

Registered Company Number – 196249

Carclo plc

Report & Accounts

Year Ended 31 March 2014



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In summary

Carclo plc is a technology group. It is a public company whose shares are quoted on the London Stock Exchange.

Carclo's strategy has been to develop new technologies and products to drive future growth. Its investment in CIT has led to the introduction of a new material for use in Capacitive Touch Screens. Further investment has been made in Carclo Diagnostic Solutions, where a novel Point-of-Care hardware platform has been developed.

Approximately three fifths of revenues are currently derived from the supply of fine tolerance, injection moulded plastic components, which are used in medical, optical and electronics products. This business, Carclo Technical Plastics, operates internationally in a fast growing and dynamic market underpinned by rapid technological development.

Approximately two fifths of revenues are derived from the supply of specialised precision LED based systems to the premium automotive industry, as well as key control systems for the aerospace industry.

The highlights for the year to 31 March 2014 are summarised below -

Financial Highlights

	Year ended 31 March 2014 £000	Year ended 31 March 2013 £000	Increase %
Revenue			
Technical Plastics	58,080	55,335	5.0
LED Technologies	28,160	23,013	22.4
Precision Engineering	7,776	7,505	3.6
Conductive Inkjet Technology	3,251	661	391.8
Total	97,267	86,514	12.4
Operating profit before exceptional items	6,551	5,585	17.3
Operating profit	6,031	4,915	22.7
Profit before tax	4,771	3,217	48.3
Basic earnings per share	5.5p	4.3p	27.9
Final dividend per share	2.65p	2.55p	3.9
Net debt	17,680	9,178	92.6

The comparatives have been restated in respect of the revisions to IAS 19 - "Employee Benefits"

In summary

- Revenue increased by 12.4% to £97.3 million reflecting strong sales in our traditional divisions alongside increasing sales at Conductive Inkjet Technology (“CIT”)
- Divisional underlying operating profit was £8.6 million (2013 - £7.7 million) and underlying operating profit from continuing operations was in line with expectations at £6.6 million (2013 - £5.6 million)
- Total dividend increased by 3.9% to 2.65 pence per share
- Conductive Inkjet Technology (“CIT”) coating line operating well and at high yields
- Increased investment in Carclo Diagnostic Solutions (“CDS”) underpinned by technological and commercial developments
- Strong performance by LED Technologies, driven by Wipac supercar lighting business
- Technical Plastics well placed to enjoy period of high growth and margin improvement

Commenting on the results, Michael Derbyshire, chairman said -

“The group is poised for further growth both in its traditional areas and in its new technology ventures. It has the resources, bank facilities and business prospects to drive this growth over the coming years and generate shareholder value.”

Forward looking statements

Certain statements made in these report & accounts are forward looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events to differ materially from any expected future events or results referred to in these forward looking statements.

Chairman's statement

Overview

Carclo produced a solid financial performance and continued to make encouraging strategic progress during the year ended 31 March 2014, notwithstanding the difficulties in building volumes in Conductive Inkjet Technology's ("CIT's") touch sensor business. Group revenues and profits benefitted from a strong second half as expected and all divisions reported increased sales relative to the prior year. These results take account of the changes made following the revisions to IAS 19 – "Employee Benefits" and these changes have also been applied to the comparatives. The highlights for the year were –

Financial highlights

- Revenue increased by 12.4% to £97.3 million reflecting good sales growth from traditional divisions alongside increasing sales from CIT
- Divisional underlying operating profit was £8.6 million (2013 - £7.7 million) and underlying operating profit from continuing operations £6.6 million (2013 - £5.6 million)
- Exceptional charge of £0.5 million (2013 - £0.7 million) was due mainly to £0.4 million of litigation costs (2013 - £0.4 million) in respect of our claim against Uni-pixel Inc. which has now been settled
- Profit before tax increased by 48.3% to £4.8 million (2013 - £3.2 million)
- Basic earnings per share increased from 4.3 pence to 5.5 pence
- Group capital expenditure was £7.2 million (2013 - £8.7 million) continuing our significant investment in our growth businesses
- Due to the high capital expenditure incurred, the cash cost of developing our technology businesses and the utilisation of the Atmel Corporation ("Atmel") prepayment, net debt increased from £9.2 million to £17.7 million in the year
- Committed debt facilities increased to £26.0 million
- Total dividend increased by 3.9% to 2.65 pence per share

Strategic and Operational highlights

- Conductive Inkjet Technology ("CIT") commenced volume sales of coated film to our partner Atmel in the year and, despite more challenging commercial conditions, it is well positioned to build a significant business to supply its innovative products within this large and growing market. We have now created a standalone business within CIT tasked with commercialising our Printed Electronics technology and are working on a number of new projects
- Carclo Diagnostic Solutions ("CDS") has continued to develop its disposable Point-of-Care platforms and has now supplied functioning devices to EKF Diagnostics plc for testing with its pi-GST kidney marker. A full independent review of the market opportunities has been undertaken and this identified several additional product application areas, the most suitable of which have been integrated into the development plan
- In Technical Plastics, turnover, operating profits and margins increased compared to the prior year. Business development has been extremely successful in the year and this will support strong growth in future revenue. We have reviewed our manufacturing structure which will result in the expansion of our Czech facility and the closure of one of our UK plants
- LED Technologies had an excellent year and overall underlying operating profit moved ahead by £0.4 million to £2.6 million. Our Wipac supercar lighting business has benefitted from significant design wins from new and existing customers which will drive several years of double digit

Chairman's statement continued

growth. The LED Optics business has gained new OEM program wins and is now also in a good growth phase

- Precision Engineering has continued to generate good profits. In March 2014, the group disposed of the Birkett Cutmaster bandsaw business for £0.3 million. This will have minimal effect on the division's future profitability

Dividend

The proposed final dividend of 1.80 pence per share brings the total dividend for the year to 2.65 pence per share (2013 – 2.55 pence). This represents an increase of 3.9% and further emphasises the solid financial performance for the year and the board's confidence in the group's prospects.

Employees

I would like to thank all those employed by Carclo in the year under review for their continuing substantial contribution.

Outlook

Whilst the touch screen market has become significantly more competitive we are well positioned for our touch business to grow. Our partnership with Atmel Corporation remains strong and we are both committed to growing the XSense™ business. We are continuing to enhance our product offering and we believe our technical solution remains very attractive to potential customers. We are now investing further in our Printed Electronics business where we believe we have developed a strong product offering.

Following the commercial review of CDS we have prepared an aggressive development plan to drive the technology forward for use in several high value application areas where the overall market size is an estimated £2.5 billion.

Technical Plastics continues to win new business and, following a reorganisation of our manufacturing resources, we are now well positioned to drive efficiencies and increase our net operating margins towards our medium term target of 10%.

Our LED Technologies division, including Wipac our niche supercar lighting business, has now succeeded in launching its LED dip beam light into the supercar segment and this continues to create additional opportunities. We are currently improving and expanding our manufacturing capabilities to cope with the large influx of new work. A marketing emphasis on optics clusters within LED Optics has been successful and further design enhancements for our optics range have recently been concluded to support future growth.

Precision Engineering, which now consists of our aerospace businesses, remains both profitable and cash generative.

In summary, the group is poised for further growth both in its traditional areas and in its new technology ventures. It has the resources, bank facilities and business prospects to drive this growth over the coming years and generate shareholder value.

Michael Derbyshire
10 June 2014

Strategic report - Principal activities, business model & strategic kpis

Principal Activities

Carclo plc is a technology group. It is a public company whose shares are quoted on the London Stock Exchange.

Approximately three fifths of revenues are currently derived from the supply of fine tolerance, injection moulded plastic components, which are used in medical, optical and electronics products. This business, Carclo Technical Plastics, operates internationally in a fast growing and dynamic market underpinned by rapid technological development.

Approximately two fifths of revenues are derived from the supply of specialised precision LED based systems to the premium automotive industry, as well as key control systems for the aerospace industry.

Business Model

Carclo's strategy is to develop new technologies and products to drive future growth on a global scale. The long term strategic intent is to achieve sustainable earnings growth for shareholders whilst providing innovative and effective solutions for our customers.

This will be achieved by these three key tenets.

Innovation

Identification of the best new technologies and methodologies to generate innovative solutions in order to introduce new products or to improve current production methods.

Manufacturing

Development of the innovations alongside our existing capabilities to generate solutions and opportunities for our customers.

Customer Service

Use of our global manufacturing network and scale to match customer requirements leading to maximised earnings for all involved.

Strategic KPIs

To enable our performance to be tracked against our growth strategy, we will focus on the following key performance indicators ("KPIs"):

Innovation

We are aiming to expand our business by innovation and by the investment in new products. This will be measured by the commercialisation of our key development projects, Conductive Inkjet Technology and Carclo Diagnostic Solutions

Manufacturing

We are aiming to create strong business development through our core businesses as well as new innovations. This will be measured by increased turnover within our key core businesses.

Customer Service

We are aiming to use our global manufacturing network to maximise profitability for the group and its customers. This will be measured by an increasing operating profit margin.

Strategic report - Chief executive's review

Strategy

The commercialisation of Conductive Inkjet Technology's ("CIT's") touch sensor business continues to have a very high focus for the group. The year ended 31 March 2014 saw a significant increase in revenue over the previous year, albeit market conditions have been more challenging than initially anticipated, hindering our ability to predict adoption and subsequent revenue growth with any accuracy. Whilst progress in commercialising our touch sensor technology has not been at the expected pace, our commercial partner Atmel Corporation ("Atmel") has, so far, announced three design wins with HP, a testament to the potential of this technology. Looking forward we believe that the success of our touch business is now more dependent on the ability of the whole supply chain to be price competitive than on the actual technology itself. We are working closely with Atmel in this area. Our coating line in Cambridge is operating well and at high yields and we have significant available capacity to support a future ramp up in demand for XSense™.

As discussed last year CIT has now created a separate Printed Electronics business focused on commercialising and further developing our novel low cost printed electronic circuits. The addition of a pilot plant for component assembly was completed on schedule and a strategy has been developed to enable a significant push of this technology area throughout the new financial year. Our major focus will be the integration of circuitry into medical devices, however there are several other programs in addition to this that are providing an interesting pipeline of potential products.

There were significant business wins for our largest operating divisions, Technical Plastics and LED Technologies, and we exited the year with a record value of new enquiries. We are confident that we are entering a strong and sustainable phase of growth in these businesses.

Our expanded Technical Plastics operation, in Latrobe, USA, is now operational and this has been the catalyst for winning several new medical programs from new and existing customers. In addition we are finalising a lease for a further factory in the Czech Republic, adjacent to our existing facility, in order to support new business wins from a range of global customers in both the medical and other technical plastic markets. As well as our USA and Czech expansions, we expect to initiate additional manufacturing capacity in our facilities in Mitcham, Shanghai and Bangalore during this current year as we see customer demand increase for those locations. We announced the closure of our loss making Harthill, UK operation in early May 2014 and we expect to complete our exit from this facility by the end of the year, with several of the existing programs planned to move to our other manufacturing locations.

We have now created an aggressive business plan for Carclo Diagnostic Solutions ("CDS") focused on the development of a further two programs in addition to the pi-GST kidney marker device test which we are developing in co-operation with EKF Diagnostics plc ("EKF") and our whole blood coagulation device. The further programs are for a cardiac marker device ("Troponin-I") and an infectious disease device ("CRP") and these are both substantial potential markets. In order to support this new business plan we are increasing our investment through the creation of a Cambridge based life sciences group located in our CIT facility to work alongside the existing Daresbury based team.

Our LED Technologies businesses are enjoying growth both in Wipac's supercar lighting sector as well as the smaller LED Optics area. Within the supercar segment we have secured multiple new programs and we are in the final stages of negotiations for several others. The program awards will result in significant design and tooling activity over the next three years leading to over five years of subsequent manufacture. We are increasing our research investment into next generation lighting technologies as we enter long-term development partnerships with several of our customers in order to drive further growth in this business.

We divested our small bandsaw business at year end leaving our Precision Engineering business solely consisting of our UK and French aerospace component manufacturers. Whilst a large proportion of our business is related to current aircraft build programs, we also supply the aerospace spares market.

Business in detail

Conductive Inkjet Technology (Touch)

CIT commissioned its coating manufacturing facility on time early in the financial year and all coated film manufacturing was successfully migrated from the original pilot line to the new high-speed line ahead of schedule. Annual sales of coated film amounted to £3.3 million during the year, being a mix of sales for our partner's production qualification and sales for end customer products. Two program wins were announced during the financial year (HP Omni 10™ and the HP EliteBook Revolve 810 G2™) and one was subsequently announced soon after (HP ElitePad 1000 G2™). All three program wins were for HP products with screen sizes in the range of 10.1" to 11.6".

During the financial year there were significant changes within the touch industry as a result of new competitors entering the market and latterly as a result of ITO vendors both lowering ITO prices and also improving electrical performance of these materials. It has been widely reported that there are over 20 companies now claiming to have metal mesh technologies. In practice competition has come mainly from a Japanese and a Chinese metal mesh manufacturer. In order to gain market share our competitors have priced aggressively against ITO based touch sensors, in particular the single layer One Glass Solution ("OGS") and the more mature Glass Film Film ("GFF") versions.

A combination of lower pricing and an aggressive purchasing stance from the OEMs, who are looking to include touch functionality as a standard content into the portable computer segment, has reduced the effective price of touch sensors by around half during the last twelve months. Premiums that were available for larger sensors, (i.e. those over 10"), due to the historical difficulty in manufacturing at these sizes with ITO, are no longer available. The touch sensor market remains an enormous market and manufacturers including HP, ASUS, Lenovo, Dell and a number of Chinese white box manufacturers are all believed to be using metal mesh solutions, from various suppliers, in several of their products and the adoption of metal mesh remains a key strategic objective of the major OEMs.

CIT has continued to evolve its metal mesh technology with a focus on manufacturing efficiency increases, line width reductions and substrate agnosticism. The key developments during the year in these areas are either in evaluation trials with our partner or in the final stages of scaled up testing within our Cambridge facility. We are well resourced to scale coated film output from our Cambridge operation to support growth in sales of touch sensor materials. There are now limited needs for additional capital expenditure in our operation. During the year our manufacturing effort has been focused on continuing to drive our technology to improve both output yields and cost efficiency. We are working closely with our partner in order to support the cost competitiveness of our product and assist them to increase market take-up.

Carclo Technical Plastics

Sales increased from £55.3 million to £58.1 million and underlying operating profit increased from £4.0 million to £4.6 million. The sales increase came predominantly from growth in key medical accounts. Operating margins improved from 7.1% to 7.9% consistent with our target of achieving 10% margins in the medium term.

Our operations are located in the USA, UK, Czech Republic, China and India. Our focus on new business development has been very high and we have won significant new work for our USA and Czech facilities which both performed strongly in the 2013/14 financial year. For the USA this new work is centred on our newly expanded Latrobe factory.

Strategic report - Chief executive's review continued

The increase in Czech activity has resulted in a need for further manufacturing capacity, and therefore we are in the final stages of concluding a lease for an additional 2,800 SQM of manufacturing space in Brno immediately adjacent to our existing building and expect this facility to be active by the autumn of this year. This additional space will enable a significant growth in our Czech plant's revenues over the coming years.

Our Indian facility has also performed well and continues to service a major global ATM customer. We are now actively pursuing other work from global organisations operating within India and believe that this market will be strong for us in future years.

As a result of our efforts, we expect to see significant improvements in plant utilisation over the next two years. We believe that the new programs we have secured will contribute to performance in the new financial year with the full effect being seen in 2015/16 as new programs tend to only hit efficiency targets after several months of manufacturing.

Our Chinese operation had a more difficult year with reduced schedules from its major customer. As part of our business development efforts we have now focused our Chinese plant on targeting programs for international companies serving the local domestic market. We are currently planning for the introduction of class 8 cleanrooms in our Chinese factory and we believe that this improved facility, together with our leading global quality procedures, will be a major growth driver for this operation. Growth in the UK medical device market has been strong and we have secured several new programs which will deliver growth into our Mitcham facility.

In order to improve our utilisation and cost effectiveness we recently announced the closure of our smaller non-medical operation in Harthill, UK. This business had been loss making for several years despite our best efforts and those of our dedicated workforce. These losses were partly attributable to the small size of this plant versus the overhead structure required to manage such a facility. This closure will enable our exit from lower margin work and will also allow a reallocation of the higher margin and more sustainable programs to our other plants.

We are now very well placed to enjoy an extended period of high growth and margin enhancement across all of our remaining facilities over the coming years.

LED Technologies

Sales in LED Technologies increased from £23.0 to £28.2 million, operating profit was up from £2.2 to £2.6 million. 80.8% of our sales (2013 – 81.1%) came from our Wipac supercar lighting business with the balance from LED optics.

Wipac has now secured new lighting programs for a number of leading global supercar brands. During the financial year we were awarded design and manufacture contracts for six new vehicles. We are also in the final stages of negotiation for lighting contracts for several other vehicles. To put this into perspective, we would normally have anticipated winning two or three lighting contracts per year. These new programs are now in the design phase and will flow through into manufacturing in around two to three years. These new contracts represent a significant step forward for our Wipac business, as whilst the vehicle production numbers are modest across this segment (normally lower than 10,000 vehicles per annum per model), the number of models that we will be manufacturing represents a step change on any previous levels. We are therefore investing approximately £4.0 million over the next two years into our facilities to ensure that we have the manufacturing and efficiency capabilities to meet our customers' highly demanding expectations.

We aim to have a truly world class manufacturing operation as we believe that we can continue to grow strongly within this segment. We now service most of the leading iconic automotive brands and have focused heavily during the year on building more strategic relationships with our key customers to ensure our own lighting research and development activities and theirs are well aligned. Revenue on new programs is recognised throughout the design and manufacturing start-up phase before moving to more traditional piece part pricing and as such we have good visibility over the coming years of how this business is likely to grow.

Strategic report - Chief executive's review

continued

The strategy of our Carclo Optics operation has been realigned to provide a greater focus on developing and supplying bespoke 'cluster' optics for major OEMs rather than smaller individual optics. This strategy has been successful and a number of OEM programs have been brought to market using Carclo Optics during the year. The business increased its turnover by 34.3% in 2013/14. We have completed the lease on a larger facility in Aylesbury to relocate from our existing facility in Slough upon the expiry of the lease for that building. This move will combine the Optics design and distribution business with that of our Wipac aftermarket distribution business to free up space in Wipac's Buckingham UK facility. In order to continue to drive momentum into the growth of our optics business, we will move a large proportion of our manufacturing of the Optics from our Technical Plastics business to within our LED Technologies division to simplify customer interaction and increase management focus. We are also investing in new ranges of innovative optics enabling both a class leading performance as well as the ability to create custom light clusters which utilise these optics in a low cost modular format.

We expect our LED Technologies division to maintain double digit revenue growth for the coming years and this will drive year on year growth in margins.

Precision Engineering

Sales increased from £7.5 to £7.8 million and operating profits remained at £1.5 million. The year was aided by a one-time contract for remedial machining of a Tier 1 supplier's parts for a major OEM. Adjusted for this one-off revenue the underlying financial performance was lower year on year and reflected a reduction in volumes at our French operations due to a combination of lower build rates for a key helicopter customer and lower cable assembly spares for older aircraft.

This business will remain profitable and we will continue to focus the business towards OEM supply to replace the inevitable reduction in spares for older aircraft as they are retired.

We disposed of the business, assets and stocks of our Birkett Cutmaster bandsaw business at the end of the year for £0.3 million in cash; this disposal will have minimal impact on the division's future profitability.

Carclo Diagnostic Solutions

Our CDS business has developed fully disposable, novel Point-of-Care diagnostics platforms which do not rely on a secondary reader for analysis and quantitative results. CDS platforms integrate low cost electronics from CIT with microfluidic mouldings from our Technical Plastics business.

Earlier in the year CDS partnered with EKF Diagnostics plc ("EKF") to develop its Micropoc-pro platform to be used with EKF's acute kidney injury marker ("pi-GST"). Initial patient sample trials are now underway; the first indicative results for the platform are encouraging. Further sample trials with larger numbers of devices are planned over the coming months. Aside from the potential commercial rollout of a disposable point of care kidney injury marker device, this joint program has enabled us to rapidly develop our Micropoc-pro platform and to better understand its likely specificity and sensitivity.







Having had CDS as an embryonic technology for several years, it was appropriate to conduct a full strategic review of this business and, working with a leading global medical device consultancy firm, we considered whether our technology was relevant to the industry, whether it was sufficiently unique and whether our market focus was appropriate. The outcome of the review was very positive and provided a strong recommendation on the most suitable market application areas for the current technology base.

On the basis of this review, along with information we have received from potential partners, we are now in the process of increasing our investment in CDS in order to realise the high potential from our technology. We have commenced the recruitment of a life sciences technical group based within our CIT Cambridge facility. This new team will work alongside our existing Daresbury team and focus on an aggressive development of our device in a total of four application areas. The first two applications

Strategic report - Chief executive's review continued

are consistent with our previous effort, being the kidney injury marker ("pi-GST") and a whole blood coagulation device. In addition we will develop two other devices, the first for a Cardiac Marker ("Troponin-I") used to diagnose acute myocardial infarction ("AMI") as well as heart muscle cell death and a second for an infectious disease marker ("CRP") used to diagnose a number of conditions including bacterial infections, cardiac conditions and certain cancers. In all cases we plan to use pre-existing third party reagents during the initial stages of development. We have developed a detailed work plan summarised in Table 1 below.

Table 1. CDS Development Timelines

		<i>Coag CAT</i>	<i>pi-GST Pro</i>	<i>CRP CAT</i>	<i>Troponin-I Pro</i>
Phase 1	 Prepare Product Definition Document Develop prototype assay			Q4' 2014	Q1' 2015
Phase 2	 Optimisation of assay and device, R&D scale Performance evaluation	Q3' 2014	Q1' 2014	Q3' 2015	Q1' 2016
Phase 3	 Scale-up device and reagent manufacturing process Performance assessment	Q2' 2015	Q1' 2015	Q1' 2016	Q3' 2016
Commercial Partnership		Q3' 2015	Q2' 2015	Q2' 2016	Q4' 2016
Phase 4	 Validation Verification				
Phase 5	 Regulatory submissions Launch activities	12-months	12-months	12-months	12-months

The markets for the four products identified have a combined value of over £2.5 billion and are growing rapidly. Our business model is focused on the initial development of an optimised demonstration device up until Phase 3, in collaboration with partners, and thereafter licensing deals would be expected to provide either one-off or recurring revenues.

This business is still in its early stages and there remains a level of technical risk associated with our platforms and their suitability for the chosen application areas. Progress has been sufficiently positive such that we see accelerating our investment as necessary if we are to realise the potential of this development.

CIT Printed Electronics

Having already created a high volume and low cost method of creating copper on film circuitry we are now focused on finding appropriate applications for this technology. This printed electronics technology development was the precursor to our touch screen developments and the focus on touch screens left the simpler lower cost "printed" version of our technology sitting in the background. We have now created a standalone business within CIT tasked with commercialising this technology. We completed the installation of pilot scale production equipment during the year to add component assembly on to our materials so that we can demonstrate the unique capabilities of this technology to customers and also supply small scale production of functioning product. Our own focus will be on integrating electronics into medical devices and as such we are working on several technology demonstrators. We are also working on a number of other projects in printed electronics as well as projects that utilise our fine line technology. Our strategy will be to focus on medium term revenue opportunities which may be supplied from our own facilities or built by external partners.

Chris Malley

10 June 2014

Strategic report - Finance director's review

Financial summary

	2014	2013
	£million	restated £million
Revenue	97.3	86.5
Divisional operating profit	8.6	7.7
Unallocated	(2.0)	(2.1)
Underlying operating profit from continuing operations	6.6	5.6
Exceptional items	(0.5)	(0.7)
Net bank interest	(0.6)	(0.6)
IAS 19 net financing charge	(0.7)	(1.1)
Profit before tax	4.8	3.2
Income tax expense	(1.2)	(0.4)
Loss on discontinued operations	(0.0)	(0.1)
Profit attributable to ordinary shareholders	3.6	2.7
Ordinary dividend	(1.7)	(1.6)
Surplus for the year	1.9	1.1
Divisional operating margin from continuing operations	8.8%	8.9%
Basic earnings per share	5.5p	4.3p
Underlying earnings per share	6.1p	5.2p

The comparatives have been restated in respect of the revisions to IAS 19 - "Employee Benefits".

Group sales in the financial year were £97.3 million (2013 - £86.5 million). The £10.8 million increase was mainly due to the significant growth in turnover in LED Technologies to £28.2 million (2013 - £23.0 million) and an increase in sales at Conductive Inkjet Technology ("CIT") to £3.3 million (2013 - £0.7 million). Technical Plastics also reported higher revenues at £58.1 million (2013 - £55.3 million) and Precision Engineering also saw slightly higher revenues at £7.8 million (2013 - £7.5 million).

Divisional operating profit was £8.6 million (2013 - £7.7 million) and underlying operating profit from continuing operations was £6.6 million, £1.0 million higher than in the previous year (2013 - £5.6 million). Unallocated costs were £2.0 million (2013 - £2.1 million). Unallocated costs comprised central group administration costs and the expenditure associated with administering the group pension scheme which are now charged directly to the income statement in line with the revised accounting provisions of IAS 19 - "Employee Benefits" ("IAS 19") which have also been applied to the comparatives. As expected, the second half of the year was much stronger in both Technical Plastics and LED Technologies and both divisions reported higher operating profits in the second half of the year than in the first half.

Profit before tax was £4.8 million (2013 - £3.2 million) after an exceptional charge of £0.5 million (2013 - £0.7 million), and this predominantly related to the cost of the group's litigation claim against Uni-Pixel Inc. which has now been settled.

Net bank interest at £0.6 million (2013 - £0.6 million) was at a similar level to the prior year. The net pensions financing charge under the provisions of IAS 19 was £0.7 million (2013 - £1.1 million restated for the changes to IAS 19) reflecting the decrease in the deficit in the period to 31 March 2013.

Strategic report - Finance director's review continued

The group tax charge for the year was £1.2 million (2013 - £0.4 million). This equates to an effective tax rate of 24.8% which compares to the current UK corporation tax rate of 23%. The higher effective rate is due to profits earned in higher tax jurisdictions.

Net debt and gearing

	2014 £million	2013 £million
Underlying cash flow	7.3	13.1
Interest and tax	(1.4)	(1.5)
Capital expenditure	(7.5)	(8.2)
Free cash flow	(1.6)	3.4
Pension payments above regular cost	(1.0)	(1.0)
Non recurring	(0.6)	(0.6)
Proceeds from issue of share capital	0.4	12.8
Performance share plan awards	(0.9)	(0.2)
Equity dividends	(1.7)	(1.5)
Cash flow from corporate activities	(5.4)	12.9
Development expenditure	(3.5)	(3.8)
Acquisitions and disposals	(0.0)	(0.1)
Exchange movement	0.4	(0.2)
(Increase)/decrease in net debt in year	(8.5)	8.8

Net debt comprises interest bearing loans and borrowings less cash and cash deposits

Group debt increased to £17.7 million at 31 March 2014 (2013 - £9.2 million). This represents gearing of 23.7% (2013 - 11.9%) after excluding the net pension surplus of £0.2 million (2013 - net pension deficit of £15.5 million). The prior year cash flow was inflated by the receipt of the US\$10.0 million prepayment from our partner Atmel Corporation ("Atmel") at the end of 2013 financial year and this prepayment partially unwound during the 2014 financial year. On a like for like basis underlying cash flow of £8.1 million was £1.0 million higher than in the prior year (2013 - £7.1 million).

Group capital expenditure in cash terms was £7.5 million (2013 - £8.2 million) representing 200% of the total group depreciation charge (2013 - 229%). This is the second year of above depreciation capital expenditure and this was due mainly to the capital cost of the US Technical Plastics facility expansion.

Pension contributions of £1.0 million (2013 - £1.0 million) were made during the year in respect of the annual deficit recovery plan payment. The group also paid the pension scheme administration costs of £0.6 million (2013 - £0.6 million).

Development expenditure of £3.5 million (2013 - £3.8 million) was capitalised during the year. £2.4 million of this related to CIT whilst £1.1 million related to Carclo Diagnostic Solutions ("CDS"). Group debt will increase further during the current financial year due to another year of high capital expenditure to fund the group's significant growth prospects.

Financing

As at 31 March 2014 the group's net debt was £17.7 million and the group had total bank facilities of £31.4 million, which included committed facilities of £20.0 million which expire in November 2015, and which were drawn to £17.6 million as at 31 March 2014. Since the year end, we have negotiated an

Strategic report - Finance director's review continued

additional £6.0 million of committed facility with one of our lending banks. This facility, which is priced competitively in line with our existing facilities, will also expire in November 2015. This additional facility will provide the group with sufficient headroom in order to fulfil its capital investment plans over the current financial year in order to drive significant future growth.

The two main covenants in the facility agreements are interest cover and the ratio of net debt to EBITDA and the group has a very comfortable level of headroom on both of these covenants as at 31 March 2014. Under the facility agreements the group's banks have security in the form of guarantees from certain group companies and fixed and floating charges over the current assets of the group's three main UK trading subsidiaries.

Pensions

As at 31 March 2014 the group pension scheme showed a small surplus of £0.2 million (2013 – deficit of £11.8 million, net of deferred tax) as calculated under IAS 19. Whilst the defined benefit pension liability reduced slightly to £183.6 million (2013 - £185.9 million), the fair value of the plan assets increased significantly to £183.8 million (2013 - £170.5 million). The trustees of the pension scheme are in the final stages of revising the investment strategy to incorporate diversified growth funds and liability driven investment products in order to reduce the risk on the liability and maintain growth potential for the assets moving forward.

These results take account of the changes made following the revisions to IAS 19 and these changes have also been applied to the comparatives. The amendments to the accounting standard result in pension scheme administration costs being charged directly to the income statement, within the central cost allocation, whilst the pension financing credit/charge is determined directly by applying the discount rate to the net defined benefit asset or liability. The impact on the results for the financial year is to reduce operating profit by £0.6 million (2013 - £0.6 million) and increase net finance expense by £2.1 million (2013 - £1.2 million).

The cash cost of the pension scheme to the group during the financial year was £1.6 million. This includes the annual recovery plan contribution of £1.0 million and scheme administration costs of £0.6 million. The recovery plan contribution was part of the recovery plan agreed with the trustees subsequent to the scheme triennial valuation at 31 March 2012. Under this recovery plan annual contributions will remain at around £1.0 million (indexed annually at 2.9%) for the remaining recovery plan period of 12 years from 31 March 2012. The next triennial valuation will be on 31 March 2015. At 31 March 2014 group properties with a net book value of £6.4 million were subject to a registered charge in favour of the group pension scheme.

Conductive Inkjet Technology (“CIT”)

CIT reported revenues of £3.3 million (2013 - £0.7 million) and a small underlying operating loss of £0.2 million for the year (2013 - £nil) after an amortisation charge totalling £0.8 million (2013 - £0.2 million). This amortisation charge on the intangible assets of the business will be higher in the current financial year to reflect a full year's charge.

CIT received the US\$10.0 million prepayment from Atmel at the end of the 2012/13 financial year and this has reduced during the 2013/14 financial year against sales of coated film.

CIT incurred capital expenditure of £1.1 million (2013 - £3.5 million) during the year. In addition, the total amount of development expenditure capitalised was £2.4 million (2013 - £2.9 million). The group balance sheet now includes intangible assets totalling £21.1 million in respect of CIT (2013 - £19.5 million), with £14.1 million (2013 - £12.5 million) of this amount being capitalised development costs funded by the group. The remaining £7.0 million represents the fair value assigned to the intellectual property that arose from the accounting treatment of the previous acquisitions of the minority holdings from our original joint venture partner. The group's policy is to conduct an annual impairment review in respect of the goodwill and to amortise the other intangible assets on a straight line basis over the estimated economic life of the intangible asset which has now been judged to be a period of up to 10 years from the date upon which the patent or related development expenditure becomes available for use. The reduction in the estimated economic life from 12 years to 10 years reflects a more prudent view by the directors and this will result in higher annual amortisation charges going forward.

Strategic report - Finance director's review

continued

CIT has incurred legal costs of £0.4 million in the year ended 31 March 2014 (2013 - £0.4 million) in respect of its litigation against Uni-Pixel Inc. This litigation has now been settled and minimal further costs are expected in the current financial year.

Carclo Diagnostic Solutions ("CDS") and Platform Diagnostics ("PDL")

In the financial year the group incurred £1.1 million of development costs (2013 - £0.8 million) in respect of CDS and these costs have been capitalised on the group balance sheet. This increases the total fair value of intangible assets relating to the group's investment in CDS and PDL to £5.4 million.

Robert Brooksbank

10 June 2014

Strategic report - Directors' review of the risks faced by the group

The management of Carclo actively seeks to identify and manage the risks to which the group is exposed. The main risks faced by the group, as determined by the directors, are –

Global economy

The uncertainty over the global economic recovery remains and this continues to promote volatility and insecurity for both the industries and customers served by the group which raises the risk profile for all businesses.

Carclo has high operational gearing and a large risk currently faced by the group remains a sharp reduction in demand should global economic output reduce further. Carclo serves a number of markets, such as medical and supercar markets, which have remained mostly detached from general consumer activity and as such have, to date, been comparatively unaffected by the uncertainty in global demand. However should these markets be impacted then Carclo has a proven track record of acting swiftly to rebalance the supply base with demand.

Reliance on major customers

The proportion of revenues generated from the top five customers in the year was 48.8% (2013 – 50.1%). One medical customer accounted for 22.8% of revenues (2013 – 20.4%) and one supercar customer accounted for 12.4% of revenues (2013 – 12.4%). No other customer accounted for more than 10.0% of revenues in the year or prior year.

The major customers are blue-chip multi-nationals operating in the medical, electronics and automotive markets. Focusing on our key customers brings significant opportunities to develop in low cost regions and enhance the customers' products through our own technologies. However, there is an associated risk in the potential loss of such customers either through competitive pressures, relocation or insolvency. Such risks are mitigated through being able to offer world-class quality and costs, flexibility in manufacturing location and, in the case of insolvency, through the application of credit insurance across the group.

The level of bad debts experienced in the year under review, and the prior year, were negligible.

Raw material sourcing

Carclo's businesses use engineering polymers to produce finished products. Polymers are produced from feedstock which is linked to oil and polymer prices which move in response to supply and demand and the underlying cost of feedstock. This potentially introduces volatility in the cost of raw materials processed by the group. Oil prices have increased from \$83 dollars per barrel at 1 April 2010 to \$106 dollars per barrel at 31 March 2014. This risk is managed in the main by negotiating pass through pricing whereby our customer accepts the risk of movements in base polymer prices.

The majority of our business within Technical Plastics continues to operate on formal or informal pass through pricing arrangements. On the balance of business where Carclo takes the raw material price risk we aim, wherever possible, to agree longer term price contracts to mitigate this risk.

Global operations

Carclo has expanded into low cost regions. The risks associated with this are -

i) **Management control**

A centrally managed common information technology system is used throughout the group, which, combined with standardised operating procedures and pricing models, allows management oversight and investigation independent of location.

Strategic report - Directors' review of the risks faced by the group continued

ii) Management cultural differences

Local knowledge of working practises and legislation is key to the success of global operations.

We undertake frequent visits to our global locations and pay particular attention to the recruitment of quality technical and financial staff. In low cost regions retaining staff against the background of a fast growing economy is a challenge. We address this by ensuring an effective and efficient working environment, and by succession planning to ensure that we maintain continuity of trained staff.

iii) Regulatory risk

Our global operations require us to be aware of all local compliance issues particularly within the spheres of transfer pricing, tax and repatriation of profits. This risk is managed centrally. Carclo uses both internal and external auditors and good quality locally based legal advice to keep up to date with changes in legislation and to identify and mitigate any potential regulatory issues.

Energy costs

Energy costs in the UK have remained relatively stable in recent years following their volatility in the latter part of the last decade. Carclo's operating businesses are not especially energy intensive and in the year ended 31 March 2014, Carclo's electricity costs remained at £2.3 million (2013 - £2.3 million), with increasing global manufacturing capacity being offset by increasing operational efficiency.

To mitigate the risk of price volatility, Carclo is part of a UK corporate pool which enters into fixed tariffs on rolling contracts, typically six months in duration. This is done in consultation with independent energy consultants. For the main overseas companies, electricity prices are established on twelve month contracts.

Innovation and investment in new technologies

Carclo invests in new technologies and proprietary know-how. Examples include -

- Conductive Inkjet Technology ("CIT")
- Platform Diagnostics ("PDL")
- Carclo Diagnostic Solutions ("CDS")
- soluble polymers

These innovations and the development of new technology require a significant level of time and investment to advance the technology to a commercially viable application. The most advanced technology is CIT. The group currently has intangible assets of £21.7 million associated with the development of CIT's innovative process. During the year Carclo continued to invest in the development of PDL and CDS.

There is an inherent risk that such development work may ultimately not be commercially viable or may be attacked by competing technologies. Carclo aims to limit its risk by undertaking detailed financial and commercial due diligence of potential opportunities prior to investing. We prefer to co-invest with partners who have expertise in the field. Wherever possible, development work is protected by a series of robust worldwide patents and non-disclosure agreements with potential partners to mitigate the risk of patent infringement and other unauthorised use of our proprietary know-how.

Whilst there are risks inherent with any development investment of this nature, the potential benefits are significant and this investment is necessary to remain competitive and drive the growth of the group.

Strategic report - Directors' review of the risks faced by the group

continued

Pensions

Carclo's UK defined benefit pension scheme is very mature and is large compared with the size of Carclo. The scheme is backed by substantial assets amounting to £183.8 million at 31 March 2014 (2013 - £170.5 million).

Small adjustments to the assumptions used to calculate the pension liability, or significant swings in bond yields or stock markets, can have a large impact in absolute terms on the net assets of the group. This has introduced an increased level of volatility to the group balance sheet and the impact of the net pension obligation on the level of distributable reserves is monitored on an ongoing basis. The group is currently undertaking a review of its investment strategy to consider ways to reduce this volatility.

A triennial valuation of the scheme was undertaken as at 31 March 2012 and, based on this valuation, the group has agreed a revised recovery plan with the trustees. The recovery plan requires annual, index linked, contributions of £1.0 million to be made commencing 31 October 2013 for a period of 12 years.

The group elected to cease future accrual with effect from 1 October 2010 with all members being invited to join the scheme's defined contribution scheme. All new eligible employees are also given the opportunity to join this scheme.

In addition the group has in recent years offered eligible pensioners the option to switch from a pension with indexed linked pension increases to a higher fixed pension with no future increases.

Funding and banking covenants

Medium term committed bank facilities have been agreed which include a number of financial covenants which are normal for facilities of this type. Whilst there is currently good headroom on the covenants, the board continue to monitor the forecast position monthly in order to ensure that adequate headroom is maintained. The facilities were renewed in 2011 and next fall due for renewal in November 2015.

Foreign exchange exposure

Carclo is a global group with revenues in pounds sterling, Euros, US dollars, renminbi, Czech koruna and Indian rupee. The group therefore faces a transaction risk as currencies fluctuate.

The group aims to manage transaction risk through a natural hedge, whereby sales revenues and costs in each currency across the group as a whole are matched as far as is practicable. The mismatch of transaction flows is small in the context of the total group revenues.

The group's policy is to hedge the major overseas assets by equivalent currency borrowings so that the balance sheet is not exposed unduly to significant fluctuations in currency. This is balanced against any associated treasury inefficiency associated with excessive currency borrowings. At 31 March 2014 the group had term loan borrowings of US \$10.6 million which are being used to hedge the assets held in the USA and €7.5 million which are used to hedge the assets in France and the Czech Republic.

Further details on the group's foreign currency exposures can be found in note 27 of the report and accounts.

Information technology

The group operates on a common, centrally managed computer platform. This provides common reporting and control systems and the ability to manage and interrogate businesses remotely. However, there are associated risks, such as IT security, access rights and business continuity, with having the entirety of the group IT systems on a common platform.

Strategic report - Directors' review of the risks faced by the group
continued

These risks are mitigated by an increased focus on IT security through the internal audit process and investment in IT facilities to maintain separacy and redundancy for the hardware and communications infrastructure.

Strategic report - Social responsibility report

The board considers that it is paramount that the group maintains the highest ethical and professional standards throughout all its undertakings and that social responsibility should remain a key tenet of operations and decision making. It understands the importance of managing the impact that the business can have on employees, customers, suppliers and other stakeholders and feels this impact should be regularly reviewed to maintain constant improvement, which in turn supports the long-term performance and sustainability of the business.

Our focus is to embed the management of these areas into our business operations, both managing risk and delivering opportunities that can have a positive influence on our business.

During the year there have been no prosecutions, fines or enforcement action as a result of non-compliance with safety, health or environmental legislation.

Employees

The group operates and is committed to a global policy of equality that provides a working environment that maintains a culture of respect and reflects the diversity of our employees. It is absolutely committed to offering equal opportunities to all people regardless of their sex, nationality, ethnicity, language, age, status, sexual orientation, religion or disability.

We believe that all employees should be able to work safely in a healthy workplace without fear of any form of discrimination bullying or harassment.

Ethical policy

Following the enactment of the Bribery Act 2010, we have codified our Ethical Policy confirming our commitment to not tolerating bribery, corruption or other unethical behaviour on the part of any of our businesses in any part of the world. Compliance with the act has been a priority for the group and the policy provides guidance and instruction to employees and training has been performed in all areas of the business to ensure that it is complied with.

Environmental policy

It is the group's policy to seek continually to eliminate and, where this is not practicable, to minimise negative environmental impacts from the pursuit of its various business interests whilst continuing to produce high quality products to its customers' requirements.

It is the group's policy to comply with all statutory environmental legislation as a minimum and to aim to improve upon the standards set by the local regulatory authorities. To this end, each subsidiary is audited by the group's outsourced health, safety and environment manager to -

- benchmark performances across the group;
- help sites identify and prioritise issues for improvement;
- ensure legal compliance.

The results of audits are communicated directly to the group executive committee and to all subsidiary boards and appropriate action is taken.

It is the group's policy to foster an informed and responsible approach to all environmental concerns and it encourages the involvement of employees, customers and suppliers. Regulatory authorities are consulted and informed at all appropriate times.

The group continues to support long term strategies to minimise, reuse and recycle packaging through its membership of Valpak, a not for profit organisation through which a large number of businesses work together to recover and recycle packaging.

Strategic report - Social responsibility report continued

Health and safety

A comprehensive health and safety policy is in place to ensure a safe working environment at all times with a plan to ensure that all facilities in all countries meet the requirements of the most exacting location. The health and safety policy also demonstrates our additional responsibility to customers, suppliers and contractors and we maintain communication of the policy at all levels throughout the group.

Global social responsibility

Carclo is a global company, which drives for sustainable growth in partnership with local communities and we take our responsibilities towards those communities to maintain an ethical supply chain seriously. With full control over our manufacturing facilities in low cost regions we commit to being a responsible supplier and ensure that we at least meet local social expectations.

Performance management

We are developing a number of key performance indicators to help manage and maintain our corporate responsibility risks and opportunities. These will cover, although not be restricted to, carbon monitoring and reduction, health and safety and community investment.

Greenhouse gas emissions

The group is required to report its annual greenhouse gas ("GHG") emissions pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 ("Regulations"). We have collated data during the year to 31 March 2014 and are reporting emissions for this period to coincide with the group's financial reporting period.

The table below sets out the group's global emissions in tonnes of carbon dioxide equivalent (tCO₂e) for the year under review:

	2014
Emissions from:	
Combustion of fuel and operation of facilities (tCO ₂ e)	2,722
Electricity purchased for own use (tCO ₂ e)	15,273
Total (tCO ₂ e)	<u>17,995</u>
Group revenue (£ million)	97,367
Intensity ratio (tCO ₂ e per £1 million of revenue)	184.8

The 2014 data forms the information set for the base year of reporting. In line with the requirements of the Regulations this will enable us to report on future changes with reference to the 2014 data.

An operational control methodology has used to identify material emissions sources. Data has been collated from source documentation or, where this has been impracticable, using estimates. Calculations of emissions for the period have been made using third-party, specialist software and have undergone third-party quality assurance.

To enable meaningful comparison of GHG emissions across periods an intensity ratio has been determined based on group revenues.

Strategic Report signed on behalf of the board

Chris Malley
10 June 2014

Directors and advisers

Directors Directors

- * Michael Derbyshire - chairman
- Christopher Malley - chief executive
- Robert Brooksbank
- * Robert Rickman
- * * Bill Tame

* non executive

+ senior independent director

Secretary

Eric Cook

Registrars

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Website: www.carclo-plc.com
E-mail: investor.relations@carclo-plc.com

Registered Company Number: 196249

Governance - Directors' report

The directors submit their ninety first annual report together with the accounts for the year ended 31 March 2014.

Principal activities

The group's activities are shown on page 6.

Review of the business, events since the year end and future developments

The statutory information required concerning the review of the business, key performance indicators, events since the year end and future developments is contained in the "Overview" and "Outlook" sections of the chairman's statement, the "Strategic development" and "Operating review" sections of the chief executive's review and the "Financial summary" section in the finance director's review on pages 4 to 13. The directors' review of risks faced by the group is detailed on pages 16 to 19. The chairman's statement, chief executive's review, finance director's review, statement of corporate governance, directors' remuneration report and directors' review of risks faced by the group are each a part of the directors' report.

Profits and earnings

The profit of the group before taxation after charging net interest of £1,260,000 (2013 – £1,698,000) amounted to £4,771,000 compared with a profit of £3,217,000 for the previous year. After taxation the profit per ordinary 5 pence share was 5.5 pence compared with 4.3 pence for the previous year.

Share capital and authority to purchase shares

At 31 March 2014, the company's issued share capital comprised 66,054,142 ordinary shares of 5p each. Details of the changes in issued share capital during the year are set out in Note 25 to the accounts.

Each share carried equal rights to dividends, voting and return of capital on the winding up of the company as set out in the company's articles of association. There are no restrictions on the transfer of securities in the company and there are no restrictions on voting rights or deadlines, other than those prescribed by law, nor is the company aware of any arrangement between holders of its shares which may result in restrictions on the transfer of securities or voting rights.

At the annual general meeting in September 2013 shareholders gave authority to the directors to purchase up to 10% of the company's issued ordinary shares in the market. No ordinary shares in the company were purchased during the year under this authority which will expire at the annual general meeting in September 2014. The directors will ask shareholders to renew the authority at that meeting.

Contracts of significance and related parties

There were no contracts of significance between any member of the group and (a) any undertaking in which a director has material interest, or (b) a controlling shareholder (other than between members of the group). There have been no related party transactions between any member of the group and a related party since the publication of the last annual report.

Governance - Directors' report continued

Substantial shareholdings

The company had been notified under Disclosure and Transparency Rule 5 of the following major holdings of voting rights associated with its issued ordinary share capital as at 22 May 2014 -

	<u>31 March 2014</u>	<u>22 May 2014</u>
Ruffer LLP	14.31%	14.32%
Henderson Global Investors	8.76%	8.94%
Legal & General Investment Management	6.62%	5.79%
Standard Life Investments	6.52%	6.52%
BlackRock Inc	6.05%	4.83%
Schroder Investment Management	5.62%	5.87%
Redmayne-Bentley	3.18%	3.18%
M&G Investment Management	3.12%	3.04%

Directors and governance

The directors at the date of this report are listed on page 22.

The directors who served during the year are shown below:

Michael Derbyshire	Chairman
Chris Malley	Chief executive
Robert Brooksbank	Finance director
Bill Tame	Non-executive director
Robert Rickman	Non-executive director

Additional information relating to directors' remuneration and interests in the ordinary share capital of the company are included in the directors' remuneration report on pages 36 to 52.

Biographical details relating to each director are shown below:

The Corporate Governance report on pages 28 to 32 provides the corporate governance statement required by Disclosure and Transparency Rule 7.2.1.

Biographies of directors

Michael Derbyshire Age 66

A non executive director from 1 January 2006 and appointed group chairman on 6 September 2012. He is a chemical engineer and was previously chairman of Survitec Group Limited, Racal Acoustics Global Limited and Allied Textiles Limited and chief executive of Whitecroft plc.

Robert Brooksbank Age 48

Joined the group on 1 April 2004 as finance director. After obtaining an honours degree in biological sciences he qualified as a chartered accountant with Ernst & Young in London and Moscow. He joined Enron Europe in 1995 before becoming a director of his family firm, Brooksbank Industries Limited in 1997. He is a non executive director of blur Group plc.

Chris Malley Age 47

Joined the Group in May 1999 and was appointed to the board on 1 July 2012. He was appointed as chief executive with effect from 27 March 2013.

He has an honours degree in economics and is a chartered management accountant. Prior to joining the group he held several finance and commercial positions within Jefferson Smurfit Group plc. Since

Governance - Directors' report continued

joining Carclo, he has held senior positions within finance, corporate development and general management, latterly as chief executive of Conductive Inkjet Technology.

Bill Tame

Age 59

A non executive director from 1 January 2006 and chairman of the audit committee and senior independent director from 1 April 2006. He is currently finance director of Babcock International Group plc and formerly worked for Courtaulds plc before moving to Scapa Group plc as group finance director.

Robert Rickman

Age 56

A non executive director from 1 July 2012 and chairman of the remuneration committee from 6 September 2012. He is a partner in the Rockley Group, a private technology investment organisation, and a non executive director of Schroder UK MidCap Investment Trust and Cambium Global Timberland Limited. He was formerly a director of Bookham Technology plc.

Interests of directors

Details of the interests of directors in the ordinary share capital of the company are included in the directors' remuneration report on pages 36 to 52.

Directors' indemnities

Article 132 of the company's articles of association includes qualifying indemnity provisions, limited by law, in respect of the directors' performance of their duties as a director of Carclo plc or any associated company. The company takes out insurance covering claims against the directors or officers of the company and any associated company and this insurance provides cover in respect of some of the company's liabilities under Article 132.

Disclosure of information to auditor

In accordance with section 418(2) of the Companies Act 2006, the directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Explanation of business of the annual general meeting 2014 ("AGM")

Resolution 1 – to receive the Annual Report and Financial statements

The directors will present their report, the auditors' report and the audited financial statements for the financial year ended 31 March 2014 to the meeting. This gives shareholders the opportunity to ask questions on the contents before voting on the resolution.

Resolution 2 – Approval of the Directors' Remuneration Report

The directors will put the Directors' Remuneration Report to the meeting. The Report can be found on pages 36 to 52 of the company's annual report 2014. Shareholders will have the opportunity to ask questions on the contents of the Directors' Remuneration Report before voting on the resolution. Whilst the payment of remuneration to the directors is not dependent on the passing of the resolution, your board will take the vote into account when considering the future development and operation of the company's remuneration policy and practice.

Resolution 3 – Approval of the Directors' Remuneration Policy

The directors will put the Directors' Remuneration Policy, which can be found on pages 36 to 52 of the annual report 2014, to the meeting. This is a new requirement which applies to directors' remuneration reports for financial years ending on or after 30 September 2013. The Directors'

Governance - Directors' report continued

Remuneration Policy must be proposed at least every three years, or in the event of a change in the policy if sooner.

Resolution 4 – Final Dividend

The directors recommend that a final dividend of 1.80 pence be paid (2013 – 1.75 pence), making a total dividend for the year of 2.65 pence (2013 – 2.55 pence).

Subject to shareholder approval, dividend payments will be paid on 3 October 2014 to shareholders on the register at close of business on 29 August 2014. The shares will be traded excluding the right to the dividend from 27 August 2014.

Resolution 5A – 5E – Re-election of directors

The Company's Articles of Association state that one third of the directors (excluding directors appointed by the board since the last AGM, (all of whom retire at the AGM following their appointment) must retire by rotation each year, though they may offer themselves for re-election. However, in accordance with developing best practice and corporate governance, this year all directors are retiring and seeking re-election. Following a formal evaluation process during the year, it was determined that each director continues to be an effective member of the board and demonstrates commitment to the role. Biographical details relating to each director can be found in the Annual Report 2014.

Resolution 6 – Re-appointment and remuneration of auditor

The company's auditors must be appointed each year at the AGM. The board has decided to put KPMG LLP forward to be re-appointed as auditors and resolution 6A concerning their re-appointment will be put to the members at the AGM. Resolution 6B authorises the directors to determine the auditor's remuneration.

Resolution 7 – Renewal of the powers of the board to allot shares

The directors have the power to allot shares in accordance with section 551 of the Companies Act 2006, with the authority of an appropriate shareholders' resolution. Hence, resolution 7 will be proposed at the AGM authorising the directors to allot ordinary shares of up to £1,100,902 nominal amount (equivalent to one third of the present issued ordinary share capital as at 10 June 2014).

Resolution 8 – Directors' authority to dis-apply pre-emption rights and to allot shares for cash

The directors have the power in accordance with section 570 of the Companies Act 2006, to allot shares for cash, other than by way of a rights issue, as if section 561 of that Act did not apply, with the authority of an appropriate shareholders' resolution. Hence, resolution 8 will be proposed at the AGM authorising the directors to allot ordinary shares of up to £165,135 in nominal amount for cash (being approximately 5% of the current issued ordinary share capital as at 10 June 2014 as if section 561 of the Companies Act 2006 did not apply).

Resolution 9 – Authorisation for the company to purchase its own shares

Under section 701 of the Companies Act 2006 the company may, with the authority of an appropriate shareholders' resolution, purchase its own shares. The directors are seeking authority from the shareholders for the company to effect such purchases (resolution 9). Any such purchase would be made "on-market" (i.e., on the London Stock Exchange in the normal way). Any such purchase would be upon, and subject to, the following conditions -

- i) the maximum number of ordinary shares that may be purchased under this authority is 6,605,414 shares (being approximately 10% of the present issued share capital of the company as at 10 June 2014);

Governance - Directors' report continued

- ii) the minimum price which may be paid for an ordinary share is the nominal value of the ordinary share;
- iii) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share taken from the London Stock Exchange Daily Official List for the ten business days immediately preceding the day on which the share is purchased; and
- iv) this authority shall expire on 1 December 2015 or, if earlier, at the conclusion of the company's annual general meeting to be held in 2015.

There were outstanding at 10 June 2014, options to subscribe for 225,000 ordinary shares, representing 0.3% of the current issued share capital. If the full share purchase authority was utilised, the options outstanding would represent 0.4% of the issued share capital.

Shareholders should be assured that your directors will only exercise the power of purchase after careful consideration and being satisfied that, after taking account of other investment opportunities, such purchase would be in the interests of shareholders by increasing future earnings per share. In addition, the effect of any share purchase would be reflected in any earnings per share calculation used for the purposes of incentive awards

Shares purchased will, as required by the Companies Act 2006, be cancelled and will not be available for reissue or resale. Details of any purchases will be notified to the London Stock Exchange and will appear in the next annual report of the company. During the year, no shares were purchased under the authority given at the 2013 annual general meeting.

Resolution 10 – notice of general meetings

Finally, resolution 10 will seek shareholder approval to allow the company to call general meetings (other than annual general meetings) on 14 clear days' notice. The directors confirm that this shorter period will only be used where merited by the purpose of the meeting. The approval will be effective until the company's next annual general meeting, when it is intended that a similar resolution will be proposed.

Resolutions to implement the above authorities will be found in the notice of general meeting on pages 97 to 99 and the authorities would last until the annual general meeting in 2015 or on 1 December 2015 whichever is the earlier.

The directors believe that the adoption of all the resolutions set out in the notice of meeting dated 27 June 2014 is in the best interests of the company and its shareholders as a whole. Accordingly, the directors unanimously recommend that you vote in favour of the resolutions, as they intend to do in respect of their beneficial holdings.

By order of the board

Eric Cook
Secretary
10 June 2014



Governance - Statement of corporate governance

UK Corporate Governance Code

The company remains committed to the highest standards of corporate governance for which the board is accountable. The company has complied throughout the year with the main provisions of the UK Corporate Governance Code (the "Code") issued by the Financial Reporting Council. This statement, together with the directors' remuneration report, describes how the company has applied the main principles of the Code.

The board

During the year the board comprised the non executive chairman, the chief executive, the executive finance director and two other non executive directors. Under the company's articles of association, all directors must offer themselves for re-election at least once every three years. However, in accordance with developing best governance practice, this year all directors are again retiring and seeking re-election.

The biographies of all the directors appear on pages 24 to 25.

The roles of chairman and chief executive are held by separate directors with a clear division of responsibilities between them. The chairman has primary responsibility for leading the board and ensuring its effectiveness. He sets the board's agenda and ensures that all directors can make an effective contribution. The chief executive has responsibility for all operational matters and the development and implementation of group strategy approved by the board.

The chairman and each non executive director were independent on appointment and the board considers each non executive director to be independent in accordance with the Code.

The board has appointed W Tame as senior independent non executive director who is available to shareholders if they have concerns which have not been resolved through the normal channels of chairman or chief executive.

The board meets regularly (at least nine times each year) and there is contact between meetings to progress the company's business. During the year attendance by directors at meetings of the board and the various committees is set out below.

	Board meetings		Remuneration		Audit	
	No. Held	No. Attended	No. Held	No. Attended	No. Held	No. Attended
MJC Derbyshire	10	10	4	4	3	3
W Tame	10	9	4	4	3	3
RJ Rickman	10	10	4	4	3	3
CJ Malley	10	10	-	-	-	-
RJ Brooksbank	10	10	-	-	-	-

The board has a formal schedule of matters specifically reserved to it for decision (including the development of corporate strategy and the approval of annual budgets, major capital expenditure and potential acquisitions and disposals). Briefing papers are distributed by the secretary to all directors in advance of board meetings. All directors participate in a full induction process on joining the board and subsequently receive training and briefing as appropriate. The directors are authorised to obtain independent advice as required.

Conflicts of interest

Under the requirements of the Companies Act 2006 each director must seek authorisation before taking up any position that may conflict with the interests of the company. The board has not identified any actual conflict of interest in relation to existing external appointments for each director which have been authorised by the board in accordance with its powers. A register is maintained by the company secretary and reviewed on an annual basis.

Governance - Statement of corporate governance

continued

Board evaluation

The board was engaged throughout the previous year in succession planning. This year the chairman supervised an internal evaluation of the board's performance and that of its three principal committees. In addition, an evaluation of the performance of individual directors was undertaken.

The evaluation process was based on a series of questions devised for the purpose and circulated to the directors. The process reviewed issues such as: the assessment and monitoring of the company's strategy; the monthly board meeting agenda and information flow, the evaluation of risk and social responsibilities including anti-bribery policies and environmental risks. There was also a review of the role and performance of the board committees. This included an evaluation of the audit committee's review of current financial controls and the outsourced internal audit function and of the remuneration committee's review of additional disclosures in the annual remuneration report. The results of the evaluation were collated by the chairman and will form the basis of board objectives for 2014, including:

- refining the group's technology business strategy
- discussion of management and board succession
- further evaluation of business risks
- development of environmental policies including energy minimisation strategies

The nomination committee recognises the benefits to the group of diversity in the workforce and in the composition of the board itself and supports the Davies Report's aspiration to provide a greater female representation on listed company boards. While the company will continue to make all appointments based on the best candidate for the role, we will look to follow the procedures recommended by the Davies Report and by the Code when new board appointments are made.

Board committees

The board has three committees, Nomination, Remuneration and Audit all of which have terms of reference which deal specifically with their authorities and duties. The terms of reference may be viewed on the company's website. All committee appointments are made by the board. Only the committee chairmen and members of the committees are entitled to be present at committee meetings, but others may attend by invitation.

Nomination committee

The nomination committee comprises the non executive directors. The committee is chaired by the group chairman and is responsible for proposing candidates for appointment to the board, having regard to the balance and structure of the board.

In the last year the full committee has met once to discuss succession planning and board performance.

Remuneration committee

The company has established a remuneration committee consisting entirely of independent non executive directors including the group chairman. The remuneration committee met four times during the year and is chaired by RJ Rickman. The committee recommends to the full board the company's policy on executive director and executive management remuneration and continues to determine individual remuneration packages for executive directors. The remuneration committee is authorised by the board to obtain independent professional advice if it considers this necessary. The directors' remuneration report on pages 36 to 52 sets out the group's remuneration objectives and policy and includes full details of directors' remuneration in accordance with the provisions of the Code.

Governance - Statement of corporate governance

continued

Audit committee

The audit committee comprises all the non executive directors including the group chairman and meets not less than three times annually. The committee is chaired by W Tame who, as current finance director of Babcock International Group plc, has both recent and relevant financial experience. The committee provides a forum for discussions with the group's external and internal auditors. Meetings are also attended, by invitation, by the chief executive and finance director.

The audit committee has terms of reference which follow closely the recommendations of the Code and include the following main roles and responsibilities:

- To monitor the financial reporting process.
- To review the effectiveness of the group's internal financial controls, internal control and risk management systems and internal audit function.
- To review the independence and effectiveness of the external auditor, including the provision of non-audit services.

The committee has reviewed whistleblowing arrangements whereby employees can report concerns about financial irregularities, health and safety and environmental or legal matters. A dedicated whistleblower email address has been set up, details of which are included in new employee induction material and advertised at operating sites.

The audit committee assists the board in observing its responsibility for ensuring that the group's financial systems provide accurate information which is properly reflected in the published accounts. It reviews half year and annual accounts before their submission to the board and reviews reports from the internal auditors and computer department. The audit committee report is set out on pages 33 to 35.

Certain operational and administrative matters are delegated by the board to the following executive committees:

Group executive committee

The group executive committee is chaired by the chief executive and comprises all the executive directors together with the group financial controller and selected managing directors from operating companies. The committee meets each month and is responsible to the board for running the ongoing operations of the group's businesses.

Finance, administration and risk management committee

The finance, administration and risk management committee is chaired by the finance director and comprises the secretary, group financial controller and group accountant. The committee meets at least quarterly and is custodian of the group finance manual and is responsible for setting accounting and risk management policies and ensuring overall compliance with Turnbull guidance on internal controls.

Accountability and audit

Internal control

The board confirms that it has established the procedures necessary to implement the guidance "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull Report). These procedures provide for a continuous process for identifying, evaluating and managing the material business risks faced by the group. This process has been in place throughout the year under review and up to the date of approval of the annual report and accounts. The process has been reviewed by the board and is in accordance with the guidance given in the Turnbull Report.

Governance - Statement of corporate governance

continued

For the year ended 31 March 2014, the board has reviewed the effectiveness of the group's system of internal control and risk management, for which it retains overall responsibility. Responsibility for operating the system is delegated to the group executive committee and responsibility for monitoring the system is delegated to the finance, administration and risk management committee. The audit committee reviews the effectiveness of the group's internal control system, the scope of work undertaken by the internal auditors and its findings, the group's accounts and the scope of work undertaken by the external auditors. Reviews are undertaken regularly and cover each accounting year and the period up to the date of approval of the accounts.

The internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives. Although no system of internal control can provide absolute assurance against material misstatement or loss, the group's system is designed to provide reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The principal features of the group's internal control structures can be summarised as follows –

a) Matters reserved for the board

The board holds regular meetings and has a number of matters reserved for its approval, including major capital expenditure, treasury and dividend policy. The board is responsible for overall group strategy and for approving all group budgets and plans. Certain key areas are subject to regular reporting to the board including treasury operations, capital expenditure, corporate taxation and legal matters. The audit committee assists the board in its duties regarding the group's financial statements and liaises with the external auditors.

b) Organisational structure

There is a clearly defined organisational structure with lines of responsibility and delegation of authority to divisional executive management. Divisional responsibility is supplemented by a group finance manual which dictates policies and practices applicable across the group and includes accounting, purchasing, capital expenditure and codes of business conduct. These are reviewed by the internal auditor and are reported to the audit committee. This process forms part of the audit committee's review of the effectiveness of the group's system of internal control.

c) Financial control and reporting

There is a comprehensive group wide system of planning and budgeting with frequent reporting of results to each level of management as appropriate, including monthly reporting to the board. Reviews involving executive directors and divisional executives include the annual identification and assessment of business and financial risks inherent in each division.

d) Internal auditor

Mazars LLP continues to provide the outsourced internal audit function. The internal auditor monitors and reports on the system of internal control. The internal auditor reports to the audit committee and works to an agreed programme.

Relations with shareholders

The company recognises the importance of communication with its shareholders. Regular meetings are held between directors of the company and major institutional shareholders including presentations after the company's preliminary announcements of the half year and full year results and discussions on performance and strategy. Major shareholders have been advised that the chairman and the non executive directors are available for separate discussions if required. The chairman held meetings with several major shareholders during the year. The board uses the annual general meeting to communicate with private and institutional investors and welcomes their participation. Shareholders have the opportunity to raise questions with the board during the meeting. Directors also make themselves available before and after the annual general meeting to talk informally to shareholders, should they wish to do so. The level of proxies received for each annual general meeting resolution is declared after the resolution has been dealt with on a show of hands providing no poll has been called for. Details of the resolutions to be proposed at the annual general meeting on 6 September 2014 can be found in the notice of meeting on pages 97 to 99.

Structure of company's capital

Details of the structure of the company's capital are set out in the director's report on pages 23 to 27.

Approved by the board on 10 June 2014 and signed on its behalf by

Eric Cook
Secretary

Governance - Audit committee report

Annual statement by the Chairman of the Audit Committee

The Audit Committee has continued its detailed scrutiny of the group's system of risk management and internal controls, the robustness and integrity of the group's financial reporting and the scope, effectiveness and results of both the internal and external audit processes.

There have been a number of significant changes for Audit Committees during the year under review. The revisions to the UK Corporate Governance Code took effect during the year and contain several new provisions relevant to the Audit Committee:

- the board is required to make a statement that the annual report is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy. It is expected that most boards will ask the Audit Committee to advise them on this statement;
- the Audit Committee report should provide more information on the significant issues considered in relation to the accounts; and
- the Audit Committee is required to explain how it has assessed the effectiveness of the external audit process.

The committee will continue to keep its activities under review in the light of developing regulations and best practice.

Composition

The Audit Committee comprises all the non executive directors including the group chairman and meets not less than three times annually. The committee is chaired by W Tame who, as current finance director of Babcock International Group plc, has both recent and relevant financial experience.

Meetings

Only audit committee members are entitled to attend a meeting. However, the chief executive, finance director and the external Audit Engagement Partner are normally invited to attend meetings.

Three meetings were held during the year, two of which were scheduled to coincide with the board's review and approval of the group's Interim Statement and of its preliminary results announcement based on the annual report and accounts. A section of at least one meeting during the period took place without management present.

Internal Control and risk management

The group has an established system of internal control and a risk management framework that the board considers appropriate in the context of the group's reporting requirements and strategic objectives. Internal controls are subject to internal and external audit and the outputs of the risk management process are actively reviewed by the board. All these activities are periodically reviewed by the committee and their effectiveness assessed through oral and written reports from both internal and external auditors. In addition, a Risk Assurance Review is conducted annually by the full board, in addition to a Turnbull Report Review.

Further details of the group's risks and uncertainties together with the mitigating actions are set out on pages 16 to 19 of the annual report and accounts.

Internal Audit

The committee reviews annually the arrangements for internal audit and during the year re-appointed Mazars LLP to provide the outsourced internal audit function. The internal auditor monitors and reports on the system of internal control and works to an agreed programme. The internal and external audit plans are set in the context of a developing assurance reporting process, are flexed to deal with any change in the risk profile of the group and are approved by the committee.

Governance - Audit committee report

continued

Mazars LLP attended an audit committee meeting to present their reports on internal audit work during the year.

Significant issues related to the financial statements

The committee reviews accounting papers prepared by management that provide details of significant financial reporting issues, together with reports from the external auditor prepared in conjunction with the interim and full year results, and assesses whether suitable accounting policies have been adopted and appropriate estimates and judgements have been made. These matters are also discussed with the external auditor together with anything else that the auditor brings to the committee's attention.

In the year to 31 March 2014, such issues included the impact of changes in accounting standards, the treatment of exceptional items and other financial reporting disclosures.

The committee also considered changes in corporate governance and the need for the annual report to be fair, balanced and understandable and to contain sufficient information on the group's performance.

The significant judgement considered by the committee where there was potential risk of material misstatement was:

- the balance sheet carrying value of Conductive Inkjet Technology, Carclo Diagnostic Solutions and Platform Diagnostics and the capitalisation and amortisation policies applied in respect of patents and development costs. The group has established policies for capitalising development costs and appropriate amortisation policies which the audit committee reviews to ensure that these policies continue to be appropriate, robust and consistently applied. An impairment review on the balance sheet carrying value of Conductive Inkjet Technology, Carclo Diagnostic Solutions and Platform Diagnostics utilising discounted cash flow forecasts is also considered.

Other areas of judgement reviewed by the committee, but where it was concluded that there was not a risk of material misstatement included:

- The group balance sheet value of goodwill. The balance of goodwill on the group balance sheet as at 31 March 2014 is £20.5 million and the audit committee seeks to gain assurance through the executive management's and the external auditor's review of discounted cash flow analyses that there are no potential impairment or recoverability issues.
- The IAS19 pensions position. The company has a large defined benefit pension scheme with liabilities of approximately £183.6 million and assets of approximately £183.8 million as at 31 March 2014. These numbers are sensitive to the main assumptions utilised to calculate the deficit or surplus on the scheme and the audit committee seeks confirmation that these assumptions are appropriate.

The committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been included in the annual report and financial statements.

External audit

The committee has responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditor. The external auditor's appointment is reviewed periodically and the lead audit partner is rotated at least once every five years. KPMG LLP has been the Group's external auditor since September 2005, when the last audit tender took place, and the current audit partner has completed four annual audits. The committee is aware of the relevant proposals for auditor rotation and will monitor any legal or regulatory developments. There is no present intention to conduct an audit tender.

The committee reviews reports from KPMG LLP as part of the annual audit process. These cover the scope, approach and results of the external audit and include the procedures adopted for

Governance - Audit committee report continued

safeguarding the firm's independence and objectivity. The quality and content of these reports, together with the performance and behaviour of the audit teams during the exercise of their duties, inform the committee's assessment of audit effectiveness.

The committee has an established policy for determining the non-audit services that the external auditor can provide where justified on grounds of cost and related expertise and where not impacted by potential conflicts of interest. This allows the committee to satisfy itself that auditor objectivity and independence are safeguarded. The analysis of audit and non-audit fees for the year to 31 March 2014 and the nature of the non-audit services provided appear in Note 3 on the accounts. Non-audit fees totalled £0.02 million. Given the type of non-audit services provided, they are not considered by the committee to affect the objectivity and independence of the external auditor.

Upon the recommendation of the Audit Committee, KPMG LLP will be proposed for re-appointment as auditor by shareholders at the Annual General Meeting on 4 September 2014.

Bill Tame

Chairman of the Audit Committee

10 June 2014

Annual Statement

Dear Shareholder

The Remuneration Committee strives to operate and demonstrate best practice in the area of executive remuneration and disclosure. This year, we have adopted the new disclosure requirements under the UK Government's reforms on directors pay.

Our report has three sections as follows:

- This Annual Statement, which summarises and explains the major decisions and changes in respect of directors' remuneration;
- a Directors' Remuneration Policy setting out the forward-looking remuneration policy for the company's directors, which will operate from 1 April 2014; and
- An Annual Report on Remuneration, providing details of the remuneration earned by the company's directors in relation to the year ended 31 March 2014 and how the policy will be operated for the year to 31 March 2015.

At the forthcoming AGM on 4 September 2014, the Directors' Remuneration Policy will be subject to a binding shareholder vote and the Annual Report on Remuneration will be subject to an advisory shareholder vote. In future years, the directors' remuneration will be subject to a binding vote every three years (sooner if changes are made to the policy) and the Annual Report on Remuneration will be subject to an annual advisory vote.

2014 – Performance and Pay

We believe in rewarding our executives based on their individual performance and on the value created for our shareholders. The variable elements of executive remuneration are focused on simple and transparent measures of profit before tax, EPS growth and key individual strategic objectives. Previous peer company comparisons and advice from Kepler Remuneration Consultants had shown that executive director salaries and bonus arrangements were not market competitive. This was addressed in 2013 in the service contract agreed on CJ Malley's appointment as chief executive and by above inflation increases in RJ Brooksbank's salary at both 1 April 2013 and 2014. Annual bonus potential was also increased for 2014 from 50% to 100% for the chief executive and from 40% to 75% for the finance director. For 2014 all of the increase in bonus potential was subject to achieving personal business and strategic objectives.

Our executives performed well against their own stretching individual performance targets and earned a bonus for their performance. However, they offered to waive that bonus entitlement in the current year, as the group's targeted profit growth was not achieved. The Committee accepted this offer. No annual bonus was earned in respect of the 2013/14 results and there was zero vesting in relation to the 2011 Carclo PSP award.

Remuneration policy for 2015

The Remuneration Committee continually reviews the senior executive remuneration policy to ensure it promotes the attraction, motivation and retention of high quality executives to deliver sustainable earnings growth and shareholder return.

The Committee's most recent conclusions are that the senior executive remuneration policy is appropriate and should continue to operate for 2015 without major changes.

Governance - Directors' remuneration report

continued

Specifically, the Committee concluded that;

- Basic salary levels are appropriately positioned in the market;
- The structure and quantum of the annual bonus is appropriate and aligned to shareholders' interests. For 2015 the proportion of the annual bonus potential to be measured against individual performance targets will be reduced from 50% to 37.5%; and
- the long-term incentive grant policy, whereby conditional awards of shares are granted annually under the Carclo PSP with vesting after three years based on earnings per share and relative total shareholder return performance conditions, provide a strong alignment between the senior executive team and shareholders.

Alignment with shareholders

We are mindful of our shareholders' interests and are keen to ensure a demonstrable link between reward and value creation. In addition to the matters set out in this report, alignment and shareholder interest is further demonstrated by the operation of share ownership guidelines and the inclusion of claw back provisions for both annual bonus and LTIP awards.

We acknowledge the support we have received in the past from our shareholders and hope that we will continue to receive your support at the forthcoming AGM.

Robert Rickman
Chairman of the Remuneration Committee
10 June 2014

Governance - Directors' remuneration report continued

Compliance Statement

This Report has been prepared in accordance with the requirements of the Large and Medium Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the UK Listing Authority Listing Rules and applies the principles set out in the UK Code on Corporate Governance (the "Code").

The following parts of the Annual Report on Remuneration Report are audited: the single total figure of remuneration for directors, including annual bonus and LTIP outcomes for the financial year ending 31 March 2014; scheme interests awarded during the year; and, directors' shareholdings and share interests.

Directors' Remuneration Policy

This section of the report sets out the remuneration policy for executive directors which shareholders are asked to approve at the 2014 AGM. The Committee intends that this policy will formally come into effect from the date of the approval by shareholders.

Policy table

The Policy Table below summarises the key components of remuneration for executive directors:

Element of remuneration	Purpose and link to Strategy	Operation	Maximum	Performance Targets
SALARY	<p>To provide an appropriate, competitive level of basic fixed income avoiding excessive risk arising from over reliance on variable income</p> <p>To attract and retain executive directors of superior calibre in order to deliver business growth</p> <p>Reflects individual skills and experience and role</p>	<p>Reviewed annually by the Remuneration Committee, normally effective 1 April</p> <p>Takes periodic account of similar roles at companies with similar characteristics and sector comparators, individual experience and performance, company performance and wider pay levels and salary increases across the group</p>	<p>No prescribed maximum annual increase, but will normally be in line with general increase for the wider workforce</p> <p>In exceptional circumstances, the Committee may decide to award a lower increase for executive directors or indeed exceed this to recognise, for example, an increase in the scale, scope or responsibility of the role and/or to take account of relevant market movements.</p>	N/A
OTHER BENEFITS	<p>Provides market competitive benefits</p> <p>Provides insured benefits to support the individual and their family during periods of ill health, accident or death</p>	<p>Benefits provided through third party providers</p> <p>Includes car allowance, life insurance, private medical insurance and permanent disability insurance. Other benefits may be provided where appropriate</p>	<p>Benefits may vary by role and individual circumstance and are reviewed periodically. Benefits have not exceeded 10% of salary in the last 3 financial years and are not anticipated to exceed this over the next three financial years. The Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside of the Company's control have materially changed (e.g. increases in medical premiums)</p>	N/A
BONUS	<p>Incentivises annual delivery of short-term financial and strategic goals and business strategy</p> <p>Maximum bonus only payable for achieving demanding targets</p>	<p>Performance measures, targets and weightings are set at the start of the year. Payments are calculated based on an assessment of performance at the end of the year. Paid in cash</p> <p>Not pensionable</p>	<p>100% of salary CEO</p> <p>75% of salary FD</p>	<p>Performance is assessed on an annual basis by reference to financial measures as well as the achievement of personal/strategic objectives. The current financial performance measure is Underlying Profit, however the Committee has discretion to adjust the performance</p>

Governance - Directors' remuneration report continued

		Clawback provisions apply in the event of material misstatement of results and/or an error in the calculation of the bonus outcome		measures and weightings each year according to strategic priorities, although the weighting on financial measures will be at least 50%.
LONG TERM INCENTIVE PLAN	<p>To motivate and retain executives, reward delivery of the Company strategy and long-term goals and to help align executive and shareholder interests</p> <p>Aligned to main strategic objectives of delivering sustainable profit growth and shareholder return</p>	<p>Annual grant of nil cost options or performance shares which normally vest after at least 3 years subject to continued service and performance targets. At the start of each performance cycle, the Committee sets performance targets which it considers to be appropriately stretching.</p> <p>Clawback provisions apply in the event of material misstatement of results and/or an error in the calculation of the vesting outcome</p>	<p>100% of salary normal limit</p> <p>200% of salary exceptional limit - e.g., recruitment or retention</p>	<p>The bonus for personal/strategic performance is payable only if, in the opinion of the Remuneration Committee, there was an improvement in the underlying financial and operational performance of the Group during that financial year. The Committee has discretion to adjust the formulaic outcomes to ensure that payments accurately reflect business performance over the performance period. Adjustments may be upwards or downwards.</p> <p>LTIP performance measured over three years. Performance measures are currently EPS and TSR weighted equally, however the Committee has discretion to adjust the performance measures and weightings to ensure they continue to be linked to the delivery of Company strategy. The Committee has discretion to adjust the formulaic outcomes to ensure that payments accurately reflect business performance over the performance period. Adjustments may be upwards or downwards.</p>
PENSION	<p>Provides market competitive retirement benefits</p> <p>Opportunity for executives to contribute to their own retirement plan</p>	<p>Executive Directors receive a contribution to HMRC approved personal pension arrangement or a salary supplement in lieu of pension contributions</p>	<p>The maximum employer contribution is 20% of salary</p>	N/A
SHARE OWNERSHIP GUIDELINES	<p>To provide alignment between executives and shareholders</p>	<p>Executive directors are required to build and maintain a shareholding equivalent to one year's base salary through the retention of vested share awards or through open market purchases until the guideline is met</p>	<p>100% of salary holding for executive directors</p>	N/A
NON EXECUTIVE DIRECTORS FEES	<p>Reflects time commitments and responsibilities of each role</p> <p>Reflects market competitive fees</p>	<p>Reviewed annually by the Remuneration Committee, normally effective 1 April. Chairman and Non-Executive Directors receive a basic fee for their respective roles. Additional fees are paid to Non-Executive Directors for additional services such as chairing the audit and remuneration committees.</p> <p>Fee levels are benchmarked with reference to sector comparators and FTSE-listed companies of similar size and complexity. The required time commitment and responsibilities are taken into account when reviewing fee levels. All fees are paid in cash.</p>	<p>No prescribed maximum annual increase, but it is expected that fee increases will normally be in line with general increase for the wider workforce. However, in the event that there is a material misalignment with the market or change in complexity, responsibility or time commitment required to fulfil a non-executive director role, the Board has discretion to make an appropriate adjustment to the fee level</p>	<p>Non-executive directors do not participate in variable pay arrangements</p>

Governance - Directors' remuneration report continued

Notes to the policy table

A description of how the company intends to implement the policy set out in this table for 2015 is set out in the Annual Report on Remuneration on page 36.

Payments from existing awards

The company will honour any commitment entered into, and executive directors will be eligible to receive payment from any award made, prior to the approval and implementation of the remuneration policy detailed in this report. Details of any such awards are disclosed in the Annual Report on Remuneration.

Performance measurement selection

The choice of the performance metrics applicable to the annual bonus scheme reflect the Committee's belief that any incentive compensation should be appropriately challenging and tied to both the delivery of profit growth and specific individual objectives.

The TSR and EPS performance conditions applicable to the Carclo PSP (further details of which are provided on pages 48 to 49) were selected by the Remuneration Committee on the basis that they reward the delivery of long term returns to shareholders and the group's financial growth and are consistent with the company's objective of delivering superior levels of long term value to shareholders.

The Committee operates share plans in accordance with their respective rules and in accordance with the Listing Rules and HMRC where relevant. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of certain plans.

As highlighted above, the company has a share ownership policy which requires the executive directors to build up and maintain a target holding equal to 100% of base salary. Details of the extent to which the executive directors had complied with this policy as at 31 March 2014 are set out on page 52.

For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to the company to honour any commitments entered into with current or former directors (such as the payment of a pension or the vesting/exercise of past share awards). Details of any payments to former directors will be set out in the Annual Report on Remuneration as they arise.

Remuneration policy for other employees

The following differences exist between the company's policy for the remuneration of executive directors as set out above and its approach to the payment of employees generally:

- i) A lower level of maximum annual bonus opportunity (or zero bonus opportunity) may apply to employees other than the executive directors and certain senior executives.
- ii) Benefits offered to other employees generally comprise provision of healthcare and company car benefits where required for the role or to meet market norms.
- iii) The majority of employees participate in local defined contribution pension arrangements.
- iv) Participation in Carclo PSP is limited to the executive directors and certain selected senior managers.

In general these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive directors and senior executives, a greater emphasis tends to be placed on performance related pay.

Governance - Directors' remuneration report continued

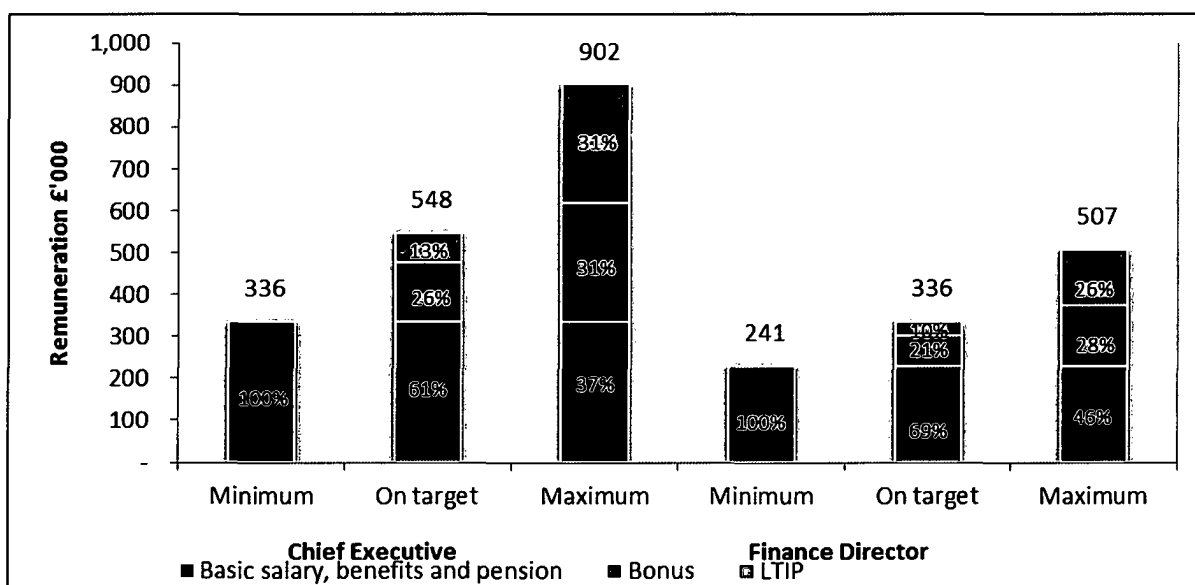
Remuneration Policy for the chairman and non-executive directors

The board determines the remuneration policy and level of fees for the non-executive directors, within the limits set out in the Articles of Association. The Remuneration Committee recommends the remuneration policy and level of fees for the chairman.

The Policy Table summarises the key components of remuneration for the chairman and non-executive directors.

Pay scenario charts

The graphs below provide estimates of the potential future reward opportunity for each of the two current executive directors, and the potential split between different elements of remuneration under three different scenarios; "Minimum", "Target" and "Maximum" performance.



Assumptions underlying each element of pay are provided in the table below. The projected value of the Carclo PSP excludes the impact of share price growth and dividend accrual. Actual pay delivered, however, will be influenced by these factors.

Minimum Fixed pay comprising base salary, benefits and pension
 Base salary is the current base salary effective 1 April 2014
 Benefits measured as paid in 2014 as set out in the single figure table
 Pension entitlement measured as 20% of base salary subject to £40,000 cap

Name	Base salary £'000	Benefits £'000	Pension £'000	Total fixed £'000
CJ Malley	283	13	40	336
RJ Brooksbank	190	13	38	241

On target Based on remuneration if performance was in line with expectations
 Annual performance bonus 50% of maximum – i.e CJ Malley 50%, RJ Brooksbank 37.5% of base salary
 LTIP consists of threshold PSP vesting (25% for both TSR and eps performance measures)

Maximum Based on maximum remuneration receivable

Governance - Directors' remuneration report continued

Annual performance bonus 100% of maximum - i.e., CJ Malley 100%, RJ Brooksbank 75% of base salary
LTIP assumes maximum PSP vesting (100% for both TSR and eps performance measures)

Approach to recruitment remuneration

The remuneration package for a new executive director – i.e., basic salary, benefits, pension, annual bonus and long term incentive awards – would be set in accordance with the terms of the Company's prevailing approved remuneration policy at the time of appointment and would reflect the experience of the individual. The salary for a new executive may be set below the normal market rate, with phased increases over the first few years, as the executive gains experience in their new role. Annual bonus potential will be limited to 100% of salary and long term incentives will be limited to 100% of salary (200% of salary in exceptional circumstances).

In addition to normal remuneration elements, the Committee may offer additional cash and/or share based elements when it considers these to be in the best interests of the Company (and therefore shareholders) to take account of remuneration relinquished when leaving the former employer ('buyout' awards) and would be made on a like-for-like basis, where possible reflecting the nature, time horizons, performance requirements attaching to that remuneration and the likelihood of those conditions being met. Any such 'buy-out' awards will typically be made under the existing annual bonus and LTIP schemes, although in exceptional circumstances the Committee may exercise the discretion available under Listing Rule 9.4.2 R to make awards using a different structure. Any 'buy-out' awards would have a fair value no higher than the awards forfeited. Shareholders will be informed of any such payments at the time of appointment.

For an internal executive director appointment, the Remuneration Committee will be consistent with the Policy for external appointees detailed above. Any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms. Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these arrangements. As reported last year, a Growth Share Plan ("GSP") was introduced at Conductive Inkjet Technology Limited ("CIT") in 2010 to incentivise three of the subsidiary's senior executives to maximise CIT's value. Proceeds from the GSP would be based on the value of CIT as crystallised by a sale or listing event or when triggered by the company exercising its call option to acquire the participants' CIT shares. The company is keeping under review when to exercise this call option. One of the three CIT participants is CJ Malley, now chief executive of Carclo plc. Under the terms of the GSP, he will receive nil proceeds for a CIT value below £30 million (to be determined by an independent valuation). Proceeds will increase on a sliding linear scale to a maximum of £1,350,000 if CIT's value exceeds £120 million. On his appointment as chief executive, the remuneration committee stipulated that any proceeds from the GSP will be paid one third in cash and two thirds in Carclo shares, of which half the shares must be held for at least one year after the valuation date and the remaining half must be held for at least two years.

For external and internal appointments, the Committee may agree that the company will meet certain relocation and/or incidental expenses as appropriate.

In the case of hiring or appointing a new non-executive director, the Committee will follow the policy as set out in the table on pages 38 to 39. A base fee in line with the prevailing fee schedule would be payable for board membership, with additional fees payable for additional services, such as chairing a board committee.

Governance - Directors' remuneration report continued

External appointments

The executive directors may accept outside appointments, with prior board approval, provided these opportunities do not negatively impact on the individual's ability to perform his duties at the company. Whether any related fees are retained by the individual or are remitted to the company will be considered on a case by case basis. R J Brooksbank was appointed a non executive director of blur Group plc on 24 July 2012. With the agreement of the board, he retained fees for this work of £17,500 during the financial year.

Service contracts

The executive directors are employed under contracts of employment with Carclo. The principal terms of the executive directors' service contracts are as follows:

Executive director	Position	Effective date of contract	Notice period from company	From Director
C J Malley	Chief executive	27 March 2013	12 months	12 months
R J Brooksbank	Finance director	1 April 2004	12 months	12 months

Non-executive directors are appointed under arrangements that may generally be terminated at will by either party without compensation and their appointment is reviewed annually.

Letters of appointment are provided to the chairman and non-executive directors. Non-executive directors have letters of appointment effective for a period of three years and are subject to annual re-election at the AGM.

Directors' letters of appointment and the unexpired period of their appointments (where appropriate after extension by re-election) are set out below:

Non-executive director	Date of letter	Unexpired term as at 31 March 2014	Date of appointment	Last reappointment at AGM
M Derbyshire	28 September 2012	To 2015 AGM	1 January 2006	5 September 2013
W Tame	28 September 2012	To 2015 AGM	1 January 2006	5 September 2013
R Rickman	28 June 2012	To 2015 AGM	1 July 2012	5 September 2013

Exit payment policy

The company's policy is to limit any payment made to a departing director to contractual arrangements and to honour any pre-established commitments. As part of this process, the Committee will take into consideration the executive director's duty to mitigate their loss.

Annual bonus may be payable with respect to the period of the financial year served although it will be pro-rated for time and paid at the normal pay out date. Any share based entitlements granted to an executive director under the company's share plans will be determined based on the relevant plan rules. The default treatment under the 2007 PSP is that any outstanding awards lapse on cessation of employment. However, in certain prescribed circumstances, such as death, ill health, disability, retirement or other circumstances at the discretion of the Committee, 'good leaver' status may be applied. For good leavers, awards will normally vest on cessation, subject to the satisfaction of the relevant performance conditions at that time and reduced pro rata to reflect the proportion of the performance period actually served. However, the Remuneration Committee has discretion to determine that awards vest at a later date and/or to dis-apply time pro rating.

Consideration of conditions elsewhere in the company

In making remuneration decisions, the Committee also considers the pay and employment conditions elsewhere in the company. In particular, the Committee considers the range of base pay increases across the company as a factor in determining the base salary increases for executive directors. Further, the Committee regularly reviews information with regard to bonus payments and share awards made to senior management. In particular, the Committee reviews the remuneration structure and pay proposals, and approves the structure and targets for their bonus plans. It also oversees any major changes in employee benefit structures.

The Committee does not specifically consult with employees over the effectiveness and appropriateness of the remuneration Policy and framework, although as members of the board the Committee receives updates from the executive directors on their discussions and consultations with employees.

Consideration of shareholder views

The Committee is sensitive to the views of shareholders and intends to engage regularly with its investors on developments in remuneration policy and practice. The Committee welcomes shareholder feedback on any issue related to directors' remuneration and will take into account all feedback received from the AGM to ensure that the directors' remuneration policy remains appropriate.

Governance - Directors' remuneration report continued

Annual Report on Remuneration

The following section provides details of how Carclo's remuneration policy was implemented during the financial year ending 31 March 2014.

Remuneration Committee membership in 2014

The Remuneration Committee comprises both non executive directors and the group chairman and is chaired by R J Rickman. The committee met four times and individual committee members attended all meetings held during the year under review.

During the year, the Committee sought internal support from the chief executive who attended Committee meetings by invitation from the chairman, to advise on specific questions raised by the Committee and on matters relating to the performance and remuneration of senior managers. The chief executive and finance director were not present for any discussions that related directly to their own remuneration. The company secretary attended each meeting as secretary to the Committee.

Independent Advice

In undertaking its responsibilities, the Committee seeks independent external advice as necessary. To this end, for the year under review, the Committee continued to retain the services of Kepler Associates as the principal external advisers to the Committee. The Committee evaluates the support provided by its advisers annually and is comfortable that the Kepler team provides independent remuneration advice to the Committee and do not have any connections with the Company that may impair their independence. Kepler Associates is a founding member and signatory of the Code of Conduct for Remuneration Consultants, details of which can be found at www.remunerationconsultantsgroup.com. During the year, Kepler Associates provided independent advice on a wide range of remuneration matters including current market practice, benchmarking of executive pay and incentive design and provides no other services to the company. Kepler's fees in respect of 2014 were £9,000.

Summary of shareholder voting at the 2013 AGM

The following table shows the results of the advisory shareholder vote on the 2013 Remuneration Report at the 2013 AGM:

	Total number of votes	% of votes cast
For (including discretionary)	33,868,285	95.5
Against	1,614,025	4.5
Total votes cast (excluding withheld votes)	35,482,310	100.00
Votes withheld	8,319,560	
Total votes cast (including withheld votes)	43,801,870	

Governance - Directors' remuneration report continued

Single total figure of remuneration for executive directors (audited)

The table below sets out a single figure for the total remuneration received by each executive director for the year ended 31 March 2014 and the prior year:

Name	Salary		Benefits(3)		Annual Bonus		LTIP(7)		Pension(4)		Total	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000	2014 £'000	2013 £'000
CJ Malley(1) RJ	275	114	13	9	-	-	-	76	40	26	328	225
Brooksbank	170	150	13	12	-	-	-	331	34	30	217	523
Former directors												
I Williamson(2)	-	237	-	12	-	-	-	2,515	-	-	-	2,764

Notes

- (1) CJ Malley Appointed to the board on 1 July 2012 and as chief executive from 27 March 2013
- (2) I Williamson Retired as chief executive on 27 March 2013
- (3) Benefits comprise private medical cover and car allowance
- (4) Pension contributions are in line with remuneration policy
- (5) Details of the performance measures applicable to the annual bonus for 2014 are set out below
- (6) Details of the performance measures applicable to the vesting of long term incentive awards are set out below
- (7) 2013 LTIP value includes vesting of both 2009 and 2010 PSP awards because the TSR performance periods for these awards ended on 30 September 2012 and 31 March 2013 respectively

Single total figure of remuneration for non-executive directors (audited)

The table below sets out a single figure for the total remuneration received by each non-executive director for the year ended 31 March 2014 and the prior year:

Non-Executive Director	Base fee £		Committee fees £		Total £	
	2014	2013	2014	2013	2014	2013
MJC Derbyshire	75,920	55,083 (1)	-	-	75,920	55,083
W Tame	31,200	30,000	5,200	2,500 (2)	36,400	32,500
R Rickman	31,200	22,500 (3)	5,200	2,500 (2)	36,400	25,000

Notes

- (1) MJC Derbyshire appointed chairman from 6 September 2012 (previously non executive director).
- (2) Fees for chairing audit and remuneration committees introduced 1 October 2012.
- (3) R Rickman appointed non executive director from 1 July 2012.

Governance - Directors' remuneration report continued

Incentive outcomes for the year ended 31 March 2014 (audited)

Variable Pay

Annual performance bonus outcome 2014

Name	Outcome % salary			Maximum Potential % salary		
	Financial	Strategic	Payable	Financial	Strategic	Payable
CJ Malley	0	30	0	50	50	100
RJ Brooksbank	0	26	0	40	35	75

There were no annual bonuses payable to executive directors as they waived their entitlement to receive bonus based on achievement of individual strategic objectives.

The detailed financial performance targets applicable to the 2014 annual bonus arrangements are considered commercially sensitive as they relate to specific CIT and underlying group profit levels and accordingly are not further disclosed.

2011/12 LTIP vesting

The LTIP award granted on 8 July 2011 was based on performance to the year ended 31 March 2014. The performance targets for this award, and actual performance against those targets, were as follows:

Metric	Performance condition	Threshold target	Stretch target	Actual	% vesting
Earnings per share	Normalised EPS growth of RPI+ 5% pa (12.5% vesting) to RPI+12% pa (50% vesting) over three financial years	10.06p EPS	12.22p EPS	7.56p EPS	0%
Total Shareholder Return	TSR against the constituents of the FTSE Small Cap Index (excluding investment trusts). 12.5% vesting for median performance and 50% vesting for upper quartile performance or above. TSR measured over three financial years with a three month average at the start and end of the performance period	43.7% TSR	101.6% TSR	(26.0%) TSR	0%
Total vesting					0%

There is therefore zero vesting for the 2011 award as follows:

Executive	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Estimated value (£)
RJ Brooksbank	31,000	-	31,000	-

Notes on the accounts

continued

34 Accounting policies for the company

a) Accounting convention

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

b) Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under section 408(3) of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that the consolidated cash flow for all group companies is included within the consolidated financial statements.

As these parent company financial statements are presented together with the consolidated financial statements the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. There were no transactions required to be disclosed in respect of Platform Diagnostics Limited the group's 60.3% subsidiary. The consolidated financial statements of Carclo plc, within which this company is included, are set out on pages [35 to 60].

c) Operating leases

Rentals in respect of assets leased under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

d) Investments

Fixed asset investments are stated at cost less provision for impairment where appropriate. The directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged in the profit and loss account in the year.

e) Tangible fixed assets and depreciation

Depreciation is provided at annual rates calculated to write off the gross amount on all other fixed assets on a straight line basis over their expected useful lives of between three and twelve years.

f) Deferred taxation

Deferred taxation is recognised as a liability or asset if the transactions or events that give rise to an obligation to pay more tax in the future, or a right to pay less tax in future, have occurred by the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

g) Pension benefits

The company operates a defined benefit pension scheme and also makes payments into defined contribution schemes for employees.

The liability in respect of the defined benefit plan is the fair value of the plan assets less the present value of the defined benefit obligation at the balance sheet date, together with adjustments for actuarial gains and losses. Actuarial gains and losses that arise are recognised in full with the movement recognised in the statement of total recognised gains and losses.

Payments to the defined contribution schemes are accounted for on an accruals basis. Once the payments have been made the group has no further obligation.

Surpluses on the defined contribution schemes are capped at nil as there exists no right for the company to claim direct recovery of said surpluses from the scheme due to the requirements of FRS 17.

h) Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

i) Financial instruments

The company uses derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from operational activities. In accordance with its treasury policy, the company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. The gain or loss on remeasurement of fair values is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. At the year end no derivative financial instruments qualified for hedge accounting.

j) Share based payments

The company issues equity settled share based payments to certain employees in exchange for services rendered by them. The fair value of the share based award is calculated at the date of the grant and is expensed on a straight line basis over the vesting period with a corresponding increase in equity. This is based on the company's estimate of share options that will eventually vest. This takes into account movement of non market conditions, being service conditions and financial performance, if relevant. The fair value of the equity settled awards granted is not subsequently revisited.

k) Dividends

Dividends are only recognised as a liability to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the note to the financial statements.

Notes on the accounts
continued

35 Personnel expenses

	2014 £000	2013 £000
Wages and salaries	1,190	1,096
Social security contributions	167	125
Charge in respect of defined contribution and other pension plans	113	68
Share based payments (see note 25)	34	189
	<u>1,494</u>	<u>1,478</u>

The average number of employees in the year was 18 (2013 - 18).

36 Tangible assets

	Plant and equipment £000
Cost or valuation	
As at 1 April 2013	868
Additions	58
Disposals	-
As at 31 March 2014	<u>926</u>
Depreciation	
As at 1 April 2013	736
Charge for the year	49
Disposals	-
As at 31 March 2014	<u>785</u>
Book value 31 March 2014	<u>141</u>
Book value 31 March 2013	<u>132</u>

37 Investment in subsidiary undertakings

	At cost £000	Provision £000	Book value £000
As at 1 April 2013 and at 31 March 2014	<u>151,872</u>	<u>(41,238)</u>	<u>110,634</u>

A list of the main subsidiary undertakings is given in note 32.

38 Debtors

	2014 £000	2013 £000
Debtors - amounts falling due within one year -		
Amounts owed by subsidiary undertakings	66,269	3,675
Other debtors	310	278
Prepayments	121	130
Taxation recoverable	-	409
Deferred taxation (see note 41)	176	86
	<u>66,876</u>	<u>4,578</u>
Debtors - amounts falling due after more than one year -		
Amounts owed by subsidiary undertakings	<u>207</u>	<u>73,258</u>

Notes on the accounts
continued

39 Trade and other creditors - amounts falling due within one year

	2014 £000	2013 £000
Bank overdraft	8,018	4,307
Trade creditors	52	177
Other taxes and social security costs	156	135
Other creditors	(166)	120
Accruals	400	468
Owed to subsidiary undertakings	107,273	4,243
	<u>115,733</u>	<u>9,450</u>

40 Creditors - amounts falling due after more than one year

	2014 £000	2013 £000
Medium term loans	17,669	18,308
Owed to subsidiary undertakings	-	110,674
	<u>17,669</u>	<u>128,982</u>

41 Provisions for liabilities and charges

	Deferred taxation £000	
As at 1 April 2013		(86)
Charged to the profit and loss account		(90)
As at 31 March 2014		<u>(176)</u>
Deferred taxation is as follows -		
	2014 £000	2013 £000
Decelerated capital allowances	(171)	(194)
Other short term timing differences	(5)	108
	<u>(176)</u>	<u>(86)</u>

The deferred tax balance is included in the following balance sheet heading -

Debtors	176	86
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UK Deferred taxation has been provided at 20% being the rate substantively enacted at the period end.

42 Retirement benefits

The group operates a defined benefit final salary pension scheme. Actuarial valuations are carried out every three years using appropriate methods as determined by the actuary. The scheme was subject to valuation at 31 March 2012.

The valuations used for the FRS 17 disclosures are based on the most recent actuarial valuations as detailed above and as updated by the scheme's actuary to assess the liabilities of the scheme as at 31 March 2014.

The method and financial assumptions used to assess the scheme's liabilities under FRS 17 are -

	2014	2013
Valuation method	Projected unit	Projected unit
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions in payment	2.35% to 3.45%	2.4% to 3.5%
Discount rate	4.4%	4.4%
Inflation rate	3.5%	3.5%

The fair value of assets and liabilities at each balance sheet date were -

	2014 £000	2013 restated £000
Equities and properties	115,495	98,868
Bonds and other	68,329	71,604
Total market value of assets	<u>183,824</u>	<u>170,472</u>
Actuarial value of liability	<u>(183,585)</u>	<u>(185,948)</u>
Deficit in the schemes	239	(15,476)
Asset cap	(239)	-
Related deferred tax asset	-	3,559
Net pension liability	<u>-</u>	<u>(11,917)</u>

Notes on the accounts
continued

42 Retirement benefits continued

	2014	2013
	£000	restated £000
Amounts charged to other finance costs were -		
Net interest on the net defined benefit liability	(659)	(1,084)
	<u>(659)</u>	<u>(1,084)</u>
Analysis of amounts recognised in the statement of total gains and losses -		
Actual return less interest on scheme assets	14,472	21,586
Changes in assumptions underlying the present value of scheme liabilities	893	(14,371)
	<u>15,365</u>	<u>7,215</u>
The amounts recognised in the balance sheet in respect of the defined benefit schemes are as follows -		
Present value of funded obligations	(183,585)	(185,948)
Fair value of scheme assets	183,824	170,472
Asset cap	(239)	-
Recognised liability for defined benefit obligations	<u>-</u>	<u>(15,476)</u>
Movements in the present value of defined benefit obligations and scheme assets -		
Liability at the start of the year	185,948	172,761
Net interest on the net defined benefit liability	7,976	8,287
Remeasurement (gains) / losses	(893)	14,371
Benefits paid	(9,446)	(9,471)
Liability at the end of the year	<u>183,585</u>	<u>185,948</u>
	2014	2013
	£000	restated £000
Assets at start of the year	170,472	150,164
Expected return on scheme assets	7,317	7,203
Remeasurement gains	14,472	21,586
Contributions by employer	1,009	990
Benefits paid	(9,446)	(9,471)
Assets at end of the year	<u>183,824</u>	<u>170,472</u>
The history of experience gains and losses is shown in the following table -		
	2014	2013
		restated
Difference between expected and actual return on scheme assets	£14.472 million	£21.586 million
Percentage of schemes assets	7.9%	12.7%
Experience gains and losses on scheme liabilities	nil	nil
Percentage of schemes liabilities	nil%	nil%
Total amount recognised in statement of total recognised gains and losses	£15.365 million	£7.215 million
Percentage of schemes liabilities	8.4%	3.9%

Notes on the accounts
continued

43 Reserves

	Share premium £000	Merger reserve £000	Other reserves £000	Profit and loss account £000	Total £000
Balance at 1 April 2013	20,901	8,785	1,330	5,215	36,231
Retained deficit for the year	-	-	-	(3,736)	(3,736)
Share based payments	-	-	-	34	34
Remeasurement gains on retirement benefit obligations	-	-	-	15,126	15,126
Deferred tax on actuarial movement on retirement benefit obligations	-	-	-	(4,259)	(4,259)
Exercise of share options	122	-	-	-	122
Issue of shares	-	-	-	-	-
Sale of own shares	-	-	-	-	-
Performance share plan awards	268	-	-	(913)	(645)
Balance at 31 March 2014	21,291	8,785	1,330	11,467	42,873

The company maintains an employee share ownership plan for the benefit of employees and which can be used in conjunction with any of the group's share option schemes. As at 31 March 2014 the plan held 3,077 shares (2013 - 3,077 shares). The original cost of these shares was £0.003 million (2013 - £0.003 million). The cost of the shares has been charged against retained earnings.

44 Operating leases

The annual commitment under non cancellable operating leases was as follows -

	Land and buildings		Other	
	2014 £000	2013 £000	2014 £000	2013 £000
Leases expiring -				
Within one year	33	-	-	-
Within two to five years	-	33	-	35
	33	33	-	35

45 Contingent liabilities

The company has entered into cross guarantee arrangements relating to the bank borrowings of its UK subsidiary operations and a letter of credit in support of the term loan borrowings of the subsidiary operations in the United States and India. The maximum obligations under these arrangements at 31 March 2014 was £4.548 million (2013 - £3.030 million).

There are contingent liabilities arising in the ordinary course of business, in respect of litigation, which the directors believe will not have a significant effect on the financial position of the group.

46 Profit and loss account

The loss after tax for the year dealt with in the accounts of the company amounts to £2.173 million (2013 - £4.696 million) which, after dividends of £1.674 million (2013 - £1.071 million), gives a retained deficit for the year of £3.736 million (2013 - £5.767 million).

Five year summary

	2014	2013	2012	2011	2010
	£000	restated £000	restated £000	restated £000	restated £000
Revenue	97,267	86,514	93,267	88,645	81,152
Underlying operating profit	6,551	5,585	5,981	5,425	4,942
Non recurring items	(520)	(670)	(1,788)	226	(218)
Profit before financing costs	6,031	4,915	4,193	5,651	4,724
Net financing (charge) / credit	(1,260)	(1,698)	(1,120)	(1,443)	(1,599)
Profit before tax	4,771	3,217	3,073	4,208	3,125
Overseas sales as a percentage of total sales	69.1%	73.3%	71.0%	69.9%	63.7%
Underlying operating margin	6.7%	6.5%	6.4%	6.1%	6.1%
Net margin	4.9%	3.7%	3.3%	4.7%	3.9%
Tax rate	24.8%	16.4%	15.6%	11.4%	20.5%
Earnings per share	5.5p	4.3p	3.6p	5.4p	3.3p
	Basic				
	Underlying	5.2p	5.8p	5.4p	3.9p
Dividend per share	2.65p	2.55p	2.4p	2.2p	2.0p
Non current assets	86,686	87,712	79,634	73,738	70,775
Net current assets excluding cash, bank and finance leases	12,192	8,784	12,135	13,903	13,460
Net debt	(17,680)	(9,178)	(17,976)	(19,102)	(14,639)
Other non current liabilities	(6,642)	(22,196)	(28,519)	(14,208)	(24,989)
Total shareholders' funds	74,556	65,122	45,274	54,331	44,607
Post tax return on shareholders' funds	4.8%	4.1%	5.7%	6.9%	5.6%
Gearing (excluding net pensions balance)	23.7%	11.9%	24.8%	30.0%	22.6%
Assets per share	113p	100p	73p	88p	73p
Capital expenditure as a multiple of depreciation	1.9x	2.5x	1.1x	2.2x	0.9x
Average number of employees in year	1,112	1,073	1,051	1,074	996
Added value per employee	£32,059	£31,515	£34,534	£32,437	£29,384

Information for shareholders

(a) Share price history

Share price per 5p ordinary share at close of business 31 March 1982 - 11.6p

<u>Calendar year</u>	<u>Low</u>	<u>High</u>	<u>Calendar year</u>	<u>Low</u>	<u>High</u>
2005	48½p	89p	2010	133½p	241½p
2006	62p	100p	2011	239p	349p
2007	88p	132½p	2012	287½p	503p
2008	47½p	96p	2013	257p	501p
2009	48½p	150½p	2014 to date	109½p	292½p

(b) Share price information

FT Cityline telephone number for share price information

For share price information on Carclo call FT Cityline on 0905 8171 690

(c) Further information on Carclo plc

Further information on Carclo plc can be found on the internet at www.carclo-plc.com

Financial calendar 2014/15

Annual general meeting 2014	4 September 2014
Final dividend for 2014 payable to members on the register on 29 August 2014	3 October 2014
Ex - dividend date	27 August 2014
Interim report for the half year ending 30 September 2014	18 November 2014
Preliminary announcement of the results for the year ending 31 March 2015	9 June 2015

Notice of meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to what action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all your shares in Carclo plc, please pass this document and the accompanying form of proxy to the stockbroker, bank or other agent through whom you made the sale or transfer, for transmission to the purchaser or transferee.

Notice of annual general meeting

Notice is hereby given that the ninetieth annual general meeting of the company will be held at the Holiday Inn, Junction 40, M1, Ossett, West Yorkshire on Thursday, 4 September 2014 at 3.00 pm for the transaction of the following business -

To consider and, if thought fit, pass the following resolutions, of which numbers 1 to 7 will be proposed as ordinary resolutions and numbers 8 to 10 will be proposed as special resolutions.

Ordinary business

1. To receive the directors' and auditor's reports and the accounts for the year ended 31 March 2014.
2. To approve the directors' remuneration report for the year ended 31 March 2014 included within the 2014 report and accounts (other than that part of the report containing the directors' remuneration policy).
3. To approve the directors' remuneration policy for the year ended 31 March 2014 set out on pages 36 to 52 of the directors' remuneration report.
4. To declare a final dividend.
5.
 - A. To re-elect MJC Derbyshire as a director of the company
 - B. To re-elect W Tame as a director of the company
 - C. To re-elect CJ Malley as a director of the company
 - D. To re-elect RJ Rickman as a director of the company
 - E. To re-elect RJ Brooksbank as a director of the company
6.
 - A. To appoint KPMG LLP as auditor of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company.
 - B. To authorise the directors to fix the remuneration of the auditors.

Special business

To consider and if thought fit pass the following ordinary resolution -

7. That the directors are generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 to exercise all the powers of the company to allot shares in the company and to grant rights to subscribe for or to convert any security into such shares ("Allotment Rights"), but so that -
 - (a) the maximum amount of shares that may be allotted or made the subject of Allotment Rights under this authority are shares with an aggregate nominal value of £1,100,902;
 - (b) this authority shall expire on 1 December 2015 or, if earlier, on the conclusion of the company's next annual general meeting;
 - (c) the company may make any offer or agreement before such expiry which would or might require shares to be allotted or Allotment Rights to be granted after such expiry; and
 - (d) all authorities vested in the directors on the date of the notice of this meeting to allot shares or to grant Allotment Rights, or to allot relevant securities (as defined in the Companies Act 1985), that remain unexercised at the commencement of this meeting are revoked.

To consider and if thought fit pass the following special resolutions -

8. That the directors are empowered pursuant to section 570 of the Companies Act 2006 to allot equity securities, as defined in section 560 of that Act, pursuant to the authority conferred on them by resolution 7 in the notice of this meeting or by way of a sale of treasury shares as if section 561 of that Act did not apply to any such allotment, provided that this power is limited to -
 - (a) the allotment of equity securities in connection with any rights issue or open offer (each as referred to in the Financial Services Authority's listing rules) or any other pre-emptive offer that is open for acceptance for a period determined by the directors to the holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares (and, if applicable, to the holders of any other class of equity security in accordance with the rights attached to such class), subject in each case to such exclusions or other arrangements as the directors may deem necessary or appropriate in relation to fractions of such securities, the use of more than one currency for making payments in respect of such offer, any such shares or other securities being represented by depositary receipts, treasury shares, any legal or practical problems in relation to any territory or the requirements of any regulatory body or any stock exchange; and
 - (b) the allotment of equity securities (other than pursuant to paragraph (a) above) with an aggregate nominal value of £165,135, and shall expire when the authority conferred on the directors by resolution 6 in the notice of this meeting expires save that, before the expiry of this power, the company may make any offer or agreement which would or might require equity securities to be allotted after such expiry.

Notice of meeting continued

9. That the company is generally and unconditionally authorised pursuant to section 701 of the Companies Act 2006 to make market purchases (as defined in section 693 of that Act) of ordinary shares of 5p each in its capital, provided that -
 - (a) the maximum aggregate number of such shares that may be acquired under this authority is 6,605,414;
 - (b) the minimum price (exclusive of expenses) which may be paid for such a share is its nominal value;
 - (c) the maximum price (exclusive of expenses) which may be paid for such a share is the maximum price permitted under the Financial Services Authority's listing rules or, in the case of a tender offer (as referred to in those rules), five per cent above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange's Daily Official List) for the five business days immediately preceding the date on which the terms of the tender offer are announced;
 - (d) this authority shall expire on 1 December 2015 or, if earlier, on the conclusion of the company's next annual general meeting; and
 - (e) before such expiry the company may enter into a contract to purchase shares that would or might require a purchase to be completed after such expiry.
10. That any general meeting of the company that is not an annual general meeting may be called by not less than 14 clear days' notice.

By order of the board

Eric Cook
Secretary



27 Dewsbury Road, Ossett

27 June 2014

NOTES

1. A member who is entitled to attend and vote at the meeting is entitled to appoint another person, or two or more persons in respect of different shares held by him, as his proxy to exercise all or any of his rights to attend and to speak and vote at the meeting.
2. The right of a member of the company to vote at the meeting will be determined by reference to the register of members. A member must be registered on that register as the holder of ordinary shares by 6.00 p.m. on 2 September 2014 in order to be entitled to attend and vote at the meeting as a member in respect of those shares.
3. A member wishing to attend and vote at the meeting in person should arrive prior to the time fixed for its commencement. A member that is a corporation can only attend and vote at the meeting in person through one or more representatives appointed in accordance with section 323 of the Companies Act 2006. Any such representative should bring to the meeting written evidence of his appointment, such as a certified copy of a board resolution of, or a letter from, the corporation concerned confirming the appointment. Any member wishing to vote at the meeting without attending in person or (in the case of a corporation) through its duly appointed representative must appoint a proxy to do so. Forms for the appointment of a proxy that can be used for this purpose have been provided to members with this notice of meeting. To be valid, a proxy appointment form must be completed in accordance with the instructions that accompany it and then delivered (together with any power of attorney or other authority under which it is signed, or a certified copy of such item) to Equiniti, the company's registrars, so as to be received by 3.00 p.m. on 3 September 2014. Members who hold their shares in uncertificated form may use "the CREST voting service" to appoint a proxy electronically, as explained below. Appointing a proxy will not prevent a member from attending and voting in person at the meeting should he so wish.
4. Any person to whom this notice is sent who is currently nominated by a member of the company to enjoy information rights under section 146 of the Companies Act 2006 (a "nominated person") may have a right under an agreement between him and that member to be appointed, or to have someone else appointed, as a proxy for the meeting. If a nominated person has no such right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member concerned as to the exercise of voting rights. The statement in note 1 above of the rights of a member in relation to the appointment of proxies does not apply to a nominated person. Such rights can only be exercised by the member concerned.
5. As at 20 June 2014 (the latest practicable date prior to the printing of this document) (i) the company's issued share capital consisted of 66,054,142 ordinary shares, carrying one vote each, and (ii) the total voting rights in the company were 66,054,142.
6. Each member attending the meeting has the right to ask questions relating to the business being dealt with at the meeting which, in accordance with section 319A of the Companies Act 2006 and subject to some exceptions, the company must cause to be answered. Information relating to the meeting which the company is required by the Companies Act 2006 to publish on a website in advance of the meeting may be viewed at www.carclo-plc.com. A member may not use any electronic address provided by the company in this document or with any proxy appointment form or in any website for communicating with the company for any purpose in relation to the meeting other than as expressly stated in it.

Notice of meeting continued

7. It is possible that, pursuant to members' requests made in accordance with section 527 of the Companies Act 2006, the company will be required to publish on a website a statement in accordance with section 528 of that Act setting out any matter that the members concerned propose to raise at the meeting relating to the audit of the company's latest audited accounts since the previous annual general meeting. The company cannot require the members concerned to pay its expenses in complying with those sections. The company must forward any such statement to its auditors by the time it makes the statement available on the website. The business which may be dealt with at the meeting includes any such statement.
8. CREST members who wish to appoint one or more proxies through the CREST system may do so by using the procedures described in "the CREST voting service" section of the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed one or more voting service providers, should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or a proxy instruction made using the CREST voting service to be valid, the appropriate CREST message (a "CREST proxy appointment instruction") must be properly authenticated in accordance with the specifications of CREST's operator, Euroclear UK & Ireland Limited ("Euroclear"), and must contain all the relevant information required by the CREST Manual which can be viewed at www.euroclear.com/CREST. To be valid, the message (regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by Equiniti, (ID RA19), as the company's "issuer's agent", by 3.00 p.m. on 2 September 2014. After this time any change of instruction to a proxy appointed through the CREST system should be communicated to the appointee through other means. The time of the message's receipt will be taken to be when (as determined by the timestamp applied by the CREST Applications Host) the issuer's agent is first able to retrieve it by enquiry through the CREST system in the prescribed manner. Euroclear does not make available special procedures in the CREST system for transmitting any particular message. Normal system timings and limitations apply in relation to the input of CREST proxy appointment instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or a CREST sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. CREST members and, where applicable, their CREST sponsors or voting service providers should take into account the provisions of the CREST Manual concerning timings as well as its section on "Practical limitations of the system". In certain circumstances the company may, in accordance with the Uncertificated Securities Regulations 2001 or the CREST Manual, treat a CREST proxy appointment instruction as invalid.
9. Members meeting the threshold requirements in sections 338 and 338A of the Companies Act 2006 have the right to require the company (i) to give to members entitled to receive notice of the meeting notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or (as applicable) the matter to be included in the business, must be authenticated by the person or persons making it, must be received by the company not later than 24 July 2014, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

A form of proxy is enclosed.

Notes on the accounts

continued

18 Cash and cash deposits

	2014 £000	2013 £000
Cash at bank and in hand	11,764	16,098
	<u>11,764</u>	<u>16,098</u>

At 31 March 2014, cash of Enil was subject to a registered charge in favour of the group pension scheme (2013 - £1.186 million).

19 Interest bearing loans and borrowings

	2014 £000	2013 £000
Current -		
Bank overdrafts	11,875	6,968
	<u>11,875</u>	<u>6,968</u>
Non current -		
Bank loans repayable between one and two years	17,569	-
Bank loans repayable between two and five years	-	18,308
	<u>17,569</u>	<u>18,308</u>

Bank loans include £17.569 million (2013 - £18.308 million) secured on the assets of the group.

The bank overdrafts are predominantly in sterling and bear interest at two per cent above prevailing UK bank base rates. At 31 March 2013 the gross amount of overdrafts available was £11.414 million (2013 - £11.515 million) of which £5.415 million was utilised at the year end (2013 - £0.000 million) which is net of qualifying cash balances.

At 31 March 2014 and 31 March 2013, the group had medium term multi-currency revolving term loan facilities totalling £20.000 million. These facilities were entered into on 15 November 2011 and terminate on 15 November 2015. These facilities are split equally between the group's two principal UK bankers. At 31 March 2013 these facilities were drawn to the extent of £17.569 million (2013 - £18.308 million) and incur interest at the rate of 1.70% above LIBOR.

The bank loans are secured by guarantees from certain group companies and by fixed and floating charges over certain of the assets of a number of the group's companies. At 31 March 2014 the gross value of the assets secured, which includes applicable inter company balances, amounted to £33.928 million (2013 - £25.803 million). Excluding inter company balances the value of the security was £20.760 million (2013 - £15.813 million).

20 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following -

	2014 £000	2013 £000
Assets -		
Property, plant and equipment	3,277	3,490
Employee benefits	(49)	3,559
Short term timing differences	962	1,431
Share based payments	68	912
Tax losses	531	349
Deferred tax assets	<u>4,789</u>	<u>9,741</u>
Liabilities -		
Intangible assets	4,713	4,906
Short term timing differences	1,929	1,814
Deferred tax liabilities	<u>6,642</u>	<u>6,720</u>
Net deferred tax (liability)/asset	<u>(1,853)</u>	<u>3,021</u>

Notes on the accounts

continued

20 Deferred tax assets and liabilities continued

Unrecognised deferred tax assets

The following deferred tax assets have not been recognised in respect of the following items -

	2014 £000	2013 £000
Tax losses - overseas	74	533
Tax losses - trading	608	752
Tax losses - capital	267	320
Tax losses - non trading	900	903
	<u>1,849</u>	<u>2,508</u>

Deferred tax assets have not been recognised on the balance sheet to the extent that the underlying timing differences are not expected to reverse in the foreseeable future. The nature of the tax regimes in certain of the regions in which Cardo operates are such that tax losses may arise even though the business is profitable. This situation is expected to continue in the medium term. Capital losses will be recognised at the point when a transaction gives rise to an offsettable capital gain. This was not the case at 31 March 2014. Similarly non trading losses will only be utilised against future non trading profits. No such non trading profits are foreseen at 31 March 2014.

The tax losses at 31 March 2014 are available to carry forward without time restriction.

At 31 March 2014 there were no recognised deferred tax liabilities for taxes that would be deductible on the unremitted earnings of the group's overseas subsidiary undertakings (2013 - nil) as the group policy is to continually reinvest in those businesses. If all earnings were remitted it is estimated that £0.375 million of additional tax would be payable (2013 - £0.322 million).

The deferred tax liability at 31 March 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

	Balance as at 1 Apr 13 £000	Recognised on acquisition £000	Recognised in income £000	Recognised in equity £000	Balance as at 31 Mar 14 £000
Property, plant and equipment	3,490	-	(213)	-	3,277
Intangible assets	(4,906)	-	(149)	342	(4,713)
Employee benefits	3,559	-	588	(4,196)	(49)
Share based payments	912	-	(483)	(361)	68
Short term timing differences	(383)	-	(464)	(120)	(967)
Tax losses	349	-	182	-	531
	<u>3,021</u>	<u>-</u>	<u>(539)</u>	<u>(4,335)</u>	<u>(1,853)</u>

	Balance as at 1 Apr 12 £000	Recognised on acquisition £000	Recognised in income £000	Recognised in equity £000	Balance as at 31 Mar 13 £000
Property, plant and equipment	2,863	-	627	-	3,490
Intangible assets	(4,444)	-	(275)	(187)	(4,906)
Employee benefits	5,423	-	374	(2,238)	3,559
Share based payments	1,027	-	(163)	48	912
Short term timing differences	(383)	-	(13)	13	(383)
Tax losses	410	-	(61)	-	349
	<u>4,896</u>	<u>-</u>	<u>489</u>	<u>(2,364)</u>	<u>3,021</u>

21 Retirement benefit obligations

The group operates a defined benefit UK pension scheme which provides pensions based on service and final pay. The defined benefit scheme is now closed to new entrants who now have the option of entering into a defined contribution scheme and the company has elected to cease future accrual for existing members of the defined benefit scheme. The assets of the defined benefit scheme are held in a separate trustee administered pension fund. Outside of the UK, retirement benefits are determined according to local practice and funded accordingly.

The amounts recognised in the balance sheet in respect of the defined benefit scheme were as follows -

	2014 £000	2013 £000
Present value of funded obligations	(183,585)	(185,948)
Fair value of scheme assets	183,824	170,472
Recognised asset / (liability) for defined benefit obligations	<u>239</u>	<u>(15,476)</u>

Notes on the accounts
continued

21 Retirement benefit obligations continued

Movements in the net asset / (liability) for defined benefit obligations recognised in the consolidated statement of financial position -

	2014	2013
	£000	restated £000
Net liability for defined benefit obligations at the start of the year	(15,476)	(22,597)
Contributions paid	1,009	990
Net expense recognised in the consolidated income statement (see below)	(659)	(1,084)
Remeasurement gains recognised directly in equity	15,365	7,215
Net asset / (liability) for defined benefit obligations at the end of the year	<u>239</u>	<u>(15,476)</u>

Movements in the present value of defined benefit obligations and scheme assets -

	2014	2013
	£000	restated £000
Liability at the start of the year	186,948	172,761
Net interest on the net defined benefit liability	7,976	8,287
Remeasurement (gains) / losses	(893)	14,371
Benefits paid	(9,446)	(9,471)
Liability at the end of the year	<u>183,585</u>	<u>185,948</u>
Assets at the start of the year	170,472	150,164
Interest on scheme assets	7,317	7,203
Remeasurement gains	14,472	21,586
Contributions by employer	1,009	990
Benefits paid	(9,446)	(9,471)
Assets at the end of the year	<u>183,824</u>	<u>170,472</u>
Actual return on scheme assets	<u>21,789</u>	<u>28,789</u>

The fair value of scheme asset investments was as follows -

	2014	2013
	£000	£000
Equities	92,787	76,760
Bonds	66,874	68,010
Property	22,708	22,108
Cash	1,455	3,594
	<u>183,824</u>	<u>170,472</u>

None of the fair values of the assets shown above include any of the group's own financial instruments or any property occupied, or other assets used, by the group. All of the scheme assets have a quoted market price in an active market with the exception of the Trustee's bank account balance.

	2014	2013
	£000	restated £000
Net interest on the net defined benefit liability	659	1,084
	<u>659</u>	<u>1,084</u>

The income is recognised in the following line items in the consolidated income statement -

	2014	2013
	£000	restated £000
Other finance revenue and expense - net interest on the net defined benefit liability	659	1,084
	<u>659</u>	<u>1,084</u>

The group recognises remeasurement gains and losses immediately on the balance sheet through the statement of comprehensive income. The cumulative remeasurement net loss reported in the statement of comprehensive income since 1 April 2004 is £1.073 million.

The current best estimate of employer cash contributions to be paid in the year ending 31 March 2015 is £1.038 million.

Notes on the accounts

continued

21 Retirement benefit obligations continued

The principal actuarial assumptions at the balance sheet date (expressed as weighted averages) were -

	2014	2013
Discount rate at 31 March	4.4	4.4%
Expected return on plan assets at 31 March	N/A	N/A
Future salary increases	N/A	N/A
Inflation	3.45	3.5%
Future pension increases	2.35	2.4%
Life expectancy for a male (current pensioner) aged 65	18.2 years	18.1 years
Life expectancy at 65 for a male aged 40	19.9 years	19.8 years

It is assumed that 100% of the post A-Day maximum for actives and deferreds will be commuted for cash (2013 - 100%).

The history of the scheme's deficits and experience gains and losses is shown in the following table -

	2014	2013
	£000	restated £000
Present value of funded obligations	(183,585)	(185,948)
Fair value of scheme asset investments	183,824	170,472
Recognised surplus / (liability) for defined benefit obligations	239	(15,476)
Actual return on scheme assets	21,789	28,789
Remeasurement gains / (losses) on scheme liabilities	893	(14,371)

22 Provisions

	2014		2013	
	Site closure £000	Total £000	Site closure £000	Total £000
Provisions at the start of the year - current	-	-	130	130
Provisions used in the period	-	-	(130)	(130)
Provisions at the end of the year - current	-	-	-	-

A provision of £0.130 million was established in March 2012 in respect of a settlement relating to a previous site closure. This amount was settled in full in May 2012.

23 Trade and other payables - falling due within one year

	2014	2013
	£000	£000
Trade payables	9,272	8,854
Other taxes and social security costs	1,592	1,385
Other creditors	2,155	1,204
Accruals and deferred income	7,144	9,536
	<u>20,163</u>	<u>20,979</u>

24 Fair values

The fair value of financial assets and liabilities are not materially different from their carrying value.

There are no material items as required to be disclosed under the fair value hierarchy.

25 Ordinary share capital

	Number of shares	£000
Ordinary shares of 5 pence each -		
Issued and fully paid at 31 March 2013	65,169,642	3,258
Shares issued on exercise of share options	884,500	45
Issued and fully paid at 31 March 2014	<u>66,054,142</u>	<u>3,303</u>

During the course of the financial year 884,500 shares were issued in respect of share options at an average exercise price of 44.0 pence per ordinary share. The shares are fully paid.

Notes on the accounts
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25 Ordinary share capital continued

Outstanding share options are as follows -

	Date granted	Number of shares	Price	Date exercisable
Executive share option schemes	14 September 2005	24,000	80p	to 13 September 2015
	15 September 2006	199,000	77p	to 14 September 2016
	23 June 2008	2,000	86p	23 June 2011 to 22 June 2018

Outstanding awards under the performance share plan are as follows -

	Date granted	Number of shares	Price	Earliest date of vesting
Performance share plan	8 July 2011	80,000	nil	8 July 2014
	16 July 2012	65,000	nil	16 July 2015
	15 July 2013	201,000	nil	15 July 2016

The share options have been awarded to the executive directors and senior managers within the group.

The vesting conditions for all share option schemes are three years of service plus the satisfaction of specified performance criteria.

Under the provisions of IFRS 2 a charge is recognised for those share options and awards under the performance share plan issued after 7 November 2002. The estimate of the fair value of the services received is measured based on the Black-Scholes model for share options granted under the executive and discretionary share option schemes. The Monte-Carlo model is used to calculate the fair value of the performance share plan awards. The contractual life of the share options (ten years) is used as an input into this model. Expectations of early exercise are incorporated into the model.

The fair value per share of the awards under the performance share plan granted in the year is as follows -

	2014		2013
	15 July 2013 Award	16 July 2012 Award	16 July 2012 Award
Performance share plan			
Fair value at grant date	246p		280p
Share price at grant date	359½p		440p
Exercise price	0.0p		0.0p
Expected volatility	46.22%		86.49%
Share price volatility of comparators	39.45%		30.25%
Expected dividend yield	0.60%		0.79%

The performance share plan award issued on 16 July 2012 has a split performance condition whereby half of the awards would vest after three years based on performance compared to TSR and the remaining half would vest based on EPS performance. Half of the awards will vest on a sliding scale from 25% if EPS growth exceeds RPI by 5% per annum or more over the three year period beginning with the year of grant, rising to 100% if EPS growth exceeds RPI by 12% per annum. The other half of the awards will vest on a sliding scale from 25% if TSR exceeds the median performance of the constituents of the FTSE Small Cap Index over the three year period ending on 31 March 2015 rising to 100% for upper quartile performance.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

The amounts recognised in the income statement arising from equity settled share based payments was a charge of £0.034 million (2013 - £0.189 million).

The number and weighted average exercise prices of share options and performance share plan awards is as follows -

	2014		2013	
	Weighted average exercise price pence	Number of shares No.	Weighted average exercise price pence	Number of shares No.
Outstanding at 1 April	23.0	1,350,000	18.1	1,853,500
Lapsed during the period	-	(89,500)	-	(273,800)
Exercised during the period	15.2	(890,500)	8.4	(294,700)
Granted during the period	-	201,000	-	65,000
Outstanding at the end of the period	<u>30.5</u>	<u>571,000</u>	<u>23.0</u>	<u>1,350,000</u>
Exercisable at 31 March		<u>225,000</u>		<u>417,000</u>
Weighted average remaining life at 31 March		<u>23 months</u>		<u>15 months</u>

The weighted average share price at the date of exercise for the share options exercised in 2014 was 333.7 pence (2013 - 432.5 pence)

26 Reserves

Other reserves

Other reserves comprise -

	2014	2013
Capital redemption reserve arising on the repurchase of the company's shares	1,330	1,330
Revaluation reserve arising on land and buildings	252	252
Revaluation reserve arising on intangible assets	2,002	2,002
Translation reserve	3,584	3,584

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations that are not integral to the operations of the company, as well as from the translation of liabilities that hedge the company's net investment in a foreign subsidiary.

Retained earnings

Netted against retained earnings is the cost of own shares held by the group. The company maintains an employee share ownership plan for the benefit of employees and which can be used in conjunction with any of the group's share option schemes. As at 31 March 2014 the plan held 3,077 shares (2013 - 3,077 shares).

27 Financial instruments

The group's financial instruments comprise bank loans and overdrafts, cash and short term deposits. These financial instruments are used for the purpose of funding the group's operations. In addition the group has other financial instruments such as trade receivables and trade payables which arise directly from its operational activities.

The group is exposed to a range of financial risks as part of its day to day activities. These include credit risk, interest rate risk, liquidity risk and foreign currency risk.

Credit risk

Credit risk is the risk of financial loss to the group if a customer or financial institution fails to meet its contractual obligations. The group's credit risk is mainly attributable to its trade receivables which the group mitigates by way of credit insurance. Credit insurance is sought for all customers where exposure is in excess of £10,000. In certain instances credit insurance cannot always be obtained or cover has been withdrawn. In such instances payment terms are re-negotiated and internal credit limits established. The amounts shown in the balance sheet are after making due provision for any doubtful debts.

The group maintains any surplus cash balances on deposit accounts or legal offset accounts with the group's principal banks which have high credit ratings assigned by independent international credit rating agencies. In addition, the group has undrawn net overdraft facilities of £5,999 million at 31 March 2014 (2013 - £11,515 million) which are available to mitigate any liquidity risk.

The maximum exposure to credit risk as at 31 March was -

	2014	2013
Quoted investments	7	6
Trade receivables, net of attributable impairment provisions	14,837	13,342
Cash and cash deposits	11,764	16,098
26,608	29,446	

Carico is a worldwide supplier of components and systems. As a consequence, the group's trade receivables reside across a broad spectrum of countries which potentially increases the attributable credit risk in certain territories. The following table analyses the geographical location of trade receivables, net of attributable impairment provisions.

	2014	2013
United Kingdom	4,528	3,534
Rest of Europe	4,891	4,282
North America	3,258	3,401
Rest of world	2,160	2,025
14,837	13,342	

Notes on the accounts

continued

27 Financial Instruments continued

Interest rate risk

The group's borrowings are on floating rate terms. In the year to 31 March 2014, interest rates have remained at historic lows in response to the worldwide recession. This has kept the interest charge borne by the group at a lower level.

The interest rate profile of financial liabilities by currency of the group as at 31 March was as follows -

	Floating rate interest payable £000
As at 31 March 2014	
Sterling	15,960
US dollar	6,471
Euro	7,011
Other	2
	<u>29,444</u>
As at 31 March 2013	
Sterling	10,511
US dollar	7,664
Euro	6,853
Other	248
	<u>25,276</u>

The interest rate profile of financial assets by currency of the group as at 31 March was as follows -

	Floating rate interest receivable £000	No interest receivable £000	Total £000
As at 31 March 2014			
Sterling	5,042	60	5,102
US dollar	2,151	-	2,151
Euro	2,137	478	2,615
Other	1,876	20	1,896
	<u>11,206</u>	<u>558</u>	<u>11,764</u>
As at 31 March 2013			
Sterling	2,910	63	2,973
US Dollar	9,910	1	9,911
Euro	2,008	41	2,049
Other	1,142	23	1,165
	<u>15,970</u>	<u>128</u>	<u>16,098</u>

The floating rate of interest earned on cash balances is in the range bank base - 1% to bank base + 2%.

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group manages this risk by maintaining a mixture of committed long term loan facilities and short term overdraft facilities which have been established to ensure that adequate funding is available to fund its operational and investment activities. The board monitors the group's cash flows against internal targets and thresholds established with the group's bankers.

As detailed in note 19, the group has committed term loan facilities of £20,000 million (2013 - £20,000 million). In addition, the group has overdraft facilities totalling £11,414 million (2013 - £11,515 million). The group's net debt at 31 March 2014 was £17,680 million (2013 - £9,178 million), comfortably within the available facilities.

Notes on the accounts

continued

27 Financial Instruments continued

Foreign currency risk

The group has a number of overseas subsidiary operations. The major overseas subsidiaries are located in the United States, France, the Czech Republic, China and India. Hence the balance sheet of the group can be affected by the applicable conversion rates, the sterling / US dollar exchange rate in particular. It is the group's policy to hedge the effect of such structural currency exposures by having borrowings in the appropriate currencies where it is considered efficient to do so. A loan of US \$10.600 million is designated as the hedging instrument against foreign currency exposures in the net investment in the trading subsidiaries in the United States. A loan of €7.500 million is designated as the hedging instrument against foreign currency exposures in the net investment in the European operations.

In addition the group is subject to transactional currency exposures arising from the sale and purchase of goods and services in currency other than the company's local currency. Historically it has been the group's policy to hedge such exposure where the net exposure in any one currency exceeds £20,000 on any day using forward contracts. However, within the UK operations opportunities have been exploited to naturally hedge inflows in currency with similar outflows. It is the group's policy not to undertake any speculative transactions.

The fair value of the forward contracts at the start and end of the financial year was immaterial. The cash flows associated with the forward contracts are summarised as follows –

	2014		2013	
	Less than 6 months £000	6 - 12 months £000	Less than 6 months £000	6 - 12 months £000
Assets	744	-	882	-
Liabilities	(361)	-	(1,603)	-
	<u>383</u>	<u>-</u>	<u>(721)</u>	<u>-</u>

The balance sheet exposure to currency at the year end arising from trading activities is illustrated in the following analysis by currency of the group's trade receivables and trade payables –

	Sterling £000	US dollar £000	Euro £000	Other £000	Total £000
As at 31 March 2014					
Trade receivables, net of attributable impairment provisions	6,739	3,622	3,331	1,146	14,837
Trade payables	(3,489)	(3,974)	(1,603)	(206)	(9,272)
Net	<u>3,250</u>	<u>(352)</u>	<u>1,728</u>	<u>939</u>	<u>5,665</u>
As at 31 March 2013					
Trade receivables, net of attributable impairment provisions	5,319	4,579	2,930	514	13,342
Trade payables	(3,106)	(3,128)	(2,191)	(429)	(8,854)
Net	<u>2,213</u>	<u>1,451</u>	<u>739</u>	<u>85</u>	<u>4,488</u>

The following table summarises the main exchange rates used during the year -

	Average rate		Reporting date mid-market rate	
	2014	2013	2014	2013
Sterling / US dollar	1.59	1.56	1.67	1.52
Sterling / Czech koruna	31.4	31.1	33.2	30.44
Sterling / Chinese renminbi	9.8	9.8	10.3	9.52
Sterling / Euro	1.19	1.23	1.21	1.19
Sterling / Indian rupee	96.1	85.8	99.5	82.6

Fair values

The fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between third parties. Where available, market values are used to determine fair values, otherwise fair values are calculated by discounting expected cash flows at prevailing interest and exchange rates. The fair value of the derivatives and financial instruments detailed above was not materially different to the book value at 31 March 2014 and 31 March 2013. Unrecognised and deferred gains and losses in respect of derivatives and financial instruments at 31 March 2014 were insignificant.

Notes on the accounts
continued

27 Financial Instruments continued

Sensitivity analysis

In managing interest rate and currency risks the group aims to reduce the impact of short term fluctuations on the group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings. In the year ended 31 March 2014, it is estimated that a general increase of one percentage point in interest rates would have decreased the group's profit before tax by approximately £0.291 million (2013 - £0.284 million). It is estimated that a general increase of 10% in the value of sterling against the above noted main currencies would have decreased the group's profit before tax by approximately £0.423 million for the year ended 31 March 2014 (2013 - £0.482 million) which is detailed by currency in the following table -

	2014 £000	2013 £000
US dollar	249	253
Euro	66	63
Czech koruna	48	40
Other	60	126
	<u>423</u>	<u>482</u>

Capital risk management

The capital structure of the group consists of net debt (borrowings as detailed in note 19 offset by cash and bank balances) and equity of the group (comprising issued share capital, reserves and retained earnings as detailed in the statement of changes in shareholders' equity).

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an appropriate capital structure. In order to maintain or adjust the capital structure, the group will take into account the amount of dividends paid to shareholders, the level of debt and the number of shares in issue. Close control of deployment of capital is maintained by detailed management review procedures for authorisation of significant capital commitments, such as land acquisition, capital targets for local management and a system of internal interest charges, ensuring capital cost impact is understood and considered by all management tiers.

Decisions regarding the balance of equity and borrowings, dividend policy and all major borrowing facilities are reserved for the board.

28 Cash generated from operations

	2014 £000	2013 restated £000
Operating profit	6,031	4,915
Adjustments for -		
Pension fund contributions in excess of service costs	(1,009)	(980)
Depreciation charge	3,669	3,521
Amortisation of intangible assets	1,006	361
Provision for site closure	-	(130)
Profit on disposal of other plant and equipment	(25)	(42)
Share based payment charge	34	189
Operating cash flow before changes in working capital	9,706	7,834
Changes in working capital		
Increase in inventories	(1,265)	(710)
Increase in trade and other receivables	(2,451)	(2,527)
(Decrease) / increase in trade and other payables	(363)	6,706
Cash generated from operations	5,627	11,303

29 Financial commitments

	2014 £000	2013 £000
(a) The directors have authorised the following future capital expenditure which is contracted -	<u>129</u>	<u>2,669</u>
(b) The commitment under non cancellable operating leases was as follows -		
	2014	2013
	£000	£000
within one year	275	233
within two to five years	3,132	3,091
	<u>3,407</u>	<u>3,324</u>

30 Related parties

Identity of related parties

The group has a related party relationship with its subsidiaries (see note 32), its directors and executive officers and the group pension scheme. There are no transactions that are required to be disclosed in relation to the group's 60% subsidiary Platform Diagnostics Limited.

Transactions with key management personnel

Details of directors' remuneration can be found in the remuneration report on pages 36 to 52.

Group pension scheme

Carclo manages a pensions department which administers the group pension scheme (The Carclo Group Pension Scheme). The associated investment costs are recharged to the scheme in full. The costs in the year ended 31 March 2014 amounted to £1.060 million (2013 - £0.402 million). From 1 April 2007, it has been agreed with the Trustees of the scheme that, under the terms of the recovery plan, Carclo would bear the scheme's administration costs whilst the scheme was in deficit, as calculated at the triennial valuation. Carclo incurred administration costs of £0.651 million which has been charged to the Consolidated Income Statement (2013 - £0.614 million charged against the IAS 19 pension scheme deficit).

Notes on the accounts

continued

31 Accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key sources of estimation uncertainty that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Management has discussed these with the Audit Committee. These should be read in conjunction with the significant accounting policies provided in the notes to the financial statements.

Impairment of goodwill

Note 13 contains information about the assumptions and their risk factors relating to goodwill impairment.

Capitalisation and recoverability of other intangible assets

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred. Development expenditure is recognised in the income statement as incurred unless it meets all the criteria to be capitalised under IAS 38 - Intangible Assets. Development expenditure continues to be capitalised until the product reaches the point at which it operates in the manner intended by management, at which point amortisation commences.

The development costs and associated intellectual property rights carried on the group balance sheet predominantly stem from the development work undertaken by Conductive Inkjet Technology Limited ("CIT"). The majority of these costs relate to the Fine Line Technology which is utilised by our commercial partner Atmel Corporation as part of its XSense™ touch sensor. This product has already been successfully used on commercially available products and usage will expand through the coming years. The remainder within CIT relates to other printed electronics uses, all of which have been successfully tested and all of which have existing markets that are set to expand significantly.

The recoverability of these assets is assessed periodically having regard to a prudent assessment of potential future revenue streams so far identified for CIT's patented processes. Projected future cash flows for the next seven years (being half the expected life of the attributable patents) have been discounted back at a rate of 13.25%. The net present value of these cash flows indicates that there is no impairment of the other intangible assets at 31 March 2014. Revenues from CIT are set to grow in the new financial year but the impact on group profits will be limited due to a commensurate increase in the amortisation charge in line with the group's amortisation policy.

The remaining costs and associated intellectual property rights relate to the development work undertaken by Carclo Diagnostics Solutions Limited and Platform Diagnostics Limited which is considered to meet all the criteria to be capitalised under IAS 38 - Intangible Assets. These costs will be amortised over the life of the products once the products operate in the manner intended by management.

The customer related intangible asset arose on the acquisitions of Ultra Auto Cosmetics and Jacottet Industrie and represents management's estimate of the fair value of the benefits accruing in respect of their customer distribution networks and unique design drawings to the group. These assets are being amortised over a period of seven years.

Fixed asset useful economic lives

The useful economic lives of fixed assets are reviewed annually having regard to any profits or losses arising from the disposal of assets, future capital expenditure programmes and the level of expected manufacturing activity. No adjustment has been made in the year to the estimated economic lives of the group's tangible fixed assets.

Pension assumptions

The key assumptions applied to pensions are disclosed in note 21. The pension scheme liabilities are derived using actuarial assumptions for inflation, future salary increases, discount rates, mortality rates and commutation. Due to the relative size of the scheme's liabilities, small changes to these assumptions can give rise to a significant impact on the pension scheme deficit reported in the group balance sheet. For example, a decrease in the discount rate by 0.25% (i.e. 4.4% to 4.15%) would increase the scheme liabilities by 3.4% i.e. £6.242 million.

Recognition of deferred tax assets

Note 20 contains information about the assumptions and their risk factors relating to the recognition of deferred tax assets.

32 Group entities

Control of the group

The group's ultimate parent company is Carclo plc which is incorporated in England. The ordinary share capital of the subsidiary undertakings are owned by the company except where indicated.

Significant subsidiaries

	Country of incorporation	2014 %	2013 %	
Technical Plastics division				
Carclo Technical Plastics Limited	England	100	100	The companies within the Technical Plastics division design and manufacture high quality, close tolerance plastic components for the medical, optical and electronics industries.
*Carclo Technical Plastics Inc.	USA	100	100	
*Carclo Technical Plastics Shanghai Co. Limited	China	100	100	
*Carclo Technical Plastics (Brno) s.r.o	Czech Republic	100	100	
Carclo Technical Plastics Private Co. Limited	India	100	100	
LED Technologies division				
Wipac Limited	England	100	100	The company within the LED Technologies division develops innovative solutions in LED lighting, and is a leader in the development of high power LED
Precision Engineering division				
Bruntons Aero Products Limited	England	100	100	The companies within the Precision Products division design and manufacture a range of lighting
*Jacottet Industrie SAS	France	100	100	
Conductive Inkjet Technology				
Conductive Inkjet Technology Limited	England	100	100	Applied research into the digital printing of conductive metals onto plastic substrates.
Other				
Carclo Diagnostic Solutions Limited	England	100	100	Holding, development and exploitation of intellectual property rights
*Platform Diagnostics Limited	England	60.3	51	Applied research into the the development of digital diagnostic technologies for the immunoassay market

* Wholly owned by subsidiary undertakings

33 Post balance sheet event

Following the year end, the group commenced consultation with the workforce of our facility in Harthill, Lanarkshire regarding a possible closure of this lossmaking plant. In the next financial year the impact on operating profit is not expected to be material.

Company balance sheet

31 March

	Notes	2014		2013	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	36	141		132	
Investment in subsidiary undertakings	37	<u>110,634</u>	110,775	<u>110,634</u>	110,766
Current assets					
Debtors - amounts falling due within one year	38	66,876		4,578	
Debtors - amounts falling due after more than one year	38	207		73,258	
Cash at bank and in hand		<u>1,620</u>		<u>1,236</u>	
		<u>68,703</u>		<u>79,072</u>	
Creditors - amounts falling due within one year					
Trade and other creditors	39	<u>115,733</u>		<u>9,450</u>	
		<u>115,733</u>		<u>9,450</u>	
Net current (liabilities) / assets			<u>(47,030)</u>		<u>69,622</u>
Total assets less current liabilities			<u>63,745</u>		<u>180,388</u>
Creditors - amounts falling due after more than one year	40		<u>(17,569)</u>		<u>(128,982)</u>
Net assets excluding retirement benefits			<u>46,176</u>		<u>51,406</u>
Retirement benefits	42		-		(11,917)
Total net assets			<u>46,176</u>		<u>39,489</u>
Capital and reserves					
Called up share capital	25		3,303		3,258
Share premium	43		21,291		20,901
Merger reserve	43		8,785		8,785
Other reserves	43		1,330		1,330
Profit and loss account	43		11,467		5,215
Equity shareholders' funds			<u>46,176</u>		<u>39,489</u>

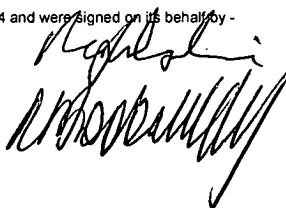
These accounts were approved by the board of directors on 10 June 2014 and were signed on its behalf by -

Michael Derbyshire

Robert Brooksbank

10 June 2014

} directors



Consolidated statement of changes in equity

	Attributable to equity holders of the company						Non-controlling interests £000	Total equity £000
	Share capital £000	Share premium £000	Translation reserve £000	Other reserves £000	Retained earnings £000	Total £000		
Balance at 1 April 2012	3,090	8,296	4,188	3,584	25,008	44,166	1,108	45,274
Profit for the period	-	-	-	-	2,767	2,767	(28)	2,739
Other comprehensive income -								
Foreign exchange translation differences	-	-	607	-	-	607	-	607
Remeasurement gains on defined benefit scheme	-	-	-	-	7,215	7,215	-	7,215
Taxation on items above	-	-	-	-	(2,412)	(2,412)	-	(2,412)
Total comprehensive income for the period	-	-	607	-	7,570	8,177	(28)	8,149
Transactions with owners recorded directly in equity -								
Share based payments	-	-	-	-	189	189	-	189
Dividends to shareholders	-	-	-	-	(1,071)	(1,071)	-	(1,071)
Exercise of share options	1	23	-	-	-	24	-	24
Issue of share capital, net of costs	154	12,492	-	-	-	12,646	-	12,646
Proceeds from sale of own shares	-	-	-	-	6	6	-	6
Performance share plan awards	13	90	-	-	(246)	(143)	-	(143)
Taxation on items recorded directly in equity	-	-	-	-	48	48	-	48
Balance at 31 March 2013	<u>3,258</u>	<u>20,901</u>	<u>4,795</u>	<u>3,584</u>	<u>31,504</u>	<u>64,042</u>	<u>1,080</u>	<u>65,122</u>
Balance at 1 April 2013	3,258	20,901	4,795	3,584	31,504	64,042	1,080	65,122
Profit for the period	-	-	-	-	3,597	3,597	(42)	3,555
Other comprehensive income -								
Foreign exchange translation differences	-	-	(3,029)	-	-	(3,029)	-	(3,029)
Remeasurement gains on defined benefit scheme	-	-	-	-	15,365	15,365	-	15,365
Taxation on above	-	-	-	-	(3,974)	(3,974)	-	(3,974)
Total comprehensive income for the period	-	-	(3,029)	-	14,988	11,959	(42)	11,917
Transactions with owners recorded directly in equity -								
Share based payments	-	-	-	-	34	34	-	34
Dividends to shareholders	-	-	-	-	(1,674)	(1,674)	-	(1,674)
Exercise of share options	10	122	-	-	-	132	-	132
Performance share plan awards	35	268	-	-	(913)	(610)	-	(610)
Increase in holding in subsidiary with non-controlling interests	-	-	-	-	192	192	(207)	(15)
Taxation on items recorded directly in equity	-	-	-	-	(350)	(350)	-	(350)
Balance at 31 March 2014	<u>3,303</u>	<u>21,291</u>	<u>1,766</u>	<u>3,584</u>	<u>43,781</u>	<u>73,725</u>	<u>831</u>	<u>74,556</u>

Consolidated statement of cash flows
year ended 31 March

	Notes	2014 £000	2013 £000
Cash generated from operations	28	5,627	11,303
Interest paid		(641)	(624)
Tax paid		(753)	(852)
Net cash from operating activities		<u>4,233</u>	<u>9,827</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		60	227
Interest received		16	12
Cash flow on discontinued operations		(37)	(70)
Acquisition of property, plant and equipment		(7,352)	(8,174)
Acquisition of intangible assets - computer software		(110)	(26)
Investment in Platform Diagnostics Limited		(15)	-
Development expenditure		(3,519)	(3,765)
Net cash from investing activities		<u>(10,957)</u>	<u>(11,796)</u>
Cash flows from financing activities			
Proceeds from the issue of share capital, net of costs		-	12,646
Proceeds from exercise of share options		132	25
Proceeds from sale of own shares		-	6
Drawings on term loan facilities		-	350
Repayment of borrowings		-	(1,600)
Cash outflow in respect of performance share plan awards		(610)	(143)
Dividends paid		(1,674)	(1,534)
Net cash from financing activities		<u>(2,152)</u>	<u>9,750</u>
Net (decrease) / increase in cash and cash equivalents		(8,876)	7,781
Cash and cash equivalents at beginning of period		9,130	1,159
Effect of exchange rate fluctuations on cash held		(365)	190
Cash and cash equivalents at end of period		<u>(111)</u>	<u>9,130</u>
Cash and cash equivalents comprise -			
Cash and cash deposits		11,764	16,098
Bank overdrafts		(11,875)	(6,968)
		<u>(111)</u>	<u>9,130</u>

Notes on the accounts

1 Accounting policies

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages xx to xx.

The accounting policies have been applied consistently to all periods presented in the consolidated financial statements, unless otherwise stated.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting period beginning on or after 1 April 2013. The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2013:

Amendments to IAS 19 – "Employee Benefits (2011)";
Amendments to IAS 1 – "Presentation of Items of Other Comprehensive Income";
Amendments to IFRS 13 – "Fair Value Measurement";
Amendments to IFRS 7 – "Financial Instruments: Disclosures - Offsetting Financial Assets and Liabilities";
Amendments to IAS 32 – "Presentation"; and
Annual improvements to IFRSs – "2009-2011 Cycle."

The impact of IAS 19 – "Employee Benefits (2011)" is described below. The implementation of the other standards has only had a presentational impact.

IAS 19 'Employee Benefits' was amended in June 2011 and is effective for accounting periods beginning 1 January 2013 and onwards with retrospective application required. The principal impact of the revised standard is that the concepts of expected return on the defined benefit obligation as separate components of the defined benefit cost have been replaced by a single concept such that interest is now calculated on the net defined benefit deficit. This calculation uses the discount rate previously used to measure defined benefit pension liabilities after allowance for any asset ceilings and additional liability under IFRIC 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14). In addition, plan administration expenses, previously deducted from the expected return on scheme assets, are now included within operating profit.

As a result of these amendments the comparative financial information in the income statement and statement of comprehensive income for the year ended 31 March 2013 has been restated. The impact on the results for the year ended 31 March 2013 is to reduce operating profit by £0.614 million, increase net finance expense by £1.183 million, reduce remeasurement losses in the statement of comprehensive income by £1.797 million, reduce the income tax expense by £0.413 million, reduce basic earnings per share from 6.5p to 4.3p and reduce diluted earnings per share from 6.4p to 4.3p. The pensions deficit has remained unchanged and so the balance sheet has not been restated. The impact on the results for the year ended 31 March 2014 has been to reduce operating profit by £0.651 million, increase net finance expense by £2.079 million and reduce remeasurement gains by £2.730 million. The impact on the current year tax expense and earnings per share have not been calculated as it would be impractical to do so.

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *Financial Instruments: Disclosures*. Accordingly, the group has included additional disclosures in this regard (see note 24).

In accordance with the transitional provisions of IFRS 13, the group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the group's assets and liabilities.

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting period beginning on or after 1 April 2014. The group has elected not to adopt early these standards which are described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Recoverable Amounts Disclosures for Non-Financial Assets (Amendments to IAS 36)

IFRIC 21 - Levies

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

The above are not expected to have a material impact on the group's reported results.

In addition, the IASB has indicated that it will issue a new standard on accounting for leases. Under the proposals, lessees would be required to recognise assets and liabilities arising from both operating and finance leases on the balance sheet. The IASB also plans to issue new standards on insurance contracts and revenue recognition. The Group will consider the financial impacts of these new standards as they are finalised.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

Notes on the accounts

continued

1 Accounting policies continued

a) Basis of accounting

The financial statements are prepared on the historical cost basis except that derivative financial instruments and share options are stated at their fair value. Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 April 2004, the date of transition to IFRS, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

Non current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

b) Basis of consolidation

The group's financial statements consolidate the financial statements of the company and its subsidiary undertakings. The results of any subsidiaries sold or acquired are included in the group income statement up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation. On acquisition of a subsidiary, all of the identifiable assets and liabilities existing at the date of acquisition are recorded at their fair values reflecting their condition at that date.

1) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally a fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

1) Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result. Adjustments to non-controlling interests arising from transaction that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

c) Goodwill

In respect of business combinations that occurred since 1 April 2004, goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the separable identifiable net assets acquired. Goodwill arising on acquisition of subsidiaries, joint ventures and businesses is capitalised as an asset.

In accordance with IFRS 1 and IFRS 3, goodwill at 1 April 2004 has been frozen and will not be amortised. Goodwill is allocated to cash generating units and is subject to an annual impairment review, with any impairment losses being recognised immediately in the income statement.

Any goodwill arising on the acquisition of an overseas subsidiary is retranslated at the balance sheet date.

Goodwill arising prior to 31 March 1998 and previously written off to reserves has not been reinstated.

1 Accounting policies continued

d) Other intangible assets

Intangible assets that are acquired by the group are stated at cost less accumulated amortisation (see accounting policy e) and impairment losses (see accounting policy w). Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see accounting policy e) and impairment losses (see accounting policy w).

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

e) Amortisation

Intangible assets, other than goodwill, are amortised on a straight line basis to write off the cost of the asset, less estimated residual value, over the estimated economic life of the asset. Patents and development costs are amortised over a period of up to 10 years from the date upon which the patent or related development expenditure becomes available for use. Customer distribution networks are amortised over 7 years and computer software over 3 to 5 years.

f) Property, plant and equipment

The company has taken the option provided by IFRS 1 to use its previous UK GAAP valuation as "deemed cost". Items of property, plant and equipment are stated at cost, or at deemed cost, less accumulated depreciation and impairment losses.

Depreciation on property, plant and equipment is provided using the straight line method to write off the cost or valuation less estimated residual value, using the following depreciation rates -

Freehold buildings	2.0% - 5.0%
Plant and equipment	8.33% - 33.33%

No depreciation is provided on freehold land.

g) Leases

Leases where the group assumes substantially all the risks and rewards of ownership are classified as finance leases, where this is not the case they are treated as operating leases. Amounts payable under operating leases are charged to net operating expenses on a straight line basis over the lease term. The group currently has no finance leases.

h) Borrowing costs

Borrowings are initially measured at fair value including any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate (EIR) method.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of other inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

j) Revenue recognition

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, or if there is continuing managerial involvement with the goods.

With regards to sub contract tooling contracts, the group uses the "percentage of completion method" to determine the appropriate amount of revenue to be recognised in a given period when the outcome can be estimated reliably. Costs incurred to date as a percentage of total cost of completion represent the "percentage cost of completion". Costs on such tooling contracts are recognised when incurred unless they create an asset related to future activity on the contract.

When it is probable that the total costs for a contract will exceed the total revenue, then the loss is recognised as an expense immediately.

Revenues arising from the granting of preferential access to the group's technology is recognised over the preferential access period which is under the direct control of the group.

Notes on the accounts

continued

1 Accounting policies continued

k) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates ruling at the dates the fair value was determined.

l) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to sterling at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

m) Net investment in foreign operations

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges meeting the criteria for hedge accounting under IAS 39, are taken to the translation reserve. They are released into the income statement upon disposal.

The group has taken advantage of relief available under IFRS 1 to not separately recognise the cumulative translation differences for all foreign operations at the date of transition, 1 April 2004.

n) Dividends

Dividends are only recognised as a liability to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the note to the financial statements.

o) Net operating expenses

Net operating expenses incurred by the business are written off to the income statement as incurred.

p) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy u).

Interest is recognised in the income statement as it accrues, using the effective interest method, unless it is directly attributable to the acquisition, construction or production of a qualifying asset in which case it is capitalised as part of the cost of that asset.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

r) Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity or the statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for - goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

s) Retirement benefit costs

The group operates a defined benefit pension scheme and also makes payments into defined contribution schemes for employees. The pension payable under the defined benefit scheme is calculated based on years of service up to retirement and pensionable salary at the point of retirement.

The net obligation in respect of the defined benefit plan is the present value of the defined benefit obligations less the fair value of the plan's assets at the balance sheet date. The assumptions used to calculate the present value of the defined benefit obligations are detailed in note 21.

IFRIC 14 requires that where plan assets exceed the defined benefit obligation, an asset is recognised to the extent that an economic benefit is available to the group, in accordance with the terms of the plan and applicable statutory requirements and the benefit should be realisable during the life of the plan or on the settlement of the plan liabilities. As the terms of the plan comply with this an asset has consequently been recognised at 31 March 2014.

The operating and financing cost of the scheme are recognised separately in the income statement in the period they arise.

Payments to the defined contribution schemes are accounted for on an accruals basis. Once the payments have been made the group has no further obligation.

t) Financial instruments

The group uses derivative financial instruments to hedge its exposure to foreign exchange rate risks arising from operational activities. In accordance with its treasury policy, the group does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. The gain or loss on remeasurement of fair values is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. At the year end no derivative financial instruments qualified for hedge accounting.

1 Accounting policies continued

u) Hedge of net investment in foreign operations

The portion of the gain or loss on an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised immediately in the income statement.

v) Share based payments

The group issues equity settled share based payments to certain employees in exchange for services rendered by them. The fair value of the share based award is calculated at the date of the grant and is expensed on a straight line basis over the vesting period with a corresponding increase in equity. This is based on the group's estimate of share options that will eventually vest. This takes into account movement of non market conditions, being service conditions and financial performance, if relevant. The fair value of the equity settled awards granted is not subsequently revisited.

w) Impairment

The carrying amounts of the group's assets, other than inventories (see accounting policy i) and deferred tax assets (see accounting policy r), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units or group of units and then, to reduce the carrying amount of the other assets in the unit or group of units on a pro rata basis.

x) Exceptional items

In order for users of the accounts to better understand the underlying performance of the group, the board have separately disclosed transactions which, whilst falling within the ordinary activities of the group, are, by virtue of their size or incidence, considered to be exceptional in nature. Such transactions include costs of rationalisation, one-off retirement benefit effects, litigation costs and material bad debts.

Non operating exceptional items arise from costs incurred outside the ordinary course of the group's business. Such items include profits, losses and associated costs arising on the disposal of surplus properties and businesses.

y) Segment reporting

Segmental information is presented on the same basis as that used for internal reporting to the chief operating decision maker.

z) Provisions

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability to the extent that the effect of discounting is material.

aa) Non-current assets held for sale and discontinued operations

A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent re-measurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation has been discontinued from the start of the comparative period.

ab) 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 chief executive's review on pages [5 to 9.] The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the finance director's review on pages [10 to 13.] In addition note 27 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

At 31 March 2014 the group has medium term loan facilities totalling £20.0 million with two UK banks, since that date an additional £6.0 million facility has been obtained from one of the group's existing lenders. These multi-currency revolving credit facilities were renewed in 2011 for a further four years until 2015. The group meets its day to day working capital requirements through overdraft facilities totalling £11.4 million.

The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current facilities.

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.

2 Segment reporting

At 31 March 2014, the group was organised into four, separately managed, business segments - Technical Plastics, LED Technologies, Precision Engineering and Conductive Inkjet Technology. These are the segments for which summarised management information is presented to the group's chief operating decision maker (comprising the main board and general executive committee).

The Technical Plastics segment supplies fine tolerance, injection moulded plastic components, which are used in medical, optical and electronics products. This business operates internationally in a fast growing and dynamic market underpinned by rapid technological development.

The LED Technologies segment develops innovative solutions in LED lighting, and is a leader in the development of high power LED lighting for supercars.

The Precision Engineering segment supplies systems to the manufacturing and aerospace industries.

The Conductive Inkjet Technology segment undertakes applied research into the digital printing of conductive metals onto plastic substrates.

The Unallocated segment also includes the group's development companies, Platform Diagnostics Limited and Carclo Diagnostic Solutions, until these companies start to achieve income streams for the group.

Transfer pricing between business segments is set on an arm's length basis. Segmental revenues and results include transfers between business segments. Those transfers are eliminated on consolidation.

The group's geographical segments are based on the location of the group's assets. Sales to external customers disclosed in geographical segments are based on the geographical location of its customers.

Notes on the accounts
continued

2 Segment reporting continued

Analysis by business segment

The segment results for the year ended 31 March 2014 were as follows -

	Technical Plastics £000	LED Technologies £000	Precision Engineering £000	Conductive Inkjet Technology £000	Unallocated £000	Eliminations £000	Group total £000
Consolidated income statement							
Total revenue	59,945	28,187	7,776	3,251	-	(1,892)	97,267
Less inter-segment revenue	(1,865)	(27)	-	-	-	1,892	-
Total external revenue	<u>58,080</u>	<u>28,160</u>	<u>7,776</u>	<u>3,251</u>	<u>-</u>	<u>-</u>	<u>97,267</u>
Expenses	(53,465)	(25,591)	(6,239)	(3,420)	(2,001)	-	(90,716)
Underlying operating profit	<u>4,615</u>	<u>2,569</u>	<u>1,537</u>	<u>(169)</u>	<u>(2,001)</u>	<u>-</u>	<u>6,551</u>
Rationalisation costs	-	-	-	-	(92)	-	(92)
Litigation costs	-	-	-	(428)	-	-	(428)
Operating profit	<u><u>4,615</u></u>	<u><u>2,569</u></u>	<u><u>1,537</u></u>	<u><u>(597)</u></u>	<u><u>(2,093)</u></u>	<u><u>-</u></u>	<u><u>6,031</u></u>
Net finance expense							(1,260)
Income tax expense							(1,179)
Loss on discontinued operations, net of tax							(37)
Profit after tax							<u><u>3,555</u></u>

Notes on the accounts
continued

2 Segment reporting continued

	Technical Plastics £000	LED Technologies £000	Precision Engineering £000	Conductive Inkjet Technology £000	Unallocated £000	Eliminations £000	Group total £000
Consolidated statement of financial position							
Segment assets	68,235	18,354	6,491	28,427	11,442	-	132,949
Segment liabilities	(13,999)	(3,838)	(936)	(4,871)	(34,750)	-	(58,393)
Net assets	54,236	14,516	5,556	23,556	(23,308)	-	74,556

Other segmental information

Capital expenditure on property, plant and equipment	4,917	890	198	1,141	4	-	7,150
Capital expenditure on computer software	15	41	-	-	54	-	110
Capital expenditure on other intangibles	-	-	-	2,413	1,106	-	3,519
Depreciation	2,275	652	133	572	36	-	3,668
Amortisation of computer software	7	37	1	-	13	-	58
Amortisation of other intangibles	11	115	-	822	-	-	948

The segment results for the year ended 31 March 2013 following restatement as a result of IAS 19 – "Employee Benefits" were as follows –

	Technical Plastics restated £000	LED Technologies restated £000	Precision Engineering restated £000	Conductive Inkjet Technology restated £000	Unallocated restated £000	Eliminations restated £000	Group total restated £000
Consolidated income statement							
Total revenue	57,103	23,115	7,505	661	-	(1,870)	86,514
Less inter-segment revenue	(1,768)	(102)	-	-	-	1,870	-
Total external revenue	55,335	23,013	7,505	661	-	-	86,514
Expenses	(51,379)	(20,823)	(6,000)	(653)	(2,074)	-	(80,929)
Underlying operating profit	3,956	2,190	1,505	8	(2,074)	-	5,585
Rationalisation costs	(48)	(32)	-	-	(81)	-	(161)
Exit from Ford volume automotive communication business	-	(95)	-	-	-	-	(95)
Litigation costs	-	-	-	(414)	-	-	(414)
Operating profit	3,908	2,063	1,505	(406)	(2,155)	-	4,915
Net finance expense							(1,698)
Income tax expense							(408)
Loss on discontinued operations, net of tax							(70)
Profit after tax							2,739

Notes on the accounts
continued

2 Segment reporting continued

	Technical Plastics £000	LED Technologies £000	Precision Engineering £000	Conductive Inkjet Technology £000	Unallocated £000	Eliminations £000	Group total £000
Consolidated statement of financial position							
Segment assets	65,485	17,041	6,600	32,668	14,034	-	135,828
Segment liabilities	(11,384)	(3,050)	(1,586)	(7,774)	(46,912)	-	(70,706)
Net assets	<u>54,101</u>	<u>13,991</u>	<u>5,014</u>	<u>24,894</u>	<u>(32,878)</u>	<u>-</u>	<u>65,122</u>
Other segmental information							
Capital expenditure on property, plant and equipment	4,293	772	64	3,494	69	-	8,692
Capital expenditure on computer software	4	16	6	-	-	-	26
Capital expenditure on other intangibles	-	-	-	2,941	824	-	3,765
Depreciation	2,356	677	156	299	33	-	3,521
Amortisation of computer software	15	22	3	-	16	-	56
Amortisation of other intangibles	-	101	12	192	-	-	305

Analysis by geographical segment

The business operates in three main geographical regions - the United Kingdom, North America and in lower cost regions including the Czech Republic, China and India.

The geographic analysis was as follows -

	External revenue		Net segment assets		Expenditure on tangible fixed assets and computer software	
	2014	2013	2014	2013	2014	2013
	£000	£000	£000	£000	£000	£000
United Kingdom	30,091	23,056	34,104	24,757	3,152	5,248
North America	27,724	23,821	19,129	18,643	3,865	1,469
Rest of world	39,452	39,637	21,323	21,722	243	2,001
	<u>97,267</u>	<u>86,514</u>	<u>74,556</u>	<u>65,122</u>	<u>7,260</u>	<u>8,718</u>

The analysis of segment revenue represents revenue from external customers based upon the location of the customer.

The analysis of segment assets and capital expenditure is based upon the location of the assets.

The material components of unallocated segment assets and liabilities are retirement benefit obligation net assets of £0.239 million (2013 - net liabilities of £15.476 million), and net borrowings of £22.198 million (2013 - £19.908 million).

One Technical Plastics customer accounted for 22.8% of group revenues (2013 - 20.4%) and one LED Technologies customer accounted for 12.4% of group revenues (2013 - 12.4%) and similar proportions of trade receivables. No other customer accounted for more than 10.0% of revenues in the year or prior year.

The unallocated segment relates to central costs and non-trading companies and also includes the group's development companies, Platform Diagnostics Limited and Carclo Diagnostic Solutions, until these companies start to achieve income streams for the group.

Deferred tax assets by geographical location are as follows, United Kingdom £3.916 million (2013 - £8.388 million), North America £0.668 million (2013 - £1.236 million), Rest of world £0.205 million (2013 - £0.119 million).

Total non-current assets by geographical location are as follows, United Kingdom £63.073 million (2013 - £64.051 million), North America £13.209 million (2013 - £12.129 million), Rest of world £10.404 million (2013 - £11.532 million).

Notes on the accounts
continued

3 Operating profit

	2014	2013
	£000	restated £000
Operating profit is arrived at as follows -		
Revenue	97,267	86,514
Decrease in stocks of finished goods and work in progress	83	289
	<u>97,350</u>	<u>86,803</u>
Raw materials and consumables	46,687	37,915
Personnel expenses (see note 6)	24,841	24,990
Amortisation of intangible assets	1,006	361
Depreciation of tangible fixed assets	3,669	3,521
Auditor's remuneration -		
Fees payable to the company's auditor for the audit of the company's annual accounts	71	65
Fees payable to the company's auditor and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	111	117
Tax advisory services	22	17
Total	<u>204</u>	<u>199</u>
Operating lease rentals -		
Property	557	604
Plant and machinery	430	314
Total	<u>987</u>	<u>918</u>
Rationalisation costs (see note 7)	92	161
Litigation costs (see note 7)	428	414
Exit from Ford volume automotive communication business (see note 7)	-	95
Foreign exchange (gains) / losses	(273)	10
Pension scheme administration costs	650	614
Other operating charges	13,028	12,690
	<u>91,319</u>	<u>81,888</u>
Operating profit	<u>6,031</u>	<u>4,915</u>

Notes on the accounts

continued

4 Acquisition of additional shareholding in subsidiary

On 31st October 2013 Carclo acquired an additional 4,799 shares in Platform Diagnostics Limited for £0.015 million, increasing the group's holding to 60.3% (2013 – 51.0%).

5 Disposal of trade and assets in subsidiary

On 31st March 2014 Carclo disposed on the trade and assets in Birkett Cutmaster Limited to Accurate Cutting Services Limited for £0.250 million. This generated a loss of £0.000 million.

6 Personnel expenses

	2014 £000	2013 £000
Wages and salaries	21,177	20,939
Social security contributions	2,777	3,021
Charge in respect of defined contribution and other pension plans	853	841
Share based payments (see note 25)	34	189
	<u>24,841</u>	<u>24,990</u>

Redundancy costs of £0.000 million (2013 - £0.080 million) are excluded from the above analysis and included in note 7.

Directors' remuneration and emoluments, which are included in this analysis, are described in the directors' remuneration report on pages 36 to 52.

The average monthly number of persons employed by the group during the year was as follows -

	2014 Number of employees	2013 Number of employees
By segment		
Unallocated	14	14
Technical Plastics division	776	746
LED Technologies division	201	198
Precision Engineering division	83	85
Conductive Inkjet Technology	38	30
	<u>1,112</u>	<u>1,073</u>
By geographic location		
United Kingdom	550	542
North America	212	195
Rest of world	350	336
	<u>1,112</u>	<u>1,073</u>

Notes on the accounts

continued

7 Exceptional costs

	2014 £000	2013 £000
United Kingdom		
Redundancy costs	-	(77)
Exit from Ford volume automotive business	-	(95)
Litigation costs	(428)	(414)
Rationalisation costs	(92)	(81)
Rest of world		
Redundancy costs	-	(3)
	<u>(520)</u>	<u>(670)</u>

Litigation costs relate to fees incurred as part of the group's proceedings against Uni-Pixel Inc.

We stated in the prior year financial statements that Conductive Inkjet Technology ("CIT") had issued proceedings in the English High Court against Uni-Pixel Inc. On 3 April 2014 we announced that CIT and Uni-Pixel Displays, Inc (Uni-Pixel) had agreed to settle the on-going litigation in the US and the UK. CIT agreed to withdraw its UK claims that Uni-Pixel had used CIT's confidential information for a number of unauthorized purposes relating to its current technology, its past technology and also two of its patent filings. Uni-Pixel agreed to withdraw its US claims for declarations that it did not do what CIT alleged, and that CIT breached an agreement between the parties by issuing its claims in the UK courts. CIT further agreed to release any current and future claims to Uni-Pixel's past and current technology, patents and other property based on the subject matter of the suits. Uni-Pixel further agreed to grant CIT certain limited rights to use technology that would be protected by the patents arising from the disputed patent filings. No money will change hands as part of the settlement. The parties agree that Uni-Pixel owes no further duty of confidentiality to CIT regarding any CIT technology. There are no admissions of any wrong-doing in connection with this dispute.

8 Finance revenue and expense

	2014 £000	2013 restated £000
Finance revenue comprises -		
Interest receivable on cash at bank	16	12
Finance revenue	<u>16</u>	<u>12</u>
Finance expense comprises -		
Bank loans and overdrafts	(617)	(626)
Net interest on the net defined benefit liability	(659)	(1,084)
Finance expense	<u>(1,276)</u>	<u>(1,710)</u>

Notes on the accounts
continued

9 Income tax expense

	2014	2013
	£000	restated £000
The expense recognised in the consolidated income statement comprises -		
United Kingdom corporation tax		
Corporation tax on profits for the current year	-	-
Adjustments for prior years	-	-
Overseas taxation		
Current tax	(801)	(781)
Adjustments for prior years	161	(116)
Total current tax net expense	(640)	(897)
Deferred tax (charge) / credit		
Origination and reversal of temporary differences -		
Deferred tax	(1,004)	180
Rate change	482	214
Adjustments for prior years	(17)	95
Total deferred tax (expense) / income	(539)	489
Total income tax expense recognised in the consolidated income statement	(1,179)	(408)

Factors affecting the tax charge for the year -

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained as follows -

	2014		2013	
	£000	%	£000	restated %
Profit before tax	4,771		3,217	
Income tax using standard rate of UK corporation tax of 23% (2013 - 24%)	1,097	23.0	772	24.0
Adjustments in respect of overseas tax rates	557	11.7	154	4.8
Other temporary differences	(92)	(1.9)	123	3.8
Movement in unprovided deferred tax	(13)	(0.3)	(524)	(16.2)
Other items not deductible for tax purposes	256	5.4	76	2.4
Adjustment to current tax in respect of prior periods (UK and overseas)	(161)	(3.4)	116	3.6
Adjustments to deferred tax in respect of prior periods (UK and overseas)	17	0.4	(95)	(3.0)
Rate change on deferred tax	(482)	(10.1)	(214)	(6.7)
Total income tax charge in the consolidated income statement	1,179	24.8	408	12.7

Notes on the accounts

continued

9 Income tax expense continued

Tax on items charged outside of the Consolidated Income Statement -

	2014	2013
	£000	restated £000
Deferred tax relating to remeasurements of defined benefit scheme	4,196	2,237
Share based payments	361	(48)
Foreign exchange movements	(222)	185
Total income tax charged to equity	<u>4,335</u>	<u>2,374</u>

10 Loss on discontinued activities, net of tax

	2014	2013
	£000	£000
Costs incurred in relation to previously leased properties	(37)	(57)
Loss on disposal of surplus property	-	(13)
	<u>(37)</u>	<u>(70)</u>

In the year ended 31 March 2014, costs of £0.370 million were incurred in relation to previously leased properties (2013 - £0.057 million). These properties were used by businesses that were sold in prior years.

11 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the parent divided by the weighted average number of ordinary shares outstanding during the year.

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the parent divided by the weighted average number of ordinary shares outstanding during the year (adjusted for dilutive options).

The following details the profit and average number of shares used in calculating the basic and diluted earnings per share -

	2014	2013
	£000	restated £000
Profit after tax from continuing operations	3,592	2,809
Minority interest	42	28
Profit attributable to ordinary shareholders from continuing operations	<u>3,634</u>	<u>2,837</u>
Loss on discontinued operations, net of tax	(37)	(70)
Profit after tax, attributable to equity holders of the parent	<u>3,597</u>	<u>2,767</u>
	2014	2013
	Shares	Shares
Weighted average number of ordinary shares in the year	65,761,466	64,125,734
Effect of share options in issue	171,187	344,080
Weighted average number of ordinary shares (diluted) in the year	<u>65,932,653</u>	<u>64,469,814</u>

In addition to the above, the company also calculates an earnings per share based on underlying profit as the board believe this to be a better yardstick against which to judge the progress of the group. Underlying profit is defined as profit before rationalisation costs, one-off retirement benefit effects, exceptional bad debts, business closure costs, litigation costs and the impact of property and business disposals, net of attributable taxes.

The following table reconciles the group's profit to underlying profit used in the numerator in calculating underlying earnings per share -

	2014	2013
	£000	revised £000
Profit after tax, attributable to equity holders of the parent	3,597	2,767
Rationalisation costs, net of tax	71	122
Litigation costs, net of tax	330	315
Exit from Ford volume automotive communication business, net of tax	-	72
Loss on disposal of discontinued operations, net of tax	37	70
Underlying profit attributable to equity holders of the parent	<u>4,035</u>	<u>3,346</u>

Notes on the accounts
continued

11 Earnings per share continued

The following table summarises the earnings per share figures based on the above data -

	2014	2013
	Pence	revised Pence
Basic - continuing operations	5.5	4.4
Basic - discontinued operations	(0.0)	(0.1)
Basic - total	5.5	4.3
Diluted - continuing operations	5.5	4.4
Diluted - discontinued operations	(0.0)	(0.1)
Diluted - total	5.5	4.3
Underlying earnings per share - basic	6.1	5.2
Underlying earnings per share - diluted	6.1	5.2

12 Dividends paid and proposed

Ordinary dividends per 5 pence share declared in the period comprised -

	2014	2013		
	£000	Pence	£000	Pence
Final dividend for 2011/12	-	-	1,071	1.65
Interim dividend for 2012/13	-	-	521	0.80
Final dividend for 2012/13	1,153	1.75	-	-
Interim dividend for 2013/14	560	0.85	-	-
	1,713	2.60	1,592	2.45

The directors are proposing a final dividend of 1.80 pence per ordinary share for the year ended 31 March 2014. If approved at the annual general meeting on 4 September 2014, the dividend payment totalling £1.189 million will be paid on 3 October 2014 to shareholders on the share register at close of business on 29 August 2014.

The interim dividend of £0.560 million was paid on 8 April 2014 and consequently has not been accrued.

13 Intangible assets

	Goodwill £000	Patents and development costs £000	Customer related intangibles £000	Computer software £000	Total £000
Cost					
Balance at 1 April 2012	21,364	19,697	402	997	42,460
Additions	-	3,765	-	26	3,791
Effect of movements in foreign exchange	253	-	-	13	266
Balance at 31 March 2013	21,617	23,462	402	1,036	46,517
Additions	-	3,519	-	110	3,629
Disposals	-	-	-	(17)	(17)
Effect of movements in foreign exchange	(1,129)	-	-	(24)	(1,153)
Balance at 31 March 2014	20,488	26,981	402	1,105	48,976
Amortisation					
Balance at 1 April 2012	-	631	238	764	1,633
Amortisation for the year	-	248	57	56	361
Effect of movements in foreign exchange	-	-	-	7	7
Balance at 31 March 2013	-	879	295	827	2,001
Amortisation for the year	-	891	57	58	1,006
Disposals	-	-	-	(12)	(12)
Effect of movements in foreign exchange	-	-	-	(13)	(13)
Balance at 31 March 2014	-	1,770	352	860	2,982
Carrying amounts					
At 1 April 2012	21,364	19,066	164	233	40,827
At 31 March 2013	21,617	22,583	107	209	44,516
At 31 March 2014	20,488	25,211	50	245	45,994

Notes on the accounts

continued

13 Intangible assets continued

Impairment tests for cash generating units containing goodwill

The following cash generating units have significant carrying amounts of goodwill -

	2014 £000	2013 £000
Technical Plastics	17,384	18,486
LED Technologies	389	389
Precision Engineering	1,268	1,295
Conductive Inkjet Technology	931	931
Other	516	516
	<u>20,488</u>	<u>21,617</u>

The recoverable amounts of the cash generating units are based on value in use calculations. Those calculations use board approved cash flow projections based on actual operating results and current forecasts. Operating results, being the key assumption within the model, have been forecast for a period of five years. A five year period has been utilised given the relatively stable nature of the segments. Year one (2014/15) was based on detailed budgets prepared by management. Years two to five are extrapolated using these budgets and assuming growth of up to 10.0% per annum dependent upon the markets served. From year five onwards growth is assumed at 3.0% per annum. The cash flows were discounted at a pre-tax rate of 7.4% (2013 - 8.0%) for Technical Plastics, LED Technologies and Precision Engineering and 13.25% (2013 - 13.25%) for Conductive Inkjet Technology. These rates are calculated and reviewed annually. Changes in income and expenditure are based on expectations of future changes in the market. No impairment arose during the year as a result of this test. The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions is unlikely to result in an impairment of the related goodwill.

Note 31 provides details of the assumptions used to assess the carrying value of patents and development costs.

14 Property, plant and equipment

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 April 2012	17,974	53,637	71,611
Additions	3,563	5,129	8,692
Disposals	(4)	(9,125)	(9,129)
Effect of movements in foreign exchange	189	494	683
Balance at 31 March 2013	<u>21,722</u>	<u>50,135</u>	<u>71,857</u>
Additions	2,721	4,429	7,150
Disposals	(68)	(1,207)	(1,275)
Reclassification	(1,800)	1,800	-
Effect of movements in foreign exchange	(1,061)	(1,644)	(2,705)
Balance at 31 March 2014	<u>21,514</u>	<u>53,513</u>	<u>75,027</u>
Depreciation and impairment losses			
Balance at 1 April 2012	4,436	39,192	43,628
Depreciation charge for the year	473	3,048	3,521
Disposals	(4)	(9,125)	(9,129)
Effect of movements in foreign exchange	83	305	388
Balance at 31 March 2013	<u>4,988</u>	<u>33,420</u>	<u>38,408</u>
Depreciation charge for the year	442	3,227	3,669
Disposals	(68)	(1,176)	(1,244)
Effect of movements in foreign exchange	(272)	(1,191)	(1,463)
Balance at 31 March 2014	<u>5,090</u>	<u>34,280</u>	<u>39,370</u>
Carrying amounts			
At 1 April 2012	13,538	14,445	27,983
At 31 March 2013	16,734	16,715	33,449
At 31 March 2014	16,424	19,233	35,657

At 31 March 2014, properties with a carrying amount of £6.587 million were subject to a registered charge in favour of the group pension scheme (2013 - £6.461 million).

Notes on the accounts
continued

15 Investments

	2014 £000	2013 £000
Quoted investments	7	6
	<u>7</u>	<u>6</u>

Quoted investments comprise non current equity securities which are available for sale. The investments are held at cost. Their fair value is not materially different to their net book value.

16 Inventories

	2014 £000	2013 £000
Raw materials and consumables	6,749	6,518
Work in progress	615	545
Finished goods	5,999	5,511
	<u>13,363</u>	<u>12,574</u>

The value of inventories is stated after impairment for obsolescence and write downs to a net realisable value of £1.069 million (2013 - £1.371 million).

17 Trade and other receivables

	2014 £000	2013 £000
Trade receivables	14,906	13,402
Less impairment provision	(69)	(60)
	<u>14,837</u>	<u>13,342</u>
Other debtors and prepayments	6,299	6,102
	<u>21,136</u>	<u>19,444</u>

The ageing profile of the trade receivables, net of impairment provisions, was as follow -

	2014 £000	2013 £000
Not past due	10,955	10,939
Past due 0 - 30 days	3,400	1,974
Past due 31 - 60 days	351	341
Past due 61 - 120 days	102	78
More than 120 days	29	10
	<u>14,837</u>	<u>13,342</u>

The impairment provision is calculated based on bad and doubtful debts and invoiced sales known to be disputed by the customer. It is group policy to provide for all debts due from customers in administration or liquidation and all other debts which are more than 120 days overdue. The only exception to this policy is in respect of sub contract tooling debtors where a proportion of the contract payment may not be due until final approval and sign off of the tool by the customer which may take a period of time. Such debtors are assessed individually as to recovery. The level of debts overdue by more than 61 days is due to sub contract tooling invoices which are pending final customer sign off.

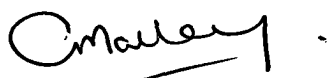
Provision is made in full for any credit notes which are potentially issuable in respect of disputed invoices and returned goods.

Governance - Responsibility statement of the directors in respect of the annual report
continued

- the management report, which comprises the directors' report and the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the board

Chris Malley
Chief Executive

A handwritten signature in black ink, appearing to read "Chris Malley", with a horizontal line underneath the name.

Robert Brooksbank
Finance Director

10 June 2014



Governance - Independent auditor's report

to the members of Carclo plc

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Carclo plc for the year ended 31 March 2014 set out on pages 59 to 94.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Patents and development costs (£25.8m)

Refer to pages 33 to 35 (Audit Committee Report), pages 65 and 67 (accounting policy) and pages 76 to 77 and 88 (financial disclosures).

- **The risk** – The group conducts a significant level of technology development activity within the *Conductive Inkjet Technology and Diagnostics* business areas. Patent and development costs are capitalised if they meet the criteria as laid down in the relevant accounting standard. These include, among others, an assessment of the future out-turn of the development activity, for example, the technical feasibility and how the patents and development costs intangible asset will generate probable future economic benefits. Once these criteria are met the eligible patent and development costs are required to be capitalised. There is judgement involved in both determining when the criteria are met and in identifying the relevant costs to be capitalised, which include an allocation of overheads, and in accurately capturing time and cost information for the development activity.

Once developed technology is available for commercial use, amortisation commences over the useful economic life of the technology. The group applies judgement in identifying the point at which the technology is available for commercial use and the useful economic life of that technology. There is therefore a risk that the group's assessment of the readiness of the technology for commercial use and the useful economic life of the technology is not as estimated, leading to an incorrect amortisation charge, and that the developed technology is not as successful as initially anticipated leading to an impairment.

- **Our response** – Our audit procedures included, among others, challenging group and third party assessments of technical feasibility and probable future economic benefit. We compared the level

Governance - Independent auditor's report

to the members of Carclo plc

continued

of costs, allocation of costs between different development activities, and the nature of specific costs capitalised to budget information, levels of activity and payroll information.

We compared the point at which assets became available for commercial use, further capitalisation ceased, and amortisation commenced, with the increase in sales and with customer announcements. We compared the group's assessment of the chosen amortisation period to commercial evidence such as a customer agreement.

As part of our assessment of the recoverability of the carrying value, we considered the group's cash flow forecasts and customer correspondence. We assessed the appropriateness of key inputs, such as the value and timing of sales by reference to our knowledge of the group's business, our experience of the industry, and consideration of publicly available information, such as customer press releases. We compared the group's discount rate assumptions to externally derived data as well as our own assessments. We have also considered the adequacy of the group's disclosures in respect of patents and development costs.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the group financial statements as a whole was set at £500,000. This has been determined with reference to a benchmark of group profit before taxation (of which it is 10%), which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the group.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £25,000 in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed by component auditors at the key reporting components in the following countries: India, China, Czech Republic, and by the group audit team in the following countries: United Kingdom and United States. In addition, a review of the non-KPMG auditor's file was performed by component auditors in France. These group procedures covered 100% of total group revenue, group profit before taxation, and total group assets.

The audits undertaken for group reporting purposes at the key reporting components of the group were all performed to materiality levels set by, or agreed with, the group audit team. These materiality levels were set individually for each component and ranged from £150,000 to £350,000.

Detailed audit instructions were sent to all the auditors in these locations. These instructions covered the significant audit areas that should be covered by these audits (which included the relevant risks of material misstatement detailed above) and set out the information required to be reported back to the group audit team. The group audit team visited the following locations: United Kingdom and United States. Telephone meetings were also held with the auditors at the other locations that were not physically visited.

Governance - Independent auditor's report

to the members of Carclo plc

continued

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required 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.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 67, in relation to going concern; and
- the part of the Corporate Governance Statement on page 28 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

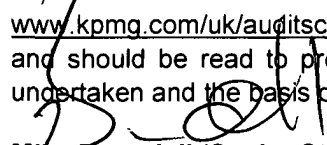
Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on pages 53 to 54, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at

Governance - Independent auditor's report

to the members of Carclo plc

continued

 www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Mike Barradell (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 The Embankment, Neville Street

Leeds

LS1 4DW

10 June 2014

Consolidated income statement
year ended 31 March

	Notes	2014 £000	2013 restated* £000
Revenue	2	97,267	86,514
Underlying operating profit			
Operating profit before exceptional items		6,651	5,585
- rationalisation costs	7	(92)	(161)
- litigation costs	7	(428)	(414)
- exit from Ford volume automotive communication business	7	-	(95)
After exceptional items		6,031	4,915
Operating profit	2	6,031	4,915
Finance revenue	8	16	12
Finance expense	8	(1,276)	(1,710)
Profit before tax		4,771	3,217
Income tax expense	9	(1,179)	(408)
Profit after tax but before loss on discontinued operations		3,592	2,809
Loss on discontinued operations, net of tax	10	(37)	(70)
Profit after tax		3,555	2,739
Attributable to -			
Equity holders of the parent		3,697	2,767
Non-controlling interests		(42)	(28)
		3,555	2,739
Earnings per ordinary share			
Basic - continuing operations	11	5.6 p	4.4 p
Basic - discontinued operations		(0.0) p	(0.1) p
Basic - total		5.5 p	4.3 p
Diluted - continuing operations		5.5 p	4.4 p
Diluted - discontinued operations		(0.0) p	(0.1) p
Diluted - total		5.5 p	4.3 p

* The comparatives have been restated in respect of the revisions to IAS 19 - "Employee Benefits". More detail is set out in note 1 to the financial statements

Consolidated statement of comprehensive income
year ended 31 March

	2014 £000	2013 restated £000
Profit for the period	3,555	2,739
Other comprehensive income -		
Items that will not be reclassified to the income statement		
Remeasurement gains on defined benefit scheme	15,365	7,225
Deferred tax arising	(4,196)	(2,237)
Total items that will not be reclassified to the income statement	11,169	4,988
Items that are or may in the future be classified to the income statement		
Foreign exchange translation differences	(3,029)	607
Deferred tax arising	222	(185)
Total items that are or may in future be classified to the income statement	(2,807)	422
Other comprehensive income, net of income tax	8,362	5,410
Total comprehensive income for the period	11,917	8,149
Attributable to		
Equity holders of the parent	11,959	8,177
Non-controlling interests	(42)	(28)
Total comprehensive income for the period	11,917	8,149

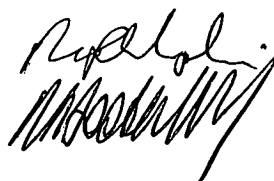
Consolidated statement of financial position
as at 31 March

	Notes	2014 £000	2013 £000
Assets			
Intangible assets	13	45,994	44,516
Property, plant and equipment	14	35,667	33,449
Investments	15	7	6
Deferred tax assets	20	4,789	9,741
Retirement benefit obligations	21	239	-
Total non current assets		86,686	87,712
Inventories	16	13,363	12,574
Trade and other receivables	17	21,136	19,444
Cash and cash deposits	18	11,764	16,098
Total current assets		46,263	48,116
Total assets		132,949	135,828
Liabilities			
Interest bearing loans and borrowings	19	17,569	18,308
Deferred tax liabilities	20	6,642	6,720
Retirement benefit obligations	21	-	15,476
Total non current liabilities		24,211	40,504
Trade and other payables	23	20,163	20,979
Current tax liabilities		2,144	2,255
Interest bearing loans and borrowings	19	11,875	6,968
Total current liabilities		34,182	30,202
Total liabilities		58,393	70,706
Net assets		74,556	65,122
Equity			
Ordinary share capital issued	25	3,303	3,258
Share premium		21,291	20,901
Other reserves	26	3,584	3,584
Translation reserve	26	1,766	4,795
Retained earnings	26	43,781	31,504
Total equity attributable to equity holders of the parent		73,725	64,042
Non-controlling interests		831	1,080
Total equity		74,556	65,122

Approved by the board of directors and signed on its behalf by -

Michael Derbyshire } directors
Robert Brooksbank }

10 June 2014



Governance - Directors' remuneration report continued

Scheme interests awarded in the year ended 31 March 2014 (audited)

2013/14 LTIP

Executive Director	Date of grant	Awards made during the year	Market price at date of award	Face value at date of award
CJ Malley	12 July 2013	79,000	352p	£278,080
RJ Brooksbank	12 July 2013	34,000	352p	£119,680

Implementation of remuneration policy for the year ending 31 March 2015

A summary of how the Directors' Remuneration Policy will be applied during the year ending 31 March 2015 is set out below:

Basic salary

As reported in the Annual Statement on page 36 the Remuneration Committee agreed to increase executive directors' base salary levels as follows:

	2015	2014	% increase
CJ Malley	£283,250	£275,000	3.0
R J Brooksbank	£190,000	£170,000	11.8

The group's employees are, in general, receiving pay rises ranging from 2.5% to 4% depending on promotional increases and individual performance.

Pension arrangements

The group's contribution to CJ Malley's personal pension plan will remain fixed at £40,000 per annum. A salary supplement in lieu of pension contributions will be paid to RJ Brooksbank, calculated at 20% of salary.

Annual bonus

The maximum bonus potential for the year ending 31 March 2015 will remain at 100% of salary for the chief executive and 75% of basic salary for the finance director. Awards are determined based on a combination of both the group's financial results, 62.5% based on growth in group underlying profit before tax, and 37.5% based on executive's personal performance achievement level. Maximum bonus will only be payable when both the financial results of the group and the executive's individual performance against objectives have significantly exceeded expectations. A bonus will be payable only if, in the opinion of the Remuneration Committee, there is an improvement in the underlying financial and operating performance of the group during the year ending 31 March 2015. Claw back provisions for all executive directors will apply.

Proposed target levels have been set to be challenging relative to the 2015 business plan, although specific targets are deemed to be commercially sensitive and will not be published until such time that the Committee is confident there will be no adverse impact on the Company of such disclosure. At this time the Committee believes that disclosure of targets within 2 years of the determination of bonuses, i.e. not later than the 2016 Directors' Remuneration Report, is appropriate.

Long term incentives

Consistent with past awards, the extent to which LTIP awards which will be granted in the year ending 31 March 2015 will vest will be dependent on two independent performance conditions with 50% determined by reference to the company's total shareholder return ("TSR") and 50% determined by reference to the group's earnings per share ("EPS"), as follows:

Governance - Directors' remuneration report continued

- The TSR element of an award will vest in full if the TSR ranks in the upper quartile, as measured over the three year period, relative to the constituents of the FTSE Small Cap Index excluding investment trusts at the beginning of that period. This element of the award is reduced to 25% on a pro rata basis for median performance and is reduced to nil for below median performance; and
- The EPS element of an award will vest in full if EPS growth exceeds inflation, as measured by the Retail Prices Index, by an average of 12% per annum or more over the three year period. This element of the award is reduced to 25% on a pro rata basis if EPS growth exceeds inflation by an average of 5% per annum over the period and is reduced to nil if EPS growth fails to exceed inflation by 5% per annum.

As set out in the Directors' Remuneration Policy, awards will be subject to claw back provisions.

Chairman and non-executive directors

The Company's approach to non-executive directors' remuneration is set by the board with account taken of the time and responsibility involved in each role, including where applicable the Chairmanship of board Committees. A summary of current fees is shown in the table below.

Fee increases were awarded for the 2014/15 financial year as follows:

Provision	2015	2014	% increase
Chairman	£78,200	£75,920	3.0
Base fee	£32,100	£31,200	2.9
Committee Chair fees	<u>£ 5,400</u>	<u>£ 5,200</u>	3.8
Total non-executive directors	<u>£37,500</u>	<u>£36,400</u>	3.0

Percentage change in chief executive remuneration

The table below shows the percentage change in the chief executive's salary, benefits and annual bonus between the financial year ended 31 March 2013 and 31 March 2014 compared to that of the total amounts for all UK employees of the group for each of these elements of pay.

	2014 £'000	2013 £'000	% change	
Salary				
Chief executive	275	237	16.0	Note 1
UK employee average	27	26	3.4	
Benefits				
Chief executive	13	13	-	
UK employee average	1	1	-	
Annual bonus				
Chief executive	-	-	-	Note 2
UK employee average	-	-	-	Note 3
Average number of UK employees	550	561	(2.0)	

UK employees have been selected as the most appropriate comparator pool, given the largest number of group employees and our headquarters are located in the UK.

Governance - Directors' remuneration report continued

- Note 1 2013 figures relate to previous chief executive, Ian Williamson, whose base salary was frozen from 2010 as part of the terms agreed for the extension of his service contract to 27 March 2013
- Note 2 There were no bonus payments made to directors as they waived their entitlement to receive bonus payments as detailed on page 36
- Note 3 Total annual bonus awards under the group's short term incentive scheme increased from £108k to £146k for UK participants

Relative importance of spend on pay

The table below shows the company's actual expenditure on pay (for all employees) relative to dividends, and retained profits for the financial years ending 31 March 2013 and ending 31 March 2014

	2014 £'000	2013 £'000	% change
Staff costs	24,841	24,990	(0.6)
Dividends	1,783	1,674	6.5
Retained profits	3,555	2,739	29.8

The dividends figures relate to amounts payable in respect of the relevant financial year. 2014 includes a proposed final dividend of 1.85p.

Pay for performance

The graph below compares the value of £100 invested in Carclo shares, including re-invested dividends, with the FTSE Small Cap index over the last five years. This index was selected because it is considered to be the most appropriate against which the total shareholder return of Carclo should be measured.

Governance - Directors' remuneration report
continued



Table of historic data (chief executive)

	2010	2011	2012	2013	2014
Chief executive single figure of remuneration (£000)	433	491	249	2,764	328
Annual bonus payout (as % of maximum)	-	-	-	-	-
LTIP vesting (as % of maximum)	50	50	50	100	-

Figures for 2010 to 2013 relate to I Williamson who was succeeded as chief executive by CJ Malley on 27 March 2013

Directors' interests (audited)

The interests of the directors and their families in the ordinary shares of the Company as at 31 March 2014 were as follows:

	31 March 2014		31 March 2013	
	Ordinary shares	Options	Ordinary shares	Options
CJ Malley	19,612	-	8,160	-
RJ Brooksbank	196,055	-	177,770	60,000
MJC Derbyshire	50,000	-	50,000	-
W Tame	29,000	-	29,000	-
RJ Rickman	5,300	-	-	-

- i) On 26 September 2013, R J Brooksbank exercised options over 60,000 shares at an exercise price of 50p per share and sold them at a price of 400p per share. These options were originally granted in 2004 under the Carclo Discretionary Scheme 1997 (now expired).
- ii) Following this transaction, neither executive director holds any outstanding share options.
- iii) There have been no changes in the directors' interests since the year end.

Governance - Directors' remuneration report continued

Directors' shareholding (audited)

The table below shows the shareholding of each director against their respective shareholding requirement as at 31 March 2014:

Director	Owned outright or vested	Shares held Vested but subject to holding period	Unvested and subject to performance conditions	Shareholding requirement (% salary)	Current shareholding (% salary)
CJ Malley	19,612	-	79,000	100	9
RJ Brooksbank	196,055	-	57,000	100	127

Directors' interests in shares in Carclo long-term incentive plans (audited)

Directors' share awards under the Carclo PSP (audited)

i) Details of share awards under the Carclo PSP made to executive directors are shown below

Director and year of award	At 1 April 2013	Granted	Vested	Lapsed	At 31 March 2014	Market value per share at date of award £	Determination Date
CJ Malley							
PSP 2013	-	79,000	-	-	79,000	3.52	11.7.16
RJ Brooksbank							
PSP 2010	69,000	-	(34,500)	(34,500)	-	1.59	6.7.13
PSP 2011	31,000	-	-	-	31,000	3.25	7.7.14
PSP 2012	23,000	-	-	-	23,000	4.40	15.7.15
PSP 2013	-	34,000	-	-	34,000	3.52	11.7.16

- i) On 8 July 2013 50% of the PSP 2010 award vested, representing 100% of the award measured on TSR performance. Carclo's TSR ranking for the three year performance period to 31 March 2013 was eighth out of 131 constituents of the FTSE Small Cap index – comfortably top quartile. There was zero vesting in relation to the EPS measured portion of the award. Vesting was satisfied by an allotment of shares. Accordingly, RJ Brooksbank received 34,500 shares. The market price of the company's ordinary shares at the date of the vesting was 352p.

Governance - Responsibility statement of the directors in respect of the annual report

Directors' responsibilities for the preparation of the annual report

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, strategic report, directors' remuneration report and corporate governance statement that complies with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibilities statement

The board considers that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the group's performance, business model and strategy.

We confirm that to the best of our knowledge -

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and