Underlying profit before tax*	<b>£7.2m</b>	£7.1m
Gross profit	<b>£77.9m</b>	£75.2m
Gross margin	<b>30.2%</b>	28.4%
Underlying operating margin	<b>3.1%</b>	2.8%
Underlying diluted earnings per share*	<b>19.9p</b>	18.6p
Working capital to sales	<b>12.0%</b>	12.0%
Days sales outstanding	<b>50</b>	55
Stock turns	<b>7.6</b>	7.9
ROTCE*	<b>21.7%</b>	18.3%
Free cash flow*	<b>£10.5m</b>	£5.3m

\* Underlying profits, earnings, ROTCE and free cash flow are defined in note 2 to the financial statements on pages 50 to 51.

## Principal risks and uncertainties

Risks and uncertainties affecting the Group's electronics and supply chain markets could have a material impact on the Group's performance and cause actual results to differ significantly from expected and historic performance. Acal's risk management processes cover identification, impact assessment, likely occurrence and mitigation actions. Some level of risk, however, will always be present.

The global economy remains vulnerable to major shocks, such as a further banking crisis or sovereign debt defaults. As a result, the Group's sales and profits could be exposed to worsening global economic conditions and the loss of wider economic business confidence.

The other principal risks and uncertainties facing the Group are described below.

## Financial risks

### • Liquidity

This is the risk that the Group could have insufficient resources to meet its financial liabilities as they fall due. The Group addresses this risk by maintaining adequate banking facilities and by continuously monitoring forecast and actual cash flows to ensure that liquidity requirements will be met. The Group regularly discusses its requirements with its principal bankers and it is considered unlikely that the Group will face any significant funding issues in the foreseeable future.

- Foreign currency

The Group's main foreign exchange exposures relate to the translation of results and net assets denominated in overseas currencies into sterling (translational exposure), and the occurrence of transactions in currencies other than the operational currency of the transacting company (transactional exposure). The policy of the Group is to use hedges to reduce the foreign currency risk associated with transactional exposures. These hedges are achieved through forward currency contracts and currency borrowings. The hedging of translational exposure is restricted to currency borrowings.

- Interest rates

Fluctuations in rates affect the interest the Group receives on its cash deposits and the amount payable on external borrowings. At 31 March 2012, the Group had no such hedges against its interest rate risk.

- Credit

Credit risk exists in relation to customers, banks and insurers. These risks are mitigated by maintaining rigorous credit control procedures across a wide customer base.

Credit risk attributable to trade and other receivables 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 this credit risk by entering into financial instrument contracts only with highly credit-rated counterparties which are reviewed and approved annually by the Board. The Group has Board approved maximum counterparty exposure limits for specified banks and financial institutions based on the long term credit ratings of Standard & Poor's and Moody's.

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 risk.

- Retirement benefits funding

The funding position of the Group's post-retirement benefit scheme (the Sedgemoor Scheme – see note 33 to the financial statements on page 81, may be adversely affected by poor investment performance, changes in interest and inflation rates, improved mortality rates and changes in the regulatory environment. The income statement, and the level of cash contributions required to be made to the scheme, may be positively or negatively affected by the amount of the retirement benefits obligations.

The Sedgemoor Scheme has been closed to new members since 1999 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.

- Acquisitions

The Group considers acquisitions as part of its growth strategy. Such acquisitions may not realise the benefits anticipated. The Group undertakes due diligence and obtains representations, warranties and indemnities from vendors where possible. The Group implements comprehensive business integration processes.

## Commercial and other risks

- Product demand

A significant or prolonged downturn, due to recession, would decrease demand for the Group's products and adversely affect Group revenue. The Group spreads its activities across the electronics, supply chain and medical markets to reduce its exposure to any one business and constantly reviews its costs to partially mitigate any reduction in demand.

- Loss of major suppliers or customer(s)

As with any business, the loss of one or more major suppliers or customers can be a material risk. The nature of the Group's businesses, however, ensures that there is not a high level of dependence on any individual suppliers or customers. No supplier represents more than 3% of total Group revenue with the next largest at 2%. No customer represents more than 1% of total Group revenue.

- Technological change

The Group's businesses operate in specialised markets offering products which are technical in nature. As a result, there is always the risk that a technological change will make specific products less competitive or in the worst case, obsolete. In addition to the write-off of unsaleable inventory, this can impact the sales performance of the business if replacement products are not available. The Group's exposure to this risk is reduced by the spread of businesses and technologies.

The operating businesses monitor the key technologies to ensure early warning of changes in product competitiveness. Also, the businesses, with sufficient lead time, mostly have the opportunity to change suppliers in the event of a major technology shift.

- Competition

The Group competes in a highly competitive global market that has experienced significant consolidation in recent years. Losing contracts to competitors, many of whom have greater financial and marketing resources, or being forced to accept lower margins, would have an adverse impact on the Group's results. The Group mitigates exposure to this risk by diversifying its operations across divisions, geographies and product types.

- Product liability

There is a risk that products supplied may fail in service, which could lead to a claim under product liability. To offset this risk, technically qualified personnel and control systems are in place to ensure products meet quality requirements. Further, the Group has established Group-wide product liability insurance.

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- **Contracts**

The Supply Chain division enters into significant long-term contracts for the outsourcing of parts services. There is a risk that the Group could suffer losses on such contracts through incorrect pricing, through an inaccurate assessment of the costs associated with such contracts or through weak business processes. To mitigate exposure to this risk, major contracts must go through a Board approval process to ensure that risks associated with such contracts have been properly evaluated.

- **Supply chain**

The Group relies on independent suppliers for the products which it distributes, some of which may be available from a limited number of suppliers or distributed under agreement with a specific supplier. Any disruption to the supply chain could have an impact on the Group's ability to meet customer requirements and adversely affect the Group's results. The Group maintains significant investment in logistics facilities and subjects business continuity plans to regular testing to manage the risk of a loss of a major facility or supplier.

- **Major damage to premises**

The Electronics business has two central warehouse facilities. Major damage to either of these facilities from fire, malicious damage or natural disaster would impact the business for a period until the damage is repaired or alternative facilities have been established.

The businesses have developed plans to prevent incidents, and business contingency plans in the event such an incident occurred. Insurance policies are also in place including property, contents and business interruption cover which would mitigate the financial impact.

- **Loss of information technology ("IT") systems**

Computer systems are critical to the businesses since their success is built on high levels of customer service and quick response. A complete failure of IT systems, with the loss of trading and other records, could be very damaging. IT system failure could have a number of causes including power failure, fire and viruses. Business interruption insurance cover is held across the Group and contingency plans have been drawn up in all businesses.

- **People**

The success of the Group depends upon the efforts, experience and expertise of certain senior and specialist employees. Failure to retain them or recruit suitable replacements would have an adverse effect. To mitigate exposure to this risk, the Group maintains competitive remuneration packages and good communications at all levels.

## **Employee involvement**

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 its employees and the needs of the Group's business. These policies ensure that everyone is accorded equal opportunity for recruitment, training and promotion. The Group remains supportive of the employment and advancement of disabled persons, in relation to which further information is included in the Corporate Social Responsibility statement on page 40 and 41.

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.

Acal recognises the importance of its responsibilities in relation to the environment, to social and community issues and to business ethics, as well as to its employees. Further information is included in the Corporate Social Responsibility statement on page 40 and 41.

## **Directors**

The current Directors of the Company are detailed in the Board Report on Corporate Governance on pages 31 to 34 which is publicly available on the Company's website at [www.acalplc.co.uk](http://www.acalplc.co.uk). Directors' remuneration, service contracts and Directors' interests are disclosed in the Directors' Remuneration Report on pages 35 to 39.

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 approval of this Annual Report. Also, Directors of associated companies are 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 which a Director may enjoy under any such other indemnity or contract of insurance.

## **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 2012 the Company's issued share capital consisted of 28,479,804 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 that 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' interests in the share capital of the Company are shown in the table on page 37. Substantial shareholder interests of which the Company has been notified are shown below.

The Company 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 that occurs because of a takeover bid (but see "Special Award: Mr S M Gibbins" on page 39).

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

No shares were issued during the year under the Group's executive share option and long-term incentive schemes.

### Substantial shareholdings

As at 29 May 2012 the Company has been notified of the following major shareholdings equal to or in excess of three per cent of the issued share capital:

	Holdings of ordinary shares (5p)	% holding
Aberforth Partners LLP	4,926,150*	17.3
M&G Investment Management Ltd	2,547,551	8.9
Mr & Mrs J A H Curry	2,443,500	8.6
Henderson Global Investors Ltd	1,895,629	6.7
Unicorn Asset Management Ltd	1,642,735	5.8
Legal & General Investment Management Ltd	1,340,509	4.7
Mr & Mrs A J Laughton	1,293,775	4.5
Herald Investment Management Ltd	1,264,992	4.4
Polar Capital European Forager Fund Ltd	1,088,343	4.2

\* Includes 1,157,300 shares in relation to which Aberforth have no access to the voting rights.

### Acquisition of company's own shares

At the end of the year, the Directors had authority to purchase through the market up to 2,847,980 of the Company's ordinary shares, being approximately 10% of the Company's issued share capital as at 20 June 2011, at prices ranging between the nominal value and an amount equal to the higher of (a) 105 per cent 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 conclusion of the 2012 Annual General Meeting or on 27 October 2012, whichever is the earlier. The Directors will seek to renew this authority at the next Annual General Meeting.

No shares were purchased under this authority during the year.

### Donations

During the year £nil (2011: £nil) was donated by Group companies for charitable purposes. No contributions (2011: £nil) were made for political purposes.

### Auditors

A resolution will be proposed at the forthcoming Annual General Meeting for the re-appointment of Ernst & Young LLP as auditors of the Company.

### Disclosure of information to auditors

The Directors who were members of the Board at the time of approving this Report are listed on pages 4 and 5. Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

- to the best of his knowledge and belief, there is no information (ie information needed by the Group's auditors in connection with preparing their report) of which the Company's auditors are unaware; and
- 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 auditors are aware of that information.

### Supplier payments

The Group makes arrangements for payment of suppliers in the ordinary course of its business, taking into account good practice locally. It is the Group's policy to adhere to agreed arrangements, which can vary from supplier to supplier and territory to territory, when goods or services have been delivered satisfactorily.

Trade creditors of the Group at 31 March 2012 were equivalent to 49 days purchases (2011: 52).

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**Use of derivative financial instruments**

A statement in relation to the use of derivative financial instruments by the Group is shown in note 2 to the financial statements on pages 54 and 55.

**Going concern**

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in this report on pages 26 to 28. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 20 to 24. In addition, note 27 to the financial statements includes the Group's objectives, 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 risk and liquidity risk.

The Group has considerable 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 business risks successfully despite any uncertain economic conditions.

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.

By order of the Board

**G P Shillinglaw**  
Group Company Secretary  
29 May 2012

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

# board report on corporate governance

The Acal Group is committed to effective corporate governance and continues to operate principles and procedures that are appropriate to its business. This statement describes how Acal applies the principles of the UK Corporate Governance Code (the 'Code') published by the Financial Reporting Council in June 2010 by considering each of the main headings included within the Code. Acal complied with all provisions of the Code throughout the year to 31 March 2012.

As disclosed in the Directors' Report on page 28, this Report is publicly available on the Company's website at [www.acalplc.co.uk](http://www.acalplc.co.uk).

## The board

Acal is led by a strong and experienced Board with a broad range of business and financial skills. Throughout the year under review it consisted of Mr R J Moon as Non-Executive Chairman; Messrs E A Barton, G J Williams and I R Fraser as Non-Executive Directors; Mr N J Jefferies as Group Chief Executive; and Mr S M Gibbins as Group Finance Director.

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 Board operates within a framework of controls used to minimise the adverse impact of any risks, including a formal schedule of matters reserved for its decision. These are important matters and include the determination of the Group's overall strategy and management, the approval of financial statements, dividends, business plans, financing and treasury matters, major capital expenditure and any litigation of a material nature. The schedule is reviewed on a regular basis.

The Non-Executive Directors challenge management proposals where appropriate and carefully monitor management performance and reporting throughout the year.

As detailed 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. There were ten meetings of the full Board during the year to 31 March 2012, with all Directors attending all meetings with the exception of one meeting which Mr I R Fraser was unable to attend. All Directors attended the meetings of all Committees on which they served, with the exception of one meeting of the Remuneration Committee which Mr I R Fraser was unable to attend.

The Group maintains appropriate Directors' and Officers' Liability insurance.

## 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 is available from the Company on request. The Chairman is responsible for running 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 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 balance and 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 been an employee of the Group within the last five years;
- has, or has had within the last three years, 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 Group'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
- other than Mr E A Barton, has served on the Board for more than nine years from the date of their appointment to the Board.

The Non-Executive Directors of the Company are, therefore, considered to be independent including Mr E A Barton (who having served on the Board for more than nine years is considered to be independent for the reasons given below).

Mr E A Barton is the Senior Independent 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, but without Executive Directors present, as and when required. The Non-Executive Directors meet when required without the Chairman present and, as stated below, the Senior Independent Director leads the process of appraising annually the Chairman's performance in conjunction with the other Non-Executive Directors.

## Appointments to the board

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, including gender.

The Nomination Committee is chaired by Mr R J Moon. Messrs E A Barton and G J Williams, as Non-Executive Directors, and Mr N J Jefferies, as Group Chief Executive, are the other members of the Committee.

Before any appointment to the Board is considered, a job specification is prepared and agreed by the Nomination Committee. Unless the appointment is as an Executive Director for which a suitable candidate is available from within the Group, appropriate executive search or other organisations with databases of candidates are consulted before a short-list of suitable candidates is produced for agreement by the Nomination Committee. Candidates meet all members of the Nomination Committee which then makes recommendations to the Board. All members of the Board would usually meet with the relevant candidate before an appointment is finally made.

On the appointment of Mr R J Moon as Chairman an assessment was made of the time commitment expected and of Mr Moon's other significant commitments. Mr Moon is Non-Executive Chairman of Seven Technologies Holdings Limited and a Director of Synergie Business Limited.

The Nomination Committee met formally three times during the year. The terms of reference for the Nomination Committee are available on request and are on the Company's website at [www.acalplc.co.uk](http://www.acalplc.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 meetings, Directors are kept abreast of progress by the circulation of monthly reports together with 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. The appointment or removal of the Company Secretary would be a matter for the Board as a whole. An induction process is in place for any new Director joining the Board which includes meeting with the Group's senior management and visits to key locations, as well as a comprehensive briefing pack.

### **Performance evaluation**

During the year the Board repeated the process of evaluating its own performance, together with that of its Committees and individual Directors, including the Chairman. Each Director is asked to prepare an appraisal of each of these areas. The Chairman co-ordinates discussion with individual Directors on their performance and the Senior Independent Director co-ordinates discussion with the Chairman on the Chairman's performance. The results of the process are then summarised for presentation to and discussion by the Board and the actions to be taken (if any) are identified.

### **Election and re-election of directors**

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 re-appointed 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, resolutions will be proposed for the re-elections of Mr E A Barton (being a Non-Executive Director who has held office with the Company for a continuous period of nine years or more), Mr N J Jefferies and Mr G J Williams. Having taken into account the formal evaluation of their performances, the Board believes that each makes an effective contribution to the Board, demonstrates commitment to their role and can be recommended for re-election respectively. Further, in the case of Mr E A Barton, who was appointed to the Board on 1 September 2002, the Board is of the view that his objectivity and willingness to challenge management have not been compromised in any way by his tenure on the Board and that he remains independent therefore. Biographical details are shown on pages 4 and 5.

### **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. As this shows, a proportion of an Executive Director's overall remuneration is performance-related through annual bonus and share incentive schemes.

### **Procedure on board remuneration**

The remuneration of Executive Directors is the responsibility of the Executive Directors' Remuneration Committee, as is 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 solely of the Executive Directors. No Director is involved in deciding his own remuneration.

### **Financial reporting**

The Directors have acknowledged in the Directors' Responsibilities Statement their responsibility for preparing the financial statements of the Company and the Group. The Auditors have included in their report a statement of their responsibilities.

The Directors are also responsible for the publication of the Interim Report of the Group, covering the first six months of the year, which in their opinion provides a balanced and understandable assessment of the Group's financial performance and position. In accordance with the requirements of The Financial Services Authority's Disclosure Rules and Transparency Rules, the Directors also issue an Interim Management Statement twice in each financial year.

## Internal controls

The 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 as well as 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, following which the Board approved a framework for the implementation of this guidance. The relevant procedures have been in place throughout the year ended 31 March 2012 and up to the date of this Annual Report.

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 Audit Committee, on behalf of the Board, has regard to the significance of the risks involved, the likelihood and severity of a loss being incurred and the costs of the relevant controls.

The foundation of the Group's systems is the value placed on the quality and integrity of its employees. Its principal components 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;
- 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;
- a requirement for each operating company to maintain a system of internal controls appropriate to its own local business environment.

The Finance Department is responsible for ensuring that the process for producing financial information delivers accuracy and is 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 weekly and/or monthly basis and measured against both budget and rolling forecasts approved by the Board and/or management. 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 encompass Acal plc and 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 Audit 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.

The Group has effective procedures in place to deal with conflict situations.

## Audit committee and auditors

The Audit Committee is comprised of Mr E A Barton, who is the Chairman, together with Mr G J Williams and Mr I R Fraser. The Group Finance Director attends meetings although no Executive Director has a right of attendance. The Board is satisfied that the members of the Committee have recent and relevant financial experience. In addition, Mr G J Williams is a qualified chartered accountant.

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. In addition, it considers and monitors the independence and objectivity of the auditors as well as the extent of any non-audit services provided by the auditors and the need or otherwise for an internal audit function. The interim statement, the preliminary announcement of results and the annual financial statements are considered by the Audit Committee prior to their approval by the Board. The Chairman of the Audit Committee maintains direct communication with the external auditors, independently of the management of the Company.

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

- a review of the interim and full year results;
- a review of the risk management and internal controls systems of the Group;
- a review of the scope and results of the external audit;
- ensuring the continued independence and objectivity of the external auditors, including an understanding of the external auditors' own standards and procedures for maintaining their independence and reviewing the level of non-audit services provided by the auditors in order to ensure that these were not significant enough to prejudice their independence and objectivity;
- a review of the need for an internal audit function;
- reviewing the performance of the external auditors and making a recommendation as to their re-appointment;
- a review of arrangements whereby staff may raise, in confidence, any concern they may have about possible improprieties.

As regards the review of the need for an internal audit function, the Committee considers that there is no current need for such a function given the internal controls that are in place.

With regard to recommending the re-appointment of the external auditors, the Audit Committee has recommended that the Board presents a resolution to shareholders at the 2012 Annual General Meeting for the re-appointment of the external auditors. This followed an assessment of the quality of service provided, including the qualification of the external auditors, the expertise and resources made available to the Group, auditor independence and the effectiveness of the audit process. The decision was based on the consideration of reports issued by the external auditors and feedback from executive management.

Part of at least one Audit Committee meeting a year is held with only representatives from the external auditors present providing an opportunity for any concerns to be raised without executive management present.

The Chairman of the Audit Committee reports to the Board on any significant matters arising from the activities of the Committee.

Tax advice is provided by KPMG LLP, Deloitte LLP and PricewaterhouseCoopers LLP.

The Audit Committee has written terms of reference which are available on request and are on the Company's website at [www.acalplc.co.uk](http://www.acalplc.co.uk).

### **Group executive committee**

The Group Executive Committee is comprised of Mr N J Jefferies, who is the Chairman, together with Mr S M Gibbins, Mr A M Lioveri, Mr M F Pangels, Mr P H Neville, Mr G P Shillinglaw, who is also the Secretary, and Mr P G Webster. For their biographies see pages 18 and 19. During the year to 31 March 2012 the Committee met every other month. Other senior managers attend the Committee's meetings for specific topics.

The Committee is responsible for leading and developing the Group, 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 at [www.acalplc.co.uk](http://www.acalplc.co.uk)

### **Dialogue with institutional shareholders**

The Board believes that it is an important part of its responsibilities to maintain effective and timely communications with the Company's shareholders and institutional investors. The Company's Annual Report includes a statement from the Chairman, plus reviews by the Group Chief Executive and by the Group Finance Director. At the half year an Interim Report is published.

Throughout the year meetings are held with institutional shareholders as well as stockbroking analysts. These meetings include discussion of governance and strategy as required. It is the responsibility of the Chairman to ensure that shareholder views are communicated to the Board as a whole. Investor relations information, as well as presentations and news releases, are made available on the Company's website (address: [www.acalplc.co.uk](http://www.acalplc.co.uk)). Members of the Board and the Chairmen of the Remuneration and Audit Committees are available at the Annual General Meeting to answer any questions. The Company responds to any questions from shareholders generally as they arise.

In order to ensure that members of the Board develop an understanding of the views of major shareholders about the Company, any feedback received by the Company from meetings with institutional shareholders and stockbroking analysts is discussed internally and raised with the Board, as appropriate. Periodically, the Company's stockbrokers and public relations advisers follow up meetings held with institutional investors and stockbroking analysts in order to try 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 is completed on a show of hands and will be published on the Company's website. A separate resolution will be presented on each substantially separate issue and the Chairman of each Board Committee will attend the AGM. 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.

### **Approval**

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

### **G P Shillinglaw**

Group Company Secretary  
29 May 2012

# directors' remuneration report

This Report has been prepared in accordance with the provisions of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the ABI Remuneration Guidelines. It also meets the relevant requirements of the Listing Rules of the UK Listing Authority and describes how the Board has applied the principles of Good Governance relating to the Directors' remuneration. As required by regulation, a resolution to approve the Report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

## Unaudited information

### Remuneration committee

The Remuneration Committee ("the Committee") comprises Mr G J Williams as Chairman of the Committee, Mr E A Barton, Mr R J Moon and Mr I R Fraser. For their biographies see pages 4 and 5. The Committee determines the remuneration of the Executive Directors on behalf of the Board. Pay and employment conditions elsewhere in the Group, and the Group's overall employment costs, are taken into account by the Committee in determining the remuneration packages for Executive Directors. The incentive structure for senior management does not raise environmental, social and governance risks by inadvertently motivating irresponsible behaviour. The Committee held six formal meetings during the year to 31 March 2012, and its terms of reference are available on request and are on the Company's website at [www.acalplc.co.uk](http://www.acalplc.co.uk).

The Committee takes advice from external consultants as and when it is deemed necessary. During the year under review the Committee took advice from PricewaterhouseCoopers LLP and from MM&K Limited.

The remuneration of Executive Directors centres on ensuring that packages are sufficiently competitive in both fixed and variable terms to attract, retain and motivate senior management of the right calibre. To achieve this, it is necessary to provide packages that reflect individual experience and performance as well as taking account of remuneration paid by companies of similar size and complexity, operating internationally. The Committee has the discretion to consider corporate performance on environmental, social and governance issues when setting the remuneration of Executive Directors. The ability to recruit high quality staff in new and higher technology areas is critical to the Group's growth. The four main elements of the remuneration package for Executive Directors and senior management are:

- Basic annual salary and benefits
- Annual bonus payments (short-term incentives)
- Equity incentive schemes (long-term incentives)
- Pension arrangements

Each of the above is described in detail below.

Executive Directors may accept non-executive appointments outside the Company with the consent of the Board. The Board requires to be satisfied that the time commitment involved is consistent with the responsibilities of the relevant Executive Director. Where fees from such appointments are not required to be accounted for to the Company, the time commitment is taken into account in determining the Director's remuneration. None of the Executive Directors who served during the year held any non-executive appointments outside the Company.

It is not envisaged that the Company's policy on Directors' remuneration for the year to 31 March 2013 will differ materially from that which applied during the year under review.

### Salaries, fees and benefits

An Executive Director's basic salary is reviewed by the Committee prior to the beginning of each financial year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the role and responsibilities of the relevant Director as well as his experience and performance and, if considered necessary, takes appropriate external advice. In addition to basic salary, Executive Directors receive certain benefits-in-kind, principally comprising a car allowance, life assurance and private medical insurance.

Fees for Non-Executive Directors are determined on behalf of the Board by the Non-Executive Directors' Remuneration Committee (comprised solely of the Executive Directors) having regard to fees paid to Non-Executive Directors in other similarly sized UK quoted companies, the time commitment and the responsibilities of the role. Non-Executive Directors cannot participate in any of the Company's share incentive schemes.

### Short-term incentive arrangements

The Company's policy is that a substantial proportion of an Executive Director's overall remuneration should be performance-related. The Committee reviews and determines the financial objectives that must be met around the start of each financial year.

While the principal long-term measure of shareholder interests is total shareholder return, the Company believes that, for the purposes of determining annual bonuses, account has to be taken of those aspects of trading performance which senior management can influence by their actions. Thus, annual bonuses depend on specific targets including turnover and profit as well as the achievement of other non-financial objectives which may be relevant for the year in question. Bonus payments to Executive Directors are capped at a level agreed by the Remuneration Committee from time to time, currently 100% of basic salary.

## Share incentive schemes

### (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. These schemes were adopted by the Company in 1998 and are now closed to the grant of further options. The exercise of options under them is subject to the meeting of performance targets set by the Committee. Although there have been variations in numbers of options granted from year to year depending upon circumstances, it has always been Acal's policy to grant options to employees on a phased and regular basis and not in one block. However, at certain times, particularly when recruiting new people or to reward major achievements, it has been necessary to apply the policy flexibly. It has also been Acal's policy not to grant executive share options at a discount to market price.

The performance criterion that must be met before options can be exercised was determined when the two schemes were established. It requires that the growth in the Company's earnings per share in any three-year period before exercise must have exceeded the percentage increase in the Retail Price Index over the same period plus two per cent per annum. This criterion has been kept under review.

The Group also operates an approved 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 that the Committee determines to be appropriate. For the CSOP options granted to date, their exercise is dependent upon the option holder's continued employment for a three-year holding period from the date of grant and the satisfaction by the Company of certain performance conditions over that period as follows:

- 50% of the award is based on the Company's comparative total shareholder return against a comparator group made up of the constituents of the FTSE Small Cap Index with vesting as follows: Median = 25% vesting; Upper Quartile = 100% vesting; and
- 50% of the award is based on the Company's absolute total shareholder return as measured against the Retail Price Index ("RPI") with vesting as follows: RPI + 15% = 25% vesting; RPI + 30% = 100% vesting.

### (b) Long term incentive plan ("LTIP")

At the Annual General Meeting on 24 July 2008, shareholders approved the LTIP which involves a conditional award of shares on grant of a nil-cost option. In the opinion of the Committee, the LTIP provides a strong link between management performance and reward while encouraging key executives to build and maintain a shareholding.

In each year, Executive Directors and senior managers, selected by the Committee on the basis of such factors as their contribution to the Group's success, are eligible to receive an award of shares worth up to 150 per cent of base salary. Subject to this limitation, actual grant levels will be determined by the Committee.

The release of an award is dependent upon 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 over that period, which are currently as follows:

- 50% of the award is based on the Company's comparative total shareholder return against a comparator group made up of the constituents of the FTSE Small Cap Index with vesting as follows: Median = 25% vesting; Upper Quartile = 100% vesting; and
- 50% of the award is based on the Company's absolute total shareholder return as measured against the Consumer Price Index ("CPI") with vesting as follows: CPI + 10% = 25% vesting; CPI + 20% = 100% vesting.

These performance conditions are kept under review by the Committee to ensure that they are supportive of the Company's strategy. Therefore, they may be subject to change for future grants to better reflect this strategy. Any change might require prior consultation with the Company's major shareholders.

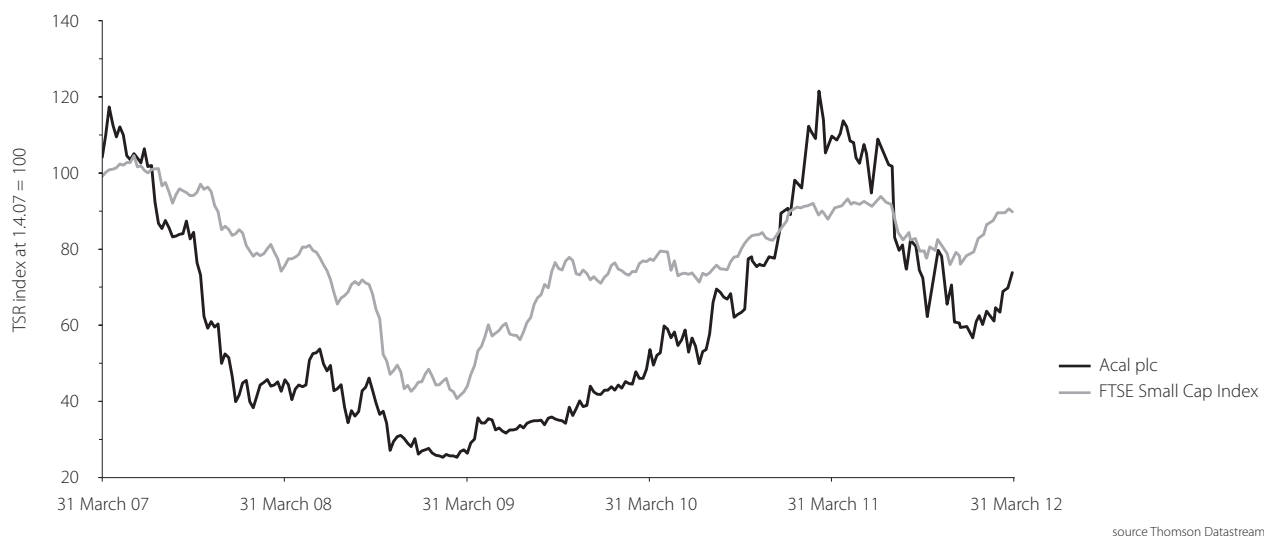
## Pension arrangements

The Group's pension scheme is a defined contribution (money purchase) scheme. Members are required to contribute at a minimum rate of 2.5% of contributory salary (i.e. basic salary plus bonuses, overtime and other fluctuating payments) but can pay at a higher rate in 0.5% steps. The Company's contribution rate depends upon the level of contribution the member has chosen to pay but is capped at 6.5% of contributory salary. In accordance with best practice, no fluctuating payments made to the Executive Directors and to the other members of the Group Executive Committee are pensionable.

## Performance graph

The following graph compares the Company's performance, measured by total shareholder return, with the performance of the FTSE Small Cap Index also measured by total shareholder return. Total shareholder return measures share price growth with dividends deemed to be reinvested gross on the ex-dividend date and the data points are shown using a moving one-month average. Although Acal plc is not currently a member of the FTSE Small Cap Index, it is considered to be a reasonable comparator in terms of the Company's size and its share liquidity.

## Total shareholder return for period 1 April 2007 to 31 March 2012



### Directors' contracts

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 apply this policy flexibly and 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 protect itself from exposure to the risk of a termination payment in the event of failure.

Mr N J Jefferies has a service contract with a company within the Acal Group dated 26 November 2008 incorporating a notice period of one year on a rolling basis. Mr S M Gibbins has a service contract with a company within the Acal Group dated 10 June 2010 incorporating a notice period of one year on a rolling basis. The following letters of appointment are in place in relation to the Chairman and Non-Executive Directors:

- with Synergie Business Limited for the provision of the services of Mr R J Moon dated 31 March 2005 (as amended) which expires on 31 March 2013 and which may be terminated by six months' notice.
- with Mr E A Barton for his services dated 18 July 2002 (as amended) which expires on 30 June 2013 and which may be terminated by three months' notice.
- with Mr G J Williams for his services dated 29 September 2003 (as amended) which expires on 30 June 2013 and which may be terminated by three months' notice.
- with Mr I R Fraser for his services dated 1 October 2009 (as amended) which expires on 31 December 2012 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' interests

The interests of the Directors who held office as at 31 March 2012 (including family interests) in the shares of the Company were as follows:

	At 31 March 2012		At 31 March 2011	
	Ordinary shares (5p) fully paid Beneficial	Ordinary shares (5p) fully paid Non-beneficial	Ordinary shares (5p) fully paid Beneficial	Ordinary shares (5p) fully paid Non-beneficial
N J Jefferies	36,735	—	31,672	—
S M Gibbins	5,063	—	—	—
R J Moon	65,100	—	65,100	—
E A Barton	21,000	—	21,000	—
G J Williams	1,000	—	1,000	—
I R Fraser	—	—	—	—

The interests of Directors in the shares of the Company at 29 May 2012 are unchanged from those at 31 March 2012.

## Audited information

The total amounts for Directors' remuneration were as follows:

	2012 £	2011 £
Fees	199,000	199,000
Salary and benefits	518,523	434,532
Performance-related bonuses	46,800	416,724
Money purchase pension contributions	33,825	28,487
	<b>798,148</b>	<b>1,078,743</b>

Details of the remuneration of Directors who served during the years ended 31 March 2012 and 31 March 2011 are as follows:

	Salary or fees £	Bonus £	Benefits £	Total emoluments 2012 £	2011 £	Pension contribution 2012 £	2011 £
<b>Executive Directors</b>							
N J Jefferies	306,500	28,800	1,606	<b>336,906</b>	570,501	<b>20,825</b>	19,600
S M Gibbins <sup>1</sup>	206,084	18,000	4,333	<b>228,417</b>	280,755	<b>13,000</b>	8,887
<b>Non-Executive Directors</b>							
R J Moon	101,000	–	–	<b>101,000</b>	101,000	–	–
E A Barton	35,000	–	–	<b>35,000</b>	35,000	–	–
G J Williams	33,000	–	–	<b>33,000</b>	33,000	–	–
I R Fraser	30,000	–	–	<b>30,000</b>	30,000	–	–
	711,584	46,800	5,939	<b>764,323</b>	1,050,256	<b>33,825</b>	28,487

<sup>1</sup> Appointed a Director on 20 July 2010.

Of the Directors who held office as at 31 March 2012, Mr N J Jefferies was the highest paid Director during the year under review (2011: Mr N J Jefferies).

No Director made any gain on the exercise of share options during the year under review, or in the previous year.

## Acal plc executive share option schemes ("the Schemes")

The performance criteria for the Schemes are disclosed in this Report on page 36. Movements in the Directors' holdings of options under the Schemes during the year under review relate to the Acal plc 2010 Company Share Option Plan ("the CSOP") and were as follows:

Director	Number held at 01.04.11	Granted	Movements during the year Exercised	Lapsed	Number held at 31.03.12	Date of grant	Exercise price	When exercisable
N J Jefferies	14,705	–	–	–	14,705	Sept 2010	204.0p	Sept 2013
S M Gibbins	9,090	–	–	–	9,090	Mar 2011	330.0p	Apr 2014

## Acal plc 2008 long term incentive plan ("the LTIP")

The performance criteria for the LTIP are disclosed in this Report on page 36. Movements in the Directors' holding of options under the LTIP during the year were as follows:

Director	Number held at 01.04.11	Granted	Movements during the year Exercised	Lapsed	Number held at 31.03.12*	Exercise price (nil-cost option)	When exercisable
N J Jefferies	269,230	–	–	–	269,230	–	Mar 2013 to Mar 2020
N J Jefferies	131,818	–	–	–	131,818	–	Mar 2014 to Mar 2021
N J Jefferies	–	192,307	–	–	192,307	–	Mar 2015 to Mar 2022
S M Gibbins	54,545	–	–	–	54,545	–	Mar 2014 to Mar 2021
S M Gibbins	–	89,134	–	–	89,134	–	Mar 2015 to Mar 2022

\*Mr Jefferies and Mr Gibbins also hold options over 14,705 and 9,090 shares respectively granted under the CSOP. If they exercise these CSOP options, the value of their LTIP shares will be reduced by an amount equal to the gain on their CSOP options.

The market price of the shares at 31 March 2012 was 215p and the range during the year ended on that date was 166.25p to 344p. The performance conditions in relation to the Schemes and to the LTIP are described in the unaudited section of the Report above.

**Special award: Mr N J Jefferies**

Movements in Mr Jefferies's option holding under his special award (details below) during the year were as follows:

Number held at 01.04.11	Granted	Movements during the year Vested	Exercised	Not vested	Number held at 31.03.12 and exercisable	Exercise price (nil-cost option)	When exercisable
620,498	–	584,777	–	(35,721)	584,777	–	April 2012 to March 2019

On 31 March 2009, Mr Jefferies was granted an award in the form of a nil-cost option over 620,498 shares in the Company. The Company agreed, as a condition of Mr Jefferies accepting the appointment of Group Chief Executive on 25 November 2008, to grant him an award over the Company's shares having a market value equivalent to 200% of his base salary at the date of the grant. The number of shares under the award was determined using a share price of 90.25 pence per share being the closing price of the Company's shares on 30 March 2009, the last business day prior to the date of grant.

Mr Jefferies's award was made under LR9.4.2(2) of the Listing Rules in order to facilitate his appointment as Group Chief Executive. The Board considered that it was important to the success of the recruitment process, and to maximise shareholder value going forward, to make such an award to him. Made on similar terms to awards granted under the Acal plc 2008 Long Term Incentive Plan (the "LTIP") (see "Share incentive schemes" above), the award vested in part on 31 March 2012. The Company's TSR performance, when measured (in accordance with the Special Award deed) against the comparator group of companies (ie the constituents of the FTSE Small Cap Index) over the period 31 March 2009 to 31 March 2012, meant that 94.2432% of the award vested. Therefore, the option became exercisable over 584,777 shares in the Company.

The performance conditions were tested, independently, by MM&K Limited on the basis of an analysis produced by JP Morgan Cazenove.

Mr Jefferies has undertaken to retain 50% of the shares under the option until 31 March 2014, at the earliest.

**Special award: Mr S M Gibbins**

On 20 July 2010, Mr Gibbins was granted an award in the form of a nil-cost option over 179,447 shares in the Company. The Company agreed as a condition of Mr Gibbins accepting the appointment of Group Finance Director on 10 June 2010 to grant him an award over the Company's shares having a market value equivalent to 150% of his base salary at the date of the grant. The number of shares under the award was determined using a share price of 163 pence per share being the closing price of the Company's shares on 19 July 2010, the last business day prior to the date of grant.

Mr Gibbins's award is on similar terms to awards granted under the Acal plc 2008 Long Term Incentive Plan (the "LTIP") (see "Share incentive schemes" above). The award will become exercisable between July 2013 and July 2020 dependent upon certain performance conditions being achieved by the Company during the three-year holding period ending on 20 July 2013.

The award differs in one main respect from similar awards under the LTIP. If there is a change of control of the Company before the end of the three-year holding period mentioned above, the award will become exercisable immediately. In such event, the number of shares available for exercise will not be pro-rated for time and the satisfaction by the Company of performance conditions will not apply.

Mr Gibbins has undertaken to retain at least 50% of any shares that vest under this award, when combined with any that vest under the LTIP, so as to build up a holding of shares in the Company equal in value (at the point of vesting) to 100% of his annual basic salary.

**Approval**

This Directors' Remuneration Report has been prepared on behalf of and approved by the Board and signed on its behalf by

**G P Shillinglaw**

Group Company Secretary  
29 May 2012

# corporate social responsibility

While the management of Acal is primarily accountable to its shareholders, in managing the business it takes into account all stakeholders in Acal including employees, customers and suppliers, as well as the local communities and environment in which it operates. In a balanced way, without unnecessarily restricting the optimisation of returns, it endeavours to identify and manage any risks to the value of Acal's business from social, environmental and ethical matters, and to take any opportunities presented by a sensible and considerate approach to such matters to enhance shareholder value. The Board of Acal has adopted policies in relation to corporate social matters that take into account the interests of the Group's employees; the need to foster business relationships with suppliers, customers and others; the impact of the Group's operations on the community and the environment; and the desirability of the Group maintaining a reputation for high standards of business conduct. Day-to-day responsibility for implementation of these policies is delegated to the management of Acal's operating companies. In implementing these policies the Group endeavours to ensure that the cost of managing risks is proportionate to their significance to Acal and its business partners. More specifically, Acal's policies cover the following:

## **General**

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

## **Employees, health and safety**

Acal provides equal opportunities to all employees and prospective employees, and does not discriminate on grounds of colour, ethnic origin, gender, age, religion, political or other opinion, disability or sexual orientation.

Clear and fair terms of employment, as well as a fair and competitive remuneration policy, are put in place. Employees are encouraged to develop their knowledge and skills and to progress their careers to the mutual benefit of themselves and the companies they work for. It is the responsibility of management to ensure that they comply with all local regulations, including those relating to the employment of underage staff. Local business units are responsible for developing and implementing effective arrangements for employee communication.

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 come onto its premises. The Group endeavours to protect employees from, and does not tolerate, any sexual, physical or mental harassment. Health and safety matters are kept under regular review by local management and at Group level. The Group's statement of intent on health and safety matters can be found on its website ([www.acalplc.co.uk](http://www.acalplc.co.uk)).

The Group operates a 'whistle-blowing' policy whereby employees may report in confidence any suspected wrongdoing. This policy can be found on its website ([www.acalplc.co.uk](http://www.acalplc.co.uk)).

## **Disabled employees**

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting 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 to achieve this aim.

## **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. 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.

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 ethics can be found on its website ([www.acalplc.co.uk](http://www.acalplc.co.uk)).

### Anti-bribery

Acal is committed to applying the highest standards of integrity, honesty and fairness in its business activities all over the world. 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 for it on its behalf. The Board and senior management are committed to implementing and enforcing effective procedures to prevent, monitor and eliminate bribery in accordance with the UK Bribery Act 2010. An updated anti-bribery programme has been developed, which has been communicated to employees and is in the process of being implemented by the Group's operating companies.

### Community and environment

Community and environmental matters are important to the Group because it is sensitive to the local community's cultural, social and economic needs. It 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 regulations, Group companies try earnestly to promote the effective management of natural resources and encourage energy efficiency as well as waste minimisation and recycling where economically viable means of doing so are available. Although the vast 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.

# directors' responsibilities statement

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The Directors are responsible for preparing the Annual Report and financial statements in accordance with 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 then 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; and
- state for the Company financial statements whether the applicable UK Accounting Standards have been followed, subject to any material departures being disclosed and explained.

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 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 2012 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.

Each of the Directors, as at the date of this Report, confirms to the best of his 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; and
- the Directors' Report includes 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 it faces.



# report of the auditors

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## Independent auditor's report to the members of Acal plc

We have audited the group financial statements of Acal plc for the year ended 31 March 2012, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 42, the directors are responsible for the preparation of the group 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 group 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.

## 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 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 31-34 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 30, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

## Other matter

We have reported separately on the parent company financial statements of Acal plc for the year ended 31 March 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andy Glover (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

29 May 2012

## 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.
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 2012

	notes	2012 £m	2011 £m
<b>Revenue</b>	4	<b>257.8</b>	264.8
Cost of sales		(179.9)	(189.6)
<b>Gross profit</b>		<b>77.9</b>	75.2
Selling and distribution costs		(41.1)	(39.1)
Administrative expenses (including exceptional items)		(32.9)	(33.2)
Other operating expenses		–	(0.4)
<b>Operating profit</b>	7	<b>3.9</b>	2.5
Finance revenue	9	<b>0.2</b>	0.3
Finance costs	9	(1.4)	(0.9)
<b>Profit before tax</b>		<b>2.7</b>	1.9
Tax expense	10	(0.6)	(0.2)
<b>Profit for the year</b>		<b>2.1</b>	1.7
<b>Earnings per share</b>	14		
Basic		<b>7.4p</b>	6.0p
Diluted		<b>7.1p</b>	5.7p

## supplementary income statement information

Underlying performance measure	notes	2012 £m	2011 £m
Operating profit	7	<b>3.9</b>	2.5
Add: Exceptional items	6	<b>3.4</b>	4.4
Earn out remuneration		–	0.2
Amortisation of acquired intangible assets	18	<b>0.8</b>	0.3
<b>Underlying operating profit</b>		<b>8.1</b>	7.4
Profit before tax		<b>2.7</b>	1.9
Add: Exceptional items	6	<b>3.4</b>	4.4
Earn out remuneration		–	0.2
Amortisation of acquired intangible assets	18	<b>0.8</b>	0.3
IAS 19 charge for pension finance cost		<b>0.3</b>	0.3
<b>Underlying profit before tax</b>		<b>7.2</b>	7.1
<b>Underlying earnings per share</b>	14		
Basic		<b>20.7p</b>	19.3p
Diluted		<b>19.9p</b>	18.6p

The results for the year and prior year relate wholly to continuing operations.

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# consolidated statement of comprehensive income

for the year ended 31 March 2012

	notes	2012 £m	2011 £m
<b>Profit for the year</b>		<b>2.1</b>	1.7
Actuarial loss on defined benefit pension scheme	33	<b>(1.3)</b>	(0.4)
Deferred tax relating to the defined benefit pension scheme	10	<b>0.2</b>	(0.2)
Exchange differences on retranslation of foreign subsidiaries		<b>(1.6)</b>	(0.1)
<b>Other comprehensive loss for the year net of tax</b>		<b>(2.7)</b>	(0.7)
<b>Total comprehensive (loss)/profit for the year net of tax</b>		<b>(0.6)</b>	1.0

# consolidated statement of financial position

at 31 March 2012

	notes	2012 £m	2011 £m
<b>Non-current assets</b>			
Property, plant and equipment	15	3.5	3.8
Intangible assets – goodwill	16	21.6	17.4
Intangible assets – other	18	4.1	3.7
Deferred tax assets	10	3.3	2.8
		32.5	27.7
<b>Current assets</b>			
Inventories	20	25.7	25.3
Trade and other receivables	21	49.4	59.3
Current tax assets		–	0.1
Cash and cash equivalents	22	12.3	13.6
		87.4	98.3
<b>Total assets</b>		119.9	126.0
<b>Current liabilities</b>			
Trade and other payables	29	(45.4)	(51.6)
Other financial liabilities	23	(5.2)	(5.1)
Current tax liabilities		(4.2)	(4.3)
Provisions	26	(4.6)	(2.9)
		(59.4)	(63.9)
<b>Non-current liabilities</b>			
Other financial liabilities	23	(0.8)	(1.8)
Pension liability	33	(6.5)	(5.5)
Deferred tax liabilities	10	(1.0)	(0.2)
Provisions	26	(3.1)	(3.3)
		(11.4)	(10.8)
<b>Total liabilities</b>		(70.8)	(74.7)
<b>Net assets</b>		49.1	51.3
<b>Equity</b>			
Share capital	30	1.4	1.4
Share premium		40.7	40.7
Merger reserve		3.0	3.0
Currency translation reserve		1.2	2.8
Retained earnings		2.8	3.4
<b>Total equity</b>		49.1	51.3

These financial statements were approved by the Board of Directors on 29 May 2012 and signed on its behalf by:

**N J Jefferies**  
Chief Executive

**S M Gibbins**  
Group Finance Director

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# consolidated statement of changes in equity

for the year ended 31 March 2012

Equity 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
<b>At 1 April 2010</b>	<b>1.4</b>	<b>40.6</b>	<b>3.0</b>	<b>2.9</b>	<b>4.0</b>	<b>51.9</b>
Profit for the year	–	–	–	–	1.7	1.7
Other comprehensive income	–	–	–	(0.1)	(0.6)	(0.7)
Total comprehensive income	–	–	–	(0.1)	1.1	1.0
Share based payment transactions	–	–	–	–	0.3	0.3
Issue of share capital	–	0.1	–	–	–	0.1
Equity dividends	–	–	–	–	(2.0)	(2.0)
<b>At 31 March 2011</b>	<b>1.4</b>	<b>40.7</b>	<b>3.0</b>	<b>2.8</b>	<b>3.4</b>	<b>51.3</b>
Profit for the year	–	–	–	–	2.1	2.1
Other comprehensive income	–	–	–	(1.6)	(1.1)	(2.7)
Total comprehensive income	–	–	–	(1.6)	1.0	(0.6)
Share based payment transactions	–	–	–	–	0.6	0.6
Equity dividends	–	–	–	–	(2.2)	(2.2)
<b>At 31 March 2012</b>	<b>1.4</b>	<b>40.7</b>	<b>3.0</b>	<b>1.2</b>	<b>2.8</b>	<b>49.1</b>

## Nature and purpose of other reserves:

### Merger reserve

The merger reserve arose as a consequence of the acquisition in 1987 of Acal Electronic Holdings Limited and Acal Auriema Limited.

### Currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

# consolidated statement of cash flows

for the year ended 31 March 2012

	notes	2012 £m	2011 £m
<b>Net cash flows from operating activities</b>	25	<b>6.9</b>	0.4
<b>Cash flows from investing activities</b>			
Acquisition of shares in subsidiaries	11	(4.0)	(5.2)
Net cash acquired with subsidiaries	11	–	0.9
Proceeds from the disposal of shares in subsidiaries (net of disposal costs)		–	0.6
Revision to proceeds from sale of business		–	(0.7)
Purchases of property, plant and equipment		(1.0)	(1.1)
Proceeds from disposal of property, plant and equipment and intangibles		0.1	–
Purchase of intangible assets – software		(0.3)	(0.2)
Interest received		0.2	0.3
<b>Net cash used in investing activities</b>		<b>(5.0)</b>	(5.4)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of shares		–	0.1
Net (repayment of)/proceeds from borrowings		(0.9)	2.6
Dividends paid	13	(2.2)	(2.0)
<b>Net cash (used in)/from financing activities</b>		<b>(3.1)</b>	0.7
<b>Net decrease in cash and cash equivalents<sup>1</sup></b>		<b>(1.2)</b>	(4.3)
Cash and cash equivalents at 1 April		9.4	13.9
Effect of exchange rate fluctuations		(0.3)	(0.2)
<b>Cash and cash equivalents at 31 March</b>		<b>7.9</b>	9.4
<b>Reconciliation to cash and cash equivalents in the consolidated statement of financial position</b>			
Cash and cash equivalents shown above		7.9	9.4
Add back overdrafts		4.4	4.2
Cash and cash equivalents presented in current assets in the consolidated statement of financial position	22	12.3	13.6

<sup>1</sup> For further information on consolidated statement of cash flows please refer to notes 24 and 25.

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# notes to the group financial statements

## 1 authorisation of financial statements and statement of compliance with IFRS

The financial statements comprise the results of Acal plc ('the Company') and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 March 2012 were authorised for issue by the Board of Directors on 29 May 2012. 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 of Acal plc and all its subsidiaries are prepared in accordance with International Financial Reporting Standards (IFRSs), 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 when otherwise indicated.

### Basis of consolidation

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

### Subsidiaries and associates

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

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 its financial and operating policy decisions, but not 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 Group 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.

### Changes in accounting policy and disclosures

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 April 2011. They are not relevant and do not have a material effect on the group's financial statements and are as follows:

International Accounting Standards (IAS/IFRS/IFRIC)		Effective date
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
IFRS 1	Amendment – Limited exemption from comparative IFRS 7 disclosures	1 July 2010
IAS 24	Amendment – Related party disclosures	1 January 2011
IFRIC 14	Amendment – prepayments of minimum funding requirement	1 January 2011
	Improvements to IFRS (issued May 2010)	Various

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic and Operational Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review.

The Group has appropriate 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 business risks successfully.

After making 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.

### Underlying profits and earnings

The Group uses a number of alternative (non Generally Accepted Accounting Practice ("non GAAP")) financial measures which are not defined within IFRS. The Directors use these measures in order to assess the underlying operational performance of the Group and as such, these measures are important and should be considered alongside the IFRS measures. The following non GAAP measures are referred to in this Annual Report:

#### Underlying operating profit

"Underlying operating profit" is defined as operating profit excluding exceptional items, earn out remuneration and amortisation of acquired intangible assets.

## 2 accounting policies continued

### Underlying profit before tax

"Underlying profit before tax" is defined as profit before tax excluding exceptional items, earn out remuneration, amortisation of acquired intangible assets and the IAS 19 pension finance charge.

### Underlying effective tax rate

"Underlying effective tax rate" is defined as the effective tax rate on profit before tax excluding the impact of tax on exceptional items, earn out remuneration, amortisation of acquired intangible assets and the IAS 19 pension finance charge.

### Underlying earnings per share

"Underlying earnings per share" is calculated as the total of 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.

### Underlying operating cash flow

"Underlying operating cash flow" is defined as underlying operating profit with depreciation, amortisation and equity settled share based payments expense added back.

### Free cash flow

"Free cash flow" is defined as net cash flow before exceptionals, payments to the legacy pension fund, dividends and the cost of acquisitions.

### Return on trading capital employed ("ROTCE")

"ROTCE" is defined as underlying operating profit as a percentage of net operating assets. Net operating assets are defined as tangible and intangible assets excluding goodwill plus working capital.

### Like for like basis

Reference to 'like for like' basis included in the Chairman's statement, Chief Executive's review and Finance review, means including acquisitions for the whole of the comparative period, except any acquired in the year, excluding the ATM Parts business (effective disposal date 30 September 2010), and at constant exchange rates.

### Business combinations and goodwill

#### Business combinations since 1 April 2010

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 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 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 IFRSs. 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 profit and loss.

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 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 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 operation disposed of 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.

## 2 accounting policies continued

Business combinations prior to 1 April 2010

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Goodwill represents the excess of the cost of the business combination over the fair value of the Group's share of the identifiable assets less liabilities and contingent liabilities of the acquired entity at the date of acquisition.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

At the acquisition date, goodwill acquired is recognised as an asset and is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of the related cash-generating units monitored by management. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised immediately in profit or loss and is not subsequently reversed. Goodwill arising on the acquisition of associates is included within the carrying value of the investment.

Any intangible assets acquired as part of a business combination are recognised separately from goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before 1 April 2004 (the date of transition to IFRS) has been retained at the previous UK GAAP amount having been tested for impairment at that date.

### 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 at rates of 12.5-33% per annum. Software is assessed 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.
- b Acquired intangible assets – business combinations  
Intangible assets that are acquired as a result of a business combination, including, but not limited to, customer relationships, supplier relationships, brands and that can be separately measured at fair value, on a reliable basis, are separately recognised on acquisition at fair value, 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.

Customer relationships	5 years
Supplier relationships	5 years
Brands	5 years

### 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:

Freehold land	nil
Freehold buildings	2-3% per annum
Leasehold improvements	10-20% per annum or over the life of the lease
Plant and equipment	10-33% 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 testing for an asset is required 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. An impairment loss is recognised as an expense immediately.

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 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

Investments are initially recognised at cost, being the fair value of the consideration given and including directly attributable transaction costs associated with the investment.

## 2 accounting policies continued

After initial recognition, investments in equity shares are treated as available for sale financial assets and are measured at their fair value with any gains or losses recognised in equity. When the investment is derecognised or impaired, the cumulative gain or loss previously recognised in equity is included in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably valued are measured at cost.

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 twelve months after the reporting date which are classified as non-current assets. Loans and receivables are presented in trade and other receivables in the consolidated statement of financial position.

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

### Inventories

Inventories comprise goods held for resale and are stated at the lower of weighted average cost and net realisable value after making allowance for any obsolete or slow moving items. Cost includes inward carriage incurred.

### 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 over due 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 purposes 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 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 provision for onerous contracts, an assessment is made for impairment of any related assets.

Provisions are discounted to present value where the effect is material using a pre-tax 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 as exceptional items those items which are exceptional by virtue of their size or incidence so as to allow a better understanding of the underlying trading performance of the Group. The Group includes, but not limited to, the profit or loss on disposal of property, investments or businesses and other financial assets, impairments and significant restructuring and integration charges or credits in exceptional items.

### Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date and gains or losses on translation are included in the consolidated income statement.

Currency gains and losses arising from the retranslation of the opening net assets of foreign operations are recorded as a movement on reserves, net of tax. The differences that arise from translating the results of overseas businesses at average rates of exchange, and their assets and liabilities at closing rates, are dealt with in a separate currency translation reserve. All other currency gains and losses are dealt with in the consolidated income statement.

### Revenue recognition

Revenue represents the 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 despatched to customers.
- b Revenue from 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.

## 2 accounting policies continued

### 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 approved by the shareholders in 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.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability.

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

### 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 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 as adjusted for any unrecognised past service cost, 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 Statement of Comprehensive Income.

### 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.

The Group has taken advantage of the exemption permitted under IFRS 1 in respect of equity-settled awards and IFRS 2 has only been applied to options awarded on or after 7 November 2002 that had not vested before 1 January 2005.

### 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 principally uses forward currency contracts to hedge risks associated with foreign currency fluctuations.

## 2 accounting policies continued

Forward currency contracts covering assets and liabilities are initially recognised at fair value on the date on which a contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. For those derivatives designated as hedges and for which hedge accounting is required, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a probable forecast transaction.

Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to the income statement.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting. Any amounts previously recognised in equity remain in equity until the forecast transaction occurs. If a forecast transaction is no longer expected to occur, amounts previously recognised in equity or as an asset or liability are transferred to profit or loss.

### 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 has suffered any impairment, in accordance with the accounting policy stated on page 51. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates of future cash flows and the selection of suitable discount rates (note 17).

#### The recognition and quantification of provisions

Judgement is used in determining the value of provisions carried. For onerous contracts this is primarily based around assumptions on rent and property related costs for the period the property is vacant and then assumptions over future rental incomes or potential reverse lease premiums paid. Other provisions are estimated based on factors such as historical experience and expectations of future events that management believe to be reasonable. Note 26 provides details of the value of the provision carried.

#### Fair value of assets acquired in a business combination

Judgements and estimates are required in the identification of separable assets and liabilities upon acquisition, particularly in the case of the valuation and identification of intangible assets such as brand, supplier contracts and customer databases. Note 11 provides details of business combinations in the current year.

#### 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. Note 33 details the actuarial assumptions used in determining the carrying amount at 31 March 2012.

#### Taxation

The Group operates in a number of tax jurisdictions around the world. Tax regulations generally are complex and in some jurisdictions agreeing tax liabilities with local tax authorities can take several years. Consequently, at the reporting date tax liabilities and assets are based on management's best estimate of the future amounts that will be settled. While the Group aims to ensure that the estimates recorded are accurate, the actual amounts could be different from those expected.

#### Current assets

In the course of normal trading activities, judgement is used to establish the net realisable value of various elements of working capital, principally inventory and trade receivables. Provisions are made against obsolete or slow-moving inventories, bad or 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 and are relevant for the Group, become effective after the current year end and have not been early adopted by the Group:

International Accounting Standards (IAS/IFRS/IFRIC)		effective date
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013*
IAS 12 (A)	Amendment to IAS12 – Recovery of Underlying Assets	1 January 2012
IAS 19 (R)	Employee Benefits	1 January 2013
IAS 1	Amendment – presentation of items of other comprehensive income	1 July 2012
IFRS 10	IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013
IAS 28 (R)	Investments in Associates and Joint Ventures	1 January 2013
IFRS 7	Amendment-Disclosures-Transfers of financial assets	1 July 2011
IAS 27(R)	Separate financial statements	1 January 2013
IFRS 13	Fair value measurement	1 January 2013
	Improvements to IFRS (issued May 2010)	Various

\* Not yet adopted by EU and therefore effective date may change

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

The Group has chosen not to early adopt any of these new standards and interpretations.

### 4 revenue

An analysis of the Group's revenue is as follows:

	2012 £m	2011 £m
Sale of goods	245.6	255.1
Rendering of services	12.2	9.7
<b>Total revenue</b>	<b>257.8</b>	264.8

### 5 operating segment information

For management purposes, the Group is organised into two business units based on their products and services and has two reportable operating segments as follows:

- Electronics – specialist distribution of electronic and photonic products to industrial manufacturing and design companies. Also the supply of advanced medical equipment to public and private healthcare providers.
- Supply Chain – service parts, inventory optimisation and outsource solutions to leading IT service providers.

During the year the Group changed the composition of its reportable segments. The previously reported Medical segment has been amalgamated into the Electronics segment. Comparative figures have been restated accordingly.

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

	Electronics £m	Supply Chain £m	Unallocated £m	Total £m
<b>2012</b>				
<b>Revenue</b>	<b>207.1</b>	<b>50.7</b>	<b>–</b>	<b>257.8</b>
<b>Result</b>				
Underlying operating profit/(loss)	10.8	1.3	(4.0)	8.1
Exceptional items – restructuring	(1.8)	(0.4)	–	(2.2)
Exceptional items – acquisition and related integration costs	(0.7)	–	–	(0.7)
Exceptional items – disposal costs	–	(0.2)	–	(0.2)
Exceptional items – web development costs	(0.3)	–	–	(0.3)
Amortisation of acquired intangible assets	(0.7)	(0.1)	–	(0.8)
<b>Operating profit/(loss)</b>	<b>7.3</b>	<b>0.6</b>	<b>(4.0)</b>	<b>3.9</b>

## 5 operating segment information continued

2011	Electronics £m	Supply Chain £m	Unallocated £m	Total £m
<b>Revenue</b>	210.5	54.3	–	264.8
<b>Result</b>				
Underlying operating profit/(loss)	10.3	1.2	(4.1)	7.4
Exceptional items – restructuring	(3.6)	(0.6)	(0.2)	(4.4)
Exceptional items – acquisition and related integration costs	(0.2)	–	–	(0.2)
Exceptional items – write back of unutilised provisions for retained obligations	–	–	0.6	0.6
Exceptional items – asset impairment	–	(0.4)	–	(0.4)
Earn out remuneration	(0.2)	–	–	(0.2)
Amortisation of acquired intangibles	(0.2)	(0.1)	–	(0.3)
<b>Operating profit/(loss)</b>	6.1	0.1	(3.7)	2.5

### Segment assets and liabilities

2012 Assets and liabilities	Electronics £m	Supply Chain £m	Total £m
Segment assets (excluding goodwill and intangibles)	58.9	18.2	77.1
Goodwill and intangibles	17.8	7.2	25.0
	76.7	25.4	102.1
Unallocated assets			2.2
Cash			12.3
Current and deferred tax assets			3.3
<b>Total assets</b>			<b>119.9</b>
Segment liabilities	(40.3)	(7.7)	(48.0)
Unallocated liabilities			(5.1)
Other financial liabilities			(6.0)
Pension liability			(6.5)
Current and deferred tax liabilities			(5.2)
<b>Total liabilities</b>			<b>(70.8)</b>
<b>Net assets</b>			<b>49.1</b>

## 5 operating segment information continued

<b>2011 Assets and liabilities</b>	Electronics £m	Supply Chain £m	Total £m
Segment assets (excluding goodwill and intangibles)	68.2	19.9	88.1
Goodwill and intangibles assets	13.2	7.4	20.6
	81.4	27.3	108.7
Unallocated assets			0.8
Cash			13.6
Current and deferred tax assets			2.9
<b>Total assets</b>			126.0
Segment liabilities	(44.2)	(9.0)	(53.2)
Unallocated liabilities			(4.6)
Other financial liabilities			(6.9)
Pension liability			(5.5)
Current and deferred tax liabilities			(4.5)
<b>Total liabilities</b>			(74.7)
<b>Net assets</b>			51.3

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 pension liability, tax assets and liabilities, cash and all borrowings, central assets and liabilities and certain property, plant and equipment and intangibles.

<b>Other segment information</b>	<b>Depreciation and amortisation</b>		<b>Additions to non current assets</b>	
	<b>2012 £m</b>	<b>2011 £m</b>	<b>2012 £m</b>	<b>2011 £m</b>
Electronics	1.5	1.0	6.0	6.3
Supply Chain	0.7	0.7	0.4	0.4
Unallocated	0.1	–	0.4	0.1
	2.3	1.7	6.8	6.8

### 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:

	<b>Revenue from external customers</b>		<b>Non current assets</b>	
	<b>2012 £m</b>	<b>2011 £m</b>	<b>2012 £m</b>	<b>2011 £m</b>
UK	72.5	79.9	19.6	19.4
Europe	174.9	175.3	12.9	8.3
Rest of the World	10.4	9.6	–	–
	257.8	264.8	32.5	27.7

## notes to the group financial statements continued

**6 exceptional items**

		2012 £m	2011 £m
Administrative expenses:			
Electronics restructuring costs	(a)	<b>(1.8)</b>	(3.6)
Supply Chain and other restructuring costs	(b)	<b>(0.4)</b>	(0.8)
Acquisitions and related integration restructuring costs	(c)	<b>(0.7)</b>	(0.2)
Disposal costs	(d)	<b>(0.2)</b>	–
Web development	(e)	<b>(0.3)</b>	–
Write back of unutilised provisions for retained obligations	(f)	–	0.6
Net operating exceptional costs		<b>(3.4)</b>	(4.0)
Non operating costs:			
Impairment of net assets	(g)	–	(0.4)
<b>Total exceptional items</b>		<b>(3.4)</b>	(4.4)

- (a) Electronics restructuring comprises (i) the redundancy costs arising from the termination of certain non-specialist products of £0.7m and (ii) the costs associated with integrating sales and marketing teams in preparation for the launch of a single brand web marketing platform of £1.1m.
- (b) Supply Chain restructuring costs arose on the reduction of staff within low margin operations and exit from certain unprofitable sales contracts.
- (c) On 1 June 2011 the Group acquired 100% of the voting shares of Hectronic AB (see note 11 for full details). Acquisition costs were £0.1m and have been expensed. In addition restructuring costs of £0.3m relating to the merger of the Nordic activities have been expensed. On 4 October 2011 the Group acquired 100% of the voting shares of MTC Micro Tech Components GmbH and its affiliate EMC Innovation Limited (see note 11 for full details). Acquisition costs were £0.3m and have been expensed.
- (d) Disposal costs relate to the sale of the loss making Retail sector operation in the Supply Chain division to a third party for a nominal consideration.
- (e) Software and development expenditure in relation to a new web platform for the Electronics division have been expensed.
- (f) Unutilised provisions for retained obligations set up in 2007 and 2008 in relation to the sale of the Air Conditioning and Refrigeration and IT Solutions businesses have been released.
- (g) On 12 October 2010, the Group sold its loss-making subsidiary, ATM Parts Company Limited ("ATM Parts") to Cennox plc. As at 30 September 2010, the assets of ATM Parts were written down to their fair value giving rise to an exceptional charge for the impairment of net assets of £0.4m.

**7 operating profit**

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

	2012 £m	2011 £m
Employee costs (note 8)	<b>44.3</b>	44.9
Depreciation of property, plant and equipment (note 15)	<b>1.2</b>	1.1
Amortisation of intangible assets (note 18)	<b>1.1</b>	0.6
Net foreign exchange differences	<b>0.1</b>	0.5
Inventories (amounts included in cost of sales):		
Cost of inventories	<b>175.0</b>	184.3
Write-down of inventories to net realisable value	<b>1.9</b>	2.4
Reversal of prior year write-down of inventories*	<b>(0.1)</b>	(0.6)
Operating lease rentals:		
Minimum lease payments recognised as an operating lease expense	<b>3.8</b>	3.8
Auditors' remuneration:		
Audit of the Group financial statements (including parent company)	<b>0.1</b>	0.1
Other fees to auditors – local statutory audits for subsidiaries	<b>0.3</b>	0.3
Tax and transaction services	<b>0.1</b>	0.1

\* Reversal relates to sales of goods previously written down.

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## 8 employee costs

	2012 £m	2011 £m
Wages and salaries	36.0	36.6
Social security costs	6.3	6.4
Pension costs	1.4	1.4
Earn out remuneration	–	0.2
Share-based payments (note 32)	0.6	0.3
	44.3	44.9

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

	2012 Number	2011 Number
Marketing, sales and service	765	713
Administration	177	207
	942	920

At 31 March 2012 the Group had 898 employees (2011: 926).

Details of Directors' emoluments are disclosed in the remuneration report on pages 35 to 39.

## 9 finance costs/(revenue)

	2012 £m	2011 £m
Interest expense on bank loans and overdrafts	1.1	0.6
Net pension finance charge (note 33)	0.3	0.3
<b>Finance costs</b>	<b>1.4</b>	<b>0.9</b>
Interest receivable and similar income	(0.2)	(0.3)
<b>Finance revenue</b>	<b>(0.2)</b>	<b>(0.3)</b>

## 10 taxation

The major components of corporation tax expense/(credit) are:

Consolidated income statement for total operations	2012 £m	2011 £m
<b>Current taxation</b>		
UK corporation tax	0.1	(0.1)
UK adjustments in respect of prior years	0.9	(0.3)
	1.0	(0.4)
Overseas tax	1.0	0.9
Overseas adjustments in respect of prior years	0.1	0.5
	1.1	1.4
<b>Total current taxation</b>	<b>2.1</b>	<b>1.0</b>
<b>Deferred taxation</b>		
Origination and reversal of temporary differences within the UK	–	(0.4)
Origination and reversal of temporary differences overseas	(0.2)	(0.4)
Adjustment in respect of prior years	(1.3)	–
<b>Total deferred taxation</b>	<b>(1.5)</b>	<b>(0.8)</b>
<b>Tax expense reported in the consolidated income statement</b>	<b>0.6</b>	<b>0.2</b>

Tax recognised in other comprehensive income	2012 £m	2011 £m
Increase/(decrease) in deferred tax asset on pension deficit	0.2	(0.2)
<b>Tax reported in other comprehensive income</b>	<b>0.2</b>	<b>(0.2)</b>

Taxation for the year is lower (2011: lower) than the standard rate of taxation in the UK of 26% (2011: 28%). A reconciliation of the tax charge applicable to profit before tax at the statutory tax rate to the actual tax charge at the Group's effective tax rate for the years ended 31 March 2012 and 31 March 2011 respectively was as follows:

	2012 £m	2011 £m
Profit on continuing operations before tax	2.7	1.9
Profit before taxation multiplied by standard rate of corporation tax in the UK of 26% (2011: 28%)	0.7	0.5
Effect of:		
Different tax rates in overseas companies	0.1	0.1
Utilisation of previously unrecognised losses	(0.1)	(1.5)
Non-deductible expenses	0.2	0.7
Change in tax rate applicable to UK deferred tax	–	0.1
Adjustments to tax expense in respect of prior years	(0.3)	0.3
<b>At effective tax rate of 22% (2011: 11%)</b>	<b>0.6</b>	<b>0.2</b>
<b>Tax reported in the consolidated income statement</b>	<b>0.6</b>	<b>0.2</b>

## 10 taxation continued

Deferred tax	2012 £m	2011 £m
Deferred tax liabilities:		
Accelerated capital allowances	–	(0.1)
Other temporary differences	(1.0)	(0.1)
<b>Gross deferred tax liabilities</b>	<b>(1.0)</b>	<b>(0.2)</b>
Deferred tax assets:		
Decelerated capital allowances	0.3	–
Pensions	1.4	1.2
Other temporary differences	1.6	1.6
<b>Gross deferred tax assets</b>	<b>3.3</b>	<b>2.8</b>
<b>Deferred tax in the consolidated income statement</b>		
	2012 £m	2011 £m
<b>Consolidated income statement</b>		
Deferred tax credit:		
(Decelerated)/accelerated capital allowances	(0.4)	0.1
Other temporary differences	(1.1)	(0.9)
	<b>(1.5)</b>	<b>(0.8)</b>

At 31 March 2012, the Group had not recognised any deferred tax asset in respect of tax losses of approximately £17.0m (2011: £18.0m). Deferred tax assets are not recognised where there is insufficient evidence that losses will be utilised.

At 31 March 2012, there was no recognised deferred tax liability (2011: 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 from 28% to 26% was substantively enacted in March 2011 and is effective from 1 April 2011. A further reduction from 26% to 24% was substantively enacted in March 2012 and will be effective from 1 April 2012. Accordingly, these rates have been applied in the measurement of the Group's deferred tax assets and liabilities as at 31 March 2012.

In addition, the Government announced its intention to further reduce the UK corporation tax rate to 23% from 1 April 2013 and to 22% from 1 April 2014.

The aggregate impact of the proposed reductions from 24% to 22% would reduce the deferred tax asset included in the statement of financial position by approximately £0.2m.

## 11 business combinations

### Acquisition in year ended 31 March 2012

#### Acquisition of Hectronic AB ("Hectronic")

On 1 June 2011, the Group announced the acquisition of 100% of Hectronic AB ("Hectronic"), for a cash consideration of £1.2m (sek12m) before expenses and net debt acquired. Hectronic was acquired from the majority shareholder, Verdane Capital III AS, a private equity company in the Nordic region. The cash consideration was paid from the Group's existing cash resources.

Hectronic is a specialist provider of embedded computing technology to industrial electronic markets. Based in Sweden, Hectronic employs 28 staff and generates revenues across the Nordic region. The company is now a separate technology area within Acal's Electronics division. The acquisition is expected to be earnings neutral for this year and earnings enhancing from then on.

The provisional fair values of the identifiable assets and liabilities of Hectronic at the date of acquisition were:

	Fair value recognised at acquisition £m
Property, plant and equipment	0.1
Intangible assets – other	0.4
Inventories	0.5
Trade and other receivables	1.4
Short term borrowings	(0.5)
Trade and other payables	(1.2)
Current tax liabilities	(0.1)
Deferred tax liabilities	(0.1)
<b>Total identifiable net assets</b>	<b>0.5</b>
<b>Provisional goodwill arising on acquisition</b>	<b>0.7</b>
<b>Total investment</b>	<b>1.2</b>

The investment was fully discharged in cash.

Fair value adjustments of £0.1m and £0.1m were recognised on trade receivables and inventory respectively. All other assets were recorded at book value. The fair values of trade receivables and inventories on acquisition are provisional due to the timing of the transaction and will be finalised in the 12 months following the acquisition.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	1.2
Transaction costs of the acquisition (included in cash flows from operating activities)	0.1
Net cash acquired (included in cash flows from investing activities)	0.5
<b>Total consideration</b>	<b>1.8</b>

Included in the £0.7m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected value of synergies, the experience and skill of the management team and the value of customer relationships. Goodwill is allocated entirely to Hectronic AB.

Transaction costs of £0.1m have been expensed and are included as exceptional items in administrative expenses (note 6).

From the date of acquisition to 31 March 2012, Hectronic has contributed £5.5m to revenue and £(0.2) 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 £2.1m and revenue would have been £258.6m.

## 11 business combinations continued

### Acquisition of MTC Micro Tech Components GmbH ("MTC")

On 5 October 2011, the Group announced the acquisition of 100% of the share capital of MTC Micro Tech Components GmbH and its affiliate EMC Innovation Limited (together defined as "MTC"), for a cash consideration of £2.1m (€2.4m) before expenses. MTC has been acquired from Mr G Bacher. A further £0.2m (€0.2m) relating to working capital settlement was paid in November 2011. Additionally, up to £1.0m (€1.1m) will be payable in January 2013 subject to the business achieving agreed EBIT targets over the periods to 31 December 2011 and 31 December 2012. As at the acquisition date, the fair value of the contingent consideration was estimated at £0.8m. There has been no change in the estimate at 31 March 2012.

MTC is a specialist provider of electromagnetic shielding products to the European and Asian industrial electronic markets. Based in Germany, with a manufacturing operation in South Korea, MTC employs 20 staff.

The provisional fair values of the identifiable assets and liabilities of MTC at the date of acquisition were:

	Fair value recognised at acquisition £m
Property, plant and equipment	0.1
Intangible assets – other	0.4
Inventories	0.2
Trade and other receivables	0.4
Cash	0.5
Trade and other payables	(0.1)
Current tax liabilities	(0.2)
Deferred tax liabilities	(0.1)
<b>Total identified net assets</b>	<b>1.2</b>
<b>Provisional goodwill arising on acquisition</b>	<b>1.9</b>
<b>Total investment</b>	<b>3.1</b>
Discharged by:	
Cash	2.3
Contingent consideration	0.8
<b>Total consideration</b>	<b>3.1</b>

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	2.3
Transaction costs of the acquisition (included in cash flows from operating activities)	0.3
Net cash acquired (included in cash flows from investing activities)	(0.5)
	2.1

Included in the £1.9m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected value of synergies, the experience and skill of the management team and the value of customer relationships. Goodwill is allocated entirely to MTC GmbH.

Transaction costs of £0.3m have been expensed and are included as exceptional items in administrative expenses (note 6).

From the date of acquisition to 31 March 2012, MTC has contributed £1.3m to revenue and £0.2 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 £2.3m and revenue would have been £259.1m.

The total cash consideration of £4.0m in respect of business combinations comprises £1.2m for Hectronic paid in June 2011, £0.5m paid as a final working capital settlement for Compotron and £2.3m for MTC in October 2011.

## 11 business combinations continued

### Acquisition in year ended 31 March 2011

#### Acquisition of CompoTRON GmbH ("Comptron")

On 12 January 2011, the Group acquired 100% of the voting shares of Compotron, a privately owned specialist provider of electronic communication and fibre optic components to the European industrial electronics market. The acquisition is a further step in the implementation of the Group's European specialisation strategy and enhances the Group's position in the German specialist electronics market. The total consideration was £5.7m, of which £5.2m was paid immediately and £0.5m relating to working capital settlement was paid in April 2011. In addition up to £1.4m earn out remuneration is potentially payable in January 2013 dependent on the business achieving agreed performance targets.

The Group has reassessed the acquisition accounting and as a result recognised additional goodwill of £1.6m, additional intangible assets of £0.4m and a deferred tax liability of £0.6m. A liability of £1.4m for deferred consideration has been recognised in the consolidated statement of financial position.

The fair values of the identifiable assets and liabilities of Compotron at the date of acquisition were:

	Fair value recognised at acquisition £m
Property, plant and equipment	0.1
Intangible assets – other	2.3
Inventories	0.3
Trade and other receivables	0.9
Cash	0.9
Trade and other payables	(1.4)
Current tax liabilities	(0.3)
Deferred tax liabilities	(0.6)
<b>Total identifiable net assets</b>	<b>2.2</b>
<b>Goodwill arising on acquisition</b>	<b>4.9</b>
<b>Total investment</b>	<b>7.1</b>
Discharged by:	
Cash	5.7
Deferred cash	1.4
<b>Total consideration</b>	<b>7.1</b>

The fair value and the gross amount of trade receivables are the same.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	5.2
Transaction costs of the acquisition (included in cash flows from operating activities)	0.2
Net cash acquired (included in cash flows from investing activities)	(0.9)
	4.5

Included in the £4.9m of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected value of synergies, the experience and skill of the management team and the value of customer relationships. Goodwill is allocated entirely to Compotron GmbH.

Transaction costs of £0.2m have been expensed and are included as exceptional items in administrative expenses.

From the date of acquisition to 31 March 2011, Compotron contributed £2.6m to revenue and £0.4m to profit after tax of the Group. If the combination had taken place at the beginning of the year, the consolidated profit after tax for the Group would have been £2.7m and revenue from continuing operations would have been £271.3m.

## 12 disposals

On 12 October 2010, the Group sold its loss-making subsidiary, ATM Parts Company Limited ("ATM Parts") to Cennox plc for a consideration of £0.7m on a debt free, cash free basis. As at 30 September 2010, the assets of ATM Parts were written down to their fair value giving rise to an exceptional charge for the impairment of net assets of £0.4m. For the period to 12 October 2010, ATM Parts incurred pre-tax losses of £0.2m on revenues of £1.8m (pre-tax losses of £0.5m on revenues of £3.3m for the year ended 31 March 2010).

	£m
Sale proceeds	0.7
Costs of disposal	(0.1)
Total sales proceeds	0.6
Total net assets sold	(0.6)
<b>Profit on disposal</b>	<b>–</b>

The major classes of assets and liabilities disposed of were:

	£m
Property, plant and equipment	0.1
Inventories	0.4
Trade and other receivables	0.4
Trade and other payables	(0.4)
Current tax assets	0.1
	<b>0.6</b>

## 13 dividends

Amounts recognised in equity as distributions to equity holders in the year:

	2012 £m	2011 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2011 of 5.14p (2010: 4.67p)	1.5	1.3
Interim dividend for the year ended 31 March 2012 of 2.5p (2011: 2.33p)	0.7	0.7
<b>Total amounts recognised as equity distributions during the year</b>	<b>2.2</b>	<b>2.0</b>

<b>Proposed for approval at the AGM:</b>	2012 £m	2011 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2012 of 5.5p (2010: 5.14p)	1.6	1.5

<b>Summary</b>	2012	2011
Dividends per share declared in respect of year	8.00p	7.47p
Dividends per share paid in year	7.64p	7.00p
Dividends paid in year	£2.2m	£2.0m

## 14 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:

	2012 £m	2011 £m
<b>Earnings for the year attributable to equity holders of the parent</b>	<b>2.1</b>	1.7
	2012 Number	2011 Number
Weighted average number of shares for basic earnings per share	<b>28,479,804</b>	28,431,486
Effect of dilution – share options	<b>1,169,748</b>	1,214,467
<b>Adjusted weighted average number of shares for diluted earnings per share</b>	<b>29,649,552</b>	29,645,953
Basic earnings per share	<b>7.4p</b>	6.0p
Diluted earnings per share	<b>7.1p</b>	5.7p

At the year end there were 2,203,282 ordinary share options in issue that could potentially dilute earnings per share in the future of which 1,169,748 are currently dilutive (2011: 1,778,754 in issue and 1,214,467 dilutive).

Underlying earnings per share is calculated as follows:

	2012 £m	2011 £m
<b>Earnings for the year attributable to equity holders of the parent</b>	<b>2.1</b>	1.7
Exceptional items	<b>3.4</b>	4.4
Earn out remuneration	–	0.2
Amortisation of acquired intangible assets	<b>0.8</b>	0.3
IAS 19 charge for pension finance costs	<b>0.3</b>	0.3
Tax effects on exceptional items, earn out remuneration, amortisation of acquired intangibles and IAS 19 charge pension finance costs	<b>(0.7)</b>	(1.4)
<b>Underlying earnings</b>	<b>5.9</b>	5.5
	2012 Number	2011 Number
Weighted average number of shares for basic earnings per share	<b>28,479,804</b>	28,431,486
Effect of dilution – share options	<b>1,169,748</b>	1,214,467
<b>Adjusted weighted average number of shares for diluted earnings per share</b>	<b>29,649,552</b>	29,645,953
Underlying basic earnings per share	<b>20.7p</b>	19.3p
Underlying diluted earnings per share	<b>19.9p</b>	18.6p

## 15 property, plant and equipment

	Freehold property £m	Leasehold improvements £m	Plant and equipment £m	Total £m
<b>Cost</b>				
At 1 April 2010	2.3	3.8	9.8	15.9
Additions	–	0.2	0.9	1.1
Disposals	(0.4)	(0.3)	(0.9)	(1.6)
Arising from business combinations	–	–	0.1	0.1
Business disposals	–	–	(1.4)	(1.4)
Exchange adjustments	–	–	(0.1)	(0.1)
At 31 March 2011	1.9	3.7	8.4	14.0
Additions	–	0.3	0.7	1.0
Disposals	–	(0.2)	(1.2)	(1.4)
Arising from business combinations	–	–	0.1	0.1
Exchange adjustments	(0.1)	–	(0.2)	(0.3)
<b>At 31 March 2012</b>	<b>1.8</b>	<b>3.8</b>	<b>7.8</b>	<b>13.4</b>
<b>Depreciation</b>				
At 1 April 2010	1.5	2.8	7.7	12.0
Charge for the year	–	0.2	0.9	1.1
Disposals	(0.4)	(0.2)	(0.9)	(1.5)
Business disposals	–	–	(1.4)	(1.4)
Exchange adjustments	–	–	–	–
At 31 March 2011	1.1	2.8	6.3	10.2
Charge for the year	0.1	0.2	0.9	1.2
Disposals	–	(0.1)	(1.2)	(1.3)
Exchange adjustments	(0.1)	–	(0.1)	(0.2)
<b>At 31 March 2012</b>	<b>1.1</b>	<b>2.9</b>	<b>5.9</b>	<b>9.9</b>
<b>Net book amount at 31 March 2012</b>	<b>0.7</b>	<b>0.9</b>	<b>1.9</b>	<b>3.5</b>
Net book amount at 31 March 2011	0.8	0.9	2.1	3.8

Freehold property includes land with a cost of £0.5m (2011: £0.5m) that is not subject to depreciation. Assets held under finance leases with a net book amount of nil (2011: nil) are included in plant and equipment.

## 16 intangible assets – goodwill

	£m
<b>Cost</b>	
At 1 April 2010	56.0
Exchange and other adjustments	0.2
Acquisition of shares in subsidiaries	3.3
At 31 March 2011	59.5
Acquisition of shares in subsidiaries	4.2
<b>At 31 March 2012</b>	<b>63.7</b>

**16 intangible assets – goodwill continued****Impairment**

£m

<b>At 31 March 2011 and at 31 March 2012</b>	<b>(42.1)</b>
<b>Net book amount at 31 March 2012</b>	<b>21.6</b>
Net book amount at 31 March 2011	17.4

Goodwill is not amortised but is subject to annual impairment testing.

Goodwill arising in the year relates to business combinations (note 11).

**17 impairment testing of goodwill**

The carrying amount of goodwill is analysed as follows:

	2012 £m	2011 £m
Supply Chain:		
Acal Supply Chain Limited	<b>6.5</b>	6.5
Electronics:		
UK electronics businesses	<b>6.9</b>	6.8
Compotron	<b>5.0</b>	3.5
Hectronic	<b>0.7</b>	–
MTC	<b>1.9</b>	–
Medical	<b>0.6</b>	0.6
	<b>21.6</b>	17.4

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

The recoverable amount of each CGU is based upon value in use calculations and management's review of the recoverable amount. The key assumptions in these calculations relate to future revenue and gross margins. The calculation is most sensitive to revenue assumptions, however senior management believe that the assumptions used are reasonable. Cash flow forecasts for the 5 year period from the reporting date are based on 2013 budget and management projections thereon. Average annual revenue growth rates between 2% and 13% (2011: 2%) have been used depending on size and sector the CGU operates in. Annual growth rates beyond the five-year period are assumed to be not greater than 2% (2011: 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 the management's assessment of any risk specific to the Group. The pre tax discount rate applied to cash flow projections is between 15%-17% (2011: 16%-17%).

	5 year average annual growth rate		Long term growth rate		Discount rate	
	2012	2011	2012	2011	2012	2011
Supply Chain:						
Acal Supply Chain Limited	<b>6%</b>	2%	<b>2%</b>	2%	<b>15%</b>	16%
Electronics:						
UK electronics businesses	<b>2%</b>	2%	<b>2%</b>	2%	<b>15%</b>	16%
Compotron	<b>3%</b>	2%	<b>2%</b>	2%	<b>17%</b>	17%
Hectronic	<b>11%</b>	–	<b>2%</b>	2%	<b>15%</b>	–
MTC	<b>13%</b>	–	<b>2%</b>	2%	<b>15%</b>	–
Medical	<b>6%</b>	2%	<b>2%</b>	2%	<b>15%</b>	16%

**Sensitivity to changes in assumptions**

The Group has conducted sensitivity analysis on the impairment test of each CGU's carrying value. With regard to all the CGUs tested above, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

## 18 intangible assets – other

	Software £m	Acquired intangibles £m	Total £m
<b>Cost</b>			
At 1 April 2010	9.7	1.1	10.8
Arising from business combinations	–	1.9	1.9
Business disposals	(0.2)	–	(0.2)
Additions	0.2	–	0.2
Disposals	(0.4)	–	(0.4)
Exchange adjustment	–	0.1	0.1
At 31 March 2011	9.3	3.1	12.4
Arising from business combinations	0.1	1.1	1.2
Additions	0.3	–	0.3
Exchange adjustment	–	(0.1)	(0.1)
<b>At 31 March 2012</b>	<b>9.7</b>	<b>4.1</b>	<b>13.8</b>
<b>Amortisation</b>			
At 1 April 2010	8.6	0.1	8.7
Business disposals	(0.2)	–	(0.2)
Amortisation	0.3	0.3	0.6
Disposals	(0.4)	–	(0.4)
Exchange adjustments	–	–	–
At 31 March 2011	8.3	0.4	8.7
Amortisation	0.3	0.8	1.1
Exchange adjustments	–	(0.1)	(0.1)
<b>At 31 March 2012</b>	<b>8.6</b>	<b>1.1</b>	<b>9.7</b>
<b>Net book amount at 31 March 2012</b>	<b>1.1</b>	<b>3.0</b>	<b>4.1</b>
Net book amount at 31 March 2011	1.0	2.7	3.7

Included in amortisation of software is an accumulated impairment to date of £2.4m (2011: £2.4m).

The computer software capitalised at 31 March 2012 principally relates to the implementation of one system through the majority of the Electronics businesses. The ERP system has a carrying amount of £0.4m (2011: £0.5m) and a remaining amortisation period of 1.75 years.

Acquired intangibles relate to intangible assets identified as part of Business Combinations.

Capital expenditure commitments in relation to IT software at 31 March 2012 were nil (2011: nil).

**19 investments in associates**

	£m
<b>Cost</b>	
At 31 March 2011 & 2012	5.4
<b>Impairment</b>	
At 31 March 2011 & 2012	(5.4)
<b>Net book amount at 31 March 2011 and 2012</b>	–

Associates	Country of incorporation	% equity interest 2012 and 2011
Ceratech Holdings PLC*	England	30
Scientific Digital Business (Pte) Ltd	Singapore	40

\* Indirectly held.

**Impairment of associate investments**

In 2009 the Directors took the view that the remaining associate investments should also be fully impaired due to continuing losses in those businesses. There have been no changes in 2012 that would lead to these impairments being reversed.

**20 inventories**

	2012 £m	2011 £m
Finished goods and goods for resale	25.7	25.3

**21 trade and other receivables**

	2012 £m	2011 £m
Trade receivables	43.9	56.0
Other receivables	3.6	1.7
Prepayments and accrued income	1.9	1.6
	49.4	59.3

Trade receivables are non-interest bearing, are generally on 30-60 days' terms and are shown net of a provision for impairment. As at 31 March 2012, trade receivables at nominal value of £2.3m (2011: £2.6m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2012 £m	2011 £m
At 1 April	2.6	2.9
Charge for the year	0.5	0.9
Amounts written off	(0.4)	(1.0)
Unused amounts reversed	(0.3)	(0.2)
Exchange adjustments	(0.1)	–
<b>At 31 March</b>	<b>2.3</b>	<b>2.6</b>

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	<30 days £m	Past due but not impaired 30-60 days £m	60-90 days £m	90-120 days £m	>120 days £m
<b>2012</b>	<b>43.9</b>	<b>34.4</b>	<b>6.9</b>	<b>1.6</b>	<b>0.9</b>	<b>0.1</b>	<b>–</b>
2011	56.0	48.0	5.2	1.7	0.5	–	0.6

## 22 cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	12.3	13.6

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 treasury policy. The fair value of cash and cash equivalents is £12.3m (2011: £13.6m).

## 23 financial liabilities

	Effective interest rate %	Maturity	Current		Non-current	
			2012 £m	2011 £m	2012 £m	2011 £m
Bank overdrafts	Variable	On demand	4.4	4.2	–	–
Unsecured bank loans	Variable		0.8	0.9	0.8	1.8
Total other financial liabilities			5.2	5.1	0.8	1.8
Trade and other payables			40.7	48.3	–	–
Provisions			2.3	0.8	0.4	0.9
<b>Total</b>			<b>48.2</b>	<b>54.2</b>	<b>1.2</b>	<b>2.7</b>

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

Unsecured bank loan of £1.6m (2011: £2.7m) will be repaid fully on 1 April 2014 and bears interest at 3 month EURIBOR + 3%.

The maturity of gross contractual financial liabilities is as follows:

	Within 1 year £m	2-5 years £m	Over 5 years £m	Total £m
<b>At 31 March 2012</b>				
Floating rate*	5.3	0.9	–	6.2
Trade payables	40.7	–	–	40.7
Provisions	2.3	0.4	–	2.7
	<b>48.3</b>	<b>1.3</b>	<b>–</b>	<b>49.6</b>
<b>At 31 March 2011</b>				
Floating rate*	5.2	2.0	–	7.2
Trade payables	48.3	–	–	48.3
Provisions	0.8	0.9	–	1.7
	<b>54.3</b>	<b>2.9</b>	<b>–</b>	<b>57.2</b>

\* Floating rate financial liabilities include future interest payments of £0.1m (£2011: £0.1m) within one year and £0.1m (2011: £0.2m) between two and five years.

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

	2012 £m	2011 £m
Euro	4.2	5.8
US dollar	1.5	1.0
Other currencies	0.3	0.1
	<b>6.0</b>	<b>6.9</b>

**24 movements in cash and net debt**

	31 March 2011 £m	Cash flow £m	Foreign exchange £m	31 March 2012 £m
<b>Year to 31 March 2012</b>				
Cash at bank and in hand	13.6			<b>12.3</b>
Overdrafts	(4.2)			<b>(4.4)</b>
Cash and cash equivalents	9.4	(1.2)	(0.3)	<b>7.9</b>
Bank loans under one year	(0.9)			<b>(0.8)</b>
Bank loans over one year	(1.8)			<b>(0.8)</b>
Total loan capital	(2.7)	0.9	0.2	<b>(1.6)</b>
<b>Net cash</b>	<b>6.7</b>	<b>(0.3)</b>	<b>(0.1)</b>	<b>6.3</b>

	31 March 2010 £m	Cash flow £m	Foreign exchange £m	31 March 2011 £m
<b>Year to 31 March 2011</b>				
Cash at bank and in hand	17.3			13.6
Overdrafts	(3.4)			(4.2)
Cash and cash equivalents	13.9	(4.3)	(0.2)	9.4
Bank loans under one year	–			(0.9)
Bank loans over one year	–			(1.8)
Total loan capital	–	(2.6)	(0.1)	(2.7)
Net cash	13.9	(6.9)	(0.3)	6.7

**Supplementary information to the statement of cash flow**

<b>Underlying performance measure</b>	<b>2012 £m</b>	2011 £m
Decrease in net cash	<b>(0.3)</b>	(6.9)
Add: Business acquisitions	<b>4.0</b>	4.4
Exceptional cash flow	<b>3.9</b>	5.1
Legacy pension scheme funding	<b>0.7</b>	0.7
Dividends paid	<b>2.2</b>	2.0
<b>Free cash flow</b>	<b>10.5</b>	5.3

## 25 reconciliation of cash flows from operating activities

	2012 £m	2011 £m
<b>Profit for the year</b>	<b>2.1</b>	1.7
Taxation expense	<b>0.6</b>	0.2
Net finance costs	<b>1.2</b>	0.6
Depreciation of property, plant and equipment	<b>1.2</b>	1.1
Amortisation of intangible assets – other	<b>1.1</b>	0.6
Change in provisions	<b>(0.6)</b>	(1.1)
Loss on disposal of property, plant and equipment	–	0.1
Impairment of other assets	–	0.4
Pension scheme funding	<b>(0.7)</b>	(0.7)
Equity-settled share based payment expense	<b>0.6</b>	0.3
<b>Operating cash flows before changes in working capital</b>	<b>5.5</b>	3.2
Increase in inventories	<b>(0.3)</b>	(2.4)
Decrease/(increase) in trade and other receivables	<b>9.9</b>	(5.5)
(Decrease)/increase in trade and other payables	<b>(6.0)</b>	5.2
Decrease/(increase) in working capital	<b>3.6</b>	(2.7)
<b>Cash generated from operations</b>	<b>9.1</b>	0.5
Interest paid	<b>(1.1)</b>	(0.6)
Income taxes (paid)/received	<b>(1.1)</b>	0.5
<b>Net cash flows from operating activities</b>	<b>6.9</b>	0.4

## 26 provisions

	Deferred consideration £m	Severance indemnity £m	Other £m	Total £m
At 1 April 2011	–	0.8	5.4	6.2
Released during the year – exceptional	–	–	(0.6)	(0.6)
Arising during the year – exceptional	–	1.7	0.4	2.1
Arising during the year – contingent consideration and other	2.1	0.1	0.5	2.7
Utilised	–	(0.4)	(2.2)	(2.6)
Exchange	–	–	(0.1)	(0.1)
<b>At 31 March 2012</b>	<b>2.1</b>	<b>2.2</b>	<b>3.4</b>	<b>7.7</b>

	2012 £m	2011 £m
<b>Analysis of total provisions</b>		
Current	<b>4.6</b>	2.9
Non-current	<b>3.1</b>	3.3
	<b>7.7</b>	6.2

### Deferred consideration

The provision relates to £1.4m deferred consideration and £0.7m contingent consideration for business combinations and is expected to be utilised within one year.

### Severance indemnity

The severance indemnity provision relates to severance costs payable to employees. The majority of the provisions are expected to be used up within one year.

### Other

The other provision relates to other claims, long term deferred bonus schemes and general restructuring and is expected to be utilised within one to three years. Onerous contract provisions are expected to be used over periods of up to six years.

## 27 financial risk controls

### Management of financial risk

The main financial risks faced by the Group are credit risk, liquidity risk and market risks, which include interest rate risk and currency risk. Acal plc also faces risks which are non-financial or non-quantifiable; these are set out in the Directors' Report on pages 26 to 30. The board regularly reviews these risks and approves written policies covering the use of financial instruments to manage these risks and sets overall risk limits.

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 risk management is done centrally at Group head office, however the foreign exchange risk is managed centrally and locally, any action being approved by head office. The Acal plc 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 has not hedged against interest rate risk.

Based on the Group's net cash position at the year end a 1% increase in interest rates would decrease the Group's profit before tax by approximately £0.1m (2011: £0.1m).

### 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 done both centrally and locally based on actual committed orders and sales. The Group does not hedge contingent exposures. At the reporting date the fair value of forward contracts was immaterial.

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ and Euro rates against Sterling, with all other variables remaining constant, of the Group's profit/(loss) before tax, due to changes in the fair value of monetary assets and liabilities.

	£ currency impact		US\$ currency impact		Euro currency impact	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
<b>Profit/(loss) before tax – (loss)/gain</b>						
10% appreciation	<b>(0.7)</b>	(0.4)	<b>0.9</b>	1.4	<b>(0.1)</b>	(1.0)
10% depreciation	<b>0.9</b>	0.5	<b>(0.9)</b>	(1.5)	<b>0.3</b>	1.1

### Management of credit risk

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

The Group is exposed to some 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.

The Group has Board approved maximum counterparty exposure limits for specified banks and financial institutions based on the long-term credit ratings of Standard & Poor's and Moody's.

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.

## 27 financial risk controls continued

### Management of liquidity risk

The Group manages its exposure to liquidity risk and ensures maximum 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.

Excess cash used in managing liquidity is placed on interest bearing deposit with approved counterparties, with maturities fixed at no more than three months.

At 31 March 2012, the Group had net cash of £7.1m (2011: £8.5m). Net cash excludes long term borrowings of £0.8m (2011: £1.8m). The Group had total working capital facilities available of £31.2m (2011: £27.9m) with a number of major UK and overseas banks of which £18.4m (2011: £19.7m) were committed facilities. The Group had drawn £6.0m against total facilities at 31 March 2012. The committed facilities were taken out as a policy to decrease the Group's exposure to uncommitted and short term financing. The maturity of committed facilities ranges from January 2013 to December 2014. The facilities are subject to certain performance covenants, which on review at 31 March 2012 gave significant headroom.

### 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 statement of changes in equity.

## 28 financial assets and liabilities

### Fair values

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

	Carrying amount 2012 £m	Fair value 2012 £m	Carrying amount 2011 £m	Fair value 2011 £m
<b>Financial assets</b>				
Cash at bank and in hand	12.3	12.3	13.6	13.6
<b>Financial liabilities at amortised cost</b>				
Bank overdrafts and short-term borrowings	(5.2)	(5.3)	(5.1)	(5.2)
Non current interest-bearing loans and borrowings				
Floating rate borrowings	(0.8)	(0.9)	(1.8)	(2.0)

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.

## 29 trade and other payables

	2012 £m	2011 £m
Trade payables	27.9	33.1
Other payables	9.2	7.2
Accrued expenses and deferred income	8.3	11.3
	45.4	51.6

Trade payables are non-interest bearing and are settled taking into account local good practice.

Other payables are non-interest bearing and settled throughout the year.

Accruals are non-interest bearing and settled throughout the year.

Deferred income is recognised over the term of the contract.

### 30 share capital

Authorised	2012 Number	2012 £m	2011 Number	2011 £m
Ordinary shares of 5p each	44,000,000	2.2	44,000,000	2.2
Allotted, called up and fully paid	2012 Number	2012 £m	2011 Number	2011 £m
Ordinary shares of 5p each	28,479,804	1.4	28,479,804	1.4

There were no shares issued during the year (2011: 61,450 at £2.705 per share).

### 31 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 3 and 5 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:

	2012 £m	2011 £m
Due within one year	3.2	3.2
Due after one year but not more than five years	6.0	7.0
Due after more than five years	1.3	1.5
	10.5	11.7

The future minimum sublease payments expected to be received under non-cancellable operating leases are £1m (2011: £0.3m).

### 32 share-based payment plans

The Group operates various share based payment plans. The various schemes are explained below and have been separated into three separate disclosures. The charge to the income statement in respect of each of these schemes is:

	2012 £m	2011 £m
a) Approved and Unapproved Executive Share Option Schemes	–	–
b) Acal plc long term incentive plan ("the LTIP")	0.6	0.3
c) "B" Share Scheme	–	–
	0.6	0.3

#### a) Approved and Unapproved Executive Share Option Schemes

The Group operates an approved and an unapproved executive share option scheme, the rules of which are similar in all material respects. The grant of options to Executive Directors and senior management is recommended by the Remuneration Committee on the basis of their contribution to the Group's success. The options vest after three years.

The exercise price of the options is equal to the closing mid-market price of the shares on the trading day previous to the date of the grant. The exercise of options is subject to the meeting of performance criterion; namely, that the growth in the company's earnings per share in any three year period before exercise must have exceeded the percentage increase in the Retail Price Index over the same period plus two per cent per annum. Exercise of an option is subject to continued employment. The life of each option granted is seven years. There are no cash settlement alternatives.

## 32 share-based payment plans continued

Options are valued using the Black-Scholes option-pricing model. No non-market performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculation are as follows:

	14 June 2007	30 June 2006
Grant date		
Share price at grant date	£3.8725	£3.675
Exercise price	£3.8725	£3.675
Number of employees	37	46
Shares under option	310,000	116,500
Vesting period (years)	3	3
Expected volatility	30.8%	30.8%
Option life (years)	7	7
Expected life (years)	4.5	4.5
Risk free rate of return	5.4%	5.06%
Expected dividends expressed as a dividend yield	5.0%	5.0%
Fair value	£0.80	£0.74

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 (2011: nil).

### Outstanding share options

A summary of the options over ordinary shares that have been granted under various Group share option schemes and remain outstanding is given below:

#### 31 March 2012

Outstanding at 1 April 2011	Expired during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 March 2012	Exercise price (pence)	Exercise dates
37,750	(37,750)	–	–	–	480.00	2007-2011
39,050	–	(11,750)	–	27,300	335.00	2008-2012
39,500	–	(9,000)	–	30,500	367.50	2009-2013
75,000	–	(15,000)	–	60,000	387.25	2010-2014
<b>191,300</b>	<b>(37,750)</b>	<b>(35,750)</b>	<b>–</b>	<b>117,800</b>		

#### 31 March 2011

Outstanding at 1 April 2010	Expired during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 March 2011	Exercise price (pence)	Exercise dates
36,700	(36,700)	–	–	–	525.00	2006-2010
37,750	–	–	–	37,750	480.00	2007-2011
41,550	–	(2,500)	–	39,050	335.00	2008-2012
44,500	–	(5,000)	–	39,500	367.50	2009-2013
100,000	–	(25,000)	–	75,000	387.25	2010-2014
<b>260,500</b>	<b>(36,700)</b>	<b>(32,500)</b>	<b>–</b>	<b>191,300</b>		

## 32 share-based payment plans continued

### Changes in share options

A reconciliation of option movements over the year to 31 March 2012 is shown below:

	2012		2011	
	Number (‘000)	Weighted average exercise price	Number (‘000)	Weighted average exercise price
Outstanding at 1 April	191	£3.91	260	£4.08
Granted	–	–	–	–
Exercised	–	–	–	–
Expired	(37)	£4.80	(37)	£5.25
Forfeited	(36)	£3.65	(32)	£3.80
<b>Outstanding at 31 March</b>	<b>118</b>	<b>£3.70</b>	191	£3.91
<b>Exercisable at 31 March</b>	<b>118</b>	<b>£3.70</b>	191	£3.91

The weighted average remaining contractual life for the share options outstanding as at 31 March 2012 is 1.5 years (2011: 2.0 years).

The range of exercise prices for options outstanding at the end of the year was £3.35 to £3.8725 (2011: £3.35 to £4.80).

### b) The LTIP

Since 2008 the Group has operated the LTIP as a replacement for the approved and an 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 2011 and 2012 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 Retail Price Index ("RPI").

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 2012 awards were approved by the Remuneration Committee on 28 March 2012 and a valuation of these awards was carried out in the year ending 31 March 2012. The 2012 awards were granted on 31 March 2012 and therefore there is no material charge in the year relating to these awards. The fair value per award granted and the assumptions used in the calculation are as follows:

### Awards granted in the year ended 31 March 2012:

Grant date	31 March 2012 TSR	31 March 2012 RPI
Share price at grant date	£2.14	£2.14
Exercise price	nil	nil
Number of employees	7	7
Shares under option	257,606	257,606
Vesting period (years)	3	3
Expected volatility	39%	39%
Option life (years)	10	10
Expected life (years)	3	3
Risk free rate of return	0.613%	0.613%
Expected dividends expressed as a dividend yield	3.3%	3.3%
Fair value	£1.29	£1.90

## 32 share-based payment plans continued

Awards granted in the year ended 31 March 2011:

Grant date	31 March 2011 TSR	31 March 2011 RPI	20 July 2010 TSR	20 July 2010 RPI	01 July 2010 TSR	01 July 2010 RPI
Share price at grant date	£3.42	£3.42	£1.69	£1.69	£1.54	£1.54
Exercise price	nil	nil	nil	nil	nil	nil
Number of employees	7	7	1	1	1	1
Shares under option	163,142	163,142	89,724	89,724	38,636	38,636
Vesting period (years)	3	3	3	3	3	3
Expected volatility	51%	51%	55.3%	55.3%	55.5%	55.5%
Option life (years)	10	10	10	10	10	10
Expected life (years)	3	3	3	3	3	3
Risk free rate of return	1.876%	1.876%	1.39%	1.39%	1.36%	1.36%
Expected dividends expressed as a dividend yield	3.1%	3.1%	4.7%	4.7%	4.8%	4.8%
Fair value	£2.16	£1.85	£1.06	£0.93	£0.92	£0.77

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 (including special awards referred to below) was £0.6m (2011: £0.3m).

### Outstanding LTIP

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

#### 31 March 2012

Outstanding at 1 April 2011	Granted during the year	Expired during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 March 2012	Exercise dates
620,498	–	–	(35,721)	–	584,777	2012-2019
402,490	–	–	–	–	402,490	2013-2020
583,003	–	–	–	–	583,003	2014-2021
–	515,212	–	–	–	515,212	2015-2022
<b>1,605,991</b>	<b>515,212</b>	<b>–</b>	<b>(35,721)</b>	<b>–</b>	<b>2,085,482</b>	

#### 31 March 2011

Outstanding at 1 April 2010	Granted during the year	Expired during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 March 2011	Exercise dates
620,498	–	–	–	–	620,498	2012-2019
402,490	–	–	–	–	402,490	2013-2020
–	583,003	–	–	–	583,003	2014-2021
<b>1,022,988</b>	<b>583,003</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,605,991</b>	

### c) "B" Share Scheme

Following the acquisition of Service Source Europe Limited, by Acal Supply Chain Limited ("ASC"), Acal has set up a B Share Scheme for the management of the new division. The B Share Scheme was approved by the Shareholders under the Listing Rules at the General Meeting on 8 January 2009.

The terms of the B Share Scheme are designed to ensure that the management are incentivised to grow and improve the profitability of the division in the medium term, thereby increasing its value to the Acal Group.

The principal right of the B Shares is to receive value on the sale of ASC on or prior to 31 March 2013, or by exercise (by put or call) of an option over the B Shares after 31 March 2013.

The proceeds of such an exit adjusted for any net cash or debt ("Equity Value") are dependent on the equity value of the business at 31 March 2013.

The share based payments charge has been based on a predicted future value model and was £nil (2011 £nil).

### 33 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, 161 employees were active members of the Acal scheme (2011: 178). The total cost charged to income in relation to the UK based Acal scheme was £535,000 (2011: £527,000). Employer contributions in respect of other UK based schemes and overseas pension schemes were £84,000 (2011: £47,000) and £751,000 (2011: £844,000) respectively. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2011/12 but based on actual salary levels in 2012/13.

#### 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 Sedgemoor, 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.

Based on the funding valuation conducted at December 2009, the Fund's Trustees agreed a two year reduction in the funding contributions until 2012 to £0.7m per year (previously £1.3m), increasing by 3% per annum from a base of £1.5m in 2013 for a further 10 years.

The main actuarial assumptions used are set out as follows:

	2012	2011
Rate of increase of salaries	n/a	n/a
Rate of increase of pensions in payment	2.1%	2.8%
Discount rate	4.6%	5.5%
Inflation assumption	2.9%	3.6%

The discount rate is based on over 15 year AA grade sterling corporate bond yields at the reporting date. Overall expected rates of return are established by applying published brokers forecasts to each category of scheme assets. The expected rate of return on scheme assets is derived as an average, weighted according to the portfolio allocation at the reporting date. The expected rates of return on each class of asset are shown below. Pensioner mortality assumptions are based on the 'P00 series' tables, issued by the Institute and Faculty of Actuaries, with medium cohort improvements and a two year age rating. On 8 July 2010, the Government announced that the Consumer Prices Index ("CPI") would be the inflation measure for statutory defined benefit pension increases instead of the Index of Retail Prices ("RPI"). This change applies both to the revaluation of deferred pensions and to the increases applicable to pensions in payment.

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

	2012 £m	2011 £m
Expected return on scheme assets	1.5	1.6
Interest cost on scheme liabilities	(1.8)	(1.9)
<b>Other finance costs (note 9)</b>	<b>(0.3)</b>	<b>(0.3)</b>

The net finance cost is reported within interest expense.

### 33 pensions continued

The amounts taken to the consolidated statement of comprehensive income are as follows:

	2012 £m	2011 £m
Actual return on scheme assets	2.1	1.0
Less: expected return on scheme assets	(1.5)	(1.6)
Actuarial gains/(losses) on scheme assets	0.6	(0.6)
Actuarial (losses)/gains on scheme liabilities	(1.8)	0.9
Adjustment for onerous minimum funding requirement	(0.1)	(0.7)
<b>Actuarial gains/(losses) recorded in the statement of comprehensive income</b>	<b>(1.3)</b>	<b>(0.4)</b>

Since the date of transition the cumulative value of actuarial gains and losses recorded in the consolidated statement of comprehensive income is £5.7m loss (2011: £4.4m loss).

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:

	2012	2012 £m	2011	2011 £m
Equities	5.5%	15.0	6.7%	15.0
Gilts	2.5%	14.5	3.7%	13.9
Cash	0.0%	0.3	0.0%	0.2
Fair value of scheme assets		29.8		29.1
Present value of funded defined benefit obligations		(36.3)		(34.6)
<b>Liability recognised in the consolidated statement of financial position</b>		<b>(6.5)</b>		<b>(5.5)</b>

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

	2012 £m	2011 £m
Opening defined benefit obligation	34.6	34.8
Net interest cost	1.8	1.9
Actuarial losses/(gains) on scheme liabilities	1.8	(0.9)
Adjustment for onerous minimum funding requirement	0.1	0.7
Benefits paid	(2.0)	(1.9)
<b>Closing defined benefit obligation</b>	<b>36.3</b>	<b>34.6</b>

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

	2012 £m	2011 £m
Opening fair value of scheme assets	29.1	29.3
Expected returns on scheme assets	1.5	1.6
Actuarial gains/(losses) on scheme assets	0.5	(0.6)
Contributions	0.7	0.7
Benefits paid	(2.0)	(1.9)
<b>Closing fair value of scheme assets</b>	<b>29.8</b>	<b>29.1</b>

### 33 pensions continued

#### History of experience gains and losses

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	29.8	29.1	29.3	23.7	27.9
Defined benefit obligations	(36.3)	(34.6)	(34.8)	(29.4)	(31.7)
<b>Deficit in the scheme</b>	<b>(6.5)</b>	(5.5)	(5.5)	(5.7)	(3.8)
Experience adjustments on scheme assets	0.5	(0.6)	4.9	(5.5)	(2.2)
Experience adjustments on scheme liabilities	0.5	0.8	0.9	(0.2)	(0.6)

### 34 related party disclosures

The Group's principal subsidiaries are listed in the following table:

Name and nature of business	Country of incorporation and registration	Type of share	Group effective shareholding held by parent company	by subsidiary undertakings
<b>Agency, marketing and distribution</b>				
Acal BFi UK Ltd	England	Ordinary Shares	–	100%
Acal Central Procurement Ltd	England	Ordinary Shares	–	100%
Acal Supply Chain Ltd	England	Ordinary Shares	–	100%
Stortech Electronics Ltd	England	Ordinary Shares	–	100%
Vertec Scientific Ltd	England	Ordinary Shares	–	100%
Vertec Scientific SA	South Africa	Ordinary Shares	–	100%
Acal BFi NV/SA	Belgium	Ordinary Shares	–	100%
Acal BFi GmbH	Germany	Ordinary Shares	–	100%
EAF Computer Service Supplies GmbH	Germany	Ordinary Shares	–	100%
Acal BFi Technology AB	Sweden	Ordinary Shares	–	100%
Electronic AB	Sweden	Ordinary Shares	–	100%
Acal BFi Technology BV	Netherlands	Ordinary Shares	–	100%
Acal BFi Italia Srl	Italy	Ordinary Shares	–	100%
Acal BFi Iberia SL	Spain	Ordinary Shares	–	100%
CompoTRON GmbH	Germany	Ordinary Shares	–	100%
MTC Micro Tech Components GmbH	Germany	Ordinary Shares	–	100%
EMC Innovation Limited	South Korea	Ordinary Shares	–	100%
<b>Management services</b>				
Acal Management Services Ltd	England	Ordinary Shares	100%	–

All subsidiaries operate in their country of incorporation. All subsidiaries have a 31 March year end and have the same voting rights as the effective interest.

#### Related parties

#### Remuneration of key management personnel

The remuneration of the Directors, who are the 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 35 to 39.

	2012 £m	2011 £m
Short term employee benefits	0.9	0.7
Share based payments	0.4	0.2
	<b>1.3</b>	0.9

### 34 related party disclosures continued

#### Associate Undertakings

For details of the Group's investments in associates see note 19.

#### Terms and conditions of transactions with related parties

All transactions with related parties were on an arm's length basis. Outstanding balances at year-end are unsecured and settlement occurs in cash.

#### Transactions with other related parties

Details of transactions with Directors are detailed in the Remuneration report on pages 35 to 39.

### 35 events after the balance sheet date

A final dividend of 5.5 per share (2011: 5.14p) amounting to a dividend of £1.6m (2011: £1.5m) was declared by the Directors on 24 May 2012. These financial statements do not reflect this dividend.

### 36 exchange rates

The profit and loss accounts of overseas subsidiaries are translated into sterling at average rates of exchange for the period and consolidated statement of financial positions are translated at period 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 2012		Year to 31 March 2011	
	Closing rate	Average rate	Closing rate	Average rate
US dollar	1.602	1.596	1.608	1.556
Euro	1.1992	1.1585	1.132	1.177



# report of the auditors

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## **Independent auditor's report to the members of Acal plc**

We have audited the parent company financial statements of Acal plc for the year ended 31 March 2012 which comprise the balance sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

## **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 42, the directors are responsible for the preparation of the parent company 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 parent company 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.

## **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 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **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; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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.

## **Other matter**

We have reported separately on the group financial statements of Acal Plc for the year ended 31 March 2012.

Andy Glover (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
29 May 2012

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

# company balance sheet

at 31 March 2012

	notes	2012 £m	2011 £m
<b>Fixed assets</b>			
Investments	4	<b>79.2</b>	79.0
<b>Current assets</b>			
Debtors	5	<b>5.6</b>	4.3
Cash at bank and in hand		<b>0.4</b>	3.2
<b>Total current assets</b>		<b>6.0</b>	7.5
<b>Creditors:</b> Amounts falling due within one year	6	<b>(22.5)</b>	(20.7)
<b>Net current liabilities</b>		<b>(16.5)</b>	(13.2)
<b>Total assets less current liabilities</b>		<b>62.7</b>	65.8
<b>Net assets</b>		<b>62.7</b>	65.8
<b>Capital and reserves</b>			
Share capital	7	<b>1.4</b>	1.4
Share premium	8	<b>40.7</b>	40.7
Merger reserve	8	<b>3.0</b>	3.0
Profit and loss account	8	<b>17.6</b>	20.7
<b>Shareholders' funds</b>	8	<b>62.7</b>	65.8

These financial statements were approved by the Board of Directors on 29 May 2012 and signed on its behalf by:

**N J Jefferies**  
Chief Executive

**S M Gibbins**  
Group Finance Director

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# notes to the company financial statements

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## 1 basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards.

## 2 summary of significant accounting policies

### Cash flow statement

Under FRS1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its published consolidated financial statements.

### 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.

### Financial assets

Investments are initially recognised at cost, being the fair value of the consideration given and including directly attributable transaction costs associated with the investment.

After initial recognition, investments in equity shares are treated as available for sale financial assets and are measured at their fair value with any gains or losses recognised in equity. When the investment is derecognised or impaired, the cumulative gain or loss previously reported in equity is included in the profit and loss account.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably valued are measured at cost.

At each balance sheet date, the Company reviews the carrying value of its assets to determine whether there is any indication that the assets have suffered an impairment loss. If any such indication exists or when annual testing for an asset is required, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

### 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 payment schemes

In preparing the financial statements the Company has also applied FRS 20 'Share-based payment'. 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.

### Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Deferred tax assets are regarded as recoverable and recognised in the financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted. Deferred tax assets and liabilities are not discounted.

## 3 profit of the parent company

The loss of the parent company for the financial year amounted to £1.5m (2011: £0.1m profit). By virtue of section 408 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 2010	91.6
Share based payments	0.3
Disposals	(12.9)
At 31 March 2011	79.0
Impairment	(0.4)
Share based payments	0.6
<b>At 31 March 2012</b>	<b>79.2</b>

The only principal investment held directly by the company is in Acal Management Services Limited. Details of the principal subsidiary and associate undertakings are provided in notes 34 and 19 respectively of the Group accounts.

The impairment loss of £0.4m has been recognised following the comparison of the recoverable amount of the investments with their carrying value.

## 5 debtors

	2012 £m	2011 £m
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiary undertakings	5.2	3.8
Corporation tax	0.3	0.4
Deferred tax	–	0.1
Prepayments	0.1	–
	<b>5.6</b>	<b>4.3</b>

The deferred tax asset arises due to temporary timing differences.

## 6 creditors

	2012 £m	2011 £m
<b>Amounts falling due within one year:</b>		
Bank loans and overdrafts	1.2	0.4
Amounts owed to subsidiary undertakings	20.3	19.7
Other creditors	0.4	0.1
Accruals and deferred income	0.6	0.5
	<b>22.5</b>	<b>20.7</b>

## 7 share capital

Authorised	2012 Number	2012 £m	2011 Number	2011 £m
Ordinary shares of 5p each	44,000,000	2.2	44,000,000	2.2
<b>Alloted, called up and fully paid</b>	<b>2012 Number</b>	<b>2012 £m</b>	<b>2011 Number</b>	<b>2011 £m</b>
Ordinary shares of 5p each	28,479,804	1.4	28,479,804	1.4

There were no shares issued during the year (2011: 61,450 at £2.705 per share).

At 31 March 2012 there were outstanding options for employees of subsidiaries to purchase up to 2,203,282 (2011: 1,778,754) ordinary shares of 5p each between 2012 and 2022 at prices ranging from £nil per share to £3.8725 per share. During the year to 31 March 2012 no options were exercised by employees under the terms of the various share option schemes (2011: none).

## 8 reconciliation of shareholders' funds and movements on reserves

	Share capital £m	Share premium £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 April 2010	1.4	40.6	3.0	22.3	67.3
Shares issued	–	0.1	–	–	0.1
Profit for the year	–	–	–	0.1	0.1
Share based payment transactions	–	–	–	0.3	0.3
Dividends paid to shareholders	–	–	–	(2.0)	(2.0)
At 31 March 2011	1.4	40.7	3.0	20.7	65.8
Loss for the year	–	–	–	(1.5)	(1.5)
Share based payment transactions	–	–	–	0.6	0.6
Dividends paid to shareholders	–	–	–	(2.2)	(2.2)
<b>At 31 March 2012</b>	<b>1.4</b>	<b>40.7</b>	<b>3.0</b>	<b>17.6</b>	<b>62.7</b>

## 9 related parties

The Company has taken advantage of the exemption given in FRS 8 not to disclose transactions with other Group companies.

The Company has given guarantees and offset arrangements to support bank facilities made available to subsidiary undertakings.

## 10 share-based payments

For detailed disclosures of share-based payments granted to the employees of subsidiaries refer to the Acal plc consolidated accounts, note 32.

# five year record

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
<b>Group income statement</b>					
Turnover – continuing operations	<b>257.8</b>	264.8	181.6	165.4	159.5
Profit/(loss) before tax and exceptionals	<b>6.1</b>	6.3	(1.6)	0.5	6.1
Exceptionals	<b>(3.4)</b>	(4.4)	(4.7)	(33.1)	(3.5)
Profit/(loss) before tax	<b>2.7</b>	1.9	(6.3)	(32.6)	2.6
Tax	<b>(0.6)</b>	(0.2)	(0.3)	(4.4)	(2.1)
Profit/(loss) after tax from continuing operations	<b>2.1</b>	1.7	(6.6)	(37.0)	0.5
Discontinued operations	–	–	–	–	27.4
Profit/(loss) for the year	<b>2.1</b>	1.7	(6.6)	(37.0)	27.9
Attributable to:					
Equity holders of the parent	<b>2.1</b>	1.7	(6.6)	(37.1)	27.9
Minority interests	–	–	–	0.1	–
<b>Group balance sheet</b>					
Net cash/(debt)	<b>6.3</b>	6.7	13.9	24.5	25.6
Equity shareholders' funds	<b>49.1</b>	51.3	51.9	58.2	100.7
<b>Statistics</b>					
Earnings/(loss) per ordinary share	<b>7.4p</b>	6.0p	(24.5)p	(140.5)p	105.7p
Dividends per share – relating to the period	<b>8.0p</b>	7.0p	7.0p	7.0p	21.9p
Working capital as percentage of sales*	<b>12%</b>	12%	13%	15%	13%

\* Working capital is defined as net inventory, trade receivables and other receivables less trade payables and other payables.

# principal locations

Acal is a European specialist provider of technology products and services. With operating companies in the UK, Netherlands, Belgium, Germany, France, Italy, Spain, the Nordic region, South Africa and South Korea, business activity is in clearly defined market niches where customers appreciate the added value that comes from high levels of technical support and customised solutions.

Country	Company/division	Locations
<b>electronics</b>		
United Kingdom	Acal BFi UK Ltd	Wokingham, Milton Keynes
	Acal BFi Central Procurement UK Ltd	Wokingham
	Stortech Electronics Ltd	Harlow
	CompoTRON UK Ltd	Swindon
	Vertec Scientific Ltd	Silchester
Belgium	Acal BFi Belgium NV/SA	Brussels
France	Acal BFi France SAS	Evry
Germany	Acal BFi Germany GmbH	Dietzenbach, Munich
	CompoTRON GmbH	Munich
	MTC Micro Tech Components GmbH	Dillingen
Italy	Acal BFi Italia Srl	Milan
Netherlands	Acal BFi Netherlands BV	Eindhoven, Alphen an den Rijn
Sweden	Acal BFi Nordic AB	Stockholm, Uppsala
	Hectronic AB	Uppsala
Norway	Acal BFi Nordic AB	Honefoss
Finland	Acal BFi Nordic AB	Helsinki
Denmark	Acal BFi Nordic AB	Copenhagen
Spain	Acal BFi Iberia SLU	Madrid
South Africa	Vertec Scientific SA (pty) Ltd	Johannesburg
South Korea	EMC Innovation Ltd	Incheon City
<b>supply chain</b>		
United Kingdom	Acal Supply Chain Ltd	Warrington, Nottingham
Germany	EAF Computer Service Supplies GmbH	Goch

Further details of the Group's locations can be found on the Acal plc website

[www.acalplc.co.uk](http://www.acalplc.co.uk)

**Notes to the operating performance and financial highlights on page 1**

<sup>1</sup> 'Underlying Operating Profit', 'Underlying Profit before Tax' and 'Underlying Diluted EPS' are non-IFRS financial measures used by the Directors to assess the underlying performance of the Group. These measures exclude exceptional costs, earn out remuneration, amortisation of acquired intangibles and IAS19 pension charge relating to a legacy defined benefit scheme. 'Underlying Operating Profit', 'Underlying Profit before Tax' and 'Underlying Diluted EPS' are not defined by or presented in accordance with IFRS and should not be considered as an alternative to Operating Profit, Profit before Tax, Fully Diluted EPS or any other IFRS performance measures. These non-IFRS performance measures are not intended to be a projection or forecast of future results.

<sup>2</sup> Free cash flow is defined as net cash flow before exceptionals, payments to the legacy pension fund, dividends and the cost of acquisitions.

<sup>3</sup> 3 year highlights cover the period since the adoption of the specialisation strategy in 2009.

<sup>4</sup> Acquisitions are BFi Optilas in December 2009; CompoTRON GmbH ("Compotron") in January 2011; Hectronic AB ("Hectronic") in June 2011 and MTC Microtech Components GmbH and its affiliate EMC Innovation Limited ("MTC") in October 2011.



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