



Annual Report and Accounts
for the year ended 31 March 2013

advanced
technology
solutions

consult. design. integrate.



Acal is a European leader in advanced technology solutions, providing marketing, engineering, design, manufacturing and other services through two divisions: Specialist Electronics and Supply Chain.

The Electronics division is a leading European specialist electronics supplier and the only such provider with an infrastructure to deliver a broad complementary range of specialist products and bespoke solutions across Europe. It has completed five acquisitions in the last four years, more than doubling its underlying revenues. Acal's long term strategy is to gain significant additional market share through both organic growth and acquisition and to further enhance its value adding capabilities.

The Supply Chain division provides inventory optimisation and outsource solutions to leading technology service providers.

Acal has operating companies across Europe, including the UK, Germany, France, Benelux, Italy, Poland, Spain and the Nordic region. Additionally, Acal has operating companies in Asia (China and South Korea) and Africa (South Africa).

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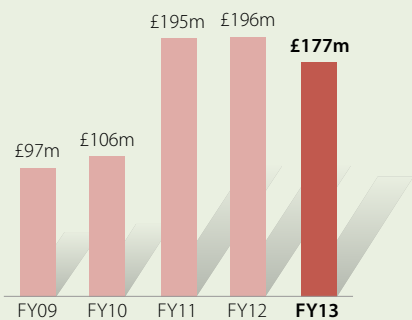
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Our performance continues to deliver long term value to shareholders

Electronics ongoing sales⁵

+21%

CAGR over the last 3 years

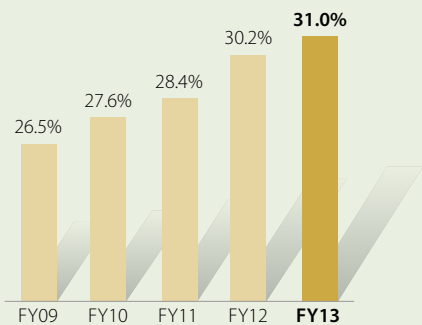


Electronic sales less discontinued non specialist products announced last year

Gross margin

+4.5ppts

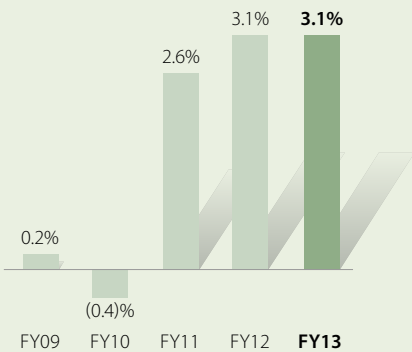
over the last 4 years



Operating margin (CER)³

+0.5ppts

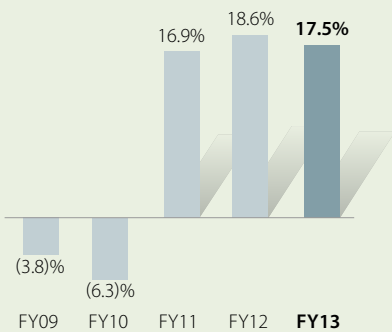
over the last 2 years



Underlying EPS¹ (CER)³

+4%

compared with 2 years ago

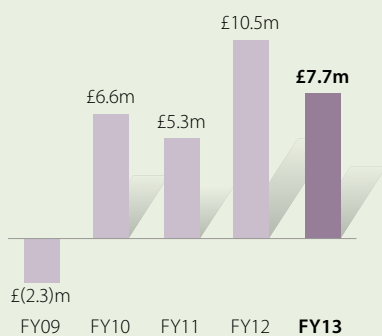


See inside back cover for the notes to the operating performance and financial highlights.

Free cash flow⁴

126%

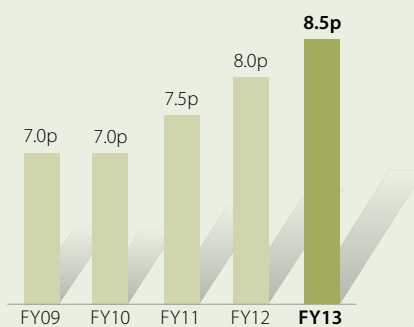
of average operating profit
over the last 2 years



Dividend

+21%

increase in dividend
over the last 3 years

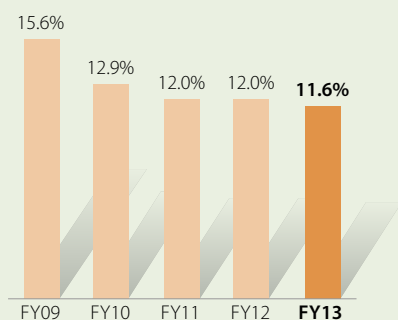


+69% increase in total shareholder
value return (TSR) over the same period

Working capital/ongoing sales

+4.0ppt

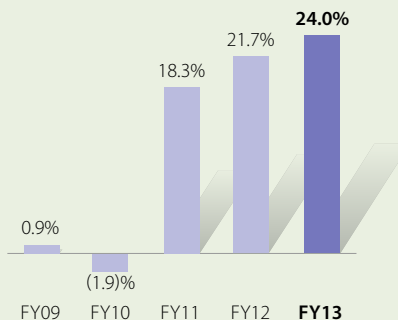
improvement over the last 4 years
with £8.1m cash released



ROTC⁶

+5.7ppt

increase over the last 2 years



Highlights

Operating performance

	FY 2013	FY 2012
Revenue	£219m	£258m
Gross profit	£67.9m	£77.9m
Underlying operating profit ¹	£6.9m	£8.1m
Underlying profit before tax ¹	£6.3m	£7.2m
PBT (excluding loss on disposal) ²	£2.0m	£2.7m
(Loss)/profit before tax	(£3.1)m	£2.7m
Underlying diluted EPS ¹	17.5p	19.9p
Fully diluted EPS	(6.3)p	7.1p
Full year dividend per share	8.5p	8.0p

Financial highlights

- Stronger second half with Electronics orders up 9%³ from first half, and sales up 3%³
- Further market share gains; 7ppts ahead of market
- Gross margin up 0.8ppts to 31.0% reflecting highly differentiated market approach
- Underlying operating costs down 10%³ reflecting continued tight control
- Maintained underlying operating margin at 3.1%
- Working capital to sales ratio improved by 0.5ppts to 11.6%
- Free cash flow⁴ of £7.7m being 112% of underlying operating profit
- Full year dividend increase of 6%

Strategic highlights

- Acquisition of Myrra Group for an initial payment of €9.5m (£8.1m) completed 4 April 2013
- Funded by £5.7m of net equity placing received 28 March 2013 and a new £8.0m debt facility
- Disposal of Supply Chain's UK Parts business completed 3 January 2013
- New Electronics web marketing platform now live across all Acal territories in Europe

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

Chairman's statement

Our strategy will deliver performance ahead of the wider market and build value for shareholders



Richard Moon
Chairman

This has been another year of progress for Acal. The strategy of building a leading, focused specialist electronics group continues to develop. Revenue levels reflect the difficult economic conditions in which we operate, but I am pleased to report that we have continued to gain market share during the period. We put this down to an increasing awareness of the Group's differentiated offer to customers and because niche product demand is less cyclical than that of commodity products.

Margin performance is another indicator of the successful strategy. Underlying operating margin remained steady during the year and gross margin increased for the fourth consecutive year. The Board expects that further efficiency improvements will increase operating margin this coming year, bringing operating margin closer to our mid-term target of 5%, whilst any improvement in economic conditions will give this a further boost.

The Group invested significantly during the year in new capabilities. The new Electronics web marketing platform is now live and has transformed the on-line experience, and our custom development and production facilities in the UK have been expanded to create additional capability and capacity.

Acquisitions continue to play an important role. The acquisition of the Myrra Group, which was completed in April 2013, was very well supported by shareholders. In this lower growth economic environment, value enhancing acquisitions will continue to play an important role in generating growth, as well as realising the opportunity to further consolidate a fragmented market. The sale of Supply Chain's loss-making UK Parts business in January 2013 further increased our focus and resources on the Electronics business.

The Myrra acquisition, completed just after the year end, brings with it a manufacturing operation in Southern China, which further increases our capabilities in Asia and could serve as a platform for further expansion. As was stated in last year's Report, we continue to search for opportunities, both within Europe and beyond.

The Board believes that there is significant opportunity to generate further value for shareholders by continuing to build Acal's position as a specialist supplier of electronic products.

Results

Revenue for the year was £219.2m. At constant exchange rates, this represents a 5% reduction in ongoing sales versus last year (i.e. excluding the discontinued non-specialist product sales announced in 2011/12 and the UK Parts disposal announced this year). As detailed in the Operating Review, this compares favourably with the European market, which has declined by 11%.

Group gross margin increased by 0.8 percentage points ("ppts") to 31.0% compared with the same period last year (2011/12: 30.2%). Over the last four years, gross margin has grown by 4.5ppts, reflecting the changing nature of the business from distribution of standard products to a specialist supplier of niche electronics and solutions.

The combination of tight management of operating expenses (down 10% at constant exchange rates) and improved gross margins helped mitigate the revenue impact from the economic downturn and maintain Group underlying EBITDA margin at 4.0% and underlying operating margin at 3.1%.

Underlying profit before tax was £6.3m, £0.9m below last year (2011/12: £7.2m). At constant exchange rates, the reduction compared with last year was £0.4m or 6%. Underlying diluted earnings per share were 17.5p (2011/12: 19.9p). At constant exchange rates, the reduction was 6%.

After exceptional items (restructuring, web development and acquisition costs), the amortisation of acquired intangible assets and the IAS19 legacy pension charge, the reported profit before tax and business disposals was £2.0m, down from £2.7m last year.

Overall, there was a reported loss before tax of £3.1m, which included a loss on disposal of the UK Parts business of £5.1m, resulting in a fully diluted loss per share of 6.3p.

Acquisitions

The acquisition of Myrra Group was announced in March 2013 and completed on 4 April. The business was acquired for an initial consideration of €9.5m (£8.1m), plus a three year performance related earn-out of up to €1.8m (£1.5m), and was funded through a new debt facility of £8.0m and an equity placing, which raised net proceeds of £5.7m from both existing and new shareholders.

It remains a priority for the Board 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 and/or geography and where the opportunity for above-average growth exists.

Dividends

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 in the final dividend of 9% to 6.0 pence per share (H2 2012/13: 5.5 pence), giving a full year dividend increase of 6% to 8.5 pence per share; a cover of 2.1 times on an underlying basis. In total, the dividend has been increased by 21% over the last three years. Over the medium term, it is the Board's intention to maintain dividend cover in the range of two to three times earnings.

The dividend is payable on 31 July 2013 to shareholders on the register as at 14 June 2013.

Board Changes

A number of changes to the Board have been announced since last year, as explained below.

Having served a three year term as a Non-Executive Director of the Group, Ian Fraser stood down from the Board on 31 December 2012. On behalf of the Board, I would like to thank Ian for his contribution.

On 1 January 2013, Richard Brooman joined the Board as a Non-Executive Director. Richard brings with him a broad base of experience in a number of board level roles, currently serving as Deputy Chairman of Invesco Perpetual UK Smaller Companies Trust plc and a Non-Executive Director of Hg Capital Trust plc and follows previous experience as Group Finance Director of Sherwood plc and VCI plc.

On 1 May 2013, Henrietta Marsh joined the Board as a Non-Executive Director. Henrietta is currently a Non-Executive Director of Dods (Group) PLC and an Operating Partner of ISIS Equity Partners, having held previous roles as a Fund Manager at ISIS and a Director at 3i plc.

Eric Barton will be retiring at the AGM in July 2013, having been a Non-Executive Director and Chair of the Audit Committee since 2002 and Senior Non-Executive Director since 2005. Following Eric's departure, Graham Williams, a Non-Executive Director since 2003, will become the Senior Non-Executive Director, and Richard Brooman will become Chair of the Audit Committee.

On behalf of the Board, I would like to welcome Richard and Henrietta, and to thank Eric for his valuable contribution. He will be greatly missed and we wish him well in retirement.

Employees

As always, our performance is dependent upon our employees who have responded to the multiple challenges put their way by both market and operational conditions with continued dedication and commitment. On behalf of the Board, I would like to thank them.

I would also like to welcome those employees from Myrra who have joined the Group through acquisition, and also to wish the UK Parts management buy out team well in their new venture.

The year ahead

With organic initiatives underway and further acquisition opportunities, the Board remains confident that, whilst being cautious over economic conditions, our strategy and its implementation will deliver performance ahead of the wider market and build value for shareholders.

Richard Moon

Chairman
4 June 2013

The 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 Chairman 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).



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.



R J Brooman MA FCA FCMI

Non-Executive Director

Richard became a Non-Executive Director in January 2013. He is Deputy Chairman of Invesco Perpetual UK Smaller Companies Investment Trust PLC, a Non-Executive Director of Hg Capital Trust PLC and an Independent Non-Executive Director with multi-sector board level experience. During his executive career, he was Group Finance Director of Sherwood International Plc and VCI Plc.

Audit Committee

E A Barton (Chairman)
R J Brooman
G J Williams

Remuneration Committee

G J Williams (Chairman)
E A Barton
H E Marsh
R J Moon

Nomination Committee

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



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.



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.



Henrietta Marsh MBA MA
Non-Executive Director

Henrietta (Het) was appointed a Non-Executive Director in May 2013. She is also a Non-Executive Director of Dods (Group) PLC; an Operating Partner of ISIS Equity Partners ("ISIS"); a member of the London Stock Exchange's AIM Advisory Group; and a member of the AIM VCT (Venture Capital Trust) Managers Group. Previously, she was a Fund Manager at ISIS and a Director of 3i plc.



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.

Operating review

We aim to build a high performance, growth-oriented business over the medium and longer term



Nick Jefferies
Group Chief Executive

Acal supplies specialised Electronic and Photonic products to equipment manufacturers. The majority of our products are niche, often unique and require a high level of technical knowledge to enable products to be designed to exact customer specifications.

Our customers operate in industrial sectors such as transportation, renewable energy, medical, motor control, healthcare, aerospace, defence and security, where our products are often a minority of the total system cost. These markets are stable, have good long term growth prospects and often require highly customised solutions. In many cases, our customers supply international markets and therefore, a significant proportion of the Group's revenue is linked to export demand.

The Group creates bespoke solutions for customers. As such, we offer a wide range of custom service capabilities across the full range of product technologies. Such capabilities enable customers to outsource elements of their design and manufacturing, saving them time and money. In return, Acal benefits from stable customer relationships generating sustainable long term margins.

During the year, a number of investments were made that will develop the Electronics business. In the last four months, the Electronics web marketing platform has been fully launched across Europe. During the second half, the UK Custom Service centre was upgraded and expanded as part of a larger investment in our custom service capabilities. Work also began during the period on upgrading our ERP system, which will bring with it a number of operational enhancements, as well as ensuring the suitability of the system for future years.

Group objectives

The Group has a number of key objectives, unchanged from previous years, which aim to build a high performance, growth-oriented business over the medium and longer term.

Growth ahead of GDP over the business cycle with organic growth enhanced by acquisitions

Over the last four years, ongoing sales from the Electronics division, which now account for 88% of Group sales (2011/12: 79% of Group sales), have grown by 21% CAGR through a combination of organic growth and acquisitions.

Our customers' offerings often rely on differentiated technological products as key drivers of their new product innovation. Technology therefore continues to be adopted into industrial markets, driving electronic market growth ahead of GDP.

Whilst the volume of demand in the electronics market has reduced over the last two years as a consequence of reduced macro-economic activity, our level of new project opportunities has continued to rise. This is due to our differentiated approach to supporting customers, as well as the growing success of the new suppliers and products that have been engaged. When economic confidence returns, we expect volume demand to increase and drive market growth at rates well ahead of GDP growth.

Our market share gains have continued to improve during the recent economic downturn. We put this down to two factors: firstly, growing customer and supplier awareness of our differentiated offer; and secondly, because niche product demand is less cyclical than that of commodity products.

Develop and maintain attractive margins

The underlying operating margin has remained constant compared with last year at 3.1% (EBITDA 4.0%), despite the challenging market conditions and lower volumes.

Our objective remains to achieve a 5% underlying operating margin over the business cycle through a combination of sales growth from increasing market share and demand volumes, further improvements in operating efficiency and continuing robust gross margins.

As evidenced by the current results, the Group continues to develop a flexible cost base in order to optimise its operating margin and to ensure the business is well positioned to benefit from enhanced profitability when volumes return.

Enhanced growth through acquisitions

Acquisitions play an important role in developing the long term performance of the Group. Five businesses have been acquired over the last four years (Myrra Group being the most recent, completed in April 2013), bringing the total acquisition spend to over £30m. In the year under review, the acquisitions have generated a pre-tax return on investment (including acquisition and integration costs) of 24%.

We look to acquire businesses that provide complementary products and/or geographic coverage, as well as enabling efficiency improvements through operational integration, where appropriate, and which have attractive growth prospects.

As part of the Acal Group, acquired companies gain access to around 25,000 potential customers across Europe as well as a sales, marketing and engineering workforce, through which to cross-sell each others' products. For single country businesses, being part of

Divisional performance

	Revenue £m	2012/13 Underlying operating profit ¹ £m	Margin %	Revenue £m	2011/12 Underlying operating profit ¹ £m	Margin %	CER ongoing revenue growth ²
Electronics	177.4	9.5	5.4%	207.1	10.8	5.2%	-6%
Supply Chain	41.8	1.4	3.3%	50.7	1.3	2.6%	-2%
Unallocated costs	-	(4.0)		-	(4.0)		
	219.2	6.9	3.1%	257.8	8.1	3.1%	-5%

1 Underlying operating profit excludes exceptional items and amortisation of acquired intangible assets.

2 Ongoing revenue growth excludes revenues from the UK Parts business and discontinued non-specialist products as announced last year.

Acal provides access to international facilities and an established platform for their expansion.

Develop healthy cash flow to fund future growth and dividends

The Group 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 this year was £7.7m (112% of underlying operating profit) and £30.1m for the last four years (139% of underlying operating profit for that period).

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

ROTCE (defined as underlying operating profit as a percentage of net operating assets) was 24.0% for the year, an increase of 2.4ppts over last year. The Group targets ROTCE of 25% in the medium term.

Deliver value growth for shareholders

Total shareholder return ("TSR") is targeted to be above the median, and, preferably within the upper quartile of constituents of the FTSE Small Cap Index. In the three year period to 31st March 2013, TSR grew by 69%, being in the upper 30th percentile performance ranking, when compared with the FTSE Small Cap Index.

Group strategy

To deliver these objectives, Acal's strategy is to build a high performance electronics group operating in multiple specialist sectors.

The Group will continue to develop both the electronics supply & manufacturing and distribution businesses, which have in common niche product characteristics and a broad industrial customer base.

Similar markets and opportunities exist outside Europe and to the extent that they offer attractive prospects, provide opportunities for further geographic expansion through acquisition.

Our strategy is therefore:

1 Organic sales growth ahead of market

- Cross-selling
- Product range expansion
- Custom Services
- Customer acquisition via the new web platform

2 Create a multi channel environment with the web

- Supported by Custom Services

3 Efficiency improvements

4 Value enhancing acquisitions

- Electronics supply manufacture and distribution
- Expand into new territories.

Operating performance

Group underlying operating profit was £6.9m, representing a 9% reduction over the prior year at constant exchange rates. This reduction was due to the weak economic and market conditions throughout Europe and the subsequent lower production volumes, which resulted in a 12% decline in Group revenue at constant exchange rates, or a 5% fall in relation to ongoing sales (which exclude the UK Parts disposal and the non-specialist discontinuations announced last year).

The underlying operating margin remained at 3.1% of revenues, comprising an increase of 0.8ppts in gross margin to 31.0% and a sustained reduction in underlying operating expenses of 10%. The second half saw the underlying operating margin increase to 3.4%, representing further improvement over prior periods.

Electronics division

The Electronics division supplies, designs and manufactures specialist electronic products to industrial manufacturing and design companies across a broad range of market sectors.

The divisional underlying operating margin increased to 5.4%, despite an anticipated fall in sales due to market conditions, through higher gross margins (up 0.6ppts) and reduced operating costs (down 9% at constant exchange rates).

Orders

Orders returned to growth in the second half of the year, being 9% higher than the first half and 5% higher than the prior year. The second half book to bill ratio also returned to positive territory, being at its highest level for two years at 1.03:1. For the year as a whole, ongoing orders were similar to last year.

The recovery in orders in the second half was led by Germany (+18% compared with the prior year), France (+16%) and the Nordic region (+6%). Spanish orders remained soft (-23%) whilst other territories were at a similar level to last year.

Revenues

Electronics revenues in the second half were 3% higher than the first half at constant exchange rates, although 7% lower than the prior year. This represents an improvement over the first half decline of 15% as we pass through the bottom of the economic cycle. Excluding non-specialist discontinuations, second half revenues declined by only 3% year on year.

For the year as a whole, revenues were 11% lower at constant exchange rates. Of this, 4% related to the general economic downturn in Europe, 2% related to significant sales weakening in Spain and 5% related to the discontinued non-specialist products.

- i The market environment remained weaker than the previous year throughout the period. PMI manufacturing indices are a useful barometer for the industrial markets into which Acal sells. The average European manufacturing PMI reduced from 58 at the start of the last financial year to an average of 50 throughout last year. This year the index has remained below 50 all year (where above 50 is indicative of growth) and averaged 46. This fall in manufacturing demand led to a 4% decline in reported revenues (excluding Spain). This compares favourably with the IDEA index for European distribution of electronic components (excluding Spain) which showed that average European electronics sales fell by 11% during the same period, and is a reflection of the increasingly specialist nature of the products being sold by the Group.
- ii Trading in Spain, which represents less than 3% of Group sales for the year, continued to weaken with sales declining by 37% from last year at constant exchange rates. Unlike other divisional territories, the Spanish business generates a high proportion of its sales from domestic Spanish demand and infrastructure projects. These have reduced significantly due to the economic difficulties in the country. During the year, orders and revenues in Spain improved, with orders and revenue up 18% and 14% respectively in the second half compared with the first half, and with a book to bill ratio of 1.01:1. Operating expenses have been reduced by 31% from last year.
- iii As reported last year, the business enhanced its focus on higher margin, specialist products by discontinuing lower margin, non-specialist products towards the end of the first half last year. We reported at the time that the impact on this financial year would be a revenue loss of £11m compared with last year, equivalent to 5% of sales. £7.1m of this loss materialised in this first half (6% of sales) and £3.9m in the second half (4% of sales).

Gross profit

Divisional gross margin increased by 0.6ppts during the period, being a reflection of the continuing development of more highly differentiated specialist products and solution sales. This is the fourth consecutive year of gross margin growth. Excluding the effects of discontinued products and foreign exchange, gross profit was down only 4%.

Operating expenses

Last year, in response to weaker market conditions since the end of H1 2011/12, the Group announced and implemented a reduction in Electronics operating costs through the following initiatives:

- i Accelerated integration of Electronics sales and marketing teams in preparation for a single brand Electronics web launch;
- ii Headcount reductions in Electronics associated with the discontinuation of non-specialist products;
- iii Rationalisation of the Spanish Electronics operation.

This programme contributed to underlying operating expenses in the Electronics division reducing by 10% year on year at constant exchange rates.

Exceptional costs within the year associated with the cost reduction programme were £1.0m, £0.3m less than originally projected.

Underlying operating profit and margin

Underlying operating margin was up 0.2ppts to 5.4% despite the reduction in revenues, through both gross margin improvements and cost reductions. Underlying operating profit of £9.5m was £1.3m lower than last year (£0.9m lower at constant exchange rates). Second half underlying operating profits of £5.0m (the same as last year at constant exchange rates) were up £0.5m on first half profits of £4.5m (£0.9m less than last year at constant exchange rates) with underlying operating margin increasing from 5.2% to 5.5%.

New website

In January 2013, the new web platform was launched in the UK, followed by launches in Germany, France, Netherlands, Belgium and Sweden in March, and Italy and Spain in April.

This platform creates a new marketing channel through which to reach and communicate with both existing and new customers.

Customer research has shown that the way customers interact with suppliers has changed, as have their requirements. Unsurprisingly, the prevalence of freely available information via the web has led to customers generally engaging with their suppliers later in the creation and design process. This, coupled with the increasing numbers of companies that use electronics, has made the existing long established routes insufficient alone and less economical.

By developing the new website, Acal has created a marketing platform, with which to display (down to attribute level) the full range of over 100,000 Acal products and services and which is optimised for visibility on web search engines. Customers are able to find more information on Acal products than before, finding information relevant to them for their project. Importantly, they are now increasingly able to interact with Acal in a manner they choose, with technical and commercial support available via the web, the phone or face-to-face. No longer will there be a "one-size-fits-all" approach to serving customers.

The web operates under one brand, combining Acal Technology, BFi Optilas and Compotron into Acal BFi, with the products and services of supply and manufacture Group companies MTC, Hectronic and Stortech visible. In addition to the range of products, the web prominently displays the full range of custom service capabilities, as well as technology solutions and applications. The new brand Acal BFi has been supported by a marketing campaign which started in April 2013.

The web platform is integrated into the existing software systems so that new enquiries received via the web become visible in the customer relationship management (CRM) system, as well as being ready for transactions in the main system. We expect that this integrated system will reduce manual processing and lead to increased operational capacity and efficiency.

Custom Service capabilities

Custom Service centres provide engineering and manufacturing capabilities that assist customers with a range of design, manufacture, assembly, testing, repair and calibration services.

There are four such service centres across Europe; two in Germany, one in France, and one in the UK. This year, the UK facility was upgraded with the creation of additional capacity, as announced in April 2013. Custom Service Centres provide three capability elements:

- i Design services
Offering design, development, prototyping and pre-testing for statutory approvals
- ii Assembly services
Offering manufacturing, assembly, configuration and on-site installation capabilities
- iii Lifecycle support
Offering upgrades, repair and maintenance, 'future proof' management and statutory approval testing.

The acquisition of Myrra brings custom development and production capabilities in magnetic products to the Group, furthering Acal's existing design capabilities in this technology. Design centres in France and China are able to translate a customer enquiry into a full custom technology solution, as well as being able to manufacture prototype and production quantities in house.

IT system upgrade

Acal has been operating the JD Edwards Oracle ERP system in the Acal Electronics business for 12 years and has provided a highly capable infrastructure upon which to run the business, as well as to accommodate the acquisition of BFi Optilas in 2009.

With the current platform having reached the end of its supplier supported life, an upgrade is planned to be completed in the second half of FY 2013/14 which will provide a platform for the foreseeable future, as well as improvements to the operational capability of the system.

The upgrade is expected to cost £0.7m, which will be capitalised and amortised over the expected life of the system.

Acquisition of Myrra Group

On 8 March 2013, the acquisition of Myrra Group was announced, and successfully completed on 4 April 2013. Myrra designs and manufactures custom electronic magnetic products for industrial customers. As with Hectronic and MTC acquired last year, Myrra designs and manufactures, both itself and using third party contractors, customer specific products and solutions around their core technology. Myrra's customer base overlaps with the Acal BFi distribution business and similarly, offers a high proportion of custom product development, with approximately 70% developed to meet specific individual customer requirements.

The Myrra Group's head office is based near Paris, with sales offices in France, Spain, Hong Kong, China and Germany. The Myrra Group's manufacturing facilities are based in China and Poland; the Chinese facility further increases our capabilities in Asia and could serve as a platform for further expansion.

Our strategy remains to acquire both distribution and design and manufacturing businesses that supply the common base with niche electronics products.

Supply Chain division

The Supply Chain division provides IT inventory management and parts services to IT service providers. In January 2013, the Group completed the disposal of its loss-making UK Parts business to its management team. This disposal was a related party transaction and received shareholder approval on 3 January 2013. Further information on this disposal is included in Note 12 to the Group Financial Statements.

The remaining businesses are EAF Germany GmbH ("EAF") and Acal Enterprise Solutions Limited ("AES"). EAF is a European IT parts management and repair services business, whilst AES provides spares and support services to IT service providers for mid-range and mainframe computer systems.

Compared with last year, reported revenues of the division declined £8.9m to £41.8m, or down only 2% (£0.4m) at constant exchange rates and excluding the UK Parts business. Both remaining businesses saw revenues reduce by a similar level. Second half sales in these businesses increased by 5% over the first half.

Underlying operating profit for the year was up £0.1m to £1.4m, principally due to the sale of the loss making UK Parts business, which helped increase underlying operating margin by 0.7ppts to 3.3%.

Summary and outlook

The Group has performed well in challenging markets, increasing market share and gross margins and generating strong cash flow. Further, the increased flexibility of our cost base has minimised the impact of lower volumes on earnings.

Second half trading improved noticeably, with Electronics orders increasing 9% over the first half and 5% over the prior year.

Our strategy of providing specialist electronic products and solutions to industrial customers continues to make good progress as we build a differentiated industrial electronics group. Our acquisitions are performing well, bringing both new customers and opportunities to the Group. Myrra, our latest acquisition, is performing as expected, adding to our manufacturing capabilities and providing access to new regions.

The new year has started well. Both the base Electronics business and the acquired Myrra Group are performing as expected, with combined orders in April and May being 19% higher than the Group reported last year and 7% higher, excluding Myrra. Whilst market conditions are still challenging, they have stabilised and are showing some early indications of improvement. As such, we are cautious but optimistic for the future. The Board is confident that, through a combination of organic and acquisitive development, Acal will deliver performance ahead of the wider market.

Nick Jefferies

Group Chief Executive
4 June 2013

Custom services

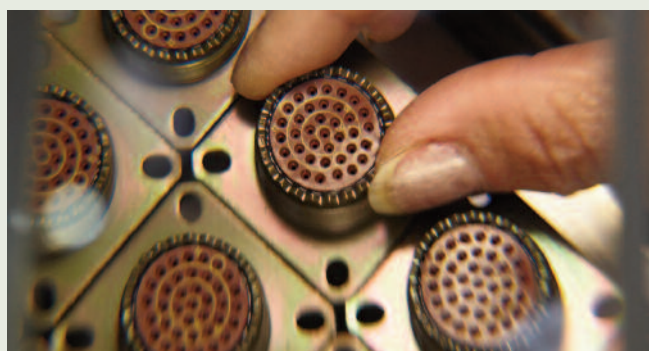
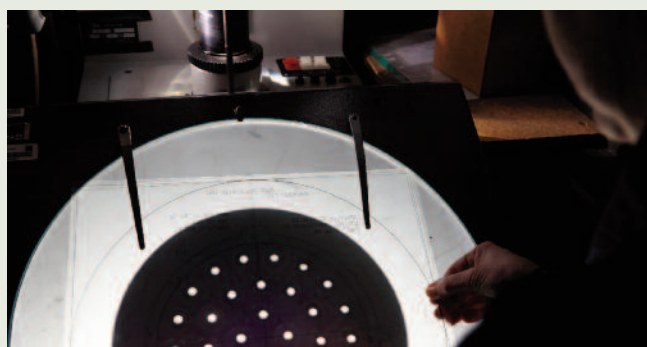
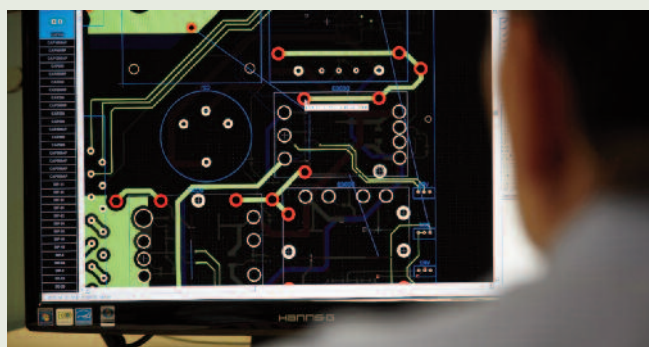
New technology centres create customer specific designs



As part of its continuing strategy to provide customers with bespoke solutions to their requirements, Acal BFi has launched a newly refurbished and expanded Custom Service Centre in its Wokingham, UK facility.

Custom Service Centres provide engineering and manufacturing capabilities that assist customers with a range of design, manufacture, assembly, testing, repair and calibration services. The Wokingham Centre is one of four located around the Group's European operations and utilises modern manufacturing and operating processes.

Our investment in value-added custom services activities helps us re-position ourselves as a leading European industrial electronic solutions provider.



There are three elements to custom services:

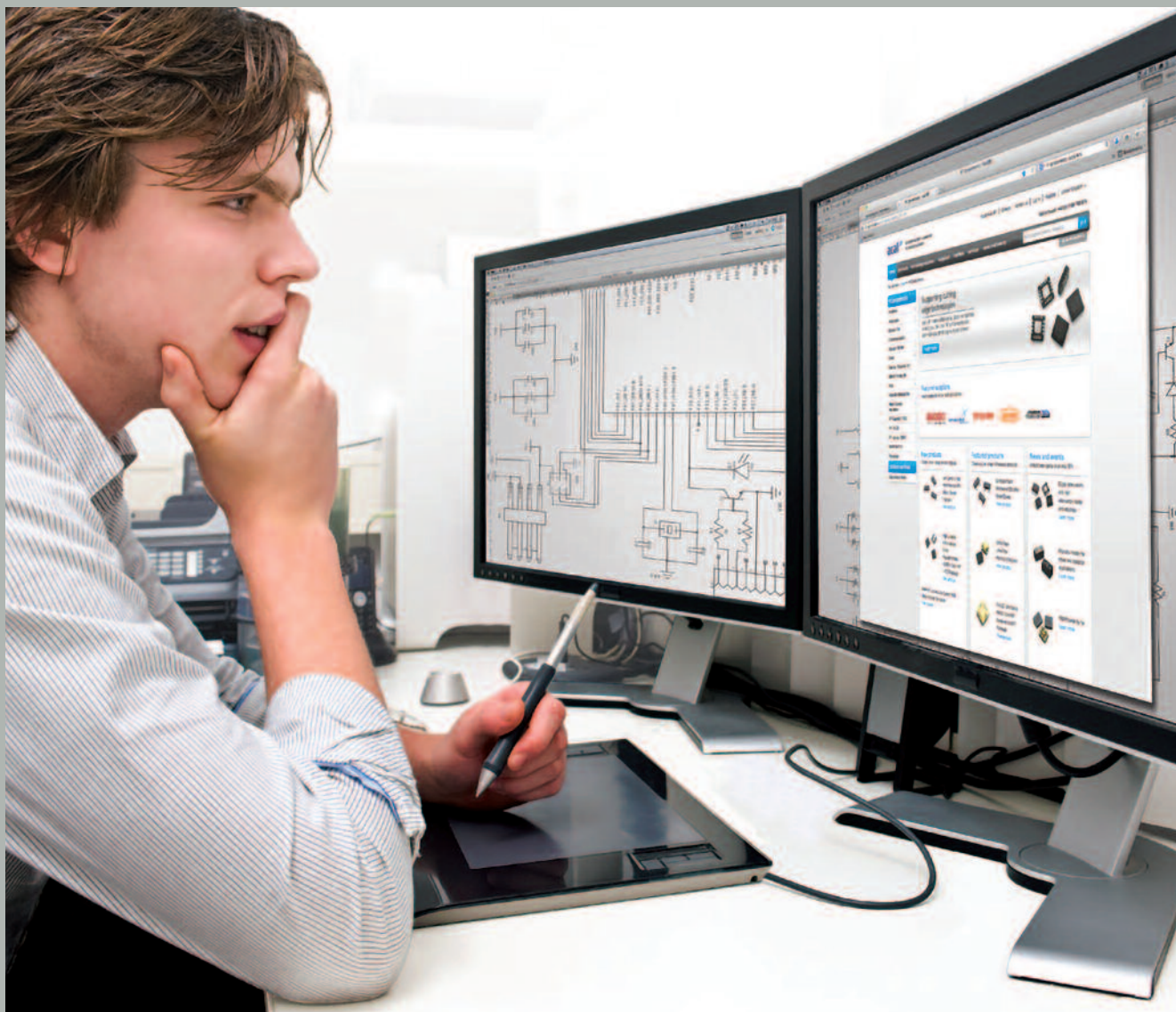
- Design Services, which offer design and design support capabilities, prototyping and pre-testing for statutory approvals;
- Manufacturing Services, which offer manufacturing, assembly, configuration and on-site installation capabilities; and
- Lifecycle Support, which offers upgrades, repair and maintenance, 'future proof' management and pre-testing for statutory approvals.

The four Service Centres provide support across the complete range of products on offer from Acal including communication technologies (such as Machine to Machine connectivity); embedded computing and control; fibre optics; electro-mechanical assemblies and cabling; connector assembly; power system design and assembly; laser beam management and calibration; and thermal and infra-red imaging system control.

Already used by a wide range of customers, Acal expects that the additional capacity in the UK Service Centre will provide for further growth in this emerging area.

Launching our new website

Built to create a multi channel experience for our customers



We have successfully launched our new website across all our European markets, bringing together Acal Technology, BFi Optilas and Compotron under our new brand Acal BFi.

The new platform enables customers to interface with Acal BFi in the way which suits them, whether it be by the web, phone or face-to-face, or a combination of all three. They are now able to

clearly see and search for the full range of products and services on offer from Acal BFi.

Built on a leading B2B platform and interfaced directly into our CRM system, the new platform enables us to communicate more effectively with customers than before. This will lead to tailored marketing and sales programmes which we expect will drive new customer acquisition.

Providing an entirely new customer experience, our new website is at the heart of our customer communication programmes.

Tested by our main customer groups, the website is a key differentiator for us, providing a greater level of detailed and tailored information to our engineering customers.

Going beyond the product offer into solution design

Bringing together twelve technology areas, engineering design teams and market solutions information provides engineers with the information they need when developing new products. In addition to product data, visitors to the web site have access to custom solution designers, enabling the creation of application specific or custom products.

Providing world class products from world class suppliers

We have combined our extensive portfolio of manufacturer and product ranges with rich additional information to support customer designs.

Improved customer experience

Visitors to the website are able to search and find detailed product information down to attribute level, as well as application and solution data. During the search, users are able to request support and quotes either on-line or via phone. A host of intuitive browse capabilities provide additional tools and information for both existing customers and new visitors.

The new website at the heart of our marketing programmes

We have completed the re-branding to Acal BFi as well as establishing a new marketing identity across the Group. Our marketing programmes are being rolled out to increase customer reach and touch points, with investment in search engine marketing and display advertising.

Although it is early days, the initial results are encouraging with an increased number of visitors as well as visitors spending longer on the site.



Mass transit project

Rail testing equipment – fibre optic cabling



We helped to design this project, which monitors and feeds back the condition of the track in real time. The result is more frequent information at a lower cost.

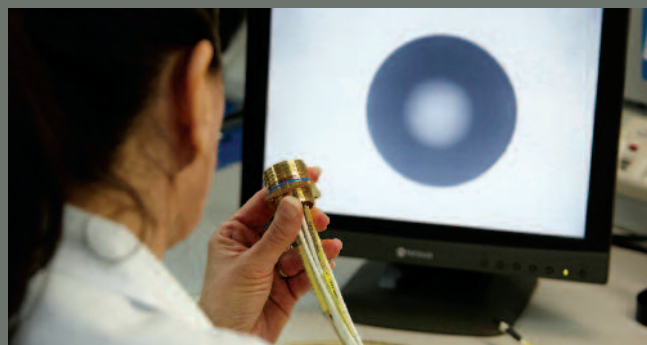
Rail transportation systems require that track condition is frequently checked to ensure safety. In the past, these checks were carried out through periodic manual inspection, involving operators walking the tracks during closed periods. This method was expensive, time consuming and required periods of rail system closure.

Working together with a system integrator, Acal BFi developed a connectivity solution that enables the transmission of images and data in a very harsh environment, so that track inspection can occur reliably during normal rail operation. A camera is fitted to rolling stock that monitors track condition and changes.

In addition to requiring no operational downtime, the new system provides continuous monitoring rather than periodic, reduces the element of human error and costs less to operate.

Acal BFi develop, manufacture and supply the complex hybrid copper and fibre optic cable assembly, as well as providing installation and maintenance through its operational life.

Having been successfully tested in a single application, the system has now been installed across a number of trains so as to provide complete network rail checking.



The group executive committee
Our 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.



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).



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 many 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.



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

The Group's continued focus on specialisation helped gross margins improve further during the year



Simon Gibbins
Group Finance Director

Revenues – gaining share in a challenging environment

Group revenue for the year was £219.2m, 12% below last year at constant exchange rates (2011/12: £257.8m), of which 7% related to planned reductions and 5% to European market conditions which were more challenging than last year.

In terms of planned reductions, 5% relates to the discontinuance of non specialist Electronics products announced last year (£11.0m sales included in last year's revenue). The other 2% relates to the disposal of the UK Parts business in January 2013. Further analysis is given in the Operating Review.

Group ongoing revenue of £202.7m (being reported revenue excluding discontinued non-specialist products and UK Parts) was down 5%. Ongoing revenues comprise: Electronics at £177.4m (ongoing revenue down 4% excluding Spain); and the remaining Supply Chain division, with ongoing revenue of £25.3m, down 2%. External market data produced by the International Distribution of Electronics Association ("IDEA") reported that European sales for this financial year declined by 11% (excluding Spain); Acal's Electronics division has therefore continued to gain market share.

Second half reported Group revenue was £109.4m, compared with £109.8m in the first half. Excluding UK Parts, second half ongoing revenue was £104.1m, up 3% on the first half at constant exchange rates.

Further gross margin improvement

The Group's continued focus on specialisation helped gross margins improve further during the year by 0.8ppts to 31.0%, partially offsetting the profit impact of the shortfall in Group revenues. Group reported gross profit for the year was £67.9m (2011/12: £77.9m), down 10% at constant exchange rates (compared with Group revenue down 12%). Ongoing gross profit (excluding UK Parts and discontinued sales) was down 4% (compared with ongoing revenue down 5%).

Gross margins for the second half were 30.7%, 0.5ppts below the first half, due primarily to product sales mix.

Maintaining a tight cost base

Underlying operating costs of £61.0m were down 10% at constant exchange rates. Adjusted for acquisitions and disposals, costs were down 8%.

Key to this reduction has been a continued tight control of the cost base, together with the impact of restructuring initiatives taken last year. The Company took rapid action on seeing the economic downturn start to take effect during summer 2011, which has benefited this year.

Second half underlying operating costs of £29.9m were £4.6m less than last year, being 13% less on a reported basis and 8% less on a like for like basis. First half underlying operating costs of £31.1m were £4.3m below last year, being 12% less on a reported basis and 9% less on a like for like basis. Second half operating costs were £1.2m or 4% below first half operating costs and flat, on a like for like basis.

Exceptional items

Exceptional items for the year totalled £3.1m (2011/12: £3.4m), of which £1.0m related to restructuring costs in the Electronics division announced last year (£0.3m less than originally estimated).

A further £1.2m related to the cost of designing and developing the new Acal BFi web marketing platform within the Electronics division. This was also announced last year and total costs were in line with first half estimates. The website was first launched in the UK at the end of January 2013 and has since been launched in all of the division's other European territories. As planned and previously communicated, the costs associated with running and maintaining the website from launch are being treated as underlying operating expenses (of which £0.2m was included within underlying operating expenses this year).

Other exceptional items this year totalled £0.9m, principally being the costs associated with the acquisition of the Myrra Group (£0.6m) and the costs of integrating Compotron (acquired in January 2011) into the Acal BFi organisational and operational structure, as announced at the half year.

Including the above exceptional items of £3.1m (2011/12: £3.4m) and amortisation of acquired intangibles of £0.8m (2011/12: £0.8m), overall operating costs reduced by 12% to £64.9m, down £9.1m from last year.

Operating margin maintained

Underlying operating profit for the year was £6.9m, down 9% on last year, at constant exchange rates (2011/12: £8.1m), delivering an underlying operating margin of 3.1% in line with last year.

Second half underlying operating profit of £3.7m was down 4% on last year, at constant exchange rates. Second half operating margin was up 0.2ppts to 3.4% (H2 2011/12: 3.2%).

First half underlying operating profit of £3.2m was down 14% on last year, at constant exchange rates. First half operating margin of 2.9% was down 0.2ppts from last year (H1 2011/12: 3.1%). The larger shortfall in the first half arose because of much stronger comparatives in the previous year, which largely preceded the impact of last year's economic downturn.

Compared with the first half, second half underlying operating profits were up £0.5m, with the associated operating margin up 0.5ppts.

Reported operating profits for the year (including exceptional items of £3.1m and amortisation of acquired intangibles of £0.8m) were £3.0m, down £0.9m compared with last year (2011/12: £3.9m).

Reduced finance costs reflecting strong cash flow

Net finance costs for the year of £1.0m (2011/12: £1.2m) comprised a net interest charge of £0.6m and an IAS 19 pension finance charge of £0.4m, relating to the Group's legacy defined benefit pension scheme.

The net interest charge of £0.6m comprises interest and facility fees arising from the operation of the Group's committed and uncommitted facilities. Net interest charges were down £0.3m from last year (2011/12: £0.9m) due to lower average gross debt balances throughout the period, driven by strong free cash flow and improved cash management processes.

The IAS 19 pension charge was £0.4m for the year, an increase of £0.1m over last year. Next year, changes to IAS 19 are expected to result in an increase in costs within the income statement of £0.5m. These changes do not alter the ongoing cash funding of the scheme.

Underlying tax rate remains low

The underlying effective tax rate at 17% of underlying profit before tax of £6.3m, was lower than the UK tax rate of 24%, mainly due to the utilisation of tax losses in certain territories which are now profitable. This compares favourably with an underlying effective rate in 2011/12 of 18% due to the increased use of unrecognised tax losses. At the year end, the Group had approximately £16m of tax losses covering certain territories.

The overall effective tax rate was 42% of the loss before tax of £3.1m (2011/12: 22%). This rate is higher than the underlying effective tax rate due to the tax impact of exceptional items.

Earnings

Underlying profit before tax for the year of £6.3m, while £0.9m lower on a reported basis against last year (2011/12: £7.2m), was down only £0.4m at constant exchange rates, benefiting from the reduced financing costs. Together with the improved underlying tax rate, underlying diluted earnings per share for the year were 17.5 pence, down 2.4 pence on last year's reported rate (2011/12: 19.9 pence) and 1.1 pence down at constant exchange rates.

Underlying earnings per share of 9.3 pence in the second half were 13% higher than the first half performance of 8.2 pence per share.

Underlying adjustments comprise: exceptional items of £3.1m; amortisation of acquired intangibles of £0.8m; loss on disposal of the UK Parts business of £5.1m; and IAS 19 interest on the legacy pension fund of £0.4m. Including these underlying adjustments, there was an overall loss per share of 6.3 pence (2011/12: diluted earnings per share of 7.1 pence).

Dividend growth

For the year ended 31 March 2013, the Board has recommended a final dividend of 6.0 pence per share (H2 2011/12: 5.5 pence per share), an increase of 9%. An interim dividend of 2.5 pence per share was paid in January 2013 (H1 2011/12: 2.5 pence per share), making the total dividend for the year 8.5 pence per share (2011/12: 8.0 pence per share), an increase of 6%. The dividend is payable on 31 July 2013 to shareholders on the register as at 14 June 2013.

The dividend has been increased by 21% in the last 3 years.

Acquisition strategy continues

On 4 April 2013, Acal completed the acquisition of 100% of Myrra SAS, for an initial cash payment of €9.5m (£8.1m). Funding for the acquisition was in place before the year end and comprised net proceeds from an equity placing of £5.7m and a new three year debt facility of £8.0m. The costs associated with the acquisition of £0.6m have been treated as an exceptional cost. Funding costs totalled £0.7m, of which £0.4m has been netted from the gross proceeds of the equity placing and £0.3m will be amortised through finance costs over the three year period of the new debt facility.

In addition to the initial consideration, a three year earn-out payment of up to €1.8m (£1.5m) will be payable in the last quarter of 2015/16 to the Myrra management team, subject to the achievement of certain earnings-based performance criteria.

Disposal of non core assets

On 3 January 2013, the Group completed the sale of its non core, loss-making UK Parts business (part of the Supply Chain division) for net proceeds of £1.5m (or £2.0m on a debt-free basis), giving rise to a loss on disposal of £5.1m. Together with losses of the business for the 9 months up to the date of disposal of £0.6m, the overall loss for the year from the UK Parts business was £5.7m.

Revenue from UK Parts this year was £16.4m for the 9 month period, until its disposal (2011/12: £22.7m).

Working capital improvements continue

Working capital was at 11.6% of annualised second half ongoing sales (2011/12: 12.0%) with working capital reducing by £8.2m to £21.5m. This was achieved partly through the disposal of the UK Parts business, a more resource intensive business than Electronics. Additionally, further efficiency gains were made in inventory management with Group inventory turns improving by 0.5 to 8.1 (2011/12: 7.6). Trade debtors were at 51 days, marginally higher than last year (financial year 2011/12: 50 days) due to territory mix, while trade creditors outstanding at the year end were 50 days (financial year 2011/12: 49 days).

Levels of working capital have reduced significantly in the last four years, improving from 15.6% of second half sales in 2009 to 11.6% this year, a 26% improvement. This represents £8.1m of cash generation over that period.

Strong free cash flow generation

Underlying EBITDA generated in the year was £8.7m (FY 2011/12: £10.2m), being underlying operating profit of £6.9m adjusted for key non-cash items of £1.8m, comprising depreciation of £1.0m, amortisation (excluding amortisation of acquired intangible assets) of £0.2m and a share based payment charge of £0.6m.

Improvements to working capital gave rise to a working capital movement of £4.2m (of which £1.9m related to exceptional items) (FY2011/12: £3.6m). Capital expenditure totalled £1.3m in line with last year. Net interest payments reduced from £0.9m last year to £0.6m reflecting lower gross debt levels throughout the year. Tax payments totalled £1.4m (2011/12: £1.1m), principally comprising payments in Germany and South Africa. Other territories still benefit from the utilisation of brought forward tax losses.

Taking into account the cash impact of pre-exceptional working capital of £2.3m, interest and tax, free cash flow totalled £7.7m (2011/12: £10.5m). This amounts to 112% of underlying operating profit, which is significantly ahead of our target free cash flow rate of 60% of underlying operating profit over the cycle. We expect this level of cash generation to reduce as sales increase with the resulting requirement for additional working capital.

Exceptional cash payments in the period totalled £3.6m (2011/12: £3.9m), partly included within working capital as mentioned above, and partly within provisions. These related mainly to the cost reduction programme announced last year and the development cost of Acal BFi's new marketing web platform. A further £1.6m of exceptional cash payments are due next year in relation to previously accrued exceptional costs, including the costs associated with the acquisition of Myrra. Payments made to the legacy defined benefit scheme increased to £1.5m (2011/12: £0.7m) in line with the payment plan agreed with the pension fund trustees in 2009.

The Group invested £2.0m of its free cash flow into the payment of acquisition earn-outs. In January 2013, an earn-out payment of €0.7m (£0.6m) was paid to the management of MTC. Compotron management exceeded their performance target and, accordingly, received a maximum payout of €1.7m (£1.4m) in March 2013. Additionally, the Group generated £1.5m of net cash proceeds from the sale of its UK Parts business. The dividend paid for the year totalled £2.3m (2011/12: £2.2m).

Prior to the equity placing, there was a small net cash outflow of £0.2m for the year (2011/12: £0.3m net cash outflow), giving a net cash balance at the year end before equity placing of £6.1m. Net equity of £5.7m was raised in March 2013, partially to fund the acquisition of the Myrra Group, lifting the year end net cash balance to £11.8m (financial year 2011/12: £6.3m). €9.5m (£8.1m) of cash was used to fund the acquisition cost of Myrra shortly after the year end.

Committed funding strengthened

In addition to the year end net cash balance of £11.8m, the Group also had access to £22.2m of committed facilities (2011/12: £18.4m) comprising:

- i Committed working capital facilities of £14.2m, which the Group requires from time to time to fund inter-month outflows of working capital. Such outflows resulted in a net average cash balance across the final quarter of the financial year of £1.0m.
- ii A new three year committed debt facility of £8.0m to help fund the Myrra acquisition.

The Group also had access at the year end to uncommitted working capital facilities of £12.7m.

Pension

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 £31.4m at 31 March 2013 (31 March 2012: £29.8m). Scheme liabilities under IAS 19 were valued by the actuaries at £37.2m (31 March 2012: £35.5m). The growth in scheme asset values, driven by strengthening equity valuations during the year, was offset by an increase in scheme liabilities caused by changes in actuarial assumptions. The net deficit at 31 March 2013 was £5.8m (31 March 2012: £5.7m). Additionally, a related deferred tax liability of £0.7m (31 March 2012: £0.8m) is included under pension liabilities, taking the total liability to £6.5m (31 March 2012: £6.5m). 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 2013 of £51.5m were £2.4m greater than the net assets at the end of last year (31 March 2012: £49.1m). This increase is due to the net equity raising of £5.7m, share based payments of £0.6m plus associated deferred tax credit of £0.3m and the translational movement on currency net assets of £0.8m, being partially offset by net losses, after tax, for the year of £1.8m, dividends paid in the year, of £2.3m, and an actuarial loss on the defined benefit pension scheme of £0.9m.

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 exposure of the Group's sales and profits to worsening global economic conditions remains a principal risk.

There have been no material changes to the following principal risks and uncertainties impacting the Group's performance, which are set out in detail in the 2013 Directors' Report.

Commercial risks – including business acquisition risk and business disruption risk, including major damage to premises, loss of IT systems and loss of key personnel.

Financial risks – liquidity, foreign currency, retirement benefits and funding.

The Group is well positioned to manage exposure to such risks and uncertainties, if they arise, with its strong year-end balance sheet and the committed facilities in place.

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
4 June 2013

Corporate information and financial calendar

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Corporate information

Registered office

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

Telephone 01483 544500

Incorporated in England
and Wales with
registered number 2008246

Stockbrokers

Oriel Securities Limited

Principal bankers

Barclays Bank PLC
Lloyds TSB Bank plc

Auditors

Ernst & Young LLP

Registrars

Equiniti Limited

Financial calendar 2013/2014

Annual General Meeting	26 July 2013
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Results

Interim report for the six months to 30 September 2013	Late November 2013
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Preliminary announcement for the year to 31 March 2014	Early June 2014
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Annual report 2014	Late June 2014
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Dividend payments

Final dividend 2012/2013	31 July 2013
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Interim dividend 2013/2014	Late January 2014
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Final dividend 2013/2014	Late July 2014
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Directors' report

The Directors present their Annual Report with the audited financial statements for the year ended 31 March 2013. This report is the "management report" for the purpose of the Disclosure Rules and Transparency Rules.

Results and dividends

The results of the Group for the year to 31 March 2013 are set out in detail in the consolidated income statement on page 43.

The Directors recommend a final dividend of 6.0p per share (2012: 5.5p). The final dividend, together with the interim dividend of 2.5p (2012: 2.5p), makes a total dividend for the year of 8.5p per ordinary share (2012: 8.0p). The total dividends on ordinary shares have a cash cost of £2,589,747 (2012: £2,278,384).

Principal activities and business review

Acal is a European leader in advanced technology solutions, providing marketing, engineering, design, manufacturing and other services through two divisions: Specialist Electronics and Supply Chain.

The Electronics division is a leading European specialist electronics supplier and the only such provider with an infrastructure to deliver a broad complementary range of specialist products and bespoke solutions across Europe. The Electronics division has completed five acquisitions in the last four years, more than doubling its underlying Electronics revenues. Acal's long term strategy is to gain significant additional market share through both organic growth and acquisition and further to enhance its value adding capabilities. The Supply Chain division provides inventory optimisation and outsource solutions to leading technology service providers.

Acal has operating companies across Europe including the UK, Germany, France, Benelux, Italy, Poland, Spain and the Nordic region. Additionally, Acal has operating companies in Asia (China and South Korea) and Africa (South Africa).

During this financial year, the Group's turnover fell 12% at constant exchange rates, of which 7% related to the discontinuation of non-specialist products announced last year and the sale of the UK Parts business referred to below. Underlying profit before tax was £6.3 million, a reduction of 6% at constant exchange rates. The loss before tax was £3.1m (2012: profit of £2.7m). The consolidated statement of financial position as at the year-end and the equivalent statement as at 31 March 2012 are shown on page 45. A review of the business and future developments of the Group is presented in the Chairman's Statement, in the Operating Review and in the Finance Review on pages 2 to 3, 6 to 9 and 18 to 20.

On 3 January 2013, the Group completed the disposal of its UK based, new and refurbished IT parts distribution and outsourcing business (the "UK Parts Business") (included within the Supply Chain division) to its management team for a debt free consideration of £2.0m, subject to completion adjustments and before transaction costs. If the UK Parts Business is subsequently sold, the Group will receive 25% of any incremental consideration over £2.0m up to a maximum additional consideration of £9.0m. This disposal was approved by shareholders on 3 January 2013, being a related party transaction.

On 28 March 2013, the Company issued 2,816,074 new Ordinary shares to new and existing shareholders through an equity placing. The terms of the issue were fixed on 8 March 2013 through a placing agreement, with an issue price of 215 pence per share representing a 1.8% discount on the closing price on 7 March 2013. Net proceeds were £5.7m, being gross proceeds on issue of £6.1m less directly attributable expenses of £0.4m. The placing structure attracted merger relief under section 612 of the Companies Act 2006 resulting in a credit to the Other reserve of £5.5m, being net proceeds on issue of £5.7m less the nominal value of the shares issued of £0.2m. The new shares issued rank pari passu in all respects with the existing shares in issue, including the right to receive all dividends and other distributions declared, made or paid on the existing Ordinary shares.

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.

Post balance sheet event

On 4 April 2013, the Group completed the acquisition of 100% of the share capital and voting equity interests of Aramys SAS ("Aramys" or "the Myrra Group"), for an initial cash consideration of €9.5m (£8.1m) before expenses and subject to certain post completion adjustments, and an earn out of up to a maximum of €1.8m (£1.5m), based on financial performance over the three year period to 31 December 2015 following completion. The initial cash consideration and related acquisition expenses were met from the proceeds of the above equity placing of £5.7m (after expenses) and a new debt facility of £8.0m.

The Myrra Group designs and manufactures magnetic electronic products, of which approximately 70 percent are developed to meet specific individual customer requirements. The Myrra Group's head office is based near Paris with sales offices in France, Spain, Hong Kong, China and Germany. The Myrra Group's manufacturing facilities are based in China and Poland.

The acquisition is a further step in the Group's stated strategy and brings a number of benefits including strengthening the Group's Electronics division, enhancing the Group's customisation and development capabilities, and developing the Group's geographic profile.

Directors' report continued

Key performance indicators

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 2013	Year ended 31 March 2012
3 year ongoing sales growth (CAGR)	21%	27%
Underlying operating profit*	£6.9m	£8.1m
Underlying profit before tax*	£6.3m	£7.2m
Gross margin	31.0%	30.2%
Underlying operating margin	3.1%	3.1%
(Loss)/profit before tax**	£(3.1)m	£2.7m
Underlying diluted earnings per share*	17.5p	19.9p
Working capital to sales	11.6%	12.0%
ROTCE*	24.0%	21.7%
Pre tax return on investment in acquisitions	24%	26%
Free cash flow* (% of underlying operating profit)	112%	130%

* Underlying profits, underlying earnings, ROTCE and free cash flow are defined in Note 2 to the Group Financial Statements on pages 48 and 49.

** Includes £5.1m loss on disposal of UK Parts business.

The above key performance indicators are discussed in the Chairman's Statement, in the Operating Review and in the Finance Review on pages 2 to 3, 6 to 9 and 18 to 20.

Principal risks and uncertainties

The performance of the Group and the implementation of its strategy are subject to a number of risks and uncertainties. The Board continually monitors the key business risks and uncertainties and oversees the development of processes to ensure that these risks are managed appropriately and that operational management implements any mitigating actions in a timely and consistent manner. The Group's risk management framework covers identification, impact assessment, likelihood of occurrence and mitigating actions.

The Group's principal risks and uncertainties and mitigating actions are described below. There have been no material changes compared to the prior year.

Risk

Mitigating action

Economic environment

The key external risk affecting the Group remains the impact of the continuing challenging macroeconomic and market conditions, especially in Europe. These conditions which are underpinned by slow economic growth and sovereign debt problems could impact the Group in a number of ways including:

- Operations of the Group may be adversely affected by a slowdown in orders due to the lack of end user demand and lack of visibility into the foreseeable future. This could ultimately affect the Group's profitability through a reduction of sales.
- Fundraising conditions may become more challenging which could impact on the Group's ability to raise funds for value adding acquisitions, a core part of the Group's stated strategy.

- Transition into a differentiated specialist supplier should help reduce exposure to major shocks in the economic environment;
- Diversification into different markets, locations and product offerings;
- Identifying and completing value adding and earnings enhancing acquisitions.

Business acquisitions

The Group considers acquisitions as part of its growth strategy. The risk to the Group is that the acquisitions do not realise the expected benefits, either in terms of the performance of the acquired business or retention of key employees.

- Detailed due diligence on target businesses;
- Seek appropriate warranties and indemnities from vendors;
- Use of earn out structures, where possible, to retain key management;
- Continuous monitoring of the acquired business against budgeted performance.

Risk continued

Liquidity

The Group's ability to operate depends on access to short and medium-term funding. From time to time, such funding requires refinancing, the success of which depends on the financial condition of the Group and the risk appetite of the lending market.

Major business disruption

The Group has a number of warehouses, other operational premises and systems in the UK, Europe, South Africa and the Far East. Major damage to any of these facilities from fire, malicious damage or natural disaster would adversely affect the business.

Foreign currency

The Group's main foreign exchange exposures relate to the translation of results and net assets denominated in foreign currencies into sterling (translational exposure), and the occurrence of transactions in currencies other than the operational currency of the transacting company (transactional exposure).

Retirement benefit obligations

The funding position of the Group's legacy post-retirement defined benefit scheme (the Sedgemoor Scheme – see Note 33 to the Group Financial Statements) may be adversely affected by poor investment performance, changes in interest and inflation rates, improved mortality rates and changes in the regulatory environment. Such changes could increase the charge to the income statement and/or the level of cash contributions required to be made to the scheme.

People

The performance of the Group depends on its ability to continue to attract, motivate and retain staff.

The Electronics industry is very competitive and the Group's employees may be targeted by other companies for recruitment

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 pages 38 and 39.

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

The Group recognises the importance of its responsibilities in relation to the environment, to social and community issues and to business ethics, as well as to its employees. Further information is included in the Corporate Social Responsibility statement on pages 38 and 39.

Directors

The current Directors of the Company are detailed in the Board Report on Corporate Governance on pages 27 to 30, which is publicly available on the Company's website at www.acalplc.co.uk. Directors' remuneration, service contracts and Directors' interests are disclosed in the Directors' Remuneration Report on pages 31 to 37.

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 Group subsidiary undertakings 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.

Mitigating action continued

- Central Treasury function to oversee the Group's cash resources and financing requirements;
- Ongoing review of headroom against committed facilities and financial covenants;
- Working capital controls and monitoring of key working capital metrics.

- Disaster recovery and business continuity plans
- Insurance cover.

- Use of forward currency contracts to hedge transactional exposure for committed sales and purchases in foreign currency;
- Currency borrowings as a natural hedge against same currency assets;
- Oversight of foreign currency exposures by the central treasury function.

- The Sedgemoor scheme was closed to new members in 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.

- Staff development and training programmes and succession planning;
- Appropriate rewards for personal and business success.

Directors' report continued

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 2013 the Company's issued share capital consisted of 31,295,878 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 36. Substantial shareholder interests, of which the Company has been notified, are shown below.

Details regarding the Group's borrowing facilities are provided in the Finance Review on page 20. These agreements contain a change of control provision, which may result in the facility being withdrawn or amended upon a change of control of the Group. The Group is party to a number of commercial agreements which, in line with normal practice in the industry, may be affected by a change of control following a takeover bid.

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid (but see note (c) under "2008 long term incentive plan (LTIP)" on page 37).

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 31 March 2013, the Company had 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	5,232,087*	16.7
Mr & Mrs J A H Curry	2,443,500	7.8
Aberdeen Asset Managers Ltd	1,985,000	6.3
Henderson Global Investors Ltd	1,891,626	6.0
Unicorn Asset Management Ltd	1,642,735	5.2
Legal & General Investment Management Ltd	1,533,637	4.9
Miton Group plc	1,449,958	4.6
M&G Investment Management Ltd	1,433,076	4.6
Herald Investment Management Ltd	1,264,992	4.0

* Includes 1,158,280 shares in relation to which Aberforth have no access to the voting rights.

As at 4 June 2013, the Company has not been notified of any change to the major shareholdings shown above.

Acquisition of company's own shares

At the end of the year, the Directors had authority to purchase through the market up to 3,129,587 of the Company's ordinary shares, being approximately 10% of the Company's issued share capital as at 4 June 2013, 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 2013 Annual General Meeting or on 27 October 2013, 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.

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 2013 were equivalent to 50 days' purchases (2012: 49).

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 Group Financial Statements on page 52.

Going concern

The Group's business activities, together with factors which may adversely impact its future development, performance and position, are set out in this Report on pages 23 and 24. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review on pages 18 to 20. In addition, Note 27 to the Group Financial Statements includes the Group's policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

The Group has significant financial resources, well established distribution contracts with a number of suppliers and a broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its business risks.

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.

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 set out on pages 4 and 5. Having made enquiries of fellow Directors and of the Company's auditors, each of the Directors confirms that:

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

By order of the Board

G P Shillinglaw
Group Company Secretary
4 June 2013

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 2013.

As disclosed in the Directors' Report on page 24, this Report is publicly available on the Company's website at 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 and G J Williams as Non-Executive Directors; Mr N J Jefferies as Group Chief Executive; and Mr S M Gibbins as Group Finance Director.

Mr I R Fraser stepped down as a Non-Executive Director with effect from 31 December 2012.

Mr R J Brooman was appointed as a Non-Executive Director with effect from 1 January 2013.

Ms H E Marsh was appointed as a Non-Executive Director with effect from 1 May 2013.

The size and composition of the Board is considered to be appropriate to the Group's current business, 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 2013, with all Directors attending all meetings with the exception of one meeting which Mr E A Barton was unable to attend and one meeting which Mr I R Fraser was unable to attend. All Directors attended the meetings of all Committees on which they served.

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, five Non-Executive Directors. However, as previously announced in April this year, Mr E A Barton will retire from the Board at the Company's Annual General Meeting to be held on 26 July 2013. 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
- has served on the Board for more than nine years from the date of their appointments to the Board, other than Mr E A Barton and Mr G J Williams.

In the Board's opinion, the Non-Executive Directors of the Company are, considered, therefore, to be independent, including Mr E A Barton and Mr G J Williams. Having served on the Board since 1 September 2002 and 1 December 2003 respectively, they are both considered to be independent because their objectivity and willingness to challenge management have not been compromised in any way by the length of their tenures.

Mr E A Barton is the Senior Non-Executive Director and is available to shareholders should they have concerns that cannot be resolved through other channels. Upon his retirement from the Board, Mr G J Williams will succeed him as the Senior Non-Executive Director.

Board report on corporate governance continued

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 Non-Executive 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 Chairman 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.

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 through ad hoc meetings and briefings as and when required. A procedure is in place whereby Directors may have access to independent professional advice at the Company's expense and Directors have access to the advice and services of the Company Secretary. The appointment or removal of the Company Secretary is 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 Non-Executive 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 any actions to be taken 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 elections of Mr R J Brooman and Ms H E Marsh, being Directors appointed since the previous Annual General Meeting, and for the re-elections of Mr R J Moon and Mr G J Williams (who has held office with the Company for a continuous period of more than nine years). 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 election or re-election respectively.

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

Board report on corporate governance continued

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 Conduct 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 2013 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:

- 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 the Board approved budget and management's rolling forecasts. 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 comprises: Mr E A Barton, who is the Chairman, together with Mr G J Williams and Mr R J Brooman. Upon Mr Barton's retirement from the Board, Mr R J Brooman will succeed him as Chairman of the Audit Committee. The Group Chief Executive and the Group Finance Director attend 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, both Mr Williams and Mr Brooman are qualified chartered accountants.

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. 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;
- considering 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

Board report on corporate governance continued

- by the auditors, in order to ensure that these were not significant enough to prejudice their independence and objectivity;
- 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 for a formal internal audit function, the Committee considers that there is no current need for such a function, given the internal controls and risk management processes 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 2013 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.

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.

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 P H Neville, Mr M F Pangels, Mr G P Shillinglaw, who is also the Secretary, and Mr P G Webster. For their biographies see pages 16 and 17. During the year to 31 March 2013, there were ten meetings of the Committee. 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

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). 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 in person has been completed 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 normally 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
4 June 2013

Directors' remuneration report



Dear Shareholder

The remuneration of our Executive Directors and senior management is intended to motivate, retain and, when necessary, attract 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, and which operate internationally, and the remuneration of other employees in the Group. The ability to recruit high quality staff in new and high technology areas is critical to the Group's growth.

There was no significant change to our remuneration policy in the year ended 31 March 2013. The main decisions the Remuneration Committee made in the year were:

Salaries

Given the challenging economic conditions the Executive Directors have elected to forego any increase in their salaries for the year ending 31 March 2014. Their salaries will remain as follows:

Name	Salary from 1 April 2013
Nick Jefferies	£320,000
Simon Gibbins	£206,000

Bonus

The bonuses for the year were 20% of salary for both Nick Jefferies and Simon Gibbins.

Long Term Incentive Plan ("LTIP")

During the year, awards were made under the LTIP equivalent to 125% of salary to Nick Jefferies and equivalent to 90% of salary to Simon Gibbins, in line with Company policy. The award made on 31 March 2010 to Nick Jefferies vested on 31 March 2013. The vesting (of 250,437 ordinary shares) was at 93.02% of maximum, the Company having satisfied certain performance conditions over the three years holding period, based on the following performance criteria:

- 50% of the award was 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 was 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.

Change of Format

The format of the Directors' Remuneration Report has been changed this year partly to recognise the changes to regulations governing directors' remuneration reporting expected to be issued shortly. We are doing this in advance of the requirement to comply, which will not apply to the Group until the Director's Remuneration Report for the 2013/14 financial year. It is hoped that this will deliver greater clarity of information and explanation of how our remuneration policies support the Group's strategic objectives.

Annual General Meeting 2013

As required by regulation, a resolution to approve this Report will be proposed at the Annual General Meeting of the Company on 26 July 2013, when the financial statements are expected to be approved. Shareholder approval will also be sought to extend the life of the current LTIP for another five years, as no further awards can be made under it after July 2013.

If any shareholder wishes to contact me in relation to the Company's directors' and senior executives' remuneration arrangements they can do so via the Company Secretary at the Company's head office address.

Graham Williams

Chairman of the Remuneration Committee
4 June 2013

Directors' remuneration report continued

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Introduction

This Report has been prepared in accordance with the Companies Act 2006 ("the Act") and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts & Reports) Regulations 2008. It also meets the relevant requirements of the Listing Rules of the Financial Conduct Authority and describes how the Board has applied the principles relating to Directors' remuneration in the UK Corporate Governance Code 2012 ("the Code").

To meet the requirement of the Act, the Report is divided into Unaudited Information and Audited Information. The Company's auditors are required to report to the Company's members on the auditable part of the Directors' Remuneration Report, and state whether in their opinion that part of the Report has been properly prepared in accordance with the Act.

As required by the Act, a resolution to approve this Report will be proposed at the Annual General Meeting of the Company to be held on 26 July 2013.

While complying with the current regulations, this Report includes some of the pending requirements of the new Directors' Remuneration Reporting Regulations, due to be issued shortly for implementation by companies with year-ends from 31 October 2013. The main change included herein is the "Future remuneration policy table" on page 33.

Information not subject to audit

Compliance with the Code

The Remuneration Committee believes that the Company complies with the provisions of Section D (Remuneration) of the Code.

In accordance with the Code and the requirements of the UK Listing Rules, this Report provides, in the relevant section below, details of the Company's remuneration philosophy and policy and the Committee's reasons for adopting it.

Remuneration Committee overview

The Committee comprises Mr G J Williams as Chairman of the Committee, Mr E A Barton, Ms H E Marsh and Mr R J Moon. 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 the Executive Directors. The Committee held four formal meetings during the year to 31 March 2013, and its terms of reference are available on request and are on the Company's website at www.acalplc.co.uk.

The Committee takes advice from external consultants, as and when it deems necessary. During the year under review, the Committee took advice from MM & K Limited.

Remuneration philosophy and policy

Remuneration philosophy

Acal's remuneration philosophy centres on ensuring that packages are sufficiently competitive in both fixed and variable terms to motivate, retain and attract senior management of the right calibre. The Company operates in a competitive talent market and is determined to retain its most able people. 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 and which operate internationally. The ability to recruit high quality staff in new and higher technology areas is critical to the Group's growth.

In particular, the emphasis on long-term performance and share ownership is intended to encourage responsible behaviour in all aspects of the Company's business, including financial, social, environmental and governance aspects. The Committee also has the discretion to consider corporate performance on these issues when setting remuneration, including bonuses and LTIP awards.

Directors' remuneration report continued

In keeping with the link to long-term increase in shareholder value, the philosophy is that directors build up substantial stakes of shares in the Company so as to match executive reward with the returns to shareholders and associated risks.

The main elements of the remuneration packages for the Executive Directors and senior management are described in detail below.

Executive Directors are entitled to accept appointments outside the Company, providing that the Chairman's permission is sought and specific approval is gained from the Board. None of the Executive Directors who served during the year held any non-executive appointments outside of the Company.

Future remuneration policy table

The following table has been prepared in accordance with the guidance provided by the Government for compliance with the new reporting regulations.

Table of Future Remuneration Policy for Executive Directors – Key Elements of Remuneration

	Purpose and link to strategy	Operation	Opportunity	Performance metrics
Base salary		Reviewed annually and fixed for 12 months, commencing 1 April. Decision influenced by: <ul style="list-style-type: none"> • role, experience and performance; • average change in broader workforce pay; • total organisational salary budgets. Salaries are benchmarked against companies of similar size and complexity in similar sectors.		None
Benefits		Directors are entitled to healthcare, car allowance, life assurance and critical illness cover (and, for Simon Gibbins, child care vouchers).	Full cost of benefits: Nick Jefferies £10,316 Simon Gibbins £13,232	None
Pension		Acal operates a defined contribution pension scheme.	Maximum Company contribution of up to 6.5% of basic salary	None
Annual bonus	Rewards the achievement of annual financial and strategic business targets.	Financial and non-financial objectives are renewed annually with the financial objectives relating to the trading performance that the executive can influence. Bonus level is determined by the Committee after the year end, based on performance against targets.	Target % of salary: 50% for achievement of budget and non-financial objectives. Potential to increase to 100% of salary for significant over-achievement of budget.	Group EBIT: up to 65% of salary for over-budget performance. SWC: up to 15% of salary for over-budget performance. Non-financial objectives: up to 20% of salary.
Long Term Incentive Plan	Incentivises Directors to achieve returns for Shareholders over a longer time frame.	Acal has one LTIP which was approved by shareholders in July 2008. Awards of conditional shares under nil-cost options are made annually with vesting dependent on the achievement of performance conditions over the three subsequent years. The Committee reviews the quantum of awards annually to ensure that they are in line with market rates. Part of the LTIP award may be satisfied using a HMRC approved share option scheme. Other than this, the Company no longer makes awards of approved share options to Executive Directors.	Maximum % of salary: 150% Awards in 2013: Nick Jefferies 125% Simon Gibbins 90%	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: <ul style="list-style-type: none"> • 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.

Fees for Non-Executive Directors

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, around the start of each financial year, the financial and non-financial objectives that must be met.

The principal long-term measure of shareholder interests is total shareholder return and the Committee considers that this will be enhanced through the setting and attainment of various short-term targets, which are within the control of the Executive Directors and which are incentivised through the bonus plan. Specific targets include 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 the 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 at the time of grant. Although there have been variations in numbers of options granted from year to year depending upon circumstances, it was always 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 was necessary to apply the policy flexibly. It was also 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.

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 some of 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 reward and performance experienced by shareholders, 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 aligned with the Company's strategy. Therefore, they may be subject to change for future grants better to 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.

Salary exchange

With effect from 1 March 2013, the Company introduced a Salary Exchange arrangement for the payment of personal pension contributions. Under the arrangement, an employee agrees to give up an amount of salary equal to their personal pension contribution to the Acal Group Employee Pension Scheme ("the Scheme"). In exchange, the Company pays an amount directly into the Scheme on their behalf additional to the employer's pension contribution already paid by the Company. The arrangement is beneficial for both an employee and the Company and has been approved by HMRC.

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 2008 to 31 March 2013



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 offer longer initial notice periods to new Directors. Under the terms of their service contracts, any termination payments are not pre-determined but are determined in accordance with the Director's contractual rights taking account of the circumstances and the Director's duty to mitigate loss. The Company's objective is to manage its exposure to the risk of a potential termination payment in the event of failure.

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 2014 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 31 July 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 2014 and which may be terminated by three months' notice.
- with Mr R J Brooman for his services dated 7 December 2012 which expires on 31 December 2013 and which may be terminated earlier.
- with Ms H E Marsh for her services dated 22 April 2013 which expires on 30 April 2014 and which may be terminated earlier.

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

Directors' remuneration report continued

Directors' interests

The interests of the Directors who held office as at 31 March 2013 (including family interests) in the shares of the Company were as follows:

	At 31 March 2013		At 31 March 2012	
	Ordinary shares (5p) fully paid		Ordinary shares (5p) fully paid	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
N J Jefferies	36,735	–	36,735	–
S M Gibbins	14,365	–	5,063	–
R J Moon	65,100	–	65,100	–
E A Barton	30,000	–	21,000	–
G J Williams	1,200	–	1,000	–
R J Brooman	4,000	–	–	–

The interests of Directors in the shares of the Company at 4 June 2013 are unchanged from those at 31 March 2013.

Information subject to audit

Director's remuneration

The total amounts for Directors' remuneration were as follows:

	2013 £	2012 £
Fees	199,000	199,000
Salary and benefits	549,548	518,523
Performance-related bonuses	105,200	46,800
Money purchase pension contributions	37,114	33,825
	890,862	798,148

Details of the remuneration of Directors who served during the years ended 31 March 2013 and 31 March 2012 are as follows:

	Salary or fees £	Bonus £	Benefits £	Total emoluments		Pension contribution	
				2013 £	2012 £	2013 £	2012 £
Executive Directors							
N J Jefferies	329,000*	64,000	1,316	394,316	336,906	22,718	20,825
S M Gibbins	215,000*	41,200	4,232	260,432	228,417	14,396	13,000
	544,000	105,200	5,548	654,748	565,323	37,114	33,825
Non-Executive Directors							
R J Moon	101,000	–	–	101,000	101,000	–	–
E A Barton	35,000	–	–	35,000	35,000	–	–
G J Williams	33,000	–	–	33,000	33,000	–	–
R J Brooman ¹	7,500	–	–	7,500	–	–	–
I R Fraser ²	22,500	–	–	22,500	30,000	–	–
	199,000	–	–	199,000	199,000	–	–
Total	743,000	105,200	5,548	853,748	764,323	37,114	33,825

* Includes car allowance of £9,000 pa.

¹ Appointed a Director with effect from 1 January 2013.

² Resigned as a Director with effect from 31 December 2012.

Of the Directors who held office as at 31 March 2013, Mr N J Jefferies was the highest paid Director during the year under review (2012: 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.

Directors' remuneration report continued

Executive share option schemes ("the Schemes")

The performance criteria for the Schemes are disclosed in this Report on page 36. There were no movements in the Directors' holdings of options under the Schemes during the year under review, their holdings in relation to the Acal plc 2010 Company Share Option Plan remaining as follows:

Director	Number held at 01.04.12	Granted	Movements during the year Exercised	Lapsed	Number held at 31.03.13	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

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 01.04.12	Granted	Movements during the year	Lapsed	Number held at 31.03.13	Exercise price (nil-cost option)	When exercisable
			Vested Exercised				
N J Jefferies	584,777	–	584,777 ^(a)	–	–	–	Mar 2012 to Mar 2019
N J Jefferies	269,230	–	250,437 ^(b)	–	–	–	Mar 2013 to Mar 2020
N J Jefferies	131,818	–	–	–	–	–	Mar 2014 to Mar 2021
N J Jefferies	192,307	–	–	–	–	–	Mar 2015 to Mar 2022
N J Jefferies	–	169,851	–	–	–	–	Mar 2016 to Mar 2023
S M Gibbins	179,447 ^(c)	–	–	–	–	–	Jul 2013 to Jul 2020
S M Gibbins	54,545	–	–	–	–	–	Mar 2014 to Mar 2021
S M Gibbins	89,134	–	–	–	–	–	Mar 2015 to Mar 2022
S M Gibbins	–	78,726	–	–	–	–	Mar 2016 to Mar 2023

(a) Mr Jefferies holds an option over 584,777 shares in the Company which became exercisable on 31 March 2012. He has undertaken to retain 50% of the shares under the option until 31 March 2014, at the earliest. Thereafter, he has undertaken to retain, on a cumulative basis, shares under options that have become exercisable equivalent in market value (at the point of vesting) to his annual basic salary.

(b) The award, in the form of a nil -cost option over 269,230 shares in the Company, made to Mr Jefferies on 31 March 2010, vested in part on 31 March 2013. The performance conditions attached to the award, when measured on the basis of an analysis produced by J P Morgan Cazenove, meant that 93.02% (250,437 shares) of the award vested.

(c) 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 equivalent in market value (at the point of vesting) to his annual basic salary.

The market price of the Company's shares at 31 March 2013 was 235.50p and the range during the year ended on that date was 157.75p to 242.50p.

The performance conditions in relation to the Schemes and to the LTIP are described in the unaudited section of the Report above.

Approval

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

Graham Williams

Chairman of the Remuneration Committee
4 June 2013

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).

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).

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).

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 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); and the RoHS 2 Directive 2011/65/EU; the Waste Electrical and Electronic Equipment Regulations 2006 (WEEE); the Producer Responsibility Obligations (Packaging Waste) Regulations 2005; the Waste Batteries and Accumulators Regulations 2009; and Section 1502 of the Dodd-Frank Act 2010 ("conflict minerals"). In addition, counterfeit product prevention procedures are in place.

Directors' responsibilities statement

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 2013 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 or her 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.

Acal plc

Group financial statements for the year ended 31 March 2013

Report of the auditor

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 2013, 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 40, 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 2013 and of its loss 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 27 to 30 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 26, 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 2013 and on the information in the Directors' Remuneration Report that is described as having been audited.

Nick Powell (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
4 June 2013

Consolidated income statement

for the year ended 31 March 2013

	Notes	2013 £m	2012 £m
Revenue	4	219.2	257.8
Cost of sales		(151.3)	(179.9)
Gross profit		67.9	77.9
Selling and distribution costs		(37.7)	(41.1)
Administrative expenses (including exceptional items)		(27.2)	(32.9)
Operating profit	7	3.0	3.9
Finance revenue	9	0.2	0.2
Finance costs	9	(1.2)	(1.4)
Loss on disposal of UK Parts business	12	(5.1)	–
Profit before tax:			
Before loss on disposal of UK Parts business		2.0	2.7
Loss on disposal of UK Parts business		(5.1)	–
(Loss)/profit before tax		(3.1)	2.7
Tax credit/(expense)	10	1.3	(0.6)
(Loss)/profit for the year		(1.8)	2.1
(Loss)/earnings per share	14		
Basic		(6.3)p	7.4p
Diluted		(6.3)p	7.1p

Supplementary income statement information

Underlying performance measure	notes	2013 £m	2012 £m
Operating profit	7	3.0	3.9
Add back: Exceptional items	6	3.1	3.4
Amortisation of acquired intangible assets	18	0.8	0.8
Underlying operating profit		6.9	8.1
(Loss)/profit before tax		(3.1)	2.7
Add back: Exceptional items	6	3.1	3.4
Loss on disposal of UK Parts business	12	5.1	–
Amortisation of acquired intangible assets	18	0.8	0.8
IAS 19 charge for pension finance cost	9	0.4	0.3
Underlying profit before tax		6.3	7.2
Underlying earnings per share	14		
Basic		18.2p	20.7p
Diluted		17.5p	19.9p

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

Consolidated statement of comprehensive income

for the year ended 31 March 2013

	notes	2013 £m	2012 £m
(Loss)/profit for the year		(1.8)	2.1
Other comprehensive income:			
Actuarial loss on defined benefit pension scheme	33	(1.1)	(1.3)
Deferred tax relating to the defined benefit pension scheme	10	0.2	0.2
Exchange differences on retranslation of foreign subsidiaries		0.8	(1.6)
Other comprehensive income for the year net of tax		(0.1)	(2.7)
Total comprehensive income for the year net of tax		(1.9)	(0.6)

Consolidated statement of financial position

at 31 March 2013

	notes	2013 £m	2012 £m
Non-current assets			
Property, plant and equipment	15	3.1	3.5
Intangible assets – goodwill	16	21.0	21.6
Intangible assets – other	18	3.2	4.1
Deferred tax assets	10	3.6	3.3
		30.9	32.5
Current assets			
Inventories	20	19.3	25.7
Trade and other receivables	21	44.7	49.4
Cash and cash equivalents	22	17.8	12.3
		81.8	87.4
Total assets		112.7	119.9
Current liabilities			
Trade and other payables	29	(42.5)	(45.4)
Other financial liabilities	23	(4.3)	(5.2)
Current tax liabilities		(2.4)	(4.2)
Provisions	26	(1.7)	(4.6)
		(50.9)	(59.4)
Non-current liabilities			
Other financial liabilities	23	(1.7)	(0.8)
Pension liability	33	(6.5)	(6.5)
Provisions	26	(1.4)	(3.1)
Deferred tax liabilities	10	(0.7)	(1.0)
		(10.3)	(11.4)
Total liabilities		(61.2)	(70.8)
Net assets		51.5	49.1
Equity			
Share capital	30	1.6	1.4
Share premium		40.7	40.7
Other reserve		5.5	–
Merger reserve	30	3.0	3.0
Currency translation reserve		2.0	1.2
Retained earnings		(1.3)	2.8
Total equity		51.5	49.1

These financial statements were approved by the Board of Directors on 4 June 2013 and signed on its behalf by:

N J Jefferies
Chief Executive

S M Gibbins
Group Finance Director

Consolidated statement of changes in equity

for the year ended 31 March 2013

	Attributable to equity holders of the Company						
	Share capital £m	Share premium £m	Other reserve £m	Merger reserve £m	Currency translation reserve £m	Retained earnings £m	Total equity £m
At 1 April 2011	1.4	40.7	–	3.0	2.8	3.4	51.3
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 including tax	–	–	–	–	–	0.6	0.6
Equity dividends (note 13)	–	–	–	–	–	(2.2)	(2.2)
At 31 March 2012	1.4	40.7	–	3.0	1.2	2.8	49.1
Loss for the year	–	–	–	–	–	(1.8)	(1.8)
Other comprehensive income	–	–	–	–	0.8	(0.9)	(0.1)
Total comprehensive income	–	–	–	–	0.8	(2.7)	(1.9)
Shares issued (note 30)	0.2	–	5.9	–	–	–	6.1
Share issue costs (note 30)	–	–	(0.4)	–	–	–	(0.4)
Share-based payment transactions including tax	–	–	–	–	–	0.9	0.9
Equity dividends (note 13)	–	–	–	–	–	(2.3)	(2.3)
At 31 March 2013	1.6	40.7	5.5	3.0	2.0	(1.3)	51.5

Nature and purpose of other reserves:

Other reserve

The other reserve arose as a consequence of the placing of 2,816,704 new ordinary shares during the year. The placing structure attracted merger relief under section 612 of the Companies Act 2006 resulting in a net credit to the other reserve of £5.5m. Further details are provided in note 30.

Merger reserve

A £3.0m merger reserve arose as a consequence of the acquisition in 1987 of Acal Electronics 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 results and financial position of subsidiaries denominated in foreign currencies.

Consolidated statement of cash flows

for the year ended 31 March 2013

	notes	2013 £m	2012 £m
Net cash flows from operating activities	25	3.7	6.9
Investing activities			
Acquisition of shares in subsidiaries	11	–	(4.0)
Payment of contingent consideration	11	(2.0)	–
Proceeds from the disposal of UK Parts business (net of disposal costs)	12	1.5	–
Purchases of property, plant and equipment		(1.0)	(1.0)
Proceeds from disposal of property, plant and equipment and intangible assets		–	0.1
Purchase of intangible assets – software		(0.3)	(0.3)
Interest received		0.2	0.2
Net cash used in investing activities		(1.6)	(5.0)
Financing activities			
Net proceeds from issue of shares	30	5.7	–
Proceeds from borrowings		1.7	–
Repayment of borrowings		(0.9)	(0.9)
Dividends paid	13	(2.3)	(2.2)
Net cash from/(used in) financing activities		4.2	(3.1)
Net increase/(decrease) in cash and cash equivalents*		6.3	(1.2)
Cash and cash equivalents at 1 April		7.9	9.4
Effect of exchange rate fluctuations		0.2	(0.3)
Cash and cash equivalents at 31 March		14.4	7.9
Reconciliation to cash and cash equivalents in the consolidated statement of financial position			
Cash and cash equivalents shown above		14.4	7.9
Add back overdrafts		3.4	4.4
Cash and cash equivalents presented in current assets in the consolidated statement of financial position	22	17.8	12.3

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

Notes to the group financial statements

1 Authorisation of financial statements and statement of compliance with IFRS

The financial statements which comprise the results of Acal plc ('the Company') and its subsidiaries (collectively referred to as 'the Group') for the year ended 31 March 2013 were authorised for issue by the Board of Directors on 4 June 2013. 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 (IFRS), as adopted for use in the European Union.

The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest hundred thousand except 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 2012. They are either not relevant or do not have a material effect on the Group's financial statements:

International Accounting Standards (IAS/IFRS/IFRIC)		Effective date
IFRS 7	Amendment – Disclosures – Transfers of financial assets	1 July 2011
IAS 12(A)	Amendment to IAS 12 – Recovery of underlying assets	1 January 2012
	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 Operating Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review.

The Group has significant financial resources, well established distribution contracts with a number of suppliers and a broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its 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 and amortisation of acquired intangible assets.

Underlying profit before tax

"Underlying profit before tax" is defined as profit before tax excluding exceptional items, amortisation of acquired intangible assets, the loss on disposal of businesses and the IAS 19 pension finance charge relating to the Group's legacy defined benefit pension scheme.

Notes to the group financial statements continued

2 Accounting policies continued

Underlying effective tax rate

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

Underlying earnings per share

"Underlying earnings per share" is calculated as 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 EBITDA

"Underlying EBITDA" 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 the payment of exceptional items, payments to the legacy defined benefit pension fund, dividend payments, net proceeds from equity fund raising, the cost of acquisitions and proceeds from business disposals.

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 Operating review and Finance review, means including acquisitions for the whole of the comparative period, except any acquired in the year, excluding any disposals and at constant exchange rates.

Business combinations and goodwill

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

When the Group acquires a business, it assesses the financial assets 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 business combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and 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.

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.

2 Accounting policies continued

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 include customer and supplier relationships and brands that can be separately identified and measured at fair value on a reliable basis, together with the associated deferred tax liability.

Amortisation is charged to the consolidated income statement on a straight line basis over the expected useful economic lives.

Customer and 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 property	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 immediately recognised as an expense.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If 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.

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 overdue balances. Bad debts are written off when identified.

Notes to the group financial statements continued

2 Accounting policies continued

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the 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 exceptional items by virtue of their nature, size or incidence so as to allow a better understanding of the underlying trading performance of the Group. The Group includes, where material, the profit or loss on disposal of property, investments or businesses and other financial assets, asset impairments, significant restructuring and acquisition and related integration costs in exceptional items.

Foreign currency translation

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

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

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.

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.

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

The Group has not entered into any material finance leases.

Borrowing costs

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

2 Accounting policies continued

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.

Taxation

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

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

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

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

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

Derivative financial instruments

The Group uses forward currency contracts to hedge risks associated with foreign currency fluctuations. 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. Any gains or losses arising from changes in the fair value of forward currency contracts are taken to the income statement.

Significant accounting judgements and estimates

Estimation uncertainty

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

Goodwill impairment

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2. 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 a suitable discount rates (note 17).

The recognition and quantification of provisions

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

Notes to the group financial statements continued

2 Accounting policies continued

Fair value of assets acquired in a business combination

Judgements and estimates are required in assessment of fair value of assets and liabilities upon acquisition, particularly in the case of the valuation and identification of intangible assets such as brand, supplier and customer relationships. Note 11 provides details on business combinations.

Retirement benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net expense for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations. Note 33 details the actuarial assumptions used in determining the carrying amount at 31 March 2013.

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 and doubtful debts.

The provisions are based on the facts available at the time the financial statements are approved and are also determined by using profiles, based on past practice, applied to certain aged inventory and trade receivables categories.

3 New accounting standards and financial reporting requirements

New standards and interpretations not applied

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

International Accounting Standards (IAS/IFRS/IFRIC)		effective date
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013*
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 2014
IFRS 11	Joint arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IAS 28 (R)	Investments in Associates and Joint Ventures	1 January 2014
IFRS 7	Disclosure – offsetting of financial assets and financial liabilities	1 January 2013
IAS 27 (R)	Separate financial statements	1 January 2014
IFRS 13	Fair value measurement	1 January 2013
IAS 32	Amendment – offsetting of financial assets and financial liabilities	1 January 2014
IFRS 9	Financial Instruments: Classification and Measurement Improvements to IFRS (issued May 2012)	1 January 2015 1 January 2013

* Not yet endorsed by the European Union

The Directors do not anticipate that the adoption of the standards and interpretations will have a material impact on the Group's financial statements in the period of initial application with the exception of IAS 19 (R).

Under IAS 19 (R) the interest cost on the defined benefit obligation, and the expected rate of return on plan assets will be replaced with a net interest charge based on the net defined benefit liability using the discount rate measured at the beginning of the year. The Group expects the impact of adopting IAS 19 (R) will be an additional charge to the income statement of up to £0.5m for the financial year ending 31 March 2014 (2013 comparative: £0.5m).

4 Revenue

Group revenue is analysed below:

	2013 £m	2012 £m
Sale of goods	209.7	245.6
Rendering of services	9.5	12.2
Total revenue	219.2	257.8

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
- Supply Chain – service parts, inventory optimisation and outsource solutions to leading IT service providers

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, finance costs and income tax expense.

Segment revenue and results

	Electronics £m	Supply Chain* £m	Unallocated £m	Total £m
2013				
Revenue	177.4	41.8	–	219.2
Result				
Underlying operating profit/(loss)	9.5	1.4	(4.0)	6.9
Exceptional items – restructuring	(1.0)	–	–	(1.0)
Exceptional items – acquisition and related integration costs	(0.9)	–	–	(0.9)
Exceptional items – web development costs	(1.2)	–	–	(1.2)
Amortisation of acquired intangible assets	(0.7)	(0.1)	–	(0.8)
Operating profit/(loss)	5.7	1.3	(4.0)	3.0

* The disposal of the UK Parts business, which was included within the Supply Chain segment, resulted in a loss of £5.1m. The UK Parts business generated a net loss before tax of £0.6m (included in the results of the Supply Chain segment) during the year up to the date of completion of the disposal. The total loss for the year therefore attributed to the UK Parts business was £5.7m.

	Electronics £m	Supply Chain £m	Unallocated £m	Total £m
2012				
Revenue	207.1	50.7	–	257.8
Result				
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)
Operating profit/(loss)	7.3	0.6	(4.0)	3.9

Segment assets and liabilities

	Electronics £m	Supply Chain £m	Total £m
2013			
Assets and liabilities			
Segment assets (excluding goodwill and intangible assets)	56.8	9.3	66.1
Goodwill and intangible assets	17.2	6.1	23.3
	74.0	15.4	89.4
Unallocated assets			1.9
Cash and cash equivalents			17.8
Deferred tax assets			3.6
Total assets			112.7
Segment liabilities	(37.8)	(3.6)	(41.4)
Unallocated liabilities			(4.2)
Other financial liabilities			(6.0)
Pension liability			(6.5)
Current and deferred tax liabilities			(3.1)
Total liabilities			(61.2)
Net assets			51.5

Notes to the group financial statements continued

5 Operating segment information continued**2012****Assets and liabilities**

	Electronics £m	Supply Chain £m	Total £m
Segment assets (excluding goodwill and intangible assets)	58.9	18.2	77.1
Goodwill and intangible assets	17.8	7.2	25.0
	76.7	25.4	102.1
Unallocated assets			2.2
Cash and cash equivalents			12.3
Deferred tax assets			3.3
Total assets			119.9
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)
Total liabilities			(70.8)
Net assets			49.1

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 intangible assets.

Other segment information	Depreciation and amortisation		Additions to non current assets	
	2013 £m	2012 £m	2013 £m	2012 £m
Electronics	1.4	1.5	0.9	6.0
Supply Chain	0.5	0.7	0.1	0.4
Unallocated	0.1	0.1	0.3	0.4
	2.0	2.3	1.3	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:

	Revenue from external customers		Non current assets	
	2013 £m	2012 £m	2013 £m	2012 £m
UK	57.1	72.5	18.8	19.6
Europe	149.7	174.9	12.0	12.9
Rest of the World	12.4	10.4	0.1	–
	219.2	257.8	30.9	32.5

6 Exceptional items

		2013 £m	2012 £m
Electronics division restructuring costs	(a)	(1.0)	(1.8)
Supply Chain and other restructuring costs	(b)	–	(0.4)
Acquisition and related integration costs	(c)	(0.9)	(0.7)
Disposal costs	(d)	–	(0.2)
Web development	(e)	(1.2)	(0.3)
Net exceptional costs (included within administrative expenses)		(3.1)	(3.4)

- (a) Electronics division restructuring comprises (i) redundancy costs of £1.1m relating to restructuring programme announced last year and (ii) £0.1m release of provision in respect of onerous property costs.
- (b) Supply Chain restructuring costs in the prior year arose on the reduction of staff in the UK.
- (c) On 4 April 2013, subsequent to the year-end, the Group completed the acquisition of 100% of the share capital and voting equity interests of Aramys SAS ("Aramys" or "the Myrra Group") (full details are provided in note 35). Transaction costs of £0.6m relating to the acquisition have been expensed as incurred. £0.3m relate to other acquisition and related integration costs.
- (d) Disposal costs in the prior year relate to the disposal of the loss making Retail sector operation in the Supply Chain operating segment to a third party for a nominal consideration.
- (e) The costs associated with building and developing the new Electronics web platform until the date of launch at the end of January 2013 have been treated as exceptional. These costs for this year totalled £1.2m (2012: £0.3m) including £0.4m of employee costs. From launch, the costs of operating the website including such employee costs have been expensed as an underlying cost of the business totalling £0.2m since launch for this year.

7 Operating profit

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

	2013 £m	2012 £m
Employee costs (note 8)	41.3	47.7
Depreciation of property, plant and equipment (note 15)	1.0	1.2
Amortisation of intangible assets (note 18)	1.0	1.1
Net foreign exchange differences	0.3	0.1
Inventories (amounts included in cost of sales):		
Cost of inventories	146.9	175.0
Write-down of inventories to net realisable value	3.3	1.9
Reversal of prior year write-down of inventories*	(0.9)	(0.1)
Operating lease rentals:		
Minimum lease payments recognised as an operating lease expense	3.3	3.8
Auditor remuneration:		
Audit of the Group financial statements (including parent company)	0.1	0.1
Other fees to auditor – local statutory audits for subsidiaries	0.2	0.3
Tax and transaction services	0.1	0.1

* Reversal relates to sales of goods previously written down.

8 Employee costs

	2013 £m	2012 £m
Wages and salaries	33.0	38.5
Social security costs	6.2	7.0
Pension costs	1.5	1.6
Share-based payments (note 32)	0.6	0.6
	41.3	47.7

Notes to the group financial statements continued

8 Employee costs continued

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

	2013 Number	2012 Number
Marketing, sales and service	693	765
Administration	155	177
	848	942

At 31 March 2013 the Group had 719 employees (2012: 898). Head count was reduced by 160 employees following the disposal of the UK Parts business.

Details of Directors' emoluments are disclosed in the remuneration report on pages 31 to 37.

9 Finance revenue/(costs)

	2013 £m	2012 £m
Interest receivable and similar income	0.2	0.2
Finance revenue	0.2	0.2
Interest expense on bank loans and overdrafts	(0.8)	(1.1)
Net pension finance charge (note 33)	(0.4)	(0.3)
Finance costs	(1.2)	(1.4)

10 Taxation

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

	2013 £m	2012 £m
Current taxation		
UK corporation tax	–	0.1
UK adjustments in respect of prior years	(0.1)	0.9
	(0.1)	1.0
Overseas tax	1.2	1.0
Overseas adjustments in respect of prior years	(1.6)	0.1
	(0.4)	1.1
Total current taxation	(0.5)	2.1
Deferred taxation		
Origination and reversal of temporary differences within the UK	(0.1)	–
Origination and reversal of temporary differences overseas	(0.3)	(0.2)
Adjustment in respect of prior years	(0.4)	(1.3)
Total deferred taxation	(0.8)	(1.5)
Tax (credit)/charge reported in the consolidated income statement	(1.3)	0.6

10 Taxation continued

	2013 £m	2012 £m
Tax recognised in other comprehensive income		
Increase in deferred tax asset on pension deficit	0.2	0.2
Tax reported in other comprehensive income	0.2	0.2

	2013 £m	2012 £m
Tax recognised in equity		
Increase in deferred tax asset on share based payments	0.3	–
Tax reported in equity	0.3	–

The effective rate of taxation for the year is higher (2012: lower) than the standard rate of taxation in the UK of 24% (2012: 26%). A reconciliation of the tax (credit)/charge applicable to the (loss)/profit before tax at the statutory tax rate to the actual tax (credit)/charge at the Group's effective tax rate for the years ended 31 March 2013 and 31 March 2012 respectively was as follows:

	2013 £m	2012 £m
(Loss)/profit before tax	(3.1)	2.7
(Loss)/profit before taxation multiplied by standard rate of corporation tax in the UK of 24% (2012: 26%)	(0.8)	0.7
Effect of:		
Different tax rates in overseas companies	0.2	0.1
Utilisation of previously unrecognised losses	(0.1)	(0.1)
Non-deductible expenses	1.5	0.2
Adjustments to deferred tax in respect of prior years	(0.4)	(1.3)
Adjustments to tax expense in respect of prior years	(1.7)	1.0
Tax reported in the consolidated income statement	(1.3)	0.6

	2013 £m	2012 £m
Deferred tax		
Deferred tax liabilities:		
Other temporary differences	(0.7)	(1.0)
Gross deferred tax liabilities	(0.7)	(1.0)
Deferred tax assets:		
Decelerated capital allowances	0.8	0.3
Pensions	1.3	1.4
Other temporary differences	1.5	1.6
Gross deferred tax assets	3.6	3.3

	2013 £m	2012 £m
Deferred tax credit in the consolidated income statement		
Consolidated income statement		
Decelerated capital allowances	(0.5)	(0.4)
Other temporary differences	(0.3)	(1.1)
	(0.8)	(1.5)

At 31 March 2013, the Group had not recognised any deferred tax asset in respect of tax losses of approximately £16.7m (2012: £17m). Deferred tax assets are not recognised where there is insufficient evidence that losses will be utilised.

Notes to the group financial statements continued

10 Taxation continued

At 31 March 2013, there was no recognised deferred tax liability (2012: 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 24% to 23% is effective from 1 April 2013. Accordingly, this rate has been applied in the measurement of the Group's deferred tax assets and liabilities as at 31 March 2013.

In addition, the Government announced its intention to further reduce the UK corporation tax rate to 21% from 1 April 2014 and to 20% from 1 April 2015.

The aggregate impact of the proposed reduction from 23% to 20% would reduce the deferred tax asset included in the statement of financial position by approximately £0.5m.

11 Business combinations

During the year the Group paid £2.0m of contingent consideration of which £1.4m related to the acquisition of Compotron GmbH in January 2011 and £0.6m in relation to acquisition of MTC Micro Tech Components GmbH and its affiliate EMC Innovation Limited in October 2011.

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 (SEK 12m) 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 employed 28 staff at the date of acquisition and generates revenues across the Nordic region.

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)
Total identifiable net assets	0.5
Provisional goodwill arising on acquisition	0.7
Total investment	1.2

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 the identifiable assets and liabilities of Hectronic were finalised during 2012 and no material changes were identified to the provisional fair values in the table above.

Net cash outflows in respect of the acquisition comprise:

	Total £m
Cash consideration	1.2
Transaction costs (included in cash flows from operating activities)	0.1
Net debt acquired (included in cash flows from investing activities)	0.5
Total consideration	1.8

11 Business combinations continued

Included in goodwill of £0.7m 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 were expensed and included as exceptional items in administrative expenses (note 6).

From the date of acquisition to 31 March 2012, Hectronic 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 prior year, the consolidated profit after tax for the Group would have been £2.1m and revenue would have been £258.6m.

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 was acquired from Mr G Bacher. A further £0.2m (€0.2m) relating to a working capital settlement was paid in November 2011. Additionally, up to £1.0m (€1.1m) was payable in January 2013 subject to the business achieving agreed EBIT targets over the periods to 31 December 2011 and 31 December 2012. At the acquisition date, the fair value of the contingent consideration was estimated at £0.8m.

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 employed 20 staff at the date of acquisition.

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)
Total identifiable net assets	1.2
Provisional goodwill arising on acquisition	1.9
Total investment	3.1
Discharged by:	
Cash	2.3
Contingent consideration	0.8
Total consideration	3.1

The fair values of the identifiable assets and liabilities of MTC were finalised during the year and no material changes were identified to the provisional fair values in the table above. Contingent consideration of £0.6m (€0.7m) was paid during the year.

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.

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

Notes to the group financial statements continued

11 Business combinations continued

From the date of acquisition to 31 March 2012, MTC contributed £1.3m to revenue and £0.2m to profit after tax of the Group. If the business combination had taken place at the beginning of the prior 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 in 2012 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.

12 Disposal of UK Parts business

On 3 January 2013, the Group completed the disposal of its UK new and refurbished parts distribution and outsourcing business (the "UK Parts business") (included within the Supply Chain operating segment) to its management team for a debt free consideration of £2.0m, subject to completion adjustments and before transaction costs. If the UK Parts business is subsequently sold, the Group will receive 25% of any incremental consideration over £2.0m up to a maximum additional consideration of £9.0m. The disposal involved the sale of the Company's shareholding in Acal Supply Chain Limited. The Enterprise Solutions business, which was part of Acal Supply Chain Limited, was transferred into the continuing Group prior to completion of the disposal.

The disposal of the UK Parts business was a related party transaction and received shareholder approval on 3 January 2013.

The transaction generated a loss on disposal of £5.1m, which is summarised below:

	£m
Net cash consideration received (note 12(a))	1.5
Net assets disposed of (note 12(b))	(6.4)
Transaction costs	(0.2)
Loss on disposal	(5.1)

The UK Parts business generated a net loss before tax of £0.6m during the year up to the date of completion of the disposal, which is included within the consolidated income statement. The total loss for the year attributed to the UK Parts business was therefore £5.7m.

12(a) Consideration received	£m
Gross debt free consideration	2.0
Net debt transferred	(0.2)
Working capital adjustment	(0.3)
Net cash consideration received	1.5

12(b) Net assets disposed of	£m
Intangible asset – goodwill	0.8
Property, plant and equipment	0.3
Intangible assets – other	0.2
Inventories	3.1
Trade and other receivables	4.0
Deferred tax assets	0.2
Bank overdrafts	(0.2)
Trade and other payables	(2.0)
Net assets disposed of	6.4

12(c) Net cash inflow on disposal	£m
Cash consideration	1.5
Net debt transferred	0.2
Transaction costs	(0.2)
Net cash inflow on disposal	1.5

13 Dividends

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

	2013 £m	2012 £m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2012 of 5.5p (2011: 5.14p)	1.6	1.5
Interim dividend for the year ended 31 March 2013 of 2.5p (2012: 2.5p)	0.7	0.7
Total amounts recognised as equity distributions during the year	2.3	2.2

Proposed for approval at the AGM:

	£m	£m
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2013 of 6.0p (2012: 5.5p)	1.9	1.6

Summary

Dividends per share declared in respect of the year	8.50p	8.00p
Dividends per share paid in the year	8.00p	7.64p
Dividends paid in the year	£2.3m	£2.2m

14 (Loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the net (loss)/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 (loss)/earnings per share is the basic (loss)/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 (loss)/earnings per share computations:

	2013 £m	2012 £m
(Loss)/earnings for the year attributable to equity holders of the parent	(1.8)	2.1

	Number	Number
Weighted average number of shares for basic (loss)/earnings per share	28,502,950	28,479,804
Effect of dilution – share options	–	1,169,748
Adjusted weighted average number of shares for diluted earnings per share	28,502,950	29,649,552

Basic (loss)/earnings per share	(6.3)p	7.4p
Diluted (loss)/earnings per share	(6.3)p	7.1p

At the year end there were 2,647,788 ordinary share options in issue that could potentially dilute earnings per share in the future of which nil are currently dilutive (2012: 2,203,282 in issue and 1,169,748 dilutive).

Notes to the group financial statements continued

14 (Loss)/earnings per share continued

Underlying earnings per share is calculated as follows:

	2013 £m	2012 £m
(Loss)/earnings for the year attributable to equity holders of the parent	(1.8)	2.1
Exceptional items	3.1	3.4
Loss on disposal of UK Parts business	5.1	–
Amortisation of acquired intangible assets	0.8	0.8
IAS 19 charge for pension finance costs	0.4	0.3
Tax effect of exceptional items, amortisation of acquired intangible assets and IAS 19 charge for pension finance cost	(0.6)	(0.7)
Tax effect of exceptional items in prior years	(1.8)	–
Underlying earnings	5.2	5.9

	2013 Number	2012 Number
Weighted average number of shares for basic earnings per share	28,502,950	28,479,804
Effect of dilution – share options	1,164,043	1,169,748
Adjusted weighted average number of shares for diluted earnings per share	29,666,993	29,649,552
Underlying basic earnings per share	18.2p	20.7p
Underlying diluted earnings per share	17.5p	19.9p

At the year end there were 2,647,788 ordinary share options in issue that could potentially dilute earnings per share in the future of which 1,164,043 are currently dilutive (2012: 2,203,282 in issue and 1,169,748 dilutive).

15 Property, plant and equipment

	Freehold property £m	Leasehold improvements £m	Plant and equipment £m	Total £m
Cost				
At 1 April 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)
At 31 March 2012	1.8	3.8	7.8	13.4
Additions	–	0.3	0.7	1.0
Disposals	–	(0.3)	(1.1)	(1.4)
Disposal of UK Parts business	–	(1.4)	(1.9)	(3.3)
At 31 March 2013	1.8	2.4	5.5	9.7

15 Property, plant and equipment continued

	Freehold property £m	Leasehold improvements £m	Plant and equipment £m	Total £m
Depreciation				
At 1 April 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)
At 31 March 2012	1.1	2.9	5.9	9.9
Charge for the year	–	0.2	0.8	1.0
Disposals	–	(0.3)	(1.1)	(1.4)
Disposal of UK Parts business	–	(1.3)	(1.7)	(3.0)
Exchange adjustments	–	0.1	–	0.1
At 31 March 2013	1.1	1.6	3.9	6.6
Net book value at 31 March 2013	0.7	0.8	1.6	3.1
Net book value at 31 March 2012	0.7	0.9	1.9	3.5

Freehold property includes land with a cost of £0.5m (2012: £0.5m) that is not subject to depreciation.

16 Intangible assets – goodwill

	£m
Cost	
At 1 April 2011	59.5
Acquisition of shares in subsidiaries	4.2
At 31 March 2012	63.7
Disposal of UK Parts business	(0.8)
Exchange adjustments	0.2
At 31 March 2013	63.1
Impairment	
At 31 March 2011 and at 31 March 2012	(42.1)
At 31 March 2012 and at 31 March 2013	(42.1)
Net book value at 31 March 2013	21.0
Net book value at 31 March 2012	21.6

Notes to the group financial statements continued

17 Impairment testing of goodwill

The carrying value of goodwill is analysed as follows:

	2013 £m	2012 £m
Supply Chain:		
Acal Enterprise Solutions*	5.7	6.5
Electronics:		
UK electronics businesses	6.9	6.9
Compotron	5.1	5.0
Hectronic	0.7	0.7
MTC	2.0	1.9
Medical	0.6	0.6
	21.0	21.6

*Prior year amount included £0.8m of goodwill allocated to the disposed UK Parts business.

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 view of the recoverable amount. The key assumptions in these calculations relate to future revenue and margins. Cash flow forecasts for the 5 year period from the reporting date are based on 2014 budget and management projections thereon. Average annual revenue growth rates between 3% and 10% (2012: between 2% and 13%) have been used depending on size and sector the CGU operates in. Annual cash flow growth rates beyond the five-year period are assumed at 2% (2012: 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 the cash flow projections of CGUs is between 15%-17% (2012: 15%-17%).

Key assumptions made are as follows:

	5 year average annual growth rate		Long term growth rate		Discount rate	
	2013	2012	2013	2012	2013	2012
Supply Chain:						
Acal Enterprise Solutions*	3%	6%	2%	2%	15%	15%
Electronics:						
UK electronics	3%	2%	2%	2%	15%	15%
Compotron	5%	3%	2%	2%	17%	17%
Hectronic	10%	11%	2%	2%	15%	15%
MTC	10%	13%	2%	2%	16%	15%
Medical	5%	6%	2%	2%	16%	15%

* Prior year growth rate assumption includes the disposed UK Parts business

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		Total £m
		Customer/ supplier relationships £m	Brands £m	
Cost				
At 1 April 2011	9.3	3.1	–	12.4
Arising from business combinations	0.1	0.3	0.8	1.2
Additions	0.3	–	–	0.3
Exchange adjustment	–	(0.1)	–	(0.1)
At 31 March 2012	9.7	3.3	0.8	13.8
Disposal of UK Parts business	(1.4)	–	–	(1.4)
Additions	0.3	–	–	0.3
At 31 March 2013	8.6	3.3	0.8	12.7
Amortisation				
At 1 April 2011	8.3	0.4	–	8.7
Charge for the year	0.3	0.7	0.1	1.1
Exchange adjustments	–	(0.1)	–	(0.1)
At 31 March 2012	8.6	1.0	0.1	9.7
Disposal of UK Parts business	(1.2)	–	–	(1.2)
Charge for the year	0.2	0.7	0.1	1.0
At 31 March 2013	7.6	1.7	0.2	9.5
Net book value at 31 March 2013	1.0	1.6	0.6	3.2
Net book value at 31 March 2012	1.1	2.3	0.7	4.1

The computer software capitalised at 31 March 2013 principally relates to the implementation of an ERP system within the Electronics business. This ERP system has a carrying amount of £0.7m (2012: £0.4m) and a remaining amortisation period of 5.75 years to December 2018. £0.3m of additions during the year were in relation to work in progress incurred as part of an upgrade to this ERP system.

Notes to the group financial statements continued

19 Investments in associates

	£m
Cost at 31 March 2012 and 2013	5.4
Impairment at 31 March 2012 and 2013	(5.4)
Net book amount at 31 March 2012 and 2013	–

Associates	Country of incorporation	% equity interest 2013 and 2012
Ceratech Holdings Limited	England	30
Scientific Digital Business (Pte) Ltd	Singapore	40

Impairment of associate investments

In 2009 the Directors took the view that the associate investments should be fully impaired due to continuing losses in those businesses. There have been no changes in 2013 that would lead to these impairments being reversed.

The unrecognised share of loss for the year attributed to the associate investments is nil (2012: nil). The cumulative share of unrecognised loss is £0.1m (2012: £0.1m).

20 Inventories

	2013 £m	2012 £m
Finished goods and goods for resale	19.3	25.7

21 Trade and other receivables

	2013 £m	2012 £m
Trade receivables	40.2	43.9
Other receivables	2.1	3.6
Prepayments and accrued income	2.4	1.9
	44.7	49.4

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 2013, trade receivables of £2.3m (2012: £2.3m) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2013 £m	2012 £m
At 1 April	2.3	2.6
Charge for the year	0.7	0.5
Amounts written off	(0.4)	(0.4)
Unused amounts reversed	(0.2)	(0.3)
Exchange adjustments	(0.1)	(0.1)
At 31 March	2.3	2.3

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
2013	40.2	32.2	6.3	1.0	0.3	0.3	0.1
2012	43.9	34.4	6.9	1.6	0.9	0.1	–

22 Cash and cash equivalents

	2013 £m	2012 £m
Cash at bank and in hand	17.8	12.3

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 £17.8m (2012: £12.3m).

23 Financial liabilities

	Effective interest rate %	Maturity	Current		Non-current	
			2013 £m	2012 £m	2013 £m	2012 £m
Bank overdrafts	Variable	On demand	3.4	4.4	–	–
Unsecured bank loans	Variable		0.9	0.8	1.7	0.8
Total other financial liabilities			4.3	5.2	1.7	0.8
Trade and other payables			38.0	40.7	–	–
Provisions			0.2	2.3	0.4	0.4
Total			42.5	48.2	2.1	1.2

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

The unsecured bank loan of £0.9m (2012: £1.6m) will be repaid fully in March 2014 and bears interest at 3 month EURIBOR + 3%. The unsecured bank loan of £1.7m (2012: £nil) will be repaid fully in February 2016 and bears interest at 3 month EURIBOR + 3%.

Trade and other payables and provisions above include only contractual obligations.

The maturity of gross contractual financial liabilities is as follows:

	Within 1 year £m	2-5 years £m	Total £m
At 31 March 2013			
Floating rate*	4.4	1.8	6.2
Trade payables	38.0	–	38.0
Provisions	0.2	0.4	0.6
	42.6	2.2	44.8
At 31 March 2012			
Floating rate*	5.3	0.9	6.2
Trade payables	40.7	–	40.7
Provisions	2.3	0.4	2.7
	48.3	1.3	49.6

* Floating rate financial liabilities include future interest payments of £0.1m (£2012: £0.1m) within one year and £0.1m (2012: £0.1m) between two and five years.

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

	2013 £m	2012 £m
Euro	4.1	4.2
US dollar	1.4	1.5
Other currencies	0.5	0.3
	6.0	6.0

24 Movements in cash and net debt

Year to 31 March 2013	31 March 2012 £m	Cash flow £m	Foreign exchange £m	31 March 2013 £m
Cash at bank and in hand	12.3	5.3	0.2	17.8
Overdrafts	(4.4)	1.0	–	(3.4)
Cash and cash equivalents	7.9	6.3	0.2	14.4
Bank loans under one year	(0.8)	(0.1)	–	(0.9)
Bank loans over one year	(0.8)	(0.7)	(0.2)	(1.7)
Total loan capital	(1.6)	(0.8)	(0.2)	(2.6)
Net cash	6.3	5.5	–	11.8

Year to 31 March 2012	31 March 2011 £m	Cash flow £m	Foreign exchange £m	31 March 2012 £m
Cash at bank and in hand	13.6	(1.0)	(0.3)	12.3
Overdrafts	(4.2)	(0.2)	–	(4.4)
Cash and cash equivalents	9.4	(1.2)	(0.3)	7.9
Bank loans under one year	(0.9)	0.1	–	(0.8)
Bank loans over one year	(1.8)	0.8	0.2	(0.8)
Total loan capital	(2.7)	0.9	0.2	(1.6)
Net cash	6.7	(0.3)	(0.1)	6.3

Supplementary information to the statement of cash flows

Underlying performance measure	2013 £m	2012 £m
Increase/(decrease) in net cash	5.5	(0.3)
Add: Business combinations	2.0	4.0
Exceptional cash flow	3.6	3.9
Legacy pension scheme funding	1.5	0.7
Dividends paid	2.3	2.2
Less: Net proceeds from share issue	(5.7)	–
Net proceeds from disposal of the UK Parts business	(1.5)	–
Free cash flow	7.7	10.5

25 Reconciliation of cash flows from operating activities

	2013 £m	2012 £m
(Loss)/profit for the year	(1.8)	2.1
Taxation (credit)/expense	(1.3)	0.6
Net finance costs	1.0	1.2
Depreciation of property, plant and equipment	1.0	1.2
Amortisation of intangible assets – other	1.0	1.1
Change in provisions	(2.4)	(0.6)
Loss on disposal of business	5.1	–
Pension scheme funding	(1.5)	(0.7)
Equity-settled share-based payment expense	0.6	0.6
Operating cash flows before changes in working capital	1.7	5.5
Decrease/(increase) in inventories	3.7	(0.3)
Decrease in trade and other receivables	1.5	9.9
Decrease in trade and other payables	(1.0)	(6.0)
Decrease in working capital	4.2	3.6
Cash generated from operations	5.9	9.1
Interest paid	(0.8)	(1.1)
Income taxes paid	(1.4)	(1.1)
Net cash flows from operating activities	3.7	6.9

26 Provisions

	Deferred consideration £m	Severance indemnity £m	Other £m	Total £m
At 1 April 2012	2.1	2.2	3.4	7.7
Arising during the year	–	0.7	0.4	1.1
Released during the year	–	(0.1)	(1.1)	(1.2)
Utilised	(2.0)	(1.9)	(0.5)	(4.4)
Exchange difference	(0.1)	–	–	(0.1)
At 31 March 2013	–	0.9	2.2	3.1

	2013 £m	2012 £m
Analysis of total provisions		
Current	1.7	4.6
Non-current	1.4	3.1
	3.1	7.7

Severance indemnity

The severance indemnity provision relates to severance costs payable to employees.

Included within the severance indemnity provision is £0.5m (2012: £0.5m) relating to a severance and leaving indemnity scheme Trattamento di Fine Rapporto (TFR) operated by the Group's Italian subsidiary for its local employees in accordance with Italian law. The TFR is classified as an unfunded scheme. The service cost, representing deferred salaries accruing to employees, is included as an operating expense and determined by reference to Italian law. The TFR liability comprises accumulated service costs and is valued by an independent qualified actuary.

Other

The other provision relates to other claims, long term deferred bonus schemes, onerous contracts 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.

Notes to the group financial statements continued

27 Financial risk controls

Management of financial risk

The main financial risks faced by the Group are credit risk, liquidity risk and market risk, which include interest rate risk and currency risk. Acal plc also faces risks which are non-financial or non-quantifiable; these are set out in the Directors' Report on pages 22 to 26. The Board regularly reviews these risks and has approved written policies covering the use of financial instruments to manage these risks.

The Group Finance Director retains the overall responsibility and management of financial risk for the Group. Most of the Group's financing and interest rate risk management is done centrally at Group head office, however the exposure to 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 does not hedge against exposure to interest rate risk.

Based on the Group's debt position at the year end, a 1% increase in interest rates would decrease the Group's profit before tax by approximately £0.1m (2012: £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 10% change in the US dollar and Euro rates against Sterling with all other variables remaining constant, of the Group's (loss)/profit before tax, due to changes in the fair value of monetary assets and liabilities.

(Loss)/profit before tax – (loss)/gain	£ currency impact		US\$ currency impact		Euro currency impact	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
10% appreciation	(0.3)	(0.7)	(0.7)	0.9	(0.3)	(0.1)
10% depreciation	0.5	0.9	0.7	(0.9)	0.5	0.3

Management of credit risk

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

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

As well as credit risk exposures inherent within the Group's outstanding receivables, the Group is exposed to counterparty credit risk arising from the placing of deposits and entering into derivative financial instrument contracts with banks and financial institutions.

The Group manages exposure to credit risk by entering into financial instrument contracts only with highly credit-rated authorised counterparties which are reviewed and approved annually by the Board.

Counterparties' positions are monitored on a regular basis to ensure that they are within the approved limits and that there are no significant concentrations of credit risks.

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 2013, the Group had net cash of £13.5m (2012: £7.1m), excluding long term borrowings of £1.7m (2012: £0.8m). The Group had total working capital facilities available of £34.9m (2012: £31.2m) with a number of major UK and overseas banks of which £22.2m (2012: £18.4m) were committed facilities. The Group had drawn £6.0m against total facilities at 31 March 2013. 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 December 2013 to March 2016. The facilities are subject to certain performance covenants, which on review at 31 March 2013 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 2013 £m	Fair value 2013 £m	Carrying amount 2012 £m	Fair value 2012 £m
Financial assets				
Cash at bank and in hand	17.8	17.8	12.3	12.3
Financial liabilities at amortised cost				
Bank overdrafts and short-term borrowings	(4.3)	(4.3)	(5.2)	(5.3)
Non current interest-bearing loans and borrowings				
Floating rate borrowings	(1.7)	(1.8)	(0.8)	(0.9)

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

	2013 £m	2012 £m
Trade payables	24.3	27.9
Other payables	10.3	9.2
Accrued expenses and deferred income	7.9	8.3
	42.5	45.4

Trade payables are non-interest bearing and are settled taking into account local best practice. Other payables are non-interest bearing and are settled throughout the year. Accrued expenses are non-interest bearing and are settled throughout the year. Deferred income is recognised over the term of the underlying contract.

Notes to the group financial statements continued

30 Share capital

Authorised	2013 Number	2013 £m	2012 Number	2012 £m
Ordinary shares of 5p each	44,000,000	2.2	44,000,000	2.2
Allotted, called up and fully paid	2013 Number	2013 £m	2012 Number	2012 £m
Ordinary shares of 5p each	31,295,878	1.6	28,479,804	1.4

On 28 March 2013, the Company issued 2,816,074 new Ordinary shares to new and existing shareholders through an equity placing. The terms of the issue were fixed on 8 March 2013 through a placing agreement, with an issue price of 215 pence per share representing a 1.8% discount on the closing price on 7 March 2013. Net proceeds were £5.7m, being gross proceeds on issue of £6.1m less directly attributable expenses of £0.4m.

The placing structure attracted merger relief under section 612 of the Companies Act 2006 resulting in a credit to the Other reserve of £5.5m, being net proceeds on issue of £5.7m less the nominal value of the shares issued of £0.2m.

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

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:

	2013 £m	2012 £m
Due within one year	2.8	3.2
Due after one year but not more than five years	5.0	6.0
Due after more than five years	0.6	1.3
	8.4	10.5

Future minimum sublease rentals expected to be received over the term of non-cancellable operating leases are £0.7m (2012: £1.0m).

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:

	2013 £m	2012 £m
a) Approved and Unapproved Executive Share Option Schemes	–	–
b) Acal plc long term incentive plan ("the LTIP")	0.6	0.6
c) "B" Share Scheme	–	–
	0.6	0.6

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.

32 Share-based payment plans continued

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.

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 (2012: 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 2013

Outstanding at 1 April 2012	Expired during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 March 2013	Exercise price (pence)	Exercise dates
27,300	(27,300)	–	–	–	335.00	2008-2012
30,500	–	(1,000)	–	29,500	367.50	2009-2013
60,000	–	–	–	60,000	387.25	2010-2014
117,800	(27,300)	(1,000)	–	89,500		

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
39,050	–	(9,000)	–	30,500	367.50	2009-2013
75,000	–	(15,000)	–	60,000	387.25	2010-2014
191,300	(37,750)	(35,750)	–	117,800		

Notes to the group financial statements continued

32 Share-based payment plans continued**Changes in share options**

A reconciliation of option movements over the year to 31 March 2013 is shown below:

	2013		2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 April	117,800	£3.70	191,300	£3.91
Granted	–	–	–	–
Exercised	–	–	–	–
Expired	(27,300)	£3.35	(37,750)	£4.80
Forfeited	(1,000)	£3.68	(35,750)	£3.65
Outstanding at 31 March	89,500	£3.70	117,800	£3.70
Exercisable at 31 March	89,500	£3.70	117,800	£3.70

The weighted average remaining contractual life for the share options outstanding as at 31 March 2013 is 0.9 years (2012: 1.5 years).

The range of exercise prices for options outstanding at the end of the year was £3.675 to £3.8725 (2012: £3.35 to £3.8725).

b) The LTIP

Since 2008 the Group has operated the LTIP as a replacement for the approved and unapproved executive share option scheme detailed above. The LTIP involves a conditional award of shares on a grant of a nil-cost option. The award of shares to Executive Directors and senior management is recommended by the Remuneration Committee on the basis of such factors as their contribution to the Group's success. The LTIPs are equity settled and there are no cash settled alternatives. The release of an award is dependent on the individual's continued employment for a three year holding period from the date of grant and the satisfaction by the Company of certain performance conditions. For awards made in 2012 and 2013 the performance conditions are as follows:

- 50% of the award is based on the Company's comparative total shareholder return ("TSR") against a comparator group made up of the constituents of the FTSE Small Cap Index; and
- 50% of the award is based on the Company's absolute total shareholder return as measured against the Consumer Price Index ("CPI").

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 2013 awards were approved by the Remuneration Committee on 28 March 2013 and a valuation of these awards was carried out in the year ending 31 March 2013. The 2013 awards were granted on 31 March 2013 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 2013:

Grant date	31 March 2013 TSR	31 March 2013 CPI
Share price at grant date	£2.35	£2.35
Exercise price	nil	nil
Number of employees	8	8
Shares under option	250,948	250,948
Vesting period (years)	3	3
Expected volatility	37.26%	37.26%
Option life (years)	10	10
Expected life (years)	3	3
Risk free rate of return	0.19%	0.19%
Expected dividends expressed as a dividend yield	3.3%	3.3%
Fair value	£1.36	£1.22

32 Share-based payment plans continued

Awards granted in the year ended 31 March 2012:

Grant date	31 March 2012 TSR	31 March 2012 CPI
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	£1.15

The expected volatility is based on historical volatility over a term commensurate with the expected life of each award. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

The total charge for the year relating to the LTIP schemes was £0.6m (2012: £0.6m).

Outstanding LTIP

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

31 March 2013

Outstanding at 1 April 2012	Granted during the year	Expired during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 March 2013	Exercise dates
584,777	–	–	–	–	584,777	2012-2019
402,490	–	–	–	–	402,490	2013-2020
583,003	–	–	(29,090)	–	553,913	2014-2021
515,212	–	–	–	–	515,212	2015-2022
–	501,896	–	–	–	501,896	2016-2023
2,085,482	501,896	–	(29,090)	–	2,558,288	

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
1,605,991	515,212	–	(35,721)	–	2,085,482	

c) "B" Share Scheme

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

The terms of the B Share Scheme were designed to ensure that the management were 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 was 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") were dependent on the equity value of the business at 31 March 2013.

On 3 January 2013, the Group completed the disposal of its UK new and refurbished parts distribution and outsourcing business (the "UK Parts Business") to its management team. The disposal involved the sale of the Company's shareholding in ASC. As part of the Sale and Purchase agreement, the rights relating to the B shares above were terminated for nil consideration.

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, 150 employees were active members of the Acal scheme (2012: 161). The total cost charged to income in relation to the UK based Acal scheme was £573,000 (2012: £535,000). Employer contributions in respect of other UK based schemes and overseas pension schemes were £34,000 (2012: £84,000) and £922,000 (2012: £1,081,000) respectively. Total contributions payable in the next financial year are expected to be at rates broadly similar to those in 2012/13 but based on actual salary levels in 2013/14.

Defined benefit schemes

The acquisition of the Sedgemoor Group in June 1999 brought with it certain defined benefit pension schemes, the principal one of which was the Sedgemoor Group Pension Fund (together 'the Sedgemoor Scheme'). The Sedgemoor Scheme is funded by the Company, provides retirement benefits based on final pensionable salary and its assets are held in a separate trustee-administered fund.

Following the acquisition of the Sedgemoor Group, the Sedgemoor Scheme was closed to new members. Shortly thereafter employees were given the opportunity to join the Acal Scheme and future service benefits ceased to accrue to members under the Sedgemoor Scheme.

Contributions to the Sedgemoor Scheme are determined in accordance with the advice of independent, professionally qualified actuaries.

Based on the funding valuation conducted at December 2009, the funding contribution for the year totalled £1.5m (2012: £0.7m), increasing by 3% per annum for a further 10 years.

The main actuarial assumptions used are set out as follows:

	2013	2012
Rate of increase of salaries	n/a	n/a
Rate of increase of pensions in payment	2.6%	2.1%
Discount rate	4.3%	4.6%
Inflation assumption – RPI	3.4%	2.9%
Inflation assumption – CPI	2.4%	2.1%

The discount rate is based on the yields on AA grade sterling corporate bond yields at the reporting date. The expected rate of return on assets for the financial year ending 31 March 2013 was 4.0% pa based on financial conditions as at 31 March 2012. This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the Sedgemoor Scheme was invested in at 31 March 2012, less scheme administration expenses.

Pensioner mortality assumptions are based on the 'PCA00 series' tables rated up by two years, with improvement rates in line with the CMI 2011 core projections based on each member's actual date of birth with a long-term annual rate of improvement of 1.25% for males and 1.0% for females.

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

	2013 £m	2012 £m
Expected return on scheme assets	1.2	1.5
Interest cost on scheme liabilities	(1.6)	(1.8)
Other finance costs (note 9)	(0.4)	(0.3)

The net finance cost is reported within finance costs.

33 Pensions continued

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

	2013 £m	2012 £m
Actual return on scheme assets	2.3	2.1
Less: expected return on scheme assets	(1.2)	(1.5)
Actuarial gains on scheme assets	1.1	0.6
Actuarial losses on scheme liabilities	(2.3)	(1.8)
Deferred tax movement on funding surplus under IAS 19 valuation	0.1	(0.1)
Actuarial losses recorded in the consolidated statement of comprehensive income	(1.1)	(1.3)

Since the date of transition to IAS 19 the cumulative value of actuarial gains and losses recorded in the consolidated statement of comprehensive income is £6.8m loss (2012: £5.7m 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:

	2013	2013 £m	2012	2012 £m
Equities	6.8%	7.9	5.5%	15.0
Bonds	3.5%	15.3	2.5%	14.5
Property	4.9%	1.6	–	–
Absolute Return Fund	6.1%	6.4	–	–
Cash	2.8%	0.2	0.0%	0.3
Fair value of scheme assets		31.4		29.8
Present value of funded defined benefit obligations		(37.9)		(36.3)
Liability recognised in the consolidated statement of financial position		(6.5)		(6.5)

Included in the pension liability of £6.5m (2012: £6.5m) is deferred tax of £0.7m (2012: £0.8m) in relation to a funding surplus under IAS 19 based on the agreed funding plan.

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

	2013 £m	2012 £m
Opening defined benefit obligation	36.3	34.6
Net interest cost	1.6	1.8
Actuarial losses on scheme liabilities	2.3	1.8
Deferred tax movement on funding surplus under IAS 19 valuation	(0.1)	0.1
Benefits paid	(2.2)	(2.0)
Closing defined benefit obligation	37.9	36.3

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

	2013 £m	2012 £m
Opening fair value of scheme assets	29.8	29.1
Expected returns on scheme assets	1.2	1.5
Actuarial gains on scheme assets	1.1	0.5
Contributions	1.5	0.7
Benefits paid	(2.2)	(2.0)
Closing fair value of scheme assets	31.4	29.8

Notes to the group financial statements continued

33 Pensions continued**History of experience gains and losses**

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Fair value of scheme assets	31.4	29.8	29.1	29.3	23.7
Defined benefit obligations	(37.9)	(36.3)	(34.6)	(34.8)	(29.4)
Deficit in the scheme	(6.5)	(6.5)	(5.5)	(5.5)	(5.7)
Experience adjustments on scheme assets	1.1	0.5	(0.6)	4.9	(5.5)
Experience adjustments on scheme liabilities	0.4	0.5	0.8	0.9	(0.2)

34 Related party disclosures

As at 31 March 2013 the Group's principal subsidiaries are set out below:

Name and nature of business	Country of incorporation and registration	Type of share	Group effective shareholding held by parent company	Group effective shareholding held by subsidiary undertakings
Agency, marketing and distribution				
Acal BFi UK Ltd	England	Ordinary Shares	–	100%
Acal Central Procurement Ltd	England	Ordinary Shares	–	100%
Acal Enterprise Solutions 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%
MTC Micro Tech Components GmbH	Germany	Ordinary Shares	–	100%
EMC Innovation Limited	South Korea	Ordinary Shares	–	100%
Management services				
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 their effective interest.

Related parties**Remuneration of key management personnel**

The remuneration of the Directors, who are key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the Directors' Remuneration report on pages 31 to 37.

	2013 £m	2012 £m
Short term employee benefits	0.9	0.9
Share-based payments	0.4	0.4
	1.3	1.3

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 31 to 37.

On 3 January 2013, the Group completed the disposal of its UK new and refurbished parts distribution and outsourcing business (the "UK Parts Business") (included within the Supply Chain operating segment) to its management team for a debt free consideration of £2.0m, subject to completion adjustments and before transaction costs. Full details are provided in note 12. The disposal of the UK Parts business was a related party transaction and received shareholder approval on 3 January 2013.

35 Events after the balance sheet date

Acquisition of Aramys SAS

On 4 April 2013, subsequent to the year-end, the Group completed the acquisition of 100% of the share capital and voting equity interests of Aramys SAS ("Aramys" or "the Myrra Group"), for an initial consideration of €9.5m (£8.1m) before expenses and subject to certain post completion adjustments, and an earn-out of up to a maximum of €1.8m (£1.5m) based on financial performance over the three year period to 31 December 2015 following completion. The initial cash consideration and related acquisition expenses were met from proceeds of an equity placing of £5.7m (after expenses) and a new debt facility of £8.0m.

The Myrra Group designs and manufactures magnetic electronic products, of which approximately 70 percent are developed to meet specific individual customer requirements. The Myrra Group's head office is based near Paris with sales offices in France, Spain, Hong Kong, China and Germany. The Myrra Group's manufacturing facilities are based in China and Poland.

The acquisition is a further step in the Group's stated strategy and brings a number of benefits including strengthening of the Group's Electronics Division, broadening the Group's customisation and development capabilities and developing the Group's geographic profile.

Transaction costs of £0.6m have been expensed as incurred and are presented as exceptional items within administrative expenses (note 6). The attributable costs of the equity issuance of £0.4m have been charged directly to other reserves in equity. The £0.3m costs related to the new debt facility will be amortised over the period of the debt facility.

Due to the timing of the acquisition, the initial accounting of the fair value of consideration, net assets acquired and goodwill has not been completed.

The acquisition has no impact on the Group's results for the year other than the transaction costs referred to above.

Dividend

A final dividend of 6.0p per share (2012: 5.5p) amounting to a dividend of £1.9m (2012: £1.6m) was declared by the Board on 29 May 2013. 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 2013		Year to 31 March 2012	
	Closing rate	Average rate	Closing rate	Average rate
US dollar	1.514	1.580	1.602	1.596
Euro	1.1826	1.2274	1.1992	1.1585

Acal plc

Company financial statements for the year ended 31 March 2013

Report of the auditor

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 2013, 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 40, 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 2013;
- 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 2013.

Nick Powell (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
4 June 2013

Company balance sheet

at 31 March 2013

	notes	2013 £m	2012 £m
Fixed assets			
Investments	4	79.8	79.2
Current assets			
Debtors	5	4.5	5.6
Cash at bank and in hand		5.3	0.4
Total current assets		9.8	6.0
Creditors: Amounts falling due within one year	6	(21.8)	(22.5)
Net current liabilities		(12.0)	(16.5)
Total assets less current liabilities		67.8	62.7
Net assets		67.8	62.7
Capital and reserves			
Share capital	7	1.6	1.4
Share premium	8	40.7	40.7
Other reserve	8	5.5	–
Merger reserve	8	3.0	3.0
Profit and loss account	8	17.0	17.6
Shareholders' funds	8	67.8	62.7

These financial statements were approved by the Board of Directors on 4 June 2013 and signed on its behalf by:

N J Jefferies
Chief Executive

S M Gibbins
Group Finance Director

Notes to the company financial statements

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

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 Operating Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Review.

The Group has significant financial resources, well established distribution contracts with a number of suppliers and a broad and stable customer base. As a consequence, the Directors believe that the Group is well placed to manage its 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.

Cash flow statement

Under FRS1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that the Company is included in the Group which publishes 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.

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 profit of the parent company for the financial year was £1.1m (2012: £1.5m loss). By virtue of section 408(3) of the Companies Act 2006, the Company is exempt from presenting a separate profit and loss account.

4 Fixed asset investments

	Subsidiary undertakings £m
At 1 April 2011	79.0
Impairment	(0.4)
Share-based payments	0.6
At 31 March 2012	79.2
Share-based payments	0.6
At 31 March 2013	79.8

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

5 Debtors

	2013 £m	2012 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	3.2	5.2
Corporation tax	0.7	0.3
Deferred tax	0.1	–
Prepayments	0.5	0.1
	4.5	5.6

The deferred tax asset comprises temporary timing differences.

6 Creditors

	2013 £m	2012 £m
Amounts falling due within one year:		
Bank loans and overdrafts	–	1.2
Amounts owed to subsidiary undertakings	19.8	20.3
Other creditors	0.5	0.4
Accruals and deferred income	1.5	0.6
	21.8	22.5

7 Share capital

Authorised	2013 Number	2013 £m	2012 Number	2012 £m
Ordinary shares of 5p each	44,000,000	2.2	44,000,000	2.2

Allotted, called up and fully paid	2013 Number	2013 £m	2012 Number	2012 £m
Ordinary shares of 5p each	31,295,878	1.6	28,479,804	1.4

On 28 March 2013, the Company issued 2,816,074 new Ordinary shares to new and existing shareholders through an equity placing. The terms of the issue were fixed on 8 March 2013 through a placing agreement, with an issue price of 215 pence per share representing a 1.8% discount on the closing price on 7 March 2013. Net proceeds were £5.7m, being gross proceeds on issue of £6.1m less directly attributable expenses of £0.4m.

The placing structure attracted merger relief under section 612 of the Companies Act 2006 resulting in a credit to the Other reserve of £5.5m, being net proceeds on issue of £5.7m less the nominal value of the shares issued of £0.2m.

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

At 31 March 2013 there were outstanding options for employees of subsidiaries to purchase up to 2,647,788 (2012: 2,203,282) ordinary shares of 5p each between 2013 and 2023 at prices ranging from £nil per share to £3.8725 per share. During the year to 31 March 2013 no options were exercised by employees under the terms of the various share option schemes (2012: none).

8 Reconciliation of shareholders' funds and movements on reserves

	Share capital £m	Share premium £m	Other reserve £m	Merger reserve £m	Profit and loss account £m	Total £m
At 1 April 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	–	–	–	–	(2.2)	(2.2)
At 31 March 2012	1.4	40.7	–	3.0	17.6	62.7
Shares issued	0.2	–	5.9	–	–	6.1
Share issue costs	–	–	(0.4)	–	–	(0.4)
Profit for the year	–	–	–	–	1.1	1.1
Share-based payment transactions	–	–	–	–	0.6	0.6
Dividends	–	–	–	–	(2.3)	(2.3)
At 31 March 2013	1.6	40.7	5.5	3.0	17.0	67.8

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 note 32 of the Group Financial Statements.

Five year record

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Group income statement					
Revenue	219.2	257.8	264.8	181.6	165.4
Gross profit	67.9	77.9	75.2	50.1	43.9
Underlying operating profit/(loss)	6.9	8.1	7.4	(0.7)	0.3
Underlying profit/(loss) before tax	6.3	7.2	7.1	(0.9)	0.7
(Loss)/profit before tax	(3.1)	2.7	1.9	(6.3)	(32.6)
(Loss)/profit for the year	(1.8)	2.1	1.7	(6.6)	(37.0)
Underlying diluted earnings/(loss) per share	17.5p	19.9p	18.6p	(6.3)p	(3.0)p
Fully diluted (loss)/earnings per share	(6.3)p	7.4p	6.0p	(24.5)p	(140.5)p
Dividend per share	8.5p	8.0p	7.0p	7.0p	7.0p
Group statement of financial position					
Net cash	11.8	6.3	6.7	13.9	24.5
Non current assets	30.9	32.5	27.7	22.6	22.3
Net assets	51.5	49.1	51.3	51.9	58.2

Principal locations

Acal is a European specialist provider of technology products and services. With operating companies in the UK, Netherlands, Belgium, Germany, France, Italy, Poland, Spain, the Nordic region, South Africa, China 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
Electronics		
United Kingdom	Acal BFi UK Ltd	Wokingham, Milton Keynes
	Acal BFi Central Procurement UK Ltd	Wokingham
	Stortech Electronics Ltd	Harlow
	Vertec Scientific Ltd	Silchester
Belgium	Acal BFi Belgium NV/SA	Brussels
France	Acal BFi France SAS	Evry
	Myrra SAS	Bussy-Saint-Georges
Germany	Acal BFi Germany GmbH	Dietzenbach, Munich
	MTC Micro Tech Components GmbH	Dillingen
Italy	Acal BFi Italia Srl	Milan
Netherlands	Acal BFi Netherlands BV	Eindhoven, Alphen an den Rijn
Poland	Myrra Poland Sp	Kaluszyn
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
China	Zhongshan Myrra Electronic Co Ltd	Zhongshan
South Korea	EMC Innovation Ltd	Incheon City
Supply chain		
United Kingdom	Acal Enterprise Solutions Ltd	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

Notes to the operating performance and financial highlights

- 1 '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, amortisation of acquired intangible assets, loss on disposal of businesses and the IAS19 pension charge relating to the Group's legacy defined benefit pension 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/(loss) before tax ("PBT"), 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.
- 2 The disposal of the non-core UK Parts business gave rise to a loss on disposal of £5.1m.
- 3 Growth rates at constant exchange rates ("CER"). Note that, for the average Euro rate against Sterling, the Euro weakened 6% for the financial year 2012/13 compared with 2011/12. The impact on sales for this financial year is a reduction of 3%.
- 4 Free cash flow is defined as net cash flow before payment of exceptional items, payments to the legacy defined benefit pension fund, dividend payments, net proceeds from equity fund raising, the cost of acquisitions and the proceeds from disposals.
- 5 Ongoing revenue and gross profit growth at constant exchange rates excluding the disposed non-core UK Parts business and the discontinued non-specialist Electronics division products announced last year.
- 6 Return On Trading Capital employed ("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 and deferred tax) plus working capital.



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