13 March 2014

TT Electronics plc

An innovative global electronics company supplying world leading manufacturers

Annual Results for the financial year ending 31 December 2013

HIGHLIGHTS

Continuing operations £million	**2013**	**2012**	**Change**
Revenue	532.2	476.9	+4.9%^
Operating profit*	30.2	28.7	+5.2%
Operating profit margin*	5.7%	6.0%	-30 bps
Profit before taxation and exceptional items*	29.5	25.3	+16.6%
Profit before taxation	18.3	22.0	-16.8%
Earnings per share*	14.2 pence	11.9 pence	+19.3%
Dividend per share	5.4 pence	5.0 pence	+8.0%
Net cash	26.9	46.7	-£19.8m

^ at constant exchange rates and before ACW acquisition
* before exceptional items

- Good second half performance leading to increase in overall revenue and profit for the year
- Major investments for future growth and reduced sales in Components affected operating profit margins
- Sensing and Control business formed to drive growth and improve operating margins
- Operational Improvement Plan being implemented to realise £8m pa profit benefits
- Total dividend for 2013 increased by 8 per cent reflecting earnings momentum and future business prospects

Geraint Anderson, Group Chief Executive, said today:

“In 2013 we made good progress implementing our strategy to transform TT into a focused electronics business and to capture increasing market opportunities.

Our increased investment in product innovation and sales, along with the relocation of manufacturing to our best cost facilities, are key steps in our broader strategy to become more competitive and increase market penetration. As we enter 2014, the Group is well positioned for the next phase of its development and long term sustainable growth.”

For further information, please contact:

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Geraint Anderson, Group Chief Executive
Shatish Dasani, Group Finance Director

Hudson Sandler **Tel: 020 7796 4133**
Andrew Hayes/Wendy Baker/Katie Matthews

There will be an analysts’ meeting at 9am today. For further information please contact Hudson Sandler.

Chairman's Statement

I am pleased to report that in 2013 we made significant progress in executing the Group's strategic plan, as we entered the next phase of our development. This progress is in line with our objective of becoming a focused electronics business, driving profitable growth through investment in product innovation, deeper penetration of our target markets and operational excellence.

Despite economic headwinds in a number of our markets, revenue grew during the year with sales improving to £532.2 million, an increase of 4.9 per cent on an underlying basis, excluding the effects of foreign exchange and the acquisition of ACW Technologies (ACW). Operating profit from continuing operations (before exceptional items) was ahead by £1.5 million to £30.2 million. Group profit margin declined to 5.7 per cent (2012: 6.0 per cent) as a result of continued investment in product development, productivity and programmes to improve the underlying cost base and lower sales in the Components division. Headline earnings per share were 14.2 pence (2012: 11.9 pence), an increase of 19.3 per cent.

Strong cash generation and improved working capital flows in the last quarter resulted in a net cash position of £26.9 million at 31 December 2013. We will leverage our strong balance sheet to continue investing in the business, both organically and through targeted acquisitions.

Strategic and operational progress

In 2013, we announced a business transformation programme in line with our strategy, comprising specific projects to accelerate organic growth and drive towards double digit operating margin performance targets.

In June 2013, we created a focused Sensing and Control division to capture increasing market opportunities for high performance, integrated control electronics in higher growth markets.

We completed the purchase of the minority interest in our Indian business in February 2013 from our commercial joint venture partner, allowing us to pursue growth opportunities in expanding Indian markets. This was combined with significant investment in both our Indian engineering facility and our European centre of excellence for research and development, building on our established engineering expertise, to deliver product innovation for our customers.

Innovation and technology leadership lie at the heart of TT Electronics. We continued to deliver new solutions and invest in exciting new products during the year. This investment has significantly strengthened our research, development and engineering capabilities, allowing us to address many new opportunities and enhance our trading relationships with major customers.

Our Operational Improvement Plan, launched alongside the organisational change programme, comprises investment over the next two years to further improve operational efficiency through the proposed relocation of some of our manufacturing operations to better cost regions within the Group. This includes expanding our Romanian facility in Timisoara, which now provides manufacturing support for both our Sensing and Control and Integrated Manufacturing Services (IMS) divisions.

As we have reshaped the business, we are closing down a number of our overseas sales offices and continue to serve our customers directly. In our IMS division we have successfully integrated the acquisition of ACW into the division's core operations and also closed our manufacturing facility in Malaysia, transferring production to best cost locations.

As part of our transformation to a focused electronics company, we carried out an in-depth branding project to review our existing position, both internally and externally. Consequently, we are now in the process of launching a new TT Electronics brand to better reflect our new identity and clearly represent our business to all stakeholders. The first visible signs of our new branding can be seen in this Annual Report and on the new Group website.

The Board

The Board remains committed to maintaining the highest standards of corporate governance and our procedures are described in detail in the Directors' report of the Annual Report. The Board has been particularly focused on fulfilling the strategic initiatives described above during 2013, as well as helping to achieve a simplified operational structure, common processes and enhanced risk management procedures. I am pleased with the progress we have made in each of these areas in the past year.

There were no changes to the composition of the Board during 2013. However, at the beginning of the new financial year we announced that the Group Chief Executive, Geraint Anderson, has decided to step down from the role. During his six year tenure, Geraint has led the transformation of the Group from a conglomerate to a strategically and operationally focused electronics business. On behalf of the Board I would like to take the opportunity to thank Geraint for his tireless service and outstanding contribution. He leaves the Group in a strong position with a clear strategy for future growth.

I am delighted that Richard Tyson will succeed Geraint as Group Chief Executive by the end of June 2014. Richard joins the Group from Cobham plc, where he was a member of the Executive Committee and President of its Aerospace and Security Division. Richard has a successful track record of growing businesses both organically and by acquisition and the Board is looking forward to him joining the Group and building on the transformation process delivered under Geraint's leadership.

Our people

The success of the Group, and our ability to meet the needs of our customers in a complex and fast-changing business environment, would not be possible without the hard work, commitment and innovation shown by our employees across all of our facilities. On behalf of the Board, I would like to thank all employees, each of whom has made a valued contribution to the progression of the business and its operations in the past year.

Dividend

In view of the progress made in 2013, and the Board's continued confidence in the Group's financial position and future prospects, the Board is pleased to recommend a final dividend of 3.8 pence which, when combined with the interim dividend of 1.6 pence, gives a total of 5.4 pence per share for the full year (2012: 5.0 pence per share), representing an increase of 8 per cent.

The future

The positive trend in order bookings in the second half of 2013 has continued into the first quarter of 2014, providing encouragement for further progress. Our transformation programme, the strategic initiatives implemented during 2013 and our investment for future growth combine to ensure that we will continue on our path to create a focused electronics business, that will deliver sustainable double digit margins. 2014 will be an important year as we embed the new Sensing and Control division, continue to simplify our structures, drive product innovation, implement the Operational Improvement Plan and enhance customer relationships across our key markets.

Sean Watson
Chairman

12 March 2014

Operating review

Progress

We have made good progress in implementing our strategy. The newly formed Sensing and Control division is well positioned to take advantage of growth opportunities. Implementation of the Operational Improvement Plan creates a more efficient manufacturing footprint which, together with the new business opportunities and product innovation, will drive the business to sustainable double digit margins.

In 2014, our focus will be to drive profitable growth in the Sensing and Control business through investment in product innovation, productivity improvements and the pursuit of suitable acquisition opportunities aligned with our growth strategy.

We are excited to launch the new TT Electronics brand image in 2014, reflecting the transformation of the business and to position us for the next phase of our journey. Based on extensive research, we have developed a new brand strategy, reflecting our existing strengths and values, whilst reinvigorating the look of the business and putting in place platforms, including a new Group website, to better communicate our focus, capabilities and strengths to all our key stakeholders.

Group overview

The first half of the year reflected the weaker order pattern seen during the last quarter of 2012, as a result of a more challenging trading environment. However, the business performed well in the second half. The order book for the year showed a positive trend, providing encouragement for 2014.

We have continued to make good progress in developing our position in markets that present the greatest opportunity and have strengthened our relationships with key customers.

We have successfully established the Sensing and Control business to unify and build on our existing strengths. Together with the Operational Improvement Plan, this will drive growth and productivity improvements, and enable us to achieve the target of sustainable double digit margins. The Operational Improvement Plan has an overall exceptional cost of approximately £30 million over three years, with projected efficiency savings of approximately £8.0 million per annum from the second half of 2015. As previously announced, a number of one-off operational inefficiencies occurred during the year, and will continue through 2014. These arose due to the phased transfer of production, high inventory build and the doubling up of production costs over the implementation period.

The projected costs and benefits of the Operational Improvement Plan by constituent part are shown below:

	Exceptional cost £m	Projected annual benefit £m
European restructuring	25.1	6.0
North American restructuring	2.5	0.7
Sales offices	2.4	1.3
	30.0	8.0

We continue to improve our international operational footprint, through expansion in best cost regions to drive profitability and support our global customers.

As part of the Operational Improvement Plan, we announced our intention to relocate manufacturing operations from Werne, Germany and Fullerton, USA to best cost locations. In parallel, we continue to invest in our German facilities, building on existing engineering strengths and customer relationships. Furthermore, we are transferring sensor and resistor production from our Fullerton operations in California to our Mexicali facility in Mexico. The relocation of our connectors and harnessing manufacturing business from Smithfield, USA to facilities in Perry, USA and Abercynon, UK, has also been completed.

In line with our strategy to develop innovative new products and to build stronger customer relationships, we have continued to develop our engineering capability, increasing headcount in the Sensing and Control division by 64 per cent during the year. The acquisition of the joint venture in India was completed in 2013 and the new engineering centre in India has grown significantly in size, following investment in additional resources. We are also increasing our investment in the Centre of Excellence for Research & Development, new product innovation and sales in Werne, Germany, building on established engineering expertise and strong customer relationships.

Within our Sensing and Control business, our focus on quality, responsiveness and innovative solutions enabled us to grow revenue by 6.1 per cent on an underlying basis during the year, with key customer wins at Daimler, BMW, VW and ZKW. We also saw growth in China through new business with local indigenous car manufacturers.

The continued diversification of customers and growth in target markets saw Integrated Manufacturing Services (IMS) revenue increase by 15.9 per cent compared to 2012 on an underlying basis, excluding the effect of the ACW acquisition and foreign exchange movement. Over £30 million of new business was shipped in 2013, with customers including Thales, Cassidian and Cobham, amongst others.

Within our IMS business we established a new manufacturing facility in Timisoara, Romania in order to provide a more balanced global manufacturing footprint to our customers. This facility is located on the same campus as the Sensing and Control operation. In addition, we closed the IMS Malaysia facility and fully integrated the ACW acquisition in line with the integration plan. Once completed, these actions will position the business for future growth with key customers, providing a valuable Eastern European footprint for the division.

Components revenue fell by 8.7 per cent year on year on an underlying basis, reflecting the challenging market conditions and the poor performance of the Connectors business in the USA. Resistors experienced a difficult start to the year but finished strongly.

As part of our active programme to identify targets that complement our organic growth, during 2013 we evaluated a number of potential acquisition candidates against a set of clear commercial and financial criteria. We are particularly focused on pursuing selective acquisitions that broaden our Sensing and Control product offering and expand its market presence, particularly in the truck, off-road, industrial and aerospace segments. Whilst we were very close to agreeing terms with one target, ultimately that transaction did not complete and the associated costs incurred are set out as part of Exceptional items on page 11. Whilst this was disappointing, we continue to actively pursue a pipeline of acquisition opportunities.

Market environment

Unfavourable macro-economic environment conditions, economic concerns in the USA, Euro zone uncertainty and the slowdown of growth in China first experienced in the latter part of 2012, all continued into early 2013. From an end markets perspective, this resulted in a slow start to the year across all our divisions, especially Components. As economic stability returned to the USA, expectations around growth in China tempered and the outlook improved for Euro zone growth, confidence rebounded and led to improvements in industrial production throughout the year.

Financial Performance

Revenue

Group Revenue of £532.2 million from continuing operations increased by 11.6 per cent (2012: £476.9 million). On an underlying basis, revenue increased by 4.9 per cent, excluding the effects of foreign exchange (£12.6 million) and the acquisition of ACW Technologies in December 2012.

Operating profit

We continued to focus on product management, productivity improvements from our operational excellence programmes and investment to improve the underlying cost base. This resulted in an operating profit from continuing operations, before exceptional items, of £30.2 million, an increase of £1.5 million (2012: £28.7 million). Sensing and Control reported operating profit of £17.3 million compared to £16.6 million in 2012. Whilst revenue was higher for the division, profitability was held back by investments in engineering, new product development and improvements in operational efficiency arising from the move of production lines to Romania.

IMS operating profit was £8.8 million compared to £6.2 million in 2012, on the back of a 15.9 per cent underlying increase in revenue and the benefits of the ACW acquisition. Components operating profit was £4.1 million compared to £5.9 million in 2012. This was driven by decreased revenue of 8.7 per cent, in part offset by cost reductions.

Strong cash generation and improved working capital flows in the last quarter resulted in a net cash position of £26.9 million at 31 December 2013. This balance sheet strength, together with the availability of substantial committed debt facilities, allows us to continue to invest organically in the business through new product development and operational improvements. We will supplement this by pursuing selected acquisition opportunities within Sensing and Control to accelerate growth in target markets and expand our range of technologies.

Dividend

In view of the progress made in 2013, and the Board's continued confidence in the Group's financial position and future prospects, the Board is pleased to recommend a final dividend of 3.8 pence which, when combined with the interim dividend of 1.6 pence, gives a total of 5.4 pence per share for the full year (2012: 5.0 pence per share), representing an increase of 8 per cent. This will be paid on 5 June 2014 to shareholders on the register at 23 May 2014.

Group outlook

Increased investment in product innovation and sales and the relocation of manufacturing to our best cost facilities are key steps in our broader strategy to become more competitive and increase market penetration. Whilst they will take time to implement and will have a short-term impact on operating margin progression, these strategic developments represent a significant step forward for the Group and, combined with our strong order book, provide confidence as we enter 2014.

Sensing and Control

	2013	2012
Revenue	**£285.2m**	£259.6m
Operating profit*	**£17.3m**	£16.6m
Year end headcount	**2,509**	2,462
Operating profit margin*	**6.1%**	6.4%
Return on capital employed*	**12.7%**	13.0%

* before exceptional items

The division provides sensing and control solutions, including speed, position, temperature, accelerator pedal, optical and pressure sensors, together with microcircuits and intelligent power modules for critical applications which require high levels of expertise, precision and reliability. These solutions often operate in extremely harsh environments. We are focused on markets where our ability to meet such requirements helps our customers to compete and win. The division's principal operations are located in Germany, Austria, Romania, India, China and Mexico and are supported by additional engineering and development teams in the USA and UK. With a sales presence in all major markets, the division is well positioned to serve our global customer base.

Strategy

We target growing market sectors with underlying drivers which are aligned with our ability to create value based on our leading technology and engineering expertise. We work closely with our customers, anticipating their needs, turning ideas and technology into differentiated solutions. These sensing and control solutions form the heart of critical systems which improve safety, performance and emissions, helping our customers to be more competitive and to address increasing levels of regulation and legislation. A key differentiator is the division's ability to deliver high performance solutions that work reliably, every time, in extremely harsh environments.

Target markets include transportation, industrial, aerospace, defence and medical, where we build long-term strategic partnerships with leading blue chip global companies. With a strong position in the transportation market, we have increased our effort to grow in other market sectors through focused sales initiatives and investment in new product development, leading to a more balanced portfolio. The division is embedding a culture of continuous improvement and uses TTotal Business Excellence to ensure common core processes and standards across all of its operations and functions. Our Operational Improvement Plan announced in June 2013 will position our operational capabilities in best cost regions, creating an optimal footprint and delivering ongoing productivity improvements.

Progress

During 2013, revenue increased by 6.1 per cent year on year at constant exchange rates and we saw a high level of order bookings, especially in the second half. We experienced growth in all key markets, driven by improved demand from key customers and new products. Revenues from China grew substantially as our focus on increasing business in this region gained momentum. Operating profit before exceptional items increased by £0.7 million to £17.3 million, but margins were affected by the transfer of product lines to Romania, the investment in the engineering centre in India and higher demand for some end of life products which operate on lower margins. In addition, we experienced some supplier volatility and price competition. Although this was offset by cost control to some extent, overall it had a short-term impact on our margin in 2013.

The division's global footprint, technology and strong customer relationships have resulted in significant new business wins and an increasing level of new business opportunities. These successes have been facilitated by new product developments, including a new speed sensor product range, pedal throttle controls, high temperature sensors, industrial position sensors and intelligent power modules, along with an increase in opportunities in China, India and Korea. Growth continued with our strategic OEMs in Germany, complemented by strong growth from new opportunities.

The continued enhancement of the product portfolio remains a critical focus to ensure that our development plans accurately align with emerging customer needs. As part of this process, we implemented a project portfolio management tool which provides a standardised process and framework for effectively managing and prioritising the portfolio of development projects, market opportunities and associated investments. We continue to investigate opportunities, both organic and through acquisition, to expand our product range and technology capabilities. As announced in January 2014, we are increasing investment in research and development, new product innovation and sales capabilities in Germany as part of our strategy to further develop this centre of excellence, leveraging its existing engineering expertise and building on our customer relationships.

We have continued to develop the division's global footprint into emerging regions. 22 product lines have been established in the Romanian facility which opened in 2012. More significantly, the business announced an Operational Improvement Plan in June 2013 to accelerate an improvement in operational efficiency and productivity, including greater focus on best cost manufacturing operations. As part of these plans, the transfer of production from Fullerton, California to Mexicali, Mexico was announced in August 2013, with the move of production lines from Werne, Germany to facilities in best cost regions announced in January 2014.

The division is continuing to see operating efficiencies from the enterprise resource planning systems being put in place in all of our facilities. We are also increasing the skills of our workforce through training programmes, with increasing numbers of people participating in Six Sigma yellow, green and black belt programmes. We are continuing to implement our TTotal Business Excellence process to ensure that common processes enable us to operate to one global standard in all of our functions and facilities. In addition, we have placed talented individuals in our emerging regions, reflecting our growing manufacturing presence in these locations and their strategic importance to the business. These initiatives are supported by several recent key appointments within the division, including a new Senior Vice President Operations and a Vice President Global R&D.

Significant progress has also been made in India during the year, where we successfully acquired the remaining interest in our Indian joint venture and relocated it to a new facility in Manesar. We also expanded the recently opened Group engineering centre in Bangalore, increasing our engineering capacity with 84 engineers in place by the end of 2013.

The division's principal competitors include divisions of Bosch, Continental, CTS, Hella and Sensata.

Markets

Market demand for the top three German automotive OEMs grew during 2013 as the premium car market outperformed other sectors, due to continuing strong demand for passenger cars in Russia, Asia and North America. However, global demand for certain of the smaller European automotive OEMs significantly decreased. Despite a contraction in the truck market, which was particularly impacted by the uncertain economic environment in Europe, our business in this area grew by 15 per cent. Industrial markets began the year relatively slowly, but recovered slightly in the second half as market outlook indicators returned to growth positions and analysts forecasted improved economic conditions in 2014. Long-term market indicators continue to support the proliferation of sensing and control products, together with further development and expansion of more sophisticated solutions in our target market sectors.

Performance

Underlying revenue for the year increased by 6.1 per cent to £285.2 million, excluding a foreign exchange credit of £9.8 million, primarily as a result of the impact of foreign exchange, increased demand, and new business wins. Operating profit before exceptional items for the year was £17.3 million (2012: £16.6 million), giving an operating margin of 6.1 per cent (2012: 6.4 per cent).

Outlook

We expect modest growth from the top three German automotive OEMs in 2014 as demand in emerging regions tempers slightly. With the general improvement and stabilisation of global outlook, we expect the level of capital equipment expenditure to increase slightly, providing favourable conditions for growth in our industrial businesses. The growth in revenue will be partly offset by the discontinuance of low margin business. The business will remain focused on successfully driving execution of the Operational Improvement Plan which will lead to one-off operational inefficiencies in 2014 due to the phased transfer of production, higher inventory build and the doubling up of production costs for a period of time. We will maintain our emphasis on driving productivity and efficiency using our TTotal Business Excellence disciplines. Efforts to increasingly diversify our business in other market sectors and expand our technology and product portfolio range will continue to be a high priority.

Integrated Manufacturing Services (IMS)

	2013	2012
Revenue	**£146.6m**	£107.7m
Operating profit*	**£8.8m**	£6.2m
Year end headcount	**1,664**	1,272
Operating profit margin*	**6.0%**	5.8%
Return on capital employed*	**28.2%**	33.2%

* before exceptional items

The division draws on design engineering capabilities, global facilities and world-class quality standards to provide highly complex electronic manufacturing solutions to customers in the aerospace, defence, medical, and high technology industrial sectors. We have a broad range of capabilities, from printed circuit board assembly to environmental testing and full systems integration. This suite of end-to-end solutions is focused exclusively on low volume, high mix business.

We support customers with a solid infrastructure of global electronics manufacturing skills and experience in complex assembly technologies, combined with local support from manufacturing operations in China, USA and Europe.

Strategy

The division's strategy is to engage with customers looking for a long-term partner to build and support highly engineered electronics and electromechanical assemblies, throughout their entire product lifecycle and across multiple geographic regions. Our global presence, complemented by local engineering and customer support, is a key differentiator. Our approach is executed exclusively within a low volume, high mix production model designed for flexibility and agility.

Progress

The division performed well during 2013, despite difficult market conditions. New business growth exceeded £30 million, with additional incremental growth attained through the acquisition and integration of ACW. Key wins, specifically within the aerospace market, have further validated our strategy for growth whilst operational investments in capital and quality systems have underpinned our ability to provide leading edge manufacturing solutions.

In April 2013, the division was awarded Meggitt PLC's 2013 Supplier Excellence Award. This prestigious award was presented at Meggitt's 2013 European Supplier Conference in Bournemouth, UK to recognise our excellence in business support and commitment to quality, in our role as a preferred supplier throughout 2012.

In May and August, we expanded our cable harness and interconnect offerings through the consolidation of operations and technologies from New Chapel Electronics Limited in the UK and AB Interconnect Inc. in the USA. The assimilation of these complementary capabilities, paired with the existing cable harness technologies in our China facility, increases our competitive position in key markets. With plans for ongoing integration of specialised capabilities across our facilities, our customers continue to benefit from our global footprint and an enhanced value offering.

Achieving world-class quality standards remains a key focus, and our ongoing pursuit of the most prestigious accreditations continues to serve as an important differentiator. In 2012, the division made history as the first company in China, and only the fifth worldwide, to receive Nadcap accreditation for both printed circuit board assembly (AC7120) and cable harness assembly (AC7121). In 2013, both our UK and USA facilities also achieved the Nadcap aerospace and defence quality accreditation for printed circuit board assemblies (AC7120). IMS facilities now account for three of only 49 companies worldwide holding Nadcap printed circuit board assembly accreditation. These achievements demonstrate our execution of an ongoing global quality roadmap designed to meet the needs of customers in the high reliability, high technology, aerospace sector. The accreditations continue to enable us to win strategic new business, including in the Chinese commercial aerospace market.

We made significant progress in the development and integration of manufacturing operations during 2013. The ACW acquisition was integrated into the business, and we completed the planned exit of the Southampton facility in April 2013. Our sub-scale Malaysian facility was closed in June 2013, with operations consolidated into our facility in China. We also established a facility in the Group's Romanian campus to further expand our best cost footprint in Europe.

The division's principal competitors include Asteel Flash, Neways, OnCore and Plexus.

Markets

In 2013, conditions in our target markets remained challenging, although there were signs of marked improvement as we finished the year. The division saw particular success within the aerospace and defence markets, as we continued to expand our customer base through our global manufacturing footprint and by enhancing our value proposition through the integration from specialised capabilities and quality standards.

Performance

Revenue for the year was £146.6 million (2012: £107.7 million), representing underlying growth of 15.9 per cent excluding the effect of the ACW business acquired in December 2012 and foreign exchange. Operating profit before exceptional items improved from £6.2 million in 2012 to £8.8 million in 2013 due to the increased revenue and the contribution from ACW. Operating margins improved from 5.8 per cent to 6.0 per cent, entering our target range for the business.

Outlook

We anticipate making additional progress during 2014, further strengthening our competitive position in key markets. Production is planned to ramp up in Romania, establishing it as a key centre for the division.

Components

	2013	2012
Revenue	**£100.4m**	£109.6
Operating profit*	**£4.1m**	£5.9m
Year end headcount	**1,595**	1,647
Operating profit margin*	**4.1%**	5.4%
Return on capital employed*	**11.3%**	16.7%

* before exceptional items

The Components division comprises our Resistors, Power and Hybrid, Magnetics, and Connectors businesses. Each of these businesses operate with their own leadership structure to manage global sales, operations and research and development, allowing a greater focus on success in their respective product sets. We serve customers in the industrial, automotive, aerospace, defence and medical markets and focus on creating value by delivering innovative electronic solutions. Our engineered component solutions include fixed and variable resistor products, magnetics, connectors, power modules and control circuitry for multiple applications.

Strategy

The division targets markets with underlying growth drivers where we can create value based on our leading technology and engineering expertise. We work closely with our customers, anticipating their needs, turning ideas and technology into differentiated solutions for specific applications. We concentrate on increasing the pace of new product introduction through improvements in product management and on delivering wide ranging operational improvements, making it easier for customers to do business with us.

Progress

The Components division was affected by lower demand in the first half of 2013, particularly for industrial resistors and connectors for military markets, and we therefore took actions to manage costs and overheads during this period. Despite the slow start to the year, improved market conditions in the second half, coupled with ongoing cost management activities and efficiency improvements, resulted in a significantly better performance in the second half.

In the Resistors business, we continued to invest in new product introductions, including the new, dedicated research and development facility in Corpus Christi, USA for resistor products which we announced in 2012. Designed to increase the pace of development for new resistor technologies, this facility significantly increases our capacity to develop, test and commercialise new resistor products for our customers. The first major new product line developed at Corpus Christi will launch in 2014, with further launches scheduled to follow.

An increase in resistor production in Mexicali, Mexico occurred during the year, following the closure of the Boone, North Carolina, site, with operational performance and customer service levels both improving. Capacity at the Mexicali facility increased by 67 per cent to 100,000 sq ft and now provides the Group with a North American best cost centre of excellence, in line with our strategy to align our footprint with key customers and to improve competitiveness and margins. Further efforts to streamline the resistor product business were made through end of life announcements for products manufactured in our USA facilities in Fullerton, California and Smithfield, South Carolina. This will reduce the number of production facilities to five globally.

Our Power and Hybrid business is focused on developing application-specific micro circuits and power modules for aerospace and defence applications. Following a challenging start to the year, a new management structure enabled us to take steps in the second half to significantly improve the operating performance of the business. This resulted in an increase in profitability and a strong close to the year. During 2013 the business secured a significant award of new defence related business from a major international customer and was awarded “Supplier of the Year” by one of our key customers, Aero Engine Controls (part of Rolls Royce plc).

The Connectors business completed a significant restructuring programme during the second half of 2013, to re-size the business and increase focus on the delivery of harsh environment connector and interconnect solutions to the military, rail and select industrial segments. This programme included closing down the facility in North America. These actions, together with the successful completion of a major new product development programme, have put the business on a sound footing as we enter 2014.

We also established a self-contained Magnetics business during 2013. This new organisation, which includes management, sales and operations functions, has led to increased focus and accountability that will better provide for future success.

The division’s principal competitors include Amphenol, Koa, Semikron and Vishay.

Markets

Prevailing economic conditions and the reduction in defence spending resulted in a slow start to the year. However, general economic stability and improved market conditions in the second half resulted in an improvement in demand from industrial customers.

Performance

Revenue for 2013 was £100.4 million (2012: £109.6 million), a reduction of 8.7 per cent on an underlying basis, due to the slow start to the year across the division and the poor performance of the Connectors business. This performance was partially offset by a strong second half.

Operating profit before exceptional items for the year was £4.1 million (2012: £5.9 million), down by £1.8 million year on year. This was primarily caused by reduced revenue and the performance of our US connectors business. Cost saving measures implemented during the year and better trading in the second half mean that the business is better positioned as it enters 2014. Operating margin in 2013 was 4.1 per cent (2012: 5.4 per cent).

Outlook

Based on the actions taken in the second half of 2013, more stable market conditions and a stronger order book, we expect to deliver growth and improved profitability in 2014.

Financial review

Revenue for the year increased overall by 11.6 per cent to £532.2 million. This included the benefit of the ACW Technology business acquired in December 2012 and favourable foreign exchange movements; the underlying growth excluding these factors was 4.9 per cent. Operating profit before exceptional items increased by £1.5 million to £30.2 million compared with £28.7 million in 2012. Operating margin however declined from 6.0 per cent to 5.7 per cent reflecting investments made to position the business for future growth (in particular within Sensing and Control), lower volumes in the Components division and a poor performing connectors and harnessing business in the USA which was closed during the year.

Profit before tax and exceptional items increased by £4.2 million to £29.5 million benefiting from net foreign exchange gains on currency borrowings through the interest line and also lower bank interest costs.

Headline earnings per share increased by 19.3 per cent to 14.2 pence due to higher profits and benefits of a lower tax rate (as described in more detail below, under the heading "Taxation").

The Group has a clear strategy to improve performance and deliver shareholder value. The main financial key performance indicators used to measure progress are set out below.

Financial KPIs

Indicator	Target	**2013**	2012	2011
Organic revenue growth	Each year. Mid to high single digits	**4.9%**	(4.3)%	8.9%
Earnings per share (EPS) growth	Year on year growth of 3% in excess of RPI	**19.3%**	10.5%	26.7%
Operating cash conversion	Each year, to 2012 - 100%*	**52%**	70%	121%
Relative total shareholder return (TSR)	In medium term - above median performance against the FTSE SmallCap (excluding investment trusts)	**Second quartile**	Third quartile	Third quartile
Operating profit margin	Group - 8-10%	**5.7%**	6.0%	5.6%
	Sensing and Control – 10%	**6.1%**	6.4%	5.9%
	Components - 10%	**4.1%**	5.4%	5.7%
	IMS - 6-8%	**6.0%**	5.8%	4.7%

* A target of 100% conversion was set for the three years 2010 to 2012 only, and was met with a total conversion of 117%

Net finance costs

Net finance costs for 2013 were £0.7 million compared to £3.4 million in 2012. Included within this amount is £1.5 million (2012: £1.2 million) in respect of the net interest expense arising on pension scheme net liabilities, £0.2 million (2012: £0.8 million) in respect of the amortisation of loan arrangement fees and £1.7 million net credit (2012: £0.3 million net credit) resulting from retranslation of foreign currency borrowings. In 2012 net finance costs included £0.7 million in respect of the interest expense on the minority put option relating to a third party minority interest in one of the Group's subsidiaries, which was exercised during 2013.

Taxation

The tax charge from continuing operations, excluding exceptional items, was £7.1 million (2012: £6.7 million), which represents an effective tax rate of 24.1 per cent (2012: 26.5 per cent) on continuing operations. The reduction in the effective tax rate reflects progress in optimising the Group's tax position and increased focus on managing tax risks.

Earnings per share and dividends

Headline earnings per share from continuing operations was 14.2 pence, an increase of 19.3 per cent from 2012 (11.9 pence). Basic earnings per share from continuing operations was 8.8 pence (2012: 10.3 pence) a reduction which was principally as a result of the increase in "Exceptional items" described below.

The Directors recommend a final dividend of 3.8 pence which together with the interim dividend of 1.6 pence gives a total dividend for the year of 5.4 pence per share (2012: 5.0 pence), an increase of 8 per cent. This is in line with the Group's policy of increasing dividends progressively whilst maintaining cover of at least two times underlying earnings per share. The final dividend will be paid on 5 June 2014 to shareholders on the register at 23 May 2014.

Exceptional items

The Group reports non-trading income or expenditure as exceptional when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of its financial position. An exceptional charge of £11.2 million from continuing operations has been recognised during 2013, compared with an exceptional charge of £3.3 million for 2012, made up as follows:

£million	**2013**	2012
Negative goodwill	**0.4**	0.3
S&C Operational Improvement Plan	**(3.1)**	-
Other restructuring costs	**(5.9)**	(1.1)
Closure of Boone facility	**(1.2)**	(2.1)
M&A costs	**(1.4)**	(0.4)
Total	**(11.2)**	(3.3)

The exceptional items in 2013 relate to:

- the Operational Improvement Plan which is a fundamental restructuring of the manufacturing footprint and sales organisation of the Sensing and Control division. The charge in 2013 of £3.1 million comprises:
  - movement of production at our Fullerton facilities in California USA to Mexicali, Mexico: £0.3 million
  - closure of sales offices in France, Italy and Japan: £2.3 million
  - consultancy costs: £0.5 million
- Other restructuring costs of £5.9 million comprise:
  - the closure of the loss making Connectors business in the USA: £2.0 million
  - the planned closure and relocation of the ACW Technology facilities from Southampton to Wales: £1.1 million.
  - the transfer of production lines from Germany and Austria, and start-up costs in Romania: £1.3 million
  - the relocation of production facilities in Malaysia by the IMS division: £0.5 million
  - costs arising from the creation of the new organisation structure: £0.6 million
  - costs incurred in securing certain supply chain activities: £0.4 million.
- M&A costs of £1.4 million arising from the acquisition of ACW in December 2012 and other costs for potential acquisitions and disposals.
- Additional costs of £1.2 million relating to environmental clean-up costs of our Boone facility in North Carolina, USA .

Acquisitions

On 1 February 2013, the Group completed the acquisition of the 49 per cent minority interest in Padmini TT Electronics Private Limited for a consideration of £8.3 million cash. Deferred consideration of £0.5 million will be settled in 2014 as performance conditions were achieved.

In December 2012, the Group acquired the majority of the UK business and assets of ACW Technology Limited for a consideration of £3.1 million. The acquired business provides manufacturing services to leading global customers in the defence, aerospace and industrial markets and strengthens our position as one of the largest aerospace and defence CEMs in the UK. During 2013, the negative goodwill arising from the acquisition was increased by £0.4 million to £0.7 million and deferred consideration of £0.1 million was settled.

Pensions

The Group operates one significant defined benefit scheme in the UK and two overseas defined benefit schemes, in the USA and Japan. All of these schemes are closed to new members and the UK and USA schemes are closed to future accrual.

The assets and liabilities of the Group's defined benefit schemes are summarised below:

£million	**2013**	2012
Fair value of assets	**388.1**	382.5
Liabilities	**(407.9)**	(416.2)
Deficit – UK scheme	**(19.8)**	(33.7)
Overseas schemes	**(0.7)**	(3.1)
Total Group deficit	**(20.5)**	(36.8)

The triennial valuation of the UK scheme as at April 2013 showed a deficit of £19.1 million compared with £39.4 million at April 2010, representing a funding level of 96 per cent compared with 89 per cent previously. It was agreed with the Trustee that the existing recovery plan is sufficient to address the deficit; contributions of £3.9 million were paid during the year and will increase by £0.2 million each year to £4.5 million in 2016. In addition, the Company has set aside £3.0 million over the last three years to be utilised in agreement with the Trustee for reducing the long-term liabilities of the scheme.

In the year ending 31 December 2013, revisions to IAS 19 'Employee benefits' have become effective leading to a change in the calculation of net interest expense on the pension scheme deficit and also the charging of administration expenses to operating profit rather than as a deduction to the expected return on pension scheme assets. This change in assumption was adopted with effect from 1 January 2012 and the figures shown in the report are therefore on a like for like basis. The impact for 2012 was to increase finance costs by £1.4 million and reclassify £0.7 million of pension administration costs from net Finance costs to Administrative expenses within operating profit.

Cash flow, borrowings and facilities

As at 31 December 2013 the Group cash position was £26.9 million compared to £46.7 million at the beginning of the year. The main movements are outlined below.

£million (unless otherwise stated)	**2013**	2012
Underlying operating cash flow*	**45.5**	45.4
Working capital (outflow)/improvement*	**(6.7)**	(3.5)
Capital expenditure (including software)	**(24.5)**	(20.0)
Exceptional costs	**(6.1)**	(4.1)
Acquisitions and disposals	**(12.4)**	34.3
Stock turns (times)*	**5.7**	5.6
Debtor days*	**40**	39
Creditor days*	**63**	57

* Relates to continuing operations and before £2.7 million increase in working capital arising from the Operational Improvement Plan.

Underlying operating cash flow from continuing operations for 2013 was £45.5 million, marginally higher than 2012. The cash outflow from working capital was £6.7 million, compared to a cash outflow of £3.5 million in 2012 and was largely attributable to the build-up of inventory within the IMS division due to an increase in the level of committed customer orders in the last quarter of 2013 and additional volumes from the ACW business transferred into Suzhou. An increase in our Sensing and Control division of £2.7 million as a result of the implementation of the Operational Improvement Plan has been excluded from underlying cash flow.

Trade working capital represented 14 per cent of sales at 31 December 2013 (2012: 14 per cent). Working capital balances continued to be actively monitored and managed, with debtor days at a healthy 40 days and creditor days of 63 days. Stock turns increased from 5.6 turns to 5.7 turns.

Exceptional cash restructuring costs of £6.1 million were incurred, and a £3.9 million special payment to the UK pension fund was made.

Acquisitions and disposals comprise the acquisition of the 49 per cent minority interest in India, deferred consideration in respect of the ACW acquisition made in December 2012 and a completion adjustment on the sale of Ottomotores in 2012.

The main financial covenants in the bank facility restrict net debt to below 2.75 times EBITDA before exceptional items. In addition, EBITDA before exceptional items is required to cover net finance charges by 4.0 times. The covenants are tested half-yearly on a rolling 12 month basis and were satisfied comfortably at 31 December 2013:

	Covenant	December 2013[1]
Net debt/EBITDA before exceptional items	< 2.75	(0.5)
EBITDA before exceptional items/net finance charges	> 4.00	(64.3)

[1] based on EBITDA and net finance charges for the year ended 31 December 2013.

The Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities and are satisfied that the Group has adequate resources for the foreseeable future.

Geraint Anderson
Group Chief Executive
12 March 2014

Shatish D Dasani
Group Finance Director
12 March 2014

Responsibility statement of the Directors in respect of the Annual Report
Each of the persons who is a Director at the date of approval of this report confirms that to the best of his or her knowledge:

- each of the Group and parent Company financial statements, prepared in accordance with IFRS and UK Accounting Standards respectively, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and

- the Strategic report and the Directors' 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.

In addition, all Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Geraint Anderson
Group Chief Executive
12 March 2014

Shatish D Dasani
Group Finance Director
12 March 2014

Cautionary statement

This report contains forward-looking statements. These have been made by the directors in good faith based on the information available to them up to the time of their approval of this report. The directors can give no assurance that these expectations will prove to have been correct. Due to the inherent uncertainties, including both economic and business risk factors underlying such forward looking information, actual results may differ materially from those expressed or implied by these forward-looking statements. The directors undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2013

£million (unless otherwise stated)	Note	**2013**	2012*
Continuing operations			
Revenue	3a	**532.2**	476.9
Cost of sales		**(432.1)**	(384.8)
Gross profit		**100.1**	92.1
Distribution costs		**(33.7)**	(32.7)
Administrative expenses		**(49.0)**	(35.5)
Other operating income		**1.6**	1.5
Operating profit		**19.0**	25.4
Analysed as:			
Operating profit before exceptional items	3a	**30.2**	28.7
Exceptional items	7	**(11.2)**	(3.3)
Finance income	6	**2.8**	2.5
Finance costs	6	**(3.5)**	(5.9)
Profit before taxation		**18.3**	22.0
Taxation	8	**(4.5)**	(5.9)
Profit from continuing operations		**13.8**	16.1
Discontinued operations			
(Loss)/profit from discontinued operations	5	**(0.8)**	6.3
Profit for the year attributable to owners of the Company		**13.0**	22.4
EPS attributable to owners of the Company – basic			
From continuing operations (p)	10	**8.8**	10.3
From discontinued operations (p)	10	**(0.5)**	4.0
		8.3	14.3
EPS attributable to owners of the Company – diluted			
From continuing operations (p)	10	**8.7**	10.3
From discontinued operations (p)	10	**(0.5)**	4.0
		8.2	14.3

* Re-presented for IAS 19 (revised).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2013

£million	Note	2013	2012*
Profit for the year		**13.0**	22.4
Other comprehensive income/(loss) for the year after tax			
Items that are or may be reclassified subsequently to the income statement:			
Exchange differences on translation of foreign operations		**(1.6)**	(4.3)
Tax on exchange differences		**–**	0.1
Loss on hedge of net investment in foreign operations		**(0.9)**	(2.8)
Gain/(loss) on cash flow hedges taken to equity less amounts taken to income statement		**0.3**	(0.5)
Foreign exchange gain on disposals taken to income statement		**-**	(0.2)
Items that will never be reclassified to the income statement:			
Remeasurement of defined benefit pension schemes		**12.9**	(4.3)
Remeasurement of other post-employment benefits		**(0.3)**	-
Tax on remeasurement of defined benefit pension schemes		**(3.9)**	(0.4)
Tax on remeasurement of other post-employment benefits		**0.1**	-
Total comprehensive income for the year		**19.6**	10.0

Total comprehensive income is entirely attributable to the owners of the Company.

* Re-presented for IAS 19 (revised).

CONSOLIDATED BALANCE SHEET
at 31 December 2013

£million	Note	2013	2012
ASSETS			
Non-current assets			
Property, plant and equipment		**88.6**	85.9
Goodwill		**63.9**	65.2
Other intangible assets		**18.1**	13.2
Deferred tax assets		**7.3**	13.1
Total non-current assets		**177.9**	177.4
Current assets			
Inventories		**80.0**	68.2
Trade and other receivables		**74.4**	67.6
Derivative financial instruments		**0.8**	0.2
Cash and cash equivalents		**54.5**	59.1
Total current assets		**209.7**	195.1
Total assets		**387.6**	372.5
LIABILITIES			
Current liabilities			
Borrowings		**3.9**	3.8
Trade and other payables		**104.8**	99.9
Income taxes payable		**10.4**	12.5
Provisions		**10.0**	10.5
Total current liabilities		**129.1**	126.7
Non-current liabilities			
Borrowings		**23.7**	8.6
Deferred tax liability		**4.7**	2.4
Pensions	12	**20.5**	36.8
Provisions		**0.2**	0.2
Other non-current liabilities		**6.1**	6.7
Total non-current liabilities		**55.2**	54.7
Total liabilities		**184.3**	181.4
Net assets		**203.3**	191.1
EQUITY			
Share capital		**39.7**	39.2
Share premium		**1.4**	0.7
Share options reserve		**1.2**	1.5
Hedging and translation reserve		**17.3**	19.5
Retained earnings		**141.7**	128.2
Equity attributable to owners of the Company		**201.3**	189.1
Non-controlling interests		**2.0**	2.0
Total equity		**203.3**	191.1

Approved by the Board of Directors on 12 March 2014 and signed on their behalf by:

Geraint Anderson
Director

Shatish Dasani
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2013

£million	Share capital	Share premium	Share options reserve	Hedging reserve	Translation reserve	Retained earnings	Sub-total	Non-controlling interest	Total
At 1 January 2012	38.8	0.5	3.6	(11.5)	38.7	119.3	189.4	2.0	191.4
Impact of changes in accounting policy	–	–	–	–	–	–	–	–	–
Restated balance as at 1 January 2012	38.8	0.5	3.6	(11.5)	38.7	119.3	189.4	2.0	191.4
Profit for the year*	–	–	–	–	–	22.4	22.4	–	22.4
Other comprehensive income									
Exchange differences on translation of foreign operations	–	–	–	–	(4.3)	–	(4.3)	–	(4.3)
Tax on exchange differences	–	–	–	–	0.1	–	0.1	–	0.1
Net loss on hedge of net investment in foreign operations	–	–	–	–	(2.8)	–	(2.8)	–	(2.8)
Net loss on cash flow hedges taken to equity less amounts taken to income statement	–	–	–	(0.5)	–	–	(0.5)	–	(0.5)
Foreign exchange gain on disposals taken to income statement	–	–	–	–	(0.2)	–	(0.2)	–	(0.2)
Remeasurement of defined benefit pension scheme	–	–	–	–	–	(4.3)	(4.3)	–	(4.3)
Tax on remeasurement of pension deficit movement	–	–	–	–	–	(0.4)	(0.4)	–	(0.4)
Total other comprehensive income	–	–	–	(0.5)	(7.2)	(4.7)	(12.4)	–	(12.4)
Transactions with owners recorded directly in equity									
Equity dividends paid by the Company	–	–	–	–	–	(7.3)	(7.3)	–	(7.3)
Change in fair value of non-controlling interest	–	–	–	–	–	(1.1)	(1.1)	–	(1.1)
Share-based payments	–	–	(1.3)	–	–	–	(1.3)	–	(1.3)
Deferred tax on share-based payments	–	–	(0.8)	–	–	–	(0.8)	–	(0.8)
New shares issued	0.4	0.2	–	–	–	(0.4)	0.2	–	0.2
At 31 December 2012	39.2	0.7	1.5	(12.0)	31.5	128.2	189.1	2.0	191.1
Profit for the year	–	–	–	–	–	13.0	13.0	–	13.0
Other comprehensive income									
Exchange differences on translation of foreign operations	–	–	–	–	(1.6)	–	(1.6)	–	(1.6)
Net loss on hedge of net investment in foreign operations	–	–	–	–	(0.9)	–	(0.9)	–	(0.9)
Net gain on cash flow hedges taken to equity less amounts taken to income statement	–	–	–	0.3	–	–	0.3	–	0.3
Remeasurement of defined benefit pension schemes	–	–	–	–	–	12.9	12.9	–	12.9
Remeasurement of other post-employment benefits	–	–	–	–	–	(0.3)	(0.3)	–	(0.3)
Tax on remeasurement of defined benefit pension schemes	–	–	–	–	–	(3.9)	(3.9)	–	(3.9)
Tax on remeasurement of other post-employment benefits	–	–	–	–	–	0.1	0.1	–	0.1
Total other comprehensive income	–	–	–	0.3	(2.5)	8.8	6.6	-	6.6
Transactions with owners recorded directly in equity									
Equity dividends paid by the Company	–	–	–	–	–	(8.0)	(8.0)	–	(8.0)
Change in fair value of non-controlling interest	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Share-based payments	–	–	(0.1)	–	–	–	(0.1)	–	(0.1)
Deferred tax on share-based payments	–	–	(0.2)	–	–	–	(0.2)	–	(0.2)
New shares issued	0.5	0.7	–	–	–	(0.2)	1.0	–	1.0
At 31 December 2013	**39.7**	**1.4**	**1.2**	**(11.7)**	**29.0**	**141.7**	**201.3**	**2.0**	**203.3**

** Re-presented for IAS 19 (revised)*

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 December 2013

£million	Note	**2013**	2012*
Cash flows from operating activities			
Profit for the year		**13.0**	22.4
Taxation		**4.5**	5.9
Net finance costs		**0.7**	3.4
Exceptional items		**11.2**	3.3
(Profit)/loss from discontinued operations		**0.8**	(6.3)
Operating profit from continuing operations before exceptional items		**30.2**	28.7
Adjustments for:			
Depreciation of property, plant and equipment		**16.8**	15.8
Amortisation of intangible assets		**4.4**	4.6
Impairment of property, plant and equipment and intangible assets		**0.4**	0.1
Other items		**0.4**	(0.3)
Increase in inventories		**(13.8)**	(3.5)
(Increase)/decrease in receivables		**(7.2)**	1.1
Increase/(decrease) in payables		**11.6**	(1.1)
Operating cash flow from continuing operations before exceptional payments		**42.8**	45.4
Operating cash flow from discontinued operations		**-**	(8.5)
Special payments to pension funds		**(3.9)**	(3.7)
Exceptional costs		**(6.1)**	(4.1)
Net cash generated from operations		**32.8**	29.1
Net income taxes paid		**(2.5)**	(2.3)
Net cash flow from operating activities		**30.3**	26.8
Cash flows from investing activities			
Interest received		**0.1**	0.6
Purchase of property, plant and equipment		**(20.3)**	(18.7)
Proceeds from sale of property, plant and equipment and grants received		**0.6**	0.3
Development expenditure		**(5.2)**	(4.8)
Purchase of other intangibles		**(4.2)**	(1.3)
Acquisitions of businesses		**(8.3)**	(3.0)
Disposal of subsidiaries		**(4.1)**	43.9
Deferred consideration (paid)/received		**(0.1)**	0.2
Net cash flow from investing activities		**(41.5)**	17.2
Cash flows from financing activities			
Issue of share capital		**0.9**	0.2
Interest paid		**(0.8)**	(2.0)
Repayment of borrowings		**(0.8)**	(62.0)
Proceeds from borrowings		**17.4**	30.6
Other items		**(1.2)**	(2.4)
Finance leases		**(0.1)**	(0.1)
Dividends paid by the Company		**(8.0)**	(7.3)
Net cash flow from financing activities		**7.4**	(43.0)
Net (decrease)/increase in cash and cash equivalents		**(3.8)**	1.0
Cash and cash equivalents at beginning of year		**59.1**	58.8
Exchange differences		**(0.8)**	(0.7)
Cash and cash equivalents at end of year		**54.5**	59.1
Cash and cash equivalents comprise			
Cash at bank and in hand		**54.5**	59.1
Bank overdrafts		**–**	-
		54.5	59.1

The consolidated cash flow statement includes cash flows from both continuing and discontinued operations.

* Re-presented for IAS 19 (revised).

Notes to the consolidated financial statements

1 General information

The information set out below, which does not constitute full financial statements, is extracted from the audited financial statements of the Group for the year ended 31 December 2013 which:

- were approved by the Directors 12 March 2014
- carry an unqualified audit report which did not contain statements under section 498(2) or (3) of the Companies Act 2006
- will be available to the shareholders and the public in April 2014
- will be filed with the Registrar of Companies following the Annual General Meeting on 9 May 2014

2 Basis of accounting

The consolidated financial statements have been prepared on a historical cost basis modified by the revaluation of financial assets and derivatives held at fair value and by the revaluation of certain property, plant and equipment at the transition date to International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union, and in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared using consistent accounting policies, except for the adoption of new accounting standards and interpretations and adoption of amendments to published standards and interpretations noted below.

Adoption of new and amendments to published standards and interpretations effective for the Group for the year ended 31 December 2013 did not have any impact on the financial position or performance of the Group with the exception of the adoption of IAS 19 (revised). Implementation of the standard had the following impact on the income statement:

- Under previous IAS 19, interest cost on the defined benefit obligation and an expected return on plan assets were recognised in profit or loss within finance cost and finance income respectively. Under IAS 19R, these two amounts have been replaced by a single measure called ‘net interest’ calculated on the net defined benefit liability/(asset). This change affects the difference between actual and expected returns on plan assets, which is recognised in full within OCI as part of remeasurements;
- The reclassification of the administration costs of the defined benefit scheme, including the levy for the Pension Protection Fund, from Finance expense to Administrative expenses within operating profit.

As a result of these amendments, the comparative financial information in the income statement and OCI has been restated for the year ending 2012. The effect of the above on profit or loss was to increase finance costs by £1.4 million, reclassify £0.7 million of pension administration costs from net Finance costs to Administrative expenses within operating profit and reduce remeasurements of the net defined benefit liability in OCI by £1.4 million.

As a result of the above, the tax expense in the income statement has decreased by £0.3 million and the deferred tax charge in OCI has increased by £0.3 million. The effect on the cash flow statement of the amended standard was an adjustment to profit before tax and the operating reconciling items. There was no effect on the net cash from operating activities. The effect on the statement of changes in equity of the amended standard was an adjustment to retained earnings, as explained above. The effect on EPS was to reduce earnings per share by 0.7 pence per share.

3 Segmental reporting

As part of its strategic review in the first half of 2013, the Group is now organised into three divisions, as shown below, according to the nature of the products and services provided. Each of these divisions represents an operating segment in accordance with IFRS 8 “Operating segments” and there is no aggregation of segments. The chief operating decision maker is the Board of Directors. The operating segments are:

- Sensing and Control – the provision of integrated and intelligent solutions meeting customer requirements comprising sensors which convert physical variables into electronic signals and controls that process input from the sensor and instruct systems;
- Components – specialist resistive and magnetic components and microcircuits, connectors and interconnection systems; and
- Integrated Manufacturing Services – the provision of global electronics manufacturing capability with logistics and integrated solutions.

The accounting policies of the reportable segments are the same as the Group’s accounting policies.

The key performance measure of the operating segments is operating profit before exceptional items. The Group reports non-trading income or expenditure as exceptional when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of its financial position. Segment operating profit represents the profit earned by each segment after allocation of central head office administration costs and is reviewed by the chief operating decision maker.

Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to operating segments.

Goodwill is allocated to the individual cash generating units which are smaller than the segment which they are part of.

a) Income statement information – continuing operations

£million	Sensing & Control	Components	Integrated Manufacturing Services	Total
				2013
Sales to external customers	**285.2**	**100.4**	**146.6**	**532.2**
Segment operating profit before exceptional items	**17.3**	**4.1**	**8.8**	**30.2**
Exceptional items				**(11.2)**
Operating profit				**19.0**
Net finance costs				**(0.7)**
Profit before taxation				**18.3**

£million	Sensing & Control	Components	Integrated Manufacturing Services	Total
				2012 (re-presented)
Sales to external customers	259.6	109.6	107.7	476.9
Segment operating profit before exceptional items	16.6	5.9	6.2	28.7
Exceptional items				(3.3)
Operating profit				25.4
Net finance costs				(3.4)
Profit before taxation				22.0

There are no significant sales between segments.

b) Geographic information

Revenue by destination

The Group operates on a global basis. Revenue from external customers by geographical destination is shown below. Management monitor and review revenue by region rather than by individual country given the significant number of countries where customers are based.

£million	2013	2012
United Kingdom	**104.1**	78.3
Rest of Europe	**260.1**	234.6
North America	**94.4**	95.4
Central and South America	**3.9**	3.2
Asia	**68.8**	62.0
Rest of the World	**0.9**	3.4
Total continuing operations	**532.2**	476.9

No individual customer directly accounts for more than 10% of Group revenue. Revenue from services is less than 5% of Group revenues. All other revenue is from the sale of goods.

4 Acquisitions

On 1 February 2013, the Group completed the acquisition of the 49% minority interest in Padmini TT Electronics Private Limited for a consideration of £8.3 million cash. A further £0.5 million consideration has been deferred until 2014, subject to performance conditions.

During the year ended 31 December 2012 the Group acquired the majority of the UK business and assets of ACW Technology Limited for a consideration of £3.0 million in cash, with £0.1 million of consideration being deferred until 2013. The deferred consideration of £0.1 million was paid in the year ended 31 December 2013.

5 Discontinued operations

On 31 July 2012 the Group disposed of Dale Power Solutions Limited for total consideration of £10.6 million in cash before costs.

On 7 December 2012 the Group disposed of Ottomotores SA de CV and Ottomotores Do Brasil Energia Ltda for a total consideration of $46.5 million (£29.0 million) in cash before costs. During 2013 the completion balance sheet, including net debt, was agreed with the buyer and £4.1 million was settled by TT Electronics plc. As a result, £0.8 million additional cost has been included within discontinued items at the year to 31 December 2013.

The results from discontinued operations shown in the consolidated income statement are as follows:

£million	**2013**	2012
Revenue	**-**	68.8
Cost of sales	**-**	(56.7)
Gross profit	**-**	12.1
Distribution costs	**-**	(4.4)
Administrative expenses	**-**	(4.6)
Operating profit before exceptional items	**–**	3.1
Exceptional items	**–**	(0.6)
Net finance costs	**–**	(0.4)
(Loss)/profit on disposal of discontinued operations	**(0.8)**	6.8
(Loss)/profit before taxation	**(0.8)**	8.9
Taxation	**–**	(2.6)
(Loss)/profit from discontinued operations	**(0.8)**	6.3

The profit on disposal of discontinued operations is analysed below:

£million	**2013**	2012
Gross cash received	**-**	39.6
Less: legal and professional costs	**(0.8)**	(2.3)
Less: overdrafts/(cash) disposed of at completion	**-**	6.6
Net proceeds per consolidated cash flow statement	**(0.8)**	43.9
Less: net assets at completion	**-**	(37.3)
Add: foreign exchange gain on disposals	**-**	0.2
	(0.8)	6.8

The net cash flows from discontinued operations included within the consolidated cash flow statement are shown below:

£million	**2013**	2012
Operating activities	**-**	(8.1)
Investing activities	**-**	(0.9)
Financing activities	**-**	(0.2)
Net cash flow	**-**	(9.2)

6 Finance income and finance costs

£million	**2013**	2012 (re-presented)
Interest expense	**0.8**	1.6
Foreign exchange losses	**1.0**	1.6
Net interest on employee obligations	**1.5**	1.2
Amortisation of arrangement fees	**0.2**	0.8
Unwinding of discount factor on minority put option	**-**	0.7
Finance costs	**3.5**	5.9
Interest income	**0.1**	0.6
Foreign exchange gains	**2.7**	1.9
Finance income	**2.8**	2.5
Net finance costs	**0.7**	3.4

7 Exceptional items

£million	**2013**	2012
Continuing operations		
S&C Operational Improvement Plan	**(3.1)**	–
Other restructuring costs	**(5.9)**	(1.1)
Costs relating to closure of Boone, North Carolina plant	**(1.2)**	(2.1)
Negative goodwill on acquisition	**0.4**	0.3
M&A costs (including aborted deals)	**(1.4)**	(0.4)
Total	**(11.2)**	(3.3)

For the year ended 31 December 2013, the exceptional items relate to:

- S&C Operational Improvement Plan relates to a fundamental reorganisation of the manufacturing and sales footprint of the Sensing & Control division announced in June 2013. The charge in the year relate to:
  - the closure of the facility at Fullerton, USA and transfer of production to Mexico of £0.3 million
  - the closure of sales offices in France, Italy and Japan of £2.3 million; and
  - consultancy costs of £0.5 million
- Other restructuring costs of £5.9 million comprise of the following:
  - the closure of the loss-making connectors business in the USA at a cost of £2.0 million;
  - the closure and relocation of the ACW Technology facilities from Southampton to Tonypandy in Wales for £1.1 million;
  - the transfer of production lines from Germany and Austria, and start-up costs in Romania of £1.3 million;
  - the relocation of production facilities in Malaysia of £0.5 million by IMS;
  - costs arising from the creation of the new organisation structure of £0.6 million; and
  - costs incurred in securing certain supply chain activities of £0.4 million.
- The additional costs relating to the Boone property in North Carolina mainly comprise environmental clean-up costs;
- Negative goodwill arising on the release of a surplus Fair Value inventory provision created at the date of the acquisition of ACW Technology of £0.4 million; and
- M&A costs arising from the acquisition of ACW in December 2012 and other costs for potential acquisitions and disposals.

For the year ended 31 December 2012, the exceptional items relate to:

- Other restructuring costs of £1.1 million associated with:
  - the transfer of certain production lines from the Sensors division facilities to Romania of £0.2 million;
  - redundancy costs of £0.4 million; and
  - costs associated with the post-acquisition restructuring of ACW Technology Limited of £0.5 million.
- The closure of the Components operation in Boone, North Carolina of £2.1 million;
- Negative goodwill arising on the acquisition of the trade and assets of ACW Technology Limited of £0.3 million; and
- £0.4 million of acquisition-related legal and professional fees.

The Group reports non-trading income or expenditure as exceptional when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of its financial position.

8 Taxation

a) Analysis of the tax charge for the year

£million	2013	2012 (re-presented)
Current tax		
Current income tax charge	**4.3**	6.7
Adjustments in respect of current income tax of previous year	**(1.6)**	0.4
Total current tax charge	**2.7**	7.1
Deferred tax		
Relating to origination and reversal of temporary differences	**1.8**	(1.2)
Total tax charge in the income statement – continuing operations	**4.5**	5.9

UK tax is calculated at 23.3% (2012: 24.5%) of taxable profits. Overseas tax is calculated at the tax rates prevailing in the relevant countries. The Group's effective tax rate for the year from continuing operations was 24.6% (24.1% excluding exceptional items).

Included within the total tax charge above is a £2.6 million credit relating to exceptional items (2012: £0.8 million).

b) Reconciliation of the total tax charge for the year

£million	2013	2012 (re-presented)
Profit before tax from continuing operations	**18.3**	22.0
Profit before tax multiplied by the standard rate of corporation tax in the UK of 23.3% (2012: 24.5%)	**4.3**	5.4
Effects of:		
Overseas tax rate differences	**0.4**	0.7
Items not deductible for tax purposes or income not taxable	**1.5**	1.8
Adjustment to current tax in respect of prior periods	**(1.6)**	0.4
Impact on deferred tax arising from changes in tax rates	**(0.4)**	-
Recognition and utilisation of tax losses and other items not previously recognised	**(1.0)**	(2.9)
Current year tax losses and other items not recognised	**0.5**	0.5
Adjustment to value of deferred tax assets	**0.8**	–
Total tax charge reported in the income statement – continuing operations	**4.5**	5.9

The UK corporation tax rate will reduce to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. These rate reductions were substantively enacted in July 2013. Closing deferred tax assets in the UK have been calculated at the latter rate. The resulting charge has been recognised partly in the income statement (£0.2 million) and partly in the statement of comprehensive income (£0.7 million).

In December 2013, changes were enacted in Mexico which increased the tax rate applicable to certain subsidiaries from 17.5% to 30%. The calculation of the deferred tax assets at the higher rate resulted in a credit to the income statement of £0.6 million.

9 Dividends

	2013 pence per share	**2013 £million**	2012 pence per share	2012 £million
Final dividend for prior year	**3.5**	**5.5**	3.2	5.0
Interim dividend for current year	**1.6**	**2.5**	1.5	2.3
	5.1	**8.0**	4.7	7.3

The Directors recommend a final dividend of 3.8p which when combined with the interim dividend of 1.6p gives a total dividend for the year of 5.4p per share. The Group's dividend policy is to increase dividends progressively whilst maintaining cover of at least two times underlying earnings per share. The final dividend will be paid on 5 June 2014 to shareholders on the register on 23 May 2014.

10 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of shares in issue during the period.

Headline earnings per share is based on profit for the year from continuing operations before exceptional items and their associated tax effect.

Pence	**2013**	2012 (re-presented)
Basic earnings per share		
Continuing operations	**8.8**	10.3
Discontinued operations	**(0.5)**	4.0
Total	**8.3**	14.3

Pence	**2013**	2012 (re-presented)
Diluted earnings per share		
Continuing operations	**8.7**	10.3
Discontinued operations	**(0.5)**	4.0
Total	**8.2**	14.3

The numbers used in calculating headline, basic and diluted earnings per share are shown below.

Headline earnings per share

£million	**2013**	2012 (re-presented)
Continuing operations		
Profit for the period attributable to owners of the Company	**13.8**	16.1
Exceptional items	**11.2**	3.3
Tax effect of exceptional items (see note 8a)	**(2.6)**	(0.8)
Headline earnings	**22.4**	18.6
Headline earnings per share (pence)	**14.2**	11.9

The weighted average number of shares in issue is as follows:

Million	**2013**	2012
Basic	**157.6**	156.1
Adjustment for share awards	**0.3**	0.8
Diluted	**157.9**	156.9

11 Reconciliation of net cash flow to movement in net funds/(debt)

£million	Net cash	Borrowings and finance leases	Net (debt)/funds
At 1 January 2012	58.8	(43.6)	15.2
Cash flow	1.0	31.5	32.5
Non-cash items	–	(0.9)	(0.9)
Exchange differences	(0.7)	0.6	(0.1)
At 1 January 2013	59.1	(12.4)	46.7
Cash flow	(3.8)	(16.5)	(20.3)
Non-cash items	-	(0.1)	(0.1)
Exchange differences	(0.8)	1.4	0.6
At 31 December 2013	**54.5**	**(27.6)**	**26.9**

Net cash includes overdraft balances of £nil (2012: £nil).

12 Retirement benefit schemes

Defined contribution schemes
The Group operates 401(k) plans in North America and defined contribution arrangements in the rest of the world. The assets of these schemes are held independently of the Group. The total contributions charged by the Group in respect of defined contribution schemes were £2.1 million (2012: £1.9 million).

Defined benefit schemes
During the year the Group operated one significant defined benefit scheme in the UK and two overseas defined benefit schemes in the USA and Japan. The Group's main scheme is the UK plan which commenced in 1993 and increased in 2006 and 2007 through the merger of the UK former schemes. All of these schemes are closed to new members. The UK scheme was closed to future accrual in 2010 and the Japanese scheme was wound up in the year.

The triennial valuation of the UK scheme as at April 2013 showed a deficit of £19.1m compared with £39.4 million at April 2010. It was agreed with the Trustee that the existing recovery plan is sufficient to address the deficit; namely contributions of £4.1 million, £4.3 million and £4.5 million to be paid over the next three years. In addition, the Company has set aside £3.0 million over the last three years to be utilised in agreement with the Trustee for reducing the long-term liabilities of the scheme.

An actuarial valuation of the USA defined benefit scheme was carried out by independent qualified actuaries in 2012 using the projected unit credit method. Pension scheme assets are stated at their market value at 31 December 2013.

An analysis of the pension deficit by country is shown below:

£million	2013	2012
UK	**19.8**	33.7
USA	**0.7**	2.8
Japan	**-**	0.3
	20.5	36.8

The principal assumptions used for the purpose of the actuarial valuations for the Group's primary defined benefit scheme, the UK scheme, were as follows:

%	2013	2012
Discount rate	**4.6**	4.4
Inflation rate	**3.5**	3.0
Increases to pensions in payment (LPI 5% pension increases)	**3.4**	3.0
Increases to deferred pension (CPI)	**2.5**	2.5

The mortality tables applied by the actuaries at 31 December 2013 were S1NA tables adjusted by + one year, with a 1.25% long-term rate of improvement in conjunction with the CMI 2012 projections. The mortality tables applied by the actuaries at 31 December 2012 were S1NA tables adjusted by + one year, with future improvements increasing in line with medium cohort with a 1% per annum floor.

A decrease in the discount rate by 0.1% per annum increases the liabilities by approximately £6.8 million. An increase by 0.1% per annum in the inflation rate increases the liabilities by approximately £4.6 million; by £3.0 million for pensions in payment and £2.0 million for deferred pensions. An increase in the life expectancy of 1 year increases the liabilities by approximately £11.8 million.

The sensitivities above consider the impact of the single change shown, with the other assumptions assumed to be unchanged. The inflation sensitivities allow for the consequential impact on the relevant pension increase assumptions. The sensitivity analyses have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The amounts recognised in respect of the pension deficit in the Consolidated balance sheet are:

£million	2013	2012
Equities		
UK - Quoted	**2.1**	1.9
- Unquoted	**25.5**	24.0
Overseas - Quoted	**29.9**	29.6
- Unquoted	**75.0**	71.2
Government Bonds		
UK - Fixed	**15.0**	27.8
- Index-linked	**16.8**	19.3
Overseas	**21.9**	21.5
Corporate Bonds	**57.3**	57.0
Cash and cash equivalents	**69.4**	39.5
Derivatives	**54.5**	62.3
Other	**26.7**	33.4
Fair value of assets	**394.1**	387.5
Present value of funded obligation	**(414.6)**	(424.3)
Net liability recognised in the Consolidated balance sheet	**(20.5)**	(36.8)

The schemes' assets do not include the Group's financial instruments nor any property occupied by, or other assets used by the Group. Swaps are liability driven instruments taken out to hedge part of the scheme inflation and interest rate risks.

Amounts recognised in the Consolidated income statement are:

£million	2013	2012*
Scheme administration costs	**1.3**	0.7
Net interest on employee obligations	**1.5**	1.2
Settlements and curtailments	**(0.4)**	-

The actual return on schemes assets was a gain of £20.7 million (2012: £21.7 million). Actuarial gains and losses are remeasured and reported in the Consolidated statement of comprehensive income and, since transition to IFRS, amount to a net loss of £27.7 million.

13 Related party transactions

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.
No related party transactions have taken place in 2013 or 2012 that have affected the financial position or performance of the Group.

14 Post balance sheet event

On 10 January 2014 the Group announced that it is planning to relocate manufacturing operations from Werne, Germany to its facilities in better cost regions and had commenced consultation with workforce representatives. At the same time, the Group is increasing investment in its Centre of Excellence for Research and Development and New Product Innovation in Werne.

Principal risks and risk management process

The Board of Directors has overall responsibility for risk management and internal controls, supported by the Audit Committee and the Risk Committee. The Board defines risk appetite and monitors the management of significant risks to ensure that the nature and extent of significant risks taken by the Company are aligned with overall goals and strategic objectives. The Risk Committee supports the Board and the Audit Committee in monitoring the exposure through regular reviews and has been delegated responsibility for reviewing the effectiveness of risk management processes and controls. The Risk and Assurance function assists the Risk Committee in defining improvements to be made to the overall risk management framework and evaluating the design and operating effectiveness of the framework as well as risk mitigation strategies implemented by management.

Risk Management processes and internal control procedures are established within business practices across all levels of the organisation. Risk identification, assessment and mitigation are performed both "bottom-up" with more detailed assessment at operational level, as well as through "top-down" assessment of strategic and market risk at the executive management and Board level.

New and existing risks were identified and assessed during 2013. Executive management, the Risk Committee and the Board of Directors performed further analysis to prioritise these risks with a focus on those principal risks posing the highest current risk to the achievement of company objectives. Risks assessed as higher priority were consolidated onto a Risk Heat Map. Risks included on the heat map are monitored more closely by executive management, the Risk Committee and the Board of Directors. Whilst these principal "top risks" represent a significant portion of the Group's overall risk profile, executive management and the Risk Committee continue to monitor the entire universe of risks to identify new or emerging risks as well as any changes in risk exposure.

The overall Group risk profile evolved during the year. High level trends include a reduced exposure to external threats, such as a continued economic downturn, with key indicators such as the Purchasing Managers' Index and order book intake improving in key markets during the second half of the year. Internally, we intensified efforts to transform operations by consolidating manufacturing sites and setting up manufacturing and engineering capability in lower cost regions, thereby increasing the potential risk of customer service disruption or the delay of planned cost savings.

Principal risks

The "top principal risks" presented below are not shown in any order of priority.

Risk description and context	Mitigation actions
Strategic, Market and Brand	
Economic downturn	
General economic downturn leading to a reduction in customer demand and production volumes impacting sales and margins. The macro economic outlook improved during the year. Key indicators like Purchasing Managers Index and order book intake improved in key markets.	Forward-looking indicators are regularly reviewed to identify deteriorating market conditions. Management structures are in place to enable a rapid response to changing circumstances. Alternative "economic downturn" plans are in place.
Acquisitions	
The Group pursues acquisitions as part of its overall growth strategy. Such acquisitions may not realise expected benefits.	Performing robust due diligence. Obtaining representations, warranties and indemnities from vendors where possible. Implementing business integration processes.
Disposals	
The Group disposes of non-core businesses not supporting the growth strategy in key markets. Risks include not achieving an expected sale price, unsuccessful or delayed disposal processes, or deteriorating business performance.	Assemble cross functional team with necessary skill sets. Regular reviews with project team. Close monitoring of representation, warranties, and indemnities.

New products or technical capability	
The Group is seeking to introduce an increased number of new product offerings to key customers to grow existing and create new business opportunities. Risks include potential write-off for unsuccessful projects, project overruns, and not achieving expected customer contracts, market pricing and benefits.	Robust project delivery and cost controls throughout product and project development cycle. Close communication and working relationships with key customers to ensure products meet expectation and demand. Regular project reviews with standard gated processes.
Operational Improvement Plan	
The Group is implementing an Operational Improvement Plan involving the proposed transfer of manufacturing from Fullerton, USA and Werne, Germany to best cost locations, and also the closure of sales offices in Japan, France and Italy. Risks include disruption to customer base, loss of key talent, and delayed or unsuccessful cost savings.	Strong change management and operational control with professional project managers to oversee major programmes. Close communication with key customers and other stakeholders to explain the actions being taken and to understand and address their concerns. Regular talent and performance reviews, supported by monitoring and communication with employees.
Customer concentration	
Risks associated with large key accounts include over-reliance on key customers, price pressure, customer default, and not achieving expected orders and benefits.	Review customer and market concentration and pursue opportunities to diversify into new industries and regions. Improve margin with existing key customers by leveraging best cost regions. Regular review and monitoring of key customers' financial status, order book levels and trends. Strong relationships with key customers.
Margin erosion	
The Group operates in highly competitive markets. This, combined with continued uncertain macro-economic conditions, could cause customers to accept lower cost competitors and substitute products leading to increased price pressure, margin erosion or lost business.	Strong relationships with key customers, including ongoing review of product strategy, pricing and other demand. Operational transformation programme to leverage best cost manufacturing locations, driving margin improvements. Monitoring of competitors and potential new entrants into specific markets.
Operational	
Health and safety	
Inherent to our industry is the risk of incidents due to unsafe manufacturing processes or facilities causing injuries or fatalities to our people.	Zero tolerance attitude for safety incidents at all levels of operations, with rules incorporated into operational procedures, safety manuals and all aspects of communication on safety. Health and Safety Committee responsible for company-wide best practice sharing, monitoring and improvements.
Attract and retain talent	
Our future success as we expand will be dependent upon our ability to attract and retain highly skilled and qualified employees. We face risks in selecting, recruiting, training and retaining the people we need.	Talent strategy and requirements regularly reviewed at Board and Operating Board level. Human resources share best practice across the Group to adapt recruitment and retention programmes to reflect changes in the labour market. Regular reviews of development plans and opportunities, including 360° appraisal process and succession planning. Remuneration Committee review of pay/bonus structures and ensuring competitive compensation plans and pensions are in place.

IT delivery and support	
The Group and operational management depend on timely, accurate and reliable information from software systems. Risks associated with the IT environment include failure to deliver IT projects on time and on budget, inadequate ERP controls and security, and lack of management information that could delay/impact decision making or service to our customers. The risk decreased during the year due to a reduced exposure to fragmented ERP suites, improved IT governance and IT security controls.	The Group's IT Steering Committee, chaired by the Group Chief Executive, meets on a regular basis to review all major IT projects. Hardware and software are sourced from reputable suppliers. Implementation of an up-to-date ERP solution is in progress. Appropriate disaster recovery plans are in place.
Supply chain reliance and costs	
We rely upon a small number of core vendors for a high percentage of our materials requirements. Some of our needs may only be available from a limited number of these vendors. There is potential risk in terms of supply and price fluctuations driven by commodity price changes. The Group exposure increased during the year with a few key suppliers experiencing business continuity challenges.	Monthly reviews of key data ensure that each of our businesses are kept fully informed of developments specific to commodity and precious metals pricing. Increased low cost sourcing will offset current risk. In addition, precious metal price hedging is undertaken on a non-deliverable basis, taking into account the forecast volume of purchases, forward precious metal prices and the cost of taking out cover.
Business continuity	
With many key manufacturing sites across the globe, our business is dependent on uninterrupted operations delivering high quality products.	All operating sites have documented business continuity plans in place with procedures to be implemented in case of an incident. Plans are tested on a regular basis to ensure they are fit for purpose. In certain instances, we have the ability to manufacture products over several manufacturing sites.
Laws and regulations	
Product liability and contractual risk	
We manufacture products that often operate in extreme environments where a serious incident arising from failure could result in liabilities for personal injury and/or damage to property, which in turn could have an impact on our reputation, particularly in the automotive sector.	Comprehensive quality control procedures and appropriate levels of insurance are carried for key risks. Major contracts are reviewed by the Group Legal Counsel and we work continuously to build and maintain relationships with all key stakeholders. Group guidelines on acceptable levels of contractual liability are reinforced by legal and regulatory risk training specific to each Division's business and geographical needs.
Legal and regulatory compliance	
We operate in a large number of jurisdictions and, as a consequence, are subject to numerous domestic and international regulations. These include laws and regulations covering export control, anti-bribery and competition. Failure to comply could result in civil or criminal liabilities leading to significant fines and penalties or restrictions being placed upon our ability to trade resulting in reduced sales, profitability and reputational damage.	Robust control framework. A cross-division export compliance group is embedded in the business, supported by the Group Legal Counsel, with external adviser participation. An anti-bribery programme is in place which includes risk assessment, policy, training, review and monitoring.
Financial	
Financial risks	
As an international business, the major financial risks faced by the Group are: foreign exchange risk, interest rate risk, credit risk, liquidity risk, commodity price risk and tax compliance.	Financial risks are managed by the Group's Treasury department in close co-operation with the Group's business divisions and operating companies, under the oversight of a Tax and Treasury Committee which is chaired by the Group Finance Director. The responsibilities of the Group's Tax and Treasury department include the monitoring of financial risks, management of cash resources, debt and capital structure management, approval of counterparties and relevant transaction limits, and oversight of all significant tax and treasury activities undertaken by the Group.